

Interview with Makihara Minoru Chairman of Mitsubishi Corp.

Interviewer – Ito Shuichi

Makihara Minoru, Chairman of Mitsubishi Corporation, in an interview in the wake of Sept. 11, emphasizes the importance of globalization and hopes for a world that is also tolerant enough to accommodate different viewpoints. In Makihara's opinion, the ability to build trust is an essential factor for success in the international arena.

Ito: As a prominent Japanese businessman active on the international stage, how do you evaluate the postwar Japanese economy?

Makihara: I think Japan has now arrived at the third great turning point in its history, following the Meiji Restoration (1868) and the period that followed World War II. As I look back on the postwar years, until the 1980s Japan had a clear goal – to catch up with and surpass the United States. In general, Japan moved steadily towards that goal under a tight-knit system led by the bureaucracy, of which the so-called “convoy system” was an integral part. Up to the mid-1980s the whole system worked rather well. The well-educated and industrious Japanese work force was of course another factor that contributed to the system's success in developing our economy.

In the late 1980s, it appeared to many that Japan had caught up with the United States. Having achieved their goal, the “convoy system” lost its direction, but the private sector was not yet in place to exercise leadership and it was then that the bubble burst. At the same time, the Japanese people had achieved increasing affluence, and the sense of crisis, felt so keenly in the post-war years, was no longer there. As a result, even today, more than 10 years after the twin bubbles of land and stock prices burst, we are still drifting, and many problems remain unsolved and structural reform is still incom-

plete. The value of land and stocks has probably dropped by some ¥1,400 trillion. It has taken serious bleeding for policymakers to start to realize that new policies must be formulated. But they have yet to take specific actions.

Ito: Do you think the prospects for the Japanese economy are unclear?

Makihara: At this moment, we are in the process of formulating concrete policies, but the situation is still unclear. I feel a strong sense of crisis. The fact of the matter is, Japan is pressed for time. We must make up for the so-called “lost decade.”

Yet, compared with other countries, our basic infrastructure is relatively well established. For example, while there are admittedly various serious problems with the educational system that have to be corrected, in general, the standard of education is very high. Our work force remains diligent, though their attitudes towards work are gradually changing.

As a result, I am convinced that Japan still has the capability to regain its strength, if the public realizes the severity of the crisis and recognizes the need for change. It is, after all, the public that must lead the transformation of the country.

Ito: Would you agree that the Japanese people are very slow to recognize a crisis and that they are not yet aware of the seriousness of the problems facing the country?

Makihara: Japan is now plagued by deflation, an illness the cure for which has not yet been discovered. While the situation is serious, for the average consumer with some affluence, in the short run, it means cheaper prices which is not uncomfortable. It seems to me that this is one reason why the sense of

urgency has been slow to develop. However, gradually people are becoming aware of the gloomy situation they are in, and the necessity for change is developing.

Ito: Were the Japanese not aware of the economic bubble? Or were they simply unable to address it?

Makihara: They were not aware of it at first. In fact, in the late 1980s, a number of knowledgeable Japanese were still putting forth the idea that Japan did not need the United States and that we could succeed on our own. It was felt that Japan was “number one,” and had little to learn from the United States.

In the 1990s when land and stock prices were still rising in Japan, many overseas analysts cautioned that these levels could not be sustained for long and that sooner or later they would plunge. Unfortunately, this warning was not heeded, and the bubble continued to grow.

Even after the bubble actually burst, Japan could have dealt with it had they tackled the problem early on, but the country was slow to respond. There were also policy mistakes, such as continued ineffective and unproductive public spending. At this point, however, instead of looking back and regretting past inaction, we need to think about what we should do from now on.

Ito: The government has given the disposal of non-performing loans (NPLs) top priority. But the actual amount of NPLs has not been reduced by much. If nothing can be done at this time, the future of Japan will become increasingly bleak. Do you agree?

Makihara: The government is setting the direction and outlining bold policies. But there is still no political consensus

as to how to implement such policies.

I also think that while the NPL issue is of top priority, it must be addressed together with structural reform.

Having come this far, it is indeed a difficult problem and perhaps there is no perfect solution. Nevertheless plans must be made, actions taken and if they do not work out, adjustments should be made. To achieve all this, bold leadership is required.

Ito: How do you evaluate Prime Minister Koizumi Jun'ichiro?

Makihara: I have high expectations of Koizumi. Is there anyone else who can replace him? Nobody comes to my mind. At least what he has said so far, in my view, is correct. He seems to be fighting a lonely battle however. All of us, not only the private sector but also politicians and bureaucrats, must give him stronger support so that he can achieve what he is trying to do and get things moving.

Ito: The terrorist attacks on the United States and the U.S. retaliatory action is having a serious impact on the world economy. Some say that these events are another backlash against globalization. What is your opinion?

Makihara: I firmly believe that globalization should, and will, continue to go forward. Some people, however, are extremely wary about globalization. We have seen this manifested in the protests carried out by non-governmental and nonprofit organizations at the Seattle meeting of the World Trade Organization (WTO) in 1999 and other major international economic conferences. We have to recognize their perspective and the fact that the gap between the rich and the poor is indeed widening around the world.

Another issue is that until Sept. 11, in the wake of its overall economic success, the United States seemed to have been relatively indifferent to the rest of the world. Post Sept. 11, I think the United States is starting to realize the importance of alliances and the fact that it cannot stand alone in a global econo-



Chairman Makihara giving an interview at his office

my. I believe that the United States has the capacity to change course when necessary. This might well be another time for Americans to reflect on their direction.

