

Thinking Globally

Jiro Ushio, chairman of Ushio Inc., says Japan should recognize, more than anything else, its foremost position in the world's economic order. Pointing out that the Japanese economy is a key player in the global economic game, he argues that Japan should participate actively in international economic management. Ushio himself is playing an active role, both as chairman of Ushio Inc., a maker of electric lamps and optical equipment, and as a key member of various business organizations. He is currently a vice chairman of the Japan Association of Corporate Executives (Keizai Doyukai) and chairman of the board of trustees of the International University of Japan.

Ushio, who studied at the University of California after getting a degree from the University of Tokyo, recalls that he learned a lot from his experiences in the United States. He was impressed particularly by the openness and fairness of American society. After returning to Japan, he established Ushio Inc.

Ushio says he belongs to the generation that has been riding the "surfboard of change." "For people of this generation, there were no manuals to go by. We had to write our own manuals and change them continually," he says. "So we can make decisions by ourselves." He firmly believes that it is this ability to make decisions on an independent basis that enables him—and many others of his generation—to act positively in the international community. What, then, is the right course for Japan as a nation-state to follow in the years ahead? Below are Ushio's answers to this and other questions.

Question: *How do you see Japan's position in the world?*

Ushio: Japan's goal in the 1960s was to catch up with the United States and major Western European countries. There were only two ways to attain this goal: making the best use of the collective power of Japan as a monolithic society and working hard. In the 1970s, Japan was hit by the oil crises. These crises taught the Japanese that they could not take their heavy dependence on foreign energy for granted and that the system of fixed exchange rates could no longer work effectively. The energy crunch put Japan's economic security at great risk, but Japanese industries weathered the crises through efficient efforts to conserve energy and natural resources. What made this possible was not government persuasion but the consensus among business managers that conservation was the only way out.

The energy crises prompted a shift away from old-line smokestack industries and toward energy-saving high-tech industries. The growth of

the semiconductor industry is symbolic of this change. Successful cost-cutting efforts in the 1970s changed the structure of domestic consumption. As a result, the labor market and the economic structure itself changed. Now the Japanese economy accounts for more than 10% of world GNP.

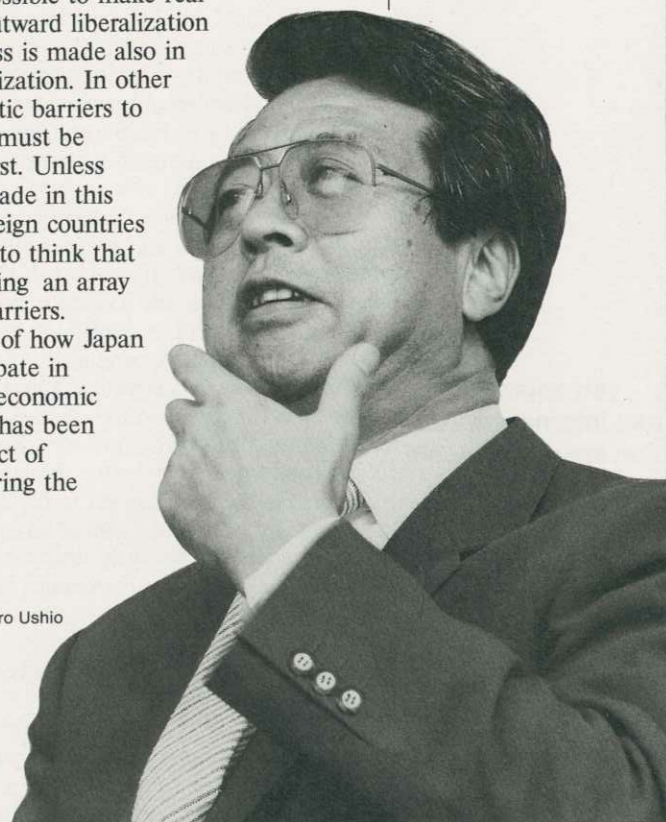
Since the start of the 1980s, Japan has taken a series of steps toward liberalization to integrate itself more closely with the rest of the free world. There are two aspects to this liberalization policy. One is the opening up of Japan itself, and the other is the privatization of state enterprises, which involves removing various government regulations. In fact, the Ad Hoc Commission on Administrative Reform tried to achieve just that by broadening the scope of private-sector activity to create a smaller government. Given the Japanese way of getting things done, I think the commission did a good job in pushing a series of reforms through. On the other hand, the yen appreciated too fast, applying brakes to the crusade for reform. So Japan today is beset with two contrasting problems: the excessive appreciation of the yen and the excessive slowness of liberalization.

