

The Business of Business

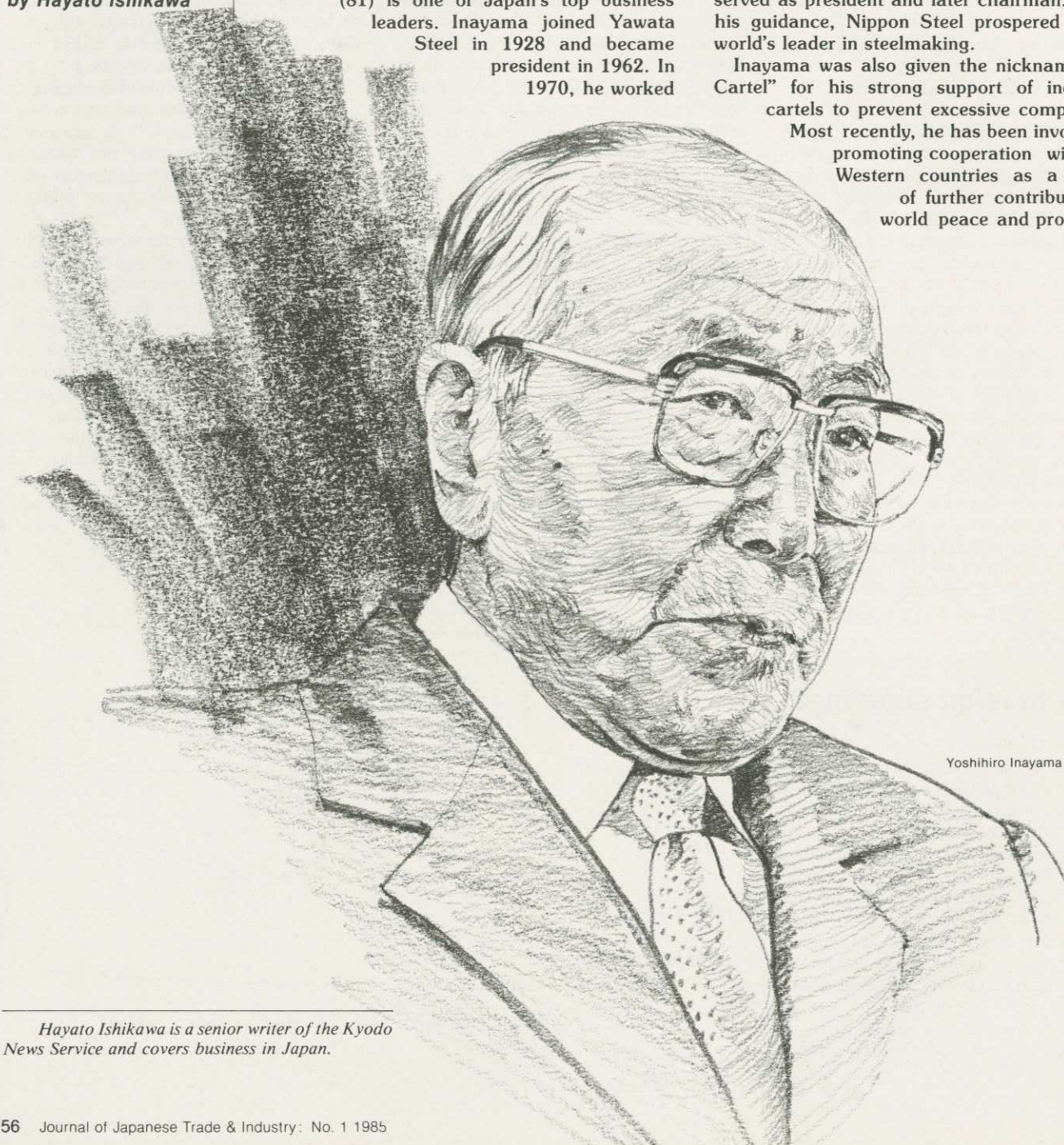
**Interview with
Yoshihiro Inayama,
chairman of Keidanren
by Hayato Ishikawa**

Often referred to as "the Prime Minister of business," Keidanren (Federation of Economic Organizations) Chairman Yoshihiro Inayama (81) is one of Japan's top business leaders. Inayama joined Yawata Steel in 1928 and became president in 1962. In 1970, he worked

with the late Shigeo Nagano, then president of Fuji Steel, in merging Yawata and Fuji to form Nippon Steel Corporation, in which Inayama served as president and later chairman. Under his guidance, Nippon Steel prospered as the world's leader in steelmaking.

Inayama was also given the nickname "Mr. Cartel" for his strong support of industrial cartels to prevent excessive competition.

Most recently, he has been involved in promoting cooperation with the Western countries as a means of further contributing to world peace and prosperity.



