

# "We Have a V

## Says Chairman of Japan's Largest Sogo Shosha



*When seeking the secret of Japan's postwar economic success, Westerners often cite the role of the general trading companies, known as "sogo shosha". In fact, the sogo shosha are often viewed as the main villains in Japanese export activities, and in the repeated trade friction with other countries. But according to the head*

**Question:** *Many people see the sogo shosha as a major driving force behind the postwar growth of the Japanese economy. They particularly stress your role in promoting exports. Is this an accurate image?*

**Tanabe:** As a whole, the nine big trading companies handle 56 or 57% of Japan's imports but only about 46 or 47% of the exports. It has always been that way. At Mitsubishi, for example, 40% of our business is now in the domestic market. Of the remainder, 30% involves imports, about 23% exports, and the rest is third-country or offshore trade. Imports have always been more important than exports for us.

**Q:** *But do you accept your responsibility for at least part of the trade friction problems?*

**Tanabe:** The friction has been caused by certain products—sometimes automobiles, sometimes electronics, sometimes other things. But in most cases, the *sogo shosha* are not involved.

Most auto exports are handled by the companies themselves, and the same applies to electronic products. We have no control over these activities.

But I believe there are things the *sogo shosha* can do to alleviate the causes of trade friction. In the countries where we are doing business—which now means most of the world—we have far better information than anyone else. We can see why the trade friction complaints are occurring and pass this information along to the government and to business organizations. In a more active sense, we are trying to ease the problem by importing more from the countries concerned. That is why, in most cases, the leaders of the big trading companies are asked by the gov-

ernment to lead overseas purchasing missions. For example, two years ago I headed a mission to Thailand, and last year I visited Mexico. Earlier this year, the Chairman of Mitsui & Co. headed a very large mission that visited France and Austria. In every case, these missions were interested only in encouraging more imports from these countries, not in trying to promote Japanese exports. I think this is highly unusual.

**Q:** *I understand that your philosophy is to move away from the pure handling of merchandise and into large-scale foreign investments, especially in raw materials projects.*

**Tanabe:** Right. Most people still think of the *sogo shosha* as importers and exporters. But these days we are major investors both within Japan and abroad. The foreign investments we make stimulate the economies of the countries concerned by developing new industries and new products. Sometimes we import most of the output to Japan or sell it in third countries. Before making any investment we undertake very careful market surveys. As a result, we know before we start that the new product will definitely have a good market in Japan or in a third country.

Imports and exports will always be vital to our business, but we are also looking for every chance to expand our offshore business. There is a definite trend towards internationalization of the trading companies. In our case, we bought out Chrysler's Australian operation and now operate an auto assembly plant there jointly with Mitsubishi Motors. That company is not only producing for the local market—and, incidentally, using a



# ...ery Big Future,"



## **Interview with Bunichiro Tanabe, Chairman of Mitsubishi Corporation by Geoffrey Murray**

*of Japan's most powerful trading company, Mitsubishi Corporation, this is a misunderstanding of the sogo shosha's role. In fact, said Bunichiro Tanabe in an interview, they usually import more than they export, and they contribute significantly to the economic development of other countries.*

very high proportion of locally-made parts—but also exporting to Europe and elsewhere.

**Q:** *In such cases what do you do with the profits?*

**Tanabe:** Mostly they are ploughed back into the business. We are in no rush to bring the money back to Japan. It is common for us to consider first the contribution we can make to the local economy. I can think of ventures we have in Indonesia and Taiwan, for example, where this principle certainly applies. Reinvestment is invariably our policy.

**Q:** *Can you give some other examples of your overseas investment activity?*

**Tanabe:** Well, the one everyone knows is the development of liquefied natural gas in Brunei. We went into a 50 : 50 joint venture with Shell more than 10 years ago and it was very successful. We were very careful because we did not have that much confidence it would be a success. But we were very fortunate. A couple of years later the first oil crisis occurred. The price of crude oil shot up two or three times; and so did the price of LNG. And so our investment proved to be very efficient.

We were also very fortunate when we went into a new coking coal mine in Queensland, Australia, with the American mining firm Utah. The initial capital requirement was extremely large and we were very hesitant. But, considering the growing demand of the Japanese steel industry and the good quality of the Queensland coal, it was a very attractive venture. I thought we should have had a larger share, but with such a large amount involved we finally settled for 15%. It was an immense success. Later, I wanted to have a 25% share, but it was too late.

We have also invested heavily in a Canadian coal mine and in a big iron ore project in Western Australia. Another example that occurs to me is our ownership of the world's largest salt field. This field, in Baha, turns out over five million tons of salt a year, half of which is shipped to Japan and the rest to the United States and Canada. The Mexican Government is well aware and highly appreciative of the contribution we are making to the domestic economy. And I want to stress that these are not unusual. It is a role that the *sogo shosha* are now showing they can handle very well.

