

"Without a Target, No Industrial Development Can Be Achieved."

Interview with
Akio Morita,
chairman of
Sony Corporation
by Peter McGill,
Tokyo correspondent for
the Observer

At sixty-three years of age, Akio Morita, white-haired chairman and co-founder of the world famous Sony Corporation, has lost none of the vigor and self-confidence that has made him Japan's best known and most visible corporate ambassador.

When not shuttling between New York and Tokyo to promote new Sony products, Morita globetrotts from conference halls to sessions of Congress in Washington to defend Japan's image abroad.

Although now the head of a multi-billion dollar corporation, Morita started off in rather more humble fashion. After graduating in physics from Osaka University, his father (a sake brewer) supported him in a venture to produce rice cookers. After making 100, he didn't sell a single one.

Morita's personal fortunes (and those of the future Sony Corporation) began when he produced Japan's first tape recorder. But business only really took off when he recognized the commercial potential of the transistor. Westinghouse Corporation in the U.S. was using it in hearing aids. Morita put it to work in the world's first transistor radio. From there Sony established its reputation for innovation with the world's first transistorized television, the first home-use video recorder, the Trinitron TV, and the ubiquitous Walkman portable stereo cassette player.

Looking back on Westinghouse's mistake, which first put Sony on the map,

Morita sees a lesson in that and other lost chances for American industrialists. Sometimes they are not "skillful or fast enough" when it comes to getting a new idea or invention onto the marketplace, or just "too lazy."

A member of the Japan-United States Advisory

Committee (the so-called "Wisemen's Group") as well as an international businessman, Morita bears the front-line brunt of attacks on Japan for its trade surpluses and "industrial policy."

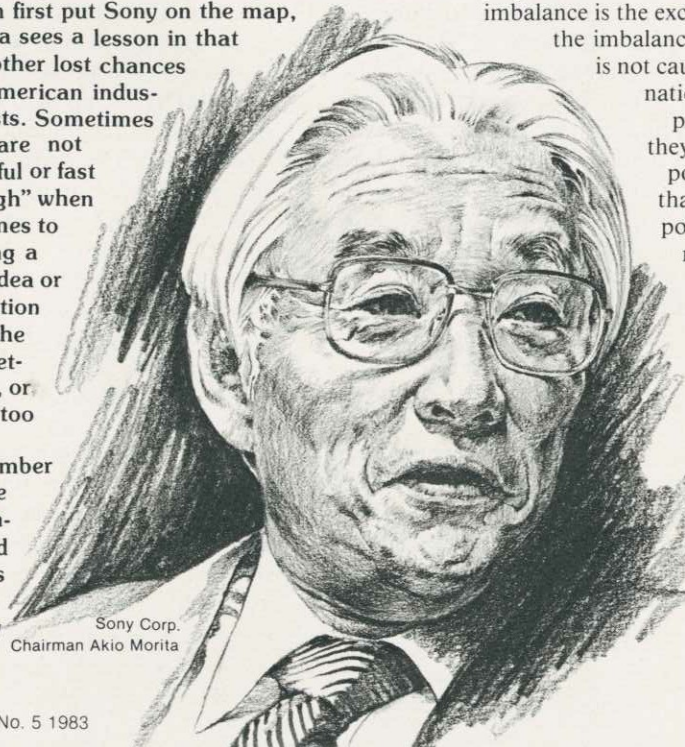
During a one-hour interview, Morita hit back at Japan's critics and tackled other controversial issues, such as reform of the international monetary system, with a frankness and simplicity refreshing for a businessman of his stature.

Q: *At the moment relations between America and Japan are at their worst since the war. Japan's trade surpluses are said to have caused this mess, as American politicians, business leaders, and union bosses blame Japan's export success for causing unemployment, the virtual disappearance of some industries such as consumer electronics, and a bleak future for certain other American industries. The U.S. and to an almost equal extent the EC, which has similar problems, point to Japanese government industrial policy and the closed nature of Japan's economy as the culprit. How do you answer these charges?*

MORITA: You are asking a very broad question! Firstly, Japan must not be blamed on the unemployment issue, as Japan did not cause the unemployment in the United States. Of course I admit we have quite a big trade imbalance, but the imbalance itself does not cause unemployment. Rather the American economy causes that unemployment. Also one of the causes of the large imbalance is the exchange rate, which exaggerates the imbalance. Japan's industrial policy is not causing the trade imbalance. All

nations have their own domestic policies. In the United States they have a very strong industrial policy for defense, or NASA, that's a very, very clear targeting policy. So that's why we should not be blamed for our industrial policy, because we are not "targeting" United States industry. Another thing is high technology research and development. I believe, and know it to be true, that the United States has a great advantage and is much more advanced in the high technology field. Japanese industry got many licenses from American industry. The level of American technology is

"One of the causes of the large imbalance is the exchange rate"



Sony Corp.
Chairman Akio Morita

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very much higher. On the other hand we have this trade imbalance. Why?

