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Final Thesis

The Japanese Trading Companies: Between national self-interest and compliance with sustainable business model

A research study on the role of Japanese Sogo Shosha,
in the name of Japan race for sustainability and resources security

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Abstract

The recent emergence of several crisis impacting the global supply chain, such as the COVID-19 pandemic and the Russo-Ukrainian war, have revealed a vulnerability evidenced by some countries related to the high degree of international interdependence for primary commodities.

In this scenario, the economic outlook of Japan, a nation poor of natural resources, is under a severe threat as it is becoming an economic hostage of resource-rich supplier countries engaged in long-term political and economic crisis.

In response to that, Japanese government seems proactively following several strategies to deal with resource procurement issue, including investing overseas for resource development. In this regard, while on one hand Japan might face resistance from third countries as they fear to be subjected to a permanent and silent sovereignty over their natural resources, on their side they receive support from Sogo Sosha which are engaging at first hand the trading of such national strategic assets.

Japanese government, therefore, by financially supporting its national general trading companies, maintain its hands clean and at the same time in the long-term is attempting to aim at reversing its dependence on foreign countries for natural resources.

Its intention seems concealed under its propaganda based on Japan active role to overcome current challenges posed by geopolitical tensions and at the same time making efforts for the achievement of a “sustainable future” as agreed with the principle of achieving carbon neutrality by 2050.

On the same page, Sogo Shosha, in order to achieve more profitability in the future are also required to target Sustainable Development Goals (SDGs) and evolve their business model to respond to the needs of present time and society, this last one increasingly attentive to social and environmental issues.

Real attempts on achieving sustainable economic development will be carefully discussed and evaluated. Nevertheless, in this paper discussion we will also address particular cases where Sogo Shosha seems to align themselves with government interests and ultimately leading to a lack of environmental safeguard and violation of human rights of local communities abroad.

Therefore, the aim of this thesis is to shed light on the current role of Sogo Shosha which are currently in the grip of two forces, namely the relationship with the Japanese government and the race for sustainability from a national and global perspective:

How this relationship unfolds and affect the strategies and projects of two of these Japanese trading companies (Itochu Co., Toyota Tsusho Co.) regarding the achievement of profitability through compliance with sustainable business model?
Are there other political actors to take into consideration?
Does Sogo Shosha model embody peculiar characteristics and strengths to successfully approach the challenges of shaping a more sustainable Japanese society?
Would this contribution lead in the next future to a real change of course for Japanese government race for sustainability and resources security?
Considering the existing studies on this subject, argumentations will be given based on the latest reports and facts regarding the Japanese Sogo Shosha to reply to the aforementioned research questions.

要旨

新型コロナウイルス感染症のパンデミックやロシア・ウクライナ戦争など、グローバルバリューチェーンに影響を及ぼす最近のいくつかの危機の出現により、いくつかの国は一次産品の高度な国際的な相互依存に対して、深刻な脆弱性があることが明らかになった。

このような状況で、天然資源に乏しい日本経済の見通しは、長期にわたる政治的・経済的危機に陥っている資源豊富な供給国によって、深刻な脅威にさらされている。

これに対して、日本政府は海外における天然資源の開発をはじめ、資源調達問題に対処するためのいくつかの戦略の見直しを積極的に講じているようだ。

そして、日本が第三国の抵抗の為、天然資源に対する恒久的なコントロールをしにくくなる可能性があるものの、一方では国にとって戦略的な資源の取引に直接携わっている総合商社から、多大な支援を得ていることは事実である。

従って、日本政府は直接的に関わらないままで、国内の総合商社を財政的に支援しながら、長期的には天然資源の海外依存度を減らそうとしている。

また、日本は世界中の地政学的緊張によってもたらされる現在の課題を克服するために、積極的に役割を果たし、2050 年までにカーボンニュートラルを達成するという原則で合意された「持続可能な未来」の実現に取り組んでいるが、プロパガンダの下で取り組みを行っているのではないかと推察する。

さらに、総合商社の場合でも収益性の改善をするために、社会・環境問題への配慮する SDGs をターゲットにして、新しい時代や社会のニーズに応えたビジネスモデルの進化を目指している。

本稿は持続可能な経済発展に対する総合商社の取り組みと戦略について議論されていますが、総合商社が政府の国益と一致し、意図的に海外の地域社会に対して環境違反と人権侵害を引き起こしていると思われる事例も取り上げられている。

したがって、本研究は、サステイナビリティという新しい課題と日本政府との依存関係の間に、現代日本の総合商社の役割を、国家的な視点と新しいグローバルな観点という二つの視点から明らかにすることを目標とする。

上記の関係はどのように展開するか、日本の商社のうち 2 社 (伊藤忠商事、豊田通商) の戦略やプロジェクトに対してどのような影響を与えるのか。
他に考慮すべき政治的主体はいるか?

また、総合商社は持続可能を中心としたビジネスモデルを通じて、現実的に収益性の達成が実現できるのか。

さらに、総合商社はより持続可能な将来の日本社会を実現するという課題に対して、実際に適切な特徴と強みを体現しているのか。

総合商社の貢献によって、持続可能性と資源安全保障を求める日本政府の競争の真の方向転換につながるのか。

この主題に関する既存の研究を考慮しながら、日本の総合商社に関する最新の統合リポートと事実に基づいて、上記の研究上の質問に答えて議論を発展していきます。

Table of Contents

Introduction

During two different phases of the recent history, with the first one which traced back to the Meiji Industrialization and the second one to the high-economic growth period post World War II, the Japanese government constantly promoted Sogo Shosha business expansion overseas for the sake of benefiting from the creation of strategical supply value chains as well as dealing with its internal resource procurement issues.

On their side, the Japanese trading companies did take up the gauntlet to establish a large global network and nowadays are successfully continuing to play the role of intermediary traders assigned by the government while exponentially expanding their customer portfolios and investments.

Hence, this work mainly aims at conceptualizing historically the evolution of the role of Sogo Shosha, from understanding the reasons behind their emergence, the mutual longstanding relationship with the Japanese government, their peculiar characteristics and strengths, and most important what they represent today in the race for Japanese resource security and sustainable economic development.

The first chapter will serve as an historical economic background to delve later into the main topic of the thesis, namely the Sogo Shosha and their approach with Sustainability.

In fact, we will start from analyzing the reasons behind the importance of natural resources in Japan economic development through the last two centuries, and we will continue the discussion on what nowadays are the critical issues, challenges and tools for government when dealing with securement of such resources for energy and food security.

On these basis, on chapter two the discussion will shift on defining Sogo Shosha, their main features and functional evolution in response to the changing needs of society.

In this direction, the discussion will also cover the perspectives and growth forecast of these major trading companies, distinguishing among them the individual traits and strategies so as to project us to chapter three where discussion will be fully shifted on their approach to Sustainability.

In particular, it will be examined what are the visions and mid-long term strategies on sustainable growth of two of the major Japanese trading companies: Itochu Corporation and Toyota Tsusho Corporation.

The reasons behind the choice of focusing on these two Sogo Shosha are to be found not only on my personal experience on interacting with members of these two general trading companies when in Kyoto University, but also their peculiar engagement with Sustainability issues which would allow us plenty of opportunities for further study.

In conclusion, chapter three will also include the analysis of two ventures, one related to the illegal logging in Southeast Asia in the 1970s and another one more contemporary related to lithium extraction and refinement in Argentina, to shed light on the role of Sogo Shosha and the fine line on which they are operating between national interests for the securement of strategic natural resources and the achievement of sustainable growth.

Chapter I: The historical role of natural resources in Japan's economic development

Back at the times when Japan was still a feudal country, natural resources were abundant and mining activities related to gold, silver, copper and sulfur were largely practiced by locals. From the Tokugawa shogunate up to the Meiji era, the central power detained the control on major mines while redistributing the rest to feudal lords via revenue sharing schemes. Foreign technology was already imported at that time in order to establish copper mines whose management was transferred from the Shogun to the wealthy merchant family of Sumitomo.

Despite the following two decades of isolation of the country from the rest of the world, the Sakoku period, the country continued to export copper to Chinese approved merchants as well as to Holland through the hermetic Dutch enclave of Dejima.

Nevertheless, entering the eighteenth century, Japan faced a scarcity of resources due to the downturn on gold and silver domestic production, which ultimately led to begin importing these resources from China and the Dutch East Indies Co. [1]

This issue was largely covered by the arbitrage which benefitted Japan in precious metal trading, but on the other hand it was arguably one of the reasons why in 1854 Commander Perry let Japan open the ports of Shimoda, Yokohama and Hakodate as well as let foreign traders to have legal arbitrage on setting the difference in precious metals prices between Japan and the rest of the world.

Nevertheless, resuming proactively the relations with foreign countries gifted Japan the chance, from the late nineteenth century and early twentieth century, to have access to international trade and new technologies which ultimately contributed to boost back the output of mines and related production of natural resources.

In fact, the possession of natural resources is crucial to each economy to come through the radical changes required to become an industrialized and modern country.

And, despite general beliefs, in the nineteenth century Japan was hugely blessed with natural resource wealth thanks to its minerals and large number of state-controlled coal mines. [2]

Having said that, the path toward a successful industrialization was characterized by ups and downs. At first, reformers, by making use of the great amount of revenues from their natural

[1] Morcka R., Nakamura M. (2018), *Japan's ultimately unaccursed natural resources-financed industrialization*, Journal of The Japanese and International Economies vol.47, p.33.
[2] Morcka R., Nakamura M.. (2018), ibid, p.34.

resources, set up a large number of State Owned Enterprise (SOEs).
These enterprises covered several strategic sectors, for instance mining, machinery, chemicals, textiles, agriculture etc.
Still, what was considered a "big push", resulted instead for the rapidly expanding industrial SOEs into suffering huge losses due to the literally absence of budgets constraints as their losses were to be regarded as collective.
In this context, a new wind of liberalization blew over the country when the figure of Masayoshi Matsukata, who started to serve as Finance Minister in October 1881, reestablished a financial order in the Japanese economic situation.
In his term, he promoted a large number of innovative reforms including a general deflation to restore fiscal balance, unified the Japanese currency by letting only the Bank of Japan to be able the issue paper money, and lastly, he shaped the SOEs by defining new accounting principles to follow in order to avoid further losses.[3]
To follow, the red ink on the balance sheets of SOEs also brought the politicians start thinking to recover these amounts by opening up to a massive privatization program of SOEs.
This was a clear turning point in the Japanese economic history, and it is attested that, by almost the end of nineteenth century, 26 of the major SOEs belonging to industry sectors such as coal, mining, textiles, iron works etc. had been successfully privatized.
In this occasion too, the great amount of wealth derived from natural resource wealth financed the country's industrialization objectives and, in a comparison with the most natural resource-rich economies in the world, Japanese natural resources production steadily increased from 1870 to 1930. [4]
Nevertheless, there were few differences between the first and second "big push".
In the period that goes from the mid-1880s through to the 1920s, Japan could gain from the introduction of comprehensive legal reforms that laid down the rules of a free-market economy where businesses managed to maximize shareholder value.[5]
Also, mines were reconsidered as a source of funds for a diversification of business groups.
Furthermore, from the ruins of the failed SOEs, the technology and expertise were well exploited by private investors.
That is why what was established during the first "big push" paved the way later for these private groups who seized the opportunity to coordinate these resources more efficiently and

[3] Morcka R., Nakamura M.. (2018), ibid, pp. 35-36.
[4] Morcka R., Nakamura M.. (2018), ibid, p. 37.
[5] Morcka R., Nakamura M.. (2018), ibid, p. 38.

diversify Japanese economy' sectoral composition with the emergence of industries like steel and electrical machinery. [6]

Prominent actors of this industrialization from the private sector were extremely wealthy merchant families such as Mitsui, Sumitomo, Mitsubishi.

At the time in fact, the three aforementioned groups played a predominance role on Japan' natural resource sector in order to have enough earnings to build up an industrial modern society. Hence, it is easy to guess that Zaibatsu and the Japanese government had been developing a strong connection through these years.

These groups, according to the Meiji Government modernization program, were strongly promoted as business entities for the security of raw materials supplies and expansion of markets as well as the competition against foreign traders.[7]

Zaibatsu represented a successful model at the times as they were characterized by large family-controlled pyramidal business groups.

Furthermore, an anti-corrupted healthy competition between these groups resulted in keeping resource allocation efficient within each Zaibatsu, and ultimately allowing the coordination of their expansion across a large number of industries. [8]

These industrial conglomerates, later in the history, supplied Japanese army during World War II but because of their association with the military regime, they were forced to change their business group entity multiple times, becoming at first Keiretsu and later in the most recent days general trading companies, the renowned Sogo Shosha. [9]

Following in this thesis I will define more deeply the role of the current Japanese general trading companies.

Nevertheless, we can state that, during the period from 1880s to 1920s, these groups started to play an important role in association with the government for the supply and trade of strategic natural resources.

For all these reasons, we may define crucial for Japan the presence of abundant natural resources to reach economic development success during this four decades.

This historical aspect helps us to make a clear distinction between this aforementioned period and the postwar reconstruction occurred in Japan.

In the first stage of its economic development, Japan was following the same trading pattern

[6] Morcka R., Nakamura M.. (2018), ibid, p.39.
[7] Morcka R., Nakamura M.. (2018), ibid, pp.39.
[8] Morcka R., Nakamura M.. (2018), ibid, p.40.
[9] Committee for Economic Development of Australia (1997), *Japanese Trading Companies: Their Role in Australia's Economic Development,* Instate Pty Ltd, p.14.

as the developing countries are following at the present day, namely a development led by earnings related to exports of natural resources.

On the other hand, in the second stage of development which dates back to the post World War II, Japan had to deal with severe resource shortages due to the destruction of its industrial infrastructure and loss of colonies, this latter an enormously important asset for natural resources.[10]

Therefore, in order to rebuild its economy, Japan started to rely heavily on imported resources and thus a complete opposite scenario has occurred.

Japanese exports turned mostly into manufactured goods while imports became mainly natural resources.

In a statistical survey carried out from the Agency for Natural Resources and Energy in 2014 (Figure 1), the Energy Self-Sufficiency rate for Japan saw the sharpest decline, from 60% to 10%, in just around one decade during the "High Economic Growth" (mid 1950s- early 1970s) period. [11]

＜図表１：エネルギー自給率の推移＞

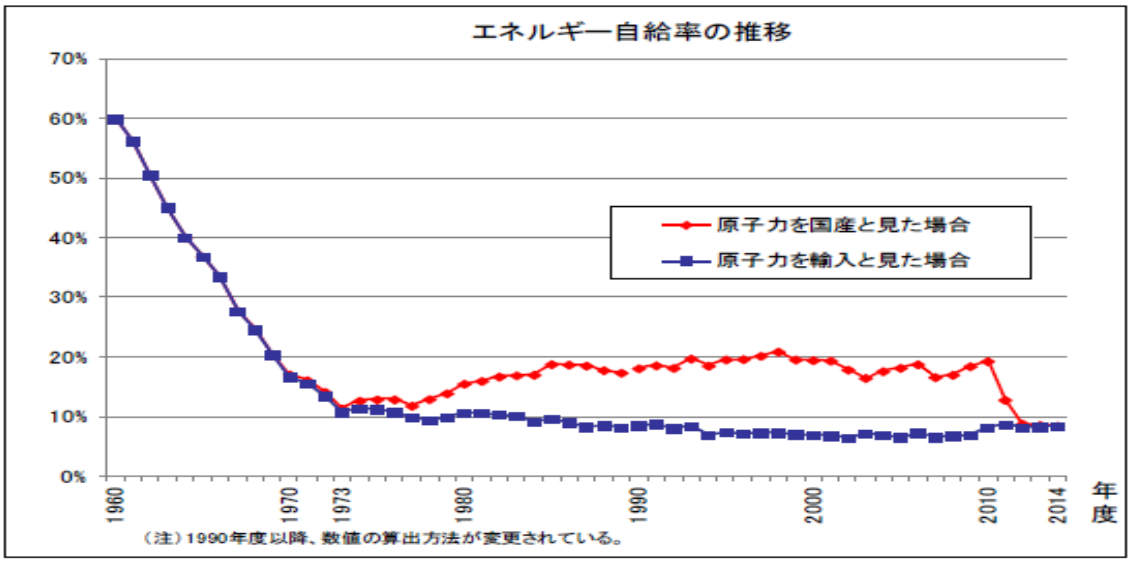


Figure 1. Trend for Japan's Energy Self-Sufficiency Rate 1960-2014 FY

(source Agency for Natural Resources and Energy)

[10] Morcka R., Nakamura M.. (2018), ibid, pp.52-53.

[11] Ministry of Economy, Trade and Industry (2014), *Heisei 26-nendo (2014-nendo) ni okeru enerugī jukyū jisseki*, 平成２６年度（２０１４年度）におけるエネルギー需給実績 (Energy Supply and demand results for 2014),Tokyo: Ministry of Economy, Trade and Industry.
Accessed August 11, 2023. https://www.enecho.meti.go.jp/statistics/total_energy/pdf/stte_020.pdf

On the other hand, as shown in Figure 2, Japan also experienced simultaneously an unprecedent rapid economic growth, which was fueled by heavy industry and manufacturing. As a direct consequence, the national industries demanded larger quantities of natural resources, leading to significant imports of minerals such as oil, uranium, nickel and iron ore from foreign countries.

It is here that Japan started to be widely known as one of the most resource-scarce country and therefore extremely vulnerable to supply shocks.[12]

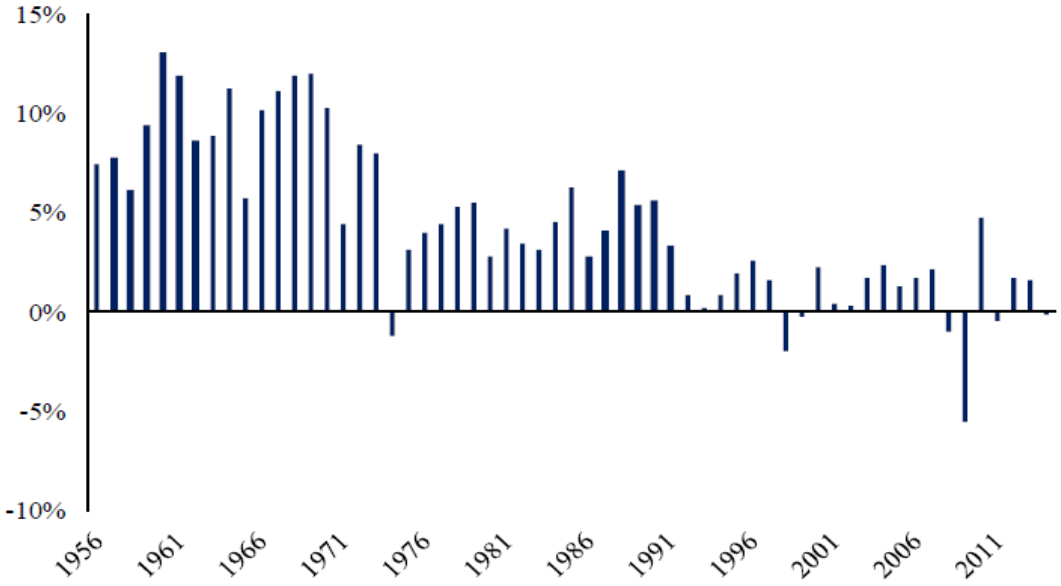


Figure 2. Real Growth Rate in Japan 1956-2011 FY

(source ESRI Cabinet Office)

While demand shocks start domestically and have an impact on the economies of material-supplying countries, supply shocks are generally related to sudden changes in the supply curve of a generic commodity due to natural or artificial causes.[13]

A perfect example is the oil shock occurred in 1973-74.

In addition to that, in the present scenario we can name other severe crisis currently impacting the supply chain of Japan and other countries with similar economic conditions, such as the COVID-19 pandemic (2020 – 2023) and the Russo-Ukrainian war (2014 – Present). The vulnerability evidenced by some nations, including Japan, could become indeed

[12] Fukami Hiroaki (1978), *Problems of natural resources and the Japanese economy*, Keio Economic Society, Keio University, pp.89-90.

[13] Sato Kazuo (1991), *Japan's Resource Imports*, The Annals of the American Academy of Political and Social Science ,Vol. 513, Japan's External Economic Relations: Japanese Perspectives, p.83.

dangerous when the country, poor of natural resources, become an economic hostage of supplying countries engaged in political or economic crisis.

On the other hand, according to Kato (1991), Japan, since becoming a resource-scarce economy, has to actively follow two strategies to deal with this issue.

The first one would be to enter into long-term contracts with main suppliers.

Regarding this aspect, Japan should repute essential to maintain diplomatic and friendly relations towards the resource exporting countries by building on his appeal derived from its pacifist constitution.

The second strategy, instead, would be to invest overseas for resource development. [14]

Nevertheless, this strategy might face strong resistance from host countries as Japanese nationalist self-interests might intentionally lead to a permanent and silent sovereignty over their natural resources.

Still, international interdependency has been spreading throughout the world economy and past and recent shocks on supply chains are self-explanatory of the degree of interdependence between nations nowadays.

That is why, as wisely foreseen by Fukami (1978), still nowadays Japan might have no choice but to follow a policy that aim at creating and improving such relationships of interdependence with resource-exporting countries while simultaneously avoiding worsening its bargaining power.[15]

In this regard, following in this paper, we will deepen into today' energy and food security policies to understand what the perspectives and most recent guidelines from the government are.

[14] Sato K.(1991), ibid pp. 84.

[15] Fukami H. (1978), ibid pp.89-90.

1.1 Public Actors in the natural resources' securement

Aside the contribution of the private sectors, where the main actors are undoubtedly the Sogo Shosha, during the years Japanese government has also established different institutions which acts in the international sphere to ensure Japan a long-term stable supply of natural resources while easing cooperation with foreign countries.
Nevertheless, real government intentions and statements are always to be taken with a grain of salt, as they do not lead to mutual benefits for both parties in all cases.
Regarding this last aspect, I will examine later in this thesis the illegal logging occurred in Indonesia during the 1970s as well as the recent case of Lithium extraction in Argentina as an emblematic case where future sustainable development might conceal nationalist intentions.
Coming back to the public actors, the most important one is clearly the Ministry of Economy, Trade and Industry (METI) which is in charge mainly of shaping Japanese industrial and international trade policies by managing a stable and efficient supply of energy and mineral resources for the country.[16]
To follow, another interdependent administrative agency, directed by METI, is the Japan Organization for Metals and Energy Security, the JOGMEC, which is in charge of securing a stable supply of oil, LNG and other mineral resources to Japan by providing financial and technical support to Japanese companies operating abroad. [17]
Its activities are expanded throughout the entire globe, and it is implicated at strengthening beneficial relationships with oil and LNG gas producing countries, such as Russia, Mozambique, Iraq etc. (Figure 3).
Lastly, in terms of financial aspect, Japanese government fully own Japan Bank for International Cooperation (JBIC).
It is involved in several energy and natural resources projects (Figure 4) and its financial instruments are as follow: [18]

- Export loans: to support finance exports of Japanese machinery, equipment and technology towards developing countries.
- Import loans: to strategically support the import of natural resources.

[16]Ministry of Economy, Trade and Industry, *METI's Mission*, Tokyo: Ministry of Economy, Trade and Industry. Accessed August 11, 2023. https://www.meti.go.jp/english/aboutmeti/data/meti_mission.html
Japan Organization for Metals and Energy Security, *Financial assistance to Japanese companies*. Accessed August 11, 2023. https://www.jogmec.go.jp/english/oil/oilgas_10_000007.html
[18] Japan Bank for International Cooperation, *JBIC Profile: Role and Function*. Accessed August 11, 2023. https://www.jbic.go.jp/en/about/image/jbic-brochure-english.pdf

- Overseas Investment loans: to support Japanese FDI.
- Untied loans: to finance projects and the import of goods by foreign countries.
- Equity participations.
- System of Guarantees.
- Bridge loans: for governments of developing countries in balance-of-payment difficulties to meet their foreign currency needs for external transactions.

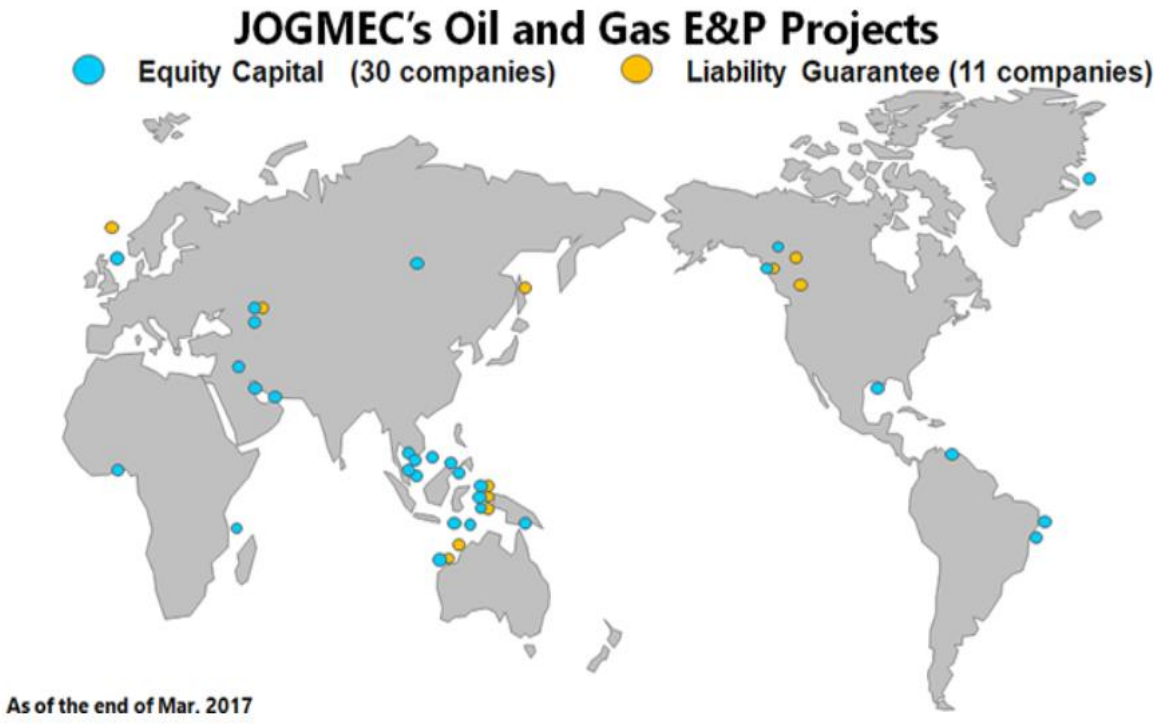


Figure 3. JOGMEC's Oil and Gas E&P Projects worldwide (source JOGMEC)

Therefore, similarly to the other institutions aforementioned, JBIC shares the common goal of promoting Japan's economic development of the country through securement of natural resources considered a crucial asset for Japan economic activities.

