

Center Activities and Miscellaneous News in 2012

After finishing successfully beyond our original expectation the five-year project of hosting the NASSSS (Nagoya American Studies Summer Seminars, 2007–2011), at the start of the school year of 2012, from April 2012 to March 2013, the Center for American Studies made an overall plan for our annual academic activities. In the first annual Center Research-Staff meeting held on June 6, we decided to start several new projects. On the following pages, we would like to make public two sets of these events among others. The first event was providing an opportunity for the students and the local public to listen to the experiences of the our Eibei (the Department of British and American Studies) OB/G's in the United States, especially in the early age of Japanese companies' participation in the U.S. market and society over 1970 through 1990. The second event is Japanese acceptance of American popular culture. As the initial part of this event, we focused on two amateur bands who have played bluegrass music for three or four decades in the Tokai area.

KAWASHIMA Masaki, Director of the Center for American Studies

1. Listening to the Experiences of Japanese Business Persons Resident in the United States in the Early High-yen Period of the 1970s through the 1990s

(1) Introduction

KAWASHIMA Masaki

On the afternoon of October 24, from 15:15 to 17:00, the center invited two Eibei (the Department of British and American Studies) OB's, Mr. SATO Ikuo and Mr. ASANO Tadao, who graduated in the spring of 1970 just before the "Nixon Shock." Both lived in the United States from the 1970s through the 1990s, in the period of an increasingly strong yen. This prompted Japanese manufacturing companies to establish subsidiary corporations to sell their products directly in the United States. Among the first resident business persons, there were not a few of our graduates including Mr. Sato and Mr. Asano. Both of them have now retired from local companies in the Tokai area. Mr. Sato was working for a leading subsidiary company in the auto industry and Mr. Asano was

working for a renowned stationary producer. While pursuing each company's goal of making as much profit as possible, they tried to assimilate into the local communities in the United States during the age of "Japan Bashing." The center would like not only to give a rare opportunity for students and the local public alike to find a way out of "the lost decades" of Japan's economy, but also to leave records of their precious historical testimony about real cultural exchanges by ordinary people between Japan and the United States. The following are the contributions by the two above-mentioned eyewitnesses.

(2) A Brief History of the Japanese Car Industry as Seen from the Standpoint of Car Exports to the U.S.: How Japan Started Car Exports to the U.S. in the 1960s and then Shifted to Local Production in the U.S.

SATO Ikuo

Preface

After graduating from Nanzan University in 1970, I went into the automotive business. I obtained a job at the Sales Department of *Aisan* Industry Co., Ltd. (hereinafter referred to as *Aisan*),¹ one of the major automotive component suppliers in Japan.

Aisan was originally established in Nagoya as a subsidiary of Toyoda Automatic Loom Works Co., Ltd. (hereinafter referred to as *Toyoda*) for ordnance manufacturing in 1938 on the eve of World War II. However, when the war finally ended, it could not produce these items anymore. It had to go through very difficult and chaotic times in order to find a new line of business to survive. *Aisan* was lucky, for somehow it could manage to find a way to manufacture and supply automotive components to *Toyota* Motor Manufacturing Co., Ltd., (hereinafter referred to as *Toyota*) another subsidiary of *Toyoda*.

TOYODA Kiichiro, the son of TOYODA Sakichi who founded *Toyoda*, had been crazy about starting his new business. His father developed automatic looms and led *Toyoda* to become one of the major producers of automatic looms in the world. So he wanted to make something new on his own, and make it into a well distinguished business in the world, too. He seemed to have a long-term perspective and saw a great future for automobiles. Although there was opposition within the company to his new venture, he started *Toyota* as a subsidiary of *Toyoda* before the war. He wanted to produce passenger cars; however, the war forced him to concentrate on the production of trucks instead of passenger cars. *Toyota* therefore produced more trucks than passenger cars during

¹ *Aisan* is located at 1-1, Kyowa-Cho, Obu-City, Aichi-Prefecture, 474-8588 Japan with overall consolidated sales of 149.9 billion Japanese yen in fiscal 2011 and a workforce of 8,400 employees worldwide.

the war. The coming of peace changed the environment completely and encouraged him to start the production of passenger cars again. But the initial production levels were still nothing to speak of.

After World War II

It is not well known that automobiles require quite a number of, and wide variety of, components. For example, it is said that a new car, introduced to the market nowadays, is made of approximately 20,000 to 30,000 components depending on the model. And car manufacturing companies are able to produce only 20 to 30 percent of all the required components themselves. Other components such as, glass, sheet metal, plastic, mechanical and electronic components, have to be sourced from other manufacturers. In other words, car manufacturing is not possible without automotive component suppliers and material producers.

It was really lucky for *Aisan* to be able to restructure its line of business from ordnance to automotive components after the WW II. Thanks to its close equity connection with *Toyoda*,² it could succeed in securing the business to produce automotive components, such as carburetors and fuel pumps for *Toyota*. Thus *Aisan* managed to survive the difficult post-war period.

Though the production situation for cars and trucks in Japan had been quite bleak right after the war, the situation changed overnight. When the Korean War broke out in 1950, unexpected war demand for automobiles and components helped Japanese auto manufactures to solidly establish their business base and expand their operations. At the same time, the domestic automobile market was beginning to gradually develop along with the expansion of the Japanese economy in general. This made it possible for car manufacturers to further concentrate their efforts on the development and production of new automobiles.

