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Title:

The modern Three Kingdoms in global automobile industry

- A case study of Toyota Quality Crisis in USA and China market



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The thesis was written as a part of the master program at NHH. Neither the institution, the supervisor, nor the censors are-through the approval of this thesis-responsible for neither the theories and methods used, nor results and conclusions drawn in this work.

Abstract:

It is predicted that the clash of U.S.A as world only super power, the revenge of lost Japan and the raise of China will bring the whole world into a new era of three kingdoms in 21 century. The novel-Three kingdoms which was written by Luo Guangzhong in 17th century was translated into many languages and had become a Must-read Classic book of every Chinese, Japanese and American teenage student.

The case study of quality crisis of Japan No1 car producer-Toyota will just provide a good example to European business school to get some idea of what is happening in the Far Eastern world.

The Toyota case showed that the MNCs really relay on institution both original and host country to grow bigger. However, in order to maintain their global market leadership, the MNCs really need to act locally and balance themselves smartly according to the regulation of the host countries.

Dedication:

Specially dedicated to my dearest Mother –Lady Wan Heng who was always there for me and believed in me when I even lost the faith in myself and wanted to give up.

The past year 2009 was a turning point of my life. I began this year with happy group tour with NHH finance group in NYC, U.S.A.. However, the new life as exchange student in UBC(Vancouver, VIC,C.A.) was turned into a struggling life with hard working everyday during my whole stay in UBC. This hard life just rewarded me with a satisfying academic record and semi-finalist in Google Adword Global Challenge in the field of E-Marketing.

I flied back to my missing home with an exauhsted body and mind. Then my expected summer holiday became the coldest one I had ever experienced before. I had a bad car accident and stayed in hospital for monthes. Thanks God who showed me his great mercy by waking me up one day. After operation and physical recovery training, I finally standed up again and felt the ground on my own feet.

After suffering so much bad luck in one year, I really had no confidence for future and assumed I was the biggest loser at that moment. I really thought that I could never return to NHH nor finished my master thesis in time. I also didn't dare to tell my situation to all the people who were in Bergen and looked forward to my return. It was a hard decision for me to made then. I really lost myself in pains and tears for some time. However, my mother, who was always my guarding star and Goddess- Muse,

told me that I should not give up a master degree so easily and encouraged me to finish my pending thesis.

After painful consideration, I decided to fly back to NHH for my master graduation ceremony and submit my master thesis myself in coming June.

This thesis is inspired by my dear mother's word. I began to write my master thesis since Autumn in 2008. However, I faced with the dilemma of continuing the old topic or switch to a new topic which I had accumulated enough knowledge and data in the past. I was Chinese born Chinese girl who was grew up in old Japanese colonial city and influenced by Japanese culture. I can speak fluent Japanese language and preferred dressed myself in the Japanese Kobe girl style. However, I learned American accent English from my grandma who was a English teacher, when I was just 3 years old. All my classmates believed I am ABC who was American born Chinese as my accent is so heavy. UIBE is my home university which U.S.A president Nixon gave a speech in 1970s and brought many educational corporation programs to this top business school in China. Since then, UIBE adopted itself to American style of business school. I also studied so much about American culture and its business regulation in my 4 years studying at UIBE. I just called myself of mix blood girl of Chinese, Japanese and American. My own experience made me very open to different culture and prefer a international career for future.

"When the whole world changed, then one should change everything!" My mother told me so. After struggling with death and illness, I really changed my mind and

reborn myself in 2010. Life is so short that I had to focus on my real strength and potential talent instead of wasting my time on other things.

Specially thanks to Ulyas who was my classmate in UIBE and worked in Marketing department in Toyota Beijing office. I learned a lot from the discussion with her and readed some internal company files from Toyota.

Many thanks to all the nice Norwegian people who gave me so much help in the past and encourage me. The thesis is a gift from me to NHH in order to share my knowledge with other professors and students in NHH. What is more,I just wish I could make some contribution to NHH global presence in near future .

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Chapter 1 - Introduction

I. Purpose and Overview

The purpose of this paper is to analyze the Toyota quality crisis in 2009 under the framework of Neo-institutional theory.

The Toyota quality crisis since 2009 is really an interesting case which involved the main countries in Asia Pacific Economic Area which is the most dynamic economic zone in today's global business world. The U.S.A claimed its No1 in term of GDP after World War 2. However, Japan, which was defeated by U.S.A in the WW2, quickly recovered its economy with the help from U.S.A and climbed to rank as world second largest GDP since 1980. Then Japan experienced the worst recession since 1990 with negative annual GDP growth. In 2010, a sleep eastern dragon seemed to wake up from its 1000 years dream and raised up itself at an unexpected fast speed. In 2009, China replaced U.S.A. to become the world 2nd largest market for Luxury good. When the whole western world suffered from the Financial crisis, China still grew faster than any other country as the No1 developing country and as key member of "BRIC".

The historical relationship among three countries can be traced back to Tang Dynasty which was the most blooming time of Chinese Culture and Economy in 1000 years ago. At that time, Japanese government sent thousand of young talented students to study in Chang An the old capital city of ancient China. The Kobe- the

second largest city in Japan was just a perfect copier of Chang An. However, no empire can last forever. The eastern giant became weaker and weaker as time went by. Japan on the contrast became the new regional big power

The thesis will first show some background information about the Toyota company history and its global expansion in U.S.A and mainland Chinese market.

The second part is the theory part. This thesis will be based on the neo-institutional theory as the basic framework which is most suitable for analyzing the 3 countries with different institutional frameworks and regulations for MNCs. Hofstede's 5 dimensions are also widely used as a basic theoretical framework when comparing different national cultures.

The third part is the case study of Toyota Quality Crisis since 2009. After Toyota finally won the World's biggest carmaker title in year 2008 and gave an outstanding sales and financial record in the last ten years, Toyota just crashed itself from heaven to hell in just one year.

In year 2009, the biggest car recall in automobile industry history was announced by Toyota's American company. In year 2010, the new CEO made his sincere apology to the American Congress in February and then flew to China to make an apology through a public media conference at the beginning of March. Then this tired CEO flew to Europe for the world car exhibition 2010 in Geneva. The smart Japanese business man really

wanted to save his beloved company which was set up by his grandpa. However, the institutional constraints his hard working and made the Crisis even worse.

