PP Jap 8/11/99 4:40 PM Page i

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Japanese Trading Companies

Their Role in Australia's Economic Development

A study undertaken for the

Committee for Economic Development of Australia

by

INSTATE Pty Ltd

July 1997

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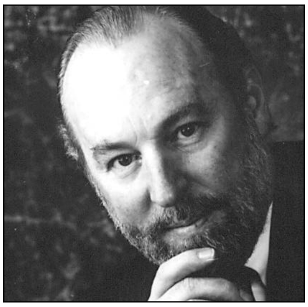
INSTATE

INSTATE Pty Ltd is a corporate advisory practice specialising in international strategic analysis, with a strong Asia Pacific focus. The company has completed a wide range of assignments for major government, institutional and corporate clients in Australia and overseas in areas such as finance and insurance, education, urban and regional development, legal and accounting services, infrastructure, microeconomic reform, agribusiness and food, media, and trade and investment.

INSTATE is headquartered in Sydney with offices in most Australian capital cities and a number of Asian capitals.

This report was principally authored by Denis Gastin, Managing Director of INSTATE Pty Ltd, with assistance from INSTATE researchers Angela Ryan, Andrew Campion and Mihoko Kondo. Prior to joining INSTATE in 1990, Denis Gastin was Chief Executive of the Multifunction Polis Joint Secretariat, which was established in 1988 to conduct a joint Australia–Japan feasibility study for a 'city of the future' in Australia. He has also held a number of senior appointments in the Australian Embassy in Tokyo and in the former Department of Trade, and has written regular columns on Asian business matters for Australian and Japanese newspapers.



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CEDA

The Committee for Economic Development of Australia – CEDA – is an independent, apolitical organisation made up of business leaders, academics and others who have an interest in, and commitment to, Australia's economic and social development. CEDA aims to undertake objective discussion and research into issues affecting Australia's growth.

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Foreword

The bilateral economic relationship between Australia and Japan is of fundamental importance to the Australian economy. Japan has been Australia's largest trading partner for over 30 years. Japan buys one-fifth of Australia's exports, provides one-fifth of inbound tourists, is Australia's principal market for commodities and is an increasingly important buyer of value-added goods and services.

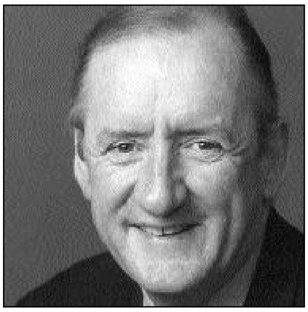
A significant component of this relationship is Japanese investment in Australia. Japan is the third largest investor in Australia – the stock of Japanese foreign direct investment (FDI) in Australia was almost $19 billion at 30 June 1996.

The *sogo shosha*, as the largest of the many trading companies in Japan, have played an important role in promoting Japan's international trading links and its rise to become the second largest economy in the world. They comprise some of the world's largest and most internationalised companies. Of the Asian region's top companies, Japanese *sogo shosha* make up the bulk. Japanese companies occupy the first 30 places of the region's top 100 companies.

These companies have made a major contribution to Japanese FDI in Australia. Although recent years have seen a decline in Japanese investment in areas such as real estate, finance, business services and insurance, there has been dramatic and welcome growth in investment in longer term and less speculative sectors such as machinery and equipment manufacturing, and to a lesser extent in mining. Statistics show that Japanese investment in Australia's manufacturing sector has grown to around 30 per cent of total Japanese investment in Australia, compared with 8 per cent between 1987 and 1990. This is certainly a trend we wish to encourage.

The Australian Bureau of Statistics estimates that our exports to Japan create – directly and indirectly – over 345,000 jobs, or approximately 4 per cent of total employment in Australia.

The *sogo shosha* continue to play an important role in Australia's economy. Given the recent changes to Japanese investment in Australia, this CEDA report provides a timely examination of their role.



Hon.TIM FISCHER, MP
Deputy Prime Minister
and
Minister for Trade
July 1997

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Contents

Figures

Tables

総合商社

Introduction

CEDA has had a longstanding interest in the Japanese economy. This has been stimulated particularly by CEDA's Japanese counterpart organisation, Keizai Doyukai, a pre-eminent Japanese business group. CEDA has participated in several bilateral meetings in Japan and Australia, and in annual broader gatherings, as part of a network of international counterpart groups.

CEDA has published jointly with Keizai Doyukai a number of publications, including *Labour Management Relations in Japan and Australia: A Comparative Study* (1989) and *Encouraging Direct Investment Between Australia and Japan* (1990). Other CEDA papers with a Japanese focus include studies of Japanese corporate philanthropy and opportunities for Australian corporations to conduct business with Japan.

Within CEDA, the Australia–Japan Committee has been active, and CEDAhas enjoyed the benefit of Trustee membership from many important Japanese companies operating in Australia.

It is from an initiative of the Australia–Japan Committee that this significant study by INSTATE Pty Ltd arose. The report makes a notable contribution to knowledge of the patterns of activity and impact of Japanese trading companies in Australia.

The size of the operations of the trading companies – the *sogo shosha* – gives an idea of their immense contribution to trade between Australia and Japan. As the study notes, in 1995 the combined turnover of the nine *sogo shosha* in Australia was over $22 billion, or 4.7 per cent of Australia's GDP. Their exports at around $16 billion were equal to 17.3 per cent of the Australian total, and six of the nine *sogo shosha* rank in the BRW/EFIC list of top Australian exporters.

It is because of this importance in expediting Australian trade that the pattern of activity of the *sogo shosha* in Australia relative to those in other countries – both now and potentially – is of key interest. And the work of the Instate authors raises central questions, such as why the *sogo shosha* in Australia do not appear to be following the same transformation processes as in other countries.

This and other intriguing issues highlighted in the report are of obvious significance to Australia's future economic development, and in particular its crucial trading relations with Japan.

I commend the authors for a very clear, informative and balanced study. Their work provides a compact but very illuminating picture of the relevant facts and issues, and will greatly assist understanding both of today's position and tomorrow's prospects.

This publication was enabled by financial support from the Australian Trade Commission (Austrade) and the following major *sogo shosha*: ITOCHU Australia Ltd, Kanematsu Australia Limited, Marubeni Australia Ltd, Mitsubishi Australia Ltd, Mitsui & Co (Australia) Ltd, Nissho Iwai Australia Limited, Sumitomo Australia Limited and Tomen Australia Limited.

On behalf of CEDA I thank the above contributors most sincerely for their financial generosity. Their assistance was also essential to the authors for the collection of data and information, and CEDA is grateful for this as well.

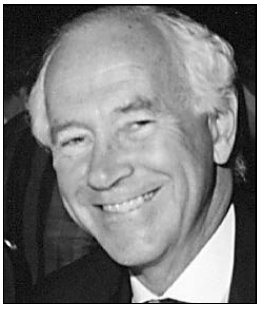
I was also pleased to chair the project steering committee, composed of the following members, whom I wish also to thank for their willing aid:

Mr Fred Argy, ITOCHU Australia Ltd

Mr Anthony Bertrams, Tomen Australia Limited

Mr Michael Driffield, Mitsubishi Australia Ltd
Mr Tsuneo Hara, Canon Australia Pty Ltd
Mr Junichi Ishii, Sumitomo Australia Limited
Mr John McKindley, Mitsui & Co (Australia) Ltd
Mr Robert Pritchard, Pritchards International Legal Consultants
Mr David Robinson, Marubeni Australia Ltd
Mr Noel Sattler, Kanematsu Australia Limited
Mr Naoya Watanabe, Nissho Iwai Australia Limited.

CEDA's research program is a very active one, and *Japanese Trading Companies – Their Role in Australia's Economic Development* is an excellent addition to its already long and illustrious publications list. The report is also a very conspicuous reminder of the importance that CEDA attaches to its Japanese relationships. I therefore welcome its publication and commend it to the public.



JAMES DOMINGUEZ CBE AM
Chair,
CEDA Australia–Japan Committee

Executive

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Summary

- Japanese general trading companies (*sogo shosha*)[1] are, in their own right, a global trade phenomenon:
  - the six biggest each have global sales volumes of more than $100 billion;[2]
  - the global turnover of the largest, Mitsubishi, was $200 billion in 1996 – in the same year the global turnover of BHP, Australia's largest company, was $19.8 billion;
  - collectively, the nine *sogo shosha* have global sales totalling $1227 billion, or more than double Australia's GDP;
  - they maintain 1300 offices in over 100 countries and have, between them, over 5000 affiliated companies.

- This study examines the impact of the *sogo shosha* on Australia's economic development and confirms that it has been profound.

- It was the *sogo shosha* which pioneered a bilateral trading relationship which is not only Australia's largest by far, but is also one of Japan's most important:
  - Kanematsu commenced the bilateral wool trade in the 1890s;
  - Mitsui and Mitsubishi were established in Australia before World War II;
  - by the early 1960s, all nine *sogo shosha* were fully operational in Australia.
- The initial rationale for the *sogo shosha's* existence, as the developers and procurers of raw material for Japanese industry, is reflected pre-

1 The word *shosha* means, literally, 'trading company'and the word *sogo* means 'all round'.

2 Unless otherwise indicated, all dollar figures used in this study are either orginally recorded in Australian dollars or converted to Australian dollars at the average exchange rate for May 1997.

cisely in the profile of Australia's post-war bilateral trade with Japan:

- wool was the drawcard which attracted the *sogo shosha* to Australia 100 years ago and, despite the collapse of wool trading structures in 1991, is still a significant trading item (albeit at a reduced level) for many of them;
- ores and metals became increasingly significant in the post-war years;
- primary energy raw materials were a major contributor to turnover growth in the years after the first 'oil shock' and resulted in the first large-scale investments by *sogo shosha* in Australia;
- in the 1990s, the *sogo shosha* have expanded into new business areas, including wholesale and retail distribution in Australia;
- trade and investment in third countries, drawing on both their Australian business experience and their global business networks, are being pursued as a significant and potentially expanding proportion of their aggregate turnover.

■ Today, the *sogo shosha* play a major part in the Australian economy:

- in 1995, the combined turnover of the nine, at just over $22 billion, was equivalent to 4.7 per cent of Australia's GDP;
- their exports, at just under $16 billion, were equivalent to 17.3 per cent of Australia's total exports of goods and services – a contribution of particular value, given Australia's ongoing current account difficulties;
- the first and second ranked firms on the BRW/EFIC list of top Australian exporters are *sogo shosha* and six of the nine *sogo shosha* rank in the top 20;
- although not as prominent in domestic business rankings, due to their strong external orientation, the two largest still rank in the top 20 Australian companies.

■ Shaken by falling global sales volumes in the first half of the 1990s and corresponding falls in profitability, all *sogo shosha* are now following very deliberate (and very expensive) strategies to change the way they do business and the way they are perceived in the global business community and at home base in Japan.

- Internationally, in the late 1990s, the *sogo shosha* have become:
  - less reliant for their revenue on the traditional trading (import/export) function and less commodity-focused in their trading activities;
  - much less bilaterally focused on trade between Japan and host countries;
  - increasingly oriented towards investment;
  - much more reliant on their third country ('offshore') business;
  - more oriented towards domestic business in the host country (a 'multi-domestic' policy);
  - focused more on service sector activity.

- It had been expected that these trends would be mirrored in the activities of the *sogo shosha* in Australia but a detailed analysis of the structure of their turnover in 1988 compared with 1995 produced strongly counter-intuitive findings.

- In Australia in the mid-1990s the *sogo shosha*, as a group, were:
  - very much more bilaterally focused than they were even seven years earlier;
  - doing even less of their business in third countries ('offshore');
  - doing less of their total business domestically;
  - considerably more dependent on the traditional trading function;
  - much more commodity trade dependent;
  - doing very little service sector activity comparatively.

- Although their investment in Australia has more than doubled since 1988 (from $1.4 billion to $3.0 billion), 80 per cent of it is in the traditional areas of energy, mining and metals.

- In fact, the profile of the *sogo shosha* in Australia is almost exactly the opposite of the global picture and, while there are exceptions among the individual firms, most of the trends are evident, to varying degrees, in each firm as well as in aggregate.

- The most important question in analytical terms is why, if *sogo shosha* are transforming globally, is it not happening in Australia? Does the fact that the *sogo shosha* in Australia are not following the global trend suggest Australia is being progressively unplugged from the global economy?

- An examination of the most recent and planned activities of the *sogo shosha* suggests that, although the broad sectoral and directional pattern is not about to be reversed, there could well be some progressive convergence towards the global pattern of *sogo shosha* activity – 1995 statistics will not have fully reflected any changes which had begun relatively recently and certainly not the most recent changes.

- But this does not provide grounds for complacency – quite the contrary.

- It is clear that the headquarters' management of the *sogo shosha* regard Australia as a small, mature market with limited growth potential, and this mainly confined to natural resources and related commercial activity.

- They are also being influenced negatively at this crucial time in their global refocusing by:
    - Australia's strong exchange rate and its impact on price competitiveness;
    - a taxation regime which they regard as comparatively unattractive and unnecessarily complicated;
    - what they see as ambiguous signals in industry policy, such as reductions in incentives to encourage research and development and exports and programs to support Australian involve-

ment in aid-related development projects;
- community values issues such as industrial relations, environmental regulations and native title.

■ From a local perspective, the 'Australianisation' of the management of *sogo shosha* operations in Australia is looked on as one means to improve the decision-making flexibility of management.

■ More could be done to dispel a popular view, among small and medium-sized companies in particular, that *sogo shosha* are only interested in large transactions and are, therefore, of limited relevance to the commercial ambitions of the smaller entities which make up the bulk of the corporate population in Australia.

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Sogo Shosha: The Phenomenon

Japan's general trading companies (*sogo shosha*) have not only been a major element in Japan's post-war economic ascendancy but also a global trade phenomenon in their own right. It is important to understand this aspect of the *sogo shosha* identity as the basis for evaluating their impact on Australia's trade and economic development.

In the pre-war period and for most of the post-war period, the *sogo shosha* have been the outward face of Japanese industry abroad, the risk-taking cutting edge of the Japanese international economic effort.[3] They sourced raw materials, equipment and technology for Japanese industry and then sold its output. In large measure, they made Japan's industrialisation possible, being the life force at both ends of the supply chain. For a large proportion of the global business community the *sogo shosha* are likely to have been their first point of contact with Japan.

They have provided the international dynamics for the powerful *keiretsu*, the giant business groupings at the core of the Japanese economy, made up of financially interlocked companies across the spectrum of industry and commerce. Behind them stand the other service arms of the *keiretsu* – generally a bank, an insurance company, in most cases a shipping company and various information and data service providers. And, behind **them**, stands an enormous proportion of Japan's industrial might.

[3] Mark Zimmerman, *Dealing with the Japanese*, George Allen & Unwin, UK, 1985.

The *sogo shosha* have pioneered most bilateral relationships between Japan and its trading partners and, because of the sheer weight of Japan's economy in the global economic spectrum, they have therefore come to account for a significant proportion of global economic transactions in their own right.

Over the years the role and functions of the *sogo shosha* have evolved in line with Japan's domestic economic development and global business trends.

Their traditional role – as the procurer for Japan's industry and the door to world markets for their output – has progressively diminished in importance as their client base has matured. Many Japanese manufacturers which had traditionally left their overseas marketing to the trading companies have sought and established direct marketing operations. Many, also, have invested directly in manufacturing offshore (though often using *sogo shosha* connections and/or finance), thereby reducing the raw materials and component sourcing requirements for which they had relied on *sogo shosha*.

The process of evolution has accelerated in the past decade and, increasingly, the *sogo shosha* have 're-badged' as global enterprises. Thirty years ago they were responsible for 70 per cent of Japan's trade. Today it is a much smaller proportion but, with around a third of Japan's imports and exports still passing through the hands of the nine largest trading companies, the *sogo shosha* remain the main channel into and out of the Japanese market.

Who Are the *Sogo Shosha*?