In the early 1950s, *Toyota* sent one young engineer, TOYODA Eiji, a nephew of TOYODA Kiichiro, to the U.S. to see and study what high-volume automobile manufacturing was like. Fortunately he was warmly received by Ford Motor Company and Ford kindly permitted him to study various production processes at its River Rouge Complex in Dearborn, Michigan. Before he was sent to Ford, he firmly believed that *Toyota* was an automobile manufacturer. However, the total amount of production from the inception of the company had not yet reached 5,000 vehicles, while Ford at that time produced more than 8,000 vehicles per day. He was astonished to see this difference and their production processes at work. He had to admit that *Toyota* was not qualified to be listed as a world-class automobile manufacturer. Studying energetically, he decided to someday make *Toyota* one of the leading car manufacturing companies. Ford did not know what

² As of April, 2012, *Toyoda* owns approximately 9% of *Aisan*'s outstanding stock, while *Toyota* owns 33%.

the young engineer from the war-torn far-eastern country had dreamed about and, surely, never thought that the small company, for which he worked, would become one of its most formidable competitors afterward.

One of the directors of *Aisan* in the 1980s, who had long worked as a general manager in the production department at one of *Toyota's* plants and later joined *Aisan* as a director of manufacturing³, told me an interesting anecdote to describe the engineering level of cars produced in the 1950s. In those days, they did not even know that the brake timing for the rear brake system of the vehicle should be slightly delayed. Otherwise, when the driver presses the brake pedal to stop the car, its power is transmitted through the hydraulic system to the brakes on each wheel at one time. Then the car suddenly loses control, and in the worst case, can be overturned. In the case of a bicycle, wise riders learn this fact through their experience and instinctively delay pulling the rear brake. *Toyota* did not realize this until its vehicles overturned several times on the road and it became quite a serious issue. Wondering why, they disassembled American vehicles, checked their braking systems and finally found a special valve installed in the hydraulic system, which enabled this timing delay. This episode showed eloquently that cars made in the early 1950s were far from the dependable and reliable level necessary for everyday use.

Early Years of Car Exports to the U.S.

As was the case for other Japanese industries in the 1950s, demand from the domestic market was not sufficiently large enough for real growth of the automotive industries. The domestic market, which was closely protected from foreign competition by strict import regulations imposed by Japan's conservative government, was surely lucrative, but still quite small. They needed overseas markets for further expansion. In the 1950s and the 1960s, the most prosperous market in the world was, by far, the U.S. market. So it was quite natural for Japanese car manufacturers to try to participate in the U.S. automotive market. In the beginning, they did not realize at all that U.S. customer demand for car performance, quality and price level was extremely high. By the late 1950s, *Toyota* had already overcome the performance and quality related problems mentioned above and set out to export its cars to the U.S. market.

Here they had to confront other difficulties. They had to learn about the fact that U.S. customers' demand was much higher than that of Japan. They had

³ Transfer of personnel happens quite often between *Toyota* and its suppliers. In most cases, *Toyota* employees, capable enough in the area in which they specialize but not regarded as future directors, are sometimes recommended to leave *Toyota* at an earlier than normal retirement age and move to component suppliers as directors where they can exercise their expertise. This is normally regarded as quite beneficial to all the parties concerned: *Toyota*, suppliers and the individuals involved.

already built up some kind of confidence in their cars by offering newly designed cars in the domestic market which were welcomed warmly by Japanese customers. This led them to make serious errors. They thought quite carelessly that cars marketed in Japan, with some minor changes to meet some U.S. traffic laws and regulations, would be welcomed as they were in Japan. They began to export some cars to the U.S. and started selling them in California. Initial customer response was not so bad, for there were actually no small cars except the Volkswagen and a few European cars at that time.

But soon they had claims from various customers saying *Toyota* cars would not go at all on “Baker Hill”, which lies between Los Angeles and Las Vegas. Baker Hill, at first look, is a long and seemingly flat road in the California desert, but in fact, it is an uphill road with the grade toward Las Vegas lasting several miles. Other cars, such as Chevrolet, Ford, Chrysler, and even the small Volkswagen, kept going up this hill without any problems. But *Toyota* cars, due to their insufficient radiator capacity, soon became overheated and their engines, no matter how hard the driver pressed the accelerator pedal, died sheepishly on the hot desert road. Suppose yourself that your car stalled suddenly on a desert road under the relentless sun. This was no laughing matter, rather a matter of life and death. These kinds of customer claims and responses gave precious lessons to *Toyota* and other Japanese car manufacturers. And they learned them surprisingly quickly. By the mid-1960s, they had gradually penetrated into the U.S. market, though most of their sales were still limited to the West Coast market. Nissan firmly established their name as a producer of small but dependable pickup trucks under the *Datsun* brand and *Toyota* became known as a producer of small cars with high quality.

Rapid Growth in the U.S. Market

By the early 1970s, small car and truck exports from Japan to the U.S. had grown by leaps and bounds. U.S. car manufacturers, especially the Big Three, traditionally offered only big cars to their customers. But the time was changing. They failed to see the big demand from post-war baby boomers coming to age and the rapid increase in urban residents. Those people did not consider big cars made for persons with big families. Instead, they sought small but comfortable cars for their first and second car needs. This new social phenomenon pushed up the demand for small cars. But the Big Three could not satisfy these requirements because they did not have real small cars at hand. What they believed to be small cars were hastily introduced to the market; but, they were often still too big and lacked the desired quality and performance. Along with the increase of the U.S. export vehicles, so-called *Motorization* had occurred in Japan at almost same time. Until the late 1960s, the car was not yet affordable for common people. But rapid economic growth realized in the 1960s and the early 1970s made it an item, still somewhat luxurious though, which middle or upper class people

managed to buy. As mentioned before, I joined *Aisan* in the spring of 1970 and my first monthly pay was 39,000 yen. And as a practice in those days, new employees, including college graduates, were forced to experience various manufacturing jobs at almost all automotive parts suppliers in Japan. Companies said this was a part of their on-the-job training program. But, in fact, it was quite apparent that this was implemented to help them meet the increasing demand for both the domestic market and exports, that is, the U.S. market. I was placed on the assembly line for carburetors, which were our major products at that time. Work was quite simple and monotonous, but required accurate and speedy operations. After a month or so, when I got accustomed to the work speed, I got bored with my work. During those instances, which were probably only a matter of one or two seconds at a time, I thought about how many months of work I would need to buy a new car with my pay. The Corolla, which was the best-selling car in Japan in the early 1970s, cost me approximately about 12 months of salary with 40 hours of overtime. But during those 12 months, I needed to pay for my food, clothes, transportation and other miscellaneous daily expenses. Then it seemed to me that a new car was still a dream for the common man even though he was engaged in the production of vital automotive components, but not an impossible dream.

