Going Global Without Going Broke

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Occasional Paper No. 5

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This paper originated as a lecture given on November 26, 1991 at the Columbia Graduate School of Business as part of the Japan Distinguished Business Leaders Lecture Series, co-sponsored by the Center on Japanese Economy and Business and the Japan Business Association of Columbia University.

Occasional Paper Series
Center on Japanese Economy and Business
Graduate School of Business
Columbia University
November 1991
It is a great honor for me to be here this evening. I want to thank all of you for giving me this opportunity, and, in particular I want to thank two people.

Akihiko Funaoka, president of the Japan Business Association, and Professor Hugh Patrick of the Columbia Business School. Both have been very helpful in making my appearance here possible.

Thank you, gentlemen.

I must admit I always feel a bit nervous when I speak before graduate students -- and their professors.

It sounds impressive when you hear that I'm a graduate in economics from Keio University. But in fact, I was not a very good student. In my college days, I was much more interested in American movies than I was in classes and textbooks.

I know you've all heard about how tough the Japanese educational system is. And it is tough. In elementary and secondary school, we have to work very, very hard.

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But not in college. College is the big secret. It's a four-year vacation. In Japan we feel that college students are entitled to it. In between 12 years of hard work in school and a lifetime of hard work on the job.

I let you in on the secret so you'll know why I get nervous when I'm with people who have had a real college education.

So don't expect an academic lecture from me. I didn't learn much about economics in college.

On the other hand, in the forty years since then, I have learned a few things about international business.

I learned them as a salesman who first came to this country in 1954 with two suitcases full of very good products that no one wanted to buy. It took me almost two years to start selling my first Minolta cameras.

It was a wonderful way to learn about market-driven demand, consumer research and the necessity of adapting products for export.

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Many of my colleagues from other Japanese companies
had a similar education in those days. We learned
a lot about international markets, and many of us
went on to become high officials in our firms.

I wish there were more people in American
manufacturing firms who had a similar education.

Not long ago I attended a meeting of a charitable
organization at the offices of a bank overlooking
Fifth Avenue and the skating rink at Rockefeller
Center.

The beautiful room we were in, with its wonderful
view, used to be the board room of the Singer
Sewing Machine Company.

When I heard that, it made me very sad. What had
been the board room of a major American
manufacturing company is now the board room of a
bank.

In many countries of the world, the name Singer
used to be the word for sewing machine -- the way
Gillette is the word for razor in Arabic and several
other languages.

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Now, if you want to see a Made in the U.S.A. Singer sewing machine, you have to go the Smithsonian Museum in Washington -- or maybe to the attic in your grandmother's house.

All the sewing machines today are made in places like Japan and Korea.

At the Smithsonian, you can see all kinds of wonderful American inventions and manufactured products than once dominated world markets.

At the Smithsonian you can even see the first camera ever used in space -- a Minolta Hi-Matic. But Minolta still makes cameras. Singer doesn't make sewing machines. Hoover doesn't manufacture vacuum cleaners. RCA doesn't make television sets.

In fact, RCA doesn't even own the RCA building. And the Singer board room belongs to a bank.

I have nothing against banks. In fact, like everybody else who pays taxes in America, a lot of my money goes to keeping banks in business.

And I realize that both America and Japan have become post-industrial societies.
There is merit in having some of our manufacturing done in countries other than our own.

Minolta, like other internationalized companies, manufactures some of its products in countries where costs are lower than they are in Japan.

But there is no merit -- or wisdom -- in letting the control of the manufacturing process -- and the quality of our manufactured products -- get away from us to the extent that America has.

There are fundamental differences in the way Japan and America have faced the globalization of industry. My own life might serve as a metaphor for these differences.

I have lived in this country far longer than I have in Japan. I have become Americanized, but, as you can tell from my accent, I am still very Japanese.

Minolta sells more cameras and copiers in this country than we do in Japan. And Europe is our fastest growing market. Like other Japanese companies, Minolta operates on a global basis.
The successful globalization of major Japanese corporations is, to a degree, the result of our handicaps.

Japan is a relatively small, densely populated island nation. We rely almost entirely on fuel imports to keep our factories running, to power our cars, to heat our homes.

To earn the foreign currency we need to pay for those imports, we must export heavily.

In addition, because our domestic market is relatively small, we need foreign markets to keep our factories working at cost-efficient levels.

