

THE *SŌGŌSHŌSHA* AND ITS FUNCTIONS IN DIRECT FOREIGN INVESTMENT

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I. SPECIAL QUALITIES OF THE *SŌGŌSHŌSHA*

SINCE THE 1960s the leading trading companies of Japan have been called "*sōgōshōsha*."¹ In Japan today, there are only ten enterprises which are referred to as "*sōgōshōsha*." They are:

1. Mitsubishi Corporation
2. Mitsui & Co., Ltd.
3. Marubeni Corporation
4. C. Itoh & Co., Ltd.
5. Sumitomo Shoji Kaisha, Ltd.
6. Nissho-Iwai Company, Limited
7. Toyo Menka Kaisha, Ltd.
8. Kanematsu-Gosho Ltd.
9. Ataka & Co., Ltd.
10. Nichimen Company, Limited

However, there are almost ten thousand enterprises called "*shōsha*" ("trading companies") in Japan. Among these ten thousand, only the ten listed above are called "*sōgōshōsha*." If one tries to define a "*sōgōshōsha*," the easiest way is first to examine the characteristics which differ from those of other trading companies. There are five aspects that clearly separate the *sōgōshōsha* from the *shōsha*. They are: (1) The scale of a *sōgōshōsha* is extremely large. (2) The sphere of activity ranges from domestic to overseas. (3) The kinds of merchandise handled are extremely diverse. (4) A *sōgōshōsha* functions as a source of commercial capital in many areas. (5) The *sōgōshōsha* itself is the center of its own group of enterprises, and at the same time a member of a bigger enterprise group.

The scale of a *sōgōshōsha* is large compared to other trading companies. In Japan, annual sales provide the common measure of a firm's scale. Toyota Car Sales is the only trading company that ranks with the ten *sōgōshōshas*. When comparing other trading companies to the ten *sōgōshōshas*, annual sales are extremely small.

The capitalization or equity capital of a Japanese firm is, generally speaking, rather small. The capitalization of a *sōgōshōsha* is high when compared with

¹ Literally, "general trading companies."

TABLE I
SŌGŌSHŌSHA'S GROSS SALES

	(\$ million)
Mitsubishi Corporation	30,468
Mitsui & Co., Ltd.	26,284
Marubeni Corporation	19,209
C. Itoh & Co., Ltd.	18,769
Sumitomo Shoji Kaisha, Ltd.	18,365
Nissho-Iwai Company, Limited	13,199
Toyo Menka Kaisha, Ltd.	7,983
Kanematsu-Gosho Ltd.	7,693
Ataka & Co., Ltd.	6,663
Nichimen Company, Limited	5,627

Source: Corporate security reports.

- Notes: 1. Gross sales from April 1975 to March 1976 are given.
2. Calculated at an exchange rate of 300 yen equal to \$1.00.

other trading firms, but it is a small percentage of total assets or annual sales. Total assets themselves are quite large, but they are comprised mainly of accounts and bills receivable and total liability is comprised mainly of accounts payable, notes payable, and loans. Because a *sōgōshōsha* actively uses its ability to borrow from banks—that is, it takes advantage of the credit it has accrued—its assets are large.

The *sōgōshōsha* is one form of trading company; but whereas smaller trading companies usually limit themselves to import/export activities, the *sōgōshōsha* also handles the distributions of goods in the domestic market. About 50 per cent of the *sōgōshōsha*'s annual sales come from domestic activity.

In domestic distribution in Japan, a wholesaler is usually called a *tonya* (the word itself is not unrelated to foreign trade) but the *sōgōshōsha* also doubles as a *tonya*.

For a period of time after World War II (until the beginning of the 1950s), the scale of Japan's domestic market was small. However, the domestic market grew rapidly due to the economic growth policies of industrial reconstruction. Therefore, in order to ensure its own corporate growth, it was necessary for the trading company to turn its attention toward the domestic market and play the supportive role required by manufacturing industry which was channelling its investments into the establishment of modern, mass production facilities (e.g., the steel and machinery industries). These were the ten firms which today are called *sōgōshōsha*. The profits acquired in the domestic market were then invested overseas and used to rebuild the foreign trade which had been destroyed during the war. Thereby, trading firms became the importers of raw materials and equipment that were needed by industry and exporters of the finished products.

From the 1950s until the first half of the 1960s, Japan's balance of international payments situation deteriorated due to the rise of imports and improve-

ment of the domestic economy. Therefore, the government enforced a tight money policy and import limitations. With the tight money policy, however, industries which had been investing in production expansion faced the problem of over-capacity and at this point *sōgōshōsha* stepped in and attempted to expand exports. Indeed it was the *sōgōshōsha* that was in the best position to respond to the demands of industry.

Another special quality of *sōgōshōshas* is that, compared with smaller *shōshas* ("trading companies"), they handle a very wide range of products. They handle metals, machinery, fuel, chemicals, textiles, foodstuffs, lumber, real estate, and other miscellaneous goods. The very reason that the word "*sōgōshōsha*" come into use was that the kind of products they dealt with were varied (*sōgō* = general, all-around). The more they diversified from the handling of raw materials and production equipment to the distribution of finished products in the domestic market, the more varied their product mix became. The expression "from *rāmen* to missiles" which is often used to express the wide range of products that a *sōgōshōsha* handles, is a truly apt description of *sōgōshōsha* activities.