What is more interesting is that it also proclaims itself as an institution with a "sustainable business model" that aim at investing in environmentally friendly projects undertaken in foreign countries.

But, also in this case, there seems to be a fine line between the securement of natural resources in the name of national energy security and the sustainability development model intended as following the criteria of the "Sustainable Development Goals (SDGs)".

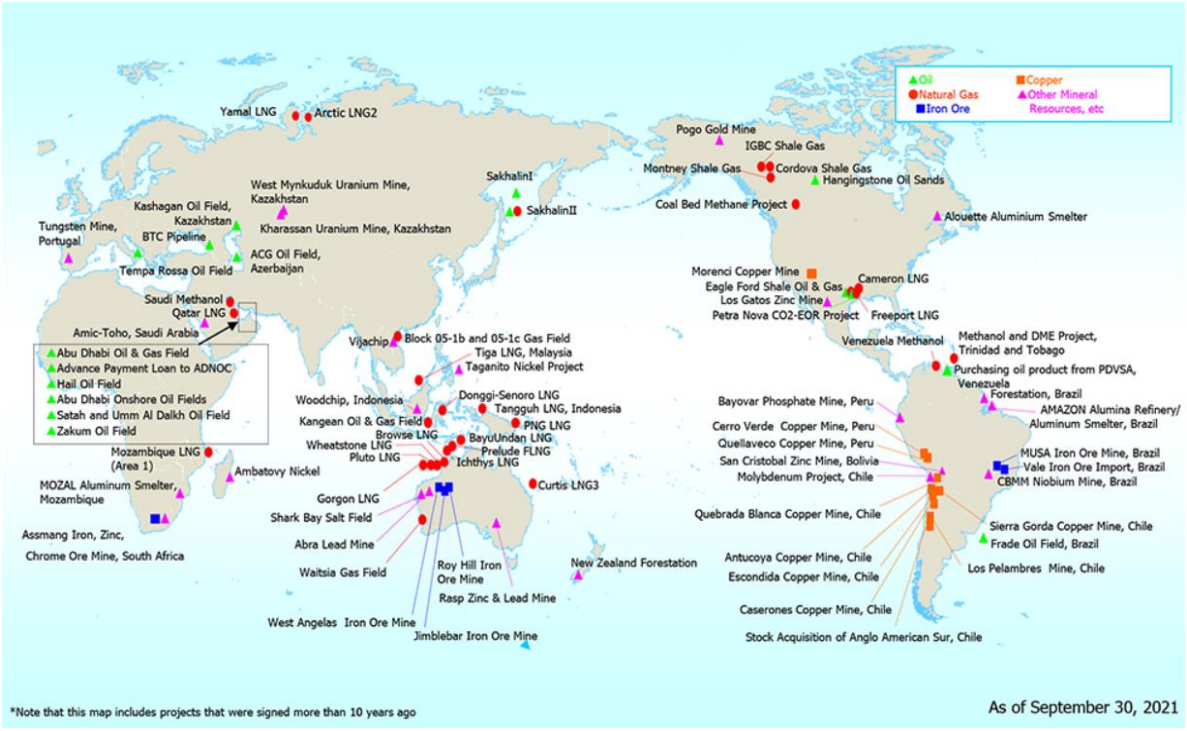


Figure 4. JIBC Cumulative commitment amount for energy and natural resources projects over the last 10 years (source JIBC)

In fact, it is open to question whether the fundamental ideals of future economic development policies should be regard for international cooperation and mutual profitability with resource exporting countries, considering the difficulties of applying such thinking into practical agenda for the Japanese government.

1.2 Dealing Today with resources securement among global frictions

Coming to present times, the Covid-19 Pandemic before and the Russo-Ukrainian conflict later, have both disrupted supply chains and economic activities across the globe.
Japan, as discussed in the last paragraph, being a resource-poor country relying heavily on imported resources of supplying countries, has proven to be extremely vulnerable to these two crisis which opened a phase of uncertainty in the world economy.
As a matter of fact, during the FY 2022, Japan systematically reported a record annual trade deficit (Figure 5) of 19.97 trillion yen for 2022 FY due to a combination of economic factors which brought the import costs to spike to unprecedent levels and exports earnings still insufficiently high.[19]

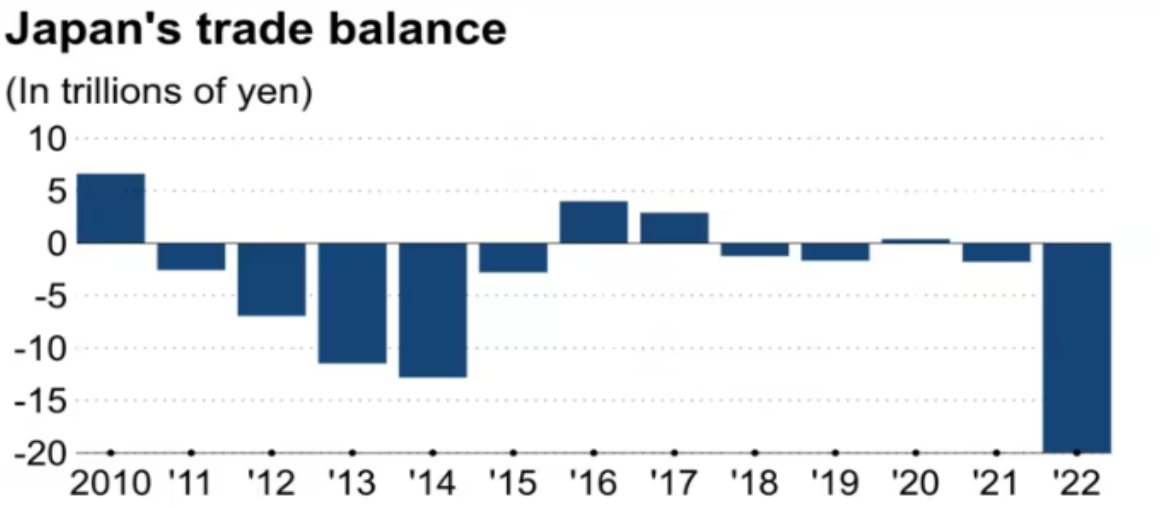


Figure 5. Japan's trade balance FY 2022 in trillions of yen
(source Japan's Ministry of Finance)

In particular, on one hand the deficit on Japan trade balance was due to the heavy reliance on fuel imports which was much more impacting than previous years as energy prices increased globally after Russia invaded Ukraine in February 2022.
On the other hand, a diverging monetary policy in comparison to the United States and Europe is still taking place nowadays.
The deterioration in Japan's terms of trade consequently means for the country a huge amount of income that has already flow out of the country, nearly 40 percent of the income

[19] Iwamoto K., "Japan logs record $155bn trade deficit for 2022 as fuel costs jump", Nikkei Asia. Accessed August 12, 2023. https://asia.nikkei.com/Economy/Trade/Japan-logs-record-155bn-trade-deficit-for-2022-as-fuel-costs-jump

generated by economic growth since 2000.

Consequently, a deficit on Japan trade balance not only leads to a reduction of corporate profits but also does not help labor productivity as it generates a downward trend in household incomes.[20]

Another fundamental issue is characterized by the Japanese currency, the Yen.

As illustrated in Figure 6, the Yen is, once again, continuously sinking against USD, after a brief slowdown between the last trimester of 2022 and the first trimester of 2023, making it difficult for a resource-poor nation to deal with import costs for food, raw materials and other goods.

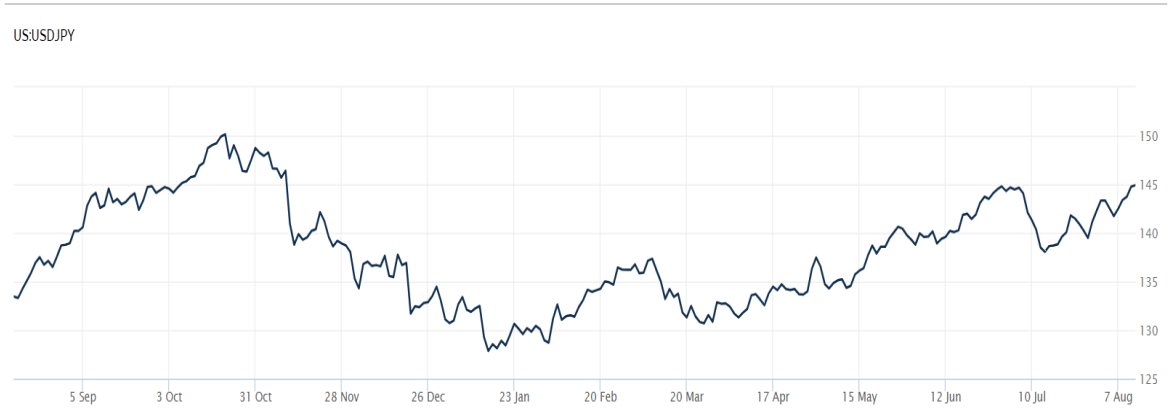


Figure 6. USD/JPY 1 year trend
(source The Wall Street Journal)

Nevertheless, in the first half of 2023 FY, Japan has finally recorded its first trade surplus in nearly two years thanks to a general decrease of import prices of crude oil and liquefied natural gas in contrast with an increase of exports, especially in the automotive industry, towards the U.S.[21] That said, there is still a lot of uncertainty left for the next future as geopolitical tensions in Europe, with the Russo-Ukrainian conflict still ongoing today, might lead to a protracted economic slowdown for the Western countries and China in the next years and, as a consequence, a real hindrance to Japan exports.

In addition to that, in Asia, specifically in the Taiwan strait, an increasing possibility of a strategical conflict for the acquisition of semiconductors is casting a shadow on the future of Japan imports and securement of energy and food.

[20] Nishioka S., Kozawa T. (2022), *Restructuring Energy to Stop Income Outflow. Decarbonization Significantly Improves Terms of Trade*, Japan Research Institute, vol.5, p.1.
[21] The Mainichi Japan (20/07/2023), *Japan posts 1st trade surplus in nearly 2 yrs in June*. Accessed August 12, 2023. Accessed August 12, 2023. https://mainichi.jp/english/articles/20230720/p2g/00m/0bu/020000c

1.3 Dealing with Energy Security

As I have made an introduction about the most recent economic scenario and the difficulties for Japan to deal with natural resources securement, it is fundamental to analyze in depth the current energy situation of Japan with the latest data for FYE 2022 provided by the Agency for Natural Resources and Energy of METI.

First of all, as shown in Figure 7, in FY 2020 Japan's self-sufficiency ratio was far below those of other OECD countries, coming in at only 11.3%. [22]

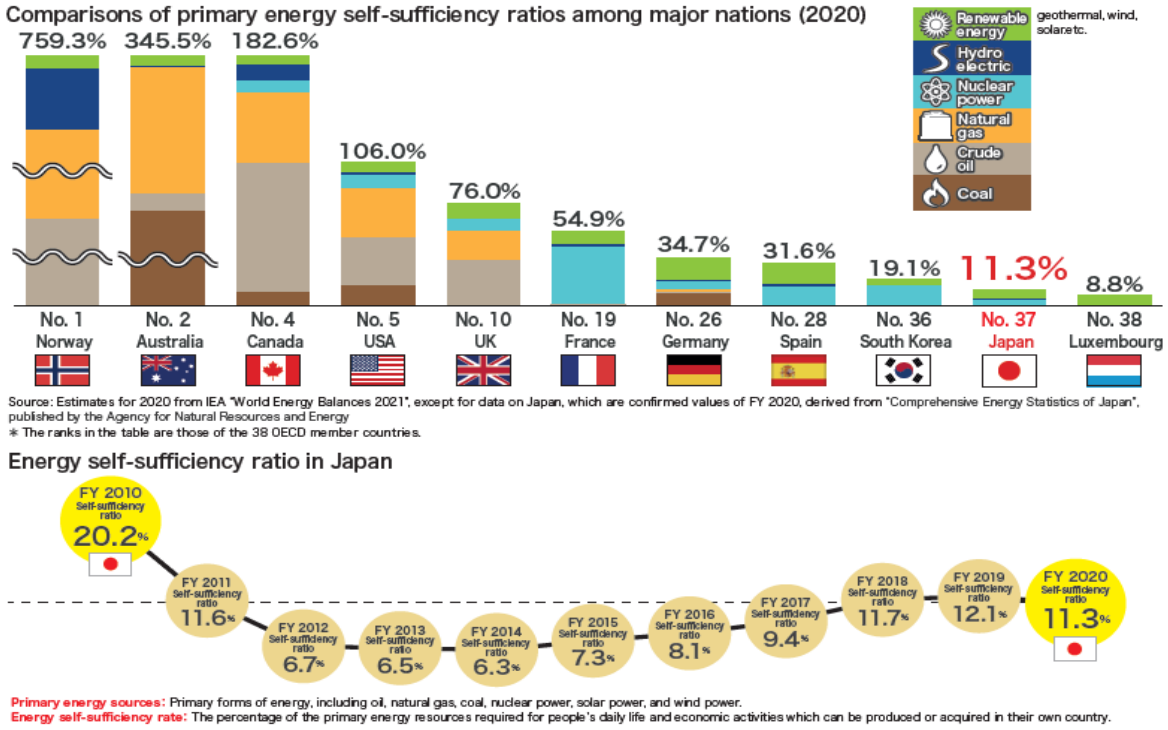


Figure 7. Comparisons of primary energy self-sufficiency ratios among major nations and Energy self-sufficiency ratio in Japan, 2022
(source Agency for Natural Resources and Energy)

Nevertheless, it is important to stress that these data were recorded before the start of the Russian invasion in Ukraine in February 2022 and the related consequences on the global value chains. That is why it is fair to expect that the level of self-sufficiency during the latest two years has decreased even more or, in the most optimistic scenario, stabilized thanks to the intervention of the government to differentiate the energy suppliers/partners as well as the advancements on renewable energy technologies.

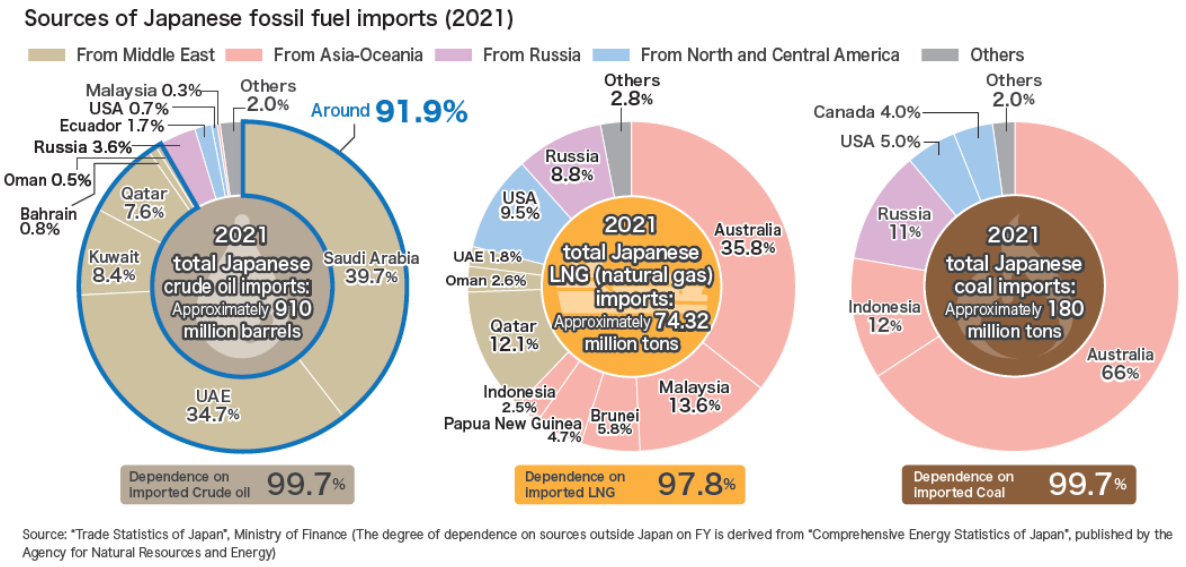
[22] Agency for Natural Resources and Energy (03/2022), *Japan's Energy. 10 questions for understanding the current energy situation*, Ministry of Economy Trade and Industry, p.2.
Accessed August 13, 2023. https://www.enecho.meti.go.jp/en/category/brochures/pdf/japan_energy_2022.pdf

Also, it is important to not forget that Japan, together with other countries that have agreed with the principle of achieving carbon neutrality by 2050, is making radical efforts to push for decarbonization.

And despite current efforts would have positive effects in the mid-long term in terms of trade, labor productivity and a general reduction of losses due to climate change, nowadays we are still far from reaping the benefits, with the consequence that this is causing an even higher increase on resource prices and a worsening of terms of trade. [23]

That is why it is extremely important to actualize these data to the current and continuously evolving situation characterized by great market volatility due to geopolitical tensions.

Moving forward, when it comes to fossil fuels supplier countries, as shown in the Figure 8, Japan has been regularly strengthening its relationship with the Middle East countries which represents around 90% of total crude oil imports.



Source: "Trade Statistics of Japan", Ministry of Finance (The degree of dependence on sources outside Japan on FY is derived from "Comprehensive Energy Statistics of Japan", published by the Agency for Natural Resources and Energy)

Figure 8. Sources of Japanese fossil fuel imports, 2021
(source Agency for Natural Resources and Energy)

This cooperation has been also recently renovated by the visit of Prime Minister Fumio Kishida, whose intentions are to establish a win-win relationship with the region by offering Japanese companies' expertise and technologies within an initiative named the "Global Green Journey". [24] The Japanese Government, in fact, is committed into making the Middle East as a supply base for clean energy such as hydrogen and ammonia, and jointly tackle the issue of climate change by making efforts into the way of decarbonization.

[23] Nishioka S., Kozawa T. (2022), ibid p.2.
[24] The Japan Times(19/07/2023), *Kishida tries to diversify ties with Middle East.* Accessed August 13, 2023. https://www.japantimes.co.jp/news/2023/07/19/national/kishida-middle-east/

In this regard, one of the points of policy responses toward 2030 for resources and fuels in the Sixth Strategic energy plan (2021) claims as follows:

«In addition to ensuring stable supply of oil, natural gas and mineral resources, "comprehensive resource diplomacy" will be newly deployed to integrally promote establishment of hydrogen/fuel ammonia supply chains and secure suitable sites for CCS advantage of the networks having been fostered with resource-rich countries in the past diplomacy. »[25]

Therefore, the reasons behind these latest developments are multiple and must be found looking at both parties' interests, such as the interest from Middle East countries to obtain technologies and skills from highly developed countries such as Japan.

Another aspect that might not be prominent but definitely a concern for Japanese authorities is the growing influence and investments of China in the Middle East, which might lead in the future to a serious problem whenever restrictions on oil imports might occur.

When it comes to LNG and Coal, a much more diversified strategy has been pursued by Japan to secure these two resources. Nevertheless, between the list of supply countries, a significant portion of LNG and Coal is also coming from Russia on projects such as Sakhalin I and II. In fact, while Western oil companies such as ExxonMobil and Shell have fully withdrawn respective projects divesting their stakes in response to the Russia's invasion of Ukraine in early 2022, on the other hand, against all odds Japan is still running these projects marking a clear contrast with its alleged allies.

The reasons behind such policy are emphasized by the Japan's Economy, Trade & Industry Minister Yasutoshi Nishimura who stated that «is extremely important for Japan's energy security as it is a valuable source outside of the Middle East"».

Following the same line of thought, Itochu chief executive Masahiro Okafuji made the following statement:

«Unlike Europe or the US, Japan depends on overseas for almost all of its energy needs, so it is not possible to cut off ties with Russia because of the sanctions. […] In reality, we cannot survive unless we continue to import [oil] from Russia, even if the volumes are smaller.»[26]

[25] Agency for Natural Resources and Energy (10/2021), *Outline of Strategic Energy Plan*, Ministry of Economy Trade and Industry, p.11.
Accessed August 13, 2023. https://www.enecho.meti.go.jp/en/category/others/basic_plan/pdf/6th_outline.pdf

[26] Afanasiev Vladimir (01/11/2022), *Japan aims to keep ties to Russia's Sakhalin 1*, Upstream.
Accessed August 13, 2023. https://www.upstreamonline.com/production/japan-aims-to-keep-ties-to-russia-s-sakhalin-1/2-1-1344823

Furthermore, in the next illustration (Figure 9) we have a comparison of the primary energy supply in Japan between FY 1973, 2010 and the most recent 2021.
While in 1973 the Oil Crisis crippled Japan as largely dependent from oil supply, in the comparison between 2010 and 2021 we may state that Japan, exiting from nuclear power generation market due to Fukushima Nuclear Disaster, have not managed yet to compensate the gap left by nuclear with clean renewable energy, but had to rely on more quantities of LNG and coal.

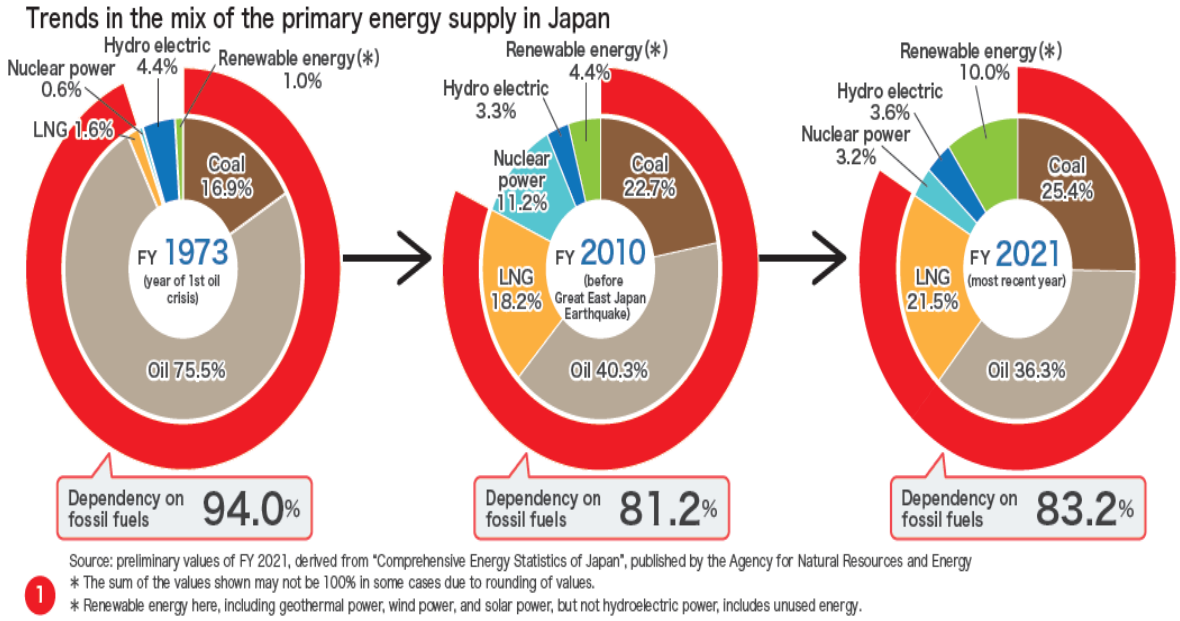


Figure 9. Trends in the mix of the primary energy supply in Japan (2022).
(source Agency for Natural Resources and Energy)

Therefore, despite apparently might be perceived as a failure from Japan to increase its dependency on fossil fuels in times when awareness for environmental issues and climate change are there for all to see, these data should be instead read as a mandatory transition which stem from a step back from nuclear energy and a slow reaction from Japan to set up a sustainable long-term strategy based on renewable resources.
Only recently the government has urged for a swift change of its power mix, with the main objective to reduce the share of thermal power generation in favor of the renewable energy. This, according to projections from the Japanese Research Institute, might lead into a structural economic change for Japan, in which terms of trade will be less likely to deteriorate in times of high resource prices, and ultimately GDP will benefit about five points as the transition to renewable energy continues.

Nevertheless, if such measures would not take place, the opposite scenario will occur, namely a reduction of gross domestic income by three percentage points (Figure 10).[27]
Today, as evidenced by the Agency for Natural Resources and Energy on his latest FY 2022 report, Japan is advancing on the introduction of renewable energy by ranking sixth in the world in terms of renewable energy generation with a 19.8% in total power generation (Figure 11) and third in the world with 72 GW for solar power generation (Figure 12).

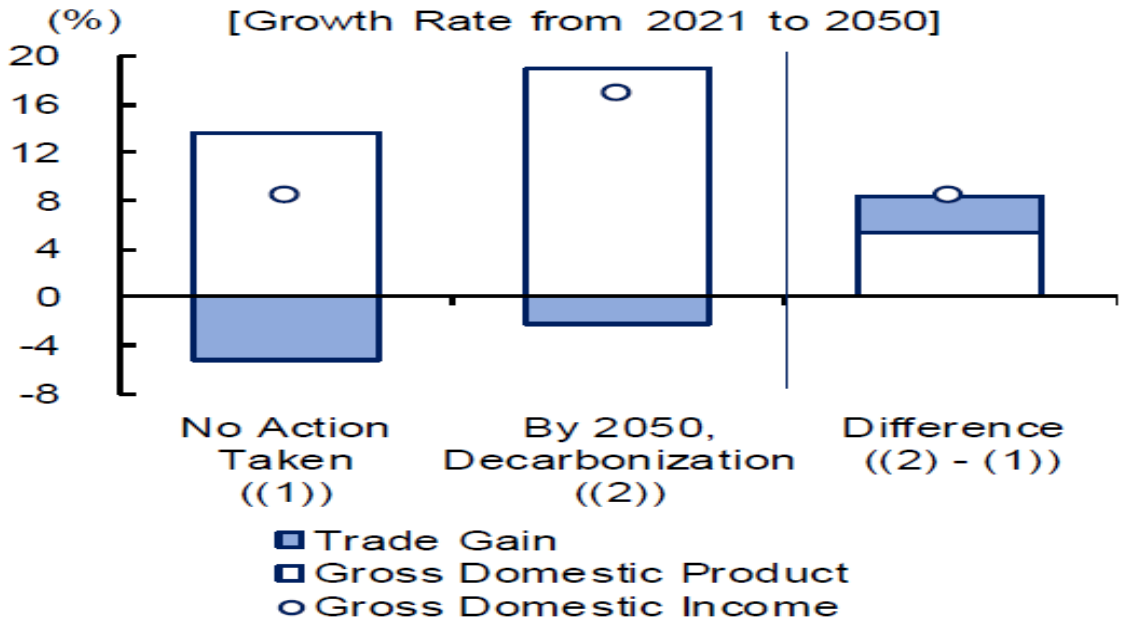


Figure 10. Real Gross Domestic Income (Growth rate from 2021 to 2050).
(source Japan Research Institute)

In this regard, the primary target of Japanese Government is to reach up to 330 to 350 billion kWh generated by the use of renewable energy in the energy mix within 2030 as illustrated in the latest Sixth Strategic Energy Plan.
According always to the Agency for Natural Resources and Energy, this will be achieved not only through solar and wind power generation but also through the introduction and diffusion of Net Zero Energy Houses (ZEH) as well as the implementation of new safety standards to reduce the environmental impact. [28] Unfortunately, the same cabinet headed by the Prime Minister Fumio Kishida (2021- Present), regarding nuclear energy, seems likely to ignore the lessons from the past by promoting a nuclear power revival.

