

JAPAN'S SECRET WEAPON

# The Shadow Warriors

*How the Japanese are  
buying up New York and the U.S.*



BY EDWARD KLEIN

**O**N A RECENT NEW YORK AFTERNOON, I WAS SITTING IN AN overheated office when a most remarkable-looking man swung through the door on a pair of clacking aluminum crutches. He wore the smile of an Asian chereb over a set of cheery clip-on suspenders, and like many men who have struggled their whole lives against polio, he had an overdeveloped torso and an intimidating grip. Soon after I recovered from his handshake, Hiroaki Sato, the deputy director of the New York office of the Japan External Trade Organization, got directly to the point.

"I don't fully comprehend this sense of anxiety you Americans feel toward Japan."

"It's because we can't figure you Japanese out anymore," I said. "We don't know whether you're our friend or our enemy. We see your shadow, but we don't understand your substance."

*Edward Klein reported from Japan in the 1960's and has visited often since.*



Mr. Sato, who promotes Japanese exports by day and translates Japanese poetry at night, must have responded to the idea of shadow and substance. For his mind leapt all the way back to medieval Japan, when the shogun became a public substitute for the secluded emperor. And he introduced the strange concept of the shadow warrior.

"Back in the sixteenth century," he explained, "Japan was torn by incessant civil war, and important *daimyo*, or warlords, employed men who closely resembled them. These doubles reviewed the troops. They made public appearances. They led men into battle. They were out front while the warlords stayed hidden and protected behind the scenes. They were known as *kagemusha*—shadow warriors."

The *kagemusha* (kah-gay-moo-shah) is more than an abstract historic curiosity. You can run into him today in Tokyo or New York, a recognizable type who lives on in a modern and important incarnation.

"The Japanese are very concerned about being seen as assertive, confrontational, or even public," says Peter Peterson, the

## The most prestigious Japanese in the New York business community, Hisao Kondo is Japan's chief shadow warrior in America

former commerce secretary whose own investment banking firm is owned in part by Japanese. "They don't like to get out in front of a deal."

The shadow warriors are the shock troops of Japan's campaign to buy into America (some would say *buy up* America). They constitute a unique sort of intermediary—a whole army of buffers, front men, and stand-ins. They are the men who sniff out the best deals, who make the first approach, who protect the final decision makers from mistakes or embarrassments of any kind.

Some of these shadow warriors are Americans (see the box on page 90), and others are Japanese. Today, the most important of the Japanese is a compact, square-faced man with a luxuriant head of silver hair. Despite his fashionable CEO getup—a gray Tripler suit, a Nina Ricci tie, a pair of polished black slip-ons—there is something so perfectly spare and controlled about his movements that he seems, at times, a throwback to old Nippon. You can picture him in a kimono, pruning his bonsai, or dressed in an Imperial Navy tunic, standing on the bridge of an aircraft carrier.

He is the most prestigious Japanese in the New York business community—and, therefore, in the U.S. He is Japan's chief shadow warrior in America.

**H**E WAS UNAWARE THAT HE WAS BEING OBSERVED, because he was sitting at the mahogany desk, thirty feet away, with his chair swiveled completely around so that his back was to the door. It must have been a rare experience for a Japanese like Hisao Kondo, who bears such weighty responsibilities, to be exposed and yet feel as though he was unseen and unjudged. And so, for this brief moment, the president of Mitsui USA, the American subsidiary of the oldest of Japan's fabled trading companies, let down

his guard and began to stumble over a speech he was rehearsing out loud.

"GOOD morning," he said to the window that framed a spectacular view of the cloud-draped upper reaches of the Chrysler Building. "And HAPPY New Year. I hope all of you had a WONDERFUL time during the holidays." He didn't like the way that sounded, so he tried it once again.

"Good MORNING . . ."

He cracked his knuckles.

"Good morning AND happy New Year. . . ."

He hated making speeches. And this one was in English.

At last, he sensed the presence of someone in the room, his neck stiffened, and he swiveled to face the door. There at the threshold stood Yoshihiko Kondo, the general manager of the company's secretariat and Hisao Kondo's personal factotum, a man with whom he shares a last name but no family relationship; unless you happen to agree with the Japanese that, no matter what their station in life, they are all kith and kin.

Y. Kondo, as he is known around the office to distinguish him from the CEO, is sharp featured and bouncy, as thin and graceful as a dancer. Once you understand the depths of his self-discipline and dedication, you begin to believe that, if it ever became necessary, Y. Kondo could probably dance on the walls of his boss's office like Fred Astaire.

"Owhhgh!" Hisao Kondo said.

There then ensued a rapid exchange that sounded—if my once-passable colloquial Japanese still serves—something like this in rough English translation:

"Sorry."

"Eeyehh!"

"Time. Thhsss!"

"Eeyoshh!"

"Convenient?"

"Uhhhnnn!"