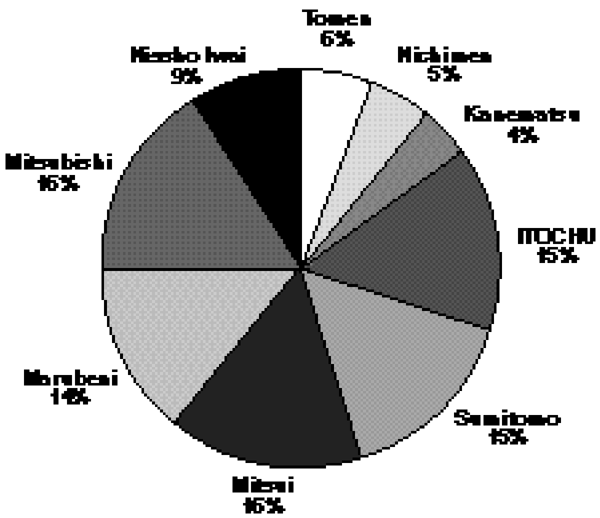
There are more than 11,000 trading companies in Japan. Most of them are specialised traders (*senmon shosha*) performing routine import–export functions. Nineteen of them are classified as major trading houses and their activities are recorded and monitored as a group by the Japan Foreign Trade Council.

The top nine, classified as general trading companies, or *sogo shosha*, are:

Mitsubishi	**Sumitomo**	**Tomen**
Mitsui	**Marubeni**	**Nichimen**
ITOCHU	**Nissho Iwai**	**Kanematsu**[4]

Six of these – Mitsubishi, Mitsui, ITOCHU, Sumitomo, Marubeni and Nissho Iwai – are very large, each with total sales of over $100 billion. The largest of the nine, Mitsubishi, has a total sales volume almost four times the size of the smallest, Kanematsu.

FIGURE 1: Breakdown of *Sogo Shosha* Consolidated Global Sales, by Company, 1996



[4] The nine companies are listed in this study in order of size of global turnover in 1996.

What Are the *Sogo Shosha*?

The four fundamental types of business traditionally handled by the *sogo shosha* are:

- export of Japanese goods and services;
- import of goods and services to Japan (particularly of industrial raw materials, energy and foodstuffs);
- 'offshore' business (the transactions between countries other than Japan);
- domestic business (that is, the activities of the *sogo shosha* inside Japan – the dominant proportion – and inside the domestic economies of the countries in which they maintain representative offices or operating subsidiaries).

Various functions are involved in executing such business:

- information/data gathering;
- market analysis;
- financial risk analysis and investment;
- supplier liaison;
- customer liaison and 'after sales service';
- credit;
- insurance;
- shipping/freight;
- warehousing and distribution;
- quality assurance;
- marketing.

The *sogo shosha* have functioned internationally as the eyes and ears for their *keiretsu* group: as the gatherers, storers and disseminators of information. But in performing that function for the *keiretsu* they have also performed the function for the nation. Not only do the *keiretsu* represent the economic heart of the nation, but their power has encouraged other non-group companies to pursue their international interests through, or in concert with, the *sogo shosha*.

TABLE 1: *Sogo Shosha* – Global Activities, 1996

Company	Founded	Employees	Countries in which offices maintained	Number of offices outside Japan	Number of affiliated companies	Total global sales (¥ billion)	Total global sales# ($ billion)
Mitsubishi	1870	13,926	87	181	600	17,795	200
Mitsui	1876	11,378	91	183	864	17,520	197
ITOCHU	1858	10,000+	90	177	775	16,328	184
Sumitomo	1919	9,071	87	154	599	16,170	182
Marubeni	1858	9,533	90	163	750	15,545	175
Nissho Iwai	1968*	7,000+	76	148	550	9,448	106
Tomen	1920	2,700	70	104	450	6,540	74
Nichimen	1892	2,500	97	103	243	4,907	55
Kanematsu	1889	2,347	50	88	210	4,810	54

Source: Company Annual Reports.
Notes: # Total global sales figures are converted to A$ at the May 1997 average exchange rate of A$1.00 = ¥89.
* Formed when Iwai & Co (founded 1896) and Suzuki & Co Ltd (founded 1902) merged.

PP Jap 8/11/99 4:40 PM Page 14

The links between the *sogo shosha* and the Japanese Government have been strong. Mitsui, for example, was established in 1876 under the patronage of Emperor Meiji, as the first *sogo shosha*, at a time when virtually all Japan's foreign trade was in the hands of foreign traders.

The Meiji Government's modernisation program prescribed the promotion of Japanese trading companies as the means to secure raw material supplies and develop markets, to win back control of trade from foreign traders. By 1918, the proportion of Japan's foreign trade handled by Japanese companies had risen to 80 per cent.[5]

Only two of today's *sogo shosha* had developed into general trading companies before World War II – Mitsui and Mitsubishi. They were the supply and marketing arms of the former *zaibatsu* (industrial conglomerate) groups.

Because of their association with the military regime, the *zaibatsu* were dissolved by the Occupation Administration and prohibited by law. Effectively, however, elements of the former *zaibatsu* regrouped into the looser *keiretsu* structures and, again, the function of general trading companies was seen to be crucial in the process of economic reconstruction and industrial modernisation. With the support of the powerful Ministry of International Trade and Industry they became the advance guard of Japan's export drive in the 1960s and 1970s, and then of Japan's import drive in the 1980s and 1990s.

For most *sogo shosha*, as with Mitsui itself, the function has evolved so comprehensively from this base that they have enormous domestic bulk and a huge international reach.

[5] Japan Foreign Trade Council, Sogo Shosha Committee, *The Sogo Shosha: What They Are and How They Can Work For You*, Tokyo, 1995.

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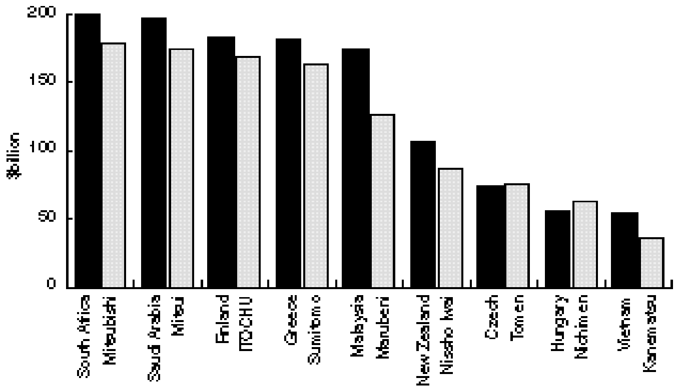
The *Sogo Shosha* in a Global Context

Most observers would readily concede that the *sogo shosha* are enormous concerns but few appreciate that, individually, they have global turnovers equivalent to the GDPs of some countries. The total trading transactions of the nine *sogo shosha* in 1996, subsidiaries included, amounted to $1227 billion – well over double Australia's GDP of $530.8 billion. The turnover of the largest, Mitsubishi, is more than the GDP of South Africa.

FIGURE 2: *Sogo Shosha* Turnover (Year Ended March 1996) and Comparable GDP



Source:Company Annual Reports and the *Economist*, 'The World in 1997' (for GDP).
Note: These figures incorporate transactions by the companies' Japanese subsidiaries. Yen and US$ figures were converted to A$ at the May 1997 average exchange rates: A$1.00 = ¥89 and A$1.00 = US$0.76.

The turnover of the smallest, Kanematsu, is more than the GDP of Vietnam.

In 1996, Mitsubishi made sales of $200 billion. In that year the global turnover of Australia's largest company, BHP, was $19.8 billion.[6]

The top three places on *Fortune* magazine's 'Global 500' list and the top five places on *Asia Week*'s list of largest companies in Asia are occupied by *sogo shosha*.

TABLE 2: Company Rankings (by Turnover)

Company	*Fortune*'s 'Global 500' rank	*Asia Week*'s 1000 rank
Mitsubishi	1	1
Mitsui	2	2
ITOCHU	3	3
Sumitomo	5	4
Marubeni	6	5
Nissho Iwai	11	7
Tomen	21	11
Nichimen	35	15
Kanematsu	37	16

Source: *Fortune*, 1996; *Asia Week*, 1996.

[6] Source: BHP.

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The Changing Role of the *Sogo Shosha*

As new global business and economic trends have emerged and as Japan's economy has changed in response, so also has the role of the *sogo shosha.* In the 1960s the *sogo shosha* began to look to the Japanese domestic market to apply profitably some of the commercial knowledge and experience obtained in their international operations – in urban development, housing, manufacturing, engineering, distribution and consulting.

By investing in established companies and forming new ones they were able not only to build a significant domestic business base but also to further build their linkages within the domestic economy.

Backward and forward integration and consolidation were seen as the means to maintain the competitive position of Japanese industry in international markets, by keeping costs and prices to a minimum.

The oil shocks of the 1970s heightened, if anything, the strategic role of the *sogo shosha* in securing Japan's economic fortunes. The imperative to ameliorate the disastrous impact of high energy prices on the Japanese economy saw a vastly expanded role for the *sogo shosha* as investors and project developers offshore. Financial resources were mustered to promote joint ventures, collaborative exploration and outright investment in new sources of primary energy raw materials.

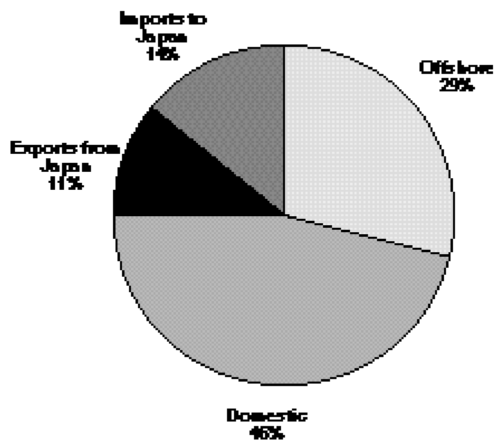
It caused a strong surge in the magnitude of their involvement in countries with substantial untapped primary energy resources, such as Australia.

But it was also the genesis of a broader global business vision for the *sogo shosha* – going well beyond their development and procurement role for Japanese industry and the relatively straightforward sales and marketing role on behalf of Japanese manufacturers in overseas markets.

It propelled the *sogo shosha* into global financial activities. This, in turn, opened up broader possibilities in relation to trade and investment in third countries (as distinct from more narrowly channelled bilateral transactions).

Between 1970 and 1983, according to Foreign Trade Council statistics, the volume of *sogo shosha* 'offshore' (third country) trade had risen from 4.8 per cent of total transactions to 15.3 per cent. By 1996, 'offshore' transactions represented 29 per cent of total global transactions by the *sogo shosha*.

FIGURE 3: Direction of Total Global Transactions by *Sogo Shosha*, Financial Year Ending March 1996 (Value Basis)



Source: *Brains,* Brain Trust Co, Tokyo, June 1996.

TABLE 3: Value of Transactions by *Sogo Shosha*, Financial Year Ending March 1996

Company	Domestic		Exports from Japan		Imports to Japan		Offshore		Total
	¥ billion	%	¥ billion	%	¥ billion	%	¥ billion	%	¥ billion
Mitsubishi	8,117	45.6	2,303	12.9	2,703	15.2	4,672	26.3	17,795
Mitsui	7,217	41.2	1,874	10.7	2,189	12.5	6,240	35.6	17,520
ITOCHU	8,135	49.8	1,486	9.1	1,682	10.3	5,024	30.8	16,328
Sumitomo	7,665	47.4	1,942	12.0	2,314	14.3	4,249	26.3	16,170
Marubeni	7,950	51.1	1,977	12.7	1,532	9.9	4,088	26.3	15,545
Nissho Iwai	4,530	48.2	1,026	10.9	1,793	18.5	2,098	22.3	9,448
Tomen	3,218	49.2	430	6.6	875	13.4	2,017	30.8	6,540
Nichimen	2,143	43.7	502	10.2	411	8.4	1,851	37.7	4,907
Kanematsu	1,716	35.7	731	15.2	1,316	27.4	1,047	21.8	4,810
Total	**50,692**	**46.5**	**12,271**	**11.3**	**14,816**	**13.5**	**31,285**	**28.7**	**109,063**

Source: *Brains,* Brain Trust Co, Tokyo, June 1996.

These days, less than half their business is done at home in the domestic economy. Domestic business in Japan has been gradually shrinking as a proportion of total business as their globalisation strategies succeed and as larger numbers of domestic firms go their independent ways.

This process took a major step forward during the *endaka* (high yen) shock of the mid-1980s. The strength of the yen extended its acquisition value by lowering, relatively, the price at which international business and real estate assets could be acquired with yen surpluses. But it also ignited structural changes – still being played out – in the domestic economy of Japan.

The main effect of *endaka* was progressively to change the procurement role of *sogo shosha* for Japanese industry – with less emphasis on bulk industrial raw materials (high volume/low unit value transactions) and more emphasis on processed product, industrial components and even final product imported for distribution by Japanese manufacturers whose domestically manufactured products were no longer competitive.

It extended the financial roles of the *sogo shosha*. Their knowledge of international markets and global industry was relied upon increasingly in investment brokering roles on behalf of *keiretsu* members and other industrial clients looking to relocate non-competitive domestic manufacturing capacity overseas.

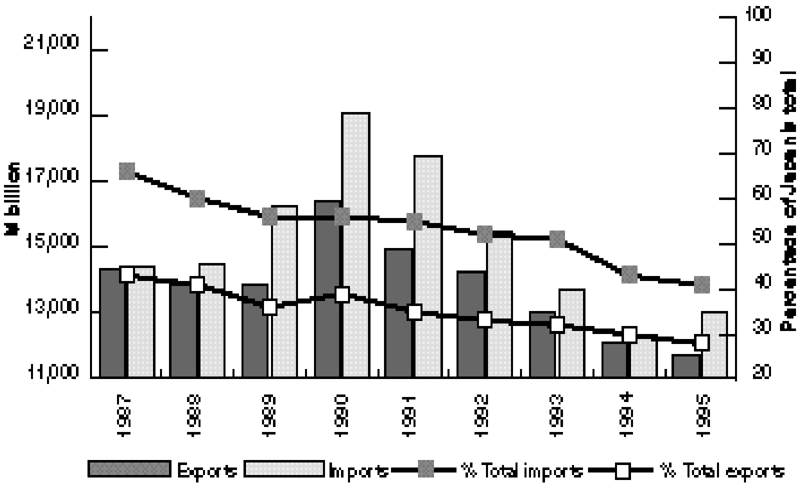
But it has also had a reverse effect on *sogo shosha* trading volumes – particularly in relation to the procurement role for the distribution system in Japan.

The increasing purchasing power of the yen internationally and the slow translation of this into lower domestic prices (for final consumer products) provided a massive incentive for innovative retailers to jump the distribution queue and go direct to international sources of supply for a great range of consumer products. This led to the well-documented retail phenomenon of *kakaku hakai* (price destruction) in Japan in the first half of the 1990s.

A combination of all of these factors has led to a significant decline in the proportion of Japan's international transactions accounted for by *sogo shosha* and significantly lower transaction volumes by the companies, both individually and in aggregate.

All companies, without exception, have seen consolidated sales volumes fall since the peak levels of the early 1990s.

FIGURE 4: Exports and Imports by the Top 19 Trading Houses, 1987 to 1995



Source: Japan Foreign Trade Council.

TABLE 4: Group Global Business Results

Company	Peak sales ¥ billion	Year	Sales (JFY to March 1996) ¥ billion	Percentage change
Mitsubishi	19,727	(1991)	17,795	-9.8
Mitsui	20,847	(1991)	17,520	-16.0
ITOCHU	21,304	(1991)	16,328	-23.4
Sumitomo	22,598	(1990)	16,170	-28.4
Marubeni	19,565	(1991)	15,545	-20.5
Nissho Iwai	15,442	(1990)	9,448	-39.2
Tomen	7,957	(1992)	6,540	-17.8
Nichimen	6,582	(1991)	4,907	-25.4
Kanematsu	6,146	(1992)	4,810	-21.7

Source:AJEI and Company Annual Reports.

Operating traditionally on very thin margins (a gross profit of rarely more than 3 per cent), the loss of volume has also adversely affected *sogo shosha* profits.

Sogo shosha are renowned for their low profitability. A study by the Australia-Japan Economic Institute in 1996[7] ranked net profit (after tax) against the global trading volumes of each company and produced a remarkable result. Not one of the nine *sogo shosha* had achieved a net profit after tax of better than 0.35 per cent of sales in the seven years from 1989 to 1995: the average was a meagre 0.1 per cent.

But profitability has deteriorated to such an extent over the past five years that the profit to sales ratio had more than halved for all

7 Australia-Japan Economic Institute, *Economic Bulletin*, vol. 4, no. 9, September 1996.

companies over the period, except for Mitsui (which saw its ratio drop by a third). In 1995, the highest profit/sales ratio was 0.17 per cent (Mitsui) and the lowest was -0.27 per cent (Kanematsu).