***Aisan* as a Leading Component Supplier and its Initial Exports**

In the 1970s, thanks to its business with *Toyota* and other domestic car manufacturers, *Aisan* became known as the largest carburetor supplier in Japan. Its product line was diversified by adding engine valves and several other components in the late 1960s. Engine valves were formerly produced at *Toyota*, but their production, along with various production equipment, was transferred from *Toyota* to *Aisan* when one of *Toyota's* general managers was dispatched to *Aisan*. It was believed that the engine valve business was a kind of bridal gift, for this person became one of the senior directors at *Aisan*. Anyway, with the production volume increase and the addition of new products, *Aisan* became quite prosperous. Under these circumstances, *Aisan* started thinking about exporting its products to the U.S. Probably the logic was quite simply this: "If a car made in Japan can be sold well, why not automotive components?" Since the late 1960s, *Aisan* sent one carburetor design engineer to Los Angeles, CA. He was stationed in the Quality Assurance Department of *Toyota* Motor Sales, U.S. A., Inc., the sales arm of *Toyota*. However, he worked with *Toyota* and was engaged in resolving quality problems associated with carburetors and other *Aisan* products in the field. He was not qualified to conduct any marketing studies, nor other necessary sales activities, which would enable *Aisan* to export its products.

The Director of Sales at *Aisan* in the 1970s, who later climbed the ladder to become president and then chairman, had a long range view for the export of its products. So, in 1970, he hired a person able to do a study of the U.S. automotive

market and the actual marketing of its products. I was hired to do that job. After three years of training, which was mostly dedicated to the actual sales activities of *Toyota*, I was sent to Chicago. In those days, many other first tier automotive suppliers to *Toyota* and Nissan also wanted to take part in the huge U.S. automotive market. But most of those suppliers could not afford to maintain their own offices in the U.S. So, the Japan Automotive Parts Industries Association (JAPIA), a trade organization composed of almost all Japanese automotive parts manufacturers, set up an office in Chicago. Automotive suppliers who were members of JAPIA and wished to have a sales and marketing person in the U.S. could rent a small desk in that office. All the necessary administration and secretarial work was handled by JAPIA. The person sent by the suppliers did not need to worry about these things and could concentrate their time and effort on the promotion of their products to be exported. It was a kind of “apartment office” for automotive suppliers’ sales persons and administered by JAPIA. Through the 1970s, the total number of sales persons sent by various suppliers in Japan, was kept at its maximum capacity of 15 persons. Each person, who was a representative of their respective company, started almost from scratch to develop his business in the U.S. Even at that time, the automotive business was one of the toughest businesses and their efforts were not easily rewarded. But they worked hard and gradually secured their businesses. Their first business was normally in the replacement parts market. Direct parts supply for the production needs of car manufactures is called OEM (Original Equipment Manufacturing) and is extremely difficult to obtain because of fierce competition among many huge and long experienced parts suppliers. The same conditions existed for Japanese parts suppliers at that time in the U.S.

The Appreciation of the Japanese Yen against the U.S. Dollar

The strong yen impacted all of Japan’s export businesses. *Aisan* was no exception. Though I was sent to this joint office run by JAPIA in 1973, the first two or three years were mostly spent making studies and experimenting with initial sales activities to provide replacement parts to suppliers, lawn mower and other engine operated farm equipment manufacturers and one or two car manufacturers at most. However, these activities were seriously set back by the sudden appreciation of Japanese yen. In 1975, the yen, which had been fixed at 360 yen for one U.S. dollar after WW II, was floated, in order to better reflect the actual strength of both currencies and balance the selling and buying situation in the foreign currency market. With these unprecedented changes in post-war history, the U.S. dollar plummeted against the yen and its related effects, which were labeled together as the “*doru-shock*”, meaning dollar depreciation impact, were quite extensive and serious for Japan. Especially it caused a devastating impact on Japanese export industries in general.

In the late 1970s, the exchange rate between the U.S. dollar and the Japanese

yen dropped below 200 yen per dollar. Goods produced in Japan lost one of their most critical competitive edges, low cost, in the U.S. market in the blink of an eye. However, Japanese car manufacturers and component suppliers, in other words, the Japanese automotive industries as a whole, were not defeated by this sudden appreciation of the currency. They soon started striking back, step-by-step. It was not a dramatic recovery at all, but a gradual and inconspicuous one. They concentrated their efforts in order to regain their competitiveness. Interestingly enough, the Japanese did not resort to a simple but effective “price cutting” strategy. They knew that price cutting, in order to maintain their hard-gained market share in the U.S., would be effective only for a short period of time and could not be kept up for a long time. They were afraid that it would not be good for their long-run business. They wanted to have other countermeasures, which would last for a long time and give better results. They strove to attain overall cost cutting through quite a variety of approaches. They used fundamental approaches, such as VA (Value Analysis), VE (Value Engineering), and IE (Industrial Engineering) placing their emphasis on productivity improvements. And these efforts were not limited to a group of engineers and key personnel in charge, but they were conducted by almost all employees within the organization. Even the assembly line workers contributed toward the goal by vigorously participating in *Kaizen* (Improvement) activities directly associated with their daily jobs. Generally, the companies encouraged employees to contribute their unique ideas and suggestions. They rewarded employees with payment of half of the savings expected to be attained by the implementation of their ideas before they brought forth actual results. In these struggles, productivity-oriented production systems, such as the now-legendary *Toyota* Production System, the Just-In-Time System, the *Kaizen* movement and the TQC (Total Quality Control System) were born and firmly took root in Japanese automotive industries. These all-out efforts made it possible for Japanese car manufacturers and parts suppliers to recover their competitive edge against the rapid and continuous appreciation of yen.