I feel that even if American industry makes some great invention or innovation, sometimes they are not skillful or fast enough to use such innovations in actual products or merchandise, or to go into mass production. Sometimes American industry is too lazy to make that invention into a large-scale industry. That's the problem.

Q: *From what you have just said about targeting, does that mean you accept the criticism that targeting exists in Japan's industrial policy?*

MORITA: Without a "target" no research and development work will bear fruit. It's very important how you pick a target. For example, my company started a project team to develop a home-use video recorder 25 years ago. We had a very clear target as to what we wanted 20 years hence. After he saw Sputnik, American President Kennedy said, "We have to send a man to the moon before 1970." That's a very clear target. Without a target, no industrial development can be achieved. So targets are goals, but now Americans say our target is American industry. That is not true. We are not targeting American industry! Our only target is to make some new products. But if we set up a clear target, everyone in industry is willing to invest money to achieve that.

Q: *The question is who sets the target. Americans allege that there is collusion between the Japanese government and private industry. The crude argument is that the Ministry of International Trade and Industry instructs people as to what the future targets will be.*

MORITA: That's a very big misconception! Every industry is paying tax money to support our government. More than 50% of our profit goes to the government. That means a company is a joint venture with the government and the private sector. In such a case with more than 50% interest, government should cooperate with industry. But when we set targets, MITI has no right to tell industry. We are very competitive. In electronics we have many, many companies. In automobiles we have so many manufacturers, while in a big country like the United States there are only three.

Q: *The way foreigners look at it is "MITI chose the automobile industry, MITI targeted the computer industry, MITI targeted semiconductors." In all of these sectors Japan has become a very major industrial power, and is heading to knock out America in terms of world leadership. Now whether it's MITI that says this or whether Japanese industrialists sit down together with MITI as a go-between and they think what the promising areas are, it seems rather difficult to deny that MITI's projections and funding for research and development have paid very handsome benefits for Japan's economy.*

MORITA: Of course MITI has a responsibility to gather opinion from industry, and on the basis of a consensus of Japanese industry, MITI may set up a "vision." That's MITI's responsibility. From outside that looks like our industrial policy. But MITI does not decide the industrial policy, because each company has its own research and development, and each company has its own top executives who are responsible for setting targets. If you look around in Japan, almost all the top

executives of industrial companies have an engineering background, because we know that technology is changing so fast and without an engineering knowledge it's very difficult to set a company target. So then in one sector of industry, even if they are competitors, they all know which way we should go 10 years from now. So we have to form a consensus as to what is most important.

Q: *Last year Japan's trade surplus was about US\$20 billion, of which US\$12 billion was with the U.S. and US\$9.9 billion with the EC. Some people are saying that this year the trade imbalance is going to be much worse, and it could top US\$20 billion with the U.S. What is to be done?*

The Japanese government has made a splash by lifting certain import quotas and "non-tariff barriers" etc., and even promoting a "buy foreign goods" campaign. How effective do you think these measures will be in taking the heat off Japan?

MORITA: I think that such measures are not too effective, and the trade imbalance will continue for many more years. We cannot balance trade between the two countries. But we have to do something if such an imbalance exists, because Japan must export its goods and America needs our goods. Also Japan is the second largest importer or customer for the United States in agricultural items. That's why I have been running a campaign on international monetary exchange issues. The American side insists that the floating exchange rate is the best. Naturally monetarists insist money move around freely. For the last five or six years, money has been moving freely all the time. Yet the movement of industrial products has been gradually restricted: automobiles, TVs, VTRs, and so on. That's a very, very dangerous direction we are moving in. Industry is extremely important to the whole world economy. Unless industry is activated, we cannot get the global economy revitalized.

For industrialists, money is a scale of measuring the results of our work. Whenever we consider investing for the future, in research or development, or improvement of productivity, unless there is a return on investment, we cannot take that risk. So to determine future prospects, money should be stabilized. That's why every government tries to avoid inflation. But with world trade, the exchange rate changes ridiculously. If the exchange rate fluctuates, management cannot predict the future.

Q: *Are you saying we should return to the Bretton Woods system?*

MORITA: I'm not saying the Bretton Woods system. But if we go back, or think about real basic principles of the free economic system, scales for business or industry should be fixed. But of course the reason we have a different currency is that each country has its own policy, each country has its own productivity and efficiency.