Yoshihiro Inayama

Hayato Ishikawa is a senior writer of the Kyodo News Service and covers business in Japan.

Question: *In speaking on the economy, Prime Minister Nakasone has repeatedly said he intends to draw on private-sector vitality. At the same time, the government has been promoting administrative reform against a background of slower economic growth and a colossal government deficit. The Nakasone administration has endeavored to make the most of private-sector vitality in launching public works projects in order to boost domestic demand, improve the domestic business climate, and help reduce Japan's chronic trade surplus. What is your opinion on this emphasis on the private sector?*

INAYAMA: The economy is and should be essentially a private-sector activity, and it is only natural that private companies should be the center of economic vitality. The government obviously should finance projects such as roads, bridges, and parks—things which are used by the general public and are too big for any one company to handle. But now the government does not have much room in its very tight budget for such public works investments. It is here that the private sector can help by pitching in and helping to finance expanded public works spending. But we must be careful that the private sector is not enlisted to support unnecessary projects simply for the sake of expanding public works investment. An economy jacked up with pork-barrel civil engineering and housing projects is not going to stay healthy for long.

Q: *Then how would you explain Keidanren's past emphasis on expanding public works even if the government had to go deeper into debt with expanded bond issues to do it?*

INAYAMA: It is true Keidanren has promoted public works spending. But this represented the consensus not only of Keidanren but also of politicians and the people as a whole. But today, the government has to come up with ¥12 trillion (\$50 billion) a year just to pay the interest on its bond service. Deep in debt, the government is asking the private sector to lend a hand in financing public works.

However, in a broad sense, private-sector money is the money individual citizens have saved and deposited at banks and other savings institutions. That money is deposited to earn interest, and neither banks nor anyone else will want to invest in public works projects that are not likely to yield an adequate return on investment. Private companies are not hesitant to back, for example, the construction of a new international airport in Osaka because that is a profitable proposition. Similarly, there is a definite need for a bridge spanning Tokyo Bay, and I can foresee plenty of private-sector financial support for that. I am sure that other feasible projects can be found if we look for them. But if the project is a non-starter to being with, there is no way to justify private-sector involvement.

Q: *Do you think that the government ought to streamline the regulatory and procedural red tape for development projects as a means of promoting private-sector activity?*

INAYAMA: Definitely. They have got to simplify that maze of application procedures to get things moving faster. Private-sector companies are in business to make a profit, and they want to

be quick and efficient in their work, including the paperwork.

Government-sponsored housing projects take years just for the site procurement, and these delays drive costs up. Development is better left to the private sector. However, you cannot expect the private sector to operate efficiently when there are excessive regulations and oppressive corporate taxes. Lightening the tax burden would certainly help reinvigorate the private sector.

Q: *Looking at the international situation, what do you think Japan should do in light of the tense economic climate characterized by Japan-United States and Japan-Western Europe trade friction?*

INAYAMA: As free-trade leaders, I am confident that Japan and the other Western industrialized nations remain committed to free and open trade. But at the same time it must be plainly recognized that some nations have opted for less than completely free and open trade.

Japan turns out some of the world's finest cars, semiconductors, televisions, and other popular consumer products. People everywhere want these products, and there is no reason why they should not have them. But when high-quality, low-cost Japanese imports become so popular that domestic industries start hurting, the local government comes under intense pressure to do something about it. As a result, they have asked Japanese industries to practice "self-restraint" in the form of "voluntary" export restrictions on "sensitive" products.

If we are to preserve the free trade system and correct Japan's chronic trade surplus, Japan and its trading partners in North America, Western Europe, and Southeast Asia must look at these trade issues and seek ways of resolving them in the long-term perspective. Just as the free and easy movement of traffic requires that motorists prevent accidents by obeying traffic rules and looking out for road signs and signals, free trade also requires guidelines and signals by which behavior can remain orderly and accident-free.

Q: *What do you think of the idea that further industrial and technical cooperation with America and Europe is needed to smooth their trade relations with Japan?*

INAYAMA: That is an issue that our government and industry are working very hard on right now, and we business people are trying to promote enhanced industrial and technical cooperation with the United States and the EC countries. There are high-level missions, symposiums, special task forces, and more—not only with respect to the United States and Europe but also the Republic of Korea, China, the ASEAN countries, and elsewhere.

Q: *Recently, there has been talk in Japan of the so-called "boomerang effect" of technological cooperation, in which, for instance, Asian NICs use this new technology to compete with Japanese industries. How do you view this phenomenon?*

INAYAMA: I believe it is important to increase, not decrease, Japan's technological cooperation with the newly industrializing countries. Technological cooperation is an empty promise unless the technology helps other nations' industries become more competitive, and this cooperation should be extended regardless of any boom-

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P R O F I L E

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erang effect. If the proprietary rights can be guaranteed proper patent protection, I think you will find many Japanese companies wanting to participate in licensing and technology transfers.

