

Bilateral Communication Issues

By Herbert F. Hayde

Competition between our two countries is rapidly nearing a breaking point. Changes are under way in the economic structure of the two societies that could be leveraged to reduce unnecessary competitive frictions.

Major changes in the technological relationships between Japan and the United States are under way. There is a drift away from traditional regulatory and economic approaches that decry cooperation and seek to ensure competition at any price. Technology has caused changes in marketing and manufacturing requirements that constrain uninhibited competition. Our two industrial bases are becoming more interdependent with each passing year.

Cooperation means working together for a mutual benefit or goal. However, historic models of capitalism, many current regulatory practices and theories of free market economies advise against cooperation between economic entities possessing similar competitive agendas. Part of the fear has been that cooperation would lead to an eventual swallowing of the weaker by the stronger, resulting in a market dominated and influenced to the detriment of the public by the remaining economic entity.

Today, for the communications industries of our two countries, we can clearly see that there is a movement away from traditional competition and toward some sort of new form of *modus vivendi* in which aspects of cooperation will be allowed to exist and even encouraged to flourish.

In the past 12 months we have seen over twenty new announcements made regarding the establishment of value added networks (VANs) in Japan. Of this number some are global in concept and several are in fact alliances with American companies that have a wealth of communications experience.

At this point, it's a foregone conclusion that we are moving toward an integration of keyboard, voice, image, recording, copying and communication devices into new categories of products.

At the same time, we are looking to the logical convergence of these technologies with those of data processing. As this occurs, not all at once but over a period of time, we are entering the era of fully electronic information processing—a new environment, quite different from the one we are accustomed to working in.

The ultimate degree of integration and technological merger, the results thereof, and the proper pace of progress in this direction are still very much open to question and analysis.

Well-established and experienced communication systems vendors in America and in Japan have a strong advantage. The financial commitments by users of larger-scale communications complexes, as well as management's dependence on these systems for the life flow of business information, will encourage many users to want to work with highly qualified vendors.

This is not to deny important roles for smaller vendors. When you compare sizes, of course, everything is relative. Two giants—one in computers, the other in communications—cast very big shadows. Everybody else is a smaller vendor in that relative sense.

No company or country has an exclusive hold on engineering brilliance or marketing prowess. Able competition comes in all sizes, as demonstrated by some much smaller firms who have gained success as innovators. These companies, along with their relatively larger compatriots, constitute a necessary balancing force, and it seems very important to me that they continue to contribute to the vitality of the total market.

It seems to me that however imperfect

they may be, free market dynamics, if allowed to operate, are best suited to satisfy the interests of vendors and users. In the U.S., court decisions from *Carterphone** forward, open inquiries by government agencies, and the indicated willingness of Congress to at least debate the continuance of old protectorates such as those established by the Banking Act, point to a growing consensus that, in the long run, the public interest is best served by fewer constraints on competition.

Where both sides stand

Society, of course, includes a few left-over luddites who would like us to return to a cottage industry. But I for one am willing to endure some "future shock" in exchange for faster check-ins at the airline counter, universal credit cards, fewer visits to the bank, less paper to fight through at the office, better communications, and on-the-spot access to information I need in a hurry. Given reasonable rules of conduct, we all are better off when decisions are arrived at in the forum of competition and in the communications industry I believe that is essential. Thus far, it seems that our two societies have come as far as to say the following:

For the U.S., it appears that individually our major corporations who focus primarily on non-military products are unwilling or unable to develop the technology, bear the risk or dedicate their limited number of technical personnel to defense-related developmental projects such as special purpose communication systems, semiconductor or high-speed computers. We do not yet consider commercial high technology, microelectronics, fiber optics, software, high-speed computers, ceramics, and new materials

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as deserving of special government treatment or support. We acknowledge that our defense contractors are worthy of special economic treatment, but we have failed to understand that the very technologies employed by DOD (Department of Defense) today come, in many cases, from the commercial sector, which we have failed to promote. And we have not yet modified our antitrust laws significantly enough to allow for the realities of competition in world markets where the governments of other nations actively support their leading high-tech industries.

For the Japanese, it appears that for some time there has been a consensus that new technologies can only be encouraged and brought to the prototype stage if the Japanese government plays an active role in encouraging inter-company research and development. In some cases, the cooperation is extensive but in narrow fields, in others the degree of cooperation among companies is limited. However, the traditional economic model of adversarial relationships being the most appropriate means to effectively produce economic benefit for the common good, seems to be much less developed in Japan. While Japanese companies may argue that they go it alone and their companies do not extensively cooperate, from a U.S.-Japan comparative perspective there exists in Japan relatively extensive cooperation and this cooperation is addressed almost entirely to commercial ends. This cooperation appears to be beginning to spread to include some U.S. firms in truly reciprocal cooperative relations with Japanese partners.