At *Aisan*, almost identical activities to those mentioned above to regain its competitive position were carried out. It was amid all these activities that the initial export business to the U.S. started in 1976. It was the supply of replacement carburetors and carburetor repair kits. Then it was followed by a contract to supply motor cycle engine valves for the replacement market. Step-by-step and year-by-year, market penetration was accelerated and the products exported to the U.S. expanded to include automotive engine valves for replacement use, engine speed governors and liquefied petroleum gas (LPG) apparatus for industrial engines and so on. However, the overall export value as a proportion of *Aisan's* total sales amounted to only five per cent. In the meantime, thanks to the sales increase of *Taibei-Yushutsu* (imports to the U.S.), components required for cars and small trucks exported to the U.S. by car manufacturers,

overall sales increased substantially. In the late 1970s, Japanese car companies exported almost half of their production and cars exported to the U.S. accounted for three-quarters of their total exports. This shows how important exports to the U.S. were for *Aisan*, even though its direct export sales level was quite limited. This was the case not only for *Aisan*, but also for other automotive parts suppliers in general.

Through the 1960s, environmental concerns, which sought purer, safer air, water and other environmental resources, were becoming common among many people in the U.S. These issues motivated the American congress pass the Clean Air Act in the early 1970s. This gave all car manufacturers quite difficult technological challenges. They had to reduce toxic exhaust gas emissions from the vehicles to the level required by the law; and, this target value was gradually moved to result in cleaner air. In the beginning, it looked almost impossible. Even though it was technically possible, it was believed that it would make the car extra-ordinary expensive and that cars would no longer be available to ordinary people. This new legal requirement for cars and small trucks, in a sense, worked quite favorably for Japanese car manufacturers. Since the requirement was for all car companies selling cars in the U.S., they were not exempted from the law. It was a requirement for all car companies regardless of their nationality. Neither U.S. nor Japanese car companies were exempted from this requirement. They were all treated equal. Since this was a new technical regulation, every car manufacturer had to start from scratch. The Big Three, though they were proud to have a long experience in car production, had no advantages. Japanese car manufacturers, whose history in car production was at most 30 years or so, were placed on the same starting line in this race. Honda was probably one of the first car companies to be able to meet this emission requirement. They developed the "CVCC" engine which has a very unique air-fuel preparation design. Other car manufacturers in Japan followed this trend with their own unique emission regulation countermeasures. Of course, U.S. car companies did not end up empty handed. They also came up with various countermeasures to meet the emission requirements. However, their efforts were mostly dedicated to large cars and engines, at which they were traditionally good. They did not look seriously at the small car segment of the market. They did not have much room to take care of small cars. So the small-car segment was left open to foreign car companies, including the Japanese. It was probably the first time for U.S. car manufacturers to understand the real potential of Japanese car producers. They realized that the Japanese were good at not only making small cars, but also at making technologically advanced, inexpensive small cars. Japanese car manufacturers became real contenders in the U.S. automotive market.

The Japanese yen continued to appreciate against the U.S. dollar throughout the 1970s and the 1980s. Though the exchange rate often fluctuated upward or downward reflecting various economic factors, the long range trend was steadfast

appreciation. In 1987, it dipped under 150 yen per U.S. dollar. This was less than half of the exchange rate in 1973. Every time the yen hit a record-high exchange rate, the Japanese automotive industry was shocked. But they did not get panic-stricken. They had already accumulated experience with strengthening exchange rates. They simply renewed and further tightened their now habitual efforts to lower cost, increase productivity and enhance quality.

The Technology Struggle of *Aisan*

Aisan faced an extremely difficult transition in its product line during the 1980s. Their traditional major products, carburetors, were becoming an endangered species in the automotive world with the introduction of electronic fuel injection systems. Naturally aspirated internal combustion engines, such as the gasoline engine on cars, were traditionally equipped with carburetors. But, newly developed electronically controlled fuel injection systems were gradually displacing carburetors from the market. Carburetors, which mix gasoline with air to supply the fuel/air mixture to the engine, were a product of the mechanical age. Now mechanical things have been replaced with the computer controlled electronic products. At the initial stage, computers were expensive and were not able to perform the functions performed by sophisticated mechanical systems. However, through the development of highly capable integrated circuits and related computer software, computer controlled automotive components drove out mechanical components quite easily. *Aisan* had to restructure its product line drastically in order to survive. During these struggles, it, just as other carburetor manufacturers in the world did, tried to develop electro-mechanical carburetors, which were a kind of hybrid between carburetors and computer-controlled fuel injection systems. But the mass production of integrated circuits and further development of computer software made these hybrids obsolete too.

Car companies, both in Japan and in the U.S., did not jump to the newly developed fuel injection systems. Since they had been accustomed to mechanical carburetors for such a long time, they were quite reluctant to switch over to the new computer controlled systems, because the computer itself had not yet proved to be reliable for use under demanding real-world conditions. They thought that carburetors could survive if they added a simple computer with several sensors. This idea was right in terms of technical feasibility. In 1980s, many car companies introduced an electro-mechanical fuel metering system on their new models. Ford Motor Company was one of them.

