

The Changing Role of J

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Legend has it that when Takatoshi Mitsui, son of the founder of the Mitsui dynasty, decided it was time to give up the reins of the Mitsui house, he called together his six sons. Taking an arrow from the table beside him, Takatoshi snapped the shaft across his knee. He then picked up six arrows and, after binding them together, asked each of his sons to try to break them. One after the other, they tried and failed. But the heirs to the Mitsui empire immediately understood the lesson their father was trying to impart: it was only by staying together and working together that they would remain strong.

A lot has changed in the 300 years since Mitsui lived, but the lesson of that day still applies to modern business in Japan. Only by pulling together and coordinating resources and specialties have the Japanese been able to create a strong in-



A detailed illustration of a hand holding a globe of the Earth. The hand is rendered in a realistic, painterly style with warm tones. The globe shows blue oceans and white clouds, with several small ships visible on the water's surface. The background is a soft, light blue gradient.

Japan's General Traders

By Thomas Cappiello

dustrial economy. While manufacturers have concentrated on manufacturing, and bankers on banking, the job of orchestrating the flow of goods within Japan and between Japan and the international community has gone to the *sogo shosha*—giant international trading companies that do much more than trade.

What is a Sogo Shosha?

Today there are more than 8,000 trading companies in Japan, but only 16 bear the title of *sogo shosha*. What makes these 16 distinctive is their size, their scope, their information-gathering capabilities and the diversity of their functions. Each year the *sogo shosha* handle more than 50% of Japan's total foreign trade and account for a major share of domestic transactions. In 1982 the largest of the *sogo shosha*, Mitsubishi Corporation, had total sales of more than US\$60,000 million, making it the biggest company in Japan and the 3rd ranked company in the world in terms of sales. Total annual domestic sales of the nine largest *sogo shosha* amounted to ¥80.112 trillion, a figure equaling roughly 31% of Japan's GNP.

Typically, the *sogo shosha* handle the import, export, offshore and domestic trade of upwards of 20,000 items, which can be divided into six major product groups—metals, machinery, energy and chemicals, textiles, foodstuffs and general merchandise. Because they trade in a diverse range of products, the *shosha*



One of Mitsui's earliest shops (right side of the street) in Tokyo (around 1840)

have tremendous flexibility in dealing in international markets. Barter trade or counterpurchasing, for example, is made possible because of the *sogo shosha's* ability to accept manufactured goods, foodstuffs, or other commodities, as payment in lieu of hard currency.

To carry out their varied day-to-day activities, *sogo shosha* maintain extensive

worldwide information networks. Few, if any, private firms in Japan or elsewhere can compete with their information-gathering capability. Together the top nine *shosha* maintain approx. 1,110 offices, linked by highly sophisticated telecommunications systems, in some 200 cities around the globe. Moreover, the overseas offices of the *sogo shosha* are

staffed by a total of more than 20,000 highly trained specialists, who, on average, have more than 15 years of trade experience.

Simply describing general characteristics of the *sogo shosha*, however, does not reveal much about how they actually function. Nor does it give any insight as to how and why these mammoth firms

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C. Itoh & Co. Ltd.

SPORTING GOODS FROM BELGIUM

Given C. Itoh & Co. Ltd.'s familiarity with domestic markets and distribution mechanisms, as well as its extensive overseas information network, the company is ideally positioned to handle imports. As Japanese markets have become increasingly open to imports of commodities and manufactured goods, C. Itoh has taken the lead in discovering and importing products suited to Japanese needs, tastes and trends. Imports now account for nearly 22% of C. Itoh's total transactions. A typical example is the tennis wear and equipment imported from Belgium by C. Itoh's wholly-owned sporting goods subsidiary, I.T.S. Corporation.

Not long ago, tennis was still a relatively unknown sport in Japan and the name Donnay was completely unknown. How-



Donnay's tennis racket, one of many sports items C. Itoh imports

ever, about five years ago, C. Itoh sensed that tennis was on the rise in Japan as a popular sport. In anticipation of an increase in demand for tennis equipment, the company alerted its worldwide network of strategically located offices and subsidiaries to seek out a suitable manufacturer of tennis rackets who was interested in exporting its products to Japan. The result was a 1975 agreement with Donnay of Belgium, renowned maker of quality tennis rackets, tennis wear and accessories, for the import and domestic distribution of Donnay rackets.