If the current economic situation in the United States continues, we may have to prepare for a further adverse impact on ourselves. It is said that the U.S. economy is likely to recover in the second half of this year. I do hope that this forecast is correct, but I think it must be based on the assumption that the threat of terrorism is contained.

Ito: Some Japanese are alarmed by China's accession to the WTO and protectionist moves are being taken in Japan. How should Japan interact with China?

Makihara: Japan should welcome China's accession to the WTO, as this will help to make China an open society. In this regard, Japan and China will be at the same table, enabling us to hold discussions and exchange opinions as equal partners.

While the quality of the Chinese work force is improving quickly, wages

and labor costs are still very low in China and this situation poses, in the short run, a competitive challenge to manufacturers both in Japan and around Asia. Such challenges are however bound to occur as we mature as an economy, and instead of shrinking away, we must act proactively to take advantage of such inevitable changes. From this point of view, the recent Japanese invocation of safeguard measures against some farm products from China was an unfortunate response. We must have a broader viewpoint.

China and the Association of South East Asian Nations (ASEAN) are now talking about plans to conclude a free trade agreement. We should welcome such plans and exercise leadership.

Ito: Japanese industrial circles pushed for a free trade agreement with Singapore. Are they not urging for a similar agreement with China?

Makihara: The Japanese government and the Japan Federation of Economic Organizations (Keidanren) are now pushing for free trade agreements which are consistent with the WTO.

Specifically, Keidanren is calling for a free trade agreement with Mexico and South Korea after Singapore. South Korea is particularly important as our closest neighbor. I have also proposed that we should start seriously exploring the possibilities of a similar agreement with the United States.

Ito: You were born in London while your father was posted there as a businessman and went to America when you were a high school student. You were destined to play an active part on the international stage. What do you think are the qualities that are needed for effectiveness on the international stage?

Makihara: Let me first take a moment to talk about Japan's global presence. Japan has depended on exports and has, generally speaking, been a trading nation. Trade, of course, involves global movement of people and goods across borders. Therefore, a businessperson who plays an active role on the international stage must be able to build relationships beyond national borders. To do so, the most important quality for such a person is the ability to inspire trust in foreign partners.

In my view, language is one of the most important elements for gaining that trust. There are various opinions about the importance of English proficiency. But, we have to recognize that English has become the lingua franca in business. I also think that English, as a language, is perhaps best suited for business. It is therefore becoming increasingly important for Japanese businesspersons to build relations of trust with foreign partners based on communication in English.

I also believe that culture is another important factor for building relations. Business considerations alone are not enough. Unless you are knowledgeable to some degree about the history or literature of your own country and your business partner's country, you might not be taken seriously and you will not be able to build good relations with foreign partners.

I graduated from Harvard University

and therefore have a special place in my heart for the school. But, Harvard Business School, and many other leading business schools as well, generally make it a rule to recruit students from among those who already have had some business experience. Entrants straight out of college are more the exception. This is based on the philosophy that ideal students are those who are not merely schooled in economics but who are also conversant in a wide range of studies and have preferably had some experience in the real world.

Ito: You initially intended to study chemistry in Harvard, didn't you?

Makihara: That's right. After the war, I went to the United States and attended a top-ranking high school. I was good at science because I had studied in the science faculty of a Japanese high school under the prewar system. Therefore, when I was admitted to Harvard, I intended to major in chemistry. But at Harvard, I soon found that I was up against some stiff competition from my classmates despite my educational background and I soon ended up switching my major to political science.

Ito: Do you think that the Japanese must first have a Japanese identity to be effective on the international stage?

Makihara: I agree. Any business person who wants to be successful in the global arena must have an identity. It is often said that consistency and integrity, which goes back to the question of trust, are very important. In present-day Japan, however, even honor students are not necessarily taught to think for themselves and express their own points of view. To overcome global barriers and engender trust, one cannot remain faceless.

Ito: How do you foresee Japan and the Japanese people 50 years from now?

Makihara: Japan is still a half-open society. Great Britain is perhaps more open but still retains some semblance of a class society. On the other hand,

America, while it is undeniably facing various problems, is a very open society. In Japan we talk about deregulation, but we still have many invisible regulations and are not yet fully open to foreigners. These barriers should be removed so that more foreigners can live comfortably as permanent residents in Japan.

When Japan is able to transform itself in this way, and create a global economic structure, it will be able to contribute more to the global society, drawing on its well-educated populace, an improved education system and on its sound infrastructure. Japan should also aim to build a society that, through education or vocational training, will allow its people to fully develop their inherent capacities resulting in a secure livelihood and promote cultural development. These goals are not impossible to achieve. This is my ideal image of Japan as it will be 50 years hence.

Ito: Do you have any message for our foreign readers?

Makihara: I believe globalization is here to stay, and to support it, good corporate governance, based on the principles of transparency and accountability will be required of global business corporations. It should be recognized at the same time that "good corporate governance" in its execution will inevitably have to take into consideration the national environment and cultural heritage of each business entity. To bridge the gap between such entities and to further promote business across boundaries, the bond of personal trust will be essential. JITI

Makihara Minoru is Chairman of Mitsubishi Corporation and serves as Vice Chairman of the Japan Federation of Economic Organizations (Keidanren). He is also Chairman of the Japan-U.S. Business Council and a board member of IBM, Ripplewood Holdings L.L.C., the Shinsei Bank, Ltd. and Ayala Corporation.

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