Toward mutual cooperation

So, the stage is set. Our two nations have not yet reached the point where we have true international cooperation between our two industrial bases, but it seems very safe to say that we are moving in that direction. We are moving in the direction of mutual cooperation because of a series of factors:

(1) Advanced generations of technology require ever growing capital investments and increased risk.

(2) Within selected technologies, such as microelectronics, a winnowing out of firms on both sides of the Pacific is occurring, as human and technical resources grow more scarce and risk increases.

(3) Due to excessive development costs and lengthening lead times, even major corporations are increasingly find-

ing it necessary to rely on licensed technologies.

(4) Some companies are handling the technical development and design of their products, but are finding themselves unable to execute the cost effective manufacturing.

(5) Still others are finding that they do not possess the marketing and distribution channels to effectively sell their goods.

(6) Because of the constantly declining costs of components, equipment and systems, greater economies of scale are demanded in order to produce an adequate return on capital invested. Thus, there are strong pressures for expanded markets and still lower unit costs.

All of these issues point to increased cooperation as one effective answer to the demands of the communications marketplace.

Both the United States and Japan are going through a period of structural readjustment. Today, our economies are very dependent on each other, but they are hardly entwined. It is true that Japan and the U.S. are each other's single biggest trading partner. It is also true that the deficit in trade between our two nations has grown to a staggering \$34 billion or more, depending on the method of calculation employed. However, it should also be noted that in early 1983, the investment level of U.S. firms in Japan was reported to be lower than their investment level in Belgium.

On one side of the Pacific there are claims that Japan has come to dominate key areas of semiconductor technology, while on the other side there are equally adamant claims that U.S. industry dominates key technologies such as computer, software and satellites. The truth is much more complex and difficult to untangle. However, we would like to suggest some facts that speak for themselves.

While Japan leads the world in mass-produced semiconductor devices, somewhere in the neighborhood of 45% of the current CS II series satellite electronic and microelectronic componentry was manufactured by U.S. firms, and for the new broadcast satellite the total percentage of U.S. manufactured parts and systems is believed to be close to 85%; U.S. firms played major roles in software development for both types of satellites. Companies like Rolm, IBM, Burroughs, Intel and TRW are successful participants in the Japanese high-technology market. And high-tech firms like Mitsubishi Electric, Fujitsu, NEC, and Hitachi are rapidly expanding their U.S. manufacturing presence to include the most

sophisticated manufacturing process for semiconductors and telecommunications equipment.

While it's not a reality yet, in electronics and other high-tech fields, the two nations' technological bases appear, to me, to be beginning to merge into one. If accomplished smoothly, this merger offers fantastic promises for both societies. It offers the opportunity for pooling research and development talent, software skills, centers of university excellence and much more, so as to bring both nations' commercial marketplaces high-quality, low-cost products in a very timely manner. If the merger is left to drift in a sea of political rhetoric, it could permanently damage this most important trading relationship and that damage could impact other aspects of our alliance.

U.S. role: more active interest in Japan

It is important that this be recognized and acknowledged by our leaders. What both our business communities must do is to suggest means to minimize the impediments to a smooth transition and greater cooperation.

Our U.S. government and corporations are truly going to have to make Japan their top priority. Our corporations and government are going to have to allocate the best of our human resources significant capital, and management time to operating successful entry strategies and ventures in the Japanese telecommunications market. To do this, human resources will play an important role.

I recommend the following steps be taken by our two countries to develop and support a truly lasting synergistic relationship:

(1) The United States and Japan should institute a major exchange program, similar to the Marshall or Rhodes scholarships. Some initial steps have been taken in this direction, but they are negligible.

(2) At the same time, the United States must undertake, through State and Federal programs, to provide incentives to draw junior high schools, high schools, and universities into emphasizing Asian languages and Japanese in particular. We are going to have to provide financial incentives to institutions and teachers to persuade them to offer and teach Japanese. And, for some time to come, we will probably need to provide financial and career incentives to individuals who agree to study Japanese.

(3) Equally important, American in-

dustry will need to undertake a major effort at the graduate school level and in its companies to encourage and perhaps require, U.S. graduate students, engineers, scientists and business majors to go to Japan to study Japanese culture and business.

A related approach, which should be fostered, is the exchange-and-work in Japan programs, like those underway at Columbia University, North Carolina State, and in U.S. companies such as Westinghouse Corporation. I understand that Westinghouse now regularly places key young fast-tracking engineers into the operations of one of its Japanese partners, for a year's work-study.

