

That's What Friends Are For

Interview with Tadahiro Sekimoto, president of NEC Corporation by Hiroshi Nakajima

These are acrimonious times for the Japan-U.S. relationship, but NEC Corporation president Tadahiro Sekimoto says that trans-Pacific friendship—nurtured by local involvement and personalized communication in both countries—can see us through. Trading partners everywhere have to realize that they are basically partners in a global effort, and that they are friends able to criticize even as they help each other over the rough spots.

Question: *NEC is one of the leading manufacturers of semiconductors and telecommunications equipment. How do you view the current trade friction in these fields with the United States?*

Sekimoto: Trade friction is certainly not a new phenomenon. Even within a family, you have fights between the parents, disagreements between parents and children, and sibling rivalries. So long as everybody is healthy and happy, different people are bound to have different perceptions and aspirations. Often these differences lead to disagreements and even conflicts. There is no reason why we should expect everything to be perfectly placid. While I would certainly not want these disagreements to degenerate into obsessions or escalate into the horror of war, I am quite willing to see a bit of quarreling when we disagree.

Basically, the key consideration in looking at trade friction is to remember that we are friends and partners. We cannot let our trade disagreements eclipse this overriding truth. As friends, it should be possible for us to speak our minds frankly and to be bluntly critical, just as it should be possible for us to shout for help when we are having trouble. And if a friend does shout for help, we should be willing, even though we might think the fix our friend is in is his own fault, to say we'll do what we can to help. That is what friendship is all about.

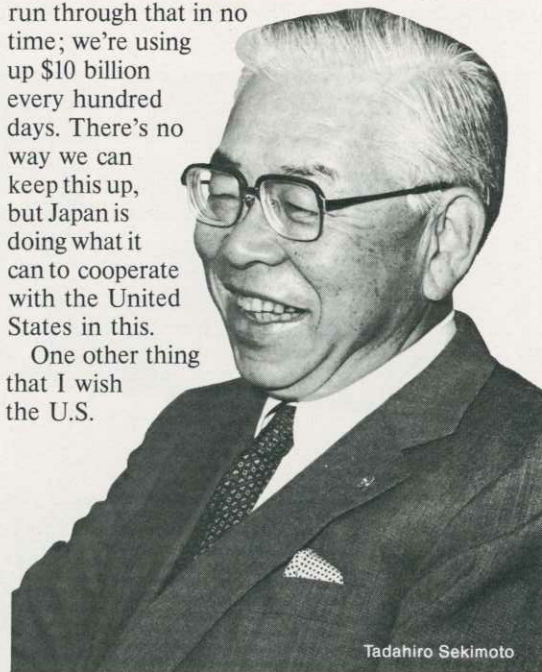
The second point to consider is why trade friction arises. Jealousy is part of it. Having paid its tuition and studied hard in the school of high technology (and this school has by no means been tuition-free when you think of the millions that have been spent on patent rights, licensing fees, and the rest), Japan has now graduated and worked its way up to the position of associate professor. Sometimes this associate professor publishes a particularly noteworthy research paper. And when this happens it is only reasonable that the full professor might feel threatened and be somewhat jealous of his former student. Corporate egoism is also a factor.

When you look at the actual numbers for 1977 when there was that furor over semiconductors, Japan's imports were still about ¥19 billion more than its exports. This was with exports of about ¥10 billion (\$49 million) and imports of about

¥30 billion. And still the U.S. firms were up in arms. It was in this same year that the American Semiconductor Industry Association (SIA) was formed, in part to orchestrate the campaign against Japan but perhaps even more to promote the VHSIC (Very High Speed IC) project. In effect, they argued that Japan was engaged in industrial targeting and that the U.S. government should do the same, and they cajoled the Department of Defense into putting up about \$200 million for the VHSIC project. In a couple of years, the VHSIC budget was up to \$300 million, and by now it is probably somewhere on the order of \$400 million. They were able to get this much money just by banding together as the SIA. Actually this was a very neat power play.

But if you ask me, the current problems are caused not so much by the actual friction or trade imbalance as by the needs of congressmen on Capitol Hill. It's the same with the Group Five (G-5) finance ministers' meeting to drive the yen higher on exchange markets. Until recently, the United States was saying what a great thing it is to have a strong dollar, but now they've changed their tune to accommodate congressional complaints. The longer this goes on, the more problems it creates for the Japanese government. Japanese business—Keidanren, for example—is very concerned about this currency fluctuation. According to my calculations, Japan has been selling about \$100 million a day on currency markets. And this is just the average. There have been days when it goes up to \$300 million. Japan has foreign currency reserves of some \$28 billion, but at this rate we're going to run through that in no time; we're using up \$10 billion every hundred days. There's no way we can keep this up, but Japan is doing what it can to cooperate with the United States in this.