These economic factors force Japan to think globally. Oddly enough, the United States, which certainly thinks globally in political terms, is relatively provincial in its economic thinking -- at least at the corporate level.

It's easy to see why. The United States is by far the world's biggest and richest market.
For many years, most American firms were content to concentrate on meeting domestic needs. It's only in recent years, as foreign competition has increased, that American firms have battled harder for exports.

Long before Japan, however, American firms went global in terms of opening factories and investing in foreign countries.

The American news media have given considerable coverage to recent Japanese investment in this country. But the facts remain that the United States is by far the world's biggest investor in foreign countries. And Great Britain, not Japan, is by far the biggest foreign investor in America.

Minolta is perhaps an extreme example of Japanese dependence on exports. Fully 80 percent of our production goes to export, the highest export ratio of any company listed on the Tokyo stock exchange. But we are not as truly global as we might be.

The United States is by far our biggest market. Europe is growing rapidly.
Hong Kong has been a big market for us for many years. But it is only recently that, like most Japanese companies, we have begun to sell more heavily in other Asian markets. We also do very little business in Africa.

In addition to our heavy export marketing, we do some of our manufacturing in Malaysia, Brazil and Germany. We even have a small toner plant here in Goshen, New York.

But Minolta remains committed to very traditional Japanese ways of doing business.

We are still more committed to the science of manufacturing than we are to the art of the deal.

We remain more committed to long-term results than to a quick return on investment and the tyranny of the quarterly report.

In this way, too, we are very different from Americans.

Why is it that among the buzz words of our times "quality circles" are associated with Japan and "junk bonds" are viewed as an American invention?

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Quality versus junk. Manufacturing versus financial deals.

One reason I had so much trouble trying to sell my wonderful Minolta cameras when I first came to this country was that Japanese products in general and Japanese cameras in particular had the reputation of being junk -- or toys.

We had a bad reputation to overcome. And it took us a long time to do it. But we were willing to take a long time to succeed in the global market.

American products at that time had a great reputation. Yes, America had given the world the sewing machine, the vacuum cleaner, the safety razor. But also the automobile, the airplane, the computer, the photocopier -- just about all of the products that we take for granted in our homes and on our jobs.

What has America given us lately?

Junk bonds? The leveraged buyout? The savings and loan bailout?

Is Japan so very different?
Yes. We are very different.

We do have our financial and political scandals. We also have a very inefficient retail distribution system.

Like America, we have a very inefficient system of farm subsidies, particularly for rice growers in our case.

We have our problems and shortcomings. But when it comes to the globalization of the economy, we understand what's going on.

And we are committed to taking the patient, long-term approach necessary for success. In this respect, we are very different from what I see at work in America.

If I may make a bad play on words, it is the difference between the fast buck mentality and a patient yen for success.

The fast buck versus the patient yen seems to sum up differences between America and Japan at all levels -- from top management to entry level workers.

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Upward mobility motivates people in both countries. But in Japan, we view upward mobility as a slow climb up the corporate ladder within one company.

Americans are too impatient for that. Here, upward mobility often involves changing jobs and taking advantage of the tremendous opportunities Americans have for social and geographic mobility.

Even in marriage, Americans seem be wed to the short-term. One-half of all marriages in America end in divorce. In Japan, the divorce rate is growing, but it is still under 10 percent.

Americans seem willing to change their jobs, or their marriage partners, as often as they change their socks.

In Japan, we are more patient -- with marriage partners, with careers and with corporate strategies.

Life-time employment carries with it a two-way sense of loyalty between employer and employee. Success for the employee grows from success for the company. And the success of the company grows from the efforts of its employees at every level.

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But life-time employment is only one side of the coin, and its extent and effects have, I believe, been somewhat exaggerated.

On the other hand, what might be called "life-time investment" has not been so widely discussed.

In the case of Minolta, for example, only about 20 percent of our stock is likely to be traded on the Tokyo stock exchange.

In general, about 70 percent of the stock in major Japanese companies is held by institutional investors. Most of this stock is very closely held by the keiretsu, or convoy, that is made up of a manufacturer, its banks, trading companies and major suppliers.

This stock rarely changes hands. Which means that our stockholders have a loyalty that parallels the loyalty of workers who benefit from life-time employment.