So it's just like a handicap in golf. If I am a good golfer and you are not a good golfer, I have a lower handicap and you have a higher handicap to ensure a fair game. With the passing of time you improve your golf. If you improve you should lower your handicap. That's why I'm not just saying let's have a fixed rate. Adjustments should be made maybe every year or two, according to the development of the economy. The handicap

"If the exchange rate fluctuates, management cannot predict the future"



Betamovie, one of Sony's most celebrated new products.

"The 'Pacific Belt' has probably 75% of Japan's buying power for high quality products"

should be changed, in other words. If, when you play golf, your handicap is changed at each hole by somebody who is in a completely different situation, who says your handicap is this, or that, you cannot have a fair game. We are now playing such a competition.

Q: Do you think the Japanese yen is at a fair value right now or undervalued?

MORITA: I think the Japanese yen is too weak.

We would like to have a stronger yen as we are buying almost everything in energy and raw materials from outside. If the yen is strong we can get raw materials and energy at a lower price. Of course exports would be difficult, but because of the difficulty, Japanese industry would work harder, and then we could be competitive. Moreover, if the yen is stronger, it would be much easier for American and European industry to export. That gives you an incentive.

Q: One thing you could do, people say, is to liberalize the Japanese financial market more.

MORITA: That is one way. Americans buy their products with the dollar, and sell their products with the dollar, so Americans do not feel that the exchange rate is such a serious problem. We take it seriously, because we have to think about exchange rates every day. But almost every American, including those in the White House, can pay dollars and buy dollars wherever they go. Except for a very small number of multinational corporations, the export dollar rate of American industry is very limited, so very few people in the United States deal with the exchange rate. So the most important point is America should pay more attention to the effect it is having on the value of the dollar for the whole world.

They are saying Japan is bad. Before they blame other people, Americans should contribute more to the world economy.

Q: I have noticed that while the present Japanese government has been making quite strong efforts to correct the trade imbalance (compared to previous governments), it has also become much more aggressive in responding to foreign criticism. Previously Japanese used to lie down and take it. Now they are hitting back. As a Japanese businessman, are you getting a bit fed up with criticism of Japan?

MORITA: For a long time Japanese wanted to be modest, but these days we feel that America displays opinions too much for their own sake. Politicians speak for their constituents on agriculture, semiconductors, and so on, without having an exact knowledge of the industry in question. Even in the high-technology semiconductor industry, many American companies have a factory in Japan and they are taking back the products to the United States. They admitted that the quality of Japanese-made semiconductors is much higher than those made in America.

In such a case the basic technology was developed in the United States. But with production

technology, Japanese industry is either more capable or the Japanese environment is more suitable to the manufacture. That's why we feel we should speak up if America speaks to us.

Q: Getting back to the "closedness" of the Japanese market, do you feel that is a fair criticism, or do you feel that Japan is just an exceptionally tough, hard market?

MORITA: I don't think Japan's market is so closed. I personally have experience in doing business in many, many countries. But the Japanese market is very easy to gain access to. I can make a very clear example: we call it the "Pacific Belt" from Tokyo down to Kyushu, that's almost 1,000 miles, and it stretches 30-40 miles from the sea to the mountains. This very narrow and short belt has probably 75% of Japan's buying power for high quality products. But if I went to the United States and I wanted to visit 75% of the market, I don't know how many days, months it would take: a year maybe. But with this Pacific Belt, if I take one week, visiting Tokyo, Shizuoka, Nagoya, Kobe, Okayama, Hiroshima, and Fukuoka, I can talk to all of the dealers in this 75% of the market. So that means if I want to sell a new product, I can reach all the key dealers very, very easily. But in other countries the market is much more widespread. In France the biggest market is Paris, but in Germany the market is divided, and in the United States it is so spread out. If you want to come into the Japanese market seriously, it is easy to gain access. That's my personal experience.

Q: Against that, take Scotch whisky as an example. In the beginning there was no Scotch whisky in Japan and one would have thought that if foreign distillers had been allowed easy access without a high import tariff they could have established themselves in the Japanese market very quickly, and there remains quite a high tariff on imported whisky. Hasn't this allowed Japanese companies such as Suntory to develop their own brands and become top rank producers while keeping out foreign competitors?

MORITA: Of course I am not in the liquor business, but I was born into a *sake* brewer's family, and my brother is still in the *sake* business, so I know a little bit about this problem. I know that Suntory is one of the big importers of whisky from Scotland. They are buying a lot. Also, I cannot mention the brand names, but many major brands of Scotch whisky are controlled by the British agents. They charge too much on their profit margins. So if you compare the importer's margin and tax, the importer's margin is very, very high. They are making too much profit. Many times manufacturers complain they are unable to sell large quantities in Japan, but often they make a mistake in the selection of the agent. Before American or foreign manufacturers complain about Japan having a closed market they should review their agent's activities to see whether he's good and fair enough, and has been helping them. In our case we used to have agents in many countries, but finally we decided to invest our own money in having our own network. We started this 20 years ago.

