

The Sogo Shosha in a Changing World

The appreciation of the yen engineered by last September's G-5 meeting of finance ministers and central bankers from the United States, Japan, West Germany, Britain and France has created major difficulties for Japanese exporters. At the same time, the looming mid-term Congressional elections in the United States in 1986 make it all the more imperative for the Japanese government and industry alike that the trade friction with the United States be addressed. Looking at this landscape, president Koichiro Ejiri of Mitsui & Co., one of Japan's largest sogo shosha, says that the trade friction must be lessened by restructuring Japan's export industries and raising export prices in a shared effort to maintain corporate profitability while avoiding excessive competition.

Question: *I'd like to ask you about trade relations first. Trade problems seemed to be one of 1985's constants. What do you see ahead?*

Ejiri: I'm afraid mine is a minority view on this. Japanese workers are very conscientious. They're very efficient and hard-working, and they turn out products that are able to compete in any market anywhere in the world. So it is only natural that Japan accumulates more and more foreign currency reserves. But we are still subject to international criticism. So since Japanese companies make world-class products and compete effectively in markets everywhere, I believe it should be possible to work something out here.

Q: *Are foreign currency reserves alone not the answer?*

Ejiri: Right. I have long believed that we need to restructure industry so that both the exporting companies and their employees profit. To make a specific proposal, exports should be priced higher. For example, Japanese shipbuilding currently accounts for more than half of the tonnage built worldwide, but our shipbuilding companies are suffering financially. The more than 50 shipyards in Japan, all of them capable of export-

ing quality vessels, are in intense competition with each other. Should the Japanese yards up their prices 20% or so, the rest of the industry would follow suit, given the strong Japanese share of the global market.

But they can't, because of this competition among Japanese yards.

*Interview with
Koichiro Ejiri,
president of Mitsui & Co.
by Sadao Sakai*



Koichiro Ejiri

More than playing games with money, we need manufacturing and trade activity.

The high sales volume resulting from this excessive competition is increasing our accumulation of foreign currency reserves, but not contributing to profits.

Q: *What about the yen's recent appreciation? Has this had an impact?*

Ejiri: The yen appreciation looks real, and while it has made life much more difficult for exporters, I would rather look at it as an opportunity for restructuring. This may sound a bit insensitive, since I'm with a trading company and not a manufacturing firm, but I'd like to see exporters raise their prices sharply so that they would make more money on smaller volume.

We are just beginning to see the effects of last September's realignment with the yen appreciated against the dollar because a lot of people were locked into long-term contracts. But Japanese trade and the Japanese economy should change considerably if the yen holds at about ¥200 to the dollar.

Q: *What about the impact on the global economy?*

Ejiri: It is very difficult to characterize the global economy. There are problems everywhere you look. In a way, the yen's appreciation is equivalent to lowering the patient's blood pressure. It is not itself a cure for any of the many afflictions plaguing the world economy. There is no reason to think that changes in the exchange rate alone will have a decisive impact in 1986.

Q: *If you were the doctor, what would you suggest next for this patient?*

Ejiri: The G-5 prescription has proved much more effective than we had any right to hope, and I think it has made the United States and other governments more confident of their ability to treat this patient. Even outside the G-5 countries, dollar devaluation is continuing apace. The question now is what next. I would not be surprised to see a second, third, and even fourth move made before the Tokyo Summit in May.

Now that we've got his blood pressure down, let's see what we can do about his digestive tract, his feet, his brain, and the rest of the problems. This is a cooperative effort, and it would be very good for the global economy if it was as efficacious as last fall's G-5 measures.

The commodity-exporting countries and heavily indebted developing countries are struggling, and there are still a lot of other problems that have to be taken care of if the free world is to prosper. If we can turn these problems around, the outlook will be brighter for the whole world economy. But it is still too early to tell whether or not this can be done in 1986.

But even so, I think we need more flow of actual goods. More important than currency appreciation and depreciation, more important than playing games with money, we need more manufacturing and trade activity. If we have this activity, the world economy will improve. Lately there has been more activity in commodities. While oil prices have dropped, grain prices in the United

States have risen somewhat, for example. Also, European economies are showing signs of improvement. All this is very encouraging.

Q: *This movement of goods is also important to trading companies such as your own. In addition to your Japanese exports and imports, the sogo shosha are also very active in offshore trading. How does this offshore trade fit into Mitsui's overall strategy?*

Ejiri: This is a very important part of our job. If you look at the things that are causing most of the trade imbalances—automobiles or electronics—these are things that the sogo shosha don't handle. Of course, there are a few trading companies that handle some of the paperwork for some of these products, but in the main these are exported directly by the manufacturers. There are some areas where the sogo shosha will help a company starting up with a specific problem overseas, but once things get off the ground the manufacturer usually handles everything.