At that time the "tennis boom" in Japan was not yet in full swing and the name Donnay was just another foreign word to most up-and-coming tennis buffs. C. Itoh therefore set to work making Donnay if not exactly a household word, then at least one that was known in tennis circles. Calling upon its years of experience numerous connections in the world of advertising and extensive domestic sales

came to dominate Japan's international trade or, most bewildering to foreign observers, why they play such an important role in the domestic distribution of raw materials and capital goods in Japan. Until recently the sogo shosha were rather lax about explaining their role—their *raison d'être*—to the public. In part, it has been the general lack of knowledge about trading companies that has led to charges in Japan that they are mere “paper pushers” raking in unseemly profits at the expense of Japanese consumers. Foreign critics, as well, accuse the shosha of being a major obstacle to the expansion of foreign manufactured goods in Japan, arguing that such companies can effectively protect their domestic suppliers by simply refusing to handle competitive imports. Such charges are based on fallacies about the nature of the sogo shosha. How can the facts and fallacies be distinguished? A look at the history of the shosha is a good place to start.

The Origins of the Sogo Shosha

It is well known that for more than 250 years prior to Commodore Perry's arrival in Tokyo Bay in 1853, Japan had maintained self-imposed isolation in order to protect the country—and the ruling Tokugawa Shogunate—from the “subversive” ideas that emanated from other countries. The only trade conducted was through the Dutch, who were permitted to call at the port of Nagasaki. Isolation ended when, bending to pressure from the United States, Russia and other Western countries, Japan signed unequal treaties of trade and commerce and re-opened its



Yataro Iwasaki (1834-1885), the founder of Mitsubishi

and service network, the company initiated a comprehensive promotion campaign. One of the most effective promotion methods was autograph sessions where Japanese tennis players and fans could have things signed by five-time Wimbledon champion Bjorn Borg, probably the best known user of Donnay rackets.

The campaign paid off. From an initial level of some 3,000 rackets just five years ago, C. Itoh now imports around one hundred thousand Donnay rackets a year and has expanded the line of Donnay products it handles to include tennis wear, tennis shoes and accessories of all kinds. With the tennis boom in Japan just now reaching its peak, the company expects the demand for Donnay tennis products to continue strong for some time to come.

It is through such import activities that C. Itoh and its subsidiaries are contributing to ensure that trade is a two-way street to everyone's benefit.

Marubeni Corporation

GLOBAL COMMUNICATIONS NETWORK

The collection, analysis, interpretation and communication of information is the essence of modern business, and information is thus given top priority at Marubeni. The company's wide range of extremely varied business activities, often of a highly technical nature, require an ever increasing volume of accurate and up-to-date information which must be transmitted quickly to make the right decisions for the best results. This information is not only used in the conduct of everyday business, but also plays a vital role in future planning.

For example, Marubeni's worldwide network of 154 offices in 87 countries and its 50 offices in Japan gather information on such things as weather conditions in the main agricultural-producing areas of

the world to enable the company to anticipate future price trends for internationally-traded agricultural commodities. Similarly, plant engineering companies are informed about the progress of plans for industrial complexes in developing nations, while other clients are kept abreast of such diverse matters as international fashion trends, technological progress, changes in legal codes and micro-economic developments.

Equally important to the collection of such data is its timely and accurate transmission between the company's own offices, subsidiaries and affiliates and to its clients wherever they are located. To accomplish this, Marubeni established its own private worldwide telecommunications system. This advanced, round-the-clock global network is comprised of three independent switching centers in Tokyo, New York and Brussels. Connecting the unique triple-center system is a medium speed (2400 bps expandable to 4800 bps)

doors to the world. Submission to the demands of the Western powers led to the demise of the Tokugawa Shogunate in 1868 and the beginning of a political, social and economic upheaval that would change the face of Japan forever.

Most historians would agree that no other revolution in the history of the world was more rapid or more complete than the one that swept Japan during the reign of Emperor Meiji (1868 to 1912). The catalyst for this explosive change was fear—fear that, like its less wary neighbor, China, Japan would be carved into colonies by the imperialist powers should it fail to quickly modernize. Speed was of the essence...and the Meiji government sought industrialization with a vengeance.

Among the most pressing tasks facing Japan during this period was the fast acquisition of commercial and industrial know-how. Isolation had left the country sorely lacking in knowledge of foreign markets, technology, business practices and languages—in short, all the skills necessary for modernization. The solution the government adopted was to divide the tasks at hand between different firms and individuals and to “search and retrieve” the know-how necessary to achieve industrialization.