Through the 1970s, *Aisan's* business in the U.S. was pure direct exports from Japan. Customers placed an order to *Aisan* in Japan through its office in Chicago and *Aisan*, in turn, exported their products to the customers. This business style presented various problems for its customers. They had to make an import declaration and handle customs clearance. Furthermore, they had to keep some inventory on hand to continue their normal production runs because the time from

placing an order to actually receiving products from Japan took nearly three months. Most customers wanted their business relations with *Aisan* to be similar to that of their long accustomed domestic suppliers. By doing so, they could reduce the paperwork associated with the imports and reduce the necessity of carrying large inventories themselves. To meet these requests from the customers, *Aisan* established its first overseas sales company in Chicago in the early 1980s. And it continued its sales promotion activities to the Big Three car companies, while supplying replacement parts to the U.S. market. And finally its long effort was rewarded.

In the late 1980s, Ford began switching over its fuel metering system from carburetors to computer controlled fuel injection systems. But they thought that a computer aided mechanical carburetor still could perform well enough on their small trucks. In the mid-1980s, they conducted a special carburetor evaluation program called the “World Best Carburetor” contest to confirm the capability of the carbureted engine system for performance and emissions requirements. They encouraged several leading carburetor producers in the U.S., Europe and Japan to participate. *Aisan* was not included among those carburetor manufacturers at first, but happened to be included in the project at the final stage. Careful comparative studies in the laboratory and the field were conducted by Ford using various carburetors from the leading carburetor manufacturers in the world. And, due to its long experience as the largest carburetor manufacturer in Japan and its well established automotive fuel metering systems calibration technologies, *Aisan* was approved as the winner of the contest. Though Ford had, by that time, decided to use computer controlled fuel injection system for its future passenger cars, they nominated *Aisan* as the supplier of carburetor systems for its small truck. *Aisan* started production of carburetors and other related components for the Ford Ranger 2.0 liter truck from the 1988 model year. Ironically, *Aisan*’s carburetor became the last carburetor installed on a Ford engine because Ford completely changed over its fuel metering systems to computer controlled systems thereafter. So *Aisan*’s name was surely remembered as the last carburetor used by Ford. Thus, *Aisan* finally succeeded in its direct export business to one of the Big Three car manufacturers. But this triumph was destined to be short lived. With the increasing usage of computer controlled fuel injection systems on cars and trucks, its carburetor business with Ford came to an end in the early 1990s. In this time period, *Aisan* had to face another serious issue regarding its business in the U.S.

Trade War

In the 1980s, car exports from Japan to the U.S. had to go through quite a tough time. At the end of the decade, Japanese car companies had to switch from the export of vehicles to production in the U.S. In the beginning of the 1980s, the trade imbalance had become extremely unfair for the U.S. The trade surplus

resulting from the export of cars and small trucks by Japan had become huge and it was once even said that the trade deficit of the U.S. as a whole was caused only by the import of Japanese cars. Japanese cars and small trucks had already exceeded the critical line and their market share topped 30 percent. This triggered a wide-spread counter-movement among various sectors in the U.S. At first, the automotive industries reacted bitterly. Not only car manufacturers, but also United Auto Workers at the Big Three and major automotive parts suppliers insisted that Japanese car producers were dumping their cars on the U.S. market, while poorly paying laborers in Japan. They also claimed that, with the recent trend of the U.S. dollar/Japanese yen exchange rate going quite unfavorably against the Japanese automotive business, they were selling their cars far cheaper than the price level faced by consumers in Japan. Sometimes, these extremists went too far by demonstrating their anger by publicly smashing Japanese cars into pieces with a hammer. These incidents were easy enough to report in the newspapers and on television. It prompted both the U.S. Congress and the government to take corrective action against Japan, though it is theoretically a matter of business competition. They demanded Japan not only to curb its car exports to the U.S., but also to increase the import of U.S. goods and services to offset the trade imbalance. It looked like a trade war raging between the two countries. Faced with these demands from the U.S., the Japanese government, as usual, yielded quite easily. It applied strong pressure on its car industries to comply with these demands somehow. Under these strong pressures, the Japanese automotive industries were forced to put “voluntary restrictions” on the number of their vehicles exported to the U.S. market and to purchase both vehicles and various automotive materials/components made in the U.S.

Furthermore, toward the end of the 1980s, labor unions, such as the UAW, and some congressmen representing union workers demanded a much higher local content for U.S. components and services on the vehicles sold in the U.S. This was, of course, intended to secure work for their members and constituents. By stipulating higher U.S. content for cars and trucks sold in the U.S., they could expect Japanese car companies to reduce their exports of vehicles and, at the same time, U.S. car companies not to use foreign made components in their vehicles.

Japanese car companies, though irritated, conscientiously responded to the politically influenced demands of both the Japanese and the U.S. government, and reduced their automobile exports to the U.S. But they did not reduce car exports uniformly. What they did was to reduce the export of low end vehicles and continued to export high end luxury models to the U.S. U.S. consumers did not react as their government and the automotive industry desired. They did not consider buying the big U.S. made vehicles, but flocked to the small but reliable Japan-made small cars, even though they were more expensive than normally available cars because of the grade change.

U.S. car exports to Japan did not succeed either. Forced by the Japanese

government, some Japanese car companies directly imported U.S. made cars into Japan from their counterparts. For example, *Toyota* imported from General Motors and Mitsubishi from Chrysler. Since they knew quite well that U.S. cars were not able to meet the demands of Japanese consumers if introduced to Japan as they were, they negotiated with U.S. car manufacturers and jointly redesigned export models to suit Japanese tastes and actual driving practices. However, despite these various efforts, they did not sell well at all. They were usually too big to park and handle on Japanese roads and were excessively gas-guzzling for gas-conscious Japanese drivers.