[27] Nishioka S., Kozawa T. (2022), pp. 6-7.
[28] Agency for Natural Resources and Energy (03/2022), *Japan's Energy. 10 questions for understanding the current energy situation*, Ministry of Economy Trade and Industry, p.14.
Accessed August 13, 2023. https://www.enecho.meti.go.jp/en/category/brochures/pdf/japan_energy_2022.pdf

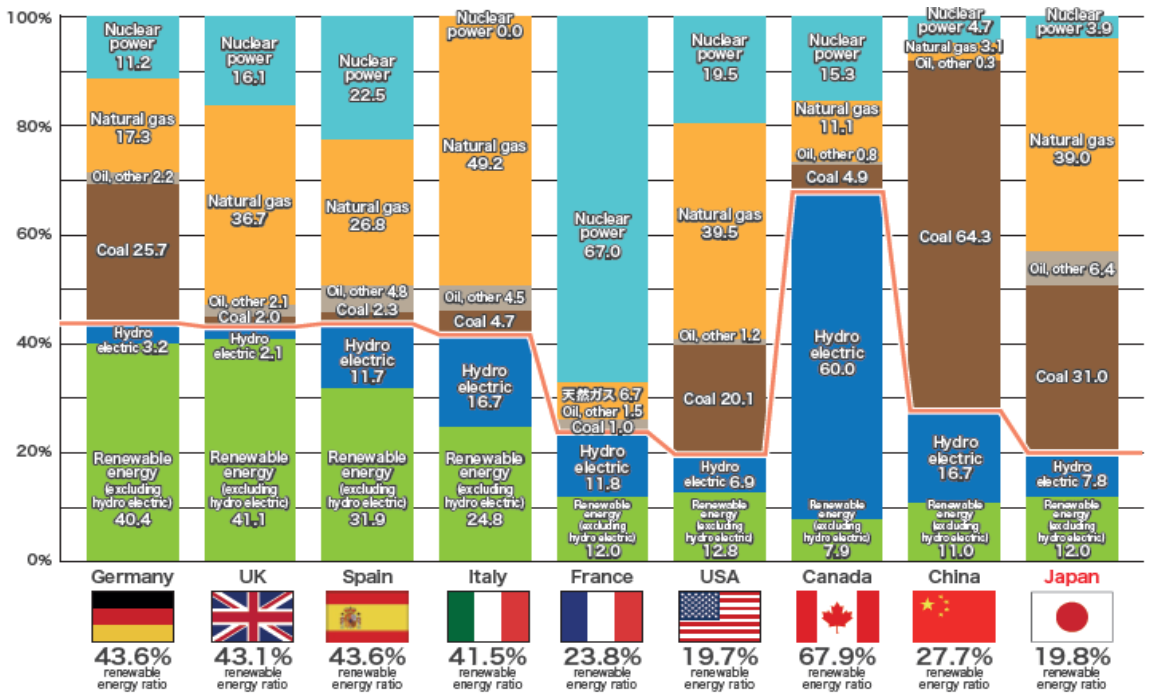


Figure 11. Comparison of percentages of renewable energy in total power generation in major nations, 2020 (source Agency for Natural Resources and Energy)

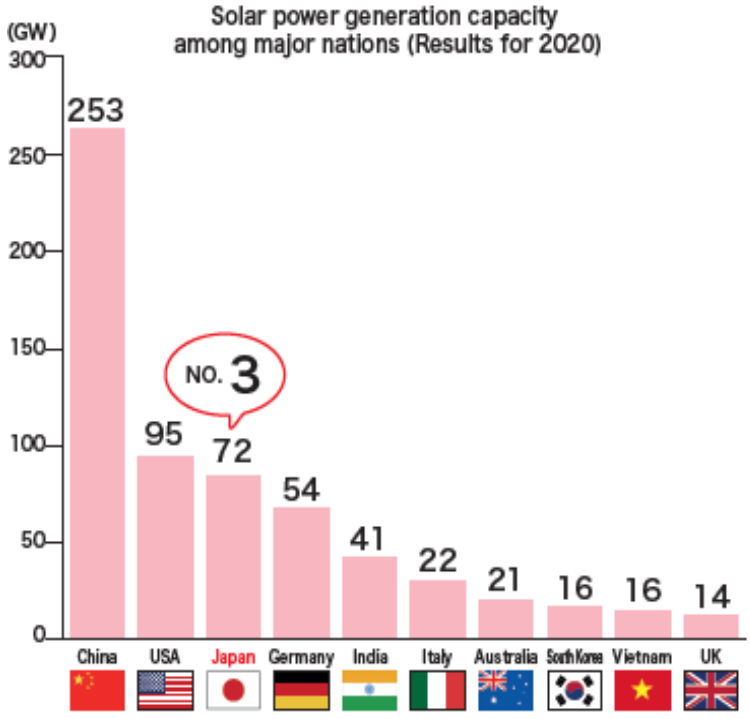


Figure 12. Solar power generation capacity among major nations, 2020 (source Agency for Natural Resources and Energy)

The government give arguments on the premise that safety must be always regarded as the top priority and therefore the nuclear power plants must meet the new and most stringent regulatory requirements established by the Nuclear Regulation Authority (NRA) before restarting operation.[29] Still, it does not conceal his real intentions on the matter when asked if nuclear power generation is necessary:

«For a country with limited natural resources, nuclear power generation is essential in order to achieve the following three objectives: (1) securing a stable supply of power; (2) curbing electric power costs; (3) reducing greenhouse gas emissions.» [30]

That is why, under the pretext of overcoming the current "energy crisis" caused by disruption on energy supply chains due to Russian-Ukrainian conflict as well as promoting a "sustainable future" for its country through a heavy decarbonization in the next few decades, Kishida is advancing a major energy policy shift against public skepticism.
The reasons for such skepticism are based on the premise that Japan has no adequate disposal site for high-level radioactive waste.
This waste, also, will remain highly radioactive for thousands of years making it impossible to be treated. Furthermore, Kishida's government is planning to extend the operation of nuclear power plants beyond the current 60-year limit in order to increase nuclear energy power output up to 20-22 per cent of Japan's energy mix in 2030 (Figure 13).[31]
Despite restarting nuclear power plants is believed to be cheaper than building new ones, they still have considerable costs for lifespan extension as well as they have to conform with the new regulatory requirements established by NRA.
In addition to that, significant costs would incur to restart old reactors with appropriate safety standards as well as making new reactors to reach those aforementioned targets, making it questionable whether nuclear power is a cheap and green solution for the next future.
Aside that, the question mark is represented also by the feasibility of such projects as no reactor in the world has ever been in commercial operation for more than 60 years.
In this regard, mistakes on planification of resources and bad management of government spending in the last few decades seems to have pushed Japan into adopting a strategy full of additional enormous risks justified merely by the urgent need to secure energy.

[29] Agency for Natural Resources and Energy. (2022) ibid, p.8.
[30] Agency for Natural Resources and Energy. (2022) ibid, p.17.
[31] Agency for Natural Resources and Energy. (2022) ibid, p.9.

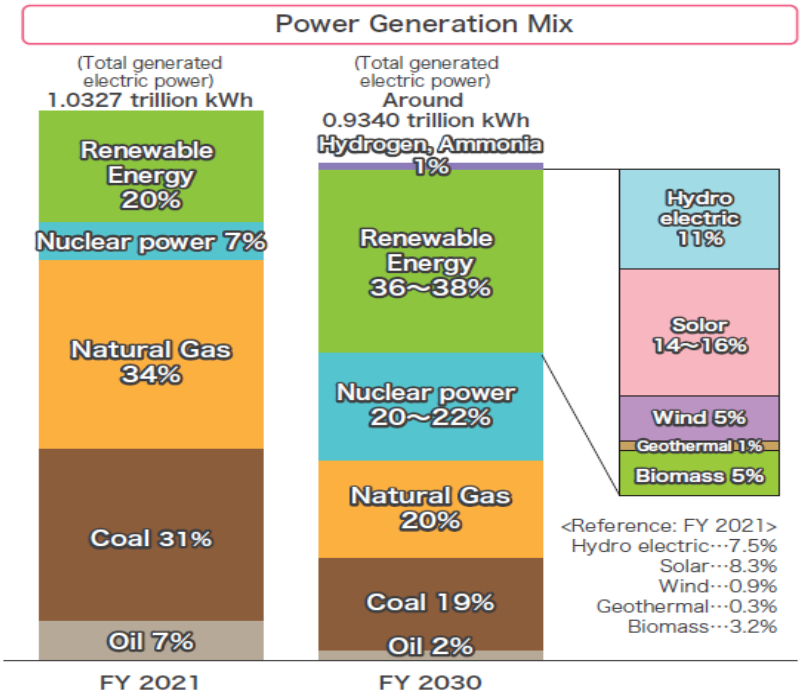


Figure 13. Power Generation Mix FY 2021 – FY 2030
(source Agency for Natural Resources and Energy)

Furthermore, if we look at the targets within the Japanese government's basic energy policy, we can define them unambitious for such a developed country.

Safety is centered in the policy and should be the major premise of the three fundamental pillars, namely energy security, economic efficiency and environment.

Still, Safety represents the bigger issue to overcome for the abovementioned reasons.

Furthermore, aiming at increasing self-sufficiency rate around only 20% is similar to admit that, without restarting nuclear power, it will not occur parallelly a technology advancement on renewable energies to return by FY2030 to the same levels before the Great East Japan Earthquake (2011). [32]

In conclusion, dealing today with energy security for Japan is a fundamental issue which may have a serious impact on the economic growth of the country for the next decades.

Government is still playing a dangerous game while relying on nuclear.

On the other hand, his diplomacy and economic partnership around the world are helping the system to stay afloat together with the push from the private sector represented by the

[32] Agency for Natural Resources and Energy (03/2022), *Japan's Energy. 10 questions for understanding the current energy situation*, Ministry of Economy Trade and Industry, p.9.
Accessed August 13, 2023. https://www.enecho.meti.go.jp/en/category/brochures/pdf/japan_energy_2022.pdf

Japanese trading companies. These last ones are expanding their portfolio of customers and their scope of business abroad while trying to collect vital resources also in the name of the energy security for the country.

1.4 Dealing with Food Security

In the previous chapter we analyzed how Japan, after World War II, experienced an exceptional economic growth which brought the country to demand abruptly larger quantities of natural resources, and as a consequence, to a significant increase of imports of minerals from third countries.

Nevertheless, the reputation of Japan to be widely known as one of the most resource-scarce country is not only based on energy self-sufficiency criteria but also to food securement issue. Economic growth, in fact, led consequently to an increase in the per capita incomes of the people and of consumption ratio, which ultimately affected also the common Japanese dietary patterns. Therefore, the demand for western style food began to increase together with its related imports volume.

In addition to that, the rapid economy growth and industrialization occurred in the big metropolis led to a great migration of the workers from the farms to the industries, resulting in a huge drop of agricultural productivity as well as a decline in farming population.

In this regard, the Agricultural Basic Law of 1961 attempted to remove the increasing income on productivity gap between the industrial city workers and the farmers.

Nevertheless, its effects proved to be different.

The law failed to contribute to the general increase of productivity of different crops while, on the other hand, have only favored with subsidies and benefits those farmers engaged in rice farming. [33]

All these factors contributed directly to the decline of Japan 'food self-sufficiency rate, from 73% in 1965 to 38% in 2020 (Figure 14).[34]

Furthermore, nowadays Japan is recording the lowest percentage among major industrialized countries, importing over 60% of foreign food, which rings another warning bell of the extreme vulnerability and dependency of Japan not only on energy side but also on food side (Figure 15).[35] The fluctuations of the international food market and its relative trade are the example of how food crises like the Arab Oil crisis of 1974, the current shortage and its related price increase of Ukrainian grain due to the ongoing conflict or in general any

[33]Lama Pravath (2017), *Japan's Food Security Problem Increasing Self-sufficiency in Traditional Food*, IndraStra Global, pp. 1-7. Accessed August 17, 2023. https://doi.org/10.6084/m9.figshare.5220820

[34]Lewis L., Inagaki K. (08/09/2022), *Can Japan feed itself?*, Financial Times. Accessed August 19, 2023. https://www.ft.com/content/af52f367-90d2-41dd-9a0f-a2a7b1b9624a

[35]Ministry of Agriculture, Forestry and Fisheries, *Sono 2: Shokuryō jikyū-ritsu tte hikui to yokunai no?*, その2：食料自給率って低いと良くないの？(Is it negative a low rate on food self-sufficiency?), Tokyo: Ministry of Agriculture, Forestry and Fisheries. Accessed August 17, 2023. https://www.maff.go.jp/j/zyukyu/zikyu_ritu/ohanasi01/01-02.html

embargo of foreign countries on exports of primary food sources, might expose Japan system to its own weaknesses.

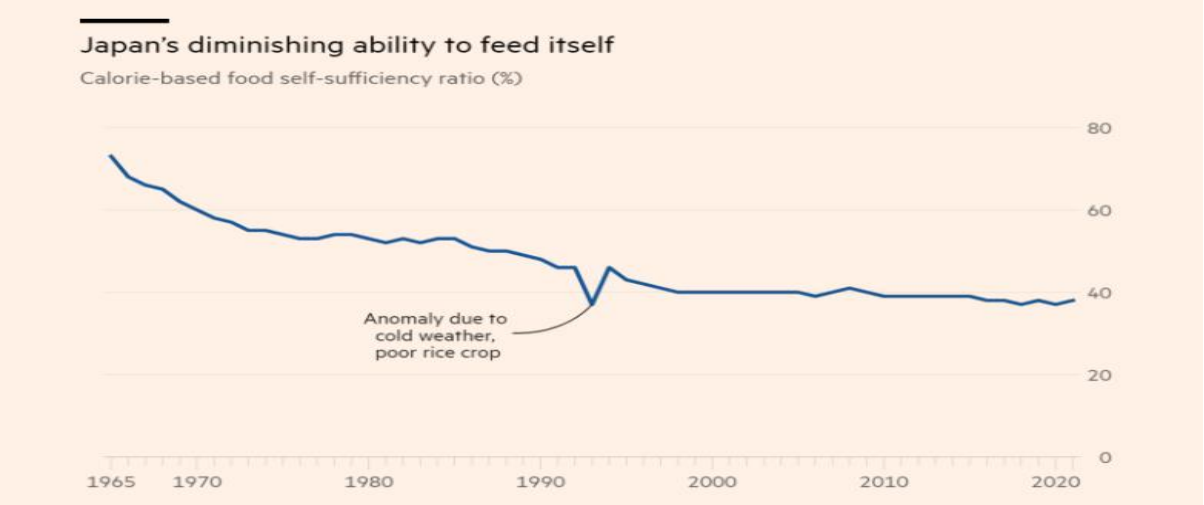


Figure 14. Japan' self-sufficiency ratio trend (based on calories)
(source Financial Times, MAFF)

So far, Japan managed to diversify its food suppliers by relying on a complex network where Sogo Shosha and other economic partners played an important role to secure, even in cases of current geopolitical issues or other emergencies such as natural disasters, the food that the nation needs to feed itself.

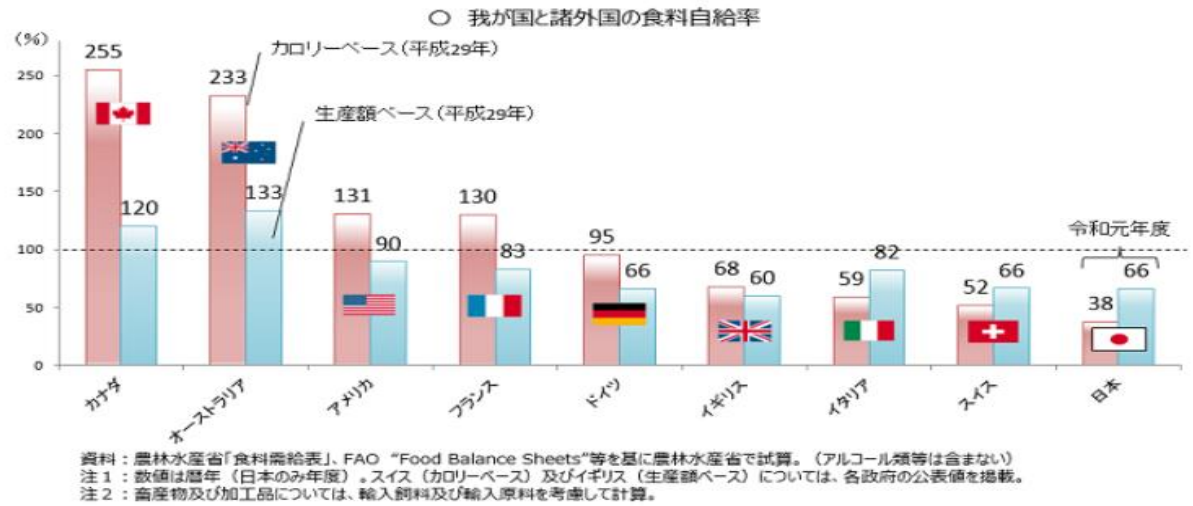


Figure 15. Food self-sufficiency ratio. Comparison between Japan and foreign countries
(source MAFF)

Nevertheless, this peculiar sourcing ability has been already partially limited by the great depreciation of the yen that have furthermore raised the value of imports, making it difficult

to compete in the current global economic scenario.[36]

Finally, another factor that is causing difficulties to source food nowadays is the ongoing unstable food production caused by climate change.

In despite of all the abovementioned factors, the Japanese government is setting the bar to 45% of self-sufficiency ratio by FY 2030.

In this regard, Kishida's cabinet is suggesting an increase in the production of essential products which Japan is heavily dependent like wheat, soybeans and feed grains.

Also, there will made efforts to make farmers pass on production costs adequately to companies and consumers as well as generally promoting agricultural technologies.

Lastly, the promotion of agro-food exports has been recognized «as indispensable for maintaining the foundation of agricultural production at a time when the domestic market is shrinking due to the declining population» (Kishida, 2023) but also to generally improve the self-sufficiency ratio as more exports will logically mean more food production and, consequently, a higher rate of self-sufficiency. [37]

Having said that, the question remains open as if these efforts would end the government reluctance to overhaul agricultural policy and the start of a more conscious and sustainable path to food security. While some agricultural ministry officials argue that Kishida's cabinet is putting more emphasis and effort into energy security matters such as semiconductors and battery technologies while not applying the same focus on food security, in general we can argue that Japanese government has finally seems to have acquired a fair decent level of awareness on the national food security problem in comparison to the relatively crisis-free reliance on imports experienced in the past few decades.

In this regard, Atsushi Suginaka, current deputy director general at the MAFF, made the following statement:

«What's different from the past is that Japan's economic status has fallen. We need to think of [a new] strategy of supplying food to everyone now that the premise that Japan can buy whatever it likes from wherever in the world at any price is gone.» [38]

[36] Lewis L., Inagaki K. (08/09/2022), *Can Japan feed itself?*, Financial Times. Accessed August 19, 2023. https://www.ft.com/content/af52f367-90d2-41dd-9a0f-a2a7b1b9624a

[37] Jiji (04/06/2023), *Japan adopts concept of farming policy overhaul to boost food security*, Japan Times. Accessed August 17, 2023. https://www.japantimes.co.jp/news/2023/06/04/national/agriculture-roadmap-food-security/

[38] Lewis L., Inagaki K. (08/09/2022), *Can Japan feed itself?*, Financial Times. Accessed August 19, 2023. https://www.ft.com/content/af52f367-90d2-41dd-9a0f-a2a7b1b9624a

That is why nowadays the general feeling regarding national energy security and food security in Japan is linked by the same common objective, namely the real urgency to implement policies in order to reduce and reverse the heavy dependency on foreign countries as much as possible to avoid further supply shocks in the next future.

Chapter II: Japanese trading companies, business organization and strategies

2.1 Definition

When trying to define the term "Sogo Shosha"「総合商社」, many scholars in the past investigated on their history, peculiar functions, their scale of business but also their management systems and other factors to deliver appropriate definitions.
A linguistical definition approach has been attempted by Ryan (2017) who provides one of the most convincing translation of the term in English language.
In fact, if we separate each Japanese character, analyze each meaning and put them into the right idiomatic context, we may clearly grasp the meaning underlying this compound word.

«The first character "so 総" looks complicated because that is generally what it implies. It is often translated as general, but the nuance is more complex, as in comprehensive or all encompassing. It infers encompassing many different things.
The second character "go 合 simply means to unify or combine.
The third character "sho 商 means commerce or business, and the fourth, "sha 社", can be translated as organization or in this case company. So what sogo shosha actually means is to combine or unify a wide range of functions, goods and services into one commercial enterprise. A better translation for sogo shosha might be "diversified trading conglomerate". »[39]

Nevertheless, in a broad sense, the term Sogo Shosha is conventionally used in present literature to refer to the seven largest Japanese trading companies (Itochu, Marubeni, Mitsubishi Shoji, Mitsui Bussan, Sojitz, Sumitomo Shoji, and Toyota Tsusho) .[40]
These conglomerates, according to Yasuda (JFTC 2022), are considered to be a peculiar, if not unique, Japanese form of business enterprise which emerged in the country economy context in response to the need of Japan to secure natural resources and to become a trading nation, first in the nineteenth century when Japan opened up to the outside world, and later again in the post-World War II reconstruction. They played a crucial role in the nation development, during both aforementioned periods, by leading overseas expansion and

[39] Ryan Patrick (2017), *The Sogo Shosha – An Insider's Perspective*, Marubeni Research Institute, p.3.
[40] Arai Taichi (2017), *The impact of social capital on core competence: The case of Japanese Sogoshosha*, PhD thesis. Heriot-Watt University: Edinburgh Business School, p.1.

expanding their global networks as pillars of the Japanese import and export trade.[41]
By doing so, they have come to deal with a large range of products such as iron and steel, oil and gas, chemicals and chemical products, textile and apparel, food ingredients and foods, machinery and construction of diverse structures, from power plants to housing complexes.[42]
In general, Tanaka (2012) sum up well the following characteristics as common to every Japanese trading companies:

a) Before the First World War, the Japanese government has played a supportive role for their overseas export market expansion.

b) During Japan's high-growth economy period (1960s–1970s), they further extended their business.

c) Historically, they have retained a strong relationship with domestic industry and they have been developing new business relationships with further business partners.

d) They have employed highly skilled workers for their business expansion as well as maintaining good and close relationships with them (internal partners).

e) They have been developing the modern management systems since the Second World War.

f) Their trading items and industries are spread all around the globe thanks to their numerous value chains.

g) They are characterized by huge sales volume, and they have increased their profits by constantly and flexibly changing and expanding their business portfolios in response to the ever-diversifying needs of customers. [43]

[41] Japan Foreign Trade Council, inc. (03/2022), *Shosha Handbook 2022*, p.12.
Accessed August 20, 2023. https://my.ebook5.net/japan-foreign-trade-council/g89t3b/
[42] Kunio, Yoshihara (1982), *Sogo Shosha; The vanguard of the Japanese economy*, Oxford University Press.
[43] Tanaka Akira (2012), *Sōgō shōsha no kenkyū*,「総合商社の研究」 (A research on the Japanese trading companies), Toyo Keizaishinpo sha.

Therefore, despite this research does not particularly aim to find out a precise definition of what is “Sogo Shosha”, I believe it is still essential to keep in mind the aforementioned attempts of definitions by previous literature, while also providing an historical context hereafter in order to understand the evolutionary role of these unique business entities.

2.2. Historical context and functional evolution of the Shosha

As we have stated in the previous chapter, in about four decades starting from 1880s to the 1920s, Japan recorded an incredibly high economic growth thanks to liberalization and privatization reforms that allows the country to achieve a prominent role among the most advanced economies in the world at the time.

Prominent actors of this industrialization from the private sector were extremely wealthy merchant families such as Mitsui, Sumitomo, Mitsubishi etc. [44]

These conglomerates, in the first years of the twentieth century, would expand their activities and became involved across multiple industries with the top 4 making up 60% of the shares of the Japan Stock Exchange (Ryan, 2017).

Benefiting from the financial difficulties of the government to manage its own SOEs and successfully start national industrialization, these wealthy private entities emerged in the Japanese economic environment of the time first by buying these former SOEs and related knowledge/technology, and later by expanding their size as economy of scale was highly promoted from government to accelerate the industrial transformation of the country.

Hence, we can affirm that the strong relationship between these conglomerates, known back in the day as Zaibatsu, and the Japanese government have begun in this period. [45]

The economic development of the nation, especially through the trade of strategic natural resources, was the primary interest of the government at the time and, over more than 100 years, we can argue that still represents the key element which make this close cooperation so durable and thriving for both sides.

Nevertheless, the prewar Shosha were not only those affiliated with Zaibatsu like the former Mitsui & Co. and the former Mitsubishi Corporation, but also the "Textile Shosha" and the "Iron & Steel Shosha". [46]

Among the "Textile Shosha", the Five Cotton Companies of Kansai (Itochu Corporation, Marubeni Corporation, Toyo Menka Kaisha Ltd.,[47] Japan Cotton Trading Co. Ltd.,[48] and Gosho Company[49]) were the most influential and their roots in the textile industry were dating back the Edo Period.

On the other hand, examples of Steel Trading Companies were Iwai & Co. Ltd and Ataka

[44] Morcka R., Nakamura M.. (2018), ibid, pp.37-39.
[45] Ryan P. (2017), ibid p.12.
[46] Japan Foreign Trade Council, inc. (March 2022) ibid, p.12.
[47] Current Toyota Tsusho Corporation.
[48] Current Sojitz Corporation.
[49] Current Kanematsu Corporation.