The forth part is the application of theory from part 2 to analyse of the Toyota case.

The Toyota crisis is very hot at this moment and there are many journal article discussed it from different perspectives. However, I just found that every nation viewed this case in their own preference. "People only see what they want to see. Weather it is truth or lie doesn't matters.' What is said on <the Economist> is very different from that is reported on <the Newsweek> and <Wall Street Journal > and also <Caijing > magazine which is Chinese top economic magzine for professional.

Some Chinese business experts forecasted that the Toyota Crisis is a perfer example of the shuffle the cards in automobile industry and the underlying competition between the new 3 economic big power in Asia Pacific region. This part is the key part of this thesis with wide and deep discussion and analysis about the Toyota case.

The last part is conclusion and suggestion. Based on the piror analysis, some conclusion will be made.

The suggestion will also be given on how the MNCs successfully deal with the institutional difference and make a good position in the changing global market.

II. A Brief Introduction to Toyota and automobile industry & market

Overview of Toyota Company :

Brief company history and its global expansion

Toyota car company was the world largest car producer since 2008 and also the biggest car company in its domestic market-Japan. Toyota was ranked as Top 10 most valuable global Brand by UK ranking company.

1933 Toyota car was set up as a small division of machinery maker factory by Toyoda in his hometown Japan.

1937 Toyota Car became an independent company which was focus on automobile production.

1947 Toyota made its first annual sale record of over 100,000 and grew fast afterward

1957 Toyota entered into U.S.A market and created one single brand sale record by an foreign car maker in U.S.A. Till 2000, near 50% of total annual car volume was produced and sold in U.S.A market which was the No1 national market in Toyota global market.

2005-2007 Fast global expansion in key national markets e.g. U.S.A and mainland China market. Its total sale volume increased a lot in these 3 years.

2008 Toyota replaced General Motor and become the new No1 in the global automobile industry in term of sale volumn and market share. However, the flucucation of market condition also brought big loss to Toyata. In 2008, Toyata encounted the first yearly loss in its 70 years history. Its marekt value also shranked to 100 billion USD which was only 50% of its market value in year 2007.

Profile of present CEO-Akio Toyoda

Akio was born in Japan, on May 3rd, 1956 as the first grandson of Toyoda founder.

The whole Toyoda family really cherished this boy as their new hope for claiming back the management control right of Toyada company from the outsiders.

Akio grew up as typical Japan elite who was educated both in Japan and U.S higher education in order to understand well both the West and East.

Akio got his banchelor degree of Law from Japan top university and then went to U.S.A for a MBA.

Work experience: Join Toyata since 1984

Normintated as member of Management Broard in 2000

Normintated as Vice president in charge of Sale in Japan and oversea business expension since 2005

Announced to become next CEO in the begin of 2009 and began to work as new CEO since June 23rd, 2009.

The brief introduction of key milestone in automobile history and key industry leader

Herry Ford introduced the mass production method to automobile industry and invented a new way of car production. The USD 500 per Ford car was welcome by American customers and became a great business success in the history.

Since then, the American car began its legend and expanded worldwide. The top3 player in this industry was Ford, GM and Clasles.

However, the global economy changed as time goes by. The rising of Japan in 1970s was unexpected by its commander-U.S.A. Toyota, Nissan, is the top 3 Japan car makers which competed with each other both in domestic market and global market.

After 30 years endeavour, Toyota finally replaced its old rival-GM and became the New world biggest car producing company in 2008. Toyota had no time for celebration its victory as it gave the first negative financial result in fiscal year 2008-2009. A new CEO was nominated by Toyota management board in late 2009.

When Toyota was busy with recalling its car worldwide, the Chinese car company-Geely brought the swedish car company-Volvo sliently. More and more Chinese car companies wasn't satisfied with their domestic business success and rushed their way into the global market.

The global car industry will be modern version three kingdoms between U.S., Japan and China.

Chapter 2 – Theory

I Neo-institution theory and its framework

Why Institution theory?

There are many theory which can be used as the theoretical foundation on this topic.

Comparing with the industry-based and resource-based theory, I choose the institutional based theory because of the following reasons.

The institutional theory provides the basic guidance on how to analyse the institutional difference between countries. Thus it is most suitable theory for this thesis.

The definition of institution

The institution is the rule of the game. Neo-institution theory suggests (Scott, 1995) that in order to survive, organizations need to get its legitimacy and do so through isomorphism with salient institution. That is, the MNCs will tend to conform to the rules and beliefs that are prevailing in the environment. (DiMaggio & Powell, 1983). Or when in Rome, do as the Romans. When MNCs enter into new markets, they must take the institutional factor into account.

II The framework of the institution-based considerations

The institutional theory isn't invented recently. And there are many theoretical frameworks and approaches for analysing institutions or institutionalization.

However, the institutional theory used for analysis of organizations is still in the process of development and need further empirical study for supporting.

The framework of the institutional consideration is showed in the following table

(Mike.W.Peng,2006):

Degree of Formality	Examples	Supportive Pillars
Formal institutions	Law Regulations Rules	Regulatory(coercive)
Informal institutions	Norms Cultures Ethics	Normative Cognitive

Degree of formality:

The institutions can be classified by the degree of formality.

The formal institutions are visible and existing in terms of documentation. Every company must obey all the government's regulations and company laws in each country where it does business. Otherwise, it will not get the approval to begin its operations in the particular market.

The informal institutions are invisible and existing in terms of mind and word of mouth. It greatly influences the customers' behaviors and even the company culture. It is more complex and complicated than the formal one as it is intangible and based on the countries different norms, cultures and ethics.

The two types of institutions are not isolated from each other. They interact with each other. If we look into the commercial laws of different countries, we can easily discover the distinguished variances between them. German Law is very different from American Law and Chinese Law, both in legislation system and basic principles. So the MNCs should pay attention to both types of institutional factors when entering into a new market and to achieve the international success beyond the geographic boundaries.

Supportive Pillars

(i).Regulatory Pillars

The Regulation Theory(RT) is a great research tool to illustrate regulatory pillar.