Even though the *sōgōshōsha* handles a wide range of products, they still tend to specialize in certain types of goods. In some cases the *sōgōshōshas* hold only a small portion of the distribution of a particular product. Generally speaking, basic industrial products comprise the largest portion of a *sōgōshōsha*'s total sales. Raw materials comprise a larger portion of total sales than finished products. In the case of consumer durables, such as automobiles and electrical appliances, the *sōgōshōshas* handle their raw materials, but they lack the capabilities to market the finished goods. *Sōgōshōshas* do handle some finished goods, but this activity comprises only a small percentage of total sales. And even in the case of raw materials, *sōgōshōshas* are not heavily involved in the import of oil. This is because there are sales firms which specialize in the distribution of automobiles, electrical appliances, and there are also firms which specialize in the importing of oil. Automobiles, electrical appliances, and oil are all extremely important in the contemporary Japanese economy, and the fact that *sōgōshōshas* are not involved in these areas reveals one of their weaknesses.

By background and growth process differences, the *sōgōshōsha* can be divided into the old *zaibatsu*² trading companies; the textile trading lineage (commonly called "*ito-hen*"—thread radical³) and the metal company lineage (commonly called "*kane-hen*"—the metal radical). However, it is questionable whether or not this way of classifying accurately depicts the special quality of today's *sōgōshōsha*. It would, however, be suitable to say that the entrance of the textile trading company into the field of heavy and chemical industries has been a strong factor in the formation of the image of the modern *sōgōshōsha*.

² *Zaibatsu*: a financial clique; a giant family trust.

³ A radical is the left-hand side of a Chinese character which often gives generic information about the character. Thus, characters bearing the "thread radical" have some general connection with thread or textiles and those bearing the "metal radical" with metal, ore, or money.

The fourth unique feature of the *sōgōshōsha* is that its functions are not confined to buying and selling merchandise. It also plays an important role in finance and the gathering of information. The financial power of a *sōgōshōsha* is not only greater than that of smaller trading firms, but in many cases it is greater than that of many large industrial enterprises. However, as I mentioned previously, the unique feature of this financial power is that it is comprised almost entirely of debt financing from banks.

There are over one hundred banks from which the *sōgōshōshas* borrow funds. What is the purpose of these borrowed funds?

First, a smoothly functioning distribution system requires money for the coordination of the conditions of payment. For this smooth distribution of goods to occur, it is necessary to relax the terms of payment for the buyer, while the producer needs early payment of his accounts receivable. By using the credit it has accumulated, the *sōgōshōsha* is able to borrow from banks and fill the gap between the requirements of producer and customer.

The reason *sōgōshōshas* have assumed this role is closely related to the policies of high economic growth taken by the government and business community in Japan. The formation of industrial capital required not only government assistance but also the cooperation of private capital. The resulting increase in capacity naturally resulted in increased output. The goods had to be distributed, consumed, and paid for. It requires capital to specialize in the distribution of goods and handle commercial financing. This role required trading companies, and the *sōgōshōshas* were in the position to be strong players.

After World War II, banks were eager to avoid the risk of directly lending to Japan's weakened industrial firms. Firms which were willing to assume this risk were particularly attractive to banks. This is where the *sōgōshōshas* stepped in. Because the *sōgōshōshas* handled distribution while assuming the risks of commercial credit, they were in a better position to protect themselves.

The fact that they deal in a wide variety of products also served as protection—the losses incurred in one industry could be covered by profits from another. Thus, banks continued increasing their loans to *sōgōshōshas*. For banks, this was an efficient mode of operation, and together with the *sōgōshōsha* they were able to strengthen their authority over industrial capital and become the centers of Japan's industrial groupings.

The *sōgōshōshas* use their capital not only for commercial credit. They also invest in equity and directly finance many industrial enterprises. This money also comes from banks. And as they become more multinational they have begun to increase loans from foreign banks as well.

As a fifth characteristic, while the *sōgōshōshas* have made themselves the center of an industrial group, at the same time they are members of even larger industrial groups. This is particularly true of those *sōgōshōshas* which affiliated with the old "zaibatsu"—Mitsubishi Corporation, Mitsui & Co., Ltd. and Sumitomo Shoji Kaisha, Ltd. With the dissolution of the zaibatsu after World War II, Mitsubishi Corporation and Mitsui & Co. were broken down into more than

one hundred small firms; but through large-scale mergers, Mitsubishi in 1954 and Mitsui in 1963 re-emerged as *sōgōshōshas*. In contrast, Sumitomo Shoji was established after the war, but as a late comer it was still able to grow rapidly because of the support of the Sumitomo group. Even the "non-zaibatsu" *sōgōshōshas* have developed close relations with the large city banks from which they borrow a sizeable portion of their funds, and they too have come to form, with these banks, industrial groups which compete with the older zaibatsu groups.