Development of international commercial expertise was left to trading companies, which proliferated in great numbers in the early Meiji period. By the beginning of the 1880s one third or 669 of the 2,404 newly incorporated companies in Japan were *shosha*, or traders. The largest was Mitsui & Co., established in 1876 to export coal and import cotton spinning machinery. Suzuki Shoten, one of the predecessors of today's Nissho

Iwai, was established the following year to import and distribute camphor and sugar. As the industrialization of Japan progressed, other major trading firms were either spun off from industrial groupings or grew with the expansion of Japan's budding new industries. Mitsubishi Shoji Kaisha, for example, was created in 1889 to be the marketing arm of the Mitsubishi Group, while C. Itoh was established in 1907 as a trading company specializing in cotton yarn exports. Some *shosha*, like Nichimen, Goshō and Toyo Menka, concentrated on cotton imports, while others, like Iwai and Ataka got their start in distributing the products of Japan's fledgling steel industry.

The growth of these and other Japanese trading companies was dramatic. Whereas in 1874 such firms handled a mere 1% of the country's total foreign trade, their share increased to 38% by 1900 and more than doubled again to 80% by the end of World War I.

One of the most significant developments in the early 1900s was the “shaking out” of the highly competitive trading industry, which came about as a result of the price instability of raw cotton and silk—respectively Japan's major import and export commodities at the time. Only companies with substantial capital and a diversified portfolio had the staying power to weather the wild price fluctuations inherent in these markets. Small, specialized textile-trading firms were eventually absorbed by larger traders or destroyed by the instability of the market. Further contributing to the “shake-out” was the fact that large trading companies, backed by their banks, linked cotton imports to their obtaining exclusive rights to distribute the products of Japan's cotton

spinners and weavers in domestic and international markets. By 1907 three of the largest *shosha*—Nippon Menka (a predecessor of Toyo Menka), Mitsui and Goshō—handled about 60% of Japan's imports of raw cotton.

As the industrialization of Japan shifted from development of the textile industry to the development of heavy industry, such as steel, chemicals, shipbuilding and machinery manufacture, large traders expanded through direct investment. The predecessors of the *sogo shosha*, in fact, were the founders or co-founders of many of Japan's most prestigious companies, including Kobe Steel (co-founded by Suzuki Shoten in 1905), Toray Industries (co-founded by Mitsui & Co. in 1926) and Mitsubishi Oil Co. Ltd. (co-founded by Mitsubishi Shoji Kaisha in 1931) to name but a few. Some of the largest traders, like Mitsui, Mitsubishi and Sumitomo, were an integral part of the *zaibatsu*—industrial-financial-commercial combines that dominated the Japanese economy until the end of World War II.

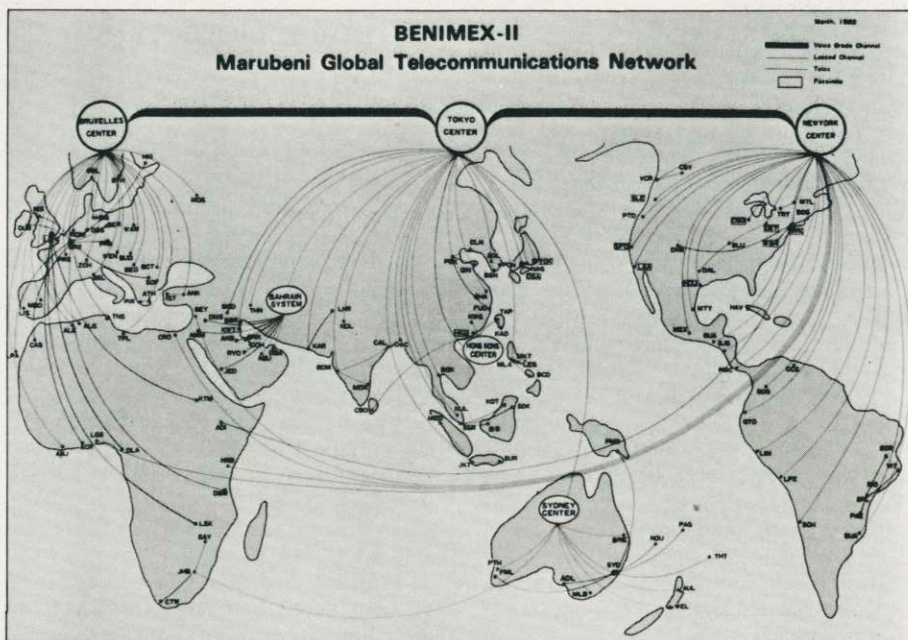
The Birth of Modern Traders

In the decades prior to World War II, large trading companies had acquired many of the characteristics that are the mark of today's *sogo shosha*. They acted as trade and financial intermediaries, handling the import of raw materials and the export of finished goods; maintained extensive overseas office networks, and invested in manufacturing and distribution, to increase trade flows. *Shosha* played a vital role in the industrialization of Japan. And at the end of World War

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synchronous data link protocol circuit. This voice-grade circuit serves as the main channel or trunk between the three centers and is capable of transmitting messages at speeds up to 480 characters per second and virtually error-free.