And that was that. The entire dialogue. Yet it apparently sufficed, for Hisao Kondo immediately rose from his desk and, with Y. Kondo scurrying in his wake, marched smartly out the door and past the desk occupied by his secretary, Evelyn Del Maestro. Evelyn, who has been commuting faithfully from Queens to Manhattan for Mitsui USA for twenty-four years, smiled benignly as she watched them go off—the Asian equivalent of Alexandre Dumas's Corsican brothers, two Kondos who might just as well be blood relatives because they are so in tune they don't need formal language to communicate.

They passed a wall with a large golden Mitsui emblem, a three-hundred-year-old family crest consisting of the ideograph for "three" (*mitsu*) enclosed in a stylized form of the ideograph for "well" (*i*). As they strode down the long hall on the thirty-eighth floor of the Pan Am Building, they picked up a praetorian pack of vice presidents and general managers, including one exceptionally dapper gentleman whose previous residence in London had left him with a taste for bespoke Savile Row suits and polo ponies.

Among them, the president and his men had logged over a half-century in Europe and America making money for Mitsui & Co., Ltd., whose interests range from power plants to foodstuffs. When the Japanese speak these days of their desire to become less insular and more international, they have in mind such sophisticated travelers as these members of the House of Mitsui.

Hisao Kondo entered a crowded conference room and waited to be introduced to the two hundred or so Mitsui executives who had gathered for this occasion. Mitsui first came to America when Ulysses S. Grant was president, but more than a century later, most of the faces around me were Japanese. There was still not much room at the top of this "American" subsidiary for Americans—and practically none for African-Americans and women.

My companion and guide for this event was Shinichi Hirabayashi. If the light and lively Y. Kondo was Mr. Inside, then



*Sayonara, Scarsdale: Hisao Kondo left Westchester's Japanese enclave to be on the Upper East Side.*

the grave and sober Hirabayashi was Mr. Outside—a Japanese with a perpetual five o'clock shadow and an equally rare ability to grasp the inscrutable American mind. I had spent a month of lunches trying to persuade Japanese to cooperate with an article about their economic activities in America, but mostly I had been given the polite brush-off. Then, a week or so ago, I had received a phone call from Hirabayashi agreeing to my request that I attend this morning's speech by his boss.

He gave me a photocopy of Hisao Kondo's hand-drafted speech, along with a profuse apology that the corporate-planning department, of which he was the general manager, hadn't had time to have it properly typed. It was one of those bureaucratic slipups that embarrass the fastidious Japanese.

The videotape camera began rolling, recording Hisao Kondo's speech. His delivery in English turned out to be practically flawless. "The time has come," he said as he neared his conclusion, "for Mitsui to move toward a multiheadquarters system. It means that instead of having headquarters for everything in Tokyo, Mitsui will place control of its operations in the most suitable locations. . . . I would like to pursue the concept of setting up a new entity, called Mitsui Americas, in the form of a holding company encompassing all Mitsui affiliates in the Western Hemisphere."

This struck me as a faintly radical proposal. Japanese businessmen regularly refer to their company as *watakushi no uchi*, which means "my house." The idea of taking control away

from Tokyo headquarters, the focus of all that transferred filial loyalty, and putting it in some foreign country seemed akin to a Japanese child burning down his own home.

After the applause, I shook hands with Hirabayashi, tucked the photocopy of the speech in my breast pocket, and took off for an appointment. Over the course of the next day, I had interviews with a number of Japanese, and with each of them I raised the same question: What do you think Hisao Kondo has in mind about creating a holding company in the United States? In between these interviews, I checked my telephone-answering machine. There was a message from my guide of yesterday, Hirabayashi. I didn't like the nervous tone of voice I detected on the tape, so I called him back right away.

"We have *biig* trouble," he told me.

"What's the problem?" I asked.

"Some people from Mitsubishi have called our office inquiring about Mr. Kondo's concept for a new holding company in America," he explained.

"Yes," I said, "I discussed it with them."

"I hope you haven't gotten Mitsui confused with Mitsubishi," he said. "Mitsubishi's our *competitor!*"

"I know that," I said. "But, look, you gave me a copy of his speech, and you knew that I was going to use it in my article. So what's all the fuss? I didn't give away any of Mitsui's proprietary secrets."

"That's true," he said. "But we didn't expect to get a phone call from our competition *the next day!*"

"Well, I'm sorry if . . ."

"Oh, that's all right," he said.

"Good," I said, thinking it was all settled.

"So," he said, "we'd like you to return your copy of the speech."

"Why?"

"Because it's private," he said.

"But I was there as a reporter and I took notes."

"We may have to cancel the whole project with you," he said.

## We are very clumsy in making public relations," Hisao Kondo says. "You Americans are geniuses at presenting yourselves"

Although I was dumbfounded, I managed to say, "I don't understand."