In this theory, the research is mainly discussion of how institutional forms of capitalism has changed its forms during its development in long term and observation of diversity of capitalisms at one point of time(Boyer and Sailard, 2002).

The mode of regulation is different from East to West, from country to county.

However, Boyer suggested that we can define the mode itself by 5 characterization:

- wage-labour nexus,
- form of competition,
- monetary regime,
- relationship between the state and the economy,
- insertion into the international system.

At the same time, the RT stressed the political origins of institutional form and try to find out the institutional configurations in new economy. The new international comparisions in RT discovered that path dependence of political compromises and related complementarities. For example, when facing the challenge of global financial crisis since 2008, the national political leader e.g. U.S president Obama really played an important role of bringing changes and reforms to U.S. financial system which had created a virtual greedy and bloody monster and pulled the world economy down into a big trouble. The U.S institution had been developed to account for changes and

empower its political leader during special time e.g War time or Social & Economic Crisis.

The emerging economies e.g. the rising of BRIC added more complexity and larger diversity to the variety of capitalism. After comparison of development of Latin American countries, RT concluded that developing exhibited quite original forms of capitalism(Quemaria, 2001).

What is more, the RT classified 4 configurations of capitalism.

(1)A market-oriented capitalism in which market and profit focus constitutes the main organizing principle for all coordination activities.

The research showed that all the English-speaking countries, plus Norway in this group.(Amable and Petit, 2001,)

(2)Meso-corporatist capitalism's driving force is trying to be big and diversified enough as a super conglomerate in order to make a sound stand in the global economy and survive during recession. Japan and Korea is two example in this type.(Boyer, 2005)

(3)A strong state-driven capitalism is that an economic circuit were depend on public interventions to operate well. Boyer classify EU integration drive into this group. I would like to add China and Russia into this group too as both two countries had over 30 years of state planning economy before reform since1990.

(4)Social –democratic capitalism is very special case which can be found in Scandinavian countries. In this model, public authorities always need to negotiate with the public in order to reach a mutual agreement on how to arrange the social and economic life for better social total welfare and sustainable development.(Boyer, 2005)

(ii). normative and cognitive pillars

Culture Dimensions (focus on national culture):

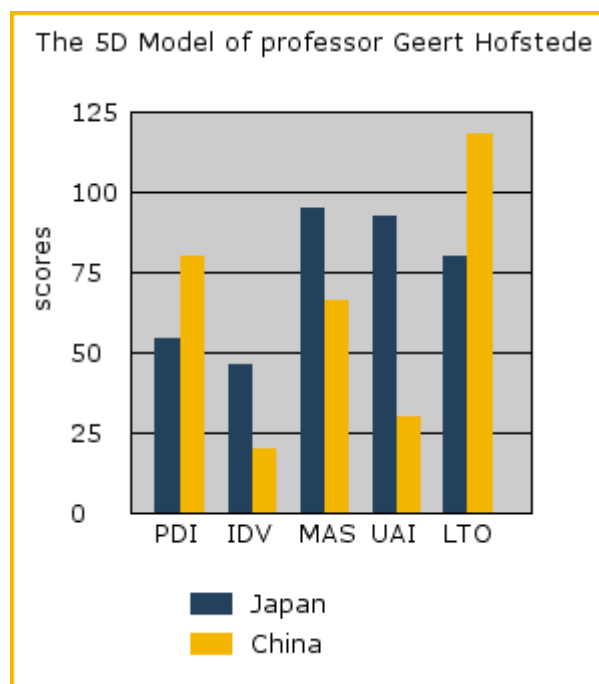
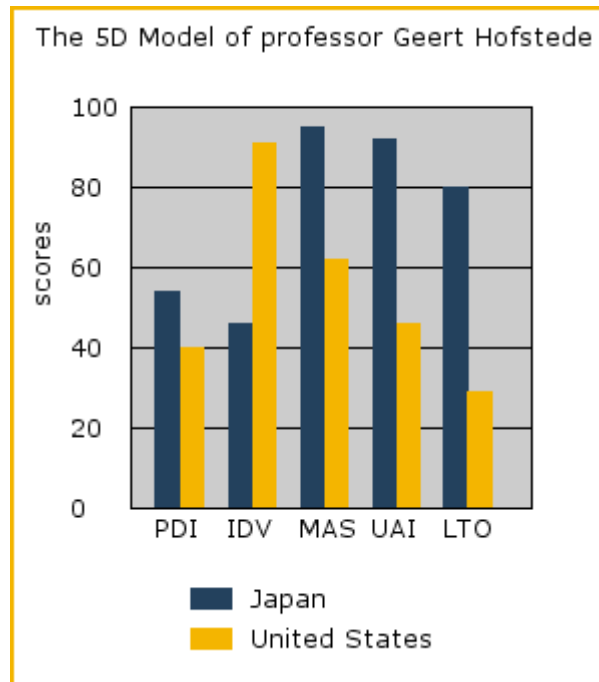
Culture is classified as one important part in the cognitive pillar in the institution theory.

However, culture is so important and has great impact on the institution. I decide to adopt the framework of Hofstede on Culture Dimensions for further illustrate. And I will give a brief comparison on the culture difference between Norway and China.

Geert Hofstede's five dimension

When comparing the culture difference between countries, the Hofstede's 5 dimension is widely used as a basic theoretical framework.

According to Hofstede's five dimensions of culture, the home national culture and host country culture can be compared in 5 dimensions. The following is just the comparison of Japan, U.S and China.



(source:www.geert-hofstede.com)

- Power Distance Index- PDI

From the comparison chart, we can see that Chinese culture had the highest score during the 3 countries.

Power distance is relatively large in the Chinese society. In the market area we are concerning, the age and hierarchy is respected and people with higher titles are usually obeyed by those with lower ones. Decision makers may have a sense of superiority, and may not contact directly with the guests without a corresponding business title.

- Individualism-IDV

When American prefer individualism, its rival all prefer collectivism. As China and Japan both had its culture root in Confusionism which encourage collaboration among people and value the interpersonal relationship.

- Masculinity- MAS

Japan had the highest score of MAS which indicated the hard side of Japanese personality and its crazy about purchasing power and position.