Shaken by these results, all companies are now following very deliberate (and very expensive) strategies to change the way they do business and the way they are perceived in the global business community and at home in Japan. Some envisage major changes in the character of the enterprise.

Reinventing the Business

'Japan's general trading houses have traditionally made their money from high-volume, low-margin transactions in raw materials and commodities. However, these activities no longer offer much opportunity for growth, and the trading companies, especially the larger ones, are rapidly moving into more profitable undertakings in manufacturing and infrastructure projects.

'Since the late 1980s, and even in the post-bubble period (after 1991), the large trading companies have invested heavily in manufacturing operations in North America, acquiring local chemical and steel companies and forming joint ventures with larger local companies. Many of these investments have begun to produce returns on investment of 15–20 per cent, and the North American operations of the five largest trading companies now account for almost one-third of these companies' consolidated net profits.

'The trading houses are also training their sights on the fast-growing economies of Asia, where they hope to put to good use the know-how and business ties developed from their US operations. They are now investing in a number of local manufacturing facilities, in petrochemicals and steel, that should start operating over the next two or three years. The trading houses are also joining forces with overseas multinationals to work on power plants and other infrastructure projects in Asia.

'The same aggressive approach to new business developments is evident in the trading companies' activities in Japan, where they are pushing into newly emerging markets in information and communications. For example, unencumbered by existing business relationships, the trading companies are expanding their cable TV, digital satellite broadcasting, and regional telecom businesses. Although these fields have been regarded as somewhat risky, deregulation has opened up new prospects for substantial growth over the long term.

'In short, the trading companies are doing nothing less than reinventing themselves. They are breaking out of their old mold, and moving into the twenty-first century as manufacturers, investors and developers. The implications for the bottom line could be quite substantial.'

Source: Extract from 'Reinventing the Business: Japan's Trading Companies on the Move', Tomoyasu Kato, *NRI Quarterly*, Summer, 1996.

All companies have committed to a significantly expanded global orientation, with an increasing proportion of revenue coming from 'offshore' business. Most are boosting their investment activities as they see this as being an increasingly more profitable business activity than trading. (Dividend income exceeded operating profit at Mitsubishi and ITOCHU in fiscal 1995.[8])

Some are also undergoing substantial corporate restructuring to improve their flexibility and capacity to react quickly to changes in the business environment and to prepare for an expanded investment role.

Holding companies have been banned in Japan since World War II, primarily in order to break the power of the former *zaibatsu* and to prevent their re-emergence. However, legislation is now before the Diet to amend the Anti-Monopoly Law, dropping the provision forbidding holding companies. Several trading companies have already commenced restructuring in anticipation of the new legislation. In addition to Marubeni at least two other companies have anticipated the new legislation by adopting holding company-like structures.

8 *The Nikkei Weekly* 20 January 1997.

New Structures for the Future

'We want to change the conservative spirit that has taken root … and bring back a more adventurous, risk-taking atmosphere', Marubeni President Iwao Toriumi told the *Asahi Evening News* in August 1995.

'We intend to transfer more autonomy to the sales departments, and to eventually establish a system something like a holding company. We have made our 17 division heads "presidents"of product divisions that include related companies, and have granted them wide-ranging authority.

'We hope to reduce the number of divisions to between 60 and 70 per cent of the current number.'

Source: *Asahi Evening News*, 12–13 August 1995.

Mitsubishi introduced a 'virtual' holding company structure in 1995, establishing seven in-house companies under a central management office – subsequently, the number was reduced to six. ITOCHU, in April 1997, reorganised into eight, nearly independent divisions, which will eventually be split off into separate enterprises in a holding company.

Several companies have recently established merchant banking or investment company subsidiaries offshore with devolved authority to permit more rapid responses to opportunities based on local knowledge. These include Mitsubishi, Sumitomo and Mitsui.

Some of these initiatives are obviously paying off. Nissho Iwai and Sumitomo posted significantly increased operating profits in 1996 (although Sumitomo had to write off massive copper trading losses) and at least four companies have forecast pre-tax profit hikes in 1997, despite continuing depressed sales.

Each has its own strategy for long-term revitalisation but all envisage major changes in orientation, as attested by their leaders' statements, listed below:

Looking to a Different Future

Mitsubishi

'People sometimes think of Mitsubishi Corporation merely as an agent, but much of our income stems from investments and investment-related business. These activities continue to grow in importance, giving us a second powerful driver of growth.'
– President, Mr Minoru Makihara

Mitsui

'Mitsui will continue to pursue its fundamental strategy of identifying and pursuing growth opportunities in new industries and emerging markets with the objective of further expanding its presence and scope as a global enterprise.'
– President and CEO, Mr Shigeji Ueshima

ITOCHU

'ITOCHU is advancing toward its long-term goal of becoming a globally integrated corporation by the twenty-first century.'
– President, Mr Minoru Murofushi

Sumitomo

'We intend to focus particularly on opportunities in the communications industry … We will improve our ability to distribute more goods to a wider range of users by becoming far more involved in downstream operations, including retailing.'
– President, Mr Kenji Miyahara, and Chairman, Mr Tomiichi Akiyama

Marubeni

'In our organisation, we think of Japan as the seat and of America, Europe and Asia as the three legs of a stool. Our concern is how to increase transactions within and among foreign countries.

'We will work toward the objectives of responding appropriately to deregu-

latory measures, taking a more strategic approach to investment and risk-taking activities, and advancing intra-regional trade in each economic area in which we operate, thereby encouraging economic globalisation.'
– President, Mr Iwao Toriumi

Nissho Iwai
'We will selectively allocate our corporate management resources by focusing on the information and telecommunications industries and on the area of resources, including energy, minerals and food.
– President, Mr Masatake Kusamichi

Tomen
'Breakthroughs in technology, transportation and telecommunications have made it possible to manufacture and sell products wherever most advantageous, regardless of the locations. This age of global turmoil and reform is also an era of infinite possibility. It requires that we accurately gauge the times, strengthen the unity of the Tomen Group and introduce energetic and flexible reforms by our own initiative … Tomen Group will continue to make solid progress toward our goal of becoming a diversified yet highly integrated global enterprise.'
– President, Mr Yasuo Matsukawa

Nichimen
'Recognising that we can no longer thrive by simply maintaining such traditional operations as distributing and wholesaling commodities and providing related financial services, we are working to step up our participation in the investment and in the medium- and long-term development of new subsidiaries and affiliates. We have identified many business fields – such as information and communications; grain, energy and other resources; and environmental protection – that have potential for considerable global growth.'
– President, Mr Akira Watari

Kanematsu

'Kanematsu must supplement its traditional trading operations by augmenting its capabilities for proposing new business projects … increasing involvement in such areas as direct investment and financing as well as in overseas projects related to privatised infrastructure.'
– Managing Director, Mr Yutaka Haneda

'The principal goal of the (medium-term management plan) is to enable Kanematsu to respond promptly and appropriately to the major industrial and economic changes that are taking place while becoming a high-value-adding enterprise … This calls for maintaining a truly global perspective …'
– President, Mr Masao Yosomiya

総合商社

The *Sogo Shosha* in Australia

The History

It was the *sogo shosha* which pioneered a bilateral trading relationship which is not only Australia's largest by far, but also one of Japan's most important.

- Kanematsu commenced the bilateral wool trade in 1890;
- Mitsui (1909), Mitsubishi (1926), were established in Australia before World War II;
- by the early 1960s all the *sogo shosha* had fully operational subsidiary companies in Australia – Nissho Iwai (1957), ITOCHU (1957), Tomen (1957), Nichimen (1957), Marubeni (1960), and Sumitomo (1961).

The initial rationale for the existence of the *sogo shosha*, as the developers and procurers of raw material for Japanese industry, is reflected precisely in the profile of Australia's post-war bilateral trade with Japan:

- wool was the first drawcard which attracted the *sogo shosha* to Australia and, despite the collapse of wool trading structures in 1991, is still a significant trading item (albeit at a shrunken level) for many of them;
- ores and metals became increasingly significant in the post-war years;
- primary energy raw materials were a major contributor to turnover growth in the years after the first 'oil shock' and resulted in the first large-scale investments by *sogo shosha* in Australia;

- in the 1990s, the *sogo shosha* are actively seeking new business opportunities in the domestic economy and in third countries.

Progressively, the *sogo shosha* have become a major part of the landscape of corporate Australia. Most Australians would recognise this. But few comprehend just how significant a role they play in Australia's trade and economic development.

The Impact on the Economy

Macro Measures

There can be no doubt that the nine *sogo shosha* have played a major role in shaping the Australian economy. This has been achieved through trade, and through investment.

The combined turnover of the nine, at just over $22 billion in 1995, was equivalent to 4.7 per cent of Australia's GDP.

Micro Measures

The impact of *sogo shosha* in particular sectors of the economy is even more profound.

The Northwest Shelf gas project, Australia's largest ever development project, is unlikely to have taken place without the strategic brokering role of Mitsui and Mitsubishi and without their links to consumers, finance and investment.

The construction investment, alone, resulted in 6,030 new jobs and increased Western Australia's Gross State Product by 0.8 per cent. Production contributes between a quarter and a fifth of the state's exports, 14 per cent of GSP and has created 105,885 jobs.[9]

The project is the largest single generator of export income in

[9] K. Clements & R. Greig, *Modelling Large Resource Development Projects in an Open Economy: The Case of Australia's Northwest Shelf Gas Project*, Economic Research Centre, University of Western Australia, 1994, and R. Greig, 'Shelf Study Debunks "Low Impact" Myth', *Australia's Mining Monthly*, November 1994.

Australia. More importantly, at a time when Australia's exports were waning and there was intense pressure on the balance of payments the annual increment of around $2 billion in export income substantially eased pressure on the macro-economy and on the exchange rate. In a 'typical' year the production phase increases Australia's total exports by 3.5 per cent.[10]

Similarly, involvement by the *sogo shosha* in the non-ferrous metals industry has been crucial to its development.

The Impact on Australia's Overall Trade Performance

On the BRW/Export Finance & Insurance Corporation list of Australia's top exporters, two *sogo shosha* rank as Australia's largest and second largest – Mitsui and Mitsubishi.[11] They earn more foreign exchange for Australia than Qantas or the Australian Wheat Board.

Six of the nine *sogo shosha* rank in the top 20; four rank in the top 10.

Collectively, the nine companies have exports of just under $16 billion, equivalent to 17.3 per cent of Australia's total exports of goods and services.

10 Ibid.

11 On this list, BHP Minerals and BHP Steel are ranked as separate entities. On a consolidated basis, BHP's exports totalled $5.808 billion, which would make it Australia'a largest exporter.

TABLE 5: Top Australian Exporters

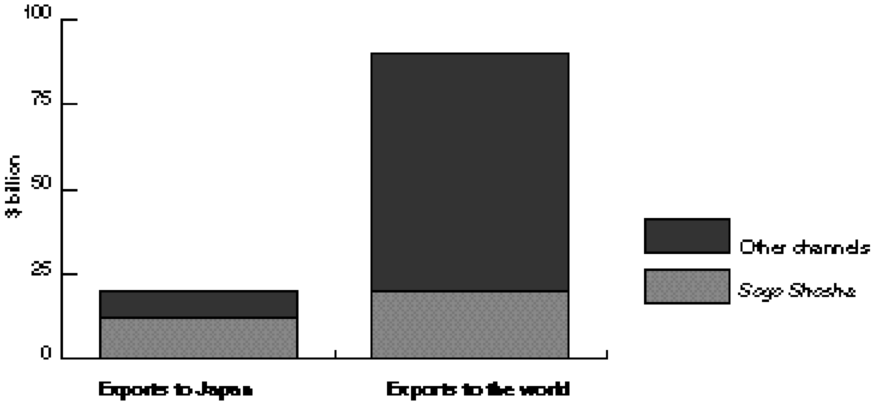
	Company	Financial year ended	Export revenue $ million
1	**Mitsui & Co. (Aust)**	12/95	4,892
2	**Mitsubishi Australia**	12/95	4,240
3	**Qantas**	6/96	3,819
4	**Australian Wheat Board**	9/96	3,756
5	**BHP Minerals**	5/96	3,182
6	**Alcoa of Australia**	12/95	2,026
7	**BHP Steel**	5/96	1,961
8	**Qld Sugar Corporation**	6/96	1,650
9	**ITOCHU Australia**	3/96	1,600
10	**Marubeni Australia**	3/96	1,393
11	**Sumitomo Australia**	12/95	1,392
12	**WMC**	6/96	1,353
13	**MIM Holdings**	6/96	1,300
14	**CRA-Hamersley Iron**	12/95	1,250
15	**BP Australia**	12/95	1,060
16	**Nissho Iwai Australia**	3/96	1,038
17	**Normandy Mining**	6/96	1,036
18	**Australian Meat Holdings**	5/96	984
19	**Shell Australia**	12/95	922
20	**QBE Insurance Group**	6/96	915

Source: Business Review Weekly/Export Finance & Insurance Corporation (BRW/EFIC) 'Top 500 Exporters', *BRW*, 27 January 1997.

The Impact on Bilateral Trade with Japan

On a bilateral basis, the influence of the *sogo shosha* is enormous. The *sogo shosha* pioneered the bilateral relationships and still dominate it: they account for around two-thirds of Australia's exports of goods and services to Japan and one-fifth of Australia's imports from Japan.

FIGURE 5: *Sogo Shosha* Share of Australian Exports of Goods and Services. 1995



Source:INSTATE, from Australian Bureau of Statistics and company data.

Their Status in Corporate Australia

Because of their strong international trading orientation and limited domestic activities the *sogo shosha* are not as prominent in domestic business rankings. Nevertheless, the two largest still rank in the top 20 Australian companies.

TABLE 6: Top 20 Australian Businesses

	Company	Net revenue $ million
1	**BHP**	19,814
2	**Coles Myer**	18,865
3	**Telstra**	15,238
4	**Woolworths**	14,298
5	**News Corp**	14,276
6	**NAB**	12,769
7	**RTZ-CRA**	11,139
8	**AMP**	11,083
9	**ANZ Bank**	10,285
10	**Commonwealth Bank**	9,068
11	**Tattersalls**	8,600
12	**Westpac**	8,564
13	**BTR Nylex**	7,771
14	**Qantas**	7,747
15	**Pacific Dunlop**	7,048
16	**Mitsui & Co**	6,847
17	**Amcor**	6,798
18	**CSR**	6,376
19	**Tabcorp Holdings**	6,188
20	**Mitsubishi Australia**	5,405

Source: *BRW*, 21 October 1996.
Note: Top 20 based on revenue, latest available figures at date of publication.

While the full importance of this impact on Australia's trading fortunes may have escaped public attention – and the companies themselves have generally been reluctant to publicise their achievements – the instrumental role of the *sogo shosha* in forging new vistas in trade has long been the envy of politicians and trade bureaucrats. A perennial question in policy and senior corporate circles has been: 'Why can't we have an Australian general trading company?'

Several private sector attempts to establish an Australian general trading company have ended in failure (Gollin, HG Sleigh, Elders, BHP Trading); two federal government attempts to create a national trading company were abandoned (1975 and 1984); and, as recently as February 1997, Austrade abandoned plans to establish a specialist Australian trading company to pioneer new routes to Japan's regional markets for (primarily) Australian food and beverage exports.

One criticism of *sogo shosha* sometimes heard in Australian industry and policy circles is that, because of the strength of their own connections and reliance on their international business acumen by Japanese clients, their dealings with Australian companies has muffled market signals and diminished the capacity of many of them for autonomous exporting. This is sometimes felt to be most acute when trading companies act on behalf of small and medium enterprises.

For their part, some *sogo shosha* representatives in Australia have commented that their capacity to contribute further to Australia's economic development and, indeed, their own profitability is constrained by industrial relations breakdowns which have encouraged supply diversification (to other producing countries) and diminished buyer confidence, and by Australia's taxation and industry policies.

The analysis in this study is intended to inform debate on the future role of the general trading companies in Australia's trade and economic development at the policy level, among Australian companies and within the *sogo shosha* themselves.