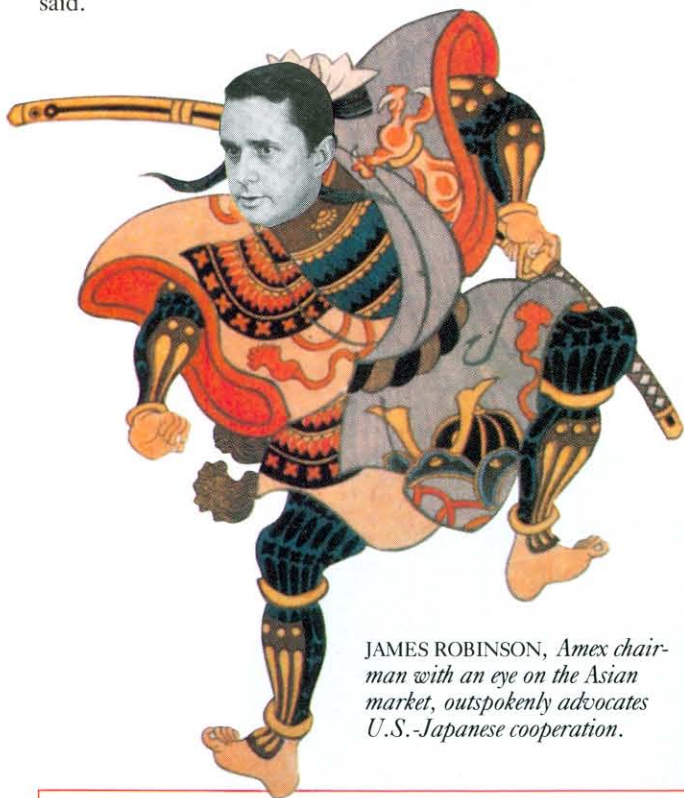
There was a long pause, then Hirabayashi told me, "Well, these things are hard to communicate."

That was putting it mildly.

**Y**ET ANOTHER SUSHI LUNCH, A STEAK-AND-CHIVAS dinner, and a number of abject apologies later, I patched things up with Mitsui and went on to report this story, which took four months, required nearly eighty interviews, and produced more than four hundred pages of notes.

The New Year's episode at Mitsui—with all its zany, who's-on-first confusion—captures a fascinating truth about the Japanese. The Japanese now have among the world's highest per-capita incomes, the world's second largest number of billionaires, the world's ten richest banks, the world's three biggest insurance companies, the world's four biggest investment houses, the world's most expensive real estate, the world's most potent stockpile of foreign exchange—and yet they find the world puzzling and even distasteful.

The Japanese may run the most brilliantly organized society, but they have never mastered the art of getting along with people who aren't Japanese. So long as they were content to



JAMES ROBINSON, *Amex chairman with an eye on the Asian market, outspokenly advocates U.S.-Japanese cooperation.*

## Top New York Shadow Warriors

**S**INCE SHADOW WARRIORS HAVE TO BE BOTH FAMILIAR AND comfortable with the customs of this country, they are often Americans, and since they must wield influence, they tend to be powerful figures in the worlds of business, finance, academia, and diplomacy. It would be a mistake, however, to see these people merely as Japanese "hirelings." Quite the contrary, they are, without exception, men of notable accomplishment who have been chosen by the Japanese from a wide field. There are literally hundreds of these Americans who are working, formally and informally, on behalf of Japan.

What do these shadow warriors offer the Japanese? Says Nikko's Stephen Axilrod, "By coming here, I gave Nikko a lot of credibility." And Shearson Lehman Hutton, which has a significant equity partner in the Nippon Life Insurance Co., has set up an M&A training program so the Japanese can acquire more than credibility—they're learning to do deals themselves.

Many of the American shadow warriors have a genuine admiration for the Japanese. Such is the case with investment banker Joseph Perella. "What do you think is worse for America?" he asks. "Cocaine or Japanese M&A?"

Here, on the basis of my reporting, is a list of the most prominent American *kagemusha*:

**James Robinson**, chairman of American Express. Robinson's interest in the burgeoning Asian market for financial-service and travel-related businesses has moved him to become deeply involved in Japanese affairs. He is the influential chairman of the capital-fund-drive-campaign committee of the Japan Society, and he's this country's most outspoken business advocate for greater cooperation between the United States and Japan.

**Peter Peterson**, chairman of both the Council on Foreign Relations and the Blackstone Group, a private investment banking firm. Pete Peterson helped arrange Sony's \$2 billion acquisition of CBS Records, and he recently sold 20 percent of Blackstone to Nikko Securities for \$100 million. Nowadays he is shopping in Hollywood on behalf of cash-rich Sony, which is eager to buy an American motion-picture studio.

**Robert Ingersoll**, former U.S. ambassador to Japan and special adviser to the board of directors of the Japan Society. Ingersoll is chairman of the \$12 million Matsushita Foundation, which contributes to such causes as public-school reform and Japanese studies.

**James Lake**, chairman of Robinson, Lake, Lerer & Montgomery, a powerhouse public relations and lobbying firm in Washington that represents many important Japanese clients. As a former senior adviser to George Bush, Lake is wired into the current administration. And one of Lake's partners, Linda Robinson, is married to Amex's Jim Robinson.

**Isaac Shapiro**, a former president of the Japan Society and a

stay cozy on their crowded little chain of islands and deal with the rest of the world through exports, their missing gift for human empathy didn't seem to hurt them very much. Now, however, they are foraging deep into strange and hostile territory, capturing big chunks of America's real estate and manufacturing assets—and they find themselves as hopelessly at a loss when it comes to dealing with us, the indigenous, exotic natives, as we do in dealing with them.