So the sogo shosha themselves are importing much more than they export. This is true of Mitsui and all the other companies as well. Far from contributing to America's problems, we're a major part of the solution. We are helping export U.S. products to Japan and markets around the world.

But partly as a result of the developing countries' problems with their accumulated debts, it is no longer the case that we can sell a product, make delivery, and collect in cash. International trade has gotten much more complicated. Counter-trade and barter are much more prevalent. Even if they're a little more expensive than we'd like, we often end up accepting other products in payment for exports from the United States and elsewhere. This counter-trade or counter-purchase trade is an undesirable development countervailing free trade principles, but it has become an inescapable fact of life and it's up to us to make the best of the situation. Especially with a company such as Mitsui, with its global information network, we know, for example, which American companies have traditionally sold what products where, and what they're having trouble selling now because the purchasing country doesn't have the hard currency to pay for it. And we also know what products the purchasing country has to offer in return, and that the prices of those products are not competitive, and that they are not of good quality. We have this information, and we have used it to everyone's advantage, which is a major reason Japanese sogo shosha have been accepted so quickly as effective by offshore trading partners. There is great growth potential for offshore trade. In Mitsui's case, this offshore trade currently accounts for about 20% of our total operations, but I would not be surprised if this were eventually 50%.

Q: *Are you suggesting that Mitsui's headquarters might be moved from Tokyo to some offshore location?*

Ejiri: Why not? Why not New York? As it is,

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"Close-up of Japan" cultural activities introduce another side of contemporary Japan to overseas audiences.

the head office, personnel division, and central clerical pool are in Tokyo, but we are moving toward decentralization so that, depending on the product, the trading hub might be New York, Chicago, London or some other major city.

Q: *What about expanding domestic demand? There were continuing calls all last year for Japan to stimulate its economy, and Japan pretty much committed itself to such a policy at the G-5 meeting. Yet given the government's austerity budget for fiscal 1986 and the lack of any tax cut, most observers are saying there is little hope for demand stimulation. I know Mitsui is working to promote imports, but what about domestic demand stimulation?*

Ejiri: There is broad agreement that domestic stimulation will have to be led by the private sector. This is all very well, but I don't think the private sector can do very much here unless there is a determined government effort to prime the pump.

With the strong growth in Japanese imports and the build-up of our foreign currency reserves, there is a tendency overseas to assume that all Japanese companies and individuals are rich. But Japan is by no means a wealthy country. There's just no comparison with the United States. There is extremely fierce competition, and the tax system is very, well, taxing, for both companies and salaried individuals. It will be very difficult to stimulate the economy without greater financial resources being available to companies and citizens alike. America has this kind of leeway. Most of the companies are in good shape financially, and there are all kinds of legal loopholes that keep the effective tax rate down. For example, if you borrow money from the bank, the interest payments are all tax-deductible, no matter what you use the money for. This is unheard of in Japan, but introducing these kinds of loopholes and incentives here might well provide a strong dose of economic stimulation. And if the economy picked up, this would naturally yield incremental tax revenues. I know things are not as simple as all this, but the government has to take specific actions to stimulate domestic demand. Jawboning is not enough.

Q: *What is the outlook for the economy this*

year? I know this is a crucial concern for the trading companies. The government is predicting 4% growth, but most private forecasters are saying it will be closer to 3%.

Ejiri: The yen's appreciation will probably put a damper on both exports and the economy as a whole for the first half of the year. This will actually work to the advantage of the United States and other countries, and I would expect revitalization in these countries' economies and the world economy at large in the second half. And this will then have a favorable impact on Japan, given its high reliance on world trade.

Q: *There has been considerable talk that the trade companies are in eclipse. The major manufacturers have developed their own trading capabilities, and the outlook is grim for the trading companies. But despite all the talk, Mitsui and the other sogo shosha have recorded increased earnings and higher profits both last year (ended March 31, 1985) and the first half of this year. What is the secret?*

Ejiri: For one thing, we've got more flexibility than the manufacturers do. In manufacturing, you are pretty much committed to a particular product—in terms of the investment in development, tooling and production—and it can be fatal if the product doesn't sell. But if a trading company sees that one product isn't selling well but that another is, it can switch from one to the other. Markets are changing very rapidly, and times are very exciting for a company that has the ability to anticipate developments and keep ahead of them. At Mitsui, for example, we've gone into a number of new fields in the last year alone.

Of course, this means management has to be alert and able to shift people from the slower-growing traditional fields to new fields, and to have the right people in the right place at the right time. Our business is changing radically, but the outlook is bright.