Shokai and their contribution is known in history as being those trading companies who boosted Japan' heavy industry and in particular the one related to the war, by importing precious resources such as iron ore from China, India and other countries. [50]

Still, these trading companies were far from being "general" but, as Ryan (2017) argue, they were "specialized traders", and their scope was not across multiple industries like Mitsui and Mitsubishi at that time.[51]

Nevertheless, the Sogo Shosha as we know today would begin to appear only after World War II.

Not only the experience of the war itself transformed the Japanese trading companies' functions and trading areas as being forced to cooperate with the military government in that period, but another shock came from the U.S. Act for the Elimination of Excessive Concentration of Economic Power (1947).

This act imposed the dissolution of great Zaibatsu in a large number of small companies and finally resulted in a systematic change in the economic scenario of that time.

Furthermore, the Japanese government implemented a strict policy of division of labor among Japanese industry, where the trading companies were asked to focus their efforts on the import and export so as to supply Japan with raw materials and energy resources as well as obtaining foreign currency (Ryan, 2017).

Nevertheless, the competition from the former zaibatsu came back stronger as U.S. had to divert its focus on the Korean War (1950-1953) and the textile business suffered a severe decline that led the Five Cotton Companies of Kansai together with other trading companies to merge or being absorbed by others in order to survive and expand their business across more industries. As such, 10 Major companies emerged as Sogo Shosha around 1960s and the Japanese economy was the one who reaped the most the benefits of such scenario evolution.[52]

Covering the supply and handling of goods for a large number of industries, the Sogo Shosha played a fundamental role by providing the resources and technology needed to achieve country reindustrialization and late economic boom between the end of 1950s and early 1960s.

In the following years, the Japanese society turned rapidly into a consumer economy as the result of growing population, rising of incomes and expansion of economy.

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[50] Japan Foreign Trade Council, inc. (March 2022) ibid, p.12.

[51] Ryan P. (2017), ibid p.12.

[52] Tanaka Takayuki (2012), *Research on SOGO SHOSHA: Origins, Establishment, and Development. A Report of the JFTC Special Research Committee on Sogo Shosha Principles Report*, Japan Foreign Trade Council Inc., pp. 2-3.

Therefore, the Japanese government assisted the Sogo Shosha to make investments in natural and energy resource development, in order to increase the imports of raw/intermediate materials to fuel Japan economy growth as well as creating a more integrated logistics and distribution networks, both domestic and overseas, to handle more sophisticated materials needed for consumer product manufacturing.

In this regard, Ryan (2017) underline that, in response to the emergent consumer economy, Sogo Shosha successfully integrated upstream-downstream supply chain business model for the first time in history. [53]

In fact, as an example, domestically the Sogo Shosha started not only to supply the construction industry but to perform functions such as financing, distribution and planning. In addition, they started to also handle food wholesaling and downstream food distribution as the government requested them to deal with new demand of more processed foods.

On the other hand, in this period we also witness a large expansion of their overseas networks thanks to the export of higher value added products such as automobiles and electronic appliances. [54]

Nevertheless, the first crisis that Sogo Shosha had to overcome was around the late 1970s and early 1980s in a period that is known as "The winter years of the Shosha".

This crisis stem from the worldwide recession and ongoing appreciation of the yen against the dollar as well as from the oil crisis which largely decreased profits.

In addition to that, during these years a general dilemma was widespread among manufacturers who aimed to become independent from Sogo Shosha to conduct their own activities.[55]

In spite of that, during the next years, some of the Sogo Shosha adopted measures to improve risk management and regularly make investment throughout the supply chain so as to secure their role of trader and intermediary through major ownership of the sources of supply.

From the 1980s to the early 1990s, they also entered into the service industry, increased their imports of higher value items such as computers and medical equipment, as well as providing logistic support for Japanese manufacturers moving overseas.

During these years, as Japan become the world's second largest economy in the world, the total trade volume directly related to the Sogo Shosha was over 30% of the country's total Gross Domestic Product.

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[53] Ryan P. (2017), ibid pp.14-15.
[54] Ryan P. (2017), ibid p.17.
[55] Japan Foreign Trade Council, inc. (March 2022) ibid, p.11.

Moreover, they were responsible for 65% of all country's imports and around 50% of its exports, proving again the impressive performance of these trading companies and the crucial role they played in the economic development of Japan.[56]

Still, the 1990s turn out to be the years of financial crisis with the Japanese economy bubble first, and the Asian currency crisis later.

In addition to that, the Sogo Shosha also had to face several global challenges such as the IT revolution and a general increased global competition starting from the rise of the manufacturing Chinese industry.

The consequences were that Sogo Shosha had to write off their problem loans by focusing on balance sheet restructuring and improving their businesses management standards.

In spite of that, in the next years they successfully conducted the needed financial restructuring and therefore they became able to aim at new profitable businesses to invest in such as medical healthcare, retail sector and environmental business while successfully ride the IT revolution by improving their supply chain management.

Furthermore, they had been aggressively investing upstream in energy, metal and mineral resources and food commodities.

As a result, their position in the global market came out even stronger by having made sound investments and successfully integrated upstream-downstream business model.[57]

Therefore, we can affirm that the Sogo Shosha, in order to reinvent themselves, have been continuously adapting and evolving to the constantly changing Japanese and global economic environment, as shown in Figure 17.

By changing their roles, diversifying their functions, increasing their services and respond promptly to the needs of the industry and society, they have evolved into the business organizations they represent today and that we will discuss in the next paragraph.

In conclusion, to put down in figures the historical evolution trend of the Sogo Shosha from the 1980s to the early 2010s in terms of integrated net profit, we may refer to Figure 18.

In this regard, Tanaka (2016) provides his own interpretation of the last four decades trend, stressing that the most relevant years in terms of radical transformation of the Sogo Shosha were instead those of the "Shosha crisis" from the mid-1990s to the first years of 2000s.

In fact, to understand the reasons under this statement, we must take a step back to the high-growth period experienced by Japan from the 1960s, when the entry of latecomer trading

[56] Ryan P. (2017), ibid p.5.
[57] Ryan P. (2017), ibid pp.18-20.

companies led to a more intense competition in the market segment.

As a result, low margin transactions dramatically increased leading to a general decline in profitability.

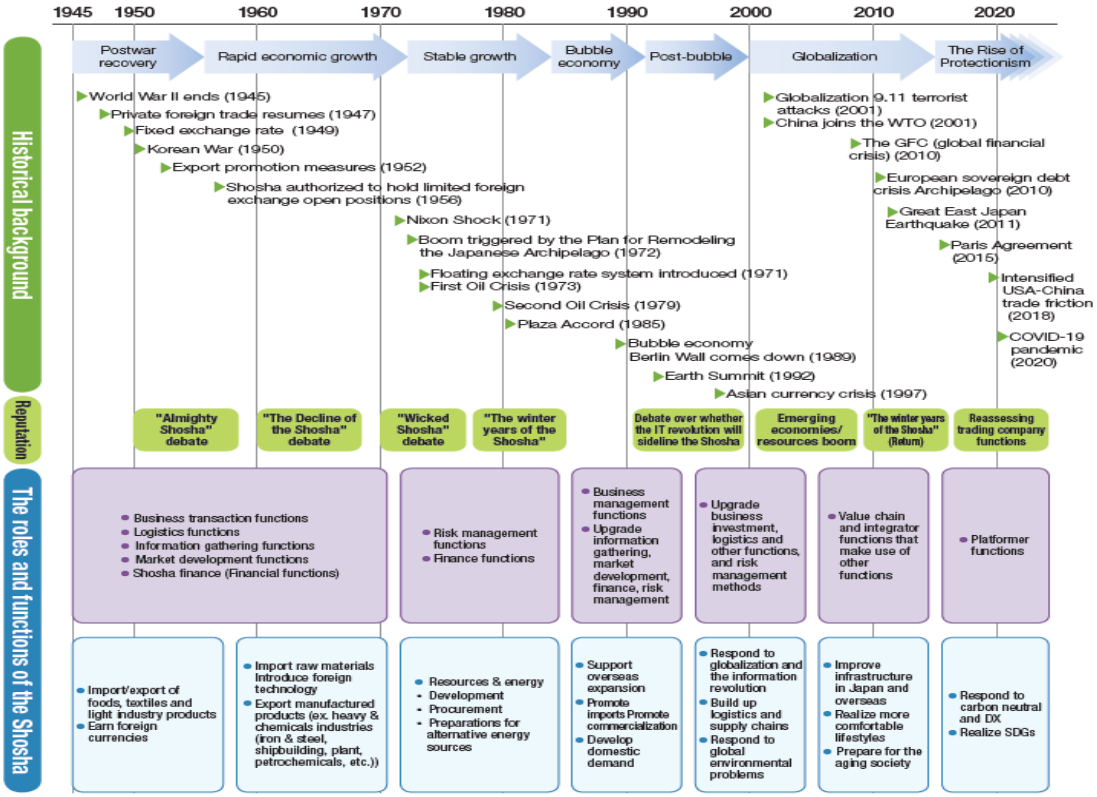

Figure 17. The Evolution of the Functions and Roles of Shosha.
(source JFTC Shosha Handbook 2022)

For Tanaka (2016) this period, characterized by low profit, will go down again as "The Winter Years of the Shosha" (1980s to mid-1990s) and it occurs historically just before the aforementioned "Shosha crisis". In these years, all the trading companies resort to drastic measures in order to improve their investments through the entire supply chain but, aside Mitsubishi Co. and Mitsui and Co. who successfully overcome this stage thanks to an accurate management of their investments and resources as previously stated, all the other trading companies suffered frequently huge profit losses with those more vulnerable ended up in business failures and subsequently to be merged from bigger ones.

Tanaka (2016) claims in fact that the reason behind such failures is to be found in the lack of risk management to shield their investments.[58]

[58] Tanaka Akira (2016), *Sōgō shōsha no gurōbaru senryaku - shigen būmu shūen no shōgeki* -「総合商社のグローバル戦略－資源ブーム終焉の衝撃－」(Global strategies of Japanese general trading companies – The impact of the demise of the boom in resources), Kyoto University, Graduate school of Economics, pp.4-6.

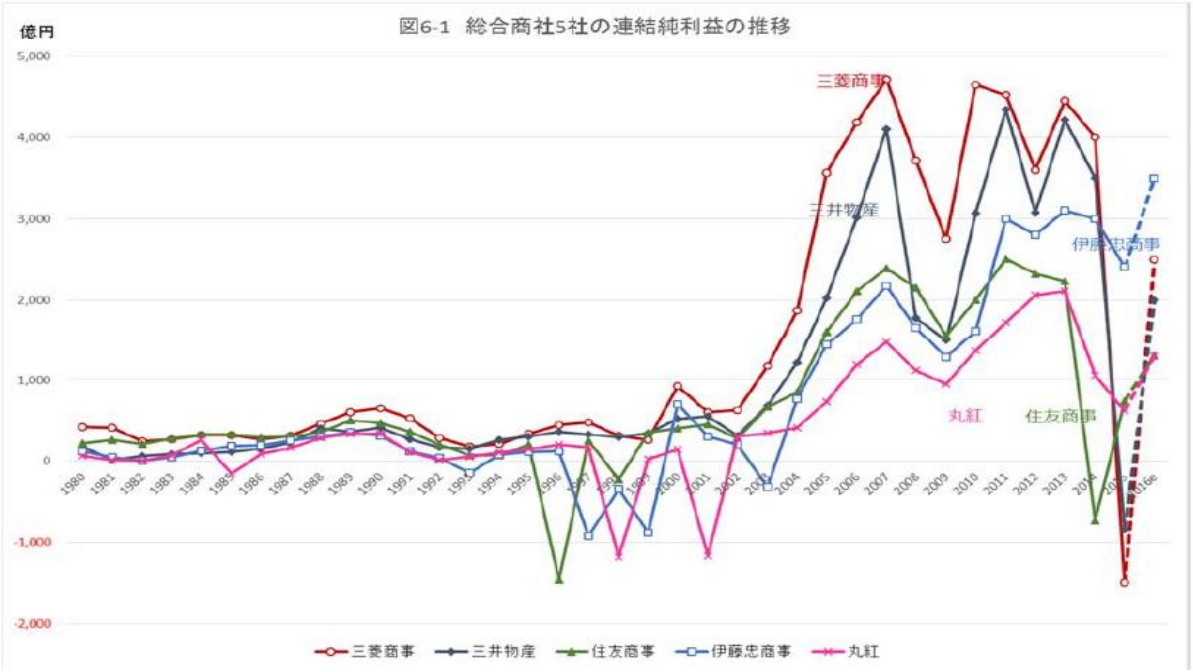

Figure 18. Trend in consolidate net profit of the Major 5 Sogo Shosha (1980-2016)
(source Tanaka, A. (2016))

That is why, in the following years, the reconstructions and merges occurred during the years of crisis had inevitably laid the foundations of a new scenario in Japan for the Sogo Shosha. This new scenario, together with perspectives and growth forecast, will be discussed later in the next paragraphs, while we conceptualize first the current main features of the Japanese trading companies to have a better understanding of their business models.

2.3 Sogo Shosha: Main features

As we have deeply analyzed the historical evolution process of the Sogo Shosha from their emergence until the latest years, in this paragraph I am going to provide a wide explanation of the current features which characterize the present Sogo Shosha.
The JFTC (2022) in his latest report indicate three main features of the activities common to every trading company:

a) Handling of a wide range of business sectors and extending their businesses through the entire supply chain from upstream to downstream, contributing at each stage by enhancing value-added.

b) Worldwide operations extension, making business investments on a global scale.

c) Ability to quickly identify or anticipate customers' ever-changing needs by expanding accordingly their roles and functions on their own initiative and simultaneously updating constantly their business portfolios.[59]

Regarding feature "*a*", it is clear that it is the case of an economy of scope and scale, as Sogo Shosha are trading commodities and goods in large volumes as well as applying the same expertise to other types of goods, such as higher value products, to increase their profitability. In fact, as we argued already in the previous paragraphs, since the economic boom between the end of 1950s and early 1960s, the Sogo Shosha had been aggressively investing both upstream in energy, metal and mineral resources and food commodities and downstream in wholesale and retail sectors.
Hence, their business model has been clearly oriented to the one of the value chain, and their ultimate objective has always been to integrate such model by being involved as much as possible at every stage of the chain.
Therefore, value chains are considered a key element to ensuring profitability for Sogo Shosha as they increase value-added for individual businesses by exploiting the great knowledge and pieces of information acquired through the years on the management of various businesses across multiple industries.

[59] Japan Foreign Trade Council, inc. (March 2022) ibid, p.4.

Furthermore, this widespread presence in mutually related businesses from upstream to downstream sectors enable them to have a birds-eye view of the overall business process involved and as mentioned before, make them able to provide financial, logistical, information support through the entire chain thanks to their rich expertise acquired throughout the multiple industries covered in the past.[60]

As a result, their position in the global market came out stronger than ever in the past few decades and new value chains are continuously under developing including sectors such as energy development and food on which we discussed in the previous chapters the importance that Sogo Shosha has been playing since their emergence for the securement of these fundamental resources in cooperation with the government for the ultimate goal of country' economic expansion.

In fact, we are aware of the role of the Japanese government to assist the Sogo Shosha to make investments in natural and energy resources development as well as to handle food wholesaling and downstream food distribution.

In this regard, the Sogo Shosha implemented more integrated logistic/distribution networks both domestically and abroad, and therefore enhanced their global value chains internationally.

When it comes to food security challenges, the Sogo Shosha have put into practice three initiatives to achieve their goals, as reported by JFTC (2022):

- Improving agricultural productivity by supplying to developing countries agrochemicals, fertilizers and agricultural materials.

- Strengthening food procurement and supply capacity, by participating in the agricultural production and fishery product aquaculture businesses etc., while improving grain supply chain and its related sales networks.

- Ensuring to meet safety and quality standards through improvements on traceability thanks to the introduction of new management systems and digital technologies.[61]

[60] Japan Foreign Trade Council, inc. (March 2022) ibid, p.16.
[61] Japan Foreign Trade Council, inc. (March 2022) ibid, p.24.

At present, their food value chains production & procurement extends from production to processing, up to logistic distribution and retailing, to finally deliver directly value to customers (Figure 19).

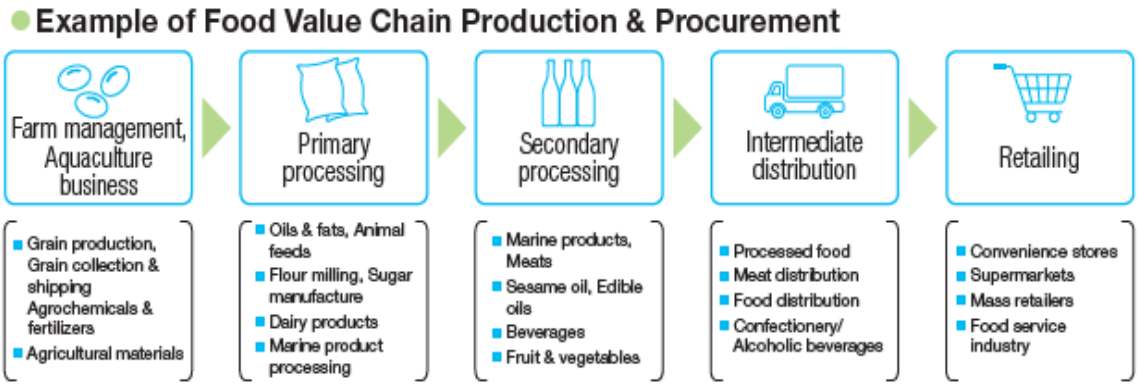

Figure 19. Example of Food Value Chain Production & Procurement.
(source JFTC Shosha Handbook 2022)

These value chains cover all the globe (Figure 20) and their aim is to diversify furthermore the agricultural suppliers by establishing new reliable procurement routes while extending existing ones for the sake of national self-interest as well as increasing their scope of businesses, and consequently their profits, worldwide.

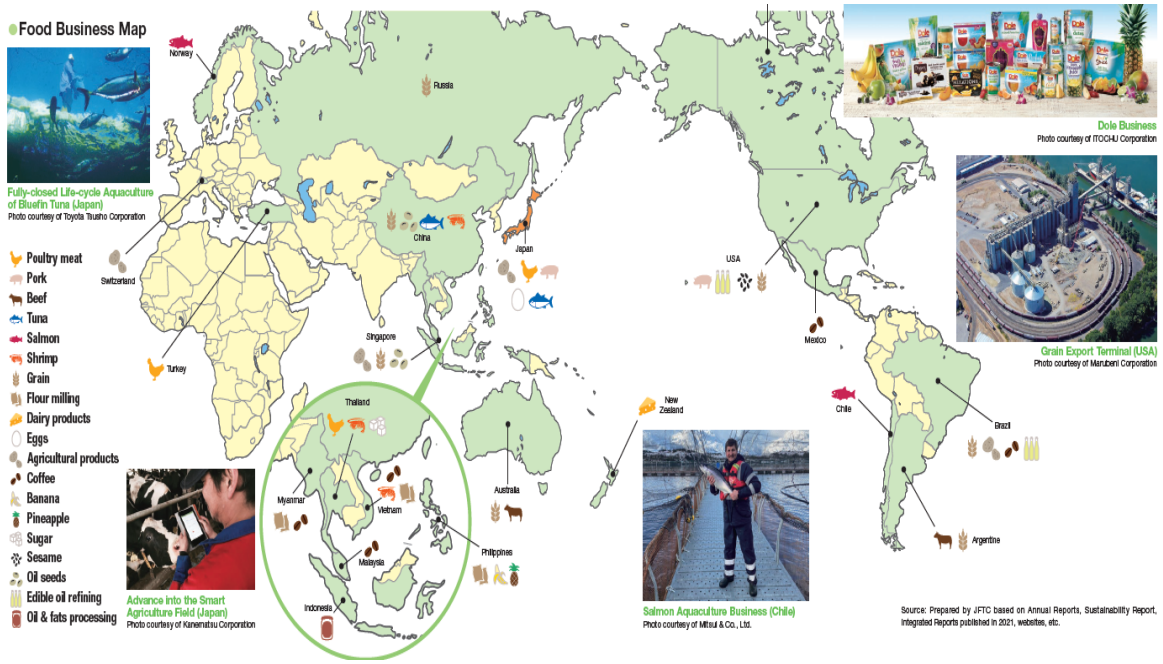

Figure 20. Food Business Map
(source JFTC Shosha Handbook 2022)

Still, Sogo Shosha are aware they are operating these global value chains while walking on the fine line between self-interest and compliance with human rights in accordance with the United Nations Guiding Principles on Business and Human rights.
And despite there is a strong rhetoric from the country and the Sogo Shosha itself to adhere to the criteria of the sustainable development goals and introduce their businesses ventures as fully compliant with these regulations, there are cases where national interests are still put forward to reach food security.
Logically, we can argue that the same applies to energy security, if not in an even larger extent. As largely discussed in Chapter I, Japan is heavily reliant on imports of natural resources from overseas in order to achieve energy security.
In this regard, JFTC (2022) explains remarkably well the strategic intermediary trading role for the government played by the Sogo Shosha:

«The Shosha have endeavored to secure rights at their own risk through efforts ranging from negotiating with governments of resource-rich countries and companies that hold interests to exploring for resources and investing in businesses. They also work with leading overseas partners to expand the number of countries and regions from which they procure resources. At the distribution stage, they contribute to price and supply stability by building extensive value chains covering everything from refining and trading to managing LPG dealers and gas stations.»[62]

From this definition, we may argue that their involvement in resource procurements, since also including negotiation with governments of other countries, is not exclusively lead by having a private return on investments in their businesses but instead is also driven by the economic interest of the nation.
The feeling is that the Japanese government, since the emergence of Sogo Shosha before the World War II, found it convenient to not expose themselves face-first to the matter as it might compromise his reputation abroad and therefore decided deliberately to assign to these private groups the ultimate responsibility to secure for the nation the resources needed for the economic development goals.
This concept is absolutely important, and we will delve into that as we bring some examples of malpractices conducted by Sogo Shosha, with fully approval and awareness from their government, in Chapter Three.

[62] Japan Foreign Trade Council, inc. (March 2022) ibid, p.26.

Taking a step back to the energy supply conducted by the Japanese trading companies, as shown in Figure 21, we can have an entire look at the energy and resource rights held by the seven Sogo Shosha as of the end of 2021.

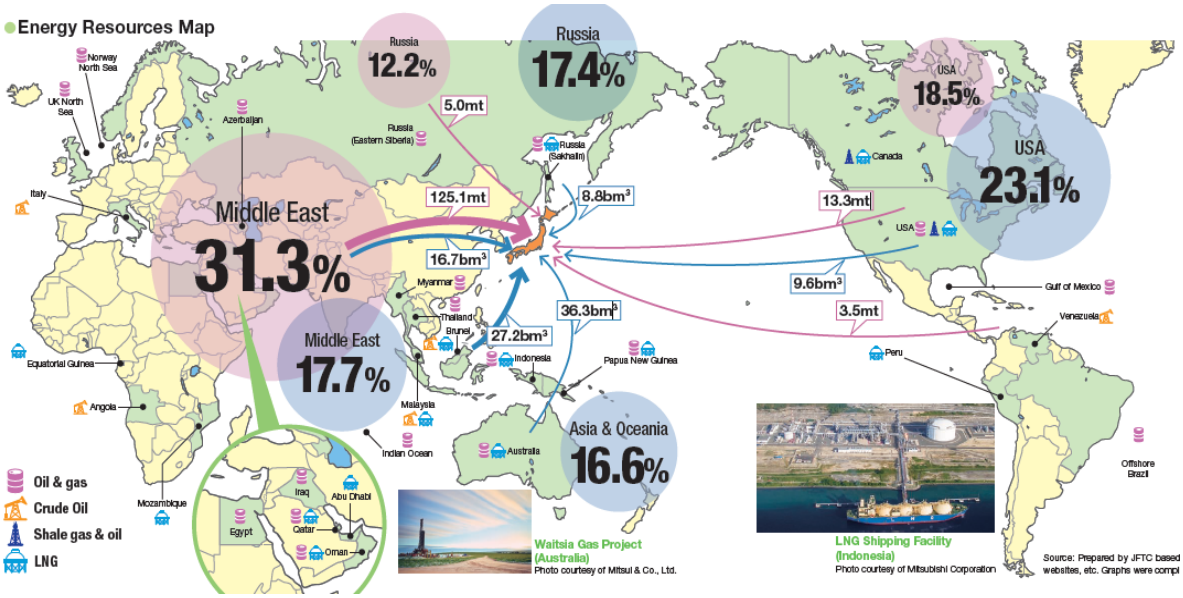

Figure 21. Energy Resources Map
(source JFTC Shosha Handbook 2022)

They can enjoy a widespread coverage with a large number of overseas partners and governments where they procure resources.

The Middle East, together with USA, Russia and Australia are the country where the share of oil and natural gas production is over 15% , demonstrating that geopolitical tensions and subsequent supply shocks which stem from these countries might paralyze completely the supply of these vital resources and put Japan in a dangerous position. [63]

On the other hand, the continuous efforts of Sogo Shosha to expand their investments and involvement overseas in new countries is a strategical asset as it helps to diversify the supply chain and counter any possible crisis.

Lastly, together with the energy resources business, Sogo Shosha are also responsible for the handling and supplying of mineral resources such as aluminum, copper and lead as well as rare metals that especially in recent years have been drawing the attention of many

[63] Japan Foreign Trade Council, inc. (March 2022) ibid, p.26.

governments as the competition for technological development is harder than ever in a world with finite resources (Figure 22). [64]

In this regard, the Japanese trading companies have been making efforts to ensure long-term relationship with metals-rich countries, such as the case of Toyota Tsusho Co. in Argentina for lithium, by securing mining rights and being involved directly to the entire process from extraction from smelting to refining, proving once again the capability of the Sogo Shosha to expand their activities through a large array of businesses for the goal of procurement of a single type of resource considered extremely precious.