TABLE 7:The *Sogo Shosha* in Australia

Company	Est. in Aust.	Australian offices	Direct employees	Number of investments	Rank as Aust. exporter
Mitsubishi	1926	Sydney Melbourne Perth Brisbane	108	23*	2
Mitsui	1909	Sydney Melbourne Perth Brisbane	140	21	1
ITOCHU	1957	Sydney Melbourne Perth Fremantle Brisbane	113	17	9
Sumitomo	1961	Sydney Melbourne Perth Brisbane	85	8	11
Marubeni	1960	Sydney Melbourne Perth Brisbane Adelaide Darwin	90	22	10
Nissho Iwai	1957	Sydney Melbourne Perth Brisbane	82	22	16
Tomen	1957	Sydney Melbourne Perth Brisbane	40	9	31
Nichimen	1957	Sydney Melbourne Perth	22	2	69
Kanematsu	1890	Sydney Melbourne Perth Brisbane Fremantle	50	6	29

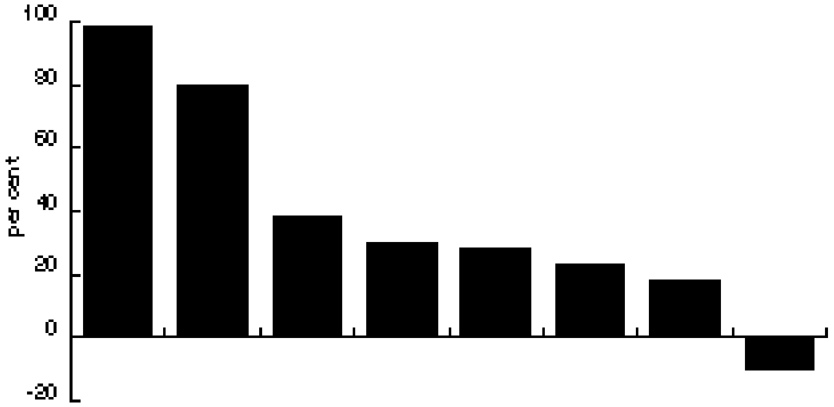
Source:Company publications, Australia Japan Economic Institute, *BRW.*
Note:*Includes some non-incorporated joint ventures.

The Quantum of Business

The total value of business done by *sogo shosha* in Australia through their operating subsidiaries has increased by 37 per cent between 1988 and 1995, from just over $16 billion to just over $22 billion.[12] This is an average increase of 5 per cent per annum.

Seven of the eight *sogo shosha* which provided data for this study have posted growth, but the growth performance has varied considerably from company to company. One company almost doubled its turnover over the period and one company's turnover actually declined, as Figure 6 shows. The average rate of growth was 35 per cent.

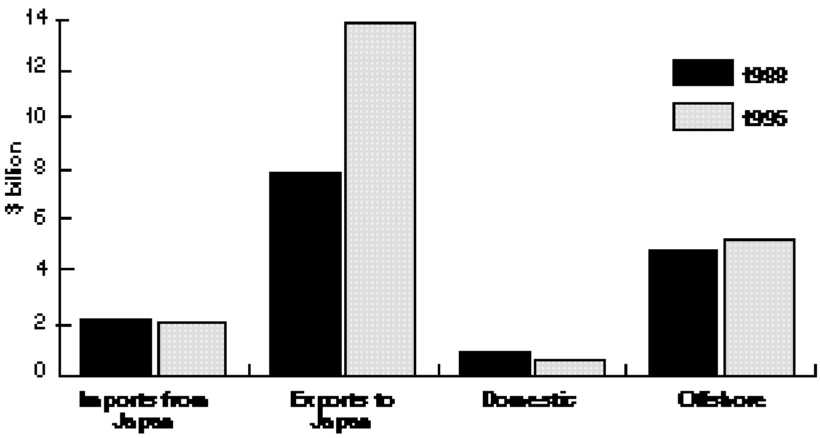
FIGURE 6: Range of Growth Rates in Turnover of Eight *Sogo Shosha* in Australia, 1988 to 1995



[12] The figures in this section of the report were derived from corporate data submitted to the researchers on a confidential basis by eight of the nine *sogo shosha*. Appendix 2 contains a full explanation of the survey methodology. This aggregate turnover figure does include the ninth *sogo shosha* but the detailed analysis which follows does not, as this company did not provide disaggregated data.

As Figure 7 shows, the total value of transactions has shown little growth in absolute terms (and therefore a decline in real terms) other than for exports to Japan – which have almost doubled.

FIGURE 7: Change in Direction of *Sogo Shosha* Business in Australia, 1988 to 1995



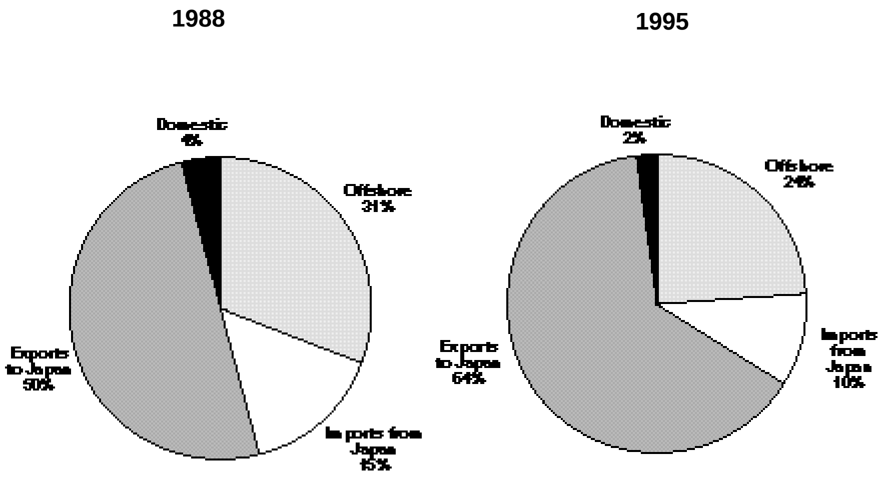
The Direction of Trade

Contrary to the trend in *sogo shosha* business activity globally, the business of the *sogo shosha* in Australia is deepening at the bilateral level.

Exports to and imports from Japan represented 65 per cent of the total volume of the sales of the Australian subsidiaries of *sogo shosha* collectively in 1988. This proportion rose to 74 per cent in 1995.

Perhaps reflecting the substantially stronger yen, imports

FIGURE 8: Direction of Business, *Sogo Shosha* Australian Operations (Value Basis)



from Japan fell slightly as a proportion of total transactions, but exports to Japan rose from less than half total business in 1988 to almost two-thirds in 1995.

One explanation for this is the substantial increase in energy exports in both absolute and proportional terms (see Figure 9) and, specifically, the export of LNG to Japan from the Northwest Shelf.

Significantly, given the trend in their activities globally, the *sogo shosha* in Australia proportionally are doing marginally less of their business domestically in Australia and substantially less 'offshore' (in third countries).

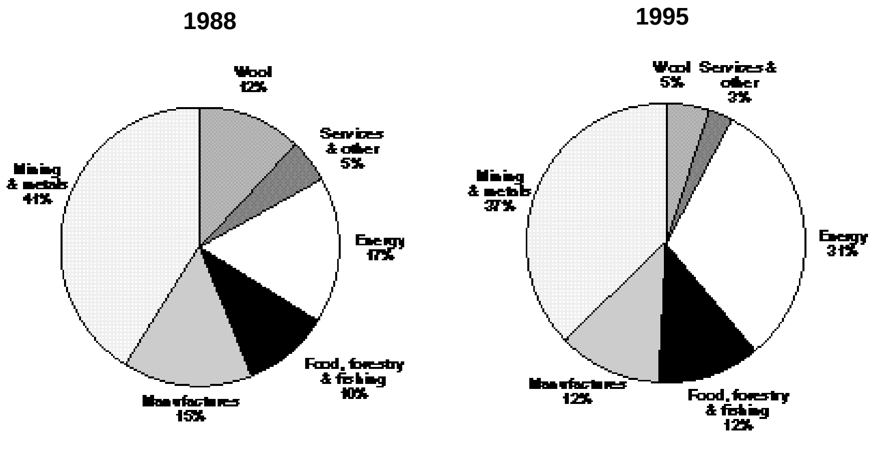
The Composition of Trade

The two outstanding features of the composition of *sogo shosha* business in the seven years between 1988 and 1995 have been:

- the rapid shrinking in the significance of wool, once the mainstay of Australian activities of the *sogo shosha* and, for most of them, the rationale for their presence in Australia in the first place;
- the rapid increase in the significance of energy in overall Australian business for the *sogo shosha*.

In the case of wool, the change has its origins in the major shake-out in the international wool market following the collapse of the reserve price scheme in 1991. After suffering severe losses and facing prolonged depressed market conditions, most *sogo shosha* quickly curtailed their wool trading activities and, in fact, only two *sogo shosha* still obtain a significant proportion (although considerably lower than in 1988) of their total revenue from wool trading. The total value of transactions in 1995, at just

FIGURE 9: Commodity Breakdown of Total *Sogo Shosha* Transactions in Australia (Value Basis)



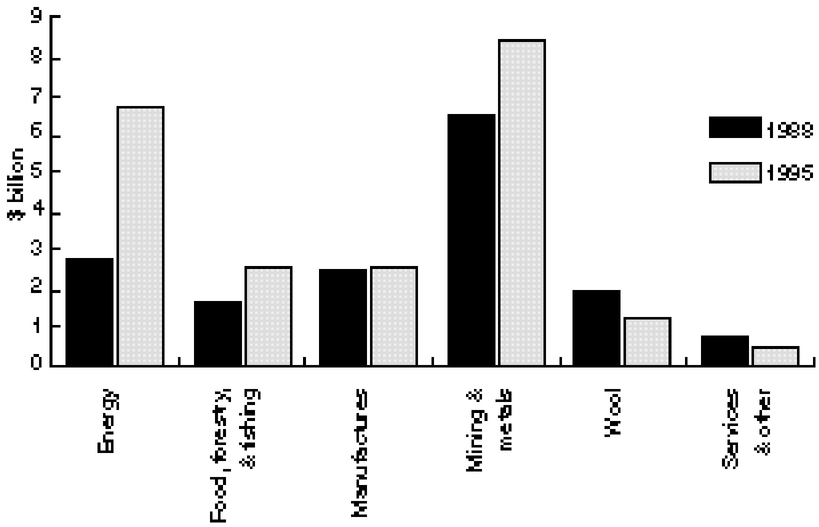
under $1.2 billion, is lower in absolute terms than in 1988, when it was $1.9 billion. In proportional terms it has halved.

The energy component in total transactions, on the other hand, has almost doubled – from 17 per cent ($2.8 billion) in 1988 to 31 per cent ($6.8 billion) in 1995. Exports of LNG from the Northwest Shelf gas project explain a good deal of the increase.

Other notable developments are:

- a slight increase in the proportion of the total accounted for by food, forestry and fishing – which shows a substantial absolute growth of $1 billion (62 per cent) over the period;

FIGURE 10: Value of *Sogo Shosha* Transactions by Commodity Group, 1988 to 1995



- a fall in the share of manufactures in the total, from 15 per cent to 12 per cent – a fall most likely accounted for by sharply reduced imports from Japan following the strong revaluation of the yen against the Australian dollar over the period;
- a fall in the proportion of total transactions accounted for by 'services and other' (from 5.1 per cent to 2.7 per cent) and, in fact, an absolute decline in value terms of just over a quarter.

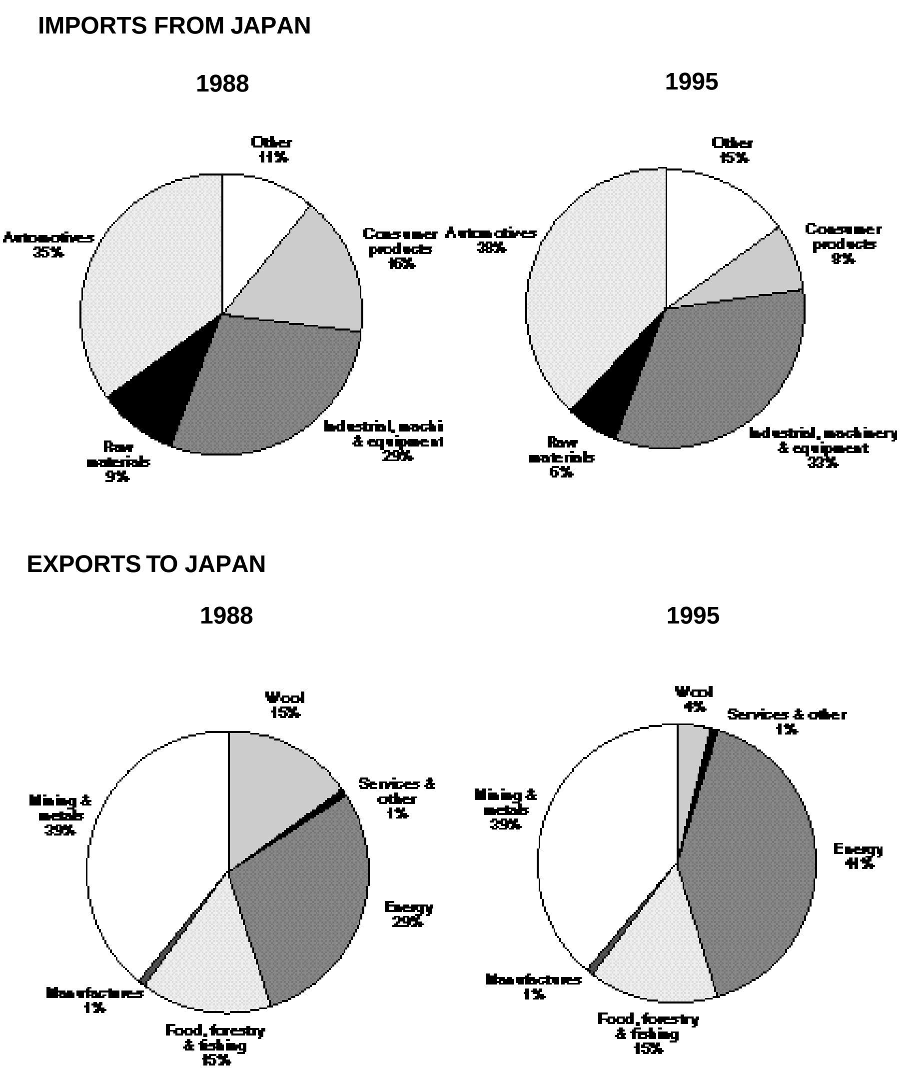
Bilateral Trade

As mentioned above, there has been a significant deepening of the bilateral focus in the activities of the *sogo shosha* in Australia. This is largely attributable to a 75 per cent growth in *sogo shosha* exports from Australia to Japan (from $8 billion to almost $14 billion), rather than to increased imports from Japan which, in fact, have grown by an average of less than 3 per cent per annum between 1988 and 1995. This, in turn, reflects the substantial bilateral currency alignment in the period – with the yen peaking at $1.00 = ¥59 in May 1995.

For exports to Japan, the main compositional change was the sharp rise in energy exports, from 28.6 per cent of total exports in 1988 ($2.3 billion) to 40.7 per cent of the total ($5.7 billion) in 1995. In fact, more than four-fifths of *sogo shosha* energy transactions were with Japan.

The other significant compositional change was the sharp contraction (by two-thirds) of wool in the bilateral trade.

FIGURE 11: Composition of Bilateral Trade



Investment

Investment is a leading indicator of trade trends in the case of *sogo shosha* and, therefore, is an important element in the analysis of future directions in *sogo shosha* activity in Australia. The total stock of investment by the *sogo shosha* in Australia has more than doubled between 1988 and 1995 – from $1.4 billion to $3.0 billion.

This is impressive growth. But these figures actually undervalue the impact on the Australian economy of *sogo shosha* investment for a number of reasons:

- they record only the actual amount of sunk capital by the *sogo shosha*, not the total value of the projects which these investments have brought into existence;
- they do not measure the impact on aggregate investment by the *sogo shosha*'s financial brokering activities – including debt finance, leasing and investment facilitation (of involvement by *keiretsu* members and other Japanese investors);
- they do not take account of the generally higher gearing of projects in which the *sogo shosha* invest.

The sector mix of investment is largely unchanged since 1988, with mining and metals and energy sector investments together accounting for roughly 80 per cent of the stock of investment both then and in 1995.

There has been, however, a decrease in the proportion of the stock of investment in the energy sector (from 64 per cent of the total in 1988 to 54 per cent in 1995), and a corresponding rise in the stock of investment in mining and metals (from 15 per cent of the total to 26 per cent). This is likely to be reversed in the future, given the anticipated decision to proceed with a second phase of the massive Northwest Shelf gas project – with an estimated project cost of around $6 billion.