Automotive components met an identical fate. Japanese car companies tried very hard to find U.S. made automotive components for their vehicles. They, through their newly established purchasing offices in the U.S., encouraged many leading automotive parts suppliers to respond to their potential demand for competitive and quality parts. However, in the 1980s, most of the U.S. automotive suppliers were not careful enough to understand the psychology of Japanese car producers. Most of them simply believed that their parts, being used by the Big Three, could be easily used on Japanese cars, too. They had no doubt that their products could satisfy the demand of Japanese car producers in terms of design, quality, price and so on, as long as they were meeting the expectations of the Big Three in the U.S. They were somewhat blind to the fact that automotive parts had to be individually designed to meet the specifications of each car manufacturer. They did not realize that they were facing Japanese car companies, not the Big Three. And, since the U.S. government had applied pressure to use more U.S. made components, they took it for granted that their parts could be accepted in Japan without any competition. They did not notice that their products had to meet severe business competition from current and potential suppliers in Japan, either.

In the meantime, U.S. car producers breathed a sigh of relief because of the voluntary curb on Japanese car exports to the U.S. But, here, it seemed to me that they made a fatal mistake. Using this time, they should have concentrated their efforts to develop their own small cars to be able to meet the challenge of the Japanese car companies. There was no question about it. They certainly had both the technical capabilities and a skilled work force able produce competitive small cars. However, the Big Three took a different approach. Instead of developing good small cars to compete against Japanese cars, they shifted their energy to the production of big gasoline engine trucks, which had no competition from Japanese car producers at that time and provided a higher profit to them than normal passenger cars. They might have been forced to show healthy profits on their financial reports by their shareholders, who were believed to be more profit-oriented than Japanese in general. In the meantime, the requirement for higher U.S. content in the vehicles did not materialize. Though the unions and some Congressmen demanded it, the idea did not receive wide-spread approval. This

was due to a certain fact among the Big Three. In order to compete against Japanese import cars, they had already started buying fairly extensively foreign sourced materials and components, some even from Japan as was seen in the case of the *Aisan* carburetor. For example, sheet metal for the car body, which required special qualities to permit easy stamping and to reduce weight, had been imported from Japanese steel mills. If the Big Three had acted as demanded, they could not produce any cars in the U.S.

Japanese Transplants in the U.S.

In the late 1980s, after experiencing a continuous sharp increase of the Japanese yen against the U.S. dollar, there arose strong opposition to Japanese car exports from U.S. car producers and labor unions. There was a demand for higher local content of U.S. parts and services as described above. Japanese car manufacturers finally had to admit that they could not continue to export their cars as before. Then they decided to start producing cars in the U.S. By switching from export to local production, their headaches, such as the exchange rate between the Japanese yen and the U.S. dollar and the trade imbalance could be easily solved. But it was “Easier said than done”. What they had been doing in the past was to produce cars in Japan with a Japanese labor force. They did not have much experience in producing cars in countries outside Japan with a few exceptions.⁴ They were not confident that the same level of quality and productivity could be maintained in the U.S. with U.S. workers. This concern, however, soon turned to be an exaggeration. Anyway, local production of their cars in the U.S. required not only a lot of investment in plant and manufacturing equipment, but also for the workforce to understand the philosophy and procedures of car production that were established in Japan. Plants, machines and various manufacturing equipment were not difficult to prepare because the U.S. was one of the most advanced industrial countries in the world. The big issue was the workforce to produce cars. They were expected not only to perform the given simple manufacturing job, but to carry out quality assurance and other *Kaizen*, meaning improvement activities as well. Workers played far more important roles in the Japanese car industry than machines. They were the keys to higher quality, productivity, efficiency and profit. Because of this, most Japanese car manufactures did not want workers strongly influenced by the UAW. They were afraid that UAW workers were already influenced by the working philosophies and ethics of the Big Three. They were not against the union workers. They simply wanted to have open-minded workers who could

⁴ *Toyota*, for example, had produced their cars in several countries up to this point such as Brazil, Philippines and so on. But the production was quite limited and often they were only slightly better than CKD (Complete Knock Down), which means the final assembling of cars with all major components imported.

understand their working philosophies without prejudice. Thus, Japanese car companies in the late 1980s started to build their transplants in the U.S. As said above, they naturally located their transplants in the UAW-free states. Nissan started its car manufacturing in Smyrna, Tennessee and *Toyota* at Georgetown, Kentucky. Mitsubishi and Mazda started their transplants with UAW workers. They located their plants in Bloomington/Normal, Illinois and Flat Rock, Michigan. These places were selected because they had strong connections with Chrysler and Ford respectively.

The start of car production in the U.S. by *Toyota* was a heavy blow to *Aisan*. If car exports to the U.S. were switched to local production, it was quite obvious that its business with *Toyota* in Japan would be severely damaged. U.S. exports accounted for the highest percentage among *Toyota*'s overall exports. So if *Aisan* lost its components business with *Toyota* for exports to the U.S., there was no doubt that it would cause sales to plummet. Even though *Toyota* continued to procure *Aisan* components for its needs in the U.S. plant, it was sure enough that *Toyota*, sooner or later, would start procuring them from U.S. suppliers. *Toyota* needed to do so in order to meet the demand for higher U.S. content in its cars soon. There was not much time left. *Aisan* had to act quickly. Otherwise *Toyota* might have selected U.S. suppliers for the components formerly procured from *Aisan*.