By investing borrowed funds in various kinds of industrial firms, the *sōgōshōsha* in a sense comes to embrace an emerging group. With a large number of affiliates, the *sōgōshōsha* can be said to have become a kind of holding company.

II. FOREIGN TRADE ACTIVITIES OF THE *SŌGŌSHŌSHA*

The trade activity in Japan increased year by year. In 1975, exports totaled 57 billion dollars and imports totaled 58.2 billion dollars. In the free world, Japan's foreign trade ranks third after the United States and West Germany and is almost the same as that of West Germany. The growth of Japan's foreign trade is a factor accounting for the increases in the foreign trade activities of *sōgōshōshas*; at the same time, the expansion of *sōgōshōshas*' foreign trade activities has been one of the factors contributing to the remarkable strength of Japanese foreign trade.

The strengthening of competitiveness of Japanese industry, the world-wide spread of free trade and the general world-wide increase in international trading activities are often given as factors accounting for increases in Japanese trade; but the central role played by *sōgōshōsha* can also be given as an important factor.

During the twelve-month period from April 1975 to March 1976, the exports of the 10 *sōgōshōshas* totaled 32 billion dollars, imports totaled 32.2 billion, and "third country trade"⁴ totaled 14.9 billion dollars giving a total of 79.1 billion dollars in trade dealings. This is roughly 56 per cent of all Japanese exports and 55 per cent of all imports.

The *sōgōshōsha*'s bases of foreign trade are scattered all over the world. These bases are divided into branch, representative, or liaison offices, and locally incorporated affiliates. The number of the latter is increasing more than the former; some *sōgōshōshas* have more than one hundred. *Sōgōshōsha* employees stationed abroad number about 6,000; combined with the approximately 15,000 locally employed workers the total overseas workforce exceeds 20,000. About 15 per cent of all male employees are stationed abroad at any given point in time. If you add together the *sōgōshōsha* employees sent abroad from Japan with those working in the foreign trade divisions at home, the combined total is approximately 40,000.

As previously stated, one difference between *sōgōshōshas* and other trading

⁴ "Third country trade" refers to trade between the foreign affiliates of Japanese firms and third countries, e.g., trade with Europe generated by locally incorporated affiliates of a *sōgōshōsha* in New York.

TABLE II
FOREIGN TRADE SALES OF THE SŌGŌSHŌSHA'S

	(\$ million)			
	Exports	Imports	Third Country Trade	Overall Totals
Mitsubishi Corporation	5,177	8,656	2,228	16,061
Mitsui & Co., Ltd.	5,371	5,479	1,972	12,822
Marubeni Corporation	5,075	3,544	2,088	10,707
C. Itoh & Co., Ltd.	3,725	3,794	1,350	8,869
Sumitomo Shoji Kaisha, Ltd.	4,030	2,663	1,862	8,555
Nissho-Iwai Company, Limited	3,137	2,676	1,287	7,100
Toyo Menka Kaisha, Ltd.	1,662	1,236	1,599	4,497
Kanematsu-Gosho Ltd.	1,411	2,033	763	4,207
Ataka & Co., Ltd.	1,024	899	1,081	3,004
Nichimen Company, Limited	1,383	1,266	699	3,318
Total	31,995	32,246	14,899	79,140

Source: Corporate security reports.

Notes: 1. From April 1975 to March 1976.

2. Calculated at an exchange rate of 300 yen equal to \$1.00.

companies is that they not only handle foreign but also domestic trade, but the volume of foreign trade handled by the *sōgōshōsha* still exceeds that of other types of trading companies. Whether foreign or domestic, the amount of trade handled by the *sōgōshōshas* is exceeded neither by other trading companies nor by domestic wholesaling companies. In fact, the *sōgōshōsha* is probably one of the world's unique commercial operations.

If one examines trade in Japan, even today, the number of manufacturing firms which import and export directly is smaller than those which depend on the *sōgōshōshas*. According to the statistics of the Ministry of International Trade and Industry, two-thirds of Japan's exported manufactured goods and three-fourths of Japan's imported manufactured goods are handled by trading companies.

Why do trading companies carry out trade in this specialized way? There are three reasons to be considered.

The first reason is that since the Meiji era, establishing Japan as a "trading country" has been a national goal. This goal was one of the important pillars of the national policy to industrialize. However, achieving the goal of larger-scale industrialization required companies specialized in importing raw materials and exporting finished products. Even today, one of the company mottoes of the Mitsubishi group is *ritsugyō bōeki* ("industrialization through foreign trade"). This *ritsugyō bōeki* philosophy held by the enterprises has been instrumental in achieving the national goal of making Japan a "trading country." A great number of the firms of the Mitsui group are enterprises that were spun off from Mitsui & Co. Thus, Mitsui & Co. is the core of the Mitsui group in both name and reality.

The principle of inducing industrialization through foreign trade was strong

among Japanese firms from the Meiji period. It is firmly embedded even today, particularly in the thinking of the *shōsha*-man.