Japan's role: letting the U.S. in

We've talked about what the U.S. government and industry can do to make operating in Japan less difficult and to create a broadened structural understanding of the Japanese culture and Japanese business. U.S. efforts alone will not be enough.

We must now, respectfully, turn to the question of what Japan can do to encourage cooperation between our two high-tech industries. For truly, it is in Japan's own best interest to support cooperation. If there are ultimately significant economic disruptions, our Japanese friends have much to lose. We firmly believe that they cannot permit the disruption of their activities in the U.S. marketplace. We, therefore, respectfully submit that the following efforts are required by Japanese government and industry:

(1) Clear support should be given by the government of Japan to U.S. companies establishing research and development centers in Japan. While the support can take a variety of forms, it should be guided by at least three principles. First, the support should create an incentive for U.S. firms to locate facilities in Japan. Second, it should ensure that U.S. firms which become active in Japan have equal access to the joint research and development programs of the Japanese government and those of any quasi-public institutions. Third, it should place a heavy emphasis on the timely protection of industrial and intellectual property.

(2) Equally important in the area of research and development is equivalent access to important centers of Japanese technological development. There is an important difference in the way our two countries pursue scientific research. In the United States, the great universities

are a major setting for important R&D. Where in Japan is the equivalent research taking place? We suggest that U.S. firms need access not to Japanese universities, but to the great corporate research laboratories, the research lab system of MITI's Agency of Industrial Science and Technology and the Nippon Telegraph and Telephone lab system. Japanese universities are quite separate from Japanese industry and are not noted for consistently strong applications or basic research. Japanese government labs that focus on commercial technologies and corporate research centers are the more appropriate comparison to American universities.

Today, significant numbers of Japanese graduate students study at these institutions and at least one group of informed U.S. observers has estimated that over 80% of the students pursuing scientific and engineering post graduate work at U.S. institutions are funded in whole or in part by Japanese companies.

(3) Steps should be taken to ensure that an open telecommunications, computer equipment, systems and software market exists in Japan, open to all companies on an equal basis.

(4) The activities of the *shingikai* (government advisory councils) should be opened to foreign access for information purposes, and foreign commentary should be actively solicited. In addition, the various special associations, research centers and working groups devoted to a host of technological developments, ranging from banking communications to optoelectronic devices, should be opened to foreign participation.

(5) Our Japanese friends truly need to develop a means for U.S. companies to provide timely commentary on legislative, regulatory and industrial policy decision-making that has a direct or indirect impact on their ability to compete in the Japanese market. The government of Japan and Japanese companies take an active part in the U.S. policy-making process. Japanese efforts range from lobbying against the unitary tax in California to testifying before the Congress and approaching the Department of Defense with technologically excellent unsolicited proposals. We should add that concerned Americans believe that the Japanese provide a useful perspective and important service in indicating their desires and concerns. We urge Japan to continue to do so. But we believe that it is equally important that U.S. companies be able to do the same in Japan.

Recently U.S. businessmen's opinions were sought with regard to the New Tele-

communications Law which became effective on April 1. While these meetings with the Ministry of Posts and Telecommunications were not always productive from an American businessman's point of view, we applaud this important step forward to discuss our concerns.

Moving from rhetoric to real discussion

There has been a great deal of rhetoric exchanged between Japan and the United States during the past years on the matter of trade and investment barriers. It is true that Americans say that they would like to see such barriers fall, but they will not have their wish until a consensus exists between both countries as to the need for identifying and actually reducing them. Many of us have listened to the words from both sides in bilateral trade discussions. You probably have also been as frustrated as I have been when it appeared that in some way, one side was not fully accepting what the other side was saying. There always seem to be unstated assumptions and premises on both sides which underlie what was said, but that were not part of the experience of the other side. Consequently, while both sides were speaking honestly and with goodwill, they were actually talking past each other, frequently using the same words with quite different meanings.

We believe that there is a considerable risk to our long-term relationship if we do not identify objectives, set goals, develop strategies and move forward quickly and sincerely to adjust the disequilibrium that exists between our two societies.

We urgently need to establish reasonable, fair, transparent, and equitable "rules of the game" and to enforce these rules fairly. I firmly believe that the more we integrate the two high-tech economies, the more we will diminish frictions and enhance cooperation beyond the boundaries of high technology in other economic, political and social fields. It is our hope that some of the suggestions we have offered may serve as models for introducing a greater degree of cooperation between our communications, high-tech industries and the two governments. ●

*Carterphone is the name of a company that brought its suit against AT&T before the U.S. Supreme Court in the late 1970s. The court ruled that the FCC had to allow for the inclusion of non-AT&T equipment in the AT&T system.