"From now on, the major issue between America and Japan is not going to be trade," says Sadami (Chris) Wada, the chief lobbyist for Sony America. "In just eleven more years, by the end of this century, the Japan Development Bank projects that Japan will have \$1.5 trillion in foreign assets, and a lot of that will be in factories and businesses in America. The issue is going to be direct investments. We must launch a crusade to make sure that Japanese investments are not a source of conflict between our two countries."

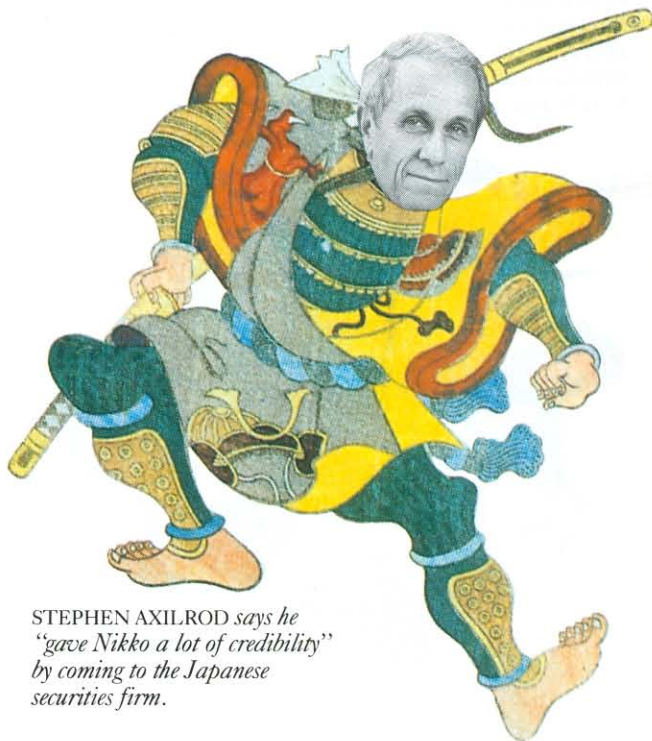
The problems Hisao Kondo faces in leading this crusade are psychological as well as economic. Most Japanese perceive themselves as being so separate, distinct, and unique that they practically constitute a different species of humanity. And they believe it is because of their racial homogeneity and cultural cohesiveness that they have come through two great national crises in the past 130 years—the forced opening of their feudal society by Commodore Perry and their devastating defeat by America in World War II.

Now, however, the Japanese are suddenly confronted by a third, and possibly the greatest, crisis of their modern era: a rising necessity and demand that they join the rest of the human race. The latest of Japan's upheavals has been brought on by a massive shift in the basic structure of Japanese trade, a shift that has gone largely unnoticed here in America. "Japan is now encountering serious difficulties in finding markets for its exports," writes former ambassador Edwin Reischauer, the dean of America's Japan experts. "The newly industrializing nations with lower labor costs are pushing Japan out of labor-intensive fields, such as textiles and electronics, and into high-technology, capital-intensive areas. But the markets in those fields are largely in the richer, highly industrialized countries like the United States and those of Western Europe, which are them-

selves desperately clinging to this sort of production. They are not likely to permit directly competitive Japanese imports to continue to grow at the same rate as in the past at the expense of their own industries."

The potential consequences for Japan are enormous. "Within the next six or seven years," says Charles Brady, the senior auto analyst at Oppenheimer & Company, "Japan will lose half a dozen of its automobile-manufacturing companies. The only ones that will probably survive the competition are Toyota, Honda, and Nissan."

To make matters worse, the Japanese are caught in this double bind between Asian upstarts and Western protectionists



STEPHEN AXILROD says he "gave Nikko a lot of credibility" by coming to the Japanese securities firm.

senior partner at the law firm Skadden, Arps, Slate, Meagher & Flom. Shapiro, who is known to his friends as "Mr. Japan," was educated in Japan and still speaks fluent Japanese. He tutors Japanese in the legal niceties of mergers and acquisitions.

**Benjamin Lambert**, president of Eastdil Realty. Lambert sold 50 percent of his firm to Nomura Securities for \$50 million. As a result, Eastdil is now considered the top specialist in the United States in securing trophy office buildings for Japanese investors. Eastdil also arranges other investment opportunities for the Japanese, in the form of real estate syndications.

**Bill Brock**, U.S. trade representative in the Reagan administration. Brock now works the other side of the table as a Washington lobbyist who negotiates on behalf of many Japanese clients.

**Stephen Axilrod**, vice chairman of Nikko Securities. Axilrod, a staff director at the U. S. Federal Reserve Board for thirty-four years, now charts the economic climate and investment prospects in America for Nikko's Japanese investors.

**Joseph Perella**, chairman of Wasserstein Perella, an investment banking boutique specializing in mergers and acquisitions. A couple of years ago, Perella sold 20 percent of his company to Nomura, the largest securities firm in the world, for \$100 million.