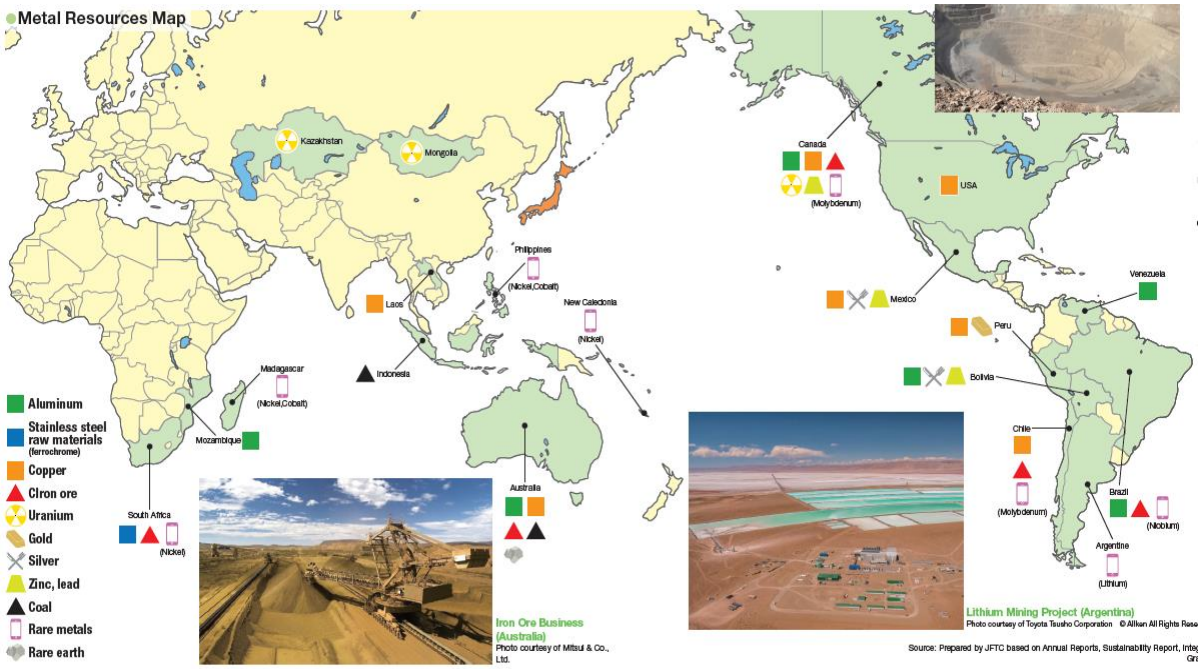

Figure 22. Metal Resources Map
(source JFTC Shosha Handbook 2022)

Feature "*b*", in fact, highlight their industry diversity characterized by their unique global scope evidenced by the wide number of subsidiaries, regional and branch offices etc. distributed around the world (Figure 23).

In this regard, Ryan (2017, p.8) clearly suggest that "*The sogo shosha operate in an array of industries as the center of a conglomerate through an extensive global network"*.

As such, they are divided in multiple divisions according to the industry and each of this division is fully responsible for their own business strategies worldwide by acquiring companies, making joint ventures or create new companies.

[64] Japan Foreign Trade Council, inc. (March 2022) ibid, p.28.

On top of that, there are also corporate subsidiaries overseas which make Sogo Shosha a real diversified and international business entity.[65]

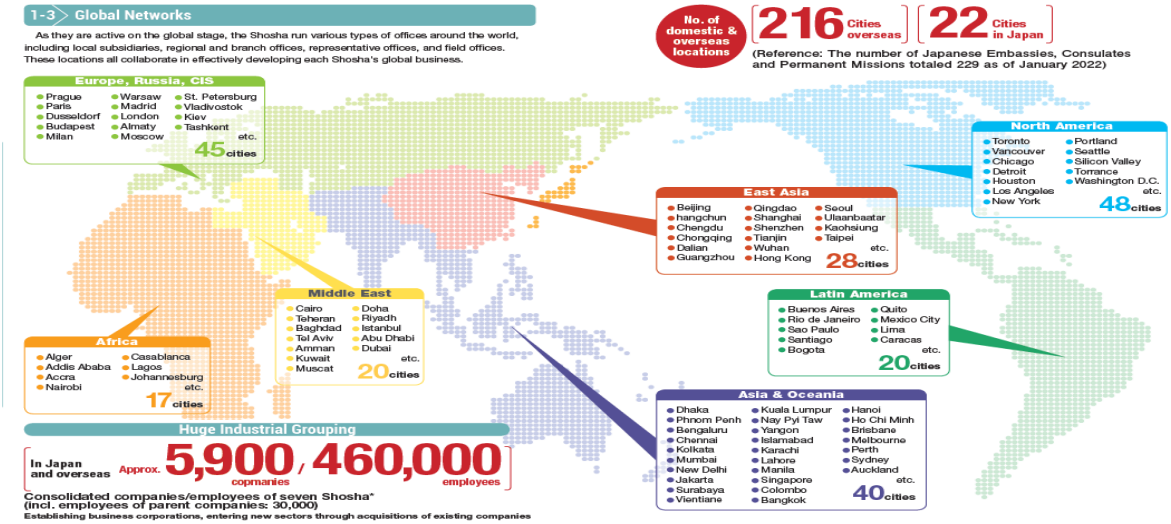

Figure 23. Shōsha Global Networks
(source JFTC Shosha Handbook 2022)

Lastly, the third feature "*c*" represents the process of development of new functionalities and expertise that Sogo Shosha undergo to deal with new fields, different from their traditional core function of trader, such as information, logistics, finance and risk management.
This last feature, in particular, is really important as it makes possible for Sogo Shosha to provide multiple services to their customers as well as organizing large-scale projects in coordination with government and contractors, by simply making use of their global information network in combination with their trading, logistics, finance and risk management functions.[66]

[65] Ryan P. (2017), ibid p.8.
[66] Ryan P. (2017), ibid p.10-11.

2.3 Perspectives and growth forecast

As we have analyzed in the previous paragraphs, from the mid-2000s to 2014, Sogo Shosha recorded a general growth period characterized by high profit, the so-called "Summer Years of the Shosha" (Tanaka 2016), partially affected only from the Lehman Brothers Shock in 2008.[67]

Nevertheless, when it comes to the figures related to the total amount of trade volume and Japanese imports and exports handled by Sogo Shosha in the recent FY 2016, we observe a downward trend with sales on national GDP dropped from 30% in 1980 to 15%.

Furthermore, in comparison to the 1980s when they were accounting for 65% of total imports and around 50% of exports, during FY 2015 these figures dropped respectively to 33% and 18%. This downward trend can be explained by the depreciation of the yen from 1985, which ultimately forced many Japanese manufactures to move overseas.

In response to that, Sogo Shosha continued to supply them while expanding evermore their presence outside national borders.[68]

On the other hand, as shown in Figure 24, the last few years were characterized by large volatility of resource prices which affected, negatively in 2016 and positively from 2021 onwards, the profit trend of trading companies such as Mitsubishi Co. and Mitsui and Co. which are relying more on resources profit.

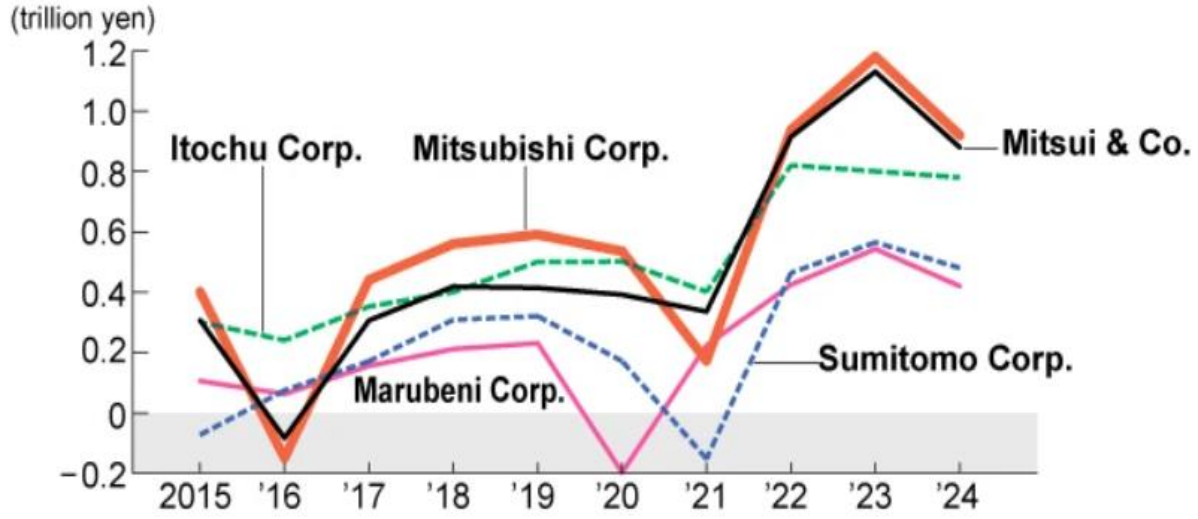

Figure 24. Net profits are rising at major trading houses (2015-2022).
(source The Asahi Shimbun)

[67] Tanaka A., (2016), ibid pp.4-6.
[68] Ryan P. (2017), ibid pp.6-7.

In particular, when it comes to the latest report of current FY 2023, Mitsubishi Co. reached a net profit of 1.1806 trillion yen, with an increase of 25.9 % from the previous fiscal year, recording the highest net profit in a fiscal year and proving that these results are not just a merely coincidence. Instead, as prompted before, the company owes this unprecedented achievement thanks to the numerous changes in the external environment which led to supply chain disruptions and consequent spiking in energy and commodities prices.
Furthermore, another aspect more related to the domestic environment might be the one of the weak yen, which has historically hit a 32-year low against the dollar in the last few months. As a result, Mitsubishi Co. boosted earnings for which has recorded 170.6 billion yen net profit on LNG and 439.3 billion yen net profit through its metal materials business. Nevertheless, due to the high volatility of these resource prices, Mitsubishi Co. forecasts a drop of its net profit to 920 billion yen for the current FY ending March 2024, but still remains largely optimistic on its upcoming figures and business expansions.[69]
On the other hand, trading companies such as Itochu, registered during these last few years a more regular trend, by achieving record-setting results in FY 2022, as they were less affected from these alterations in resources prices.
In fact, unlike the general trading companies associated formerly with zaibatsu industrial groups which enjoys portfolios boosted by a high proportion of resources, Itochu' strength stem especially from the non-resource sector.
Historically, the two oil crises and other similar supply shocks, have generally taught a lesson to each general trading company to pursue and strengthen the non-resource sector in order to gain a larger support from the consumers and society, but Itochu was absolutely the first one to believe in a market-oriented perspective development.
In this regard, Masahiro Okafuji (2021), current Itochu Chairman and Chief Executive Officer, explain the evolution step that is characterizing the Sogo Shosha today:

«General trading companies, including ITOCHU, have done business from a product-oriented perspective until now, contemplating how to sell the products they handle, within a vertical organization for each product category. It is now becoming more important to analyze consumer needs using data accumulated from customer contact points, and that kind of product-oriented perspective is quickly falling out of step with the new downstream focused value chain.»[70]

[69] Hideki Aota (10/05/2023), *Japanese trading houses soar to 1-trillion-yen level in net profit*, The Asahi Shimbun. Accessed August 26, 2023. https://www.asahi.com/ajw/articles/14904500
[70] Itochu Corporation (03/2021), Annual Report 2021, p.13.

Furthermore, Okafuji (2022) explains that the current huge profits generated by the ever-increasing spike on commodity prices is nothing more than a transitional phase of a resource market cycle. The performance of the Sogo Shosha would continuously rise and fall according to these cycles but, on the other hand, the trust of the market will be severely affected by the large impairment losses.

Hence, as the current phase characterized by the price hikes in natural resources is extremely positive for general trading companies strongly relying on resource-sector, downstream companies and consumers, on the other hand, would likely to shoulder the burden of the prices volatility and forget the benefits of the previous resource cycles.

Moreover, Okafuji (2022) insists that the several risks for engaging resource businesses are not only those related with price volatility but also those stemming from political countermeasures such as major tax hike proposals, from countries such as Australia and South America, where it is spreading a "resource nationalism" to secure and retain back more resource benefits from multinational mining companies.[71]

That is why Itochu, in contrast with the other general trading companies' business practices, seems to have a different approach and target when it comes to deal with the challenges of the next future.

Itochu founder Mr. Chubei Itō exemplified the philosophic concept at the core of the company, namely that one of 'Sampo-yoshi', in a management mindset by stating that "*Trade is a compassionate business. It is noble when it accords with the spirit of Buddha by profiting those who sell and those who buy and supplying the needs of the society."*[72]

In other words, the basic reinterpretation given to this motto is that despite your business is suffering a decline in terms of profitability in the short term, by allowing customers to prosper, automatically you and your business will benefit too.

Itochu shapes its current management policies under this philosophic concept and apparently make efforts to contributing not only to the increase of shareholder value but to the development of the society by increasing socioeconomic benefits for people directly or indirectly involved in the company's projects.

For these reasons, the current trajectory of Itochu and its investment in the non-resource sector are arguably a valuable example of great management and vision which might

[71] Itochu Corporation (03/2021), *Annual Report 2021*, p.15.
Accessed September 3, 2023. https://www.itochu.co.jp/en/ir/doc/annual_report/2021/
[72] Itochu Corporation, *Itochu Mission*. Accessed August 26, 2023.
https://www.itochu.co.jp/en/about/mission/index.html

guarantee a sustainable development of the company in future.

Furthermore, while other Japanese trading companies have only started recently to realize the potential related to the non-resource sector, Itochu is already reaping the benefits and it is determined to fully tap into the intrinsic value of its market-oriented perspective once the resources prices eventually would return to normal.

Coming back to the analysis of Figure 24, we can observe that there is a striking difference between the period before the COVID-19 pandemic and the period after of economy recovery. While during the former period the net profits of these general trading companies were relatively between 400 billion yen and 600 billion yen, during the post-COVID-19 we are experiencing records in profit net, by exceeding also the one trillion yen level.[73]

Lastly, the future of the trading companies will also depend on the latest structural corporate reforms and their actual implementation in compliance with the Tokyo Exchange Group which recently started pressing Japanese companies and their resistant management to proactively listen to shareholders proposals.

In particular, they are demanded to focus on profitability against underperforming businesses, greater efficiency and productivity to attract new international investors.

In this regards, The Berkshire Hataway Inc., an investment company owned by billionaire Warren Buffett, have been raising its stakes in the major five Japanese trading firms from an initial 5% in August 2020 up to an average of 8,5% in the first half of 2023 (7,4% for Itochu, 8,3% Marubeni and Mitsubishi Co., 8.1% Mitsui and 8.2% Sumitomo) as a sign of endorsement and trust for the results achieved by the Sogo Shosha in developing a better corporate governance.[74]

As a result, this initiative of Buffett greatly encouraged foreign purchases of Japanese equities, recording a $57.8 billion worth of Japanese equities in 10 straight weeks until June 3.[75] In conclusion, considering the aforementioned differences on the approach and business models within the major trading companies, we can argue that it will be fundamentally important for the Sogo Shosha to seize the opportunity of being today under the spotlight of the international market.

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[73] Hideki Aota (10/05/2023), *Japanese trading houses soar to 1-trillion-yen level in net profit*, The Asahi Shimbun. Accessed September 2, 2023. https://www.asahi.com/ajw/articles/14904500

[74] Wall Street Italia (19/06/2023), *Warren Buffett continua a puntare sul Giappone (Warren Buffett continues to bet on Japan)*. Accessed September 2, 2023. https://www.wallstreetitalia.com/investire-in-giappone-seguendo-esempio-di-warren-buffett/

[75] Tan Clement (2023), *Japan optimism has been fueled by 'game-changing' reforms and Warren Buffett: Here's what you need to know*, CNBC. Accessed September 2, 2023. https://www.cnbc.com/2023/06/13/investing-is-japan-inc-finally-serious-about-corporate-governance-.html

Despite latest figures aforementioned seems more than promising in the short-term, in the long-term it is clear that they will be urged to enhance their corporate governance and produce new added value throughout the supply chains by especially shifting the focus on downstream flow as evidenced by Itochu.

In addition, they would be required to resolve major social issues by targeting SDGs with the promotion of new types of profitable businesses while aligning with government targets for the realization of a decarbonized society within 2050.

Chapter III: Sogo Shosha and compliance with Sustainability business model

3.1. SDGs as the next target

In two different phases of the recent history, one in the Meiji Industrialization and the other one in the high-economic growth period after the World War II, the Japanese government regularly promoted and fully support Sogo Shosha businesses related to resource development overseas for the sake of creating strategical supply value chains in order to deal with national energy and food security as well as becoming an advanced economic nation in the global panorama. In this direction, the Japanese trading companies proactively expanded overseas and successfully played the role of intermediary traders in imports and exports assigned by the government as well as taking later Japanese expertise and technology abroad to expand their customer portfolios and investments through the implementation of strategical value chain strategies. Therefore we can argue that national self-interests have been deeply interconnected with these general trading companies from their early emergence, and despite changing times and rapidly evolving scenarios, still today national resources security and future economic development is largely relying on these actors which proved continuously to overcome crisis as well as extraordinary capacity of evolving through their flexibility to adapt their functions and roles in response to the changes of the environment in which they operate.

Again this time, among the latest geopolitical tensions and supply shocks, Japanese government is indirectly relying on Sogo Shosha to reverse a negative and dangerous trend which sees Japan heavily dependent on foreign countries for its needs to secure stable supply of energy and food. Higher rates of self-sufficiency are already on target by First Minister Kishida, but the means and the strategies proposed are often contradictory and affected by forced decisions due to mistakes in the previous administrations.

Nevertheless, as Sogo Shosha seem to be well aware, more efforts must be made to improve renewable energies production and create much more value through their global value chains to support efficiently the transition dreamed by the country.

On the other hand, the Japanese trading companies are also emphasizing the need to target more seriously the Sustainable Development Goals (SDGs) adopted by UN in 2015 in order to achieve more profitability and attract investors who have high regards for those companies that incorporate environmental and social impacts into their management strategies.

Therefore, even though this time might be identified apparently again as an indirect contribution that these companies are doing to the society in order to tackle social and environmental issues, Japan, as a nation, will benefit again from the efforts of the Sogo Shosha towards the creation of a more sustainable economy and society.

According to the JFTC, "*the Shosha approach to sustainability is embedded in their corporate DNA*" while their efforts to promote social and environmental conscious business activities starts even before the SDGS and ESG have been originated. [76]

Furthermore, Kanie (2022) argues that there are six main points of affinity between the Sogo Shosha strengths and the SDGs, summarized in the following Figure 25.

Characteristics of SDGs (perspectives required to achieve the goals)	The Shosha strengths
Global, borderless approach to social issues	**Global networks** Ability to grasp global issues quickly and respond across national borders
Composite approach	**Composite approach** Ability to create business through diverse functions and services, multi-faceted resources and expertise
Partnerships	**Partnerships** Large-scale project organization function using partners with expertise in various regions and fields, comprehensive strength
Innovation	**Innovation** Discernment to open new business fields, ability to offer solutions to diverse challenges
Bird's-eye view approach	**Bird's-eye view approach** Diverse activities from upstream to downstream processes
Goal-based governance ("back-casting")	**Focus on the future** Future-oriented business development that anticipates the times and looks ahead to the next generation

Figure 25. Affinities Between the Characteristics of SDGs and the Strengths of the Shosha.

(source JFTC Annual Report 2022)

We can agree to some extent that the Sogo Shosha have a unique comprehensive approach derived from their large global business networks and, on top of that, can apply comprehensive strength characterized by a wide range of functions, such as risk management, market development, finance, logistics, organizer etc. which guarantee a level of adaptability and expertise across different countries and regions to deal with peculiar issues in an efficient way. Furthermore, innovation is also a prerogative demonstrated by these companies when

[76] Japan Foreign Trade Council, inc. (March 2022) ibid, p.19.

they had to evolve to overcome crisis in the past or face new challenges such as the IT revolution in the 90s. Still, it is important to underline that only those Shosha who will continue to innovate themselves in the next years would see their business networks to flourish, while on the other side of the coin, a lack of innovation might expose them to external acquisitions or merging from those who come out stronger from these upcoming challenges. Again, the "Bird's-eye view approach" might be considered a feature common to all the Shosha since we have already discussed that one of the main features of these companies is to being involved in all stages of the business process, from upstream to downstream of their supply chains.

Linking consumption and production is therefore possible and it helps achieving sustainable consumption and productions patterns as Sustainable Development Goal 12 requires. A genuine example is Itochu, particularly renowned as a textile professional and for being able to reach out to growing market needs for sustainable textile thanks to its large global distribution. Itochu, in fact, recently is investing in a start-up product named KUURA, a sustainable textile made by lyocell staple fiber created with the collaboration of Metsä Fibre Group. This textile can claim benefits such as fiber recyclability and high traceability in the value chain thanks to the management and expertise involved in harvesting the trees by local woodcutters.

Itochu, thanks to this forward-looking investment, proves that the Shosha, with their integrated value chains, can have an all-round positive environmental impact on the cycle of the goods they trade and secondly create more added value from upstream to downstream.

Regarding the last affinity, namely the "Focus on the future", I will report and analyze in the next paragraph what are the visions and strategies on Sustainability of two of the major Japanese trading companies by trying to assess the main differences and peculiarities.

3.2. Visions and strategies on future sustainable growth

After we emphasized the importance for Sogo Shosha to target more seriously the SDGs in order to achieve more profitability, attract foreign investors and also meet the objectives set by Japanese government in terms of achieving a carbon-free society within 2050, in this next paragraph, we are going to examine what are the visions and mid-long term strategies on sustainable growth based on the latest published FY 2022 reports of two of the major Japanese trading companies: Itochu Corporation and Toyota Tsusho Corporation.
The reasons behind the exclusion of other allegedly more prominent Shosha in terms of scale and sales volume such as Mitsubishi Co. and Mitsui Co. are to be found on the peculiar engagement with Sustainability issues from Itochu Co. and Toyota Tsusho Co. as well as my personal experience on interacting with members of these two general trading companies.

3.2.1 Case study: Itochu

Among the Japanese general trading companies, Itochu Group seems the one which conjugate the most its long-standing but still modern corporate philosophy, the spirit of "Sampo-yoshi" (good for the buyer, good for the seller and good for society) and the current mission to contribute to a sustainable society.
Chairman & CEO Masahiro Okafuji (2022), in the following statement, perfectly summarizes the vision of the company in relation to future sustainability goals:

«We seek to resolve societal issues through our business activities by fulfilling various missions and engaging in conduct that is good not only for the buyer and seller, but also good for society. In this way, our mission is linked to the SDGs.»[77]

Therefore, it is clear that each business activities are conducted to meet the expectations and trust placed in the company by the society itself, namely business partners, shareholders, employees etc. who are ultimately going to benefit from the realization of a virtuous cycle in society. In order to achieve that, Itochu propose a corporate guideline of conduct of "I am One with Infinite Missions," where each employee is voluntarily responsible towards the fulfillment of its roles in order to contribute to a better society.[78]

[77] Itochu Corporation (03/2022), *ESG Report 2022*, p.4.
Accessed September 3, 2023. https://www.itochu.co.jp/en/csr/pdf/22fulle-all.pdf?221102
[78] Itochu Corporation. (03/2022) ibid, p.6.

In this direction, since 2009, ITOCHU has been a member of the UN Global Compact and have been cooperated to achieve sustainable growth for the international community. Furthermore, in 2018, Itochu has formulated its first Sustainability Policy to track real progresses and results achieved from each division of the company in their sustainability action plans.
Again, in May 2019, Itochu voluntarily participated in the Task Force on Climate-related Financial Disclosures (TCFD) and conducted analysis in five main segments:
coal, power generation, oil & gas development, Dole, and pulp.[79]
From FYE 2020, Itochu Group have also supposedly activated in response to violations of the human rights in specific business such as natural rubber where shadows from a past characterized by illegal logging and largely spread unsustainable practices have severely made Japan responsible for considerable environmental degradation in many areas of Southeast Asia.
In this regard, today Itochu argues that it has developed a traceability system that allows them to track the process of procuring natural rubber and therefore being more attentive to respect human rights through their entire supply chain.
In addition to that, just recently, Itochu presented its medium-term management plan, the "Brand-new Deal 2023", where strong emphasis is put on the non-resource sector as a driving force unique to the Itochu Group to achieve sustainable development in society.
In fact, as we discussed in the previous chapter, Itochu stands out in sharp contrast to other product-oriented perspective's holder Shosha for its unique business model characterized by its market-oriented perspective which allow them to have a closer impact on society by directly listening to customers and shareholders needs and therefore having more realistic chances to increase socioeconomic benefits for people directly or indirectly involved in the company' projects.
In the Brand-new Deal 2023, Itochu also identifies seven material issues inside the three spheres of Environment, Governance and Society to address in order to promote the creation of a decarbonized society through GHG reductions, development in the recycling businesses and sustained growth through the strengthening of the value chain from upstream to downstream (Figure 26).[80]

[79] Itochu Corporation. (03/2022) ibid, p.6.
[80] Itochu Corporation. (03/2022) ibid, p.10.

Figure 26. Itochu Value Creation Model
(source Itochu ESG Report 2022)

Furthermore, Itochu group structures its sustainability policy in four main points:[81]

- Identification of Material Issues and Promotion of Businesses that Address the Social Issues
- Establishment of Mutual Trust with Society
- Strengthening Sustainable Supply Chain and Business Investment Management
- Education and Awareness of Employees to Promote Sustainability

In order to understand how and when this policy is implemented in the Sustainability Promotion Flow, we may refer to Figure 27.

The corporate mission ("Sampo-yoshi") and the guideline of conduct ("I am a man One with infinite missions") comes first and they define the policy. In the course of implementation of the Sustainability Policy, Itochu determines the Material Issues according to priority need, and lastly inserts the Material Issues into Sustainability Action Plans.

These plans would have the function to lead operations in company's trading and business investments as policies are carried out according to the goals set by the mid-term management plan.[82]

[81] Itochu Corporation. (03/2022) ibid, p.11.
[82] Itochu Corporation. (03/2022) ibid, p.12.

