

Active Involvement

**Interview with
Ryoichi Kawai,
chairman of
Komatsu Ltd.,
by Akio Matsumoto**

Ryoichi Kawai, chairman of Komatsu Ltd., is the leader of the Komatsu group, chief rival of Caterpillar Tractor Co. for mastery of the world construction-machinery market. In Japan's business community, Kawai is highly regarded as a man of intellect, whose gentle manner belies his reputation for being a tough businessman. Kawai is also known for the broad range of his activities. His proven capacity for analysis and action has earned him such active roles in the powerful Keidanren (Federation of Economic Organizations) as chairman of the Committee on Industrial Policy, the Committee on Taxation and the Committee on Private Initiative.

Kawai has been a leader in private-sector economic diplomacy, an area which is vitally important to today's cosmopolitan Japan. He has close ties with leaders in many countries—not only the United States and major West European nations but also the Soviet Union, China, Cuba and other Socialist states. He is particularly close to China, which he has visited more than 40 times, and is currently chairman of the Japan-China Association of Economy and Trade and the Council for the Promotion of Sino-Japanese Trade. These are seats formerly occupied by, among others, Toshiwo Doko and Yoshihiro Inayama, both of whom also served as chairman of Keidanren, the business community's equivalent to Japan's prime ministership.

Kawai is also a leader in efforts to expand relations with the Soviet Union. Japan-Soviet economic relations were formerly the province of Shigeo Nagano, former chairman of the Japan Chamber of Commerce and Industry, and Hiroki Imasato, former chairman of Nippon Seiko K.K. With the passing of these legendary

pro-Soviet business leaders, Kawai is indispensable to the business community as its chief champion of Russo-Japanese exchange. He has contacts with the Kremlin inherited from his father, Yoshinari Kawai, a pioneer in Japan-Soviet relations.

Japan's business community is witnessing a changing of the guard from men born in the Meiji era—leaders who laid the foundation for the nation's postwar economic expansion—to the sons of those founding fathers born in the subsequent Taisho era. Kawai is one of the representatives of this second-generation leadership. Kawai has inherited from his father not only the management of Komatsu Ltd. and the task of promoting relations with China and the Soviet Union but also the "flower and green" environmental beautification movement to which his father devoted much of his life.

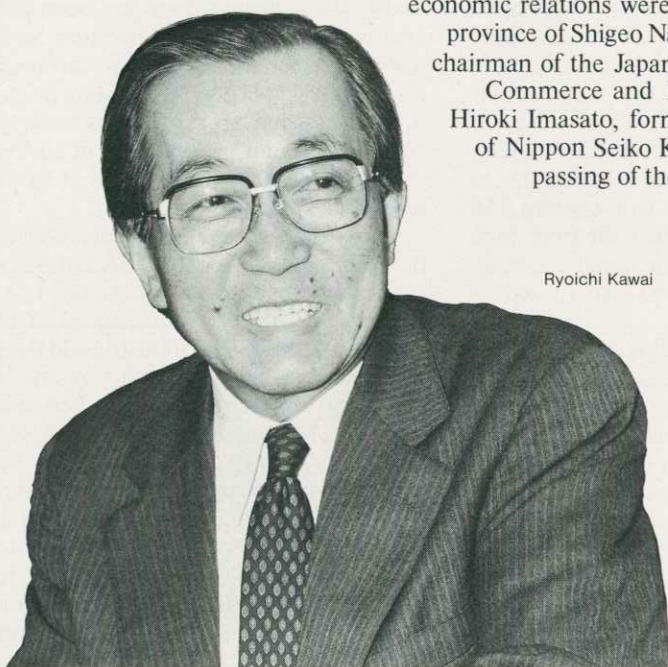
It is rare in Japan's business community for a father and son to make such continuing efforts in pursuit of common goals. Kawai, vice chairman of the International Garden and Greenery Exposition, Osaka, Japan, 1990, is doing his utmost to make it a success. "What I'm trying to help achieve is a blend of Japanese-style gardening and Western-style gardening," he says with a twinkle in his eyes.

Question: Now that the yen is approaching the ¥130 to the dollar range, Japanese corporations are being forced to rethink their business strategies. How is Komatsu coping?

Kawai: We can't set business goals without stable exchange rates. Yet the reality of the hour is that Japan's trade surplus continues to grow. It now exceeds \$100 billion a year, and that is what is causing the yen to overshoot. Under these circumstances, there is little hope that the exchange rate will return to an appropriate level. So certainly we are having a hard time trying to cope. I think we have reached the stage where we must think seriously about countermeasures, including overseas production.

Q: Then is the rising yen giving further impetus to the globalization of your operations?