Q: *In the area of capital transfer, Japanese overseas investment is growing and this investment is being actively sought by other countries. What do you make of this?*

INAYAMA: In cases where Japanese companies are being asked to invest, the success of their investment will partly depend on whether or not they understand what is being asked of them in each case. Does the other side want access to the Japanese company's technology, or does it simply want a capital infusion?

I recently talked with some Europeans who came to Japan in search of investment and found that many of them were actually looking for arrangements whereby Japanese companies manufacturing popular products (i.e., products which contribute to the European deficit in its trade with Japan) would stop exporting finished products and start exporting parts for local assembly in Europe. Japanese companies should make very sure they know what the other side expects and then make their overseas investment decisions accordingly.

Q: *Japan is very anxious to increase its economic cooperation with China. As former chairman of the Japan-China Association on Economy and Trade, how do you see Japan-China economic relations developing?*

INAYAMA: My first visit to China was in 1958. At the time, the Taiwan issue and the Nagasaki Flag Incident made my mission a very difficult one. By contrast, our trade relations today are very good, but I think many Japanese have the erroneous notion that since China is rich in resources and has such a big population, there is an enormous market there for Japanese exports. However, China is resolved to maintain balanced bilateral trade with every trade partner—it buys from us to the extent that we buy from them. And in borrowing money, the Chinese borrow only what they know they can pay back. We must not underestimate their caution, which, as far as I am concerned, is a very admirable attitude. They do not bite off more than they can chew, and they make sure each step forward is a steady one. In 1984, when Chinese Vice Premier Li Peng came to Japan, we talked about China's experiment in creating special economic zones with a significant degree of capitalism and free-trade management. I think we can expect to see China continue its search for ways to effectively mix its centralized socialist economy and capitalist principles, and this should continue to be an exciting time in Chinese economic management.

Q: *What is the outlook for the global economy in 1985?*

INAYAMA: I think we will see a gradual upturn this year. We are in a slow-growth period, and I do not expect rapid growth to return soon. The advanced industrialized countries will remain prosperous but I do not foresee any significant rise in industrial output. As for the Japanese economy, I believe it has reached a stage of maturity in which advocates of headlong growth are sadly out of touch with reality.

Q: *Given that, what are the long-term prospects for the Japanese economy in the 21st century?*

INAYAMA: First of all, let me say that people should stop thinking of business as a source of corporate profits and instead focus on business's role as a supplier of products in demand at home and all over the world.

When Pope Paul VI visited a steelworks in Taranto, Italy, in 1968, he said that business must never divorce itself from the people. Business is a cornerstone of civilization, he said, and labor is how mankind transforms heaven-sent resources for the service of society. This message of the inalienable marriage between corporate and public interests has remained close to my heart. Even in today's slow-growth era, we can still make people's lives richer while helping our companies prosper, but we need to take another hard look at what business is all about. We must not boost the economy just in order to boost business. We should boost the economy to produce more of what people want and need. Economic measures that do not address this most basic aspect are bound to be steps in the wrong direction.

Q: *Would you elaborate on your belief that too much competition can be a bad thing and that some degree of coordination among companies is needed?*

INAYAMA: There is very fierce competition in today's business climate. We are faced with an oversupply of goods and sluggish demand. In a free economy, companies saddled with excess production capacity and overflowing inventories will naturally fight harder to survive. In this situation, company leaders stop thinking of how best to improve the organization or serve the public and instead focus on how to undermine their competitors. Capitalism should make use of the competitive spirit, but there should also be a concern for social harmony.

We should adopt a fresh perspective on business as being first and foremost a member of the community and ask ourselves how business should relate to labor, the individual, and the dynamics of supply and demand. Long gone is the *laissez-faire* era when companies were virtually sovereign states and governments played only a sidelines diplomatic role. As the global economy has evolved and people have become more aware of how important it is to maintain peace and avoid war, governments' foreign policy efforts have taken on an increasing economic tenor in addition to their traditional political focus. At the same time, elected officials have to look out for their constituents' interests, and this obviously mandates an involvement in economic matters. The main themes in politics today are those of peace and prosperity.

Q: *In this connection, what is your appraisal of the Japanese political situation?*

INAYAMA: In Japan, we have a parliamentary democracy, but true democracy is impeded by the electoral system. It used to be that Japanese politicians put the interest of the nation first, but now the obsessive fear of not getting elected makes them tend to put their constituents' narrow interests first. We need more broad-minded and well-informed politicians to debate the crucial issue of how to manage the economy. ●