Q: *How should Japan cope with these problems?*

A: It's impossible to make real progress in outward liberalization unless progress is made also in inward liberalization. In other words, domestic barriers to liberalization must be dismantled first. Unless progress is made in this direction, foreign countries will continue to think that Japan is erecting an array of nontariff barriers. The question of how Japan should participate in international economic management has been a major subject of discussion during the

**Interview with
Jiro Ushio,
chairman of Ushio Inc.,
by Tsukasa Fukuma**

Jiro Ushio



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past year or so. To paraphrase, What kind of role do foreign countries expect Japan to play? We have never asked ourselves this kind of question before. The question used to be, How should Japan adapt itself to the international community? Now, however, Japan is being asked to play a more positive role, a leading role at that, in the international economy. Some of our leaders are well aware of our global responsibilities, but there is little public awareness.

The general feeling among the Japanese people is that Japan has too many domestic problems to care about the developing countries. Yet foreigners are demanding that Japan double its economic assistance to the Third World. Participating in global economic management means making greater sacrifices and concessions for the sake of world prosperity.

Q: *Keizai Doyukai is making a unique attempt to internationalize itself by conducting committee discussions in English with foreigners attending. How effective has this been?*

A: We started this because we characterize our organization as an open and active policy group. But the immediate reason was that a foreign member who is fluent in Japanese pointed out some problems in Japan's domestic liberalization and requested an opportunity to speak at a committee session. Then other foreign members who speak only English asked to be allowed to present their respective views so they could help Japanese efforts toward liberalization. We've had animated discussions on various topics. Now simultaneous interpretation is available because Japanese members who can't speak English also attend. These English-speaking sessions are attended by many foreign businessmen, including representatives of the American and West German chambers of commerce. We hope that the Doyukai can have some influence on their parent organizations and other bodies concerned back home.

Q: *Japan is coming under growing pressure from the United States and other countries to expand domestic demand. What do you think of this?*

A: Last June, the Japanese government announced ¥6 trillion worth of emergency economic measures to stimulate domestic growth. If Japan is to make a significant contribution to the world economy, it must earmark 15% to 20% of this sum for foreign purchases. But the essential precondition for this—free foreign access to the Japanese market—has yet to be met in concrete terms. Rules for access must be established first, then we Japanese must stop mouthing the excuse that American companies fail in our marketplace because they do not try hard enough to participate.

In the case of public works investment, for example, Japan should also open 15% to 20% of the total work involved to foreign firms. That's the right way for Japan to play a key part in the management of the international economy. The Japanese government could make it mandatory for domestic firms to buy foreign goods. How can

a country become a world power if it has no military power, only economic and cultural power? The only way is to expand foreign assistance and buy more from other countries. Japan should remember that it has been able to achieve its present status as a leading industrialized country because other industrialized countries opened their domestic markets to Japanese products. Now it's our turn to open our domestic market to products from the newly industrializing countries (NICs) in Asia.

But there are some difficult problems. If the United States, for example, expands domestic demand, that will lead immediately to expansion of imports, because American producers cannot meet all their demand. In Japan's case, however, production can be readily increased because the flexible manufacturing system (FMS) is widely used. So domestic demand is met almost entirely by domestic suppliers. The result is that imports do not increase significantly. This is not the way to participate in international economic management.

Q: *Do you think FMS is responsible for this?*

A: The fact is that the competitiveness of Japan's production system is maintained by the FMS. We must not overlook this. It's essential that we continue efforts to cut manufacturing costs. This does not run counter to efforts to resolve economic friction and contribute positively to the international community. We must be fully aware of this. What Japan should do is create a system of participation in global economic management and a framework of cooperation with the international community while maintaining its competitiveness. Japan can help the world economy through expansion of its flexible manufacturing capacity. At the same time, we must increase imports from other parts of the world.

Q: *Japanese corporations are suffering from the sharp appreciation of the yen. Do you think they can afford to give away some of their domestic business to foreign firms?*

A: I think yen appreciation and internationalization are unavoidable as long as Japan keeps expanding its economic power. Therefore, Japanese corporations must adapt themselves to the strong yen. I'm telling members of my company to ride with the tide of yen appreciation. Ushio Inc. was planning to build a new plant in Japan, but the plan was postponed because the yen had appreciated too fast. Instead, we built the Hong Kong plant last October and are now building plants in the United States (Oregon), the Netherlands and Taiwan. I expect that some of the products made at these factories will be shipped back to Japan in the future, maybe three years from now. There is a strong view in the semiconductor industry that it faces a similar situation.