One other thing that I wish the U.S.



Tadahiro Sekimoto

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would understand is that this trade imbalance has not been caused by Japanese companies' going out and collaring customers and forcing them to buy Japanese products. It is the American customers who have been demanding Japanese products. Of course, we're doing everything we can to make the sales, but it has been consumer pull more than venter push. For example, when they imposed limits on Japanese automobile exports to the United States, Japanese cars started selling at a premium. American consumers were willing to pay a premium price for a premium product.

By the same token, Japanese consumers are quite eager to buy imports if they are quality products. We're buying enormous amounts of commodities from the United States. These include meat, wheat, corn, and all manner of things—and we're buying these things because they are quality products competitively priced. This is only natural in a free-market economy, and it would be both unnatural and counterproductive to go against these market workings.

Q: *Still, this natural law can produce some pretty harsh conflicts.*

Sekimoto: That's why the Japanese government is cooperating with the G-5's effort to artificially adjust exchange rates, to avoid the harsh conflicts that the free-market economy can generate. I can understand how Japan would want to do this as a friend, but I still think it's unnatural and don't believe it is going to last. Artificially maintaining the dollar at a lower-than-natural exchange rate is bound to produce severe strains in the economy.

As friends, we can understand and go along with something like this even though we may have serious reservations about the wisdom of it all. There has to be this kind of flexibility among friends.

Q: *Is there anything else that Japan should do besides cooperate with the G-5 effort? I'm thinking of local procurement and production and things like that.*

Sekimoto: One thing that we're already doing is the Action Program to enhance market access and expand imports. Both the government and the private sector are involved in this. In 1984, NEC alone imported more than ¥120 billion (\$585 million) worth of goods and services. In local production, we are adding several tens of billion yen worth of value in our overseas plants. Put together, our imports and overseas production value-added is about equal to our total exports from Japan. In 1984, we only had seven plants in the United States, but our Atlanta and Oregon plants went onstream in 1985 to bring the total to nine.

Q: *What is the secret of succeeding in local production?*

Sekimoto: First you start with a wide range of intensive studies. We did our first studies over 20 years ago. Our New York office was opened sometime around 1960 to conduct and coordinate these studies, and it was not until 1963 that

we established NEC America to actually sell things. And it was only in 1973 or 1974 that we built the Dallas plant, our first in the United States. So we have more than a decade of experience in local production.

Everything takes time. When we wanted to sell our products in the United States, we did the market research to see what kinds of things would sell, redesigned our products to fit the American market, developed sales channels, formed a team of top-flight American sales personnel, and did all of the other things that you have to do to succeed in any market.

People complain that Japan has this tremendous export surplus, but they forget all the hard work that has gone into making Japanese exports competitive over the last 20 years. And even now our market share is not all that big in terms of the total American market. What do we have? Maybe 10% or so. And more and more of that 10% is being supplied by local NEC production in the United States. This is local value-added. Our local content ratio was 25% in 1984 and 30% in 1985, and we expect it to top 50% before long. Once that local content ratio goes over the 50 percent mark, these products should be viewed not so much as Japanese as an American. NEC America will be truly an American company then.

Q: *Is NEC America's evolution into an American company also having an impact on employment?*

Sekimoto: There are employment benefits for the local community, but it goes beyond that. Right now we employ about 4,000 people, yet this is only 4,000 in a total American labor population of millions, so it doesn't seem like much. More important is that NEC is a member of the local communities where it does business. We contribute to the local community, and we try to be good neighbors. This is very important for Japan-U.S. friendship and understanding, because it's much easier to talk things out and develop friendships when you're sitting down over coffee or having lunch together. This is much better than suddenly convening a meeting of people in a cold room with a formal agenda to argue about problems after they've erupted. This is a very important aspect of local production that people tend to forget.

We're being pioneers both in production and in international understanding. For example, Oregon is going to have a pavilion at the 1986 exposition in Vancouver, and the state's asked NEC to be part of the pavilion since we have a plant there. So in this sense we feel we are very much a local company.

