

# "We Very Much Hope to be Among the Survivors"

## Says the President of Japan's No.2 Automaker



Takashi Ishihara, president of Nissan Motor Co., Ltd.

*Automobiles are the most visible of Japan's exports, and among the leading causes of Japan's trade frictions with Europe and the United States. But according to the president of Japan's second largest automaker, the entire global auto industry is facing a time of challenge and intensifying competition. Nissan, says Takashi Ishihara, is playing to win in the years ahead, and that means tie-ups, technological innovation, and overseas production.*

**Interview by Michael Tharp with Takashi Ishihara, president of Nissan Motor Co., Ltd.**

*Tokyo Bureau Chief for the Far Eastern Economic Review since September 1981, Michael Tharp was previously Tokyo correspondent for the New York Times from August 1980 to June 1981. Before that, he was with the Wall Street Journal from 1972, including the 1976-80 stint as Tokyo Bureau Chief that first brought him to Japan.*

**Tharp:** To begin with, could you please explain Nissan's basic corporate strategies regarding domestic and international production, investment (especially in terms of capital spending), and technological development. And if you could, comment on the effect of the weak yen on Nissan's overall operations.

**Ishihara:** Looking first at the domestic market, we do not expect total Japanese demand to grow that much over the next two or three years. Even if there is growth, it will likely be approximately within the GNP growth rate, which means a growth rate of under 5% or so. Accord-

ingly, we see the total domestic demand over the next two or three years as fluctuating between 5 and 5.1 million.

Japanese automobile production, on the other hand, has been 11 million for the past two years. This means that for the past couple of years we have been selling about 5 million vehicles in the domestic market and exporting about 6 million.

This brings us to the question of whether or not we can expect growth in exports of finished vehicles. In fact, the outlook for this year is for exports of finished vehicles to be 4-5% less than they were last year.

In this sense, all of the domestic Japanese auto firms have developed strategies which place a major emphasis on domestic sales.

The next question everybody has been facing is what competitive tools can be used to compete in this very limited Japanese domestic market. The answer has been product development.

So all of the automakers have been competing to anticipate new trends, new markets, and new technologies. We have been competing to develop new products with the latest technologies in order to grow in this competitive market.

For example, and this may be a figure unparalleled anywhere else in the world, we have about 30% of our vehicles equipped with turbochargers. And some of these vehicles have double overhead

cam engines with turbo-chargers. This is a technically sophisticated engine for an automobile.

As seen in all of this, it is apparent that victory or defeat in the Japanese market will be determined by a company's technological development capability. Another factor will be the ability to lower production costs by automating production processes. These will be the major determinants.

On exports, as I already mentioned, there is no future in producing complete vehicles in Japan and exporting them as finished products. The barriers are too great, and I would expect such exports of finished vehicles to head down. In order to resolve this issue, we are faced with the task of investing overseas and developing overseas production facilities.

I have long thought that the time would come when further growth in finished vehicle exports would become more difficult, and we have been a little ahead of most other companies in developing production capabilities in the major global markets. One example is our light truck plant in the United States. Another is Mexico, where we have been engaged in production for 20 years. In Australia, we have been in production for over 10 years. More recently is the tie-up with Alfa Romeo in Italy to produce Nissans. In Spain, we have acquired the Motor Iberica automobile company and now

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make four-wheel drive vehicles and commercial vans there.

Most of the examples which I have just cited have been cases with 100% equity positions for Nissan capital. Of course, there are also cases in which we tie up with local capital for assembly and occasionally production. One of the best examples here is Yue Loong Motor in Taiwan. Another is Siam Motors in Bangkok. Still another is Tan Chong & Sons in Malaysia. In the near future, we are looking forward to a tie-up in Indonesia, and to truck production in India. The list is almost endless. In all of these, we are investing our own capital or joining forces with local capital in markets where we cannot export



finished vehicles and are trying to expand production.