- Uncertainty Avoidance Index-UAI

The Japanese culture really showed its strong preference towards avoidance of uncertainty and conflict. Total social harmony is key value in Japanese culture.

- Long Term Orientation- LTO

It seems that American really lack patience when dealing with its Eastern rivals.

When China is proud of having 5000 years of cultivation, every Chinese seems to have too much to learn from their great ancient and has to be patient with focus on long term instead of short term.

In a summary, we can see Japan really balance itself between the East and West.

China always viewed Japan as its apprentice since 1000 years ago. However, Japan switch its tutor to Germany in 18th century and to U.S. after WW2. The Japanese culture is really a mixture of Chinese and Western culture. However, when American travellers complaint about their lost in translation during visit to Japan, the Chinese travellers will understand Japanese language at the first time. The 1000 years relationship between China and Japan became a strong tie which bound this two rivals in one boat sometimes.

Chapter 3 Case study-Toyota Quality Crisis in U.S and China

Although Toyota Crisis became the cover story in main media in 2009, the Crisis can be traced back to many years ago. The car recalled by Toyota since 2009 is worldwide. However, the smart Japan businessman dealt with tough issue by applying different policies in different countries. Toyoda CEO fled to U.S and China himself to make a sincere apology in 2010. Why Toyoda valued this two market so much? I think only history can provide us with some useful hint. So a short overview of Toyota's expansion in its biggest oversea Market-U.S and its most fast growing market-China will be given first. In this way, we can get a whole picture of this case instead of only focus on pieces of fact and data.

Overview of U.S.A automobile market and trade war between Japan and U.S.A since 1980

The history always repeats itself.

The last trade war between Japan and U.S.A began in 1980s. After the oil crisis, the American automobile industry was seriously hitted and became recession. In year 1980, all the top 3 American car producers gave a bad financial record which showed big yearly loss and smaller market shares than the past years.

At the same time, the Japanese car producers took an advantage of this opportunity and began aggressive expansion in American market. The Japanese car won the customers' preference by offering smarter car model and less petrol consuming. The

American car producers felt true threat by their Asian competitors whom they never took seriously in the past.

The investigation showed that on average 1 cars out of 4 cars on the American road was produced by Japanese producer . This data meant that Japanese car took 25% market share of American total market which was the world biggest car market.

However, the American business man found that on average 1 cars out of 50 cars on the Japanese road was produced by American producer. It showed that Japan protected its domestic market carefully while encouraging their companies to export and enter into foreign market in order to become world new leader in producing industry.

Then the argument between the Japan and U.S.A in both term of business and politics area began. The trade war ended with a new trade agreement of this two world biggest economic power.

Toyota Quality Crisis in U.S. market since 2009

In 2009 Oct, Toyoda announced the world biggest car recall plan. In this plan, Toyota would recall 38 million cars in U.S. market and payback the customer totally about 440 million USD as compensation.

This striking news was the result of underlying new round of trade war between U.S and Japan.

The financial crisis which was generated in Wall Street – the American financial center -became a nightmare which hanted in every country' economy since late 2008. The

prosperity suddenly was replaced by recession. The protectionism raised again. In order to save the domestic automobile industry and win the American customers over the Japanese competitor, the American business man and congress man acted quickly. However, this time U.S.A didn't choose to use the old way of imposing sanction to Japan government and producers. The quality issue which is key to the success of Japan car producers was became the cover story of main American media which showed their attitude against Japan and its carmakers.

At the same time, Japanese government and business man didn't seem to make a compromise so easily as last time. The minister of foreign affair department of Japanese central government made public speech which showed that government really took the Toyota crisis very seriously and would try their best to support Japanese producer in this trade war.

The updates from this unstopping car war is that American car producers was really happy to deliver an amazing financial result of Quarter 1 of year 2010. The General Motor annouced a total 4.1 billion net profit in Q1. And Ford motor also won 25% of old Toyota customers and increased its total market share by 1.1%.

The Toyota' presence in mainland China market

Toyota entered into mainland China market since 1970s. However, China didn't fully open its car market at that time. So Toyota had to begin its business adventure with the help of its local partner and set up its car produce factory by joint venture company. The car produced by Toyota and First Motor was named as XiaLi which was the most popular car model in Northern China. However, Toyota didn't rank mainland China market as its important market and didn't export its best seller car model into this market.

However, the American car producer- GM entered into China market aggressively after U.S.A and China signed the bitral trade agreement in 1999. GM introduced their best cars to China market and won a significant market share from its Japanese and German competitors in mainland China market.

Since then, Toyota also changed their strategy in China market and launched a national wide marketing campaign to promote its Brand in order to keep its market leader place in this fast growing market.

Toyota Recall Car Announcement in China since 2009

On December 25th 2009 when it was a time to celebrate and enjoy holiday, Toyota Chinese subcompany submitted a report to China Product Quality Control Ministry.

In this report, Toyota admitted that there were quality defect in some car model which it had sold in China in the past 3 years. Toyota would recall all these cars from Chinese customers and compensate according to Chinese domestic law.

It was estimated by some Chinese experts that Toyota would recall totally near 1 million cars in mainland China market in year 2009. Compared with the same number of 4 million in American market, this number wasn't the world biggest. However, if the number was compared with the total sale number in China market, the Chinese car users was surprised to know that their trusted Toyota sold so many cars with hidden problems to them. What made the Chinese customers more angry was that Toyota firstly recalled the cars in U.S.A market and waited a long time to begin recalling cars in China.

Some disappointed customers questioned that Toyota tried to hide the bad news in American market and lied to Chinese customers that the car model sold in China was not involved in this quality crisis.

The defense of Toyota and fight of its new CEO who was born with a big mission in the Toyota family

The new CEO of Toyoda or the 4th CEO of Toyoda was the grandson of the great businessman who invented “Just-in-time” way of supply chain management in the factory of Toyota.

Although Toyota is MNCs, it is originated from family business. Toyoda family wasn't satisfied with only being the biggest share holder and still wished to fully control the operation of the business.

The nomination of Akio Toyoda as new CEO is the sign of the Toyoda family's return to Toyoda business empire as King. This reflected one character of Japanese and Chinese business culture: Family business should always be under control of family members who were born to take this great responsibility to take over the business one day. The shareholders won't fully trust the outsiders who was professional managerial expert.