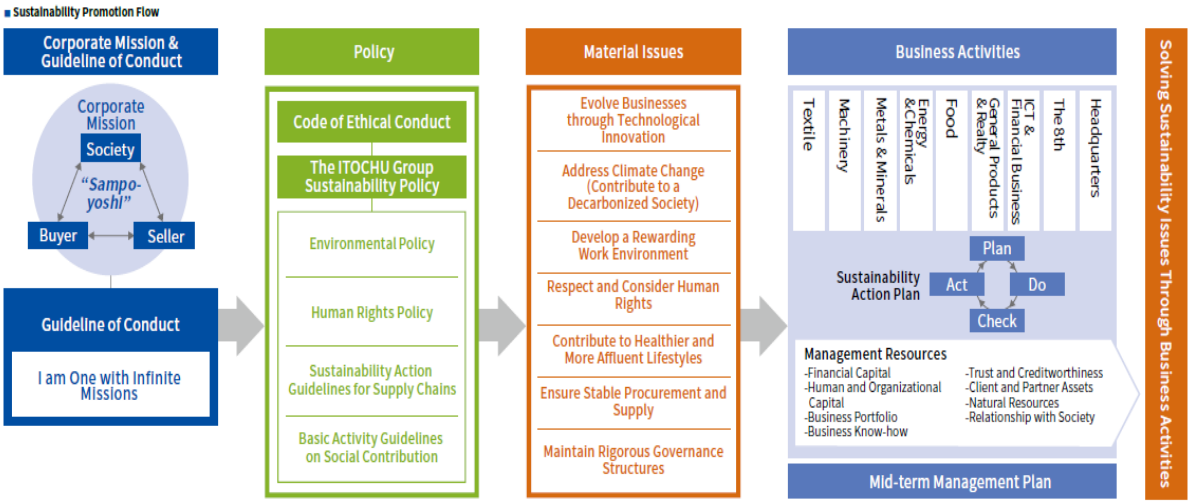

Figure 27. Sustainability Promotion Flow
(source Itochu ESG Report 2022)

In the recent times, interesting example of Sustainability Action Plans undertaken by Itochu are for instance the collaboration with Japanese Government to develop a value chain centered on ammonia fuel through the owning and operation of ammonia fueled vessels. Following the long-term strategy adopted by the International Maritime Organization (IMO) to promote the reduction of greenhouse gas emissions within the shipping industry by going to sequentially lower CO2 emissions per transport by at least 40% by 2030 (compared to 2008 levels), by 50% by 2050, and to achieve zero emissions during this century, Itochu identifies as essential the adoption of ammonia as a suitable zero emission alternative fuel for shipping and maritime transportation as well as considering important to the same extent to implement a stable supply value chain around the usage of ammonia.

In this direction, Itochu Co. has signed a joint partnership with Nihon Shipyard Co., Ltd., MAN Energy Solutions, Mitsui E&S Machinery Co. Ltd., ClassNK, ITOCHU ENEX Co. Ltd. to develop ammonia-fueled engine ships and regularly implement them under the leadership of Japan within 2028.[83]

Furthermore, joint agreements were reached also for the construction of marine fuel ammonia supply bases in Singapore as well as in Japan.

These initiatives must be considered as part of a larger integrated project which includes Itochu's ownership and operation of these ships and the progressive establishment of a worldwide supply chain around this innovative fuel technology.

[83] Itochu Corporation. (03/2022) ibid, p.75.

In terms of Sustainability agenda for Itochu, the ammonia business itself would target SDGs n.7 “affordable and clean energy” and contemporarily n.13 “climate action” as it can be considered as an effective countermeasure against climate change. [84]

At the same time this Sustainability Action Plan provides us clear evidence on the interest from the Japanese government to closely cooperate with Japanese trading companies to aim at the advancement of renewable energy technologies to partially increase the national energy self-sufficiency ratio in the next few decades.

As for Itochu, it is an undeniable fact that the company is perfectly aligned, if not even more ambitious, with mid-long term government targets for renewable energy ratio over total energy generation mix, as reported in the following statement and Figure 28:

«We are proactively promoting power generation methods that leverage renewable energy sources such as geothermal, wind, solar, and biomass. We are aiming for a renewable energy ratio of over 20% (equity interest basis) by FYE2031 from the current 14.4% within our overall power generation business. ITOCHU will continue to proactively promote power generation businesses that utilizes renewable energy inside and outside of Japan. This will allow us to contribute to global sustainability agreements that aim to create a decarbonized economy to mitigate climate-related impacts».[85]

	FYE2020	FYE2021	FYE2022	FYE2022	FYE2031 (Target)
	Generation Capacity on Equity Interest Basis (MW)	Generation Capacity on Equity Interest Basis (MW)	Generation Capacity on Equity Interest Basis (MW)	Ratio (%)	Ratio (%)
Wind	185	179	122		
Solar/PV Power	83	80	112		
Geothermal	83	83	83	14.4%	20%<
Biomass	20	33	57		
Renewable Energy (Total)	369	375	373		
Natural Gas	1,621	1,258	1,258		
Oil-fired Power	315	315	315	85.6%	80%>
Coal-fired Power	640	640	640		
Thermal Power (Total)	2,576	2,213	2,213		
Grand Total	2,945	2,588	2,586	100%	100%

Figure 28. Breakdown of ITOCHU’s Total Generation and Breakdown Target for FYE2031 (source Itochu ESG Report 2022)

[84] Itochu Corporation. (03/2022) ibid, p.20.
[85] Itochu Corporation. (03/2022) ibid, p.72.

In addition to that, Japanese public entity JOGMEC, as part of the "Carbon Neutral Initiative" formulated in April 2021, has recently commissioned to Itochu and Toyo Engineering Co. a joint feasibility study regarding the commercialization and therefore consequently the realization of blue ammonia value chain between Eastern Siberia and Japan (Figure 29).
In spite of current geopolitical tensions with Russian-Ukrainian conflict, Japanese government seems to put its own national interest above political controversies, and it is still proactively engaging with Russia in order to secure a stable supply in Japan of blue ammonia produced in Eastern Siberia by the establishment of a new value chain for this strategical resource. [86] In this context, Itochu seems perfectly defining the current role of Sogo Shosha between national self-interest and compliance with sustainable business model.

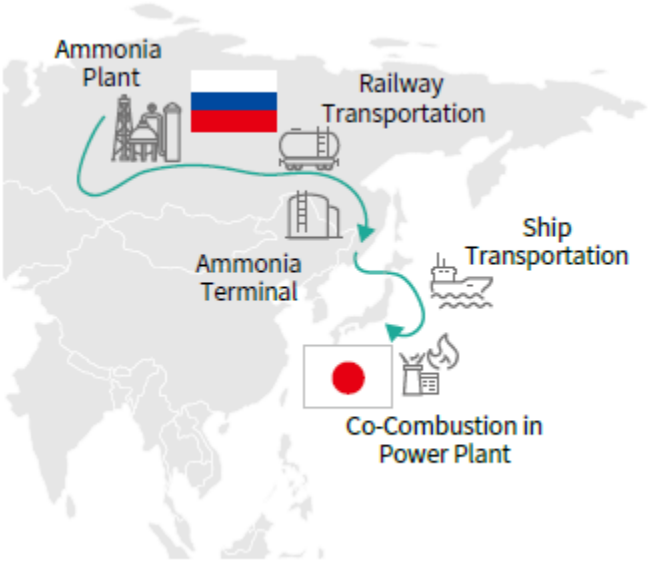

Figure 29. Flow Diagram of the Ammonia Value Chain between Eastern Siberia and Japan (source Itochu ESG Report 2022)

On the other hand, Itochu is also engaging with foreign governments on projects which are extremely profitable on today society and which of course include the expertise and technology as well as the necessity to target SDGs to ultimately win foreign public tenders. In this regard, a Sustainability Action Plan that deserve mention is the Itochu-Suez waste management initiative in Serbia. Here emphasis has been put on ecological and social issues that are weighing heavily on the entire community. Hence, the main goal in the Belgrade Waste Management project was to contribute to the improvement of water and sanitation infrastructure, responding accordingly to SDG n.6 "Clean Water and Sanitation" and n.12 "Responsible Consumption and Production", by the realization of a new waste management

[86]Itochu Corporation. (03/2022) ibid, p.75.

system which aim at the reduction of environmental burden especially caused by the contamination of Danube River.

This has been made possible by directly intervening in the dumpsite of Vinça, close to the capital Belgrade, which has been regarded for years as one of the biggest ecological and social problems in all Europe, since it causes large-scale fires as well as being unstable as a lot of sections are continuously collapsing due to the amassed garbage and conditions of the soil. Therefore, in this direction, a public-private partnership has been established between Itochu Corporation and Beo Clean Energy Ltd. subcontracted by the City of Belgrade. [87] Management and funding of the project regarding the requalification of the area as well as new waste management system implementation (Figure 30) only started in 2022, and it is evidently showing already tangible signs of collective improvements.

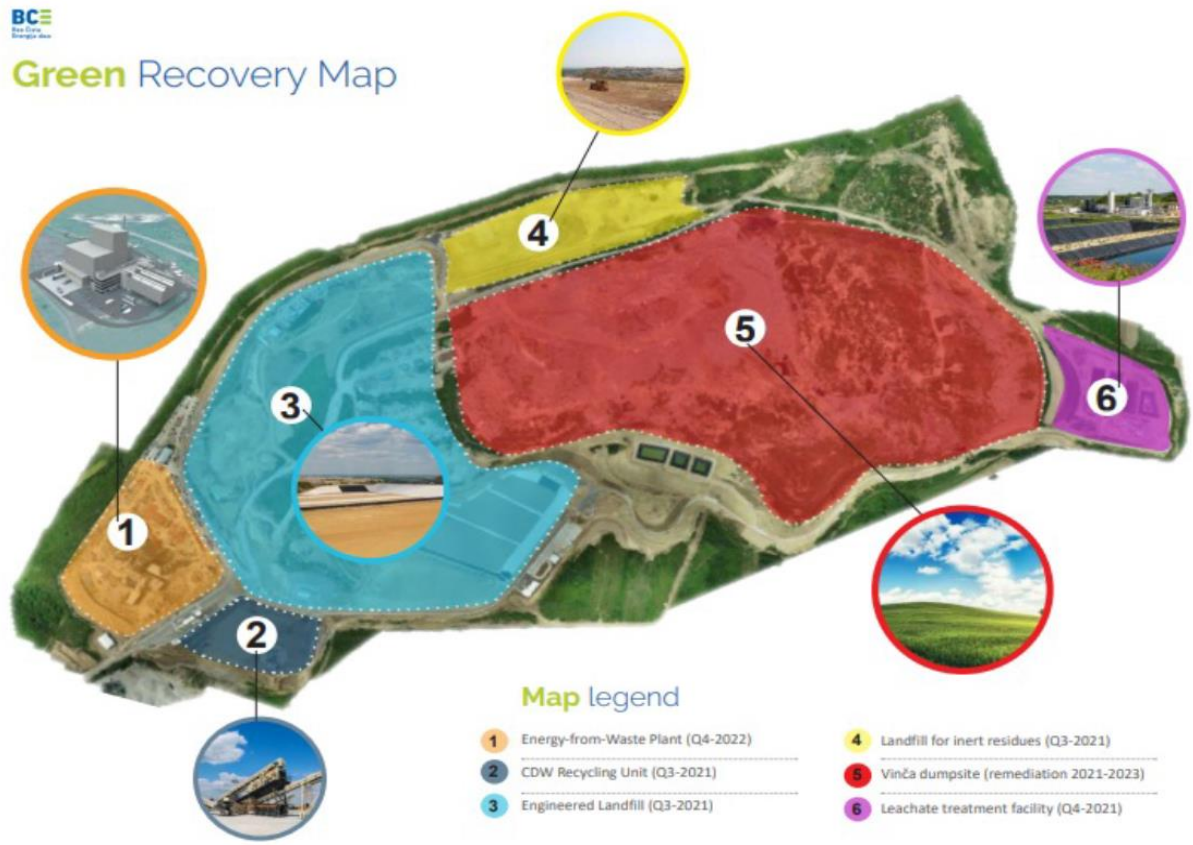

Figure 30. Green Recovery Map
(source Beo Clean Energy Ltd)

[87] Itochu Corporation. (03/2022) ibid, p.20.

Considering the previous situation with poor waste management resources and lack of adequate infrastructures and technology, citizens are truly benefitting from this win-win situation. In fact, thanks to the construction of Energy-from-Waste plant and CDW facilities, today lower levels of environment contamination are recorded and citizens can enjoy of a local system of energy production which would results in extra socioeconomic benefits.
On top of that, the Itochu-Suez waste management initiative might potentially help Serbia to achieve mandatory goals on environmental field for non-EU countries to access to the European Union, and therefore says a lot on the national-interest of Serbia to welcome Japanese trading companies like Itochu willing to make businesses related to Sustainability.
For this reason, it is fair to regard this project as a real landmark that might serve as a model in the future for other emerging countries facing similar acute challenges, but also, on the other side, can be considered extremely valuable and representative of the Itochu involvement in businesses targeting SDGs.
That is why, to sum up, the philosophy of Itochu is well reflected on the results of this project, namely the improvements on water contamination level and waste management system that consequently allows to generate a virtuous cycle in society where not only the benefits are enjoyed by the buyer (Serbian Government) and seller (Itochu) but from the local people too thanks to the improvements of living standards.
When it comes to labor practices, Itochu seems proactively promoting varied working styles so as each employee can reach their full potential while increasing general labor productivity as established by SDG n.8 "Decent Work and Economic Growth". [88]
In this direction, as shown in Figure 31, in FY 2022 the labor productivity has increased up to 5.2 times more comparing FY2011 as a result of several reforms such as the introduction of Morning-Focused Working System and a major focus on the employee health and its benefits.[89] As a consequence, the rate of positive responses to the employee engagement and motivating environment for employees is on a positive trend and, among all Japanese companies, is considered to be one of the highest (71% in FYE 2022) in terms of satisfaction as employees seems to be highly motivated to work for "a challenging but rewarding" company like Itochu.[90]

[88] Itochu Corporation. (03/2022) ibid, p.95.
[89] Itochu Corporation. (03/2022) ibid, p.96.
[90] Itochu Corporation. (03/2022) ibid, p.95.

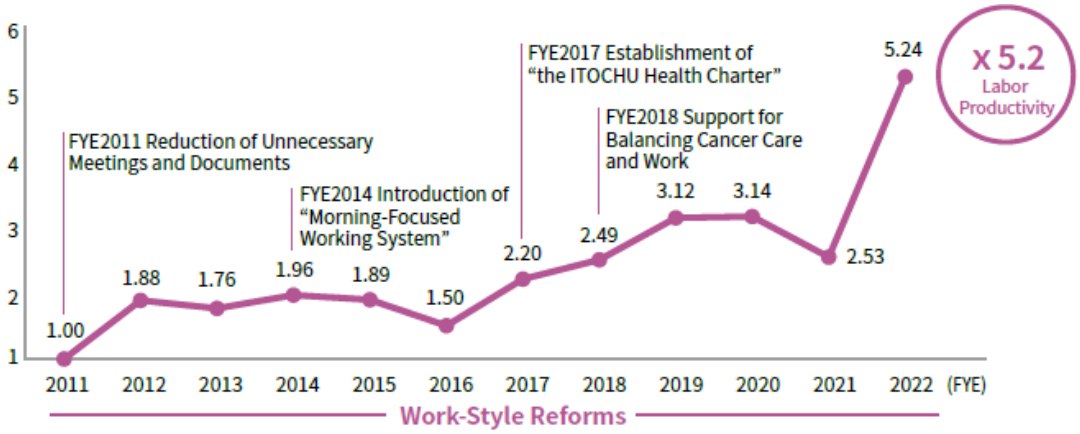

Figure 31. Change in Labor Productivity with FYE 2011 as a Value of 1
(source Itochu ESG Report 2022)

Lastly, when it comes to Corporate Governance, Itochu emphasis the importance to respond to expectations and trust of all stakeholders, including customers, shareholders and company employees in the spirit of "Sampo-yoshi" and the guideline of conduct "I am One with Infinite Missions". In this direction, efforts are done to enhance transparency of decision-making processes as well as implementing a corporate governance system with highly effective supervision and monitoring over the management, responding to SDG n.16 "Peace, Justice and Strong Institutions".

As a result of these measures, Itochu argues for instance that diversity within the Board of Directors has been maintained over one third percentage of outside Directors, and the ratio of women Directors stands for two out of ten. [91]

Therefore, in light of the considerations and evidence discussed above, we can argue that Itochu truly embodies the philosophic concept of "Sampo-yoshi" in its visions and sustainable development projects which is carrying out nowadays throughout its extensive global network. Its corporate mission and "I am One with Infinite Missions" guideline of conduct are not to be confused with mere rhetoric, but indeed they have an influence on employees' attitude and motivation into their projects as we previously proved with the rate of positive responses to employee engagement which represents one of the highest in the Japanese panorama. Furthermore, as strongly emphasized by its CEO Okafuji, Itochu was absolutely the first one to believe in a market-oriented perspective development and today can enjoy a competitive advantage, especially in the non-resource sector, that would be a driving force to deal with sustainable development issues in our society.

[91] Itochu Corporation. (03/2022) ibid, p.161.

Nevertheless, as with all the other Sogo Shosha, Itochu seems not fully independent in its race for sustainability as investments to target SDGs must prioritize at the same time the guidelines and interests of central Japanese government, also in relation to specific international context and actors such as the case of Russia with Sakhalin I and Eastern Siberia respectively for the strategical supply of oil and ammonia for the resource-poor Japan.

3.2.2. Case Study: Toyota Tsusho

After having discussed Itochu and its unique identity among the Japanese general trading companies, another Sogo Shosha which has experienced a rapid growth in the last few years is Toyota Tsusho Corporation.
While his roots and specialization are undeniable correlated to the mobility industry, its activities spread through different industries across the globe as much as the other general trading companies.
Nevertheless, I believe that focusing on Toyota Tsusho and its approach to Sustainability might be revealing for the understanding of some practices and communication strategies used to create a positive narrative and appealing image of the company to foreign investors and partners. In addition to that, Toyota Tsusho is largely involved in the metal industry in South America and has an entire division uniquely dedicated to the African continent which makes the company an interesting case to study in times when the securement of strategical natural resources is causing geopolitical tensions in the world economy.
First of all, Toyota Tsusho main goal seems to define itself as a company which can shape the future society through its values and business models, as summarized in its corporate philosophy:

«Living and prospering together with people, society, and the planet, we aim to be a value-generating corporation that contributes to the creation of prosperous societies.»

Furthermore, in order to emphasize even more its position in the society, Toyota Tsusho coined the slogan "Be the Right ONE" which generally express the entity of the company and it is intended to work as a guideline to be followed by all officers and employees throughout the entire global network of the company. Fulfilling this slogan would mean to create truly unique value for customers that only Toyota Tsusho can extract from its members potential.
On top of that, the group also identifies the Toyotsu Core Values, as reported in Figure 32, which they represent the company foundation and tools to deal with the new challenges coming from three core business domains, the "Life & Community", the "Resources & Environment" and the "Mobility".[92]

[92] Toyota Tsusho Corporation (03/2022), *Be the Right ONE: Integrated Report 2022*, p.3. Accessed September 4, 2023. https://www.toyota-tsusho.com/english/ir/library/integrated-report/pdf/ar2022e_all.pdf

Despite it is tangible the great use of communication strategies and rhetoric to shape and consolidate the image of the group, it is important to consider that this represents a common characteristic shared by each general trading companies. Still, the impression seems that Toyota Tsusho, among the other major trading companies, does not have a moderate stance and, with a great use of rhetoric, boost its vision to assert "uniquely Toyota Tsusho" strengths.

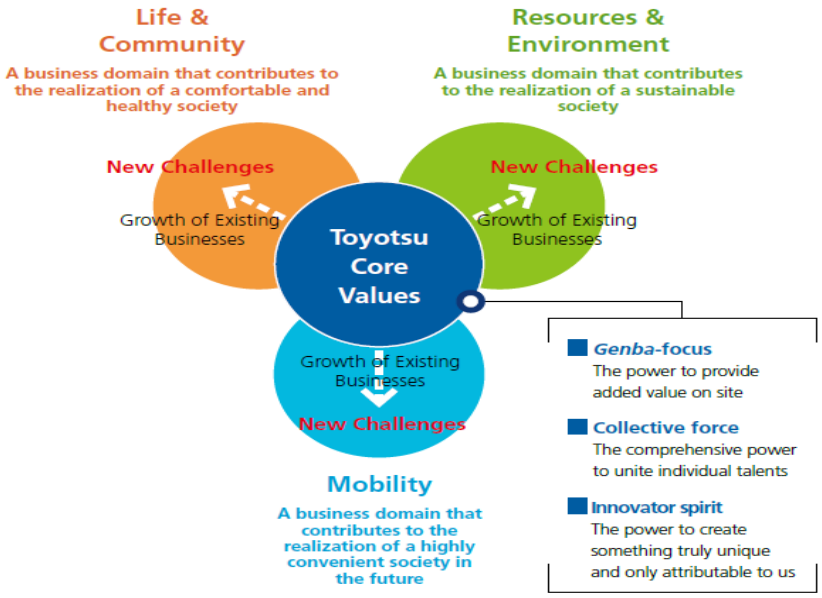

Figure 32. Toyotsu Core Values
(source Toyota Tsusho Integrated Report 2022)

Aside the strong rhetoric, figures related to the net profit of the company proves that last FY2022 has been the most successful one so far and it is unquestionable that the group is experiencing a big momentum by projecting themselves to a next new stage of development (Figure 33).[93] During this transitional stage, Toyota Tsusho is concretely aware that in order to optimize profitability, and therefore trading activities, it is fundamental to increase attention to ensuring business continuity from the perspectives of carbon neutrality, circular economy, and geopolitics in lights of the recent supply chain issues.
In addition to that, emphasis is also being placed on the needs of assuming new roles and responsibilities to serve group stakeholders and society and achieve a "genuine evolution". In this direction, Toyota Tsusho, in July 2021, issued the Group Carbon Neutrality Declaration related to the group commitment to taking part in the transition process to realize a circular economy, in line with the 2050 carbon-zero target established by the Japanese

[93] Toyota Tsusho Corporation. (2022), ibid p.4.

Government and other Japanese trading companies, by decoupling the consumption of energy and resources from economic growth.[94]

Another factor which has strong consideration is the corporate governance and related due reforms to achieve the status of a truly global company.

Aside maximizing corporate value, again emphasis is placed on targeting SDGs, compliance with human rights, boosting human resources development and conduct proper health management. [95]

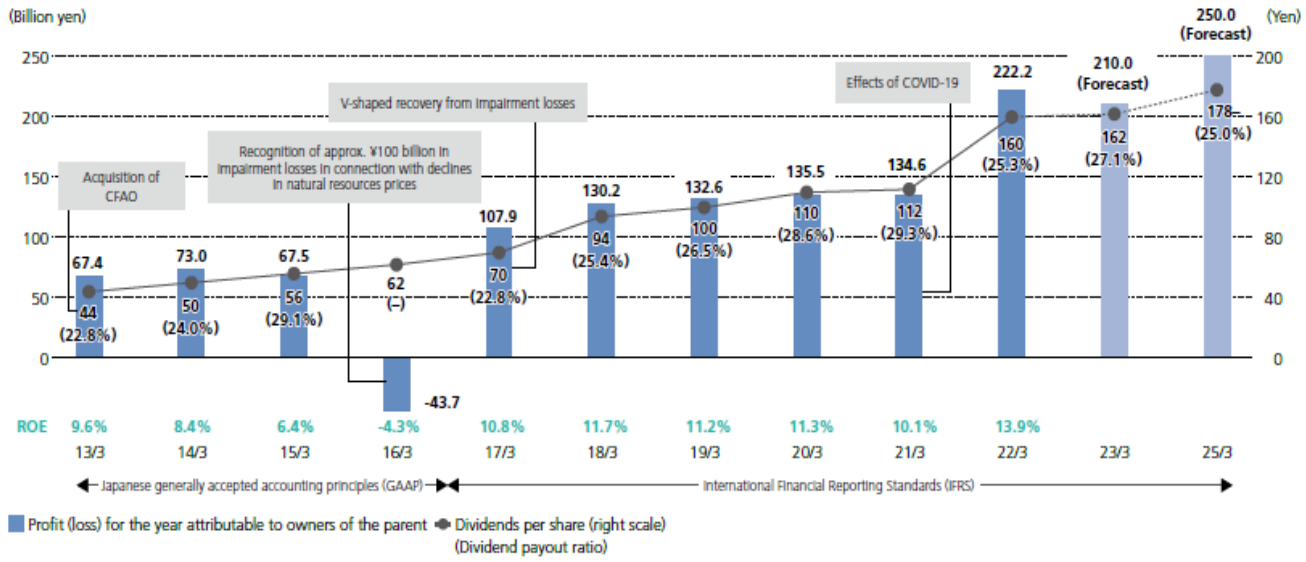

Figure 33. Mid-term Business Plan: Quantitative Targets (Profit (Loss) for the Year Attributable to Owners of the Parent)
(source Toyota Tsusho Integrated Report 2022)

Nevertheless, as explained in the beginning of this paragraph, there are several factors, which now represent real competitive edges, that makes Toyota Tsusho a peculiar case among the Sogo Shosha and that I find important to discuss it in order to understand the identity of the group and its growth potential in the next future.

The first competitive edge can be related to automotive business know-how and network as the company is incorporated in Toyota group and therefore collect a considerable wealth of experience as well as being the world's largest electronics trading company in the automotive industry. In this direction, the group is at the forefront for next-generation technologies such as fully electric vehicles thanks to the several efforts that have been made during the last years to advance R&D in this sector.

[94] Toyota Tsusho Corporation. (2022), ibid p.6.
[95] Toyota Tsusho Corporation. (2022), ibid p.10.

The second competitive edge is always connected to the automotive industry, and it is represented by the wide-ranging recycling business foundation built over many years. Toyota Tsusho treats a large variety of waste used in the developing process of electric vehicles, such as iron, waste liquid, batteries, and rare metals, by reaching almost 100% of recycling rate in the process and therefore having almost zero impact on the environment. A third competitive edge instead is related to the renewable energy business where the group can boast of a long history, an expanded global network with businesses all around the globe and primacy in wind power generation in Japan among all the national operators.
Last but not least in terms of importance and uniqueness, it is the wide network and presence of Toyota Tsusho in Africa which finds the group not only involved in automotive sales and production business but also conducting a large array of business activities, including the manufacturing, wholesaling, and retailing of pharmaceuticals, producing consumer goods, operating large-scale shopping malls and taking on power generation projects.[96]
Therefore, as illustrated in Figure 34, Toyota Tsusho group, strong of its competitive edges, is presenting a Value Creation Model which address four strategic priorities that we are going to analyze in depth.