Being a part of things, taking part in the things the community is doing, is very conducive to fostering understanding. It does not do away with the perception gap entirely, but it does make things less abrasive. To give an oft-cited example, a count of 1-2 on a batter in baseball means one strike, two balls in Japan but one ball, two strikes in the United States. There are all kinds of things like that where our assumptions

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about what things mean are different. There are so many things where practices are different in Japan and the United States. A lot of them can be explained, but they're so ingrained in us that they still cause misunderstanding.

Q: *So I take it you are proposing that there should be more travel back and forth, Japanese companies should engage in more local production in the United States, and more Americans should come to Japan and develop personal friendships here to help close this perception gap. Is that a fair summation?*

Sekimoto: Yes, and that sort of thing takes time. None of this can be rushed, but patience is one commodity that American companies seem to have in short supply.

If I could make one more point, the Japanese people are by no means intent on shutting out or excluding other people. In fact, we have a special weakness for imports. If we want to give someone a bolt of cloth as a present for some special occasion, we pick a fabric that was "Made in England." Imports are preferred for gifts because they carry more prestige, and the Japanese who gets something that was imported is impressed by the thoughtfulness and quality of the present.

Q: *Even so, there is persistent criticism in the United States and Europe that the Japanese market is somehow unfair and that imports are purposely excluded to keep the entire market for Japanese products.*

Sekimoto: There is no truth to that. There were, at one time, some product areas where import access was rather limited, but the remaining regulations are mainly technical standards for safety's sake. There have been drastic changes in this area, and I suspect there are some areas where deregulation may have gone too far. In telecommunications, for example, there is no justification for eliminating the standard for voice clarity, but Japan has gone ahead and eliminated that standard anyway to make it easier for imports in the Japanese market.

In a way, I sometimes have the feeling that we are being too indulgent toward this friend who is in trouble.

Q: *Even though Japan has bent over backward to ensure that the Japanese market is open, we still hear criticism that Japan hasn't done enough.*

Sekimoto: That's all the more reason that we need to facilitate communication to ensure a full exchange of views and full understanding. Things change, and our perceptions have to change with them. If you look at NTT (Nippon Telegraph and Telephone Corp.) procurement practices, for example, 1980 was a watershed year, and NTT's procurement practices are completely different before and after 1980. But when we discuss these things with the United States, we find they are still talking about the pre-1980 situation when NTT was single-sourcing things and it was very difficult for foreign companies to break into the inner circle of NTT suppliers. Things have been vastly liberalized, and they keep bringing up these old cases that are no

longer relevant. If you want to talk about the difficulty of meeting national telecommunications equipment standards, Japan has gotten much easier, in contrast to France and West Germany which are still very tough nuts to crack.

And even so, you have people on Capitol Hill lashing out against "Japan and the others" as if Japan were one of the worst offenders. If you ask me, there are a number of countries in Europe which are better qualified for that dubious honor, and these are the ones they should be complaining about. The Japanese market is much more open than these people would have you believe, which means they either don't understand the situation or they have some reason for wanting to play dumb.

Q: *As Japanese technology has gotten better, the next question that comes up is what Japanese technology can do or is doing to make the world better.*

Sekimoto: The fact that we have foreign customers wanting to buy Japanese products means that we are turning out products that satisfy their requirements. This alone means that Japanese technology is contributing to economic development and better living worldwide. At NEC, for example, we are making optical fiber systems for telecommunications equipment, ground stations for telecommunications satellite systems, telephone exchange equipment, PBXs (private branch exchanges), and a host of other products. And the reason these things are selling as well as they are is that they offer better quality for the price than the competition does. No matter where he is, the customer wants the best value he can get for his money.

In semiconductors, Japanese companies are exporting a lot of 256K DRAMs to the United States, and they're selling because Japanese 256K DRAMs are good. They perform very well at very low cost. If cost were the only problem, you would expect Japanese exports to grind to a halt with the higher yen exchange rate. But it's unlikely that they will stop, because these products are also selling for their functional quality and their reliability. Japanese products are world-class, be it in NEC's field of computers and communication, in the underlying IC technology, or even in things for the general consumer market. I would not say we're the best, but we are certainly one of the best.