In fact, the relationship between life-time employment and what I have termed life-time investment deserves closer study.

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I suspect that it is more than coincidence that life-time employment tends to be found only in those major companies that are listed on the Tokyo stock exchange. Smaller companies are less committed to life-time employment.

There may be an interesting thesis for someone at the Center for Japanese Economy and Business on the importance of life-time investment in Japan -- and its relation to life-time employment.

Because stockholders in major Japanese companies tend to be our business partners, they regard their investment almost as a form of insurance, an asset rather than a liability.

Investments are made, not for speculation, but for a long-term commitment of capital with the expectation of a reasonable return on investment over the long haul.

This investment approach has important implications for long-term global strategy.

It liberates the Japanese corporation to pursue international markets with the patient, long-term strategy that global markets demand.
And it liberates top-level management from the pressures of hungry stockholders and critical stock analysts.

In addition to the benefits of life-time investment, Japanese corporations also benefit from a unique relationship with their banks. To a far greater degree than is true in America, Japanese banks are a source of capital through loans.

Japan's high rate of savings creates ample funds for borrowing at relatively low interest rates.

The combination of life-time investment and low-interest bank loans gives Japanese corporations a financial advantage over their American competitors. This advantage is often overlooked by analysts in search of reasons for Japan's competitive edge.

Capital formation in Japan also benefits from government policies which discourage a high rate of consumption and of consumer borrowing while encouraging a high savings rate. In the United States, government policies prevail that are almost the direct opposite of Japan's.
Progressive income taxes -- up to 70 percent with relatively few loopholes -- discourage Japanese from pursuing the very high personal incomes earned by some corporate leaders in America.

Short-term capital gains are also discouraged by extremely high taxes.

On balance, Japanese tax policies provide incentives to savings and disincentives to private debt and short-term speculation.

For many years, Japan's tax-free savings system, known as maruyu, provided a major incentive for Japanese to save. Japanese paid no tax on the interest earned from bank and postal savings accounts.

By 1988, personal savings in Japan had grown to $2.4 trillion. This enormous cash cushion gave banks impressive reserves that could be used for low-interest loans to expanding companies.

Coupled with the high foreign currency reserves that resulted from Japan's trade surplus, Japanese companies were able to go global without going broke.

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According to one estimate, the cost of capital in real terms in Japan is about one-third the cost of capital in the United States.

Money -- low-cost capital -- has been the secret ingredient in Japan's global economic success story. That's the good news.

The bad news is that Japan, reacting to American pressure, changed its tax laws in 1988. We now pay a 20 percent tax on savings account interest.

However, old habits die hard. Despite the new tax disincentive, Japanese have gone right on saving.

According to the International Savings Bank Institute, per capita savings in Japan rose 10 percent last year, to $45,000.

That's still by far the highest rate in the world. Switzerland, that nation of bankers, ranks second with just under $20,000, less than half the per capita savings rate in Japan.

And Japan's rate is more than 10 times higher than the U. S. rate. Among major industrial nations, only Italy has a lower savings rate than America.
One savings incentive that Americans did enjoy -- briefly -- was the universally deductible Individual Retirement Account.

But the IRA tax benefits were dropped in the interest of increasing tax revenues and reducing the federal deficit.

The federal deficit continues to grow, but Americans lost an incentive to save.

By contrast, Americans still enjoy tax incentives on some forms of debt, such as home mortgages. Until 1986, interest paid on many other forms of debt was also tax deductible.

In short, American tax policy has tended to encourage people to save and to discourage people from borrowing.

The advent of home equity loans has made the problem even worse. Although first mortgages are a form of borrowing, home ownership has been a major form of investment savings for Americans.
But the home equity loan creates an attractive form of debt. And many Americans now borrow heavily on their homes.

Partly as a result of such policies, net national savings in this country dropped from 10.8 percent of gross national product in the 1960s to four percent in the 1980s.

That compares to a net national savings rate in Japan of about 21 percent.

Think about it. A four percent savings rate in America compared to a 21 percent rate in Japan.

No wonder Japanese banks can play so important a role as a source of low-cost financing for Japanese corporations.

Particularly in the early days of Japan's export expansion, around the mid-1950s, this was our major source of financing for global operations.

Today our main source of capital for foreign expansion comes from the sale of export products.
This also makes us very different from America in our approach to globalization.