Q: *By new fields do you mean the information industry?*

Ejiri: Information, semiconductors, electronics, the whole lot. For example, jointly with Hughes and C. Itoh we are going to put up a

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satellite pretty soon for telecommunications. And we're also involved with Tokyo Electric Power in the Tokyo Telecommunications Network project to set up two new networks outside the traditional Nippon Telegraph and Telephone (NTT) system. There are still a lot of questions about how these new fields will contribute to our total operations and how profitable they will be, but I'm looking for very fast growth over the next few years.

Q: *You seem to be at a stage in information processing and transmittal where it is mostly investment with not much to show for it right away.*

Ejiri: Even so, the outlook here is for more volume and more profitability than we had at first anticipated. This should be a very exciting field.

About 70% of the United States GNP is in the service sector now, and the trend lines are the same for Japan. So like it or not, the sogo shosha are going to be increasingly involved in services, and this sector should grow to become a major part of our business.

Q: *What about China?*

Ejiri: We are very interested in the prospects of doing business in China, India, and other highly populated countries. And unlike the Latin American countries, China and India are not burdened with massive accumulated external debt, so I think we will see slow-but-steady growth in these countries. These are countries with great potential, and they should be very rewarding business for a company that can do it right. Of course, there is some investment risk involved, but the payoff can be enormous.

Q: *I have heard that Mitsui has sent a grain trader with lots of Chicago experience to the Beijing office.*

Ejiri: Grain is, along with hydrocarbons, a major item in our trade with China. Even now, we are major importers of Chinese corn and soybeans. There are all kinds of new products showing up in new areas, and we are actively shifting our resources to make sure we take advantage of every opportunity. There's no way this is a time of stagnation for the sogo shosha.

Q: *Even so, Mitsui and the other sogo shosha are working to streamline operations and cut back on staffing.*

Ejiri: I wouldn't say Mitsui is retrenching. We're hiring about 150 new college graduates every year. But we are a bit top-heavy organizationally because we have all these people in their fifties. So even if we hire 160 people, we still end up with 60 fewer people if 220 of the more senior employees retire. This looks like we're cutting back, but it is more a healthy restructuring of our corporate demography. Far from cutting back, we're constantly on the lookout for mid-career experts who fit into our plans.

Q: *Given Mitsui's position as one of the leading sogo shosha, how do you see your responsibilities to the global economy?*

Ejiri: I would hope that world trade could grow based upon free market principles. This

goes without saying. However, when you look at the friction with the United States, the developing countries' debt problems, and all the economic difficulties they are having in Europe, it is clear that something has to be done. Japan cannot simply advocate laissez-faire competition and take the position that it is only natural for Japan to win because we're making quality products at reasonable prices. This is bound to throw the world economy out of whack. We can never have world order so long as the global community is just a collection of people scheming to sell more and looking out only for themselves. Even as we observe free trade principles, we may have to revise the world trade system so that free trade can work more smoothly and more to everyone's benefit. Japanese companies have to put themselves more in the other side's shoes in their trading.

As one of Japan's leading companies, Mitsui is also promoting cultural exchange activities for enhanced mutual understanding on the non-governmental level. Of course the trade friction is an economic problem and has to be resolved through economic means, but enhanced international understanding is essential to solving our deeper problems. Japan has been a faceless country for too long. We need to make other people more aware of Japan's own cultural traditions, show them how Japan has been eager to draw upon other cultures, and demonstrate that there are common grounds for discussing issues with Japan.

The 30 companies in the Mitsui group have been jointly funding "Close-up of Japan" cultural activities since 1983. These are exhibitions and other activities to introduce modern Japan to overseas audiences. For example, for two and a half months in the fall of 1983, we sponsored Issey Miyake's "Body Works" spectacle, a showing of Kakiemon porcelains titled "A Colorful Tradition," and the director Nagisa Oshima's personal appearance and film showing in San Francisco. San Francisco's Mayor Diane Feinstein even proclaimed "Close-up of Japan Week." In February-April 1984, we sponsored Seiji Ozawa and the Japan Philharmonic, and theatrical performances by SCOT, a modern Japanese theater group, in London. And this year, we had a very good turnout for the Japanese contemporary dance, film festival, and video works exhibition in New York from November 1985 to February 1986. Although such activities can be costly, we definitely want to continue them. At the same time, we hope other trading companies and corporate groupings will be more active in cultural exchange. Until now, Japanese companies have engaged mostly in unadulteratedly economic concerns, but we need to leaven this with a more human touch and get to know each other better.

In a way, we've been like a coffee shop that only sells coffee black, and now we're offering cream, sugar and doughnuts to serve the entire market. ●

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