

# Views from a Trading House

**Interview with Minoru Makihara, president of Mitsubishi Corporation, by Takashi Suetsune, managing editor of the Journal of Japanese Trade & Industry**

Major trading houses in Japan, known as *sogo-shosha*, are unique entities without parallel in other countries. They are enormous in size and extremely versatile in trade, dealing in almost everything from instant noodles to nuclear reactors. Having served as the driving force of Japan's postwar economic development, the *sogo-shosha* are a reflection of the Japanese economy itself.

A *sogo-shosha* is in a way a cluster of hundreds of trading houses, which function as one entity. Mitsubishi Corporation, the largest *sogo-shosha* in terms of size, exemplifies them.

In June this year, Minoru Makihara, a 40-year Mitsubishi veteran, took the helm of a company which has a work force of approximately 10,000 people, with affiliated subsidiaries and branch offices in 170 places worldwide. He had seen long service with New York-based Mitsubishi International Corporation, an American corporation with a staff of 683, of whom 560 are locally hired.

Makihara is perhaps unique among top Japanese businesspeople in that he is a graduate of Harvard University. All recruits in Japan's business world are given an equal chance for promotion to president if they are capable, loyal and lucky enough. Even so, it is rare for someone educated overseas to make it to the top of a major Japanese corporation.

In an interview with the *Journal*, Makihara discussed Japan's frictions with its trading partners and other recent trade issues from a trader's viewpoint.

**Question:** *In foreign countries, there exist no large-scale trading houses directly comparable with the sogo-shosha in Japan. What are the merits of sogo-shosha?*

**Answer:** It would be extremely difficult to create large-scale corporate entities like Japan's *sogo-shosha* in foreign countries. Japanese trading houses are organized on the basis of the accumulation of long efforts and experience. Efforts to create *sogo-shosha*-type trading houses have been repeated in the United States and South Korea, where apparently they see merits in such a mechanism. The absence of large-scale trading houses like Mitsubishi in foreign countries may also be partly due to the difference in ways of thinking.

In foreign countries, personal achievement

comes first in corporate evaluation. Also, shareholders prefer short-term profits to long-term profits. Foreign companies generally operate with top executives giving unilateral instructions to their subordinates for implementation in what may be termed the "up-down" formula. In contrast, Japanese organizations like Mitsubishi operate in the reverse or "bottom-up" way, in which top executives seek ideas from a wide segment of subordinates.

Mitsubishi operates typically under this "bottom-up" formula. Mitsubishi has recruited capable talents since its earliest period—staff who could provide useful information, and in turn enabled the company to function well as an organization. Capable staff and close personal connections with the outside world have long been driving forces for Japanese trading houses. Employees' loyalty and the lifetime employment system may also be instrumental.

**Q:** *Trading houses engage in both exports and imports. So presumably they are seldom criticized in connection with trade disputes.*

**A:** Trading houses are not necessarily free from foreign criticism. I understand that the Ministry of International Trade and Industry recently received a request from the United States to find out whether Japanese trading houses serve as a factor detrimental to exports to Japan.



Minoru Makihara

Trading houses import things which earn profits. Why, then, should they deter imports? Foreign exports may experience what exporters consider to be import barriers due to some procedural mistakes. I suggest that foreign exporters make more use of Japanese trading houses, which are used to procedural problems, in exporting to Japan. We should be delighted to help them export to Japan more smoothly.

It seems to me that foreign traders often have only a vague, unfounded impression that the Japanese market is closed. If they could pinpoint what is wrong with the Japanese market, then we would be able to address their criticism. But we cannot do anything if they just complain about the "closed nature" of the Japanese market without specifics. Foreign traders' criticism of the closedness of the Japanese market often tends to be overstated, since it is a subject easily taken up by politicians and the mass media. There are not so many import obstacles in the Japanese market as generally claimed. My feeling is that foreign exporters and Japanese importers are equally bad at addressing the problems they are facing.

**Q:** *Some Japanese have been complaining lately that Japanese are criticized abroad whatever low-priced products they market, even if the products' quality is high. What is your comment on such Japanese complaints?*

**A:** It is not surprising for traders to sell high-quality goods at reasonable prices. Recently, Japanese trading companies have been increasingly participating in overseas investment programs. They not only locally sell commodities produced from such investment programs but also market them back into the Japanese home market. Depending on future exchange rates, such a trend could gather momentum.

**Q:** *Are you optimistic or pessimistic about the removal of trade frictions?*

**A:** America is a resilient society. Even if Americans deviate from the norm, eventually they return to where they should be. As far as trade issues go, it is inconceivable that the current isolationist tendency will continue forever. A possible Democratic victory in the U.S. presidential election will hardly change things, if seen from a long perspective.

**Q:** *What is your view on the interlocking business relationships in Japan known as "keiretsu," which are so often subjected to foreign criticism?*

**A:** There are two types of *keiretsu* relationships: the vertical *keiretsu*, as in the automobile industry, and the horizontal *keiretsu*, as in the Mitsubishi group. The vertical type tend to turn

exclusive if left unattended. Automakers are well aware of this and each company is taking pains to import parts from foreign countries. We should highly evaluate their efforts not to become closed, rather than abstractly discussing the rights and wrongs of *keiretsu*.

The horizontal *keiretsu* involve cross-shareholdings and interlocking directorships. Aside from cross-shareholdings, which do not exist in the United States, interlocking directorships are not especially subject to criticism from the U.S. side. The *keiretsu* relationship has an advantage in that members of the group can rapidly come to the rescue of a member company when it goes awry, instead of holding the one company solely responsible for its plight. Even foreign companies recognize the virtue of such relationships.

**Q:** *There are pros and cons in Japanese-style corporate management. What is your opinion?*

**A:** Japanese-style management is criticized for being too dependent on personal relationships. And Japanese employers are criticized for doing nothing worthy of corporate executives, merely going along with the "bottom-up" structure. But in the case of a major trading house which deals in enormous varieties of products on an enormous global scale, it is utterly impossible for one person to grasp the company's entire operations. Accordingly, the "bottom-up" formula is the source of strength for Japanese trading houses. Under the "top-down" formula as practiced in the United States and South Korea, lower-level employees tend to work only at the instruction of top executives. In countries where such a system is adopted, the corporate mechanism used in Japan's *sogo-shosha* will not work. Even so, the mechanism of *sogo-shosha* which has developed with Japan's economic advancement has now reached its limit. From now on, Japanese employers will be required to play a stronger leadership role.

**Q:** *Do you mean that the function and operations of sogo-shosha will change?*

**A:** What the *sogo-shosha* have traditionally done is to purchase resources from abroad, add value to them, export them, and earn foreign currencies with which to buy resources again. This was mainly for the sake of Japan's economic development, in other words, centered on Japan. In future, however, and already this trend is becoming significant, we will find our operations increasingly more globalized, requiring our active participation in transactions between foreign countries or in large-scale projects not necessarily involving Japan. ■

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**Even foreign companies recognize the virtues of horizontal keiretsu relationships.**