***Aisan*'s First Overseas Manufacturing Operation**

Confronted with this critical situation, *Aisan* organized a special project team, including key staff from manufacturing engineering, quality assurance, production, production control, accounting, sales and some other departments, to evaluate the feasibility of its own U.S. production. Theoretically, it was to objectively consider the issue with pros and cons. But it was actually carried out to suit the pre-determined conclusion. This was for *Aisan* to go to the U.S. to start producing components, which were then to be supplied to *Toyota* for their U.S. production. There was no other conclusion. *Aisan* was quite desperate to protect its business to survive. Therefore, almost all feasibility studies were carried out to approve its U.S. transplant. This was around the year 1990.

Once it decided to start its own U.S. production, *Aisan* expected that the actual execution would be carried out quite smoothly. But, it was not so because *Aisan* did not have any experience in overseas production. So everything had to be conducted slowly, groping for the right answer. Nobody knew the right answer. Thus every member involved in the establishment of the transplant had to work extremely hard for long hours. *Aisan* sent various teams to the U.S. several times to select its plant site, design plant and manufacturing facilities, and most importantly, talk to the local government and people. Even though this was the first time for *Aisan* to produce its products overseas, it was firmly believed across the company that the transplant was not viable without the approval, support and

cooperation of the local government and its residents. Through these careful preparations and studies, it finally selected Franklin, Kentucky. It was a small farm town with the population of about 7,000 (seven thousand), located just north of the Kentucky/Tennessee border.

When Japanese car companies decided to start manufacturing in the U.S., it was widely rumored in the U.S. automotive industries that they would come along with their *Keiretsu* (group) suppliers.⁵ If Japanese car companies came to the U.S. with their traditional Japanese parts suppliers, they would have been severely criticized. The complaint was that Japan, instead of exporting cars, exported automotive industries as a whole. *Keiretsu* (grouping) was criticized as one of the malpractices peculiar to Japanese business society. It somehow reminded some people of the *Zaibatsu*, which existed before WW II. In the *Zaibatsu* (great industrial families), banks played a key role in controlling many industrial sectors through their financially owned subsidiaries. Critics said that only the banks were replaced with financially rich automotive car companies, such as *Toyota*. *Toyota* knew very well about the position in which they were placed in the U.S. *Toyota* therefore, in order to avoid to be criticized that it was coming to the U.S. with its *Keiretsu* suppliers, advised all the suppliers to conduct their feasibility studies very carefully. They repeatedly told them that they would not purchase components made by transplants of Japanese suppliers simply because they were the suppliers to *Toyota* back in Japan. They openly announced that they would buy materials and components solely based on their merits, namely quality, cost and delivery. Furthermore, they told their suppliers in Japan not to count on business from *Toyota* in the U.S. in their feasibility studies. It rather encouraged suppliers to be able to succeed in the U.S. without any business from *Toyota*. It seemed quite reasonable, because *Toyota* itself was not sure then if their transplant would be able to survive in the U.S. automobile market, which was known to be one of the toughest in the world. Fortunately, because of these premeditated considerations, *Keiretsu* did not become a big issue at all.

To Be Accepted among the Local Community

In the fall of 1991, *Aisan* started production at its transplant in the U.S. It was named “Franklin Precision Industry, Inc. (hereinafter referred as FPI)” after the city where it was located. This reflects its strong desire to become a good

⁵ Normally the term *Keiretsu* is used for affiliated component suppliers in the Japanese automotive industry. They are usually controlled by the car company in terms of equity, business, personnel and sometimes their vital technology. These close ties between car manufacturers and suppliers are often said to be one of the key strengths of Japanese car manufacturers. In case of *Aisan*, one of the leading tier-1 suppliers to *Toyota*, more than 30 percent of its stock is held by *Toyota*. Its top management, namely the president, has been regularly dispatched from *Toyota* for more than the last ten years.

corporate citizen of the community. The first product at FPI was a throttle body for a fuel injection system. Though *Aisan* had been supplying its carburetors to Ford, it did not consider the production of carburetors at FPI. It knew well that the time of mechanical or even electronic carburetors had already passed. So it was not hesitant to select throttle bodies for the production at FPI.

Since the beginning, FPI's main customer was the *Toyota* transplant in Georgetown, KY. As publicly proclaimed, *Toyota* did not source throttle bodies from FPI only because its parent company in Japan had been the supplier of the same. They asked many other parts suppliers to quote supply terms for the throttle body as well. FPI, through the cooperation of its parent company, *Aisan* in Japan, knew the required specifications, quality level and expected price. It secured the business from the *Toyota* transplant successfully.

FPI started as a quite small operation in the beginning. It was an operation free from UAW constraints. Because it was the first overseas manufacturing operation, both *Aisan*, the parent company and FPI, the subsidiary, were quite prudent in almost everything. *Aisan* picked several key personnel to be dispatched to FPI. It selected the very best employees from manufacturing engineering, quality assurance, production, production control, tool and die making, accounting and sales departments. It meant that those people were well experienced in their respective departments and very much willing to work in the U.S. Most of them were not fluent in English, however, they were brave enough to communicate with U.S. employees by every conceivable means, such as writing a drawing, showing actual products and equipment, demonstrating the required operation by themselves and so on. FPI selected several core employees for its manufacturing and quality assurance operations. Some had experience in the automotive industries, others not at all. But they were willing to learn *Aisan's* actual operational methods and the ideas/philosophies behind it to produce good automotive components. These core FPI employees were invited to *Aisan* prior to its start of production in the U.S. for education and training. Each of them was paired with a Japanese counterpart, who was in most cases already selected to be sent to FPI. *Aisan's* employees taught its way of production to FPI's employees. They, in turn, learned about how U.S. employees looked and acted in order to carry out their expected duties. They had lunch together at *Aisan's* canteen and some of them even tried to take communal hot baths in a nearby hot spa. Thus, they did their best to become a real team.