**Robert Baldwin**, former chairman of Morgan Stanley. Baldwin recently returned to Wall Street as head of Lodestar Group, an investment banking boutique partly owned by Yamaichi Securities.

at a perilous moment in world affairs. Ever since Mikhail Gorbachev appeared on the scene, the world's primary focus of fear has gradually been shifting away from a shooting war with the Soviet Union to an economic war with Japan.

"Everybody's trying to hold off Japan," says Yoshi Tsurumi, a professor of international business at Baruch College. "As long as we Japanese try to play the world out of Japan, we will be squeezed. Now we have to become indigenous in other countries. That's why Hisao Kondo wants to set up a separate Mitsui headquarters here in America—just like Kobe Steel America and Fujitsu Electronics America. Kondo understands that we have to become astute players of the politics, business, and culture of America."

The trouble is the Japanese are woefully inept at "playing" other cultures. "It's true that the Japanese have proved themselves to be very adaptive," says David MacEachron, the former president of the Japan Society, "but what they're confronted with now is more difficult than anything they've ever faced. Their society is so highly structured, so bound by its own very profound rules and regulations, that there's a real question whether they can internationalize in the true sense of the word."

From all sides come warnings that the Japanese are courting catastrophe with their blithe indifference to everyone's economic welfare but their own. Reading these ominous signs, many sophisticated Japanese are beginning to worry that their countrymen have gone too far; during a recent trip to Tokyo, I heard a number of people talk about their baleful new reputation as *Minikui Nihon-jin*—ugly Japanese.

Some people even bring up the analogy of Pearl Harbor as an example of how the Japanese still fail to think through the consequences of their behavior. "Just before World War II, Admiral Yamamoto, who was the head of our armed forces, opposed the attack on Pearl Harbor," says Jitsuo Hoashi, a commercial designer who has lived for many years in America. "But once the Japanese people started on that road to war, they couldn't stop until it was too late. I wonder now whether we're repeating history, that somehow we won't be able to stop until it's too late again."

But even if some farsighted Japanese understand that their unrestrained competitiveness is dangerous, that hasn't seemed to slow them down. "The trouble is that nations don't change their ways very quickly," says MacEachron. "Many Japanese in their sixties and seventies resent hearing that their tiny island nation is no longer a poor country, that it is now enormously rich and must think in global terms. The real question is



BILL BROCK, once U.S. trade representative, now represents the Japanese in Washington.

whether they have the capacity to begin dealing generously with the larger world within an allowable time frame."

Hisao Kondo seriously doubts that the time for such generosity has come. "We Japanese," he said over a fish dinner at the Gloucester House, "used to have many *danna-san* in prewar days—rich men with mistresses who spent their money freely. Most of the temples in Kyoto were built with donations from these rich *danna-san*. In the past, there was a period when Japan felt real rich, inside Japan. But now, compared to the United States, we don't think we're rich enough. When we become very rich, I'm sure we'll change our behavior and think more like *danna-san* about people outside Japan."

In many ways, Hisao Kondo is something of a *danna-san* himself. He is the first foreigner ever to be elected as a director of the New York Chamber of Commerce and to the blue-chip board of directors of Lincoln Center. Early this year, he joined such luminaries as IBM's chairman John Akers, GE's John Welch, and Allied Signal's Edward Hennessy Jr. as the only foreign member of the corporate-fund leadership group of the Kennedy Center for the Performing Arts.

Since the Japanese like to give everything a label, it is hardly surprising that they have come up with a term, "good corporate citizenship," that means that Japanese companies are trying to sweeten their image by donating more money to worthy

philanthropic causes. Last year, for instance, they practically doubled their U.S charitable donations to \$140 million. "There is no tradition of corporate giving in Japan, and certainly there isn't the same sense of civic responsibility, as we know it, here," says Toby Myerson, a specialist in Japanese law at Paul Weiss, where he has a staff of one hundred lawyers working on Japan-related business. "But the Japanese have come to see that making charitable contributions is a local custom to which they must adapt. They also recognize that it's good business."

**O**VER A LONG WORKING WEEKEND, HISAO KONDO gave me a tour of the two floors Mitsui's branch office occupies in the First Interstate Bank Plaza Building, one of the tallest skyscrapers in Houston's dramatic skyline. "Maybe next time you come," he said, half-joking, "it will be called the Mitsui Building."

The Houston office was the only one of Mitsui's sixteen American branches where the all-important general managers' meeting is conducted in English, which explains why I had been invited. So I found myself sitting at a table with thirteen Japanese businessmen whose watchword seemed to be *caution*.

## As shadow warrior Pete Peterson puts it, "America and Japan have the economic version of MAD—mutual assured destruction"

At the end of the meeting, Yoshiyuki Kawashima, the senior vice president in charge of the southwest region, gave a little speech in honor of the visiting chief.

"I have worked for Mr. Kondo three times," Kawashima said. "He is a superb manager. I wanted to emulate Mr. Kondo, but our personalities are different. So I wrote down what I call Kondo's Words of Wisdom on a card that I always carry with me."

At that, Kawashima whipped out a card from his inside breast pocket and proceeded to read aloud:

"One, to win the war, it is imperative to establish your strategy.

"Two, always keep your market share in mind.

"Three, plant seeds for future investment.