The second reason for the emergence of specialized firms such *sōgōshōsha* can be found in the peculiarity of the Japanese language, the physical location of Japan, and Japan's lack of experience in overseas trading activities. Japan's isolation during the Edo period (1603–1868) was a barrier to the cultivation of international consciousness. The Japanese language had hardly anything in common with the languages of Europe and America, so it took a long time to master these foreign languages. In order to overcome these obstacles as rapidly as possible, it was necessary to train trading specialists. Many of the trading company employees were members of an elite who were graduated from commerce or foreign language schools where they obtained the necessary special skills. In this way, trading companies were necessary to overcome Japan's handicaps as a foreign trader.

The third reason has to do with colonial trade. Countries which were developed in trade such as England and the Netherlands possessed huge trading companies for the purpose of colonial management. The East India Company was a typical example. Japan as a developing capitalistic country also ventured into acquiring colonies. Prior to Japan's defeat in World War II, colonies had been acquired in China, Korea, and various other Asian territories. The trading companies played a large role in the management of these colonies.

For the above reasons, since the Meiji period, special trading companies have existed to administer Japan's trade. The idea of "productionism" has long been espoused by Japanese industry; in contrast, however, "foreign trade-ism" has had a long history among trading companies. "Tradism" here means a faith in the trading company's role of importing raw materials to resource-poor Japan and accumulating foreign exchange by exporting finished goods.

After World War II, even though foreign trade was at a low ebb, the reconstruction of trading companies was given high priority, and the conditions for finance and employment were made favorable. Then, in the 1950s the unique *sōgōshōshas* commenced to grow rapidly. The revival of Japan's trade since the nadir after World War II was due to the special procurement boom during the Korean War. After the procurement boom had ended, many companies were burdened with a large deficit. Today's *sōgōshōshas* were able to expand through taking over the markets of the companies which failed.

However, the place of *shōshas* in foreign trade, even though still substantial, is gradually declining. The percentage of exports handled by *shōshas* was 82.6 per cent in 1960, 72.3 per cent in 1965, and 68.8 per cent in 1970. Most recently this percentage declined to 67.1 per cent. A similar trend has occurred in imports. Whereas *shōsha* accounted for 83.8 per cent of imports in 1960, the percentage fell to 79.5 per cent in 1970 and today is 77.7 per cent. The actual amounts of foreign trade sales has of course increased, but the share has clearly declined, and this decline has been more marked for exports than imports.

The reason for this decline is that more manufacturers are trading directly.

Direct exporting is particularly marked among manufacturers of cars and household electrical appliances. Export of these items has increased in the 1970s and little of this trade was handled by *sōgōshōsha*. Among imports, *sōgōshōshas* handle little of Japan's imported petroleum. The portion of petroleum imports among Japan's total imports has increased both because of the increased demand for energy and increases in oil prices, and this led to the declining *sōgōshōshas'* share of imports among trading companies.

The fact that the *sōgōshōshas* handle only a small portion of these goods which are becoming increasingly important in Japanese foreign trade clearly reveals one of their weaknesses as trade specialists. Obviously even though they have dealt in goods which were important in the past, they have not adapted to changes in industrial structure.

It has become impossible for the trading company to monopolize the trading business. The number of people who can speak and understand the foreign languages used in trade such as English, is increasing. Due to the compulsory exposure to foreign languages in schools and the increasing number of people going abroad for travel and study, trading company employees are not the only ones who know about foreign languages, customs, and cultures. An increasing number of employees in industrial firms possess these skills. Many people come from overseas to visit manufacturers, and there are increasing opportunities to talk directly about management and technology. Common rules of trade are required among countries with different commercial customs. Of course, it takes a certain amount of time to master these rules; but the rules are becoming increasingly simplified to the point that soon anybody will be able to master them. This makes it easier for a manufacturer to trade directly.

Because of this situation, the *sōgōshōshas* are trying to expand their share of trade at the expense of other trading companies, and they are also trying to expand their operations in foreign markets. The former means invading the market share of small and medium-sized firms, the latter means increasing third country trade. While the former is a destructive way of coping with the problem, the latter solution has led *sōgōshōshas* into independently establishing operations in countries which other Japanese manufacturers have not approached. Moreover, they have tried to avoid being eliminated from trade operations by investing overseas. While still secure at home, they are investing their profits abroad.

Only the *sōgōshōshas* participate in third country trade. This refers to the trade among foreign non-Japanese countries and the distribution within foreign countries. The amount of this trade which is revealed in Japanese statistics is limited to that among branches of the home office. Domestic marketing in foreign countries and trade among foreign countries by subsidiaries incorporated abroad do not appear in the trade statistics of the home office in Japan. Japan does not require firms to report figures about the operations of subsidiaries incorporated abroad. It is said that the sales of these foreign firms are quite large, but because they need conform only to the requirements of the host country, there is no sure way of estimating the amounts.

III. OVERSEAS INVESTMENTS OF THE *SŌGŌSHŌSHA*

The cumulative figure for postwar overseas investments of Japanese enterprise in the twenty-five years from 1951 to 1975 came to 15,946 million dollars. Thirty-three per cent of the investment is in manufacturing, 26 per cent in resource development, and 39 per cent for such things as trade and service. Concerning manufacturing, the greatest investment was in the textile industry at 7 per cent, the chemical industry at 6 per cent, and steel and nonferrous at 5 per cent. The mining industry made up the majority of the 26 per cent for resource development. In the trade and service category, commerce constituted 16 per cent.