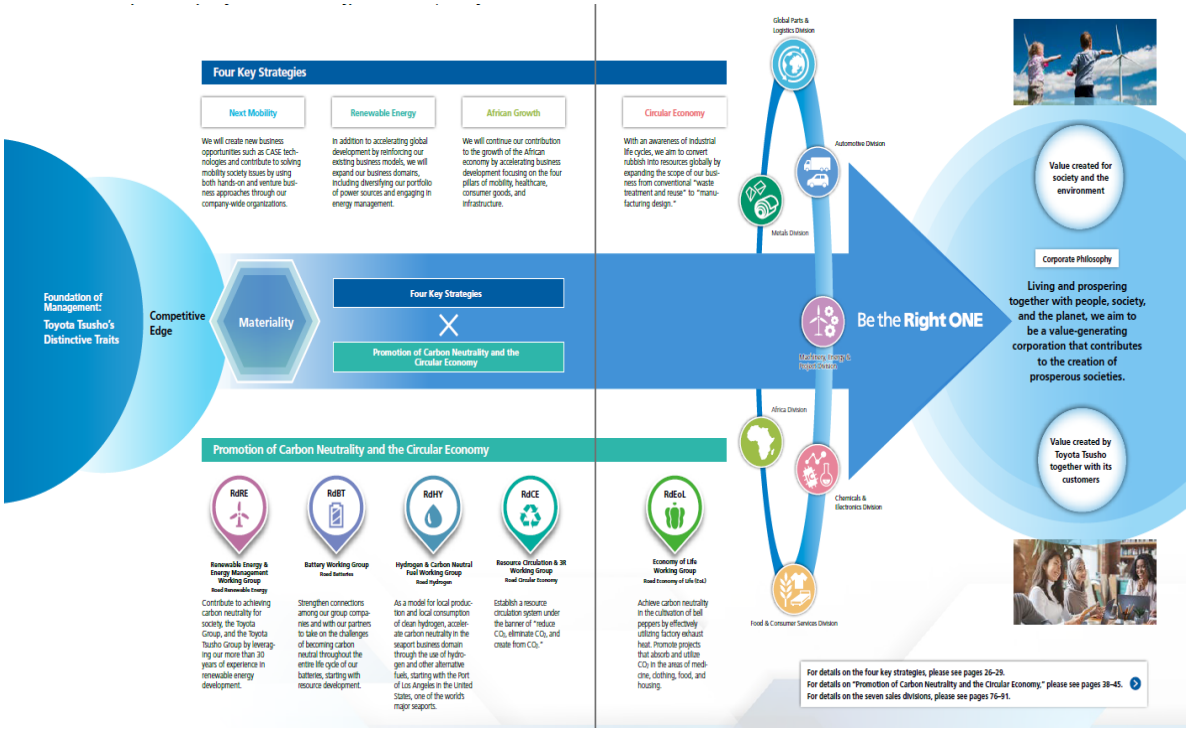

Figure 34. Toyota Tsusho's Value Creation Model
(source Toyota Tsusho Integrated Report 2022)

[96] Toyota Tsusho Corporation. (2022), ibid pp.16-17.

These four key strategies, namely Next Mobility, Renewable Energy, African Growth, and Circular Economy, correspond in turn to Materialities in fulfilling the group commitment to achieve carbon neutrality and a circular economy through renewable energy and energy management.[97]

For the Next Mobility strategy, the target is to ensure the expansion of the group battery supply chain business domain from upstream to downstream.

In order to do that, Toyota Tsusho would rely on promoting the development of lithium resources in Argentina and provide functions such as production support and downstream assembly as in the case of Toyota Motor Corporation's North American battery plant. [98]

Regarding the initiatives related to lithium extraction and refinement, in the next chapter my intention is to discuss in depth the project in light of the resulting collateral effects in terms of environmental safeguard and human rights.

Nevertheless, I believe it is important once again to take into account that there is a fine line between national securement of strategic natural resources and sustainable development. Therefore, it is no wonder that in specific cases targeting SDGs is equivalent to pursue strategic national interests at the expense of the environment or local populations human rights. Postponing this discussion later in the thesis, in the next mobility strategy, Toyota Tsusho is also aiming to extend his participation in building supply chains for hydrogen, which its usage can be extended from fuel cell electric vehicles (FCEVs) up to alternative fuels that help achieve carbon neutrality in conventional vehicles.

Therefore we can assess that Toyota Tsusho is projected into the future of mobility by largely implementing technologies and enhancing value from upstream to downstream of its supply chains such as the case of automotive lithium batteries, aiming to maintain its competitive edge in this industry while trying to adapt to social and environmental issues.

Moreover, the second key strategy is represented by the field of renewable energy.

As we anticipated before, Toyota Tsusho group is fully committing to achieve carbon neutrality by 2050, in line with Japanese Government energy policy.

The group strategy consists of increasing global renewable energy power generation capacity from 3.6 GW to at least 10 GW by FYE 2030, and this will be achieved through strengthening group functions in the electric power value chain and providing a stable and affordable supply of energy through new systems of energy production management (Figure

[97] Toyota Tsusho Corporation. (2022), ibid pp.20-21.
[98] Toyota Tsusho Corporation. (2022), ibid p.26.

35). [99] In particular, when referring to clean energy, Toyota Tsusho is focusing extensively on solar and wind power generation technologies, but also energy generated by hydroelectric and biomass.

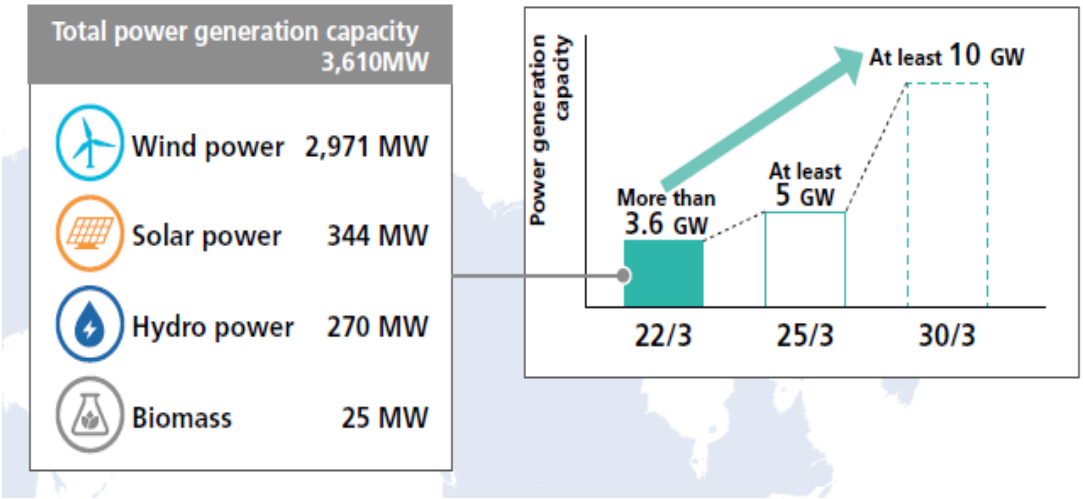

Figure 35. Total Power generation capacity
(source Toyota Tsusho Integrated Report 2022)

Regarding wind power generation business, aside being the largest operator in Japan, Toyota Tsusho network have been largely extending through other continents such as Europe, Asia and Africa where recently in 2019 in Egypt it has been started the first wind power IPP business. On the other hand, for solar power generation, new markets such as Korea but also development of existing markets such as the construction of mega-solar power plants in the USA and several regions of Japan, demonstrate the lead role of Toyota Tsusho among Japanese trading companies into the promotion of renewable energy in worldwide societies for achieving future carbon-zero targets. Besides that, advancement in biomass power generation projects and hydroelectric power generation projects in Japan, allow to have stable production of electricity and great levels of energy resource diversification which are definitely representing a strategical asset for future sustainable group growth (Figure 36).
To follow, the third key strategy is represented by African continent. As a matter of fact, Toyota Tsusho group has extended through the years its network covering 54 African nations and dealing with a large variety of businesses including not only those in the mobility sector but also electric power and infrastructures, healthcare and consumer goods, employing

[99] Toyota Tsusho Corporation. (2022), ibid p.27.

approximately one third of its total workforce just in African operations (Figure 37).[100]

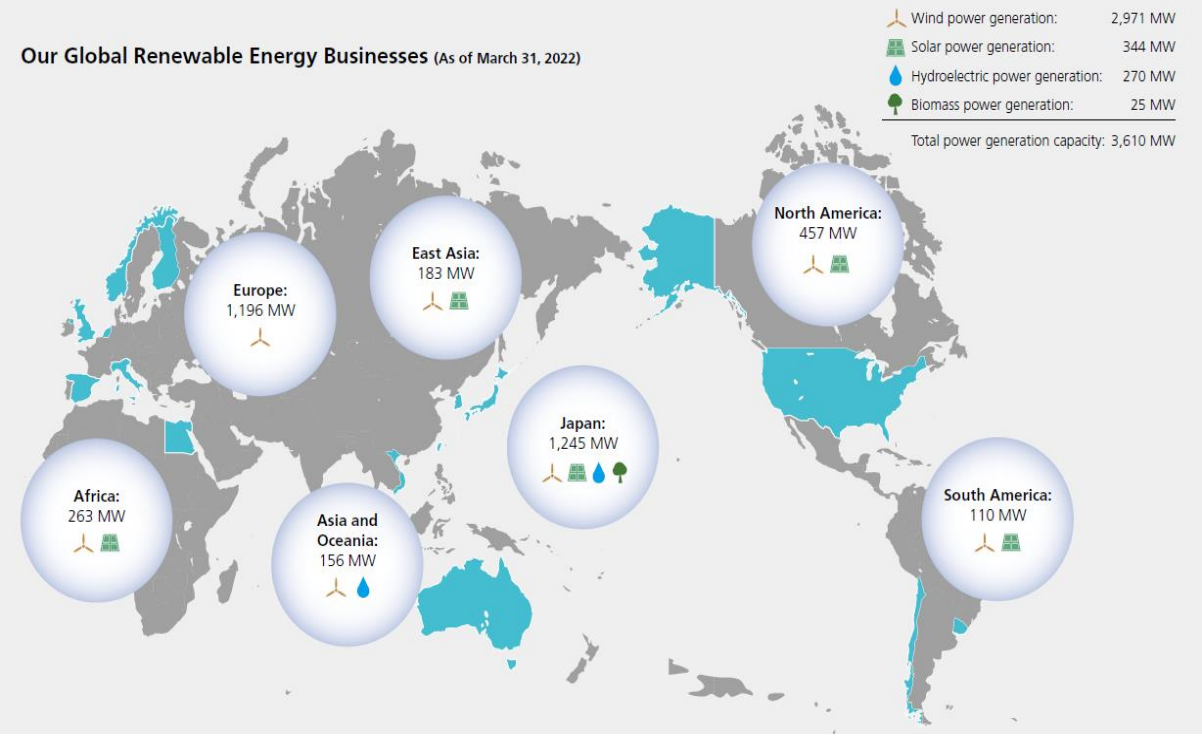

Figure 36. Global Renewable Energy Businesses
(source Toyota Tsusho Integrated Report 2022)

In a future perspective, African continent is gaining more importance than ever in the last few years, especially for its fundamental role being a resource-rich land accessible amid supply chains shocks from other conventional suppliers due to geopolitical tensions.
In this direction, Toyota Tsusho group aims at expanding its unique Africa Division and balancing business growth and functional enhancement in its mid-term and long term strategies.
Richard Bielle, CEO for Africa Division, in a statement sum up the next challenges of the group:

«In line with the "WITH AFRICA FOR AFRICA" philosophy, we will contribute to Africa's economic growth and industrialization, and respond to its expanding middle class, with the goal of establishing the No. 1 presence in Africa.»[101]

[100] Toyota Tsusho Corporation. (2022), ibid p.8.
[101] Toyota Tsusho Corporation. (2022), ibid p.90.

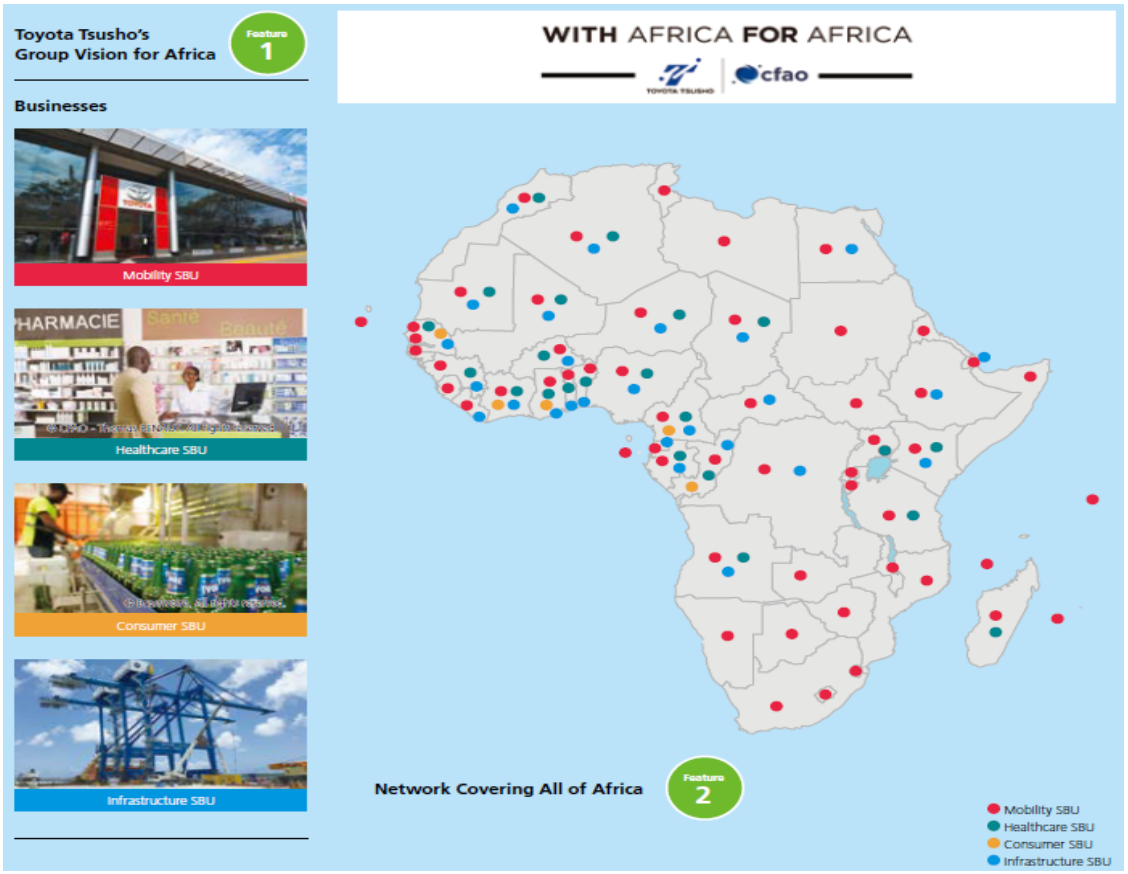

Figure 37. Africa division
(source Toyota Tsusho Integrated Report 2022)

Regarding the mobility field, the strategy is to increase the number of countries where assembly production is performed and to strengthen sales by targeting at the middle class with an expansion of group product lineup with the adoption of eco-cars such as HEVs and PHEVs. On the other hand, in the healthcare field, Toyota Tsusho group is already involved in the delivery of pharmaceuticals over 22 African Countries as well as being an important player in the East Africa's leading retail pharmacy chain.

In the next future, the group aims at expanding its business to other African countries and creating a unified value chain covering upstream from downstream to improve health standards in Africa. [102]

In this direction, an example come from the delivering of refrigerated vehicles for transporting vaccines, in collaboration with World Health Organization (WHO), to Ghana and five other African countries. [103]

Toyota Tsusho Group involvement in Africa cover also consumer field, where production of

[102] Toyota Tsusho Corporation. (2022), ibid p.90.
[103] Toyota Tsusho Corporation. (2022), ibid p.28.

merchandise and expansion of stores would contribute to industrialization and employment opportunity for Africa, as well as energy and infrastructure field, where many efforts have been done in the recent years to extend renewable energy businesses, such as wind, solar, and geothermal. [104]

In conclusion, the last key strategy regards the Circular Economy.

The group, strong of its know-how in the automotive industry and related technologies, is advancing in countries such as China and India to promote new standards on end-of-life vehicle value chain by enhancing the process of disposal, dismantling and recycling.

In addition to that, Toyota Tsusho is willing to take the opportunity to also engage at first hand in the "3Rs" " (Rebuild, Reuse, Recycle) business for used batteries, capitalizing production, sales and recycling of EV (Figure 38).[105]

Lastly, from 2022, the group engagement also covers the area of plastic and PET bottles, demonstrating undeniable efforts to create a recycling-based society.[106]

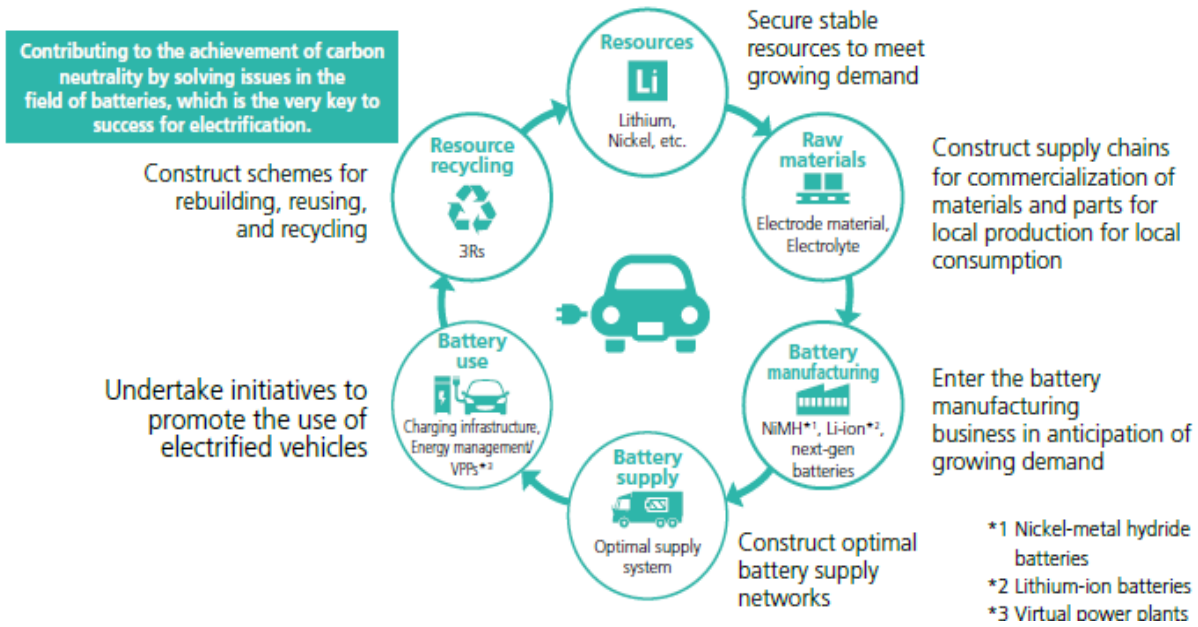

Figure 38. Carbon Neutrality Innovation Cycle
(source Toyota Tsusho Integrated Report 2022)

Therefore, in conclusion, we can state that Toyota Tsusho group has a clear strategy ahead and its expertise from resources procurement up to recycling, especially in the mobility field,

[104] Toyota Tsusho Corporation. (2022), ibid p.90.
[105] Toyota Tsusho Corporation. (2022), ibid p.42.
[106] Toyota Tsusho Corporation. (2022), ibid p.29.

are the expression of a strong competitive advantage on others general trading companies. Furthermore, its already large businesses network in Africa is strategically important to achieve a long-term growth, and we can argue it would have a major impact in the next years as African countries would be targeted more extensively to achieve SDGs.
Nevertheless, what is essential to remember is that Toyota Tsusho must continue to build up its growth on real sustainability to achieve trust from its shareholders and step into a “next stage of value creation”.

3.3 Sogo Shosha: Persistent shadows on Japanese led sustainability model

Coming to this last paragraph, as previously anticipated, I would like to bring into the discussion two ventures, far apart in chronological terms.
The first one is related to the illegal logging in Southeast Asia in the 1970s, while the second one, more contemporary, is related to lithium extraction and refinement in Argentina.
The analysis of these two meaningful examples would help us to shed light on the role of Sogo Shosha and the fine line on which they are operating between national interests in the securement of strategic natural resources and the achievement of sustainable growth.
In the previous chapters we argued that Japanese government is indirectly relying on Sogo Shosha even today to reverse a negative and dangerous trend which sees the nation heavily dependent on foreign countries for its needs to secure stable supply of energy and food.
On the other hand, we discussed that Sogo Shosha, in order to achieve more profitability in the future, are also required to enhance their global value chains and attract more investors through businesses which may have positive environmental and social effects and therefore targeting SDGs.
Hence, the Japanese trading companies are finding themselves in the grip of two forces and, in order to maintain their global influence and role, they have to tackle current society issues, from a national as well as global perspective.
In this direction, while some scholars believe that Sogo Shosha enjoy peculiar characteristics to successfully approach the challenges of shaping a more sustainable society in the next future, it is also fair to contest that, each of these groups, are doing an extensive use of communication strategies and rhetoric to shape and consolidate their image as well as casting shadows on malpractices and example of failures to approach sustainability.
In this regards, to follow, I will shed some light on the resulting collateral effects in terms of lack of environment safeguard and violation of human rights for two projects which directly involved Sogo Shosha. The first example dates back 1970s, when concepts like sustainability and environmental protection were still not addressed with due respect from the international community. Nevertheless, I strongly believe that this might represent a valuable historical point of reference to identify a type of approach towards sustainability that it is still unfortunately present in some of nowadays projects.
Therefore, in order to frame historically our first example, we have to consider that Japan, during the World War II post-reconstruction and high period of growth, was heavily relying on resource-rich countries to deal with a tremendous internal growth pace dictated by an

ever-growing consumer society. Especially attempting to respond to the needs of construction sector, Japanese trading companies were pushed to secure rapidly timber resources from Southeast Asia.

In the 1950s and 1960s, the Philippines, once an archipelago rich of forests, became the victim of clear-cutting and corruption on timber management from Japan.

Furthermore, once eradicated completely the timber resources in the Philippines archipelago, by the 1970s the primary source of timber for Japan became Indonesia and Malaysia.

Among the two countries, the most emblematic scenario unfolded in Indonesia, as Sogo Shosha came to a closely partnership regarding the timber and its related logging activities with the new Order regime of President Suharto, who deliberately accepted foreign investments and loans to raise the fortunes of his country afflicted by economic and social issues. As a result, Sogo Shosha promoted trade agreements to have full hands on timber resources trade in Indonesia, and while managing unsustainable forestry practices, they aimed to secure great quantities of cheaply produced logs showing very little interest in ecological conservation of the forests and respect of indigenous rights.

In addition to that, no Japanese had been directly involved in the operations on the site, as Japanese general trading companies simply performed their diverse functions such as offering loans, technical assistance and stipulate trade agreements to foreign firms which would follow Japanese specifications for timber logging.[107]

In this way, through a transnational mobility program in which Filipino and Malaysian loggers were engaged to operate logging in Indonesia, political risk was eliminated and environmentalist trying to figure out whom to blame for the tropical deforestation could find only locals. Furthermore, the supply chain was conceived also to have larger contractors to play a role of intermediary between illegal loggers and Japanese trading companies.

In this way, Indonesian timber was processed and sold as a finish good in distant markets such as Japan.[108]

In terms of environmental impact, Tsing (2011) is also emphasizing the fact that biodiversity was largely damaged by the wrong interpretation of the forest and the extensive logging of dipterocarps specie used in the Japanese construction industry.

Nevertheless, not only the forest itself was largely degraded, but the events which saw the encounter between Japanese trading companies and Indonesian political class have generated

[107] Tsing, A.L. (2015), *The mushroom at the end of the world*, Princeton University Press, p.113.
[108] Tsing, A.L., (2015). ibid, p.114.

a vicious circle in which the latter one became extremely dependent on the logging business and at the same time also internally corrupted by the emergence of national marketing apparatus which emulated Sogo Shosha scheme to monopolize the entire sector.[109]
In order to summarize the sentiment of the nation towards the environmental catastrophe and the decline of the political class, Tsing (2011) cites the words of Taufiq Ismail, Indonesian poet allegedly founder of the Indonesian environmental movement, who deliberately condemn the political and environmental scenario in his country in the following statement:

«I want to write a poem that resists the probability that Japanese traders will plunder the wood of the forests of Kalimantan, that prohibits the oil drillers and foreign investors from feeding spiritually weak officials, and forbids bribes to customs officers and judges.» [110]

Sharing the same thought and critics related to the situation generated in Indonesia, Dauvergne (1997) argue that the key to identify the main problem is indeed to find on the corrupt relations between Japan and Southeast Asian patron-client politics.[111]
Also, he emphasizes factors such as Japan's heavy dependence on natural resources, the high growth period experienced in the post-World War II and, above all, the strategies and practices of Sogo Shosha to be responsible for the environmental degradation and corruption in Southeast Asia. The business strategies adopted by the Japanese trading companies, as we have discussed previously, consisted mainly in assuming a role of trade intermediaries and ensure a cheap supply of timber resources to their clients in the Japanese construction industry. In order to achieve that, financial contributions to logging operations, shippers, exporters, plywood manufacturers, wholesalers and retailers across the value chain were promoted and, most important, Dauvergne (1997) argues that the Japanese government had also a significative role on backing up the Sogo Shosha.
In fact, through official development assistance (ODA) programs, the Japanese government financed the construction of roads, dams and ports that have indirectly promoted the expansion of logging business and, as a result, the unfortunate tropical deforestation.[112]
Therefore, by aligning with Dauvergne (1995) argumentation, we can state that it is

[109] Tsing, A.L. (2011), *Friction: an ethnography of global connection*, Princeton University Press, 2011, pp.32-34.
[110] Tsing, A.L., (2011). ibid p.44.
[111] Dauvergne Peter (1995), *Shadows in the Forest: Japan and the politics of timber in Southeast Asia*, The University of British Columbia, pp.122-123.
[112] Dauvergne, P., (1995). ibid, pp.162-163.

important to emphasize the linkages among the Japanese Government aid program, the Sogo Shosha trade intermediary role and the Southeast Asian loggers and political class as the main reasons for the environmental degradation and socio-economics effects occurred in Indonesia during the 1970s.

In the next two decades, criticism increased towards the lack of efforts from Japan to promote a more environmentally friendly approach as part of corporate responsibility of its companies. Having shown little practical interest in supporting or funding environmental conservation in the aforementioned case and other projects, MITI and the Japanese trading companies had to start to slowly realize that Japanese corporate image was badly tarnished from environmentalists and NGOs.

Therefore, Japanese trading companies have since then established their environmental divisions, in order to improve internal environmental consciousness among employees and to fundamentally contribute to environmental projects while carefully transfer Japanese knowledge and technology to other countries.[113]

Nevertheless, it seems that Sogo Shosha are still not fully integrating overseas environmental concerns into their activities and prevention of illegal logging is still, after half decade, a contemporary issue as the Basic Environment Law of 1993 call for verification remains nonbinding, vague in terms of procedures and absent of penalties.[114]

Furthermore, the impression is that Sustainability intended also as social initiatives for the improvement of living standards of small/local communities is largely disregarded or yet to be fully understood in such projects.