"Four, you can't create real business if you are worried about friction in the challenging world.

"Five, establish close relations with the leading manufacturers in each area.

"Six, when you have a problem, think that it is an opportunity."

Kawashima looked up, waiting for his boss's nod of approval. Instead, Hisao Kondo said, "You left one out."

"What is that?"

Hisao Kondo smiled and said, "Start small; grow big!"

A few hours later, Hisao Kondo and I were sitting in the first-class cabin of a Continental Airline DC 9, flying back to New York. He slipped off his shoes, took off his suit jacket, and unknotted his necktie, and in this relaxed posture he worked feverishly hard to answer my questions about his past. Whenever he was stuck for the right word, he pulled out his pocket-size Japanese-English dictionary, but my American journalist's

effort to probe for hidden psychological clues seemed to leave him thoroughly perplexed. Among the Japanese, Ronald McDonald is a much more popular figure than Sigmund Freud.

For instance, at one point he said that his mother had been a strict disciplinarian. "Whenever I did something bad or wrong as a child, I became kind of scared, because I knew that she'd scold me. And when I was really bad, she'd hit me in the face." This memory of corporal punishment is at radical variance with the customary image of the pampered and spoiled child we glean from books about Japan, but Hisao Kondo didn't give it a second thought. Nor did he seem to attach much importance to an episode that would have seared forever the psyche of any American. "At the end of the war, I was a student in a naval academy in the Inland Sea near Hiroshima," he said matter-of-factly. "In August 1945, I heard a tremendous explosion, and when I looked out the window, I could see the mushroom cloud of the atomic bomb."

I waited for more. But that was the end of his story about Hiroshima.

This is not to say he didn't make a sincere effort to accommodate the curiosity I displayed about his past. "I lived a completely different life than my father's life," he said. "After all, my father was a novelist. He wrote under the pen name Setsu Mowa, which is the Japanese transliteration of the French words *c'est moi*. He was a very Western-oriented man, always seeking something modern, new, European. He had the largest collection in Japan of books about golf, and when he finally ran out of imagination to write novels, he wrote books about golf.

"So," he continued, "my father always stayed home. But when I joined Mitsui, I didn't come home until midnight—I was always out drinking in the Ginza with my colleagues or clients. Also, as a salaried man, I had to be in harmony with the people around me. But as an artist, my father was not the type of man who got along well with other people. He'd ask me, 'How can you pay so much attention to people around you?' You see, he was his own master. This is very rare in Japan. I kind of envied his position."

But he didn't follow in his father's footsteps. Early in his career, Hisao Kondo displayed the organization man's traits that are most highly valued in Japanese business—a fierce competitive spirit and the ability to submerge one's own individuality. This brought him the attention—and, what was more important, the protection—of powerful men who were later to succeed to the chairmanship of Mitsui.

With that kind of support from on high, things went smoothly for many years. But then, in 1980, when he was fifty-three years old and doing extremely well in boom-time Texas as the general manager of Mitsui USA's Houston branch office, Hisao Kondo was confronted with an unexpected crisis. "I was asked to return to Tokyo and switch from the chemical division to the gas division," he explained. "As an American, you may find this hard to understand, but in Mitsui's organization, it is always risky to change groups."

"But you weren't leaving Mitsui," I interrupted. "You were just being transferred within the organization."

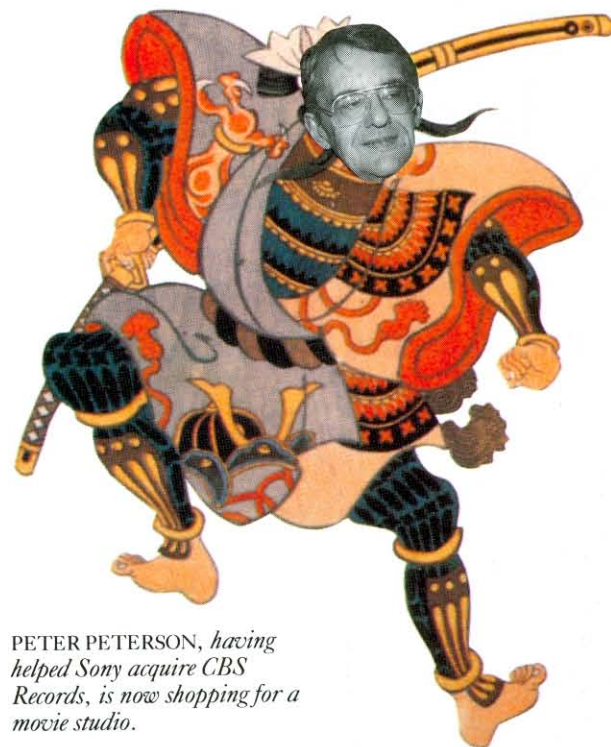
"Yes," he said, "but leaving your own group is like leaving home. I knew everybody in the chemical group; I had personal relationships there. This is very important—everything in Japanese business depends on personal relationships. Nobody knew me in the gas department, and let me tell you, strange departments are not always receptive to people from the outside. But I told Eijiro Machida, who was then president of Mitsui USA, 'I leave it to you 100 percent. I'll be willing to go wherever you say.' And Mr. Machida, who was very concerned about my future, apologized to me, and he said, 'The decision has been made—you are going to work for the gas division.'"