TABLE III
THE APPROVED AMOUNT OF JAPANESE OVERSEAS INVESTMENT

	Total Approved	For Manufacturing	For Resource Development	For Trade and Service
1951-71	4,435	1,201	1,279	1,955
1972	2,338	526	945	867
1973	3,497	1,516	667	1,314
1974	2,396	879	795	722
1975	3,278	1,088	864	1,327
Total	15,945	5,210	4,550	6,185

Source: Materials from Bank of Japan.

The quantity of overseas investments has increased rapidly since the beginning of the 1970s. Investments made in the six years of the seventies make up 80 per cent of the overall total. The international competitiveness of Japanese industry caught up with that of the advanced nations in the latter half of the 1960s, but this was mainly in the area of exports; since overseas investments were not significant until the 1970s. In fact, the so-called multinational firm found in Europe and the United States is rare in Japan even today.

These figures are only the cumulative amount of overseas investment approved by the Japanese government. It is uncertain whether the full amount has actually been invested. It is also not clear in which industrial fields and in which countries the investments were made. Also, the figures show only the foreign exchange and yen invested from Japan; they do not show the capital acquired abroad.

It is not clear how much Japanese foreign investment is accounted for by *sōgōshōshas*. However, when looking at some of the figures of overseas investments from the security reports of the ten *sōgōshōshas*, a rough estimate is possible.

The total reported investment in common stock and other securities and funds invested in affiliates was 1,803 million dollars in March 1976. This is about 12 per cent of the above mentioned 15,946 million dollars approved by the Japanese government up to that time.

Originally, the object of the funds of the *sōgōshōsha* was loans, not investment.

TABLE IV
SŌGŌSHŌSHA'S OVERSEAS INVESTMENTS

(\$ million)

	Stock	Funds Invested in Affiliated Subsidiaries	Total
Mitsubishi Corporation	123	221	344
Mitsui & Co., Ltd.	218	232	450
Marubeni Corporation	127	183	310
C. Itoh & Co., Ltd.	87	155	242
Sumitomo Shoji Kaisha, Ltd.	26	83	109
Nissho-Iwai Company, Limited	37	49	86
Toyo Menka Kaisha, Ltd.	23	46	69
Kanematsu-Gosho Ltd.	13	48	61
Ataka & Co., Ltd.	19	52	71
Nichimen Company, Limited	6	55	61
Total	679	1,124	1,803

Source: Corporate security report.

Notes: 1. As of the end of March 1976.

2. Calculated at an exchange rate of 300 yen equal to \$1.00.

The financial function of the *sōgōshōshas* was to extend credit for the distribution and foreign trade of products. Investments take time to turn a profit, and because heretofore *sōgōshōshas* depended on short-term money borrowed from banks, they extended commercial credit and then worked to pay the interest. But it is now necessary for them to enlarge their investments both at home and abroad. This is the one certain way of guaranteeing their markets.

Sōgōshōsha's overseas investments are increasing year by year. The areas of these investments can roughly be divided into the following four categories:

- (1) Investments in the development of resources in countries with natural resources.
- (2) Investments used for the purpose of industrializing developing countries.
- (3) Investments in the transformation of foreign branches into locally incorporated firms.
- (4) All other investments.

Of course, these operations are objects for loans as well as investment, but the loans focus mainly on the deferred payment of exports and usance of imports.

The funds needed for these overseas activities are raised through various financial institutions—The Japanese Export-Import Bank, city banks, and other domestic banks; foreign banks; insurance companies, etc. As mentioned above, the *sōgōshōshas* have little equity, they depend mainly on loans from foreign and domestic financial institutions. Foreign investments are no exception.

The amount of loans that the *sōgōshōshas* get from government affiliated financial institutions is very large. Long- and short-term borrowings from the Export-Import Bank of Japan for overseas activities totaled 2,918 million dollars at the end of March 1976. This is the largest amount the *sōgōshōshas* have borrowed from one institution. Because the credit rating of *sōgōshōshas* ranks

high among trading companies, the Export-Import Bank is eager to loan to them.

Japanese investments for the development of resources in developing countries increased markedly in the latter half of the 1960s. The resource development of iron ore, coal, nonferrous metals like copper, oil, natural gas, lumber, and fishery products became the objects of the *sōgōshōsha's* investments and loans. Of course they did not start to extend investments and loans to all of them at once. First, loans were given to mineral resource development, like iron ore and coal which were necessary for the expansion of the Japanese industrial capacity. Next, the securing of food and energy resources became indispensable for Japan's economy, so the *sōgōshōsha's* investments and loans started in those fields.

As Japan has limited national resources, it is imperative to obtain the necessary resources for expanding industry from overseas. The more famous large-scale operations today include: Mount Newman, Hamersley, Savage River, and Robe River of Australia and Rio Doce and Carajas of Brazil for iron ore; Vicary and Balmer of Canada and Hailcreek of Australia for coal; Musoshi of Zaire for copper; New Caledonia for nickel; and Brunei and Alaska for LNG.