A: In this difficult situation, we have no alternative but to actively promote overseas production. We have our own manufacturing plants in Brazil and Mexico and a joint-venture company in Indonesia. In the autumn of 1986 two more plants entered operation—one in Tennessee in the U.S. and the other in Newcastle-upon-Tyne, Britain. So we now have a network of production bases around the world.



Ryoichi Kawai

Akio Matsumoto is an editorial leader of the *Nikkan Kogyo Shimbun*.

P R O F I L E

Q: *Would you consider expanding the share of overseas production to as much as 20%, with an emphasis on production in the U.S. and Britain?*

A: We'll have to expand overseas production if the exchange rate stays around the present level. Ideally, we'd like to raise foreign production to about 30%, rather than the 20% level. The problem with that is that moving that much production abroad will hollow out our domestic production. We'll then have the problem of employment adjustments at home. When expanding production overseas, we have to take countermeasures at home, such as getting into new fields of business and expanding our operations in areas other than the construction market. In addition, in order to maintain our domestic production bases given the high yen rate, we need to take other measures, such as assembling products as much as possible from imported parts, materials and components. The important question is how to maintain a balance between domestic and overseas production.

Q: *Komatsu launched a total quality control (QC) program to strengthen its competitiveness when Caterpillar entered the Japanese market. Do you need another QC program to ride out the yen's sharp appreciation?*

A: I think so. Back then the exchange rate was ¥360 to the dollar. Now it's only a third of that. So we have to do something revolutionary about quality control. What's required is much better designs, further cost cuts and making products both here and abroad that are up to the same standards in terms of quality, performance and cost.

Q: *How to survive the strong yen is certainly a question of critical importance to individual corporations. Yet Japanese corporations did weather the two oil crises, and they are likely to clear this hurdle as well. In fact, there are some fears that this will further boost their competitiveness and push the yen still higher. What do you think of this vicious circle scenario?*

A: It is a possibility, especially considering how Japan has coped with previous crises. If it actually happens, however, trade friction will become even more difficult to manage. In my opinion, it's difficult to correct the trade imbalance without a downward adjustment in exports. Of course, many people oppose this approach on the grounds that it would only encourage the protectionists in the United States.

Q: *Concerning Japan-U.S. trade, some 60% of the major products exported to the United States, be they automobiles, machine tools, semiconductors or textiles, are already subject to voluntary restraints or other restrictions. To that degree trade between the two countries is already managed. Could you comment on this?*

A: Japan's current account surplus has reached such huge proportions that it now equals more than 4% of our GNP. By way of comparison, even in the best of times, Britain and America had current account surpluses equivalent to only 2% or so of their respective GNPs. So

the Japanese surplus is simply too large. The free trade principle must be maintained, but there are also limits. I think the surplus has reached a level where further growth would jeopardize harmony in the world economy.

Q: *Measures to boost domestic demand require increased government spending. Yet it is equally important to funnel excess private savings into public projects involving private-sector cooperation. What are your views on this as chairman of Keidanren's Committee on Private Initiative?*

A: Raising the growth rate of domestic demand is urgently needed to correct our external imbalance and prevent the yen's appreciation from triggering a recession. In that sense, I think the government should step up spending on a temporary, emergency basis within the framework of the fiscal and administrative reforms now in progress. I believe we must temporarily put aside the goal of fiscal reconstruction and expand public expenditures on an emergency basis. The government is considering a large supplemental budget on the order of ¥6 trillion, but there is not much sense to a one-shot plan like this. The effects of expanded demand will not really materialize unless spending is increased by this much for at least three years in a row. In cases where public expenditures alone are insufficient, private funds should be used more effectively.

Q: *A great deal of surplus money is being poured into the money game. Shouldn't the government take various measures, such as deregulation, issuing tax-exempt bonds and subsidizing interest payments, in order to channel such funds into productive investments?*

A: There are many things the government can and should do. Politicians and bureaucrats speak rather casually of *minkatsu* (private-sector vitality). In fact, there are two kinds of *minkatsu* projects. One is "voluntary *minkatsu* projects" that can be carried out on a private basis, such as the construction of housing, sightseeing facilities and resort hotels. The other, however, is "inductive *minkatsu* projects" that can only be implemented with help from the government, such as the deregulation and tax incentives you mentioned. A case in point is the project to develop the Tokyo Bay waterfront. This project requires that central and local government provide assistance to encourage private-sector participation. Some people say tax-exempt bonds would set a bad precedent; they also oppose interest subsidies. *Minkatsu* projects won't even get started so long as such negative attitudes persist.

Q: *What kinds of projects should form the core of a domestic demand expansion program?*

A: Housing is probably the most important of all. There is strong demand for housing in the big cities, but residential construction is being seriously hampered by high land prices and cumbersome regulations. When you include sales of associated goods such as furniture and TV sets, Japan's housing industry constitutes a huge market exceeding ¥30 trillion. I think

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the Japanese government should give higher priority to residential construction in its industrial policy.