The three centers themselves operate independent low-speed, asynchronous networks linking them with the company's 150-plus offices throughout the world via 120 leased circuits and numerous telex lines. Another special feature of this system is over 240 individual terminals each composed of a video display, keyboard and printer capable of printing 120 characters per second. These are strategically located throughout Marubeni's business departments in Japan and overseas, making possible desk-to-desk communications on a worldwide basis. Since anyone can now send or receive messages via this system, the need for skilled telex operators has been greatly reduced and convenience to the company in terms of fast, person-





Mitsubishi Kyu-Goh-Kan Building (this has been replaced by the present modern building of Mitsubishi Corporation)

II, they were destined to play an equally vital role in Japan's postwar recovery.

Deconcentration of economic power was one of the pillars of the occupation authorities' policy to democratize Japan. Thus, even before the war had ended, plans were made to dissolve the *zaibatsu*, which controlled literally hundreds of major and minor manufacturers, banks and other financial institutions, as well as the major trading companies. However, with the exception of the two largest sho-

sha, Mitsubishi Shoji and Mitsui & Co., which were ordered dissolved in July of 1947, the operating companies of the *zaibatsu* remained intact. (Though no longer directly related to each other, the companies that operated under the *zaibatsu* maintained informal contact after the war and formed loose industrial groupings (*shinkeiretsu* in Japanese) that have remained to the present day.)

Soon after the break-up of Mitsui and Mitsubishi, Japanese trading companies,

which had been banned from participating directly in foreign trade, were released to work freely in international markets. With the temporary elimination of the two largest traders, a vacuum was created in the market, which smaller, more specialized traders fought fiercely to fill.

In the initial years after the resumption of "free" trade, foreign exchange was in short supply, and therefore rationed. According to Yoshi Tsurumi in his book, *Sogoshosha: Engines of Export-Based*

to-person communications considerably enhanced.

Marubeni's global telecommunications system now handles approximately 52,000 messages every day, almost all of which reach their destinations within ten minutes of being sent. It is this information exchange capability that helps keep the company on top of events whenever and wherever they occur.

Mitsubishi Corporation

BRUNEI LNG PROJECT

Mitsubishi's Brunei LNG project is a prime example of the *sogo shosha's* ability to organize and carry out large-scale international projects. Mitsubishi has been involved in every aspect of the project, from the presentation of the concept to planning, financing, construction and operation.

This project started way back in 1969

with the establishment of a three-way joint venture between Mitsubishi Corporation, the Government of Brunei and the Royal Dutch/Shell Group, the latter having been engaged in oil exploration and development activities in Brunei since as early as 1913. In organizing this project, Mitsubishi hoped to form an alliance that would benefit all three partners equally and at the same time provide Japan with a reliable source of clean, pollution-free natural gas.

Natural gas becomes a liquid at about -160°C in which state it is known as liquefied natural gas or LNG. When warmed to ambient temperature, it reverts back to its original, gaseous state, in which form it is a convenient energy resource. However, the processes involved in extracting this natural resource from deep beneath the ocean floor, liquefying it and then transporting it some 2,300 nautical miles from Brunei to Japan, where it is regasified for use in the home, in industry and for elec-

tric power generation, are formidable, to say the least.

Offshore production and transport of the natural gas to land is carried out by the Brunei Shell Petroleum Co. Ltd., whose long years of experience and time-proven technology in this field ensure quality results.

The next step in the process, liquefaction of the natural gas, is the responsibility of Brunei LNG Limited, one of two companies established and owned one-third each by the three partners in this project. The liquefaction plant, which supplies Japan with about five million tons of LNG annually, utilizes the most up-to-date and sophisticated technology. Its construction involved the procurement of building materials, machinery and equipment from 24 countries around the world, including huge centrifugal compressors from Japan and cryogenic heat exchangers, the very heart of any LNG plant, from the United States.