Q: *There has also been criticism that truly innovative products are all invented somewhere else, and that Japan has not turned out anything very original. There are people who say that Japan is simply refining the innovative technologies that come out of laboratories in the United States and Europe. Japan may have the advanced production technologies to commercialize these inventions and turn them into very high-quality, low-cost products, but it is neglecting basic research and getting rich off other people's creativity.*

Sekimoto: For a long time after the war, Japan worked as hard as it could just to catch up with the United States. In many fields, we have now caught up and stand shoulder to shoulder, and so

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the problem is where we go from here. As has been pointed out, Japan's GNP is expected to account for 15-16% of the world total by the year 2000, up from about 10% at present. I hope that by then we can say that roughly the same percentage—15-16% or so—of the world's technical breakthroughs, patents, or innovation however measured are from Japan. But I can see how this might easily take the full 15 years to the turn of the century. We are working on contributing our fair share of creativity and inventiveness, and I expect we will be right on target by the year 2000. The Japanese people can be as imaginative and creative as anyone else.

This relates to the problem of education. So far, Japanese education has concentrated on ensuring that everyone is functionally literate and has the basic skills needed in today's society, but now we need to shift the emphasis to developing the individual's potential. Of course, I've been saying this for the last three or four years, but it is finally being reflected in the work of the Prime Minister's special commission on educational reform. The schools should be helping people to realize their full potential and society should be receptive to this new breed of graduate. Universities, companies, government-funded research institutions, and everyone else must be open to individuality. You can see why it's going to take time, but I think it can and will be done.

Q: *Another theme that you and NEC have been advocating for a long time is the C&C concept of computers and communication. Given that there is no precedent for this anywhere in the world, I wonder if you could elaborate on the kind of advanced information society that you envision.*

Sekimoto: We are witnessing very rapid development in computers and communication—artificial intelligence and artificial nerve networks if you will—and C&C should evolve into what I would call artificial servants for mankind. Advances in IC technology will provide the cells, as it were, that animate the C&C servant and endow it with intelligence. The advanced information society is a society which is able to produce artificial servants able to understand and respond to the commands of their human masters.

In the narrow corporate context, NEC might be the master, and we would be producing artificial C&C servants able to do our bidding. By the same token, the Tokyo government, or any local government, should be able to make artificial C&C servants able to do drudgework and carry out the wishes of the governor or whoever is in charge. That is the kind of society I envision. The advanced information society will have great advances in hardware. These we can leave to the experts. The important thing is the intelligence, and the wisdom which has to be imparted to our artificial servants. This takes the form of computer programs and other software. There are already a lot of programs out but this will go far beyond what's available now to enable our

C&C servants to respond intelligently when we just state the basic principles that we want them to follow. The people who can provide the necessary software will flourish; those that can't will go belly up. By people, of course, I do not mean only individuals. The same applies to companies, organizations, and even governments. People everywhere gather information and use it somehow. This ability to put things together and use information is what we call intelligence. Every individual will be a master, and it will be up to each of us how we use the information that is available to run our companies and govern our private lives.

There will undoubtedly be major advances made in both hardware and software, but the most important question is how effectively the human master will apply his C&C servants' artificial intelligence. It will be a very exacting time for individuals, companies, and other organizations—a time of competition in principles, in understanding, and in wisdom—but it will also be a very exciting time to be alive. This is what the advanced information society is all about.

Q: *Let me close with another question about international trade and understanding. There was recently an American complaint that the Japanese market for cellular telephones was still closed. It seems that Motorola had developed a tap-proof cellular telephone and the Japanese authorities were refusing to license it for import.*

Sekimoto: Something like a tape recorder is very simple because you just have this one piece of machinery, and it can work anywhere so long as the current is right and the tape fits. But cellular telephones are part of a communications system and are useless unless they are compatible with the rest of the system, including things like the transmission centers, antennas, broadcast frequency converters, telephone exchanges, and all the rest. If this new telephone is compatible with the rest of the Japanese system, there should be no problem. But if it demands special equipment or changes in the system, then it obviously cannot be used as it is. It clearly isn't going to fit into the Japanese system if it was designed for an entirely different system. Japanese and American telephone wattages, for example, are different. So if you used high-wattage American cordless telephones in crowded Japanese neighborhoods, you would be broadcasting into your neighbors' homes and disrupting the system entirely.

The same is true for American high-cube containers. These are great on American trucks, but Japanese bridges and overpasses are built to different height standards and the roads are frequently unable to accommodate high-cube containers without major modifications that would outweigh any cost or other benefits accruing from their use. All of these things have to be taken into consideration, and I would hope that exporters would try to adapt their products to the Japanese situation before they complain that the market is unfairly closed. ●

We stand shoulder to shoulder; where do we go from here?

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