At FPI, various company rules and practices were established to make FPI a true U.S. company and well-accepted by the people of Franklin, KY. First, all the Japanese staff selected a nickname for themselves. Usually Japanese names are not familiar to U.S. employees and are hard to pronounce. FPI's first President, Mr. M. YASUOKA, who used to be the director of sales at *Aisan*, Japan, ordered all Japanese employees from *Aisan* to do so, he believed that daily communication could be improved by calling each other by friendly nicknames.

Vice President, Mr. TSUJIMOTO Kazuyuki, called himself Karl and accounting manager, Mr. KASAMATSU Kenji was named “Ken”. Tool and die making expert, Mr. IWASAKI, wanted to have a special name which would be instantly recognized by the U.S. employees and be remembered easily. So he thought it out and finally came up with the name, “Bud”, after the best-selling beer in the U.S., Budweiser. But, to tell the truth, he was not able to drink at all. This was a big success. I myself observed that his colleagues called out to him with a smile, “Hi, Bud!” when he walked around the plant and office at FPI. Some of the rules were very hard for Japanese staff. President, Mr. YASUOKA, designated English as the official language of FPI, since FPI is an American company and asked all the Japanese staff to speak English. If no U.S. employees were present, they were allowed to speak Japanese. However, if more than one U.S. employee was present, they were required to speak English. This was even true when they spoke to their Japanese colleagues in meetings and in casual conversation. They were also encouraged to actively engage in various social gatherings in the city of Franklin. All the Japanese staff participated in these events with their wives. Many wives demonstrated tea ceremonies and the Japanese “Bon (mid-summer festival)” dance wearing kimonos on these occasions. The President, who liked to play golf, made his own efforts to look and act similar to an ordinary U.S. citizen. He drove a golf cart to visit a nearby country club on weekends to show his neighbors that he was really enjoying life in Franklin.

U.S. Manufacturers with Japanese Capital

Through the 1990s and the 2000s, *Toyota* and some other Japanese car manufacturers became quite successful automobile producers in the U.S. Now it looks as if they are recognized as American automobile companies operating in the U.S. with American employees and Japanese capital. The *Toyota Camry* became the best-selling car many times in these years. Thanks to the wide acceptance of their cars by the general public, their operations spread to other states, such as Indiana, Alabama, Texas, and even to Canada. They are still regarded as Japanese car manufacturers, but nobody in the U.S. regards them as unfair competitors against the traditional Big Three car makers.

FPI also has become recognized as a U.S. automotive supplier. Though it had added some emission control devices to its product line and grown several times bigger than at the beginning, the basic concept implanted at the startup of the company never faded away. It has been run as an automotive component supplier based in the local community of Franklin, KY with Japanese capital. The ratio of Japanese staff at FPI now accounts for less than 2 percent of the total workforce. But, I am happy to say that you will have a difficulty distinguishing it from other U.S. automotive suppliers.

(3) The Devaluation of the U.S. Dollar against the Japanese Yen while Facing the Threat from China

ASANO Sam (Tadao)

The following is a summary of a lecture presented at Nanzan University on October 24th, 2012. These are highly opinionated views which reflect my experiences as the CEO of a small Japanese subsidiary in California for 25 years.

Since the Nixon Shock, the positions of the U.S. Dollar and the Japanese yen have been volatile. To improve relations, the United States Trade Representative (USTR), a major player, presented Japanese companies with initiatives. The Japanese government responded by increasing holidays and reducing the number of working hours of Japanese laborers. The management of corporations gave yearly raises to workers and offered additional generous benefits, which were unimaginable by Japanese standards.

The U.S. government and industries viewed the responses of Japanese corporations as too little, too late. From the viewpoint of Japanese corporations, the U.S. demands seemed to escalate like a geometric progression. The U.S. wanted the Japanese to break out of their tired old routines, almost a revolutionary action. The Japanese on the other hand see virtue in equanimity. As time progressed, their responses became minimal. Neither side was able to see eye-to-eye. Pathetically, in the end both camps recognized the situation as a “societal conflict” and there was only loss to both parties.

Meanwhile, China briskly opened their bamboo curtain. Their labor costs were at rock bottom. Their human resources were seemingly infinite. Coastal provinces such as Guangdong or Fujian were literally sprawling with young laborers eager to work.

U.S. retailers jumped on the chance to exploit Chinese labor. This nullified the efforts made by Japanese corporations and made them absolutely meaningless. Now, U.S. retailers’ long-standing mark-up traditions are facing a debacle. Many trade industries are being declared moribund. The local mom-and-pop retailers have become extinct, as mega-retailers have proliferated. Chinese products have flooded into the U.S. market just as the conflict over the cheap Japanese yen ebbed.

The U.S. seems to have contempt for the party in a runner-up position. It is an American syndrome. For the time being, U.S. industries are enjoying having China as their major supplier. However, sooner or later, the risk of having relations with China will manifest itself. China will challenge the U.S. not only in business, but militarily as well. This is the threat from China.

Regarding G&A, my advice is simple and stark. Don’t ever try to graft any Japanese personnel traditions or office politics in the United States.

My personal experiences from the past 43 years are ambivalent. I appreciate all the employees and stake holders of the corporation. Yet, I must admit that I was unable to establish real friendly relations with the American people. I do not know why. Maybe my attitude towards Americans was not good enough. I was too preoccupied and insular. My English capacity did not improve at all. Even still, at a party with American people, I pretty much see myself as an alien. When I speak to my grandson, my daughter always reminds me that I should speak Japanese, not bad English. Otherwise, my grandson, Kaishu Charles Harrison, might have his English influenced in a bad way. So, I always try to speak Japanese to my grandson, *but with a heavy Nagoya accent.*