Investment in manufacturing, services and food still represents only a minor proportion of *sogo shosha* direct investment.

FIGURE 12: Sectoral Breakdown of the *Sogo Shosha* Investments in Australia, 1988 and 1995

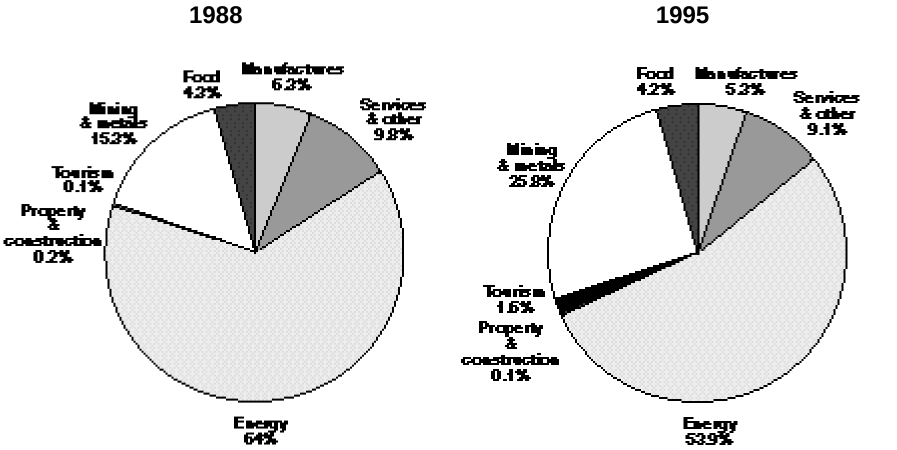
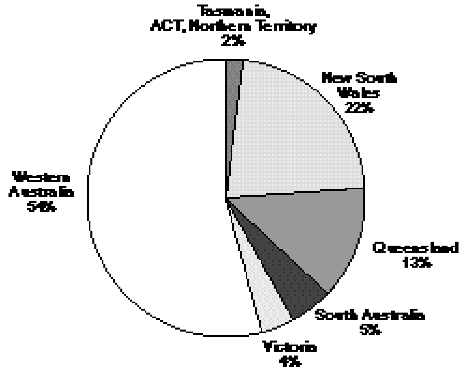


FIGURE 13: *Sogo Shosha* Investment by State, 1995

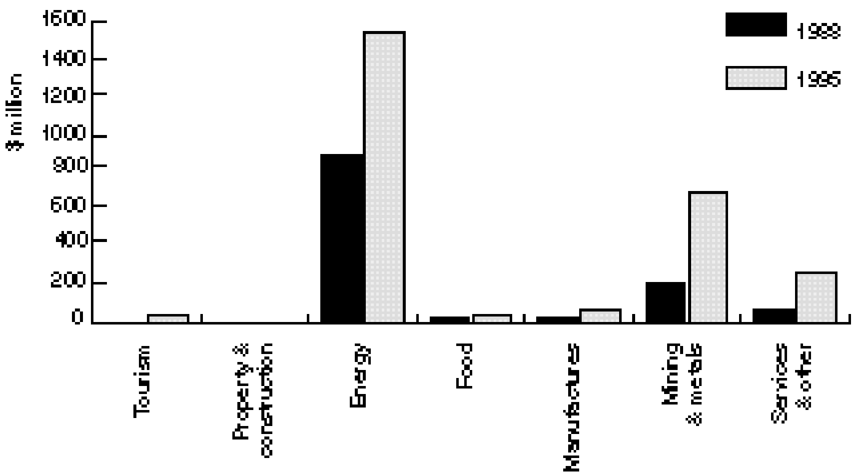


All of the eight *sogo shosha* which provided information for this study have seen the stock of their investments grow in the period. Reflecting the preponderance of investment in energy, mining and metals, there is a strong concentration of investment in Western Australia, which accounts for well over half all existing (1995) investments.

Looking to the future, it should be noted that the sheer scale of activity in the mining, minerals and energy sectors dictates very large investments. Strategic investments in other sectors – including food and manufactures but, most particularly, services – can also create large volumes of business with comparatively small investments.

In this context, the fact that the absolute value of investments in the service sector almost doubled in the period (to $262 million) – its slight decline in proportional terms notwithstanding – is significant. Investment in the food sector also doubled in absolute terms (to $120 million).

FIGURE 14: Value of *Sogo Shosha* Investments by Sector, 1988 and 1995



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Sogo Shosha and Australia's Economic Development

Analysis of both the international activities of the *sogo shosha* and of their activities in Australia produces a profound conclusion: in Australia the *shogo shosha* have a pattern of activity in the latter part of the 1990s which is more as it used to be, rather than a reflection of what their parents are progressively becoming internationally. Internationally, as the 1990s have progressed, the *sogo shosha* have become:

- less reliant for their revenue on the traditional trading (import/export) function and, in any case, less commodity-focused in their trading activities;
- much less bilaterally focused on trade between Japan and host countries;
- increasingly oriented towards investment;
- much more reliant on their third country ('offshore') business;
- more oriented towards domestic business in the host country (a 'multi-domestic' policy);
- focused more on service sector activity.

In Australia, by contrast, the *sogo shosha* in the mid-1990s were:

- very much more bilaterally focused than they were even seven years before;

- doing even less of their business in third countries ('offshore');
- doing less of their total business domestically;
- considerably more dependent on the traditional trading function;
- much more commodity trade dependent;
- doing very little service sector activity comparatively.

Although their investment in Australia has almost doubled since 1988, 80 per cent of it is in the traditional areas of energy, mining and metals. In fact, the profile of the *sogo shosha* in Australia is almost exactly the opposite of the global picture.

This is aggregate activity, of course, and there are exceptions among the firms. But most of the trends are evident, to varying degrees, at the individual firm level as well as in aggregate.

For example, only two of the eight firms surveyed have seen the proportion of domestic business in total corporate transactions rise and, in both cases, only marginally. More firms, indi-

TABLE 8: Movement in Proportion of Business, by Individual Firm

Company#	Domestic	Offshore	Exports to Japan	Manufactures
1	↑	↓	↑	↓
2	↑	↑	↑	↓
3	*	↑	↓	↓
4	*	↓	↑	↓
5	↓	↓	↑	↓
6	↓	↑	↑	*
7	*	↑	↓	↑
8	*	↑	↓	↑

Notes: # Companies are listed randomly.
* Denotes a movement of less than 1 percentage point.

vidually, have shown an increase in the proportion of their business done 'offshore'. But, in aggregate, the value of 'offshore' activity is almost identical in dollar terms in 1988 and 1995.

Similarly, only three firms did not increase exports to Japan as a proportion of their total transactions. In each case, though, the change was either marginal or the firm not large enough to affect the overall result.

Only one of the eight *sogo shosha* has a significant proportion (over 10 per cent) of its total transactions accounted for by service sector activities and, even then, it is half the proportion it was in 1988. A second company has around 5 per cent, but the proportions of the remainder are at or close to zero.

Only two *sogo shosha* increased the share of manufacturing sector transactions in total turnover. The aggregate dollar value of manufacturing sector transactions in total turnover was almost identical in 1995 and 1988 – down from 15 per cent to 12 per cent in proportional terms.

So, why, if *sogo shosha* are transforming globally, is it not happening in Australia? Is there something unique about Australia which is holding the pattern of *sogo shosha* activity here in the shadows of the past? Is it something unique about Japan's requirements from Australia? Is there something wrong either with the environment for business in Australia, or else Japan's perceptions about Australia as a place to base globally focused business activity?

The obvious positive impact of the *sogo shosha* on Australia's trade and economic development historically notwithstanding, might it not have been even larger had the local subsidiaries' experience mirrored their international groups' trends?

What does this bode for the future for Australia? Does the fact that *sogo shosha* in Australia are not following the global trend suggest we are being progressively unplugged from the global economy?

The Impact of the Northwest Shelf Gas Project

The huge Northwest Shelf gas project is worth special consideration in this regard. The enormous size of the project has influenced the overall pattern of *sogo shosha* activity in Australia. The project is of such a scale and impact that it has become, in a sense, an icon of *sogo shosha* activity in this country. And the increasing likelihood of a new phase of development in the project has the potential to elevate it to even higher levels of visibility and importance in the coming years.

A crude exercise to isolate the 'gas effect' undertaken with the confidential corporate data suggests, however, that even if gas transactions are removed, the broad conclusions of this analysis still stand:

- exports to Japan are a marginally lower proportion of total transactions (60 per cent instead of 64 per cent), but still well up on the 1988 figure of 50 per cent;
- offshore transactions are a marginally higher proportion of total transactions (27 per cent instead of 24 per cent), but still well down on the 1988 figure of 31 per cent;
- the share of total transactions accounted for by domestic transactions and imports from Japan is not substantially altered;
- there remains an overwhelming commodities bias in the composition of trade.

While the gas transaction is very large and does affect the compositional mix of trade, the effect is not so substantial as to have distorted the underlying profile of *sogo shosha* activity in Australia.

This would suggest that the *sogo shosha* profile in Australia, looking ahead, is likely to retain most of its current character, rather than conform more to the *sogo shosha* global trend.

ISOLATING THE GAS EFFECT

FIGURE 15: Geographical Breakdown of Transactions

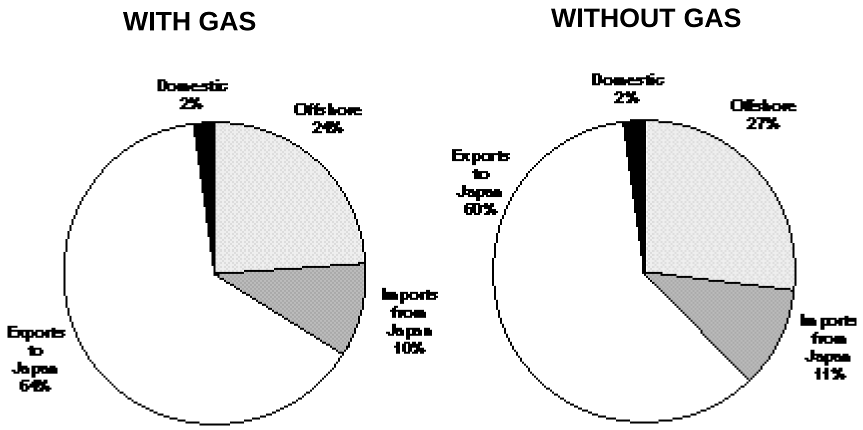
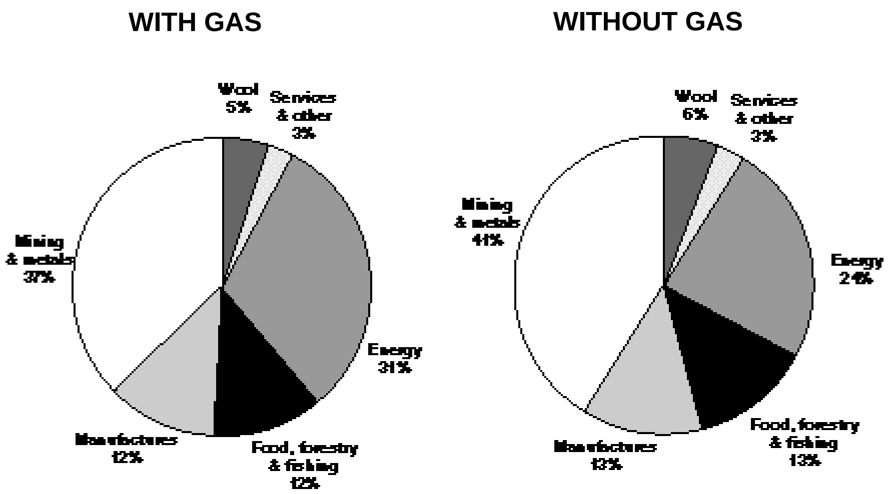


FIGURE 16: Commodity Breakdown of Transactions



Timing

That said, it is important to consider whether, as the analysis in this study ends in 1995, it has not effectively measured a shift which may have begun as an intellectual change of course near the mid-point of the decade but had not yet flowed through into measured transactions.

Also, in this analysis we have taken snapshots – 1988 and 1995 – so there is no way of determining whether a subtle shift in the transaction base has occurred towards the end of the period.

If this has happened, it would presage an adjustment to the new global model – but with a delay. However, while there are interesting anecdotal examples of new activities and new directions being taken by the companies, there is no compelling evidence available to suggest that there will be an early reversal of the overall historical trend.

Comparative Advantage

It is most likely that what we see here reflects, quite simply, Australia's inherent comparative advantage – more specifically, the comparative advantage which is derived from our natural resource endowments.

The *sogo shosha* are global enterprises. They respond to demand, they respond to supply. What they have found in Australia as the most attractive business activities are the products which Australia has in abundance and which Japan has been demanding in increasing quantities – especially primary energy raw materials. This matches corporate and national interests at both ends.

But it does beg the question of whether there is a future for Australia as a location for the types of activity which the *sogo shosha* now wish to emphasise internationally, and which are the goals of much of Australia's industry and economic development policy. Among these are information technology, telecommunications, finance, design and advanced manufacturing.

If Australia is an intrinsically attractive place for such activities, it could be argued, then the market should deliver such outcomes. If it is not happening, then the obvious question to ask is whether Australia does, indeed, enjoy a comparative advantage in these fields of activity. Alternatively, it could be that Australia's relative attractiveness (and the comparative appeal of government policies) is just not widely understood by foreign investors – that is, it is a perception problem, rather than one of substance.

In fact, this is an issue almost as old as the post-war bilateral relationship itself. Whereas Australian governments have welcomed developments in commodity trade and commodity-related investment between Australia and Japan, there has always been urging at official levels for Japanese investors to broaden their investment base in Australia by moving into other sectors. This was the rationale for the Yonekura Trade and Investment Mission to Australia in 1984 (an outcome of Prime Minister Hawke's meetings with Prime Minister Nakasone in Tokyo in 1983), the Douglass Mission to Japan the following year, the Amaya Mission to Australia in 1985, the Multifunction Polis initiative in 1987 and countless other persistent endeavours to turn the heads of Japanese investors in this regard.

The failure of these initiatives fundamentally to alter the profile of Japanese investments in Australia – including that of the *sogo shosha* – must surely point to Australia's underlying comparative advantage limitations, rather than simply attitudinal constraints on the part of Japanese investors.

There are some exceptions: notably, the automotive industries. But those initial investments were, in the face of extremely high protective trade barriers, the only way to effectively access the Australian domestic market for automotives and components.

With a relatively open market, it is unlikely that the large-scale investments which took place in the 1960s to 1980s would take place now. (In this context, it is interesting that Korean auto manufacturers now have achieved market leadership in some categories without investment in manufacturing.) The fact that Mitsubishi and Toyota are now exporting is more a function of their determination to achieve volume in order to make their sunk capital investment viable, rather than the inherent comparative advantage of this kind of manufacturing investment in Australia.

It is significant that Prime Minister Hashimoto on his visit to Australia in May 1997 reminded his hosts of the importance of tariffs on imported motor vehicles in under-pinning ongoing investment by Japanese motor vehicle manufacturers in manufacturing capacity in Australia.

The scale limitations of the domestic Australian market have always been regarded by Japanese investors as a constraint on the viability of (especially capital intensive) investments in the service sector and the manufacturing sector. It is also a factor in the difficulty local representatives of *sogo shosha* sometimes experience in attracting the attention of their headquarters to support what headquarters, at least, regards as 'unconventional' activities in Australia – minerals and energy in Australia, yes; manufactures and services, no!

It is perhaps for this reason, also, that the headquarters' management of many of the *sogo shosha* these days tend to regard their Australian business as a 'mature' business. They believe they have already substantially covered most of the bases they want in Australia as priority businesses. There are, in this view, no 'new frontiers' in Australia: in China, Thailand, Indonesia, Vietnam or Burma (Myanmar), on the other hand, it is all new frontiers and, therefore, demanding of their priority attention.

Food, however, is a challenging case. An expanded commitment to exporting food from Australia would seem to make sense intuitively. Australia is a traditional food exporter, it has a long history of supplying Japan, it has vast untapped food production potential, there is a looming global food shortage.