In this regards, the second contemporary example that I want to discuss, is presenting similar socioeconomic issues we discussed above for the deforestation in Indonesia in 1970s, questioning the degree of awareness and interest towards real sustainable economic development for Japan and his general trading companies.

Toyota Tsusho Corporation, deeply rooted in the mobility sector in comparison to other Japanese general trading companies, began to conduct studies on global mining reserves back in 2008, in order to become one of the first actors in the international stage to respond to the growth in demand for lithium and relative technologies.

While lithium is today largely used for the production of Lithium-ion batteries (LIBs)

[113] Dauvergne, P. (1995). ibid, pp.55-56.

[114]The Japan News (28/01/2023), *Japan Must Take More Responsibility for Eradicating Global Deforestation*. Accessed September 18.
https://japannews.yomiuri.co.jp/editorial/yomiuri-editorial/20230128-87243/

mounted on smartphones and the next generation of automobiles such as plug-in hybrid vehicles and electric vehicles for its properties such as energy capacity, supply power for longer periods of time, deliver high output and malleability, it has been recognized as a critical strategic rare material in the hands of a few countries.

Therefore lithium, for its properties and scarcity in nature, is considered the "new gold" for all those countries who are determined to shift to a post-carbon society, in view of the global need to reduce greenhouse gas emissions and dependence on fossil fuels, by anticipating future demand for electric-powered vehicles.

In spite of that, as previously mentioned, nowadays there are only a few of lithium producers around the world, such as South America, Australia, China and other parts of Asia, and recent geopolitical tensions are limiting even more the access to this precious resource.

Japan, as for other strategical rare metals, is fully dependent on its imports and therefore is relying on Toyota Tsusho and other Sogo Shosha to ensure a stable supply value chain around this precious metal (Figure 39).[115]

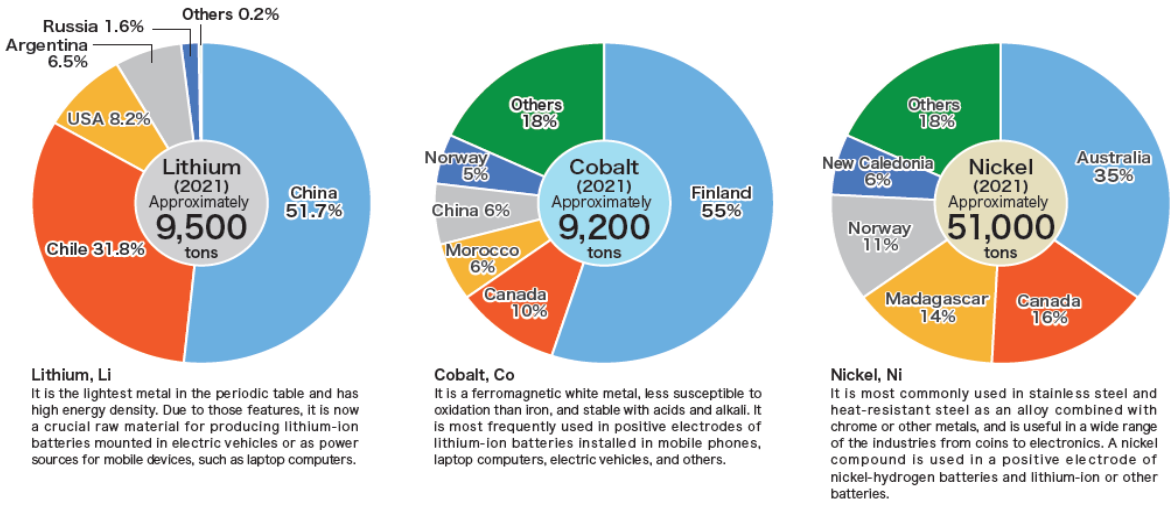

Figure 39. Annual import volume of major rare metals.
(source Toyota Tsusho Integrated Report 2022)

From 2010 to 2011, Toyota Tsusho group partnered with Orocobre, an Australian mineral resource company specialized with lithium extraction, and conducted joint feasibility studies as well as demonstration tests in Argentina, which in September 2012 resulted in Toyota Tsusho acquiring a 25% stake in the project. At the end of the same year, the partners jointly

[115]Agency for Natural Resources and Energy (03/2022), *Japan's Energy. 10 questions for understanding the current energy situation*, Ministry of Economy Trade and Industry, p.3.
Accessed September 18, 2023.
https://www.enecho.meti.go.jp/en/category/brochures/pdf/japan_energy_2022.pdf

constructed for the first time a plant in the area known as “lithium triangle”, which alone account for around 80 per cent of the world’s lithium salt-brine reserves.[116]
Specifically, Toyota Tsusho plant is located at Salar de Olaroz (Figure 40).

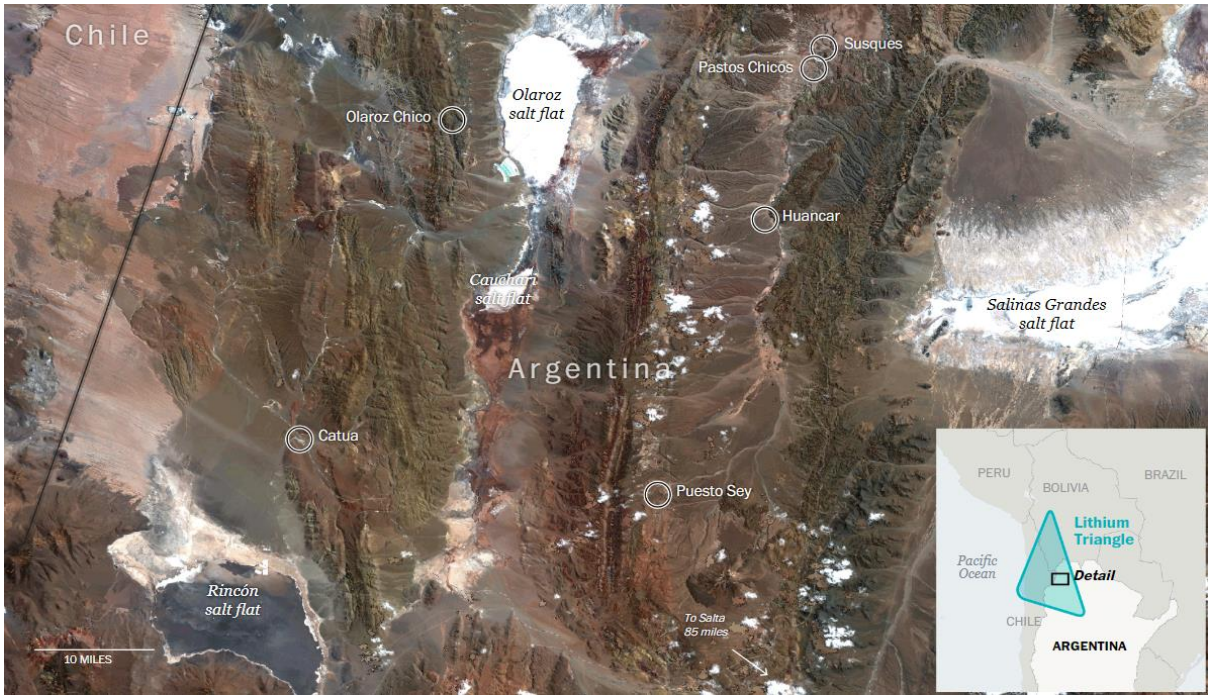

Figure 40. Lithium Triangle
(source Washington Post)

Here operations started in December 2014 and consist of drawing brine from the salt lake and refine the lithium for full-scale production.[117]
While Orocobre handles the daily management and operations with JEMSE that provides forms of assistance such as interpretation and administration of local and federal government procedures, Toyota Tsusho is managing the financial side by procuring the necessary funding from Mizuho Bank, one of Japanese most important bank, with guarantees from JOGMEC in exchange for sales rights. As we underlined multiple times during this thesis, also in this particular case there are two important actors on behalf of Japanese government natural resources procurement strategy that are putting at Toyota Tsusho group disposal its financial support, in the case of Mizuho Bank, and on the other hand the technological aid for mining

[116] Marchegiani Pía, et al (2019), *Lithium Extraction in Argentina: a case study on the social and environmental impacts*, FARN, p.9.

[117] Toyota Tsusho Corporation, *Paving new roads for Next-generation Automobiles with Stable Supplies of Lithium.* Accessed September 18, 2023. https://www.toyota-tsusho.com/english/about/project/04.html

reserve and infrastructure feasibility studies as well as being guarantor for their debts when it comes to JOGMEC. Therefore, serving as an equity partner and also the exclusive sales agent for the sale of lithium carbonate, Toyota Tsusho cooperates with Orocobre for the strategic and planning aspects of the sales process. (Figure 41)[118]

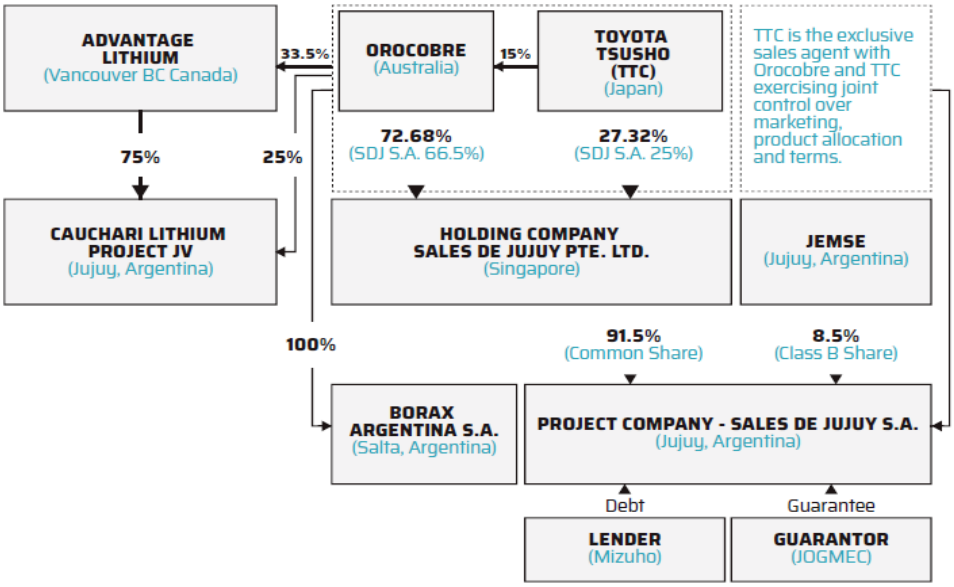

Figure 41. Sales de Jujuy Joint Venture
(source Orocobre Limited)

The group mid-long term strategy is to become a huge player in the global lithium supply chain, an expanding profitable market that has never suffered a standstill from its boom in early 2010s, and even if not explicitly, guarantee to Toyota Motor a stable supply of this strategical material. Hence, as part of its Next Mobility Strategy that we discussed in the previous chapter, the next target is to ensure the expansion of the group battery supply value chain business domain from upstream to downstream.

In this direction, according to group estimates, lithium carbonate production volume in Salar de Olaroz, Argentina, will surge from 17,500 tons registered in March 2022 up to 42,500 tons for March 2025, while lithium hydroxide has started in 2022 to be refined in Naraha, Fukushima prefecture, by Toyotsu Lithium Corporation and it is expected to reach a volume of 10000 tons by March 2025.[119]

Furthermore the group, in a statement, firmly state that *"the development of resources in the*

[118] Marchegiani P., (2019). ibid, pp.19-20.
[119] Toyota Tsusho Corporation (03/2022), *Be the Right ONE: Integrated Report 2022*, p.26.

upstream area of the value chain will contribute to further development of downstream areas and act as a new bridge for relations between Japan and Argentina." [120]

While we can identify again in this statement the strong link between national affairs and the trading role of Sogo Shosha, the real effects on the downstream areas and eventual relations between the two countries need to be verified in a socio, economic and environmental level.

First, it is important to consider the fact that Argentine government, since the start of the lithium boom, have been seriously promoted foreign investments and related opportunity of development and employment in the country mineral sector.

In this direction, Argentine declared lithium as strategic mineral and became in 2016 the most dynamic lithium-producing country in the world, with the only Sales de Jujuy project in the Olaroz salt representing 6 per cent of the global lithium production.[121]

However, as Marchegiani (2019) argues, State failed to fulfill its responsibilities to organize and conduct the Free, Prior and Informed Consent (FPIC) process, ensuring that the interactions between companies and communities respected all necessary requirements.

Hence, the Argentine State did not comply willfully with the International Labor Organization Convention no. 169 (ILO C169, 1989) and United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP, 2007) that require each State a consultation and cooperation process with its indigenous peoples concerned about the implementation of legislative or administrative measures before reaching the consent from them.

Therefore, in this case, we may explain the unjustified absence of the State with the decision of deliberate non-compliance to the OECD guidelines (2011, General Policy 14) from Orocobre and Toyota Tsusho.

These guidelines require companies to recognize existing local community authorities, seek engagement with relevant stakeholders, present company project and policies while considering the impact on the local communities and their consent as the prerequisite to start operations.[122] Nevertheless, as Marchegiani (2019) argues, we know that none of these guidelines were respected from the companies, and this led to an extremely favorable situation for them to approach communities without the intervention of the State into the negotiation of terms and conditions to legitimate indigenous people rights.

Therefore, we may argue that the "new bridge for relations between Japan and Argentina"

[120] Toyota Tsusho Corporation, *Paving new roads for Next-generation Automobiles with Stable Supplies of Lithium.* Accessed September 18, 2023. https://www.toyota-tsusho.com/english/about/project/04.html
[121] Marchegiani P., (2019). ibid, p.7-9.
[122] Marchegiani P., (2019). ibid, p 25.

has been erected from this win-win situation where on one hand the State benefit from the huge foreign investments in the lithium extraction and, on the other hand, Toyota Tsusho is able to secure a stable supply of this strategical material needed to sell its finished products, namely electronic vehicles.
In this context, the Atacama communities which live near the salt flat, suffer tremendously from power asymmetry in their relationship with companies.
The socio-economic vulnerability of these communities lacking access to basic services and rights, as well as the scarce opportunities of employment alternatives, led to the emergence of a dichotomy between the members of the same communities.
There are in fact parallel views and concerns on environmental impacts and the possibility of enjoying new employment opportunities from the lithium extraction business.
The fear of losing job opportunities and the inability to exercise their rights to express their concerns and questions regarding eventual negative impacts of these extraction projects in their land, resulted in a lack of freedom in giving or withdrawing consent to the project.
In this way, the communities seem not able to bring together a collective action to shed lights on the real long-term adverse effects that companies are conveniently refraining from disclosing.
Among the testimonies interviewed from Marchegiani (2019), the following one perfectly describe the situation aforementioned and the feeling of the members of local communities:

"I approve it due to the needs of the community, because the company channels many needs, mainly the jobs; but we know that they use a lot of water and they pollute. Those of us who work in mining companies see it, we see the amount of water they use and the pollution". And "The community approves mining because of the jobs, before there were no jobs and people used to leave the community, families got separated because of that, the children left to study because we did not have a high school, and it used to be very difficult. With mining there are jobs and we can address many needs, for example [before mining companies arrives] people did not know what the health insurance was and now they know, doctors can examine them."[123]

The testimony reports the contrast between environmental concerns and improvements on living standards. The same Toyota Tsusho, aside strongly assert their compliance with environmental regulations, they also claim that the lithium boom has yielded benefits for local residents, and they point out initiatives for social contribution to local economy and

[123] Marchegiani P. (2019). ibid, p.34.

employment, such as the creation of job opportunities and the flow of investments in one of Argentina's poorest regions. Furthermore they also claim that they improved education standards by financing the construction of new school hall.

Nevertheless, the socio-economic situation of the communities stands in sharp contrast to the wealthy transnational companies profiting enormously from this business, and again in this case too we have to question ourselves whether or not the concept of Sustainability is fully understood from Sogo Shosha in relation to social initiatives for the improvement of living standards of small/local communities.

Richard Seville, CEO of Orocobre, declined to release details of the contract with Olaroz Chico, raising further doubts on the power asymmetry in their relationship with communities.[124]

Furthermore, regarding the environmental concerns, Marchegiani (2019) claim that communities have not taken well-founded decisions as companies, having full control on information side, have not willfully shared the foreseeable risks factors and potential environmental impacts that could affect them.[125]

In fact, a recent study conducted by Catholic University of Argentina (2018), based on the information provided by the same companies engaged in lithium extraction activities in these areas, demonstrates that the relation between water use (discharge) and water supply (recharge) has recorded a negative trend and impact.[126]

In addition to that, as the Washington Post reported in 2016, Toyota Tsusho and Orocobre operating in the Sales de Jujuy, were fined $1.4 million for changing without permission drilling techniques and therefore causing environmental violations.[127]

Hence, these studies and facts raise even more suspicions on business practices from the lithium companies, and in this case Toyota Tsusho.

Potential pollution and water shortages might have irreversible effects on communities' lives and their territories.

And while companies might leave these lands in a couple of decades after having exhausted all the lithium reserves in the area, we may assume that there will not be any trace left of sustainable economic development for the sake of the well-being of the communities.

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[124] Frankel, T. C. & Whoriskey, P.(2016), *Tossed aside in the 'white gold' rush*, The Washington Post. Accessed September 24, 2023. https://www.washingtonpost.com/graphics/business/batteries/tossed-aside-in-the-lithium-rush/

[125] Marchegiani P., (2019). ibid, p.29.

[126] Marchegiani P., (2019). ibid, p.37.

[127] Frankel, T. C. & Whoriskey, P., (2016). ibid.

As long as there are no effective actions undertaken in this matter from the Argentine State, such as the proposals from Marchegiani (2019) *"to revise and adapt the norms regulating the environmental impact assessment process in the Jujuy Province (Decree 5772/2010 and its modification 7592/2011) as they breach national and international standards regarding citizen participation and FPIC rights."*, [128] Toyota Tsusho will continue to promote its own vision of "Sustainability" which completely departs from the respect of human rights and regulations regarding environmental protection of these areas.

Therefore, we may argue that, despite half century separate the illegal logging in Southeast Asia and the lithium extraction in Argentina, there are still similarities regarding the approach and practices applied.

In particular, both cases showed the distinctive "trilateral relationship" between the Japanese Government, the Sogo Shosha and the low-income but resource-rich foreign country.

From this triangle, we analyzed what are the actors and strategies put together by the two Japanese counterparts to overcome legal requirements from the third country and initiating projects aimed at securing stable supply of critical resources for the benefit of both parties.

In fact, despite we must give credits to Sogo Shosha regarding other projects which target Sustainability and have successfully contributed to mutual economic development with third countries, the same cannot be said for the two cases analyzed in this paragraph.

Toyota Tsusho, strong in the resource-sector and aiming at securing lithium to produce on a large scale its new range of electronic vehicles as well as creating stable battery supply networks to anticipate and meet the demand of the market, seems to show very little concern for the social consequences on the local communities and the environmental impacts of its lithium extraction activities.

At the same time, Japanese government financially support these ventures as national industries would benefit from a stable supply of lithium and from the exports of competitive end products such as electronic vehicles.

On the other hand, third resource-rich countries governments have precarious economic conditions and, consequently, are more prone to corruption as suffering from the power asymmetry in their bilateral relations with Japan.

That is why, in this trilateral relationship, the only one to lose seems to be the citizens of these regions, victims of the unjustified absence of a corrupted State which fails to fulfill its responsibilities of safeguarding its natural resources and the rights of its people, and most of

[128] Marchegiani P., (2019). ibid, p.40.

all achieving economic development.

Moreover, if we attempt to provide further explanations on why such scenario unfolds, Sassen (2014) perfectly indicate that the emergence of systemic trends and dynamics caused an increase of "expulsion" of such people, economies and life spaces while simultaneously we experience nowadays the empowerment of global corporations against the newly indebted governments. [129]

These large corporate firms, such as the Sogo Shosha in our case, have extended their scope and functions to an extent that they are now able to free themselves from legal and social constraints which might hinder their profitability.

Their actions, in such circumstances, might not necessarily serve the interest of society nor the interests of environmental safeguard, but instead generate destruction of ecosystems and place of expulsions.

In conclusion, in our analysis it is important to stress the point that the persistent shadows on Japanese led sustainable model are clouding our view on the real actions pursued by the Sogo Shosha in particular cases.

Even though other examples illustrated in this work, such as the Itochu-Suez waste management initiative in Serbia and the successful initiative from Toyota Tsusho to improve health standards in Africa, are proving a decent degree of awareness and interest towards real sustainable economic development, on the other hand our approach must continue to carefully monitor each project on the basis of any environmental and socioeconomic impacts it might cause.

[129] Sassen, Saskia (2014), *Expulsions: Brutality and Complexity in the Global Economy*, The Belknap Press of Harvard University Press, pp.213-222.

3.4 Great potentiality and significant barriers on Sustainability

As we approach the end of this last chapter, it is essential to reflect on the feasibility of pursuing a sustainable business model for Sogo Shosha in the next future.
By analyzing the two cases of Itochu Co. and Toyota Tsusho Co., we may affirm that the affinities between Sogo Shosha strengths and the characteristics of SDGs we discussed with reference to Kanie (2022) still remain valid to every case.
Indeed, we collected evidence of robust Sustainability policies and mid-long term strategies for the upcoming decades that might represent the golden opportunity for Sogo Shosha to take the next evolutionary step as global economic actors and consequently lead Japan to the successful creation of a decarbonized society.
The efforts in in the field of solar, wind, hydroelectric and biomass power technologies from Toyota Tsusho Co. and the innovative and large initiatives in the non-resource sector from Itochu Co. are noble examples of their successful commitment to SDGs.
In fact, it is no wonder that most of the Japanese general trading companies are experiencing nowadays a great momentum by recording highest net profit in the last FYE 2022.
Moreover, if we look at their solid position in the global context and we take into consideration the great flow of investments from foreign and domestic capital, there should not be any doubts that Sustainability is highly considered from these groups as the most important challenge for the next decades to pursue whatever it takes.
Yet, in this chapter III we opened the way to further interpretations regarding Sogo Shosha and their business model, as the aim was also to emphasize the existence of particular cases where such organizations are struggling to fully comply with principles and guidelines regarding Sustainability, from environmental up to socioeconomic factors.
In fact, it is our understanding that it still existing a major barrier to their degree of understanding for what “Sustainability” should be intended for.
Furthermore, their natural predisposition to serve the Japanese government interests and consequently make use of every practice, sustainable or not, is also a key element in our analysis. Taking into consideration their past and looking forward to the next decades, it is really hard to believe that Sogo Shosha would stop completely to fulfill their commitments towards the nation goals for the sake to improve their personal standards and attract new foreign investors. Still, their characteristics together with their great management and vision of the future scenarios would surely guarantee them a future as true protagonists in Japan ups and downs on approaching the new challenge of Sustainability.

Conclusions

The aim of this work was to analyze the current role of Sogo Shosha and the fine line on which they are operating today between national interests for the securement of strategic natural resources and the achievement of profitability through Sustainability.
In the first chapter we took a step backwards to identify the reasons behind their emergence and the longstanding relationship with the State.
Hence, we observed that these groups emerged originally around the 1880s from a series of liberal and privatization reforms as business entities directly supported by the government for the security of raw materials supplies and expansion of markets to accelerate the industrial transformation of the country. Despite the numerous historical events and consequently transformation of these companies, becoming at first Keiretsu and in the most recent days the general trading companies we know today, their bond with the Japanese government remained strong even in present times.
In fact, among the several crisis and global supply chain disruptions, it is arguable that the State has never ceased to express great consideration for their strategic intermediary trading role on dealing with national resource security issues.
Furthermore, in the second chapter of this paper, we argued that these groups are embodying unique characteristics and functions which allow them to operate not only as simple trading companies, but to engage also in financing, distribution and planning.
Moreover, their wide range of business sectors and their extended global network, allow them to contribute at each stage of the value chain from upstream to downstream as well as changing their roles, diversifying their functions, increasing their services and respond promptly to the needs of the industry and society.
For the aforementioned features, it is right to share with JFTC and other scholars the fundamental idea that Sogo Shosha might potentially suit a business model which can tackle the new challenges of the future posed by the SDGs.
Nevertheless, in this paper, attempts were made to emphasize that, among the same Japanese trading companies, there are specific traits and mid-long term strategies which might lead to different results in the future in terms of approaching sustainable business model.
In fact, while some of them such as Mitsubishi Co. are strongly relying on resource-sector recording the highest net profit in the latest FYE 2022 thanks to an increase in energy and commodities prices, other trading companies such as Itochu Co. with their market-oriented perspective are focusing more on producing new added value throughout the entire supply

chains by especially shifting the focus on the downstream flow, and therefore to society real needs. Again, when discussing the specific case of Toyota Tsusho Co., we analyzed also another aspect related to the consolidated presence of wide business networks in Africa, which is definitely interesting as it might lead to relevant growth opportunities on a long-term perspective as African countries would be targeted more extensively from every trading companies in the upcoming years to fulfill SDGs.

Hence, for the aforementioned reasons, it is important to underline that only those trading companies who will continue to innovate themselves in the next years and seriously target SDGs would see their business networks to flourish, while on the other side of the coin, a lack of innovation might expose them to external acquisitions or merging from those who come out stronger from these upcoming challenges.

This idea seems also to be shared by the members of these groups, as a fundamental prerequisite to attract new investors who have high regards for those companies that incorporate environmental and social impacts into their management strategies.

At the same time, as a result of a longstanding cooperation, Sogo Shosha would need to continue to align themselves with the Japanese government targets to contribute to national resource securement as well as successfully leading the realization of a decarbonized society within 2050. In this direction, as we analyzed in the two ventures respectively related to the illegal logging in Southeast Asia in the 1970s and the second one more contemporary related to lithium extraction and refinement in Argentina, Sogo Shosha might be truly contradictory and show very little concern for the local communities and environmental impacts of their projects and, as a consequence, deviate from the real meaning of sustainable business development.

In particular, both cases showed the peculiar “trilateral relationship” between the Japanese Government, the Sogo Shosha and the resource-rich foreign country.

From this triangle, we have collected evidence related to the actors and strategies put together by the two Japanese counterparts to overcome legal requirements from the third country and initiating such projects. In such scenario, a win-win situation between Japanese Government and Sogo Shosha unfolds and these last ