prior to World War II, stable supplies of industrial raw materials, such as coking coal and iron ore, were secured from Manchuria, which the Japanese had occupied from the 1930s until the end of the war. With the loss of Manchuria as a major raw materials base, Japan initially turned to the less stable and less reliable spot market in the postwar period.

As recovery turned to growth and the development of heavy industry, the sogo shosha began to map out strategies that would ensure Japanese industry received the constant stream of raw materials it needed. The strategy they envisioned was the creation of diversified, long-term sources of supply through natural resource development projects that they would organize and help finance.

The sogo shosha were well prepared to take on the function of resource developer for several reasons. Most important were their vast overseas office and information-gathering networks, which allowed them to carefully monitor the world market for raw materials and assess the need for undertaking new development projects. Equally important was their solid financial standing, which allowed them to run the risks and bear the expense of getting these incredibly costly projects off the ground.

By the mid-1960s the sogo shosha were playing a central role in projects to develop iron ore, coal, nickel, copper, bauxite, lumber, cotton, salt and other raw resources in Latin America, Africa, Southeast Asia and Australia. Typically, their role involved preparing technical and commercial feasibility studies in the initial stage, organizing a market in Japan to purchase the end product (or if demand in the Japanese market was insufficient to make the project commercially viable, finding buyers in third markets), forming joint ventures or operating companies to carry out the project, arranging for financing, negotiating purchase and sales agreements between the suppliers and buyers and arranging for transportation of the material and construction of shipping and receiving terminals and other necessary infrastructures. The sogo shosha often make large investment in the projects they undertake. Mitsui, for example, realizing the long-term potential of utilizing natural gas in Japan, began promoting the Das Island gas liquefaction project, located offshore of Abu Dhabi in the United Arab Emirates in 1967. The project, which started operations in 1977, was organized as a joint venture company owned by the Abu Dhabi National Oil Co. Ltd. (51%), Mitsui & Co. Ltd. (22.05%), British Petroleum Co. Ltd. (16.33%), Compagnie Française des Petroles (8.17%) and Mitsui Liquefied Gas Co. Ltd. (2.45%). The total cost of the project amounted to about US$500 million. Mitsui financed the initial capital costs with a US$250 million loan. Today the plant has an annual production capacity of two million tons of LNG and about 600,000 tons of LPG. All the LNG and most of the LPG has been purchased by the Tokyo Electric Power Co. under a 20-year agreement.

Since the 1973 oil crisis the sogo shosha have become prominent developers of "new energy" projects. Nissho Iwai, for example, is currently involved in a national project between Australia and Japan aimed at liquefying brown coal found in the Latrobe Valley of Victoria State, where reserves are estimated at 120,000 million tons. Other sogo shosha are involved in the promotion of geothermal energy projects, solar energy projects, oil and gas exploration, nuclear energy development and steaming coal projects to help ensure that Japan gets the vital energy resources it needs.

At the same time, the sogo shosha are helping to facilitate a shift toward offshore production of energy-intensive products. The decline of Japan's aluminum smelting industry because of the high price of energy, for example, has spurred the sogo shosha to become participants in a multi-billion dollar bauxite development and aluminum smelting project in the Darling Ranges of Western Australia, the Gladstone aluminum smelting project in Queensland, the Asahan aluminum smelting project in Indonesia and the Amazon aluminum project in Brazil.

Today the sogo shosha's role as project organizer also includes the export of entire plants, including steel mills, chemical complexes of all kinds, textile plants and food processing facilities; and construction of infrastructure like roads, bridges, pipelines, airports, port facilities and so on. For example, Nissho Iwai orchestrated Sudan's Kenana sugar project, which encompassed the irrigation of 32,000 hectares of barren land (about five times the size of Manhattan) today tilled by some 12,000 farmers. Nissho Iwai provided financing for the project and procured the sugar manufacturing plant, machinery and technical services required. The Kenana plant can crush about 17,000 tons of sugar cane daily and has the capacity to produce about 330,000 tons of sugar annually. Much of that output will be marketed by Nissho Iwai in the Middle East.

Sumitomo Corporation

COLD STORAGES TO JORDAN

It is only during the past five years that plant exports have really begun to count noticeably in Japan's overall trade. This sudden rise in the number and scale of plant export contracts has been due in large measure to the vital role played by the sogo shosha in the development of this market. Sumitomo Corporation is no exception.

Among the company's accomplishments in this vein was the completion and putting into operation of three cold storage facilities with a combined capacity of 9,000 metric tons in the Hashimite Kingdom of Jordan. The various countries of the Middle East rely almost entirely on imports for their supply of foodstuffs. This, together with the fact that Jordan's Ministry of Supply has formulated plans for the development of third-nation trade in fresh and frozen foods in the region, calls for sufficient means of freezing and/or storing large amounts of food for considerable periods of time.

In May 1978, Sumitomo Corporation won an initial contract in international bidding from Jordan's Ministry of Supply for two 1,500 metric ton cold stores to be located one each at the cities of Amman and Aqaba. While maintaining close supervision over every step of the project from feasibility studies through site selection, procurement of materials, machinery and equipment, transportation, construction, and financing, Sumitomo Corporation subcontracted the job to Japan's leading construction firm in this field, Tokai Kogyo Co. Ltd.