His powerful mentors in Mitsui noted with approval that the stoical Hisao Kondo did what he was told without a whimper of complaint. So, while other Mitsui men reaching their midfifties

were asked to take normal retirement, Hisao Kondo was tapped for bigger things. He was made a director of the company and then promoted to president of Mitsui USA, the key overseas office that accounts for a healthy chunk of the parent company's \$127 billion in annual trading transactions.

Taken together, Mitsui and Mitsubishi—the two largest *sogo shosha*, or general trading companies—book 20 percent of Japan's exports and imports, and by tradition the men who head their American subsidiaries are given the honor of alternating as president of the Japanese Chamber of Commerce of New York. When Hisao Kondo arrived in New York City in 1987, he found it was his turn to assume what had been until then a largely undemanding, ceremonial post.

But it just so happened that 1987 turned out to be a critical year in relations between America and Japan. The trade deficit with Japan—despite the devalued dollar—was running at the staggering rate of more than \$164 million a day, or \$60 billion a



PETER PETERSON, *having helped Sony acquire CBS Records, is now shopping for a movie studio.*

year. And if that wasn't bad enough, Americans were just beginning to wake up to the fact that Japanese companies, flush with appreciated yen, were furiously buying up American assets—everything from half the real estate in downtown Los Angeles to CBS Records. Mitsui itself had made a breathtaking (and unreported) bid of more than \$2 billion for the chemical division of Borg-Warner, only to be beaten out at the last minute by General Electric.

When Hisao Kondo assembled key committees of the Japanese Chamber of Commerce at the dank Nippon Club on West 57th Street, he noticed a lot of glum faces around the table. The members had been reading their own bad notices in the American press. Direct investment by Japan was growing at the breathless rate of 40 percent a year. Japan had already surpassed Canada as the third-largest foreign investor in the United States and was about to overtake the Netherlands in the number-two spot. It was just a matter of time before Japan would beat out Great Britain, which has been investing in its former colony for two centuries, as America's largest foreign investor.

"I don't know if American society can adjust to Japan's power," says Jiro Murase, a prominent Japanese-American attorney and a member of the chamber. "Americans are having trouble getting used to being treated not as royalty. How our two na-

tions adjust to this change will be a heavy responsibility of our leaders."

Back in Tokyo, one of those leaders, Sony's Akio Morita, warned his colleagues in Keidanren, the immensely powerful Japanese Federation of Economic Organizations, of the growing backlash in America. "We find these [direct investment] activities to be a positive trend in the continued prosperity of U.S.-Japan economic relations," a Keidanren position paper stated. "But when they occur at such a rapid rate, they are bound to cause unexpected reverberations on the surrounding social environment. . . . When such misperceptions accumulate, they may sow seeds for negative sentiments."

To counter these "misperceptions," Keidanren set up a major public relations project called the Council for Better Investment in the U.S. In short order, a delegation was flying to Washington, where, over a period of three whirlwind days, its members met with an impressive roster of Americans—everyone from Treasury secretary Nicholas Brady and Federal Reserve chairman Alan Greenspan to soon-to-become national-

## It's like an onion skin. You peel layer after layer of Japanese ownership of assets in this country, and it grows bigger and bigger"

security adviser Brent Scowcroft and budget chief Richard Darman, as well as key committee chairmen in the Senate and House. At every opportunity, the Japanese conveyed the same message: "Our investments aren't a threat to your country. On the contrary, they create new jobs in America and reduce the intolerable trade deficit."

Word also went out from Keidanren to various corporate groups—or, as the Japanese call them, *gurupu*—that it was imperative to take action. One of the largest of these *gurupu* is the Mitsui conglomerate, which comprises a loosely tied cluster of banks, real estate, heavy-machinery, and construction companies as well as the venerable Mitsui trading house itself. Like other *gurupu*, Mitsui has a president's council that meets once a month, as a sort of super board of directors, for what might politely be called mutual reinforcement. Although the presidents of the Mitsui *gurupu* always speak in the most general terms when meeting in council, they clearly had ambitious plans of their own for massive foreign investments, and of course their point man in America was none other than Hisao Kondo.

So it wasn't long before Hisao Kondo was getting to know David Rockefeller, the founder of the New York Partnership, and James Robinson, the chairman of American Express and the head of the New York Chamber of Commerce and Industry. And it wasn't too long after that that Hisao Kondo decided to move his residence from the Japanese enclave in Scarsdale to the East Side of Manhattan so he could be closer to the action. He reorganized the Japanese Chamber so it would mirror the structure of the New York Chamber, and he took the bold, un-Japanese step of allowing himself to be profiled for this article. Things invariably happen from the top down in Japan's hierarchical society, and once Hisao Kondo granted his cooperation, the walls of resistance

tumbled down. Top executives at Sony, Toshiba, Nikko, Mitsubishi, Nippon Life, Bank of Tokyo—all were suddenly available for interviews. Hisao Kondo was emerging as Japan's undisputed chief shadow warrior in America.