These are not projects of the *sōgōshōshas* alone, but projects done in cooperation with the users of the resources such as iron and steel industry, the nonferrous metals industry, and the electric power companies. It is because the bigger the project, the more the necessity to determine the demand of the products.

Industrial development hastened the decline of Japanese agriculture and the fishing industry. However, the demand for agricultural and fishery products has continued to increase. So, in order to fulfill this demand, Japan has had to obtain raw materials for food, clothing, and housing from overseas. This includes not only resources such as wool, wheat, and livestock which have always been in short supply, but also vegetables and fish. Almost all of the food, clothing, and housing resources that Japan needs have to be imported. As a result, it was necessary for the *sōgōshōshas* as active traders, to expand their activities to include these fields. *Sōgōshōshas* have expanded operations to include the importing of cotton and wool for the textile industry, soybeans, corn, livestock, various oils and fats, sugar imports in the food industry; shrimp, tuna, herring, and eel imports in the fishing industry; and bananas, grapefruits, and lemon imports in the fruit industry. They not only import the products locally produced, but increasingly they also invest in and give loans to local cultivation and breeding.

Sōgōshōshas believe they have contributed to obtaining the resources necessary for the expansion of the Japanese economy. They claim that without them it would probably be impossible to obtain the raw materials needed by Japanese industries and the resources necessary for daily life. This assertion is believable for no other reason than that while the economy was growing it was never necessary for the government to actively formulate a policy aimed directly at obtaining resources. As a matter of fact, there was also a strong feeling that in a free economy, private enterprises secure the necessary resources and the government would only need to help them from the side. Therefore, without participating directly in resource procurement, the government was only the overseer of overseas transactions; when necessary it assured access to funds, and promulgated

the policies necessary for protection and requisite privileges. *Sōgōshōshas* have been fully utilizing such government policies.

Investments in the industrialization of developing countries have been increasing considerably since the 1960s. The primary purpose of this investment has been to develop industries in underdeveloped countries in order to sell the necessary industrial equipment from Japan. The required construction materials and production equipment are exported from Japan. *Sōgōshōshas* provide the production equipment and then market the products in the local country, in Japan, or in a third country.

The main area for this type of operation is Southeast Asian countries. Japanese exports to Southeast Asian countries are second only to those to the United States. However, these exports to Southeast Asian countries do not always contribute to local industrialization. Therefore, Southeast Asian countries are starting to adopt a policy of fostering local industry growth in order to prevent overdependence on imports. Investing in local production operations is one way of circumventing these protectionist policies. The initial investments in these countries facilitate later investments.

Furthermore, the establishment of light industry in developing countries, where wage rates are low, weakens competitiveness of related industries in Japan. Commonly, it is more profitable to invest in these kinds of operations in developing countries than in Japan. There are a number of examples such as textile goods, steel materials, lumber processing, and sundry goods. These kinds of investments are continuing to increase among *sōgōshōshas*.

In preparation for becoming multinational corporations, the *sōgōshōshas* are transforming their foreign representative offices into locally incorporated companies. This is a trend which started in the 1970s. The *sōgōshōsha* with the most locally incorporated affiliates is Mitsui, with twenty-five; and Toyo Menka and Ataka have the least with eleven firms.

TABLE V
LOCALLY INCORPORATED FOREIGN AFFILIATES

	North America	Europe	Asia	Persian Gulf & Africa	Latin America	New Zealand & Australia	Total
Mitsubishi Corporation	2	7	2	2	9	2	24
Mitsui & Co., Ltd.	2	10	2	1	8	2	25
Marubeni Corporation	3	8	0	1	6	3	21
C. Itoh & Co., Ltd.	2	3	1	1	5	2	14
Sumitomo Shoji Kaisha, Ltd.	2	4	1	1	5	1	14
Nissho-Iwai Company, Limited	2	4	2	1	5	2	16
Toyo Menka Kaisha, Ltd.	3	2	1	1	2	2	11
Kanematsu-Gosho Ltd.	2	4	2	1	3	2	14
Ataka & Co., Ltd.	3	2	1	1	2	2	11
Nichimen Company, Limited	3	5	2	1	4	2	17

Source: Corporate security reports.

Note: The number of affiliates as of March 1976.

In North America, locally incorporated affiliates have been set up both in the United States and Canada. The American affiliates are the largest in scale. The scale of their capital ranks with the capital of the home company. In the case of Mitsui, Sumitomo, and Nichimen capitalization exceeds that of the home company. Annual sales of Mitsubishi and Mitsui affiliates exceeds 3 billion dollars. American affiliates have their main offices in New York and branch offices and liaison offices in Chicago, San Francisco, Los Angeles, and Dallas, etc., with a few located in Latin American countries like Guatemala, Nicaragua, and San Salvador.