“Every Toyota car had my name on it.”-Akio Toyoda 's speech at U.S. congress

Akio flied to Washington for U.S. congress investigation about Toyoda quality crisis in late Febuary 2010. Akio used English to make his sincere apology ahead of the angry congress man. However, this kind of flattery didn't work so well as the congressman complained that the awful English of Akio was so hard to understand and Akio didn't give a good answer to their questions.

Akio even cried out in the following U.S media express meeting. In Japanese culture, man prefer bleeding instead of crying. In U.S. culture, tears means regret and

apology. So some American journalists later just described the tears of Akio is just a kind of trick.

On March 1st 2010, Akio fled to Beijing from U.S without any rest. In the public media confessional meeting, Akio bowed himself while making apology in front of Chinese Media. The smart Chinese Media just found out that Akio never bowed during his speech in U.S. In Japanese business culture, one businessman should bow himself to a special angle in order to show his great respect to his business partners. However, the long long history between Japan and China made the Chinese Media keep comparison about Toyota 's different policies for U.S. and China market. The conclusion draw from the comparison was that 73% people dissatisfied with Akio' apology in Beijing and 72% car users won't accept Akio' apology. (The data is from the open online survey by China biggest gateway website www.sina.com.cn)

The exhausted Akio was really facing too much pressure both from Toyota company insiders and from its global outsiders.

Chapter 4 Case analysis and application of theory

The Toyota case is really an interesting case to analysis from many perspective.

Why U.S. government insisted on playing hard ball in Toyota Crisis? Why Chinese public insisted on further investigation of Toyota Crisis in China market?

I think the institutional thoery in Chapter 2 of this thesis provided us with a useful tool to analyse this case and draw some conclusion which international businessmen can share in their future global activities.

Comparative study of Formal institution in U.S., Japan and China

For Toyota case, the car recall regulation system can be compared in U.S. , Japan and China as formal institution.

U.S. car recall regulation system

The U.S. had one specify department-NHTSA(national highway transportation safety authority) to take in charge of car recall issue in U.S. market.

The U.S also had individual civil law for this issue. The national highway transportation and automobile safety Law and American Law No. 49 Clause No. 301 Chapter all discussed about the car safe drive issue. Till 2010, there were 0.2 billion cars recall and 24 million tyre recall in U.S. market.

The NHTSA supervised all these recall cases in U.S and pushed the car makers to repaire all the defective car and tyre till good enough for ensurance of safe driving on U.S. highway.

The car makers all had been involved in the recall issue in U.S. market in the past. It is commented that U.S. had the world most strict recall regulation system so that no car company is lucky enough to escape the recall trouble while selling cars in the U.S. market.

However, given U.S is the world largest car market and moderate car accident rate per year, such strict regulation played an important role on maintenance of U.S. global leading place in car industry.

Japan car recall regulation

Japan set up the car recall system in 1969. After many years of practice, the recall system finally had been written into the 'Law for transportation on public way' and had been revised in 2002 for additional supplement. Till 2010, there were 34.83 million cars recalled in total in Japan market.

The Japan regulation system is based on civil law with many additional policies which were issued and implemented by government. There is no individual authority or separate department to take charge of the recall issue in the Japanese political system. Every case need the cooperation among many different departments inside the government.

China car recall regulation

China set up car recall regulation quite late than other developed countries. After China' return to WTO and reopen its car market to the world, the car market viewed the crazy growth in the past 10 years. The car transforms itself from Luxury product to basic transportation tool in modern Chinese family in urban area in just 10 years. It is predicted that China will replace U.S. become the world largest car market in next decade.

However, the law for car recall issue is left behind of the fast economic speed. There are some policies towards this issue while there hadn't been written into any civil law. The China Product Quality Control Ministry will be in charge of car recall issue as product defect issue without any regarding of driving safety and personal safety.

The policy towards car recall will be reviewed and amended annually. The changing regulation made it hard for car makers to adopt its corporation policy.

In a summary of this part, we can see any MNCs must conduct themselves smartly by thinking globally and acting locally. Toyota as the world No1 car maker didn't face many challenge in its domestic market-Japan. However, the strict regulation of U.S. market really brought endless trouble to Toyota. The loss is huge in term of money, time, energy. The formal institutions in U.S. market is dominated power which determined the fate of future business operation of Toyota. The latest data showed that Toyota's market share in U.S. car market had dropped by 5.4% in the past fiscal year. (data source: <http://www.toyota.com/>)

On the other hand, Toyota didn't have too much law sueing case in China. However, the well educated Chinese customers seems lost their brand loyalty towards high quality Japanese car and switch to Korean and Chinese car makers.

The informal institutions seem have more influence among Chinese customers.

Apply the regulation theory to analyze Toyota Case further

The Regulation theory provide us with a good framework to analyse the institutional difference among different capitalism.

I applied the RT theory to make a comparatsion of 3 type of regualtion. I classified U.S.A regulation into the market- oriennted regulation, while Japan into the Meso-corporatist and mainland china into the Statist. I think there won't any argument of the classification of U.S. and Japan. The conclusion had been widely accepted in the international management research field. However, there is so few research about the capitalism in China. In the old mind, China is a red country which is controlled by the crazy Communists e.g. Chairman Mao.

So I would like to give a brief overview of present China and use some data and fact to clarify some truth.

Overview of Chinese market:

Consumer market

In 2007 China imported goods and services for about 953.9 billion US\$. The domestic production in China is also both considerable and increasing. By looking at these figures, businessman currently tend to think of China as the worlds most attractive market.

However, this big market is very diversified and can be break down into many sub markets. The average spending power of the Chinese population is still very low. In 2006 the GDP per capita in China was only rounded 2034 UD\$, which ranked 133th in the world. For comparison, the 2006 GDP per capita GDP world average were

around 6.000 US\$. In Norway the GDP per capita was close to 68340 US\$.