Japan's apparent trade surplus -- I stress apparent for a reason I will discuss in a moment -- Japan's apparent trade surplus earns the foreign currency we need, not only to pay for our fuel imports, but also to further expand our export growth.

America's apparent trade deficit, by contrast, shrinks America's foreign currency reserves, increases the cost of foreign investment and tends to make American corporations more cautious in terms of globalization.

On the other hand, the fall in the value of the dollar has made American manufactured products less expensive in foreign markets. This has increased American exports to their highest level ever, more than double what they were five years ago.

But the trade deficit remains high because of America's endless appetite for imports.

Another big difference between America's approach to globalization compared to Japan's is a tribute to the sophistication of American corporations.
America is far ahead of Japan, or any other country, in the extent of its off-shore sourcing. So extensive and successful have America's multinational corporations been with this policy that I seriously doubt that there is a real trade deficit between our two countries.

In my autobiography, which was published in this country two years ago, I made what I considered a very bold statement.

I said, and I quote "...at present, the United States does not have a trade deficit with Japan. In fact, if we had a better measuring rod, we might discover that there's a trade surplus."

I am more convinced than ever that that is true.

For the past quarter of a century I've been involved in the international marketing of photo and business equipment products. Of necessity, my study of international trade has not been casual.

But I'm amazed that so many business leaders, economists, market analysts and governmental policy makers often base their conclusions on a superficial reading of misleading data.

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I'm not a statistician, but I do know how to count. And I know we can't count on the most widely accepted statistics to give us an accurate picture of what's going on in international trade.

There are several reasons why statistics that show a continuing United States' trade deficit with Japan are misleading.

First, they are measured in current United States dollars, and no adjustment is made for the fact that the value of the American dollar has fallen more than fifty percent in relation to the Japanese yen since 1985.

The value of Japanese and most European goods imported into the United States would have had to fall by more than fifty percent since 1985 for the United States' trade deficit as currently measured to show any reduction at all in dollar terms.

If trade with Japan and Europe actually had fallen fifty percent, the resulting disruption of international trade patterns would have sparked a worldwide depression.
Yet, policy makers, using misleading statistical standards, continue to set United States' deficit reduction goals that, if achieved, would cause an international disaster.

I don't think this is a very effective approach to managing the globalization of the economy.

In 1984, the bilateral United States trade deficit with Japan, measured in dollars, was reported as $31.2 billion.

In 1989, that deficit was measured at more than $49 billion, an increase of 57 percent, as measured in dollars.

But Japanese don't live on dollars. They live on yen.

Measured in yen, the bilateral trade deficit between Japan and the United States showed a slight decrease between 1984 and 1989.

Last year, 1990, the bilateral trade deficit between our two countries fell sharply to about 32 billion dollars. For the first half of this year, the deficit ran at about the same rate.

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But preliminary figures for recent months indicate that the deficit may again be on the way up.

We are still talking about the apparent deficit, measured in dollars.

However, because the dollar is the internationally accepted medium of exchange, Japan, like most nations, reports its own trade figures in dollars.

As a result, even Japanese trade officials are defensive about the United States' apparently still very high trade deficit with Japan.

Since my whole professional life has been built on international trade, I take these data distortions very personally.

The dollar-based data used to measure international trade are additionally misleading because no adjustment is made for the price increases that Japanese companies have been forced to make to compensate for at least part of the losses they've suffered.

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But in measuring the trade balance by current standards, we account for neither the fall in the value of the dollar or the increase in the cost of imports, nor for any corresponding decrease in the cost of American exports.

My own guess is that such adjustments would cut the apparent American trade deficit at least in half.

Competition for market share forces Minolta to a level of restraint in our price increases that has cut severely into operating income. But some American industries don't show comparable restraint. Take autos, for example.

The American auto industry had an excellent opportunity to win back market share from the Japanese manufacturers who were forced to increase prices. But the American firms, lured by the opportunity for short-term profits, took advantage of the rising prices on Japanese cars to raise their own prices.

As a result, they did not regain market share and imports of Japanese and other foreign cars went right on increasing.
That's another big difference in the way American multinational firms do business compared to the way Japanese firms operate in the global market.

The only effective restraint on American imports of Japanese autos has been the system of voluntary quotas adopted by Japanese manufacturers under pressure from the United States' government.