Q: *The sewer system in the capital city is still underdeveloped and people still live in "rabbit hutches." This is the reality of life in the country with the world's strongest currency, isn't it?*

A: In Tokyo, to take but one example, one in three homes is not connected to a sewer. In fact, my own house doesn't have complete sewer connections. Just across the street is the home of former Prime Minister Takeo Fukuda. With a prime minister living in the neighborhood, I thought my home would get connected to the drain right away, so I waited, but nothing was done. It's only recently that construction has finally gotten under way.

Q: *You are well informed about China and the Soviet Union, just as your father was before you. In April 1986 you headed a Japanese business mission to the Soviet Union for the first time. This kind of continuity is unprecedented in the Japanese business community. How did it commence?*

A: My father decided to do some international work after reconstructing Komatsu. The work he chose was developing new relations with the Soviet Union, a country which few people paid much attention to at the time, rather than follow up on what other people were already doing. Japan was then preoccupied with the United States, so my father was accused of promoting "Red diplomacy." Apparently he ran into a lot of resistance. I think he had a difficult time.

Q: *Under Mikhail Gorbachev, the Soviet Union is striking out on a set of new policy courses. Moscow is also eager to expand economic and technological exchanges with the West. Does this mean that the Russians are giving greater weight to butter than missiles?*

A: I had an opportunity to meet Premier Nikolai I. Ryzhkov during my visit to Moscow last year. He surprised me by saying that the Soviet Union wanted to set up joint ventures with capitalist countries. My feeling was that things really are changing in Russia, particularly in such areas as worker discipline in the factories and the QC movement. Gorbachev is trying to introduce some of the market mechanisms of a capitalist economy. The Russians have spent huge sums on armaments at the expense of their consumers. I think the country has reached a point where it must improve the consumer sector of its economy.

As for Japan-Soviet relations, it would be mutually beneficial for the countries with the second- and third-largest GNPs in the world to strengthen their economic interdependence. I'm sure economic cooperation between the two countries will enter a new phase, not only in the development of Siberian resources but also in areas other than merchandise trade—that is, in such services as technology, business administration and joint ventures.

Q: *These days Japanese business leaders can go to China and the Soviet Union any time they*

please. At the time, however, people who tried to promote ties with these countries were labeled "pro-China" or "pro-Soviet"—both terms with negative overtones. What is the secret to your successful two-pronged strategy of openly visiting both Beijing and Moscow?

A: Things worked out that way largely thanks to efforts initiated by my father. It became much easier to visit these countries once the sense of confrontation had eased. It's important to nurture relations with old friends, wherever they live. The main thing is that you show sincerity and goodwill in promoting relations with a foreign country, be it China or Russia. If you try in this spirit, doors will be opened to you.

Q: *The Chinese Communist Party Chairman, Hu Yaobang, fell into disgrace after the political upheaval in January. Do you think the open-door policies of Deng Xiaoping will continue?*

A: I've met Deng many times. He has told me that his open-door policy has moved the Chinese economy forward and that it has the support of the Chinese people. "Nobody can change this tide," he said with fullest confidence. Vice Premier Tian Jiyun, who visited Japan following the Hu incident, made a similar remark. China is on the path to liberalization, and so is the Soviet Union. There is no turning back.

Q: *You also chair the Flower Association of Japan, which was founded by your father. This was another of his pursuits, and an elegant one at that.*

A: When I was young I wasn't very interested in his devotion to cultivating flowers. But as I grew older, I began to appreciate flowers too. That's why I agreed to become vice chairman of the International Garden and Greenery Exposition to be held in Osaka in 1990, the first time it will be held in Asia. Inayama is chairman.

Q: *Japan is being lambasted for its trade in high technology and the rapid expansion of its exports in certain fields. At times like these, I think it's important to tell the world about Japanese culture, which is characterized, among other things, by a love of flowers and growing things.*

A: It certainly is. Given the strains put on our external relations by trade friction, it's good to let foreigners know more about the Japanese people themselves, who really do love nature, greenery and flowers.

Q: *How many cherry trees have been donated to foreign countries as part of the diplomacy of flowers and greenery?*

A: This year the Flower Association of Japan is celebrating its 25th anniversary. So far, we have grown more than 2.3 million saplings and donated about 130,000 of them to 44 countries. We've sent them to many places around the world, including China, Britain, the banks of the Rhine and Versailles. In the case of the United States, we have to send seeds instead of saplings because of the tight quarantine regulations. In return, we have received dogwood trees. As far as exchanges of flowers go, Japan and the United States are still honeymooners. ●