(www.worldbank.org) China will still need several decades before its population will have a spending power around today's world average. On the other hand, one new released report from Ministry of Commerce of China showed that China has become the third largest luxury market in 2007 and takes account of 13% world market share. What is more, China will surpass Japan and U.S.A become No.1 in 2014. (www.mofcom.gov.cn) The high Gini index also shows that China become one of the most uneven society in the world where the rich is extremely rich and the poor become poorer. The strong purchasing of the rich Chinese people surprise the outside world and lure the world luxury industry. The largest MNCs in this industry - LVMH group is fastening their movement in China now and begin to move from the big metropolitans to second line city in the central and western part of China in order to gain the advantage of being the first comer. The new annual report of World Luxury Association pointed that China had became world No2 biggest market for luxury good in 2009.

Thus we can concluded that the Chinese market can be segmented into many different small markets. Instead of viewing Chinese market as a whole integrated marketed, MNCs should did more survey about the particular industry and markets in China before they drew up their plan of expansion in this market.

Capital market

The development of the Chinese capital market still falled behind those in industrialized countries although there are many improvement in the past decade.

China had to turn their promise into reality undering the force of WTO. However, the government is still remembering the shadow of Asian Financial Crisis in 1997 when HongKong returned to China. The Chinese government paid a lot to secure HongKong Financial Market. Since then, the governance over the financial market is always under intensive control. A large proportion of the banking system is still on public hands. The process of privatization and oversea IPO has started and have some effect, but will need some time before it takes full effect. The possibilities of corporate financing through the Chinese banking system, is therefore limited, especially for small and medium sized enterprises.

The market for venture capital is also under developed. When added to the problems in the banking system, this sums up to some real financial challenges for enterprises that want to enter this market. In 2005 there has been made a legislative opening for foreign bank branch offices in China. This will see to some improvement of the situation. The first Norwegian bank –Nordea opened its first branch office in Shanghai during 2006.

Labor market

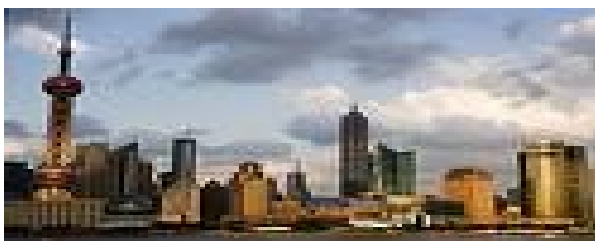
The labor market in China has seen quite some improvement over the last years. Restrictions on labor mobility do seem to drive a wedge between urban and rural labor markets though. The Chinese need an official permission before they can obtain permanent urban residence. The OECD therefore considers government labor market policies as a barrier to improving the labor market further. The OECD also

assumes that the differences between the rural and urban labor markets will increase, rather than decrease, over the next years.

What is more, the idea of only gaining cheap labor in China will not be absolute true as there are more and more Chinese students accomplished their study abroad and became the valuable human resource for MNCs. At the same time, the higher education system is also well developed in the past decade. In 2009, the Chinese university will give PHD degree to more people than the same number of U.S.A. The Microsoft opened their Asian research center just nearby Tsinghua University where the best computer engineers and programmers in China studied for their high education.

Geography/ demography

Even if China is one country, it has the same character of these big countries- a combination of different ethnic groups and regional gaps. As the world's third largest country (in extension) it contains domestic differences as big as between countries in Europe. China contains a wide range of regional differences in culture, language, ethnicity, income, standard of living and preferences. Just see the following photos of the eastern and the western part will tell the difference.





(all from google picture)

The eastern part of China is well developed while the people in the western part still struggle with the poverty. Although the government invested a lot to improve the infrastructure of the western China, it seems that it will take a long time before the western region could catch up with the east one.

What is more, the distinguishability among the different area in the east made the China market even more complicated. Thus MNCs should view the China market as a collection of many sub market instead of an integrated one.

In a summary, we can't view China with an still eye as this big eastern giant is developing at a unbelievable high speed. And the China speed didn't seem to be lower down by the current financial crisis and make its contribution to world economic growth. China began its reform since 1978 and gradually transform itself from State own&planning economy to market economy. The latest news is that U.S. finally officially admitted the mainland China as market economy instead of manipulated economy in the Sino-U.S. summit in May 2010.

However, compared with pure market-oriented capitalism in U.S., the new private sector in China which only had only 20 years development history is still small and weak. Giving the background of China special institution, I think I can put this new rising capitalism into the category of Statist.

The following chart 1 will illustrate my comparison of three type of institution under the framework of RT.

From this Chart, we can clearly see the difference of U.S, Japan and mainland China institution and diversified nature of 3 kinds of capitalism originated from these three institution.

Then we can take the Toyota case as an example to analyze deeply.

Toyota is Japanese leading car maker. We can classify Toyota as Meso-corporatist capitalism. Toyota's core business is car production while it also run into Financial, High tech-Research research and development, new energy and green economy research and application field. Toyota also was a smart investor who are big shareholder in many companies in many countries. In a world, Toyota had create a big business empire. Toyota also implemented the life long employment since 1950s. Toyota tried to created an mutual trust and co-development relationship with its worldwide employees.

However, Toyota really faced a high competition among its domestic rivals-Nissan, Honda, Mazda. Due to the limitation of Japanese market size, Toyota had be more innovative in order to keep provide the demanding customers with its excellent product as best seller in different car market.

Toyota had its own financial company which provide financial services to its target customers.

Chart 1 The diverse nature of 3 types capitalism in RT(source: Boyer 2005, Amable 1997, www.wiki.mbalib.com.cn)

Nation	U.S.A.	Japan	China mainland exclude HongKong and Taiwan
Nature of capitalism	Market-Oriented	Meso-coporatist	Statist(in the individual Economy sector not for all sectors in mainland China)
Overall logic and hierarchical principle	Market logic is the key and basic issue.	Large in size and diverse in different unit of big business giant	Public intervvervention is in charge of the smooth operation of all economic activities
Implications for institutional forms			
Wage-Labour nexus	'pay as you deserved' individualizaion of payment system and full segmentation of labour market	Life long employment and wage compromise within companies	Regulated by Labor Law for employment, working hours, holiday arrangement, wages and social benefits. Special protection for working women who enjoy the same payment scale for the same job and totally 9 month birth leave for born of a baby
Forms of competition	Free competition within the legal framework; while anti-monopoly law will stop any company from fully manipulation the market.	Encourage competition between big players in one market or one players playing actively in different markets.	Encourage monopoly big domestic players to dominate the domestic market while entering into oversea market. The capital is accumulated and concertrated in few state-own companies. While small and midium size companies competed hardly for the rest small market share.