Americans continue to be willing to pay heavy price premiums for Japanese cars. And the dollar volume of Japanese auto imports has gone up even more because the manufacturers have begun exporting more luxury cars to the United States.

In addition, the Japanese auto manufacturers expanded their production facilities in this country, which helps them overcome the effects of both the weaker dollar and the quotas on the number of vehicles they can export to the United States.

In the auto industry, at least, the overall effect of the weaker dollar has been to increase Japanese product penetration in the United States, exactly the opposite of the intended effect.
Another of the major drawbacks in currently accepted trade statistics is that they measure only goods actually shipped from one country to another, but don't reflect overall product penetration that includes, for example, products manufactured or sold by American firms operating in Japan.

In an important study based on 1984 data, Kenichi Ohmae showed that in terms of total product penetration, including exports and products produced overseas, Japan and the United States were just about equally balanced.

Ohmae, in a 1987 article in *The McKinsey Quarterly*, showed that United States exports to Japan in 1984 totaled $25.6 billion, but the 300 largest American firms operating in Japan, out of a total of 3,000, sold another $43.9 billion in American products in Japan for a total product penetration of $69.5 billion.

Japan's exports to the United States that year totaled $56.8 billion, but Japanese firms operating in the United States added only $12.8 billion in Japanese product penetration in the United States for a total of $69.6 billion.
If only exports and imports were measured, the United States trade deficit with Japan would appear to have been $31.2 billion.

In terms of total product penetration, the deficit falls to practically nothing — only $100 million.

Even that's only part of the picture because American firms in one recent year earned $800 million in licensing fees from Japanese firms for the rights to manufacture another $60 billion in American brand-name goods.

And there are another 2,700 American firms in Japan whose sales weren't even included in this study.

Overall, it appears rather clear that, if trade data were adjusted for currency devaluation, price inflation, and total product penetration, America would show a trade surplus with Japan. But it will take a major re-education effort to convince most policy makers of that probability.

The figures I've been quoting are based on 1984 data. So they are badly out of date. To the best of my knowledge, neither Kenichi Ohmae nor anyone else has updated that study.

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This might be another subject worthy of investigation by an enterprising graduate student.

I wonder if I could do some business here as a faculty adviser?

International trade is too important for us to rely on outmoded standards that don't take into account the globalization of production.

For example, a Chevy Spectrum, made in Japan by Isuzu for its joint venture partner, General Motors, has an American nameplate. But is it an American car?

Is a Toyota Camry, made in Kentucky by American workers, a Japanese car? And how should either of those cars be counted in figuring out America's balance of trade with Japan?

To me, discussing the trade balance between Japan and the United States has become about as significant as discussing the trade balance between New York and New Jersey.

I earn my living by working in New Jersey. My wife goes shopping in New York. It all balances out.
American business and political leaders and the
mass media continue to be highly critical of
Japan's trade policies.

I respect the sensitivities of the people of
America on the issue of trade with Japan. There is
more that Japan can do to open key markets, such as
financial services, to foreign firms.

Japan, however, already has taken many steps to
open its markets. But most of the resulting
increase in imports has come from other Asian
countries and Europe, not the United States.

Since the yen began to climb in value in 1985,
Japan's total imports increased 40 percent.

However, most of the increase has come from Hong
Kong, South Korea, Singapore, Thailand, Taiwan and,
to a lesser extent, Malaysia.

Imports from Europe have also been increasing,
particularly luxury cars and, I hate to admit it,
cameras.
Back in 1980, imported 35 millimeter cameras accounted for only 7.7 percent of the market in Japan. By 1987, that was up to more than 46 percent.

That's not too bad for Minolta, since most of our production is for export. But it does tell you something about the relative openness of the Japanese market. Even the camera market.

The market share of imported sewing machines also went way up, from less than nine percent to more than 30 percent.

But none of that increase came from sewing machines made in America.

Which brings us full circle, back to that wonderful room in Rockefeller Center that used to be the board room of the Singer Sewing Machine Company and now belongs to a bank.

Perhaps by now, some of you may agree with my original thought, that, yes, there is something wrong with the way America has let its manufacturing base decline.

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And, yes, there are some problems in the way America has managed its role in today's global economy.

Perhaps you may have also picked up some ideas about what America might do to improve its position.

I hope so. Thank you.