In Japan many foreign manufacturers and car makers are complaining that the Japanese market is closed. However, the German automaker BMW

decided to invest their own money. They established their own company, they borrowed their money from Japanese banks. Now the number of cars they have been importing and selling has been increasing very rapidly. If foreign manufacturers take a real step to come to Japan, I think the Japanese market is very easy to enter.

Q: *Since criticism of Japan is going to get worse in the foreseeable future, what measures should Japan be taking?*

MORITA: Of course you know I am involved with the OTO (Office of Trade Ombudsman) advisory board. Just recently the government took measures to simplify all the standards and examination for testing (of imported products), and they also eliminated all the discrimination between nationals and non-nationals. So I think that, especially since Prime Minister Nakasone took office, the Japanese government and bureaucrats have been doing everything they can. Now it's the other side's turn. *They* should work much harder to come into the Japanese market.

And also a very important point is that we are investing our money in the United States and Europe. But when we invest our money we produce there. That means with foreign investments, Japanese exports decrease. But America invests a lot of money in Japan and build factories, but they import the products back to the United States. In GM's case, they invested money in Isuzu and Suzuki, and they are buying engines and small cars from Isuzu and Suzuki. They invest money to increase Japanese exports and to decrease their production! But in our case we invest our money in say San Diego or Britain or Germany to produce television sets and actually decrease our exports, and sacrifice jobs here. America's investment attitude is wrong, and such an attitude should be changed. Japan alone shouldn't be blamed. I think the attitude of American industry should be blamed.

Q: *Could I just turn to Sony itself. As well as being a famous spokesman for the Japanese economy, you and your company are very well known for being innovative and successful. However, recently we have heard reports that Sony's market share in videos is slumping and your net income is down. What's happened?*

MORITA: Of course among the Japanese electronic manufacturers we are the most international, and more than 70% of our business is outside Japan. We have felt the biggest effect of the softness of the world economy. That's why our total profit has gone down sharply this year. In video recorders we are increasing our market share in Japan and some other areas, but in Europe we lost our share because the major European manufacturers bought on an "OEM" (original equipment manufacture) basis from our competitors. However, I don't think that is a healthy attitude for the European manufacturers, because if they are manufacturers they should produce by themselves! If they buy completed products under their own brand name, that's being a trading company. What bothers me is that now European manufacturers are complaining about Japanese exports, but major manufacturers are buying very important products under their own name, on an OEM basis.

Q: *Isn't the video deal arranged between MITI and the EC Commission designed to correct that? The idea is to give European video makers a chance. How do you view that agreement? Do you think it will work?*

MORITA: As a Japanese industrialist, I believe such voluntary restraint is not desirable, but on the other hand, as an international businessman, I know that we have to give the European manufacturers this opportunity. So I hope that European makers will take this opportunity to recover their market share. The same thing can be said of the automobile (export) restraint to the United States. "Three years' restraint is not enough, please extend it." That's what America says. But the original idea was for Japanese manufacturers to exercise voluntary restraint for three years to enable American manufacturers to become much stronger and to compete with the Japanese.

So in the VTR case, we decided to restrain our exports. I hope the European makers take advantage of this opportunity to strengthen their economic power.

Q: *So to recover your previous financial strength are you looking for a pickup in the world economy, or are you looking to new product areas?*

MORITA: I think in the long to medium term the electronics industry is in a very lucky situation, because electronics technology always has the possibility of being innovative. New technology is coming: laser technology, digital technology, memory devices, and so on. So I always feel we are just standing on the threshold of a new electronic era. We have a very bright future despite the soft economy all over the world. With new technology we can create many, many new items. Just one example is compact discs, which we have just introduced.

Q: *Why isn't Philips producing them now? You developed them jointly with Philips. Why was Sony first to hit the market?*

MORITA: Of course, we had been working on such a digital concept. But Philips came out with the idea for this small record. Then we decided to work jointly because Sony has a very advanced technology on digital coding technology. Then we worked together to finalize specifications. We made it a little bit larger than the original Philips idea, and extended the recording time. All the encoding system is Sony's system.

Whenever we find we share an interesting technology, I think it is a good idea to work together in the basic development. This is a new type of international industrial cooperation. I think this case is a very good example of international cooperation between European and Japanese manufacturers. Such a thing should be done more widely. Not just Japan-Europe, but also between the U.S. and Japan and Europe and the U.S.—and in a wider range of industries. ●

Peter McGill is the Tokyo correspondent for the London "Observer," and a contributor to a number of other newspapers and magazines in Britain, Canada and Australia. He came to Tokyo in 1981 after working as a correspondent in Hong Kong.

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