However, apart from a burst of investments in the mid to late 1980s (essentially related to the liberalisation of the beef import market in Japan) and again in the early 1990s (essentially into dairy and related activities following tight supply in Asian markets when EU stockpiles ran down and export subsidies under the Common Agricultural Policy began to be wound back) the level of investment has been small and the bilateral or third country trade has shown no appreciable growth in proportional terms. This would tend to indicate limitations in the competitive appeal of Australia *vis-a-vis* other alternative locations, even in an area as intuitively attractive as food.

In this context, it is particularly pertinent to note that Australia plays no part at all in satisfying Japan's burgeoning demand for imported chicken meat – despite our leading position in the beef market which, also, is driven by grain feeding. By contrast, supply to the $1.97 billion market is dominated by China, Thailand, Brazil and the USA. More particularly, the supply from the first three of these countries was initiated, and is now secured, by Japanese investment – predominantly by *sogo shosha*, who control around two-thirds of supply from these countries.

Recently, China has emerged as a preferred source of supply for everything from seafood to canned fruit to cut flowers. This obviously reflects lower labour costs and, perhaps, proximity. But it also says something about relative openness to investment, technology transfer and, hence, the ability of Japanese purchasers to source exactly what they require from China and other sources: perhaps Australia and other developed country sources are more inclined to offer the product they want to sell, rather than what the customer wants to buy.

This would seem to be confirmed in statistics contained in the recently released White Paper on Agriculture. Japan's imports of agricultural products in the 1996 calendar year reached an all-time high of ¥8.3 trillion ($93 billion): Australia's exports were well under $4 billion, accounting for just 4 per cent of total food imports. China has a rapidly growing share of the market.

All that said, comparative advantage is not a static concept. And, in any case, natural resource endowment is only one of the factors conditioning economic development. The experience of Japan itself, and of other East Asian economies, has demonstrated how effectively the imagination of the people and their capacity to conceive and challenge new frontiers can be as important for a country in achieving its full economic potential as is the richness of its physical endowments.

The lesson in this is that there is no obligation on others to create our opportunities. This, surely, is the course to set for ourselves, even though we invite others to share our destiny to mutual advantage.

The Inconspicuous Face of Japanese Business in Australia

In general, the Japanese are not a people prone to publicising their philanthropic endeavours, whether in Japan or overseas. Japanese businesses in Australia are no exception and, in areas where the fine line between corporate philanthropy and advertising is difficult to define, they customarily err on the side of silence.

In 1993, CEDA published a paper titled *The Inconspicuous Face of Japanese Business in Australia*, which drew together a selection of stories about Japanese corporate philanthropy in Australia.

The oldest of these stories is that of the Kanematsu Corporation.During his lifetime, the founder of Kanematsu, Mr Fusajiro Kanematsu, became well-known for his generous donations to charity whenever his company found itself with a surplus. A grant of 25,000 Pounds Sterling to Sydney Hospital in 1929 constituted 25 per cent of Kanematsu Australia's paid-up capital at the time. The grant was used to open the Kanematsu Memorial Institute of Pathology.

The work of the original Institute is now carried out at Kanematsu Laboratories, at the Royal Price Alfred Hospital, still with substantial support from Kanematsu Australia Limited.

In the CEDA paper, Professor Paul Vincent, Director of Kanematsu Laboratories, noted:

> when the Kanematsu Memorial Institute opened in 1933, it was the first Institute for Medical Research in New South Wales, and one of only two or three in Australia.In its 49 years on the Sydney Hospital site, the Institute made significant contributions to research in heart disease, kidney disease, blood diseases and immunity, all of which have served the Australian community and, in a sense, the broader international community, eminently well. And of course, through the Kanematsu Laboratories here at the Royal Prince Alfred Hospital, this contribution continues today.

Another example is the Mitsui Educational Foundation, which was established in 1972 by the then Chairman and Managing Director of Mitsui & Co (Australia) Ltd, Mr Koichiro (Ken) Ejiri, with the aim of furthering understanding between the younger generations of the two countries. An initial grant of $200,000 was made to get the program under way. Today, interest income from the Foundation's $1.5 million investment is used to fund trips to Japan for Australian students. Since its introduction, around 200 have benefited from the opportunities provided by the Foundation.

Cross-cultural education programs are also supported by Mitsubishi Australia Ltd, which has made substantial donations of Japanese-language education tapes to Australian high schools, and Tomen Corporation, which has entered into a sponsorship agreement with AFS International Exchanges (formerly American Field Service), the largest privately funded, community-based volunteer organisation of its kind in the world. Since 1947, AFS has arranged exchanges between teenage students in 54 countries. Tomen assists by sponsoring and promoting contacts between Australians and young people of Asia, Europe and Latin America. With 80 students being exchanged each year, Japan is Australia's largest partner. Tomen Corporation funds the selection, orientation, placement, travel and support costs involved for students.

ITOCHU and CSIRO are currently finalising details of a scholarship fund through which ITOCHU will fund CSIRO employees to travel to Japan to work with either private sector firms or government agencies in a specific scientific area to facilitate first-hand exchange in topical technical fields.

Sogo shosha are also active and regular benefactors of Australian charitable organisations. Some examples of charities they support include the Royal Flying Doctor Service, the Cattle and Beef Industry Cooperative Research Centre, the Lord Mayor's Sydney Bush Fire Appeal, the Red Cross, the Salvation Army, the Royal Institute for Deaf and Blind Children, the Blind Society of Western Australia, the Melbourne Symphony Orchestra, the Australian Ballet, Opera Australia, and the Matthew Talbot Hostel.

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Looking to the Future

An examination of the most recent and planned activities of the *sogo shosha* suggests that, although the broad sectoral and directional pattern is not about to be reversed, there could well be some progressive convergence towards the global pattern of *sogo shosha* activity. The new 'globalised' outlook of top *sogo shosha* management is a relatively recent development. It is as much a reaction to disappointments in domestic business in Japan as it is to opportunity abroad.

It is understandable, however, that the progression to the new business goals would be most rapid in the major markets of the world – North America, Europe and Asia – and that Australia, therefore, is likely to lag behind the global trend.

It is important to note here, also, that the analysis in this study compared business activity in 1988 with 1995. This period of comparison was dictated by the need to ensure the availability of complete statistics. But 1995 statistics will not have fully reflected any changes which have begun relatively recently and certainly not the most recent changes. So it is at least possible that a shift may be occurring in the future direction of *sogo shosha* activity which is yet to emerge in the statistics.

For Australia, this does not provide grounds for complacency. Quite the contrary, in fact, given the scale of our own global ambitions and the potentially vital role of global entities such as the *sogo shosha* in taking us there.

However, there is some encouraging anecdotal evidence –if not statistical proof –that the *sogo shosha* are exploring new directions in Australia, too. Some examples of new directions are given below.

New Sectoral Directions

Food and Agriculture

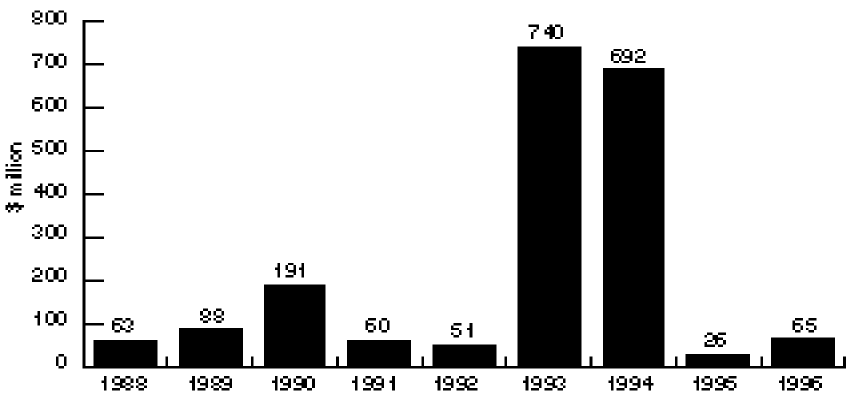
Food is a logical sector to look to for signs of new interest by *sogo shosha* in the future – not just for the burgeoning food market in Japan but also for the even more rapidly growing markets elsewhere in Asia.

There was a strong burst of Japanese investment in the food sector in Australia in 1993 and 1994 ($740 million and $692 million respectively) and, in 1994, investment in foodstuffs comprised almost half Japan's foreign direct investment in Australia.

Although the level of Japanese investment in the food sector in Australia has tailed off sharply in 1995 and 1996, the full effect of the 1993–94 surge in investment will not have been reflected in the analysis in this study.

Even where not involved in an investment capacity, *sogo*

FIGURE 17: Japanese Direct Investment in Australia's Food Sector



Source: Australia Japan Economic Institute.

shosha are likely to be responsible for the trade in a good deal of the output of new food-related ventures.

Beef accounted for over 40 per cent of Japan's imports of food from Australia in 1995. The *sogo shosha* have been instrumental in developing beef cattle lot feeding in Australia and several (ITOCHU, Marubeni and Mitsubishi) have been involved in the development of fully integrated, 'paddock to plate' beef ventures.

Other interesting new food-related investments in which *sogo shosha* have a role are:

- the production of dried udon (noodles) – Nissho Iwai;
- aquaculture – Tomen;
- the manufacture of ice cream – ITOCHU (with Peters, for export to China);
- the export of fresh fruit and vegetables – ITOCHU;
- the export of live cattle to Southeast Asia – Marubeni.

ITOCHU and CSIRO in October 1995 formalised an arrangement by way of a Letter of Intent whereby ITOCHU would promote the CSIRO's food technology expertise in the Japanese market place. A CSIRO expert has been located in ITOCHU's head office to enable any new business opportunities to be responded to quickly.

Taking a Bigger Bite

Mitsubishi has emerged as a significant food industry player in Australia and has been involved in several significant investments in recent years.

It is a pioneer of development in the meat industry, focusing specifically on Japanese market requirements. Through Lachley Meats Pty Ltd, Mid Coast Meat Co Ltd and Rockdale Beef Pty Ltd it has major involvement in meat processing, sales and distribution (for the domestic market). Through Riverina Stock Feeds Pty Ltd it is involved in feed manufacturing.

With Australian dairy industry leader Murray Goulburn Cooperative and Japanese industry giant, Meiji Milk, Mitsubishi has established a joint venture plant to manufacture infant formula for Asian markets. This is the biggest single Japanese investment in foreign dairy production.

Forestry

Ongoing demand in Japan for hardwood and for woodchips for pulp and paper production, combined with new environmental sensitivities in forestry management, have led to several significant investments in forestry plantation and processing by *sogo shosha*.

Nissho Iwai has three forestry-related investments, Mitsui has forestry activities in five states and investments in three, ITOCHU has activities in Western Australia and Queensland and Mitsubishi in Tasmania.

Construction and Development

A number of *sogo shosha* are involved in property development and construction in Australia.

ITOCHU, for example, has participated in more than 30 projects in Australia since 1985 and owns several offices in Sydney and Melbourne, as well as industrial estates in Sydney and Brisbane.

Nissho Iwai has a property company involved in condominium construction and sales. It also has a joint venture, with a number of smaller Australian partners, which holds a gas pipeline-laying contract with the Australian Gas Light Company and a water pipe rehabilitation contract with the Sydney Water Board.

Tomen is a developer with a number of significant projects to its name – the Sydney Airport Centre, a 38-storey tower at 270 Pitt Street, Sydney, and a residential tower development with the Walker Corporation in Milson's Point, Sydney. Tomen's property development activity has, however, recently wound down.

Retail and Distribution

There are some significant investments in wholesale and retail distribution. One of the main areas is the import, distribution and retailing of automobiles and other vehicles.

Traditionally, a number of companies have been involved in heavy industrial vehicles – earth-moving equipment, cranes, power shovels and the like – and some in passenger and commercial vehicles. Nissho Iwai is the most recent entrant, having launched a venture to import and distribute an Indian car, the Tata. Sumitomo is another, being involved in Ford dealerships. Tomen imports Subaru, through Fuji Heavy Industries. A wholly owned subsidiary of Marubeni, UD Oceania Pty Ltd, imports and distributes Nissan trucks.

Information Technology and Management Services

Several companies – notably ITOCHU and Mitsui – have set up separate companies to provide out-sourced corporate services, previously undertaken as in-house functions, as a first step in building information and management services businesses.

In Mitsui's case, this involves accounting and management services and, in ITOCHU's case, computing and information technology services. The ITOCHU subsidiary is targeting companies outside the group using Japanese software with the long-term goal of becoming a supplier of hardware and software. It has sent an Australian software expert to Japan to work in ITOCHU Corporation with a view to further building this business.

Virtual Shopping: Arcadia

As part of ITOCHU Australia's progression from its traditional trading areas into new fields, such as entertainment and communications, the company launched a virtual shopping mall concept in September 1996.

The new venture, known as Arcadia, will initially target Japanese travellers to Australia and Japanese expatriates living in Australia with products such as T-shirts, sweatshirts, surfing goods, wine and food. Once 'tenants' for the virtual mall have built to critical mass it will go on-line to Japan and, eventually, to other countries.

Arcadia is designing and maintaining the website and home pages for the virtual mall. It will receive orders from customers via the home page and forward them on to distributors or retailers. Arcadia will ultimately become involved in collecting payments and possibly, also, undertaking delivery in Japan.The home pages appear in both Japanese and English.

Manufacturing

There have been substantial investments by *sogo shosha* in downstream processing of mineral resources. Appendix 1, which lists the Australian affiliates of *sogo shosha*, reveals that most of this investment has been in non-ferrous metals refining and smelting – of which alumina and aluminium are the major items.

Minerals and energy resources still constitute the major component of Australia's export income and it would be worrisome indeed if the *sogo shosha* were not looking at this sector, too, with a fresh eye. Fortunately, they are striking out in new directions here as well.

Where Others Fear to Tread

Toward the end of 1996 a consortium of Japanese interests led by Nissho Iwai and ITOCHU formed a new company, Port Kembla Copper Pty Ltd (PKC), to acquire the assets of Southern Copper Ltd, a wholly owned subsidiary of RTZ-CRA. This followed RTZ-CRA's decision to abandon its copper smelting and refining operation at Port Kembla.

The new consortium, involving leading Japanese copper smelter Furukawa Co and prominent Japanese mining company Nittetsu Mining Co Ltd, will refurbish the old plant and substantially expand capacity – from 80,000 tonnes per year to 120,000 tonnes per year (23 per cent of Australia's copper smelting output) initially, with the option of growing to 150,000 tonnes.

RTZ-CRA's decision to close the smelter (in 1994) was taken because of the cost of new investment needed to meet changing environmental controls. However, Furukawa and Nissho Iwai, which had been previous part-owners of Southern Copper Ltd, conducted a feasibility study to establish if the mothballed plant could be recommissioned and modernised.Essentially, this study concluded that with an expansion of capacity and the adoption of the latest environmental and engineering practices – together with revamped industrial relations agreements – the plant could be redeveloped as a competitive producer of copper.

Investment in the project to complete the upgrade will total $250 million and the plant will be recommissioned as a major part of the Illawarra region's industrial infrastructure in 1998.

In addition, there are some modest investments in wool processing. Beyond this, however, *sogo shosha* manufacturing sector investments are minimal.

Perhaps the most constructive role the *sogo shosha* can play in the development of Australia's manufacturing production and export capability is in their conventional trading role – providing the connections, the encouragement, in some cases the finance, and frequently the logistics for independent Australian manufacturers to penetrate Japan and other markets with their products.

To date, manufacturing exports have not figured large in the transactions of *sogo shosha* themselves – being at just 1.5 per cent of total export transactions in 1988 and actually falling to 1.1 per cent in 1995.

However, several companies have launched initiatives to increase their facilitative role on behalf of Australian manufactured goods exporters in the future – including taking selling missions to Japan.

On the other hand, manufactures have consistently featured as the majority of *sogo shosha* imports – with automotives, consumer products and industrial machinery and equipment totalling 80 per cent of their import transactions in 1988 and roughly the same proportion in 1995.

Paving the Road to Success

One particularly successful example of new trade being facilitated through *sogo shosha* market links is ITOCHU's marketing venture with Midland Bricks in Western Australia.

ITOCHU Australia is now exporting close to 2000 containers of bricks and pavers annually. The variety of interesting colours available from Australian clays is one factor in the success of this trade: the other is price competitiveness.

This venture now supplies 45 per cent of bricks and pavers imported to Japan from all sources. A joint venture sales company, Midland Brick Japan, has been established to further expand sales.