There is one other important facet to our overseas strategy. This involves technical tie-ups with the major automakers in the industrialized nations. For example, we have been exploring with Volkswagen of the FRG a wide range of technical exchange arrangements that could be done through a tie-up to produce Volkswagen automobiles in Japan.

Looking at the automobile industry over the next 5-10 years, I suspect there will be a growing tendency toward market domination by the world's major automakers, both in tie-ups with local capital in markets which are closed to finished exports and in technical tie-ups among the automakers themselves.

Examples of such technical tie-ups among major automakers include General

Motors and Toyota, Volkswagen and Renault, or Fiat and Peugeot Schlater. There is an increasingly complex and close intertwining among the world's major automobile companies.

This brings me to Nissan's own capital investment. Last year we completed a Technical Center in Sagami-hara. This Technical Center was built at a total cost of about ¥50 billion on a 1.2 million square meter site. It brings together our design division, which had formerly been divided between two separate sites.

In the second phase, we intend to invest approximately the same amount over the next five years for further projects.

I suspect that the CAD (computer-assisted design) capability which we are developing here is among the best anywhere in the world.

Moreover, on plant and equipment investment in production facilities, we are investing about ¥200 billion over the next three years to be ready for unit production commensurate with the emerging age.

I hope that answers most of your question.

**Tharp:** Very well. Could you elaborate a little on the possible tie-ups with foreign automakers, especially your previously announced tie-up with Volkswagen? What do you think the future holds for this tie-up?

**Ishihara:** Unfortunately, late last year, Dr. Schmücker, who had been chairman, had a heart attack. We now have Mr. Hern, president of Germany's Continental Tyre, serving as chairman. Mr. Hern was here recently, and we were able to confirm the basic points of our agreement, but there is nothing I can tell you yet on exactly how we intend to deal with the various specific problems.

The two companies have agreed to study a broad range of possible tie-ups, be they technical tie-ups, product tie-ups, marketing tie-ups, or whatever.

**Tharp:** Do you anticipate tie-ups with any other foreign automakers in the foreseeable future?

**Ishihara:** There is nothing specific at this time, but we are interested in concluding a large number of tie-ups where there is a need on our side and where it can also

be made advantageous for the other side.

**Tharp:** Could you talk a little about the global consolidation of the automobile industry? What do you foresee happening in terms of mergers, acquisitions, and tie-ups?

**Ishihara:** Mr. Smith, chairman of General Motors, was quoted in a magazine the other day as saying that the United States will probably end up with only two automobile companies—and that there will not be all that many major automobile companies even worldwide in a number of years. We very much hope to be among the survivors.

**Tharp:** What is the current status and the likely outcome of the Taiwan project?



**Ishihara:** The Taiwanese market is currently estimated at slightly over 100,000. This includes both passenger vehicles and trucks. The government of Taiwan is thinking of structuring the industry under government leadership for 200,000 with a single chassis. In so doing, they hope to raise the technical standards of Taiwan's auto industry. This plan has been announced by the government and we have indicated or offered how we would be able to cooperate.

But if you look at the recession in the global automobile market, and the recession that is anticipated for Taiwan's own automobile market, it is thought that even the currently existent automakers in Taiwan are working at only 50-60% of capacity. Given these circumstances, it seems an unreasonable time to be pushing plans for a 200,000-vehicle restructuring.

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It is an excellent idea, but the time does not look right. Thus there is a good possibility that this project will be postponed well into the future.

One other issue is that of Hua Tong Automotive. This is a company formed by General Motors and the Taiwan Government to produce large trucks. There are reports that Hua Tong has run into management problems and that GM has pulled out. Given this, there are those who wonder about the viability of an automobile company or industry restructuring led by the Taiwan Government.