The Ministry of Supply was so impressed with the results that it authorized the Free Zone Corporation of Jordan to negotiate a private contract with Sumitomo Corporation and Tokai Kogyo Co. Ltd. in November 1978, for the construc-

Offshore Trade

Offshore trade—trade between countries not involving imports into or exports from Japan—has increased rapidly, partly as a result of the sogo shosha's expanded role as project organizers and partly as a result of their investments overseas. Whereas in 1970 offshore trade amounted to a mere 5.1% of the top nine sogo shosha's total trading transactions, today it accounts for more than 13.4%. The increasing importance of offshore trade in the business of the sogo shosha is also directly related to the steady decline of Japan's real economic growth rate starting in the late 1960s and the need to find new markets to supplement domestic demand. Today it is not uncommon for the sogo shosha to import machinery from West Germany to build a plant in Brazil, export American wheat to the Philippines, or sell Australian wool in Europe and China. It is expected that the share of offshore trade in the sogo shosha's total trading transactions will continue to grow as the products traditionally made in Japan for export shift to industrializing and newly industrialized countries, and the sogo shosha invest in these newly developing industries in order to maintain their market share.

Offshore trade, of course, would not be possible at all were it not for the sogo shosha's extensive overseas office networks and their sophisticated telecommunication systems. Today, utilizing computerized message exchange systems located in key offices around the globe, it is possible for any office in the sogo shosha's network to send a single message to 30 other offices simultaneously. During the course of a 24-hour day, roughly 25,000 telex messages crisscross the global network of any one of the 16 sogo shosha, conveying news of new trade opportunities and information that is significant to the smooth operation of the sogo shosha's day-to-day business.

Barrier or Benefactor?

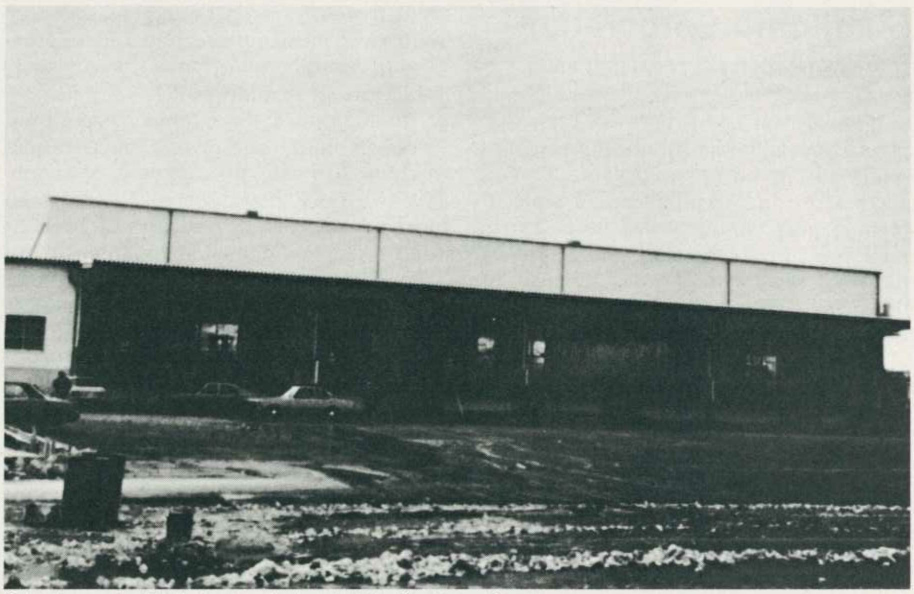
From all the above it should be clear that the sogo shosha are a unique kind of business enterprise—trader, developer, merchant bank, shipper, marketer and distributor all rolled into one. They arose out of a set of circumstances that were unique to Japan and that are hardly likely to recur elsewhere. It should also be clear that the sogo shosha are not simply "paper pushers" or a barrier to the Japanese market, as some critics might have you believe.

The trade problems plaguing Japan and its major trading partners in Europe and the United States boil down to the fact that Japan presently sells more than it buys. Reasons for the mounting imbalance most often cited are declining productivity, exchange rates that undervalue the yen, a lack of intitiative on the part of foreign manufacturers to sell more to Japan and above all, protectionism in Japan in the form of non-tariff trade barriers.

Critics of the sogo shosha sometimes place them in the latter category, arguing that it is in the interest of these large traders to protect their domestic suppliers. That is emphatically not the case. Protectionism (in Japan or elsewhere) is anathema to the sogo shosha, which thrive on the free movement of goods (and the more the merrier) between countries. It is true that the shosha are loosely associated with industrial groups, but they have no commitment whatsoever to protecting companies within their groups that can not compete with imports. Any other policy would be foolish as there is nothing to stop other traders from handling competitive imports. Further, any notion that the shosha are controlled or influenced by their large customers can be discounted by the fact that even the largest customer accounts for no more than 3% of a sogo shosha's annual sales. And sales by the "tightest" industrial groupings account for not more than 15% of "their" trading companies' total business.

Unquestionably, the sogo shosha have provided valuable services to industries in Japan and around the world. Were that not the case, like dinosaurs of another era, they would have died off long ago. Their survival has depended on their ability to adapt to change and the key to their success in the future will be their continuing flexibility. ●

Reports on field activities



Cold storage facility in Aqaba, Jordan, built by Sumitomo Corp.

tion, on a full turn-key basis, of a third cold storage facility with a total capacity of 6,000 metric tons to be located in Aqaba.

Once again Sumitomo Corporation kept close watch over the progress of the project, organizing every aspect of the work. When this 6,000 ton cold store was brought to completion and ready for operation in November 1979, the combined capacity of Jordan's new cold storage facilities totalled 9,000 metric tons.

These cold stores, which are capable of being adjusted to temperatures ranging from as low as –30°C to a high of 10°C, are being utilized as transshipment bases for imported fresh and frozen foods, such as frozen meats and fish, fresh eggs, dairy products, fruits and vegetables. Their contribution to Jordan's domestic distribution and third-nation trade in fresh and frozen foods is considerable.