Monetary regime	Federal reserve authority is independent. The financial system is runned without too much outside intervence	Central bank and Treaturity department of government control and regulate the market carefully while commercial banks and keiretsu play important role in funding and capital allocation	Central bank and governement made the monetary and credit policies while reviewing and adjusting periodically. The commercial banks and capital markets also play an active role in attracting public saving and investment.
Relationships between the state and economy	Not strong tie between state and domestic companies. However, any big event e.g. bankruptcy will be investigated by government. In the financial crisis, the government became more strong in leading the economy back to right track.	The linkage between government and big companies is strong as company shared some social responsibilities e.g. employment, economic growth, international trade volume quota.	Central government made the 5 years development plan and seperated the tasks to local government. Any companies must do business within the whole society development framework. The target of government is accepted by companies as own target.
Insertion into international system	Main principle is free trade while in the recession time the protctionism will rise up.	Aggressive expension in global market due to the limitation of domestic market size. Government also adopted the free trade policy and encourage its companies go oversea	Used to be tight control over any international business activities. After entry into WTO, China kept its promise to open its market to other countries while the government implement a new policy of 'going beyond China' which is aim to support domestic companies 's global economic expension.

Toyota had its own financial company which provide financial services to its target customers.

Toyota is the most famous and valuable global brand among all other Japanese brand. In some terms, Toyota is considered as the namecard of Japan car industry and the high quality of Japanese product. Japanese government also changed its attitude in the Toyota recall crisis in 2010. The speakman of central government clearly expressed that Japanese government will fully support Toyota to survive in this crisis as Toyota played an important role in Japan international business strategy. It is estimated by the Japanese authority that if Toyota's sale in U.S is down by 1%, the Japanese government will face the pressure the less trade gain and foreign reserve. Now Japanese government is also criticized by the over spending beyond the annual budget and big deficit in public sector. So Japanese government took a different position in this round of trade war between U.S and Japan.

Toyota began its global expansion since 1950s due to the small market size of domestic market. Toyoda opened its first oversea factory in Taiwan in 1950s. From Asia, Toyota began its global adventure step by step and became the No1. foreign car maker in many markets. The U.S market is milestone for all car makers. However, Toyota win the American's choice by introducing their economic car model which can save oil consumption. After suffering the oil crisis in 1970s, the American family switched to Toyota car without any hesitation. The U.S market became Toyota's biggest oversea market. It is calculated that 8 Japanese carmaker total took up to 46.6% market share of U.S. car market in July 2009. (www.toyota.com.jp) Toyota got the biggest market among all foreign carmakers. 50 years oversea experience finally brought Toyota with its wish glory- world largest car maker. Toyota replaced GM and became the new King in the global car industry. However, the over expansion and greedy for maximum profit became the main cause of Toyota quality crisis.

The political impact and globalization impact on institution and on the Toyota Crisis

The Toyota Quality Crisis now became a complex issue which is not only lying in front of Toyota but also Japanese government, U.S. congress, and Chinese angry customers.

Although Toyota acted very locally and made the apology according to different people, Toyota still found itself lost in translation and endless legal procedure. Some experts pointed out that Toyota is just another victim of the undergoing worldwide financial crisis and rising up of national protectism in each country.

U.S. should be classified into market-oriented capitalism. However, the new president Obama really kept his promise during the election. 'U.S carmaker will never be No2'. By defeating its strongest rival-Toyota, U.S carmaker will claim back its No1 title. The strong interence of U.S. government in its economic operation since 2009 didn't only shocked Toyota but also Wall Street bankers. So we can conclude that U.S. institution leave open door for the government during the special period and the changes in the institution will have great impact on its capitalism. GM and Ford were quite confident of getting the losing market share of Toyota and beating all Japanese carmakers back by intensive marketing campaign and promotion since 2009. The bankrupcy problem of Ford and GM is replaced by good financial report in Q1 2010.

The bad news from Toyota and no result of Japan-U.S. neogoitation about the moving the U.S. army within Japan made the prime minister resign and new election of new politic leader. The new PM seems to start an other round of reform in Japanese economic and financial system. The Meso-corporatist capitalism seems to adjust itself to deal with the new regulation system in Japan.

When the trade war between U.S. and Japan is unstoppable, the new rising China capitalism also entered into global arena with a big movement.

Li shufu who was the founder of Geely Car company and seldomly showed himself in the public and media purchased the Volvo-the Swedish carmaker silently. The Ministry of Commerce approved this deal at its fastest speed. It seems Chinese government really encourage its domestic car maker to go oversea. Will Geely become another Toyota in car industry? Only time can give us an answer.

The globalisation impact on institution and capitalism

“Globalisation is entering a new phase, with emerging-marketing”

The emerging markets is so hot now. If you google it, you will find millions of new s and article about it. However, the emerging markets means both challenge and opportunity for the rich-world multinational companies. The Economist ‘ special report on globalisation on its September 2008 issue indicated that globalisation is entering a new phase with emerging-market companies now competing furiously against rich-country ones who often ignore these competitors in the past. When entering into these emerging market, the MNCs from rich-country may feel shock now and have to make more changes than they expected.

“You get very different thinking if you sit in Shanghai or Sao Paulo or Dubai. When you want to creat a climate and culture of hypergrowth, you really need to live and breathe emerging markets.” One IBM VP comments on this.

Among all these emerging markets, Chinese market is always on the top list for MNCs which intend to do further expansion. China is the largest country measured by its population which is 1.3 billion in 2005. Beside China is also the one of the world's largest and fast growing economies. The nominal GDP of China in 2007 is

\$3.42 trillion and ranked 4th in the world. And the GDP growth rate of 2007 is 11.4%(www.un.org).

In the special report on globalisation from <The Economist> magazine, the author pointed out the rise of state capitalism in the form of sovereign-wealth funds was a new trend in the current stage of globalisation.