**Tharp:** Why did Nissan postpone its decision on the U.K. facility?

**Ishihara:** One reason is that global conditions now are quite different from what they were when we formed this study team early last year. With the very prolonged recession in the aftermath of the oil crisis, automobile companies have been having great difficulty in all of the industrialized nations. Automobiles have not been selling well. Under the circumstances, we do not feel this is the right time to embark upon construction for such a major project in the U.K. Accordingly, we have postponed our decision.

**Tharp:** When do you anticipate reviewing that decision or actually making that decision one way or the other?

**Ishihara:** Right now, the British labor situation is also very difficult, and this is another major issue that we are studying.

The Thatcher government is working to revise the British labor laws, and we want to wait a bit more and see how the situation develops.

**Tharp:** Did the possibility of local content legislation in the U.K., or the possibility of cars produced in the U.K. being treated as "foreign" cars as Italy indicated it would do, also influence your decision?

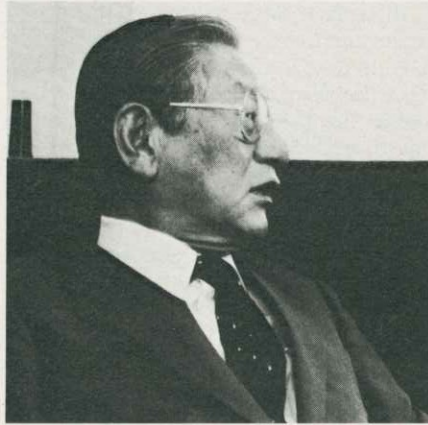
**Ishihara:** This is a very delicate issue, and I would rather not comment.

**Tharp:** Could you comment on another delicate question, that being local content legislation in the United States? And also, what do you think will happen to the voluntary restraint agreement on Japanese export to America? Will it be extended? Should it be extended? And finally, your view of how much the three-year period

has helped Detroit to retool.

**Ishihara:** To respond first to your question about local content legislation, this is something for the Congress to decide and we are not really in a position to speculate on how it might or might not turn out. However, seen objectively, there is not a single advanced industrial nation which currently has a local content law on its books. This much is certain. Local content legislation flies in the face of the GATT free-trade principles. I find it inconceivable that such a bill should pass Congress and be signed into law by the President.

On the Japanese voluntary restraints on automobile exports to the United States,



the decision was already made for 1981 when the restraints were instituted, and there has been agreement reached with the U.S. Government on 1982 as well. Therefore, I would rather not comment on these restraints per se. Nevertheless, if the U.S. auto market were to show conspicuous improvement, I could see a situation developing where it would not be necessary for us to practice such voluntary restraint. But with the outlook the way it is at present, there is little prospect of a major upturn in auto sales, at least not by the end of the year.

On the question of whether or not the U.S. auto industry will be able to get back on its feet while these voluntary restraints are in force, they have only been in force for a year and a half, and they have another year and a half to run. It is very difficult to predict what may happen by

the end of this three-year period. Still, I think one of the major factors which will determine whether or not they are able to get back on their feet will be the extent to which the UAW (United Auto Workers) cooperates with the companies. If the UAW works with the companies to protect their livelihood, the way Japanese unions do, then I think U.S. companies will be able to get back on their feet and once more be strong competitors.

I believe the management of the U.S. auto companies fully wants to compete effectively with Japan and to reduce the considerable Japanese auto exports to the United States.

**Tharp:** How is the Tennessee plant doing, and how do you expect it will do in the near term?

**Ishihara:** Construction is proceeding as planned. We already have about 600 employees working at that plant, and about 200 of them have come to Japan for training here.

The structure itself is up, and we are now working hard to install the necessary machinery and equipment for this plant—some of it to be purchased in the United States and some of it to be shipped from Japan.

**Tharp:** Do you expect that plant ever to be used for passenger car production?

**Ishihara:** The site is big enough that we probably could produce passenger cars if we added some buildings and equipment to the present plan, but our primary objective is to produce trucks and, through that experience, to get to know the U.S. industry. If we find that there is a need to produce passenger cars, then we will think about producing passenger cars. But that decision would have to be made then. Right now, our main purpose is to work through truck production to gain a close familiarity with the U.S. auto industry.