**I**NEVITABLY," HISAO KONDO SAYS, "THERE MUST BE A CERTAIN difference in the way you Americans look at Europeans versus Japanese. You're descendants of Europeans, and you have your origins and roots there and very similar cultures. You have your way of thinking, your way of life, everything in common. So, I think Americans have less negative feelings about European businesses investing in this land, whereas we Japanese come from a completely different culture. It is natural for you to have some prejudice against Japan. I don't think it is racism, but . . ."

He pauses over that thought, adds, "Some people may have racial prejudice . . . but not all . . .," then pauses again.

"I tell the Japanese government that we need to make a more effective PR effort," he continues. "There is already a consensus among conscientious and far-looking Japanese businessmen that something must be done to prevent a backlash against Japan. But we are very clumsy in making public relations about Japan. You Americans are geniuses at presenting yourselves. We Japanese are just beginning to try to change, and I hope that that change of attitude will be understood and recognized by Americans."

The Japanese are gearing up through their shadow warriors not only a public relations campaign but a major mergers-and-acquisitions onslaught. "They come in here once a week to pick our brains on M&A," says an American who often fronts for the Japanese. "A lot has already happened. I mean, Bridgestone has bought Firestone and Yasuda Life has bought a chunk of PaineWebber and Dainippon Ink and Chemicals has bought Reichhold Chemicals and the Bank of Tokyo has bought the Union Bank of California—you know, the kind of transactions you read about in the newspapers. But that's only the tip of the iceberg.

"Now," he continues, "they're positioning themselves for the big push into the future. They're going at it in their own methodical way. They're trying to learn how to play the game. Their targets are financial-service companies, chemical companies, auto-parts companies, food processors and distributors. These target companies are all over the country, but New York City is where the major American investment banks are and where the M&A teams of Japanese institutions are. If they need financing for an acquisition, all they have to do is walk down the street."

In fact, it has become increasingly difficult to discover the details of these Japanese deals. In the last year alone, the number of manufacturing plants in the United States identified as "Japanese affiliated" increased by more than 50 percent, from 550 to 837.

"They are very private," says another American, who also acts as a shadow warrior and prefers to stay anonymous. "It's like an onion skin. You peel layer after layer of Japanese ownership of assets in this country, and it grows bigger and bigger than it at first appeared. Forty billion dollars, fifty billion, nobody knows the total figure."

Wherever money talks in America, you will find the Japanese. They provided some \$13 billion, or nearly 40 percent of the senior banking facility, to grease the wheels in the buyout of RJR Nabisco. They are engaging in joint ventures with major American producers of steel, electronics, and semiconductors. They are building so-called "greenfields" factories from scratch in parts of America where unions are weak or nonexistent and where the minority proportion of the population is low.

"I have heard the argument that the Japanese won't succeed here in America because of the peculiarity of our culture and its homogeneity," says Yoshio Terasawa, the ranking Japanese





member of the World Bank Group. "But I don't agree with this argument at all. We are not a religious people, so we have no transcendent precepts or principles that bar us from taking whatever action is necessary. We can be terribly immoral if necessary.

"Now," he continues, "in order to make more money and be more competitive, Japanese businessmen will do anything they have to. There are no limits. They may talk about Americanizing their companies to please their American employees, but that is not what they will really do. Big Japanese corporations are going to acquire big American corporations and let them run things so that the Japanese owners will not be visible."

In short, the Japanese-owned American company itself will become the ultimate shadow warrior.

**L**AST FALL, JUST BEFORE AMERICANS WENT TO THE polls to vote for a new president, Hisao Kondo addressed a mixed audience of Americans and Japanese. He told them that, since the election hadn't taken place yet, it wouldn't be proper for a foreigner like himself to speak in favor of either George Bush or Michael Dukakis. Therefore, he was left with no choice. "I wish the best," he said, "for President Bushakis."

The audience appreciated the quip. And, in fact, it is hard not to warm up to Hisao Kondo, a man of great charm and grace and good humor.

However, it is equally hard not to wonder what on earth the Japanese think they are up to these days. In great measure, Japan's

*Wherever money talks in the United States, you will find the Japanese.*

postwar success story has depended on its close relationship with the United States. It is the United States that has provided Japan both with the military defense of its hard-working population and with the market for its superior goods. Without the United States, there could be no Japanese miracle. As former commerce secretary Pete Peterson puts it, "America and Japan have the economic version of MAD—mutual assured destruction."

The United States has to be held responsible for its own short-sighted economic policies, but it is the Japanese who seem to be threatening to kill the goose that lays the golden eggs. "Sure," says the distinguished economist Walt Rostow, "we look like big slobbers living off our capital. But the Japanese have been conducting economic warfare against us, and some very powerful Japanese have loved the game. They're laughing all the way to the bank."

It's a tempting game, but it is also a dangerous one. For if the Japanese continue to treat America with economic scorn, there is a chilling chance that the United States will eventually go into a convulsive protectionist mode. And if that should happen, it will be too late for even the most adept shadow warrior to stave off a major crisis between the United States and Japan. M