**Q:** *During your 52 years with the Mitsubishi Corporation I know that you spent many years in the United States arranging for the export of American goods to Japan. From this perspective, how do you assess the often-repeated claims that Western businessmen don't try hard enough to penetrate the Japanese market, or conversely that the market is too difficult for them to succeed?*

**Tanabe:** I admit that it's not easy for foreign businessmen in Japan due to the problems of language and different customs. But I think the most important point is to consider why Japan exports more than it imports. Basically, I think this comes down to price and quality competitiveness. Here in Japan, we have to promote exports in order to survive. Without exports we could not possibly survive. As a result, there has always been a very strong incentive to make constant efforts to lower prices and improve quality. It is different for a wealthy country like the United States, with a large domestic market, considerable natural resources, and more. Americans can live







without foreign trade. But there is no way we could that. We have to have this continuous circulation of raw materials coming in to be processed and exported as finished products because that is all we have in this country. Sometimes people ask why we don't import more. But the individual person in Japan is not looking at the balance of trade. If the quality is good and the price is reasonable, then people will buy it willingly. Japanese department stores have many products that are made here under license or are made in countries like South Korea and Taiwan and imported. So some form of royalty is flowing back to the parent company in the United States. I think this is a good way of doing things, because it ensures the production of goods that are ideally suited for Japanese tastes. I don't think this invisible aspect is fully appreciated by Westerners when the balance of payments is discussed.

**Q:** *There has been talk in other countries that, since this unique separation of production and marketing as it exists with the *sogo shosha* has been so successful for Japan, why shouldn't it be adopted by others. Do you think the concept can work so efficiently overseas?*

**Tanabe:** I know there are people in countries like the United States, Canada, Mexico, and Brazil who would like to see the establishment of general trading companies because they know that the rapid growth of the Japanese economy was due to our activities in importing raw materials and new technology and helping to promote exports. But I would like to point out that the *sogo shosha* took a long, long time to develop. Within a short time I don't believe anyone could establish a comparable organization. To start from scratch would be a tremendous undertaking in terms of both time and money. I don't know of any company in the U.S. and Europe that could easily form the

basis for the development of a general trading company along the Japanese pattern. Most corporations are involved in one narrow sector of the economy. No one has our breadth of interests. I know of trading companies like Westinghouse and General Electric International who have an international network of offices buying and selling, but they are only handling the products and materials in which the parent company is interested. There is no reason why they could not extend their sphere of operation and diversify. But it's not going to be easy.

**Q:** *You mentioned earlier that, for example, automobile and electronics manufacturers are handling most of their own exports. Do you detect a trend for more companies to want to do their own marketing, and will this mean a reduction in the *sogo shosha's* role?*

**Tanabe:** I think that in sectors of industry where there is a need for after-sales service, then companies will want to do their own exporting. Trading companies can easily handle product exports, of course. But we do face difficulties when it comes to the supply of replacement parts and sales follow-up services.

**Q:** *Then do you think the need for *sogo shosha* will increase or decrease in the years to come?*

**Tanabe:** Some people reckon the *sogo shosha* will become obsolete. But I don't think so. I believe we have a very big future. As the Japanese economy becomes more internationalized our expertise is going to be in greater demand. We have such a broad base with our networks of information-gathering offices around the world and immense resources we can tap for investment.

**Q:** *The world economy is experiencing many difficulties, and even in Japan business conditions are not so good. How do you cope?*

**Tanabe:** We don't have any power our-

selves to make the business climate better or worse. Only the government can possibly stimulate the economy through greater spending and other policy measures. Private companies like us have no such power.

**Q:** *I was thinking more in terms of the fact that if you were a manufacturing company you might be able to tide over business difficulties through cost-cutting measures like energy saving and greater productivity. But you are not making anything. You merely handle the products of others. So how can you cope with recession?*

**Tanabe:** You are quite right that we don't have the same options as a manufacturing company. What the *sogo shosha* can and must do is to continue to be as active as possible. The top management of the companies have to ensure that their staff are never sitting down but are always on the move looking for new business opportunities. Our only asset is brainpower and we have got to use it to the maximum. In Mitsubishi, the domestic economic content of our business has shrunk from 60 to 40% in recent years. If conditions are bad in Japan, then we have got to look overseas and try and find new opportunities for business, whether pure trade or investment for the future.

Of course, we are not going to neglect the Japanese market. This is our main base, after all. We don't believe the recession will last forever. Sooner or later there must be an improvement and then we will do as much as we can domestically.

**Q:** *You spoke earlier about the necessity of government spending to stimulate the economy. As a businessman, would you like to see the government spending more at this time?*

**Tanabe:** If we look only at this company's business, then naturally I would like to see the government spend more. But if we look at the total Japanese economy, this is not the time to ask for more government spending. The bureaucratic structure has grown bigger and bigger, and the number of government employees has expanded every year. They could cut staffing 20% today without impairing administrative functions. The government is spending far too much of our taxes on unnecessary things, so we have to encourage it to squeeze out the excess in order to make the economy more efficient. ●

## About the Interviewer

Geoffrey Murray is British, an experienced foreign correspondent with previous assignments in Australia, South Vietnam, India, and Iran before coming to Japan in 1969. He is now a freelance writer and broadcaster, contributing to newspapers and broadcasting stations in several countries. His reports to the *Christian Science Monitor* are syndicated throughout the world.