

# My Perspective on the U.S.-Japan Semiconductor Talks: A Matter of Trust

By Ohga Norio

I was in Tokyo when I heard the news that an agreement had finally been reached in the U.S.-Japan semiconductor talks. Unfortunately, illness prevented me from being in Vancouver for the last intense efforts that brought the two sides together. I had asked Makimoto Tsugio, Hitachi Executive Managing Director, to take over the chairmanship of the Japanese industry team in my place.

My first response to the news was relief that an agreement had barely come in time on August 2. The Vancouver agreement, based on the new framework of international industrial cooperation, signals the arrival of a new era in the semiconductor industry.

The relationship between the U.S. and Japanese semiconductor industries, which 10 years ago was, one might say, one of confrontation, is now built on cooperation and mutual trust. This relationship came about through fundamental economic and business changes in the semiconductor industry and in trends of overall market demand. Most importantly, there were serious efforts devoted by both U.S. and Japanese firms to better understand each others' needs based on practical business considerations.

In 1986, the year that the first Arrangement was to be reached, the Japanese semiconductor industry had overtaken its U.S. competitors in market share. Whereas the U.S. industry had focused primarily on military and aeronautics applications of its technology, the Japanese industry had established its roots in the consumer electronics sector, emphasizing applied technology and production management, and as a result, strengthened its competitiveness. Along with a slump in

memory demand and a fluctuation in exchange rate, the Japanese semiconductor suppliers became a perceived threat to the U.S. semiconductor industry, which eventually led to allegations of dumping in the U.S. market.

In 1989, the Electronic Industries Association of Japan (EIAJ) conducted surveys and research on various problems faced by foreign semiconductor-suppliers in the Japanese market, whose market share then was 9%. EIAJ found that foreign suppliers needed more adequate information and understanding of the demands of the Japanese market, such as small packaging technology for surface mounting to achieve miniaturization, or lower power consumption. Consequently, "design-in" projects were encouraged, where semiconductors are jointly developed by users and suppliers from the upstream of the engineering design stage. In design-in relationships, semiconductor users take the risk of revealing their technology and design know-how. On the other hand, the suppliers are obliged to send out their engineers and extend their understanding of everything from cultural aspects, such as language and customs, to design concepts, quality control, production management, marketing and services. This deepening of cooperative business ties at the grassroots level has certainly played a vital and significant role in enhancing communication, mutual understanding and trust between Japanese and U.S. firms.

At the same time, the decade since 1986 has seen a dramatic change in the environment surrounding the semiconductor business both in supply and demand. The greatest change has been globalization. Borderless corporate affiliations have emerged in the areas of

R&D, production and sales; all told, intricate relationships of interdependence have been built at the international level. Furthermore, suppliers from South Korea, Taiwan, and other Asian countries are continuing to gain prominence.

In the area of demand, advances in information and telecommunication technology have expanded the need for personalized computers and portable telecommunication terminals, and the application of digital technology has become indispensable in the area of consumer electronic appliances. Seizing these opportunities, with foresight in product planning, the U.S. semiconductor industry regained its competitiveness and, at the end of 1992, once again surged ahead of the Japanese semiconductor industry.

Bearing those changes in mind, at a regular EIAJ press conference in late September 1995, I expressed my personal opinion that from the standpoint of free trade, the U.S.-Japan Semiconductor Arrangement should be allowed to expire since it had already fully achieved its objectives. I also remarked that the framework of relations based on trust and harmonious spirit that had been established needed to be sustained. The ramifications of this press conference took me by surprise.

Managed trade elements under the Arrangement, such as market share targets, and the monitoring of foreign market share based on capital affiliation not only ignored market mechanisms but were unrelated to the actual state of business. These points were to become the major principles that could not be conceded by the Japanese side.

In November 1995, the EIAJ formal-

ly announced that the Arrangement should be terminated as scheduled on July 31, 1996.

Following this announcement, the U.S. and Japanese semiconductor industries decided to discuss future industrial cooperation, and a total of five industrial talks were held from February to July.