The finding from the <The Economic> intelligence unit also proved my classification of new rising chinese capitalism into Statist is right.

The culture difference impact on Toyota Quality Crisis

The different way of making an apology to the public by Toyota CEO Akio showed smartness of Japanese businessman and invisible sophisticated Japanese wisdom which generated from Japan culture.

From the comparasion study of 3 national culture within the framework of Geert Hofstede, we can conclude that Japan culture is really mixblood of West culture and Chinese Culture. This kind of culture enable Japanese MNCs with cultural advantage when entry into global market.

It is more easy to understand the anger of U.S. government and victim of related customers. When concerning about people's life and safe driving, the U.S. institution really take bigger consideration than other issues. This is the reason why U.S. media didn't show any guilty of drawing Toyota CEO to tears.

The reason why Chinese customer didn't accept Akio's apology is worth to investigate further. Akio even bowed himself so low to show his great respect towards Chinese business partners and customers. Why he fails in his communication with Chinese Media and public.

The common sense of Chinese public is that Toyota should apply the same compensation package to its hurting Chinese customers for Toyota position its product as high quality and global trusted big brand. However, Chinese institution isn't developed at the same speed of GDP. The car recall system doesn't require car maker to make big compensation to victim. Toyota won't pay so much as it knew the Chinese regulation so well. This made Chinese customers very disappointed and angry.

What is more, most Chinese people still couldn't forget Japan's betrayal and invasion in the past. For Chinese, Japanese just steal the great Chinese culture and treasury and used what they learned to take advantage of China when China became weak in the past 200 years.

The old wisdom hidden in the Classical novel – Three Kingdoms is rediscovered by Japanese businessman and later learned by U.S businessman who were crazy about finding out the secret weapon grasped by Japanese rivals. However, the Japanese and American interpretation seems to totally wrong understand of this Chinese Novel from Chinese perspective.

I can only conclude that people see what they want to see nomatter truth or not.

The innovative application of old wisdom from war to business by Japanese
businessman should be valued by global management researchers and
professionals.

Chapter 5 Conclusion:

The best book seller <The world is flat> remind people that the globalization had been unstoppable strong wave which had influence on everyone's daily life today. The world was connected with each other more closely than even before as the convergence required so. Climate change became an great matter of urgency on the list of elite people's agenda. Although the Climate summit at Copenhagen didn't reach any global agreement, Green Economy and Lifestyle was discussed in depth in every participated country. The color –Green even became a most trendy color in Fashion Industry.

However, every country had its freedom to choose its way of development. It is due to the distinctive national economic condition and institutional arrangement. Each country had unique history path way to follow. Although MNCs expended its business into the global market, MNCs still embedded themselves deeply in their original country's institutional constraints.

Based the deep analysis of Toyota Case in Chapter 4, we can draw the following conclusion:

- The comparative institutional analyses among U.S., Japan and China showed that contemporary capitalism differ from each other significantly.
- The difference between capitalism can be compared both in term of formal and informal institution regulation.
- In the framework of RT, U.S, Japan and China institution can be categorized into the regulation which originated the market-oriented capitalism, Meso-corporatist capitalism, and statist capitalism. The MNCs-GM, Toyota, Greely is just the typical representative of each kind of capitalism.

- The globalisation had great impact on the variety of capitalism. The new research proved that the rising of state capitalism is a trend in the wave of globalisation.
- The national culture difference can explain some difference in capitalism. The comparison analysis and case study of Toyota crisis showed that culture still play an important role in shaping the attitude of people. The changes in public opinion will lead to social changes which will incur economic changes as following result. However, the culture changes takes longer time and evolve in long term.

Chapter 6 Recommendations:

The Toyota Case really provides us a great lesson of how many challenges MNCs will face on the way to become global leader.

For MNCs, balance between original country institution and host country institution is key to success in global market.

In order to avoid lost in translation in foreign market, MNCs should act locally by hiring local talents and trying to build mutual trusted relationship with local business partners.

The institution isn't still and the capitalism relay its basic institution to grow up. The MNCs should pay great attention to any changes and adjustment of institution both domestic and international. Then MNCs should adjust its own strategy according to these new changes by either structure reconstruction or other method. Toyota quickly set up a special department-a global action team which is in charge of Quality issue related to the Crisis and start new procedure and internal control policy to ensure quality in future production. From the latest report of this Quality committee, we can see some progress which had been made by Toyota to save itself.(www. Toyota.com)

The globalisation and new rising MNCs from emerging market will add more varieties to capitalism. However, MNCs from rich countries shouldn't be too worry or too optimistic towards their rivals. Learning from each other and sharing the knowledge is better than traditional competition. Better cooperation between MNCs will enable us to achieve our common goal- green planet and green economy.

Additional Notes by author:

I personally strongly recommend that more international businessmen should read the Chinese novel-Three Kingdoms in their spare time.

Actually this novel was written by a talented Chinese writer in 17th century. However, the novel was all about a civil war which can be dated back to 200 A.D in ancient Chinese history.

'In the long history, the basic trend is long time peace will be replaced by war one day. However, the war wouldn't last forever and new peace will come with the new birth of new empire.' The foreword from this novel showed the basic attitude of Chinese people towards war and peace.

The old Chinese wisdom told people that always looking backward will make one smart by learning from the past and avoiding making same mistakes. The complex Taoism and Chanzhong is so hard for Chinese young generation to understand. As for myself, I still think myself as a little girl when reading these Classic book and facing the great thinkers in books although I had been studied hard about Chinese culture in the past 30 years and achieved nearly full mark in Chinese testing for the National Higher Education entry Exam in my hometown with 5th largest population in China. It took even Chinese student too much time to take over this heavy treasure or burden from their ancient. So it is so hard to learn Chinese language as too much culture and norm were carried in this old language. I would like to classify Chinese culture into one of high distinction country in term of long term orientation. When

chinese government made any new policy or adjustment of old strategy, we can always trace back its root in history.

I hope this thesis could share my knowledge and experience with all my respected Norwegian professors and classmates. I did learn so much in NHH. Studying in NHH is one of the best choice I had made in my life.

I wish my thesis can be widely read among NHH students in the library and looking forward to any feedback. Please contact me by my school mail:

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