New Geographic Directions

While the geographic mix of *sogo shosha* business has intensified at the bilateral (Australia–Japan) level, there have been recent commitments made, and further transactions are under negotiation, which would suggest increased third country transactions in the future.

Most *sogo shosha* have, traditionally, exported some proportion of the output from their Australian investment interests to third countries, as well as directing some proportion of their general commodity trade to third countries – particularly with wool, where third countries such as China have become the main markets following the steady contraction of Japan's own textile industry. For Kanematsu, for example, its major market for wool is no longer Japan, but China, India, USA and Malaysia, where it jointly owns a yarn spinning company.

Most *sogo shosha*, also, have drawn on their global network to source products from third countries for specific markets in Australia. Tomen, for example, imports an estimated 20 per cent of the total volume of coffee imported to Australia and has a joint venture coffee distribution company. It also imports dates.

One of the more interesting third country import ventures, concluded only in February 1997 by Nissho Iwai, is the import and distribution in Australia of the Indian Tata car. This is a joint venture, Anoger Automobiles Pty Ltd, in which Nissho Iwai will be a substantial (though minority) equity holder.

Sumitomo, for its part, has ownership of Ford dealership franchises in Australia through its wholly owned Summit Investments Co. This follows the company's successful experience with operating car dealerships in the USA. Recently it extended its car dealership operations to South Africa, using Australian management and basing its South African operations on its Australian experience.

For Sumitomo, this is an important part of a deliberate strategy, begun three years ago, of geographically refocusing business, especially looking to Southeast Asia. Subsequently, Sumitomo has doubled the size of its 'offshore' business as a proportion of total turnover and believes that, as part of the new overall direction of the corporation globally, this trend will continue over coming years.

On the export front, Nissho Iwai has joined forces with the Australian Wheat Board on sales of wheat to Indonesia and, with Australian sugar technology specialists, on the construction of sugar plants in Vietnam and Indonesia.

Four years ago, Mitsubishi Australia Limited established its Southern Cross Committee to concentrate on the development of new business with Southeast Asia and other regional markets. The Committee exists to increase the awareness of Australian capabilities within headquarters and offshore arms of Mitsubishi and to expand the awareness among Australian staff of potential business opportunities outside the conventional vertical and horizontal (divisional) structures of the group.

Several companies have launched initiatives to increase their facilitative role on behalf of Australian exporters in the future – including sponsoring inwards buying missions to Australia and sales missions for Australian companies to Japan.

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Getting There

So, in summary, there are seeds of a new future for the *sogo shosha* in Australia. But getting there will be a challenge. It will be a challenge for the *sogo shosha* corporately. In particular, it will be a challenge for those working in the Australian operations to attract and nurture the attention of the top decision-makers in headquarters, who are besieged with competing proposals from all corners of the globe.

But it is mainly a challenge for Australia as a nation. We have opted to play the global game. We can – indeed, we must – call on our long-term associates and allies to help us meet the challenge as a nation, and the *sogo shosha* are, surely, the staunchest. But the future must also be our own creation: we must be good enough and strong enough to meet the challenge.

It is not simply a matter, however, of being good: we must also be known to be good. Impressions count for a great deal.

And, in that context, a recent survey of the contribution towards employment and exports by Japanese companies in Australia makes sobering reading. Moreover, as it was conducted by the Embassy of Japan, the Federation of Japan Chambers of Commerce and Industry in Australia and JETRO, it is all the more compelling.

The Prevailing Business Attitudes

In presenting the results of the survey to the Symposium on Australia–Japan Relations: Beyond 2000 in Canberra in May 1997, the Chairman of the Federation, Mr Seiji Kawarabayashi, also

Chairman and Managing Director of Mitsui & Co (Australia) Ltd, remarked:

> We all know Japan is Australia's largest single trading partner and a very important foreign investor. The perception in Japan, however, is that Australia is a small, mature market with limited growth potential, mainly in the areas of resources, energy and leisure. It is up to Australia to firmly focus on the future, reinvent itself to compete globally, and benefit from the growth in Asia.

We need to look, therefore, at the underlying issues which affect competitiveness – of which the classical economist's notion of factor endowment-based comparative advantage is but one, albeit important, determining factor. Additional factors include the stability and direction of public policy, community attitudes, workplace relations, the regulatory environment and the physical environment.

Mr Kawarabayashi, in his address, listed several areas in which Australian competitiveness has declined and where attention is necessary to attract new investments and generate new trade. These comments were mirrored in the course of this study in conversations with other representatives of *sogo shosha* in Australia and in Japan. These and various other concerns were touched on, too, by Australians concerned to see the *sogo shosha* continuing to play their very important role in creating Australia's future.

The Exchange Rate and Competitiveness

Given that 64 per cent of *sogo shosha* transactions in Australia consist of exports of Australian goods and services to Japan it is not surprising that the sudden and substantial reversal in the bilateral currency alignment should focus attention on competitiveness.

It has been the policy of successive Australian governments to manage the macro-economy with fiscal and monetary policy designed to eradicate underlying inflationary forces. This is generally welcomed by business in Australia and by foreign investors alike. However, a corollary of this policy is a strong exchange rate.

Between May 1995, when the bilateral exchange rate peaked at $1.00 = ¥59.45, and May 1997, when the bilateral rate peaked at $1.00 = ¥98.60, the Australian dollar appreciated by almost 40 per cent.

The strategic significance of this in the context of *sogo shosha* activity could not be over-stated. At the very time they were re-focusing their global strategies and international business priorities – when we needed to have their attention most acutely – Australia was rapidly losing its competitive appeal. Naturally, this will have adversely affected corporate decisions.

Any price sensitive trade has been difficult to maintain in this period and this will explain, to some considerable extent, why Australia's share of Japan's $86 billion food import market slipped, for example. It will, undoubtedly, have had an adverse impact on Australia's appeal as a location for export-oriented investments where there is no off-setting comparative advantage factor – such as an abundance of high-grade mineral reserves. It also would have altered the balance on corporate decisions on whether to manufacture locally or to import.

So, inevitably, opportunities have been lost. However, looking forward, it is important to keep sight of the reality that the big factors which drive exchange rates work in both directions. In the space of a month (between early May 1997 and early June) around a quarter of the lost competitiveness of the previous two years was recovered when the yen began to strengthen against other currencies, including the Australian dollar.

Taxation

Taxation is already a major public policy issue in Australia and was mentioned by most *sogo shosha* in the course of this study as a factor negatively influencing business decisions in and relating to Australia.

The complexity of Australia's taxation structure is one of the elements of concern, as this can complicate decision-making processes and add to costs. The level of the corporate tax rate is another issue, as this affects investment location decisions where there are other countries as alternative choices with lower tax rates.

An over-arching issue is the treatment of profit for taxation purposes – and, in particular, the matter of transfer pricing. This is no longer simply an Australian issue, however, but a global issue. With the increased mobility of capital, it can be expected that global enterprises will seek to take their profit where the taxation regime is most favourable. Countries with relatively unfavourable tax regimes or relatively rigid determinations on pricing and profit on global transactions may fail to attract investment from globally mobile businesses or to generate trade volumes.

State government taxes – such as payroll taxes and duties and taxes on financial transactions – have also been mentioned as factors negatively influencing business decisions and the relative competitiveness of Australian supply.

Industry Policy

There are compelling macro-economic reasons for decisions to reduce or remove or otherwise alter industry assistance – whether through tariffs or measures such as research and development and export incentives.

However, these decisions do affect investment and trade decisions by domestic and foreign companies alike. Some *sogo shosha* have commented that recent substantial changes to industry policy have created an atmosphere of reserve in their dealings with headquarters on investment decisions.

Particular industry policy decisions mentioned in the context of this study include:

- tariffs: given Australia's small domestic market the removal of tariffs also removes the rationale for manufacturing in this country for some foreign companies;
- research and development: incentives are crucial if Australia is to support its ambitions to be the 'clever country' in Asia;
- overseas development assistance: competitive financial packages are essential in winning business in many developing countries and the withdrawal of the Government's Development Import Finance Facility will make it harder to involve Australian companies in overseas project opportunities.

Other Issues

Mineral and energy resource investments are rarely small in scale and project risk is a major consideration in any investment decision. Japanese investors generally regard Australia as a low risk in overall country risk assessment. But concern has been expressed about project risk in two respects:

- native title and the ambiguity surrounding the issue in recent years following the Mabo and Wik decisions of the High Court;
- environmental regulations – not their existence, but their predictability.

Encouraging Wider Use of *Sogo Shosha*

Perhaps because they have tended not to seek attention for their activities in Australia the *sogo shosha* are neither well-known, nor well-understood – especially outside the mineral resources and primary production sectors where the bulk of their activity is focused.

Even in those industries the role of the *sogo shosha* is often misunderstood or misinterpreted. Price negotiations between producers and the ultimate buyers have, periodically, been intense exchanges and it has not been unusual for Australian negotiators to regard *sogo shosha* as partisan in these negotiations, rather than as intermediaries seeking reasonable outcomes for both sides.

Undoubtedly, however, the existence and role of *sogo shosha* is least well-understood among small and medium enterprises.

Those who are aware of the *sogo shosha* invariably perceive them as having a much more circumscribed role than is actually the case. Most would see the *sogo shosha* as being a channel to Japanese markets, perhaps, but rarely would they see the *sogo shosha* as providing access to a network, and through that, to a variety of markets globally.

The other prevailing view is of gigantic organisations incapable of reacting to business on a small scale. It is expected, for example, that *sogo shosha* would require great volumes for trade, or large sums for finance and investment.

It is not widely understood among small and medium enterprises that most of the *sogo shosha* have 'new business' offices or divisions which are actively seeking new opportunities for investment, financing or 'buy and sell' trading.

At least one *sogo shosha* with such a function says that 'no transaction is too small'.

The down-side is that, companies excessively reliant on this channel to market may fail to develop skills necessary for a sustainable market presence, or market signals could also be muffled, leading to lower levels of market responsiveness. Most *sogo shosha* are aware of this issue, encourage suppliers to develop their own understanding of markets and will assist by arranging visits if required.

On the up-side, the advantages for Australian businesses in seeking to develop international markets through a *sogo shosha* are many.

Access

As indicated in earlier sections of this report, the *sogo shosha* maintain a huge global business structure and, increasingly, are devoting resources to the development of global business independent of Japan itself – that is, 'offshore' business.

Mr Kawarabayashi told the Symposium on Australia–Japan Relations in Canberra that Japanese companies, many of whom have substantial practical experience and established networks in Asian markets, can 'help Australian companies by working together to target those markets with Australia's competitive and advanced technological expertise in such areas as telecommunications; railway construction; microbiology; non-ferrous metal refining (particularly aluminium, lead and zinc); and in bulk materials handling'.

Many *sogo shosha* have already begun to lead Australian companies into new markets through their networks, including through access to Japan's overseas development assistance (ODA) programs.

Logistics

The *sogo shosha*'s traditional role as trading entities has depended heavily on their ability to provide the full range of logistical services at low cost. Several, in addition, offer their own forwarding and shipping services, streamlining access to the markets and keeping costs to a minimum.

Finance

The *sogo shosha*, also, have built their position at the top of the global trading ladder through their ability to access and deliver finance to suppliers. In the mineral resources sector this has been used to great effect to bring new supply into the market place on competitive terms. But the same facilities are also accessible across the full range of commerce for suppliers which meet risk, financial and management criteria.

Human Resources

Industrial relations has always been a factor influencing Japanese business attitudes to Australia, mostly unfavourably. The issue has freshened recently. Heavy commercial losses (and equally importantly, losses of corporate 'face' by *sogo shosha* in their relationships with their customers) have again recently been experienced by some *sogo shosha* due to industrial disputation.

In his Canberra speech, Mr Kawarabayashi listed industrial relations as one of the 'four concerns Japanese business people … have regarding current Australian economic issues'. He acknowledged initiatives in reforming the labour market and in reducing the overall incidence of strikes, but noted that Japanese business is 'still concerned … by industrial action, such as last year's eleven-month strike at the Vickery Coal Mine, the recent problems in Western Australia, and ongoing problems caused by waterfront workers'.

A more subtle human resources issue is the availability and quality of appropriate staff in Australia and the 'Australianisation' of the *sogo shosha* in Australia.

The Managing Director of Fujitsu Australia Ltd, Mr Neville Roach, raised the question publicly not so long ago, asking: 'is Australia so devoid of management capability, or is the level of trust in Australians so low, that one can count the number of [Australian] chief executives of Australian subsidiaries of large Japanese companies on the fingers of one hand?' He also recorded his view that Australians should be given the opportunity to contribute to Japanese business, not only in Australia, but in other countries as well.

This sentiment is consistent with the new globalisation policies of the *sogo shosha* and the intention to become more global in management structures and practices has been articulated by top management of *sogo shosha* on recent occasions – including in Australia. But there are practicalities which condition the nature and pace of 'localisation' policies.

At middle management level and below, 'localisation' is not an issue. Overwhelmingly, this level of staff of *sogo shosha* in Australia is local and the 'localisation' is deepening.

Four of the nine *sogo shosha* now have an Australian director; five, by corollary, do not. From a head office perspective the lines of communication are more likely to be seen to be open, perhaps, to the extent that the senior positions are in the hands of 'company men'. From a local perspective, decision-making may lack flexibility and be less well-informed to the extent that it is exercised by senior executives on short-term assignments and without in-market continuity.

Japanese managers have commented that different attitudes to employment between Australians and Japanese may be one factor slowing 'Australianisation'. Whereas the *sogo shosha* in Japan attract the elite graduates from the top universities and then commit heavily to their training and development, the same level of graduates in Australia do not generally rank working in foreign-owned companies highly.

It has been commented upon, also, that Australians tend to find their career identity in their professional discipline, rather than in their employer company. An Australian might say, 'I am a lawyer'. A Japanese, on the other hand, is more likely to say 'I am an ITOCHU man' or 'I am a Mitsubishi man' (for the record, they are rarely women – another difference in culture). The corollary, of course, is professional mobility in Australia, and this is seen by Japanese management as a disincentive to invest heavily in training and development – as would be the case with Japanese employees.

For their part, the Australian employees of *sogo shosha* generally do not see a fully integrated career potential – with the prospect of proceeding through the ranks to the top echelons, or being mobile within the organisation to other countries, including Japan.

This may change, however. Increasing numbers of Australians with well-developed Japanese linguistic skills and with considerable professional experience may more readily identify with or adapt to Japanese corporate culture. The *sogo shosha*'s own priorities for globalised business development will also undoubtedly hasten this trend.

Connections

Personal relationships are an important ingredient in business success anywhere, but in few places more so than Japan.

Fortunately for Australia, Japan's economic priorities for a good proportion of the past 50 years and Australia's natural resources 'fit' for those priorities have provided the occasion for many of Japan's contemporary business leaders to forge strong links with Australia through personal experience here and the opportunity to establish durable personal relationships with Australian counterparts. The *sogo shosha* have been the perfect cradle for many of these relationships.

The immediate past President of Mitsui & Co Ltd, for example, had been involved with Australia virtually all of his working life, in finding and developing new channels for minerals and energy trade. Even in retirement, he continues to nurture relationships from those formative years and is a frequent visitor to family now in Australia and also to friends here.

Relationships such as these have been a great resource for both countries. But priorities change and Japan's new economic imperatives do not so readily favour Australia. The new management elite are not nearly as likely as their predecessors to have had personal experiences with Australia. The challenge for Australian business in the future will be to become more proactive in its approach to building business relationships with Japanese counterparts. The fact that *sogo shosha* handle only one-fifth of Japan's exports to Australia but two-thirds of Australia's exports to Japan suggests, superficially, that individual Japanese businesses are more adept at pursuing their business interests in Australia than is the case in reverse.

This does not, however, provide the grounds for less reliance on the *sogo shosha*. On the contrary, the infrastructure of access they provide in Japan – as in other countries to which their global reach extends – can be the primary platform for an enhanced effort by Australian business internationally. It is, however, Australia's own responsibility to have something arresting to offer when they get there.

Looking Back

Mr Koichiro (Ken) Ejiri, past President of Mitsui & Co Ltd and now Senior Adviser to the Board, became involved in importing coal for Mitsui in 1950.

Japan's rapidly growing iron and steel industry was demanding larger amounts of imported iron ore and coking coal.However, these purchases were often made haphazardly in the spot market which, along with wide variations in ocean freight, led to large fluctuations in steel production costs and consequently to price instability. Mitsui began to explore various ways to ensure stable mineral resource prices.