On the Japanese side were Toyonaga Keiya (former Executive Vice President of Matsushita) and Makimoto, Shinmura Takuji (Managing Director of Mitsubishi) succeeded Toyonaga from the June meeting. Oyama Masanobu (Senior Executive Vice President of Toshiba) and Ono Toshio (Executive Vice President of NEC) participated in the fierce final two sessions. On the U.S. side, Pat Weber, Chairman of the Semiconductor Industry Association (Vice Chairman of Texas Instruments) was joined by LSI Logic Chairman William Corrigan and Motorola's President in charge of semiconductors, Tommy George. Steve Appleton, Chairman of Micron Technologies, took part in the final two meetings. Many of these industry representatives have long-standing business relationships with each other. For example, Hitachi and Texas Instruments established the joint company Twin Star Semiconductor while Toshiba and Motorola have joint concern in Tohoku Semiconductors. Sony and Texas Instruments have a connection dating back to 1967 when they formed Nihon Texas Instruments with joint capital. Sony also gets the 32-bit microprocessor that is the core of its home computer game system from LSI Logic. Thus, my old friend Weber and I made progress in talks while comforting each other over our destiny as the leaders of our respective industries in the year that the bilateral agreement was to be a political issue.

The atmosphere at the first industry talks held in Hawaii in February 1996 was extremely friendly. Both sides recognized that the existing agreement had fulfilled its role and agreed to investigate a new framework. Political over-

tones at the talks were very slight.

But when it came time for the second talks in Hawaii in April, the two sides found themselves in opposing positions. (Incidentally, prior to this conference, Weber flew to Japan for a pre-meeting and he presented me with a large *daruma* doll, saying that once an agreement had been reached, we would paint in the remaining unfilled eye.) Our position was that we needed to discuss future industrial cooperation first, then define the role of government if it was recognized to be necessary. The U.S. delegates felt that government involvement would continue to be required and took the position that this point needed to be discussed first.

Honestly speaking, at the time there were worries that the talks would collapse. However, for Weber and me, a breakdown was the last thing we wanted, and we decided to table the question of government involvement until it could be studied further. We then returned to the discussion of future industrial cooperation. Between the Japanese and U.S. governments, the debate over semiconductors did not heat up until the latter half of June.

In light of the gap between the Japanese and U.S. positions, in late May, we presented the U.S. negotiators with the EIAJ proposal on future industrial cooperation on semiconductors, which became the basis for the final agreement. In recognition of changes in the semiconductor industry, and with respect for market principles, as well as WTO and other international trade rules, we proposed that, as the two major leaders in the semiconductor field, the U.S. and Japanese industries should consider the development of the entire global semiconductor industry. In concrete terms, we suggested the establishment of a world semiconductor council to serve as a framework for global industrial cooperation. Although the U.S. delegates had no objection with a global framework, they took the position that a bilateral cooperative relationship should be settled first. This stalemate, along with the disagreement

over the role of government, persisted until the final meetings in Vancouver.

The last session was held alongside government-to-government level talks. These last two nights and three days of marathon, round-the-clock talks pushed the negotiators of both sides to the limits of their physical and mental endurance. Apparently, the watchwords for both Makimoto and his old friend Weber were "never give up."

At the government-level talks our perception of the Japanese government, particularly MMTI, in their style of trade negotiations has changed. (In fact, a change began from the automobile talks in 1995.) Holding firm to their basic principles that a bilateral trade agreement with managed trade implications should be terminated, they did not yield to pressures from the U.S. government. At this point, I felt that a new generation of leaders had created a new era in U.S.-Japan relations. At both the industry and government level talks, the U.S. and Japan made it clear what they would accept and what they would not. I think what made this negotiating posture possible for both sides was the build up of mutual understanding, trust and respect among both industry and government negotiators.

On August 5, after the grueling, sleepless Vancouver negotiations, Weber flew all the way to Japan for a one-hour press conference. He came to fulfill his promise to paint in an eye on the *daruma* doll. As Weber said at the time, this Vancouver agreement is a win-win situation for both sides. With this agreement the semiconductor industry, with its promise of future growth can greet the coming era of mega-competition, where it can develop and prosper in a wholesome manner of both competition and cooperation. With the U.S. and Japan taking the lead, it marks the first step toward the right direction. ■

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