**Tharp:** Why has the Familia been so successful in Japan, and does Nissan have any plans to market a similar model with wide public appeal?

**Ishihara:** The Familia has styling and price that fit the Japanese market very well. It is apparently also selling very well in overseas markets. We have only the utmost respect for the Toyo Kogyo manage-

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ment for having come up with such a popular model. At the same time, we plan to market a new car called the "March" this October. The March was shown at last year's Tokyo Motor Show, and early this year we held a contest to give the general public a chance to name this new car. There were about six million entries in this contest, and from them we selected the name March. The March is a little smaller than the Familia, but we are confident that it will prove successful in the Japanese market.

However, we do not intend to keep this new car only for the Japanese market, and we are also considering exports, primarily



to the European markets.

**Tharp:** Do you expect to be able to increase the level of your market share against Toyota within the next year or two, and if so, to what level?

**Ishihara:** In the automobile industry, given the product, it is impossible for us to think only in terms of the Japanese market. We have to think of the global market as a whole, and look at what market share we can achieve against, say, General Motors, Toyota, or Ford. We have to formulate strategy in this global context, and we are more interested in what percentage of the global market we can get than what percentage of the Japanese market we may or may not have.

Right now, global production is 40 million when times are good and about 35 million when times are not so good. We want to have at least a 10% share of this

market.

And to do that, we believe that expanding our overseas production is the best way to expand our total production.

We are confident that we will overtake Toyota in a number of years, but I would not want to put a number on this number of years.

**Tharp:** There have been persistent reports in Japanese business circles that you and Chairman Kawamata are at odds on Nissan corporate policies and strategies, especially concerning the U.K. project. Could you comment on those reports about friction in the senior management levels at Nissan?

**Ishihara:** I know there have been a lot of different things written in the newspapers and weekly magazines, but there is no truth to such rumors. Chairman Kawamata has also denied these rumors. Of course, this U.K. project is a very important project having a major impact on Nissan, and it is only natural that there was extensive discussion and debate among the top management ranks. But such is not to say that there was division or that this was a split decision. The decision was one, and that was to defer action on the U.K. project for the time being. This was a unanimous decision by the entire management board.

**Tharp:** Going back to local content legislation in America, two weeks ago when the U.S. trade mission visited Japan, I asked the members what they thought the chances of passage were. They said they were certain it would pass the House of Representatives, and they were afraid it would pass the Senate, and then it would be very difficult in an election year for the President to veto that bill. If it does pass into law, what would be the major impact on both Nissan and the Japanese auto industry? And what would you recommend as a result—either taking it to GATT, or retaliation here, or what?

**Ishihara:** I do not expect such a bill to pass, and so I have not thought about possible responses in the event it did. I do not believe that American society has reached the stage where such a bill would be passed into law.

To pass such a bill would be for

America itself to close off markets. The United States is currently exporting heavily to the European countries and elsewhere, and these American exports would also be affected. So I personally do not think that such a bill will pass.

**Tharp:** I have no further formal questions, Mr. Ishihara. Is there anything else you would like to add, either about Nissan itself, the Japanese auto industry, or the world auto industry in general?

**Ishihara:** I would simply stress that whenever any country adopts protectionist policies to close off its automobile market to imports and to protect the domestic industry, the inevitable result is



always that the local industry ends up lagging behind world levels. Import restrictions may be defensible as a short-term policy to meet an emergency situation, but it is important for automobile companies to join the free-market competition and to work on research and development and management improvement under the stimulus of competition, for that is the only way that a company is going to grow strong enough to be able to stand on its own.

In addition, it is becoming increasingly important for the various automobile companies to cooperate in diverse ways. In that sense, the global auto industry is developing a dual nature of cooperation and tie-ups on the one hand and very fierce competition on the other hand to stimulate each other to still-higher levels of excellence. ●