Q: *Why did friction develop between Japan and the United States over semiconductors?*

A: The reason is the pricing policy of Japanese makers. Japanese chips can sell for twice their present prices because of their high quality. The volume of sales may drop if prices are raised, but

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profits will rise substantially. But Japanese producers seek to expand production, or business volume, rather than to increase profits. By doing so, they try to ensure job security for their employees. Corporations in Western countries take a different approach, with the primary emphasis put on profit. So Japanese companies expanding abroad should try to incorporate the local business philosophy in their thinking instead of sticking to their homegrown rules of the game.

Q: *U.S. customers are calling for Japanese chip-makers to ensure stable supplies on a long-term basis despite the friction in semiconductor trade. Do you think the Japan-U.S. relationship is developing into one of mutual penetration, a relationship much closer than mutual dependence?*

A: I think economic relations between the two nations are satisfactory in terms of mutual penetration. In fact, relations at the level of private enterprise are better than at any time in the past. This is clear from various instances of intercompany cooperation in a broad range of fields. At the government-to-government level, however, many difficult problems do exist, because national boundaries come into the picture and, of course, politicians further complicate the situation. Another important reason behind such problems is that there is no system of income redistribution among nations, though there is such a system among private business corporations. A country earning very large surpluses in trade could contribute some of the money in the form of an international coexistence tax, for example. The United States did just that in the post-war period.

Q: *How does this relate to your view that nations should give up part of their economic sovereignty? The United States and Canada, as you pointed out, are already moving in this direction.*

A: Sovereignty must be fully recognized in political and cultural fields, but in the economic area we must accept that we are all living in one and the same community. The United States and Canada are now pushing reforms, particularly in the area of taxation, in order to create a common market. Perhaps sometime this year a free trade zone will be established between the two nations. Japan must embrace a similar concept so it can join them. Maybe Australia and New Zealand will want to join too, as well as the NICs in Asia. Eventually, the common market could be expanded into a Pacific economic zone. If this comes to pass, member states would have to give up part of their economic sovereignty. A new common market would require a new common currency—a Pacific currency unit if you like, just as the European Community has its own European Currency Unit. Since the United States would be a leading member, the dollar could be used for trade in the market. This would make it necessary to give up part of monetary sovereignty as well. The Finance Ministry of Japan would resist such a move, but things are already moving in this direction. Exchange rates are now beyond the control of any single nation. Interest rates in

Japan are set in consultation with the U.S. government. Part of monetary sovereignty would have to be sacrificed in the interest of a common market if it is created. In such an event, Japan probably would have to make greater sacrifices than any other country. But I believe this is the right thing to do. It would be extremely difficult to redistribute income throughout the world economy, but it could be done in a regional economic bloc.

Q: *Japanese corporations are moving increasingly into foreign countries. What is the guiding management principle they should follow?*

A: As far as standard products are concerned, horizontal international specialization with the NICs is the only course Japan can take. So, in my opinion, the guiding philosophy for Japanese companies, or the polar star they should follow, is the FMS, which is an excellent production system. At the same time, though, I'm advocating a policy of localization for Ushio people going on overseas assignments. What I'm saying is that overseas operations should be completely localized in 10 years. In other words, investments should be recovered in this period of time, and the plant and equipment should be turned over to local interests after that. In this way, Japanese corporations can play a positive role in technology transfer.

Q: *What is your philosophy in life?*

A: People of my generation have been riding the surfboard of change, so to speak. I was in my teens when World War II ended. For me, the Lucky Strike cigarettes American soldiers were smoking and the exquisite fragrance of after-shave lotions they used were some of the symbols of America. My study at the University of California in the 1950s was a valuable experience that taught me more than everything I had learned back home. I learned first hand that America is an open and fair society. It was open and fair not only in social activity but also in business life. That was a great surprise for me. Japan's economy has reached gigantic proportions in the last 40 years. I never thought that Japan would achieve such a great international status. Now the country is asking itself what it can do for the world, not the other way around. This kind of question never came to my mind in earlier years.

We have yet to build solid foundations for our future development, and there are still many problems we have to solve. We have no manuals to guide us because what's happening in the world economy now is completely new to the Japanese. We have to write our own manuals and keep updating them. However, people of my generation—those who were born in the prewar period but were too young to fight in the war—are accustomed to thinking on an independent basis, because they were educated largely in a period when various forms of authority lost credibility. This capacity for independent thinking is an essential requisite for active participation in the international community. ●

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