TABLE VI
THE CAPITAL OF EACH *SŌGŌSHŌSHA*'S AFFILIATED FIRMS IN AMERICA

	Capital of Affiliated Firms	Capital of Home Companies*
Mitsubishi Corporation	125,000	132,520
Mitsui & Co., Ltd.	130,000	114,760
Marubeni Corporation	75,000	118,850
C. Itoh & Co., Ltd.	78,100	116,370
Sumitomo Shoji Kaisha, Ltd.	52,500	52,280
Nissho-Iwai Company, Limited	34,650	64,860
Toyo Menka Kaisha, Ltd.	23,575	33,330
Kanematsu-Gosho Ltd.	26,280*	28,380
Ataka & Co., Ltd.	27,900	38,970
Nichimen Company, Limited	35,780*	33,360

Source: Corporate security reports.

Note: Capital as of March 1976.

* Refers to a calculated exchange rate of 300 yen equal to \$1.00.

The number of locally incorporated firms is also increasing in Europe. Mitsui has set up the most, with affiliates in West Germany, France, Netherlands, Belgium, Italy, Spain, Portugal, Sweden, and Norway. There is also an active movement to establish companies to supervise European operation. Mitsubishi has established such an office in Brussels, Marubeni in Amsterdam, and Mitsui in London.

The trend towards locally incorporated affiliates is also progressing in Latin America and Oceania. Mitsubishi and Mitsui have subsidiary companies in Mexico, Panama, Venezuela, Colombia, Chile, Brazil, and Argentina. Most of the *sōgōshōshas* also have overseas affiliates in Australia and New Zealand.

The *sōgōshōshas* have been slower in establishing affiliates in developing countries in Asia, the Mideast, and Africa. Affiliates have been established in Thailand and Iran, but there are very few firms in other countries. When one *sōgōshōsha* establishes an overseas affiliated company in a particular country, others usually follow. Iran proves to be a good example of this.

There are two principal reasons why *sōgōshōshas* have transformed foreign offices into affiliated firms. First, this puts them in intimate contact with the political, economic, and social systems of the country. It puts them on the same

footing as the other firms in the country. Of course, there are times when local customs and laws are inconvenient, but there are also usually advantages in capital acquisition, distribution, investment, and credit.

Second, this frees them from following Japanese laws and customs. They can escape Japanese restrictions and take advantage of more advantageous tax and investment systems. Commonly, the *sōgōshōshas* now conclude that foreign taxes and laws are more advantageous than those at home.

Besides the above, there is also investment in sales and finance companies in foreign countries. They are also beginning to invest venture capital. Most of these investments go into advanced countries like the United States and European countries.

As mentioned above, the total sum of the *sōgōshōsha* overseas investment has become large. However, individual investments are not always so large. Also, many of the *sōgōshōshas'* investments are to their own overseas affiliated firms or related firms which means regular investments are small. Furthermore, it is not always clear whether or not the investments are making a steady profit. Even when they invest in operations which put them into competition with foreign capital, they seldom have the initiative to manage the operations. In these cases, they are usually defeated by competitors and suffer a loss. In order to avoid this danger as much as possible, *sōgōshōshas* do not always invest by themselves, but often in conjunction with other firms. So long as *sōgōshōshas* continue trade activities and aim towards the multinational enterprise system, the amount of overseas investment will surely increase. However, it is too early to become overly optimistic.

IV. THE PRESENT PROBLEMS OF THE SŌGŌSHŌSHA AND ITS FUTURE

The basic activities of the *sōgōshōsha* have gradually undergone significant changes. The main changes are:

- (1) The changing trends in the heavy and chemical industries.
- (2) The decline of their share of foreign trade.
- (3) The entrance into the consumer goods field and the resulting failures.
- (4) The limitation of the indirect financing function.
- (5) The developing countries' criticism of the multinationalization of firms.

The first problem stems from the dependence of the *sōgōshōshas* on the steel industry, which has attained matured age, and become a slow-growing oligopoly. It is not an exaggeration to say that the growth of the steel industry is what transformed some companies into *sōgōshōshas*. From the 1960s until the 1970s, the Japanese steel industry invested in technologically advanced plants and as a result Japan joined the United States, Russia, and EC group of countries as one of the four largest steel producing powers. During this period, the steel industry made huge investments in the expansion of production capacity. They imported comparable amounts of materials and manufactured a large scale. The *sōgō-*

shōshas increased sales and profits by selling steel makers equipment and raw materials and marketing the finished products. They also rationalized the distribution system in the industry by merging or affiliating with the older steel wholesalers. The steel product distribution system of today depends mainly on the *sōgōshōsha*.

Because the steel industry has been so important for the *sōgōshōshas*, the effect of declining growth rates has been significant. Though during the 1960s, the *sōgōshōsha* suffered from the effects of recession in the steel industry several times, recovery always followed, and in order to recoup losses, the *sōgōshōshas* usually increased their share of steel trade. However, presently, the slow-growing steel industry is trying to protect its own profits by decreasing its dependence on *sōgōshōshas*.

There has been a recent trend to bypass the *sōgōshōsha* in supplying steel products to the automotive and shipbuilding industries which are the largest steel consumers in the domestic market. Even though the steel industry still needs the *sōgōshōshas* in some areas, in others it is trying to eliminate them. This is a source of anxiety in the future of the *sōgōshōshas*.

But this is only the beginning of the problem. Many of the firms affiliated with the industrial groupings around the *sōgōshōshas* are of older, slower growing industrial fields. The growth of the groups as a whole is beginning to falter. The slump experienced by these groups following the oil shock particularly affected the *sōgōshōshas*. Relations with auto makers and manufacturers of household electric appliances are weakening, and there is no way to break into faster growing industries.

The second problem as previously stated is that the growth of the *sōgōshōshas'* foreign trading activity is now limited. Attempts are being made to expand foreign trade by invading the territories of smaller trading companies and increasing third country external trade, but there is little potential for expanding foreign trade in Japan.

Third, the *sōgōshōshas* have attempted to enter the consumer market, and in many cases failed. Since the start of the 1960s, the *sōgōshōshas* expanded their market into many directions, to look for new resources of profit. The *sōgōshōshas* were hit very badly during the recessions of 1961–62 and 1965–66 mainly because these recessions were particularly harsh for the heavy and chemical and other basic industries which comprised a large portion of their operations. For a time, profits declined and the number of bad notes increased. At one time, sales increases were the result of trends in the heavy and chemical industries, but at this time the *sōgōshōshas* began to realize that these fields alone did not provide for stable growth. It was at this time that they began aiming towards the personal consumers market. The industry was very weak in some parts. In the durable consumer goods market, the automotive and electrical appliance industries had shown progress, but in traditional businesses such as small retail, restaurant, and amusement businesses, and real estate, modernization was late.

Big enterprises had not yet entered these fields and so the *sōgōshōsha* made an attempt at it.

But this created a number of problems. In retail sales it is necessary to understand the consumer's needs, and here the *sōgōshōshas* lacked both experience and know-how and had to retreat after failing. In their pursuit of profit they attempted to corner commodity markets and restrict sales, resulting in social criticism. Cornering the market for toilet paper and petroleum products, tax evasion, and land speculation all became objects of social criticism. Eventually the top executives were called before the Diet and asked to account for their actions. The *sōgōshōshas*, which theretofore had dealt in goods which had little direct relation with individual consumers had come to affect the lives of individual consumers in a big way. Big corporations need profit, and as profits fell in their traditional areas of operation, they struck out for new fields. But like clumsy dinosaurs or mammoths, they trample on the weak consumer. They lost control of individual operations, and their lack of social responsibility won them only criticism. As a result it is now difficult for them to expand in this area.

The amount of loans to the *sōgōshōsha* from banks is huge and thus interest paid is also large. When a business is expanding, funds turn over quickly, and there is no problem paying interest; but when expansion and turnover are slow, the interest paid on debt becomes a burden. Today, most of these borrowed funds are used for investment and indirect financing, and there are many cases where *sōgōshōshas* have been stuck with bad notes. An example is Ataka, which is burdened with debts from its investment in the Newfoundland Refining Co. in Canada. Even a *sōgōshōsha* has a difficult time enduring these failures, and unpaid notes has been the main cause of the bankruptcies which have occurred in the last ten or twenty years.

The fact that *sōgōshōshas* depend on bank loans means that what happens to them also affects their bank. Banks are forced to bail them out when times are bad, but they cannot continue to do so forever. Even in the case of a *sōgōshōsha*, there is a limit to the amount of aid a bank can give. This is at the heart of the controversy about rationalizing the operations of Ataka.

Foreign countries have reacted to the operations of *sōgōshōshas* in various ways, but because *sōgōshōshas* have a big effect on the politics and economics of developing countries, these reactions are often critical. It is not uncommon for *sōgōshōshas* to be criticized for putting excessive pressure on local industries in host countries, for bribing local officials, for paying low wages, or for earning too much profit. The *sōgōshōshas* were especially criticized by Korea, Philippines, Indonesia, Thailand, Burma, Singapore, and Vietnam in Asia. Similar criticisms can also be heard in Africa, Oceania, and Latin America. Different criticisms are voiced in developed countries, such as the United States and Europe and socialist countries, such as the Soviet Union and China.

These criticisms from various countries and people of various social strata may not always be accurate, but still it is necessary for the *sōgōshōshas* to reflect

on their behavior. The criticisms will continue as long as *sōgōshōshas* flout local laws and customs and discriminate against local employees.

Today, the need to regulate the behavior of multinational firms is receiving special attention among the many demands the countries of the southern hemisphere are making on the industrialized world. As a Japanese form of multinational firm, the *sōgōshōshas* cannot ignore these demands.

The *raison d'être* of *sōgōshōshas* has been the development and acquisition of natural resources, something which developing countries now take very seriously. Of course, developing countries are not opposed to natural resource development itself, but they are now trying to protect themselves from other countries such as Japan which reap the profits from these resources. As a result, nationalization of resource development is now proceeding rapidly. This will also have a big effect on the *sōgōshōshas*.

In the light of the five problems outlined above, it is difficult to predict a rosy future for *sōgōshōshas*. The decline of the industrial fields in which they operate, the decline of their position in foreign trade, the limits of their financing function, the problems which accompany multinationalization are all causes for worry. Still, the *sōgōshōshas* are indispensable to the Japanese industrial structure. Even though their role is changing, the pace of change will be slow; if the pace should speed up, however, the effects on the Japanese economy, industry, and foreign trade will be great.