Encouraged by an attaché at the Australian Embassy in Tokyo to look for new possibilities in Queensland, Mr Ejiri travelled to Brisbane, where he met Sir Leslie Thiess, President of Thiess Brothers, an earth-moving company. Sir Leslie also owned mining leases in the Moura region and was interested in their commercial development but lacked sufficient knowledge about coal. Acting on a request from Sir Leslie, Mitsui dispatched several geologists from Mitsui Mining to conduct geological surveys to appraise the volume and quality of the coal reserves.

The survey revealed the existence of a coal field significantly larger than the Ishikari mine in Hokkaido. Moreover, it was determined that a large portion could be open pit mined. Mitsui covered the entire cost of the survey, which amounted to ¥40 million – an especially sizeable sum in those days. In retrospect, says Mr Ejiri, it must have taken a tremendous degree of decisiveness by management to authorise the investment of such a large amount.

Following the survey, Mitsui prepared for the development phase. However, because Theiss Brothers lacked the funds and specialised technologies for developing the coal resources, Mitsui discussed the involvement of a third party.

After overcoming several complications, it was joined by another partner, Peabody Coal Company, the largest open pit mining coal company in the United States. Although other large companies were also partner candidates, these companies insisted on either buying out Theiss Brothers and undertaking the project independently or carrying out the project with Mitsui, giving Mitsui sales rights and 20 per cent equity.

'Theiss Brothers was quite naturally angered by such proposals, with its patriotic spirit aroused', Mr Ejiri said recently when reflecting on his 40-plus years of involvement in mineral resource development in Australia.'In so far as coal mine development was to be conducted in Australia with the eventual establishment of a long-term contract, I also favoured the participation of Australian capital in the project: Peabody Coal agreed along those lines, and a concept for a joint venture was developed, with Peabody holding a 58 per cent share, Theiss Brothers 22 per cent and Mitsui 20 per cent!'

Besides providing funds and technologies, Peabody was also responsible for the management of the joint venture. In addition, Peabody transported a large dragline and dispatched a number of mining engineers from the United States.

'During the initial stage of the project, my visits to Peabody headquarters in St Louis, Missouri – where I was involved in preparations for the production phase and the long-term contracts – outnumbered my trips to Australia', Mr Ejiri said.

'By just judging from the low production costs, it seemed that we could earn a large profit even by selling the product at a considerably lower price than the coal we were then buying on a commercial basis. Nevertheless, we found that actual costs did not correspond to our calculations, and unexpected problems arose frequently. Somehow, we were finally able to surmount these difficulties and signed a 10-year contract.On several occasions, the relationship between Peabody and Theiss Brothers got bad, and I was obliged to mediate.'

Besides its significance as being a joint US-Australia-Japan venture, the Moura Project was Japan's first develop-and-import project for mineral resources. As unbelievable as it may seem today, one problem Mitsui encountered stemmed from Japan's shortage of foreign currency reserves, which led the Ministry of Finance and the Ministry of International Trade and Industry to oppose an investment for the import of resources. It took more than six months before the investment was finally authorised.

Until the mid-1960s, although the Australian Government allowed exports of coal, it placed an embargo on iron ore exports. However, when large deposits of iron ore were discovered in Western Australia, the Government abruptly permitted exports. This presented an unexpected opportunity for Japan's iron and steel industry to secure stable supplies of iron ore. Japan's large trading companies moved quickly to set up operations in Perth and, in co-operation with Australian or US companies, they made investments and signed long-term contracts to develop iron ore resources. Mitsui invested in the Mt Newman and Robe River iron ore projects.

Through its coal development projects in the east and iron ore projects in the west, Australia became the largest supplier of raw materials for Japan's iron and steel industry during the industry's rapid-growth phase.

Although iron ore and coal resources in Australia were originally developed for the Japanese market, these mineral resources are now being supplied to a diverse range of customers. 'I think this trend should be welcomed by Australia and is desirable for Japan as well', Mr Ejiri said.

Source: This is an edited version of an article which appeared in *Mitsui in Action*, vol. 34, no. 1, Jan/Feb 1996.

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Appendix 1

Sogo Shosha Australian Affiliates

Mitsubishi

Kamin Pty Ltd/Lachlan Industries Pty Ltd.	Wool processing
Mitsubishi Motors Australia Ltd	Manufacture and export/import of autos and parts
Toyo Tyre Australia Ltd	Manufacture automotive parts, import auto tyres
Cape Flattery Silica Mines Pty Ltd	Mining and export of silica sands
Japan Australia LNG (MIMI) Pty Ltd	Development and export of LNG from Northwest Shelf
Diamond Gas Resources Pty Ltd	Condensate export
The Mid Coast Meat Company Pty Ltd	Abattoir and export of beef
Killara (Quirindi) Pty Ltd	Feedlot for beef cattle
MC Meats Holding Pty Ltd	Meat export and investment in meat industry – holding company for other meat industry companies
Mid Coast Protein Pty Ltd	Meatworks – by-products manufacturing
Meiji-MGC Dairy Co Pty Ltd	Manufacture and export of dairy products
Riverina Stock Feeds Pty Ltd	Export agricultural produce, manufacture stock feed, trading grains and protein
Mitsubishi Development Pty Ltd	Resource development, investment and joint ventures – particularly coal export
Iron Ore Services Pty Ltd	Administration services to iron ore and coal companies
Ryowa Development Pty Ltd	Investment in aluminium production and exports
Ryowa Development 2 Pty Ltd	Investment in aluminium production and power generation
Diamond R & D Australia Pty Ltd	Investment in research and development for methanol
Sega Enterprises (Australia) Pty Ltd	Hi-tech family entertainment
TAS Forest Pty Ltd	Reafforestation project for export of wood pulp

Mitsui

Mitsui & Co Financial Services (Aust) Ltd	Finance for affiliates
Mitsui Coal Development (Australia) Pty Ltd.	Coal – Drayton, Curragh, Bengalla and Gordonstone
Mitsui Computer Ltd	Computers – source and distribute products and services
Mitsui Iron Ore Development Ltd	Iron ore – Robe River, Yandi and Goldsworthy
BHP Mitsui Coal Pty Ltd	Coal – Moura, Riverside and South Walker Creek
Mitsui ITOCHU Iron Pty Ltd	Iron ore – Mt Newman
Mitsui Salt Pty Ltd	Salt – Shark Bay
Fairmont Resort Limited	Hotel Resort
MBK Australia Resorts Pty Ltd	Hotel Resorts – Mirage at Port Douglas and Gold Coast
Timbermark Pty Ltd	Timber products
G & K O'Connor Pty Ltd	Meat processing
Mittwell Energy Resources Pty Ltd	Energy
Wandoo Petroleum Pty Ltd	Energy
Sega Enterprises (Australia) Pty Ltd	Hi-tech family entertainment
All Power Industries Australia Ltd	Outdoor power equipment
Apollo Bicycles Co Ltd	Bicycles
ANT Minerals Pty Ltd	Metals – McArthur River
NGK Stanger Pty Ltd	Manufacturing – insulators
Japan Australia LNG (MIMI) Pty Ltd	Development and export of LNG from Northwest Shelf
MCA Afforestation Pty Ltd	Plantations
Mitsui Bussan Commodities (Aust) Pty Ltd	LME base metals, futures and options trading

ITOCHU

Japan Machines Australia Pty Ltd	Import/distribution of industrial and computing machinery
Teys Feedlots Pty Ltd.	Feedlot operator in Queensland
Port Phillip Wool Processing Pty Ltd.	Combing, scouring and export of wool
Harris-Daishowa (Australia) Pty Ltd	Manufacturer and exporter of woodchips
Albany Plantation Forest Co Aust Pty Ltd.	Eucalyptus plantation in WA for woodchip export
JC (Australia) Group of Companies	Property investment
CI Ceramics Pty Ltd.	Import and supply of refractories to steel industry
CI Textile Sales Pty Ltd	Textile trade
Japan Australia Venture Capital Fund.	Venture capital fund
Kobe Alumina Associates (Australia) Pty Ltd	Bauxite and Alumina joint venture, Worsley, WA
Itochu Coal Resources Australia Pty Ltd.	Coal
ICA Coal Pty Ltd	Coal
Mitsui – ITOCHU Iron Ore Pty Ltd	Iron ore
CI Minerals Australia Pty Ltd	Minerals export
KIA Australia Ltd	KIA motor vehicles
Arcadia Corporation Pty Ltd.	Internet/Computing services
ACSES Pty Ltd	Computer software exports

Sumitomo

Meggitt Oilseeds Pty Ltd	Production of vegetable oil and meal in SA
Summit Denmac Pty Ltd	Sale and service of motor vehicles
Sumisho Coal Development Pty Ltd.	Coal mining, North Goonyella, Qld
Bonaparte Gas and Oil Pty Ltd	Prospecting and development of oil and gas
SC Mineral Resources Pty Ltd.	Copper mining
SC Metal Pty Ltd.	Aluminium smelting
Summit Investment Australia Pty Ltd	Holding company for car dealerships
Summit Rural (Qld) Pty Ltd	Distributor of fertiliser

Marubeni

Marubeni Construction & Mining Pty Ltd	Sales and service of construction and mining equipment
Peldeen Pty Ltd	Coal mining and export in Qld (Jellinbah East J/V)
Rangers Valley Cattle Station Pty Ltd	Feedlot operation in NSW
Canobolas Wool Topmaking Pty Ltd	Scouring, topmaking and export of wool
Dampier Salt Ltd	Producer and exporter of salt
Eye Lighting Industries Pty Ltd	Import and distribution of industrial lighting
Marnan Wool Industries Pty Ltd	Wool scouring
Marubeni Aluminium Australia	Participant in Portland aluminium smelter project
Southern Cross Geophysical Services Pty Ltd	Silica sand mining J/V
Total Steel of Australia Pty Ltd	Import and distribution of steel products
ANT Minerals Pty Ltd	Lead, zinc and copper mining and export (Macarthur River J/V)
Austasia Grains Pty Ltd	Grain export
Marubeni Boyne Aluminium Pty Ltd	Participant in Boyne aluminium smelter project
Simsmetal Ltd	Scrap metal traders
Chelsea Coal Pty Ltd	Coal mining and export in NSW (Macquarie Coal J/V)
Marubeni Thermal Coal Pty Ltd	Coal mining and export in NSW (Dartbrook J/V)
Marubeni Coal Pty Ltd	Coal mining and export in NSW and Qld (Macquarie Coal J/V, Hail Creek J/V and German Creek J/V)
Kubota Tractor (Australia) Pty Ltd	Import and distribution of Kubota products
Marubeni Tubulars Australia Pty Ltd	Import and distribution of steel pipe and tube
Marubeni Rural Investments Pty Ltd	Investment in cattle feedlot venture
UD Oceania Pty Ltd	Import and distribution of UD Nissan trucks
SLM Australia Pty Ltd	Participant in Boyne aluminium smelter project

Nissho Iwai

Kobe Alumina Associates (Australia) Pty Ltd	Bauxite and alumina joint venture, Worsley, WA
Nissho Iwai Alumina Pty Ltd	Alumina sales and interest in Worsley project
Catherine Hill Resources Pty Ltd	Coal mining
Winnin Pty Ltd	Coal mining
NI Properties Australia Pty Ltd	Condominium construction and sales
Hoskins Reforestation Co Pty Ltd	Forestry
Stetin Bay Lumbers Co Pty Ltd	Forestry
Cable Sands Investment Pty Ltd	Holding company for mineral sands companies
Cable Sands Holding Pty Ltd	Holding company for mineral sands companies
Cable Sands (W.A.) Pty Ltd	Mineral sands
Cable Sands Pty Ltd	Mineral sands
Coffs Harbour Rutile N.L.	Mining and marketing of mineral sands
Kathleen Investments (Australia) Pty Ltd	Holding and administration of Coffs Harbour Rutile
Rutile & Zircon Mines (Newcastle) Pty Ltd	Mineral sands mining
R.Z.M.Pty Ltd	Mineral sands mining
Titanium Technology (Australia) Pty Ltd	R&D and marketing of mineral sands in Europe
Nissho Iwai Mineral Sands (Australia) Pty Ltd	Administration of mineral sands group
Rimden Pty Ltd	Investment company
Queensland College of English Pty Ltd	English school
The Wallarah Coal Co Pty Ltd	Coal sales
Anoger Automobiles Pty Ltd	Car distributor
Green Triangle Plantation Forest Company of Australia Pty Ltd	Forestry

Tomen

Landora Pty Ltd	Cotton farming in NSW
Oakbridge Ltd	Coal mining and sales
Australian Mining Investments Ltd	Coal mining
Maitland Main Collieries	Coal exploration and development
Dyechem industries Pty Ltd	Import of dye and chemicals for textile industry
Tomen Development (Australia) Pty Ltd	Property development
Tomen (Australia) Properties Pty Ltd	Property development
Polymer International Australia	Plastic/resin import
COFFI – Com Trading Pty Ltd	Coffee trading

Nichimen

Daihatsu Australia Pty Ltd	Import and distribution of motor vehicles
Nichimen Australia Motors Pty Ltd	Retail and service of Daihatsu vehicles

Kanematsu

Yokohama Tyres Australia Pty Ltd	Distributor of tyres and tubes for cars, trucks, buses, earth-moving equipment and industrial vehicles
Prestige Tyre Centre Pty Ltd	Tyre retreading facility and tyre retail outlet
Calsonic Australia Pty Ltd	Manufacturer of radiators for auto industry
Daidoh Australia Pty Ltd	Rural sheep property owner specialising in superfine fleece
Metropolitan Collieries Limited	Coal mining for domestic steel production and export
Memorex Telex Pty Ltd	Computer and networking equipment

Source:Company data.
Note:Includes the subsidiaries, joint ventures (J/Vs) and other equity-related businesses of both the Australian subsidiary and the parent corporation.

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Appendix 2

Notes on Methodology

This is, essentially, a study focused on the future. But in order to look into the future with some modicum of precision it was judged important to be able to accurately describe the immediate past, in terms of *sogo shosha* activities in Australia.

To do this, we set out to measure changes in *sogo shosha* activity by taking a snapshot at two periods in time – 1988 and 1995. The end point, 1995, was chosen to ensure the availability of complete data.The starting point, 1988, was also dictated by data availability: as 1988 was the oldest year in which companies are required by statute to have retained financial records, it represented the surest likelihood of availability. Hence, an intervening period of seven years provides the basis for comparison and to isolate trends in activities.

The firms were invited by CEDA to contribute financial data to INSTATE on a confidential basis to permit aggregation to support the analysis.

Each of the nine *sogo shosha* were invited to prepare data sets measuring:

- the sectoral composition of their transactions;
- the directional nature of their transactions.

In both cases we were looking at trade flows and the stock of investment.

Drawing data from companies with different reporting and internal recording practices did create some challenges in the accurate aggregation of the data. These were resolved, for the most part, in consultation with a nominated officer in each company. Nevertheless, certain compromises did have to be made and these are recorded below.

Coverage

Although each of the nine *sogo shosha* was invited to submit data, data were received from only eight.The company which did not provide its financial data, Nichimen, is one of the smallest, however, and its exclusion does not significantly affect either the quantum of activity or the sectoral and directional trends.

Comparability

Some of the companies report on a Japanese financial year basis (1 April to 31 March) and some on a calendar year basis.

For the purposes of this analysis we have not distinguished between different reporting periods and have, simply, accepted a full year's trading for the year in question, accepting that there is no exact comparability.

One significant qualification is that one of the larger companies was unable to provide detailed breakdowns for 1988 and, instead, submitted 1989 data. These have been incorporated as if they were 1988.

Another company changed its reporting standard in 1995 to a calendar year basis so its two analysis years are not entirely comparable.

Definitions

The directional definitions are straightforward.The data submitted relate either to:

- exports to or imports from Japan;
- domestic business (that is, turnover generated exclusively within the Australian domestic market);
- 'offshore' business (that is, exports of Australian produce or services to countries other than Japan or imports from countries other than Japan for sale within Australia).

The sectoral breakdown is a little more arbitrary in some cases. For example:

- energy includes all coal even though, in some applications, it may be categorised as a mineral or metal – such as coking coal in steelmaking;
- steel and non-ferrous metals are included in mining and metal rather than manufacturing;
- except for one company, food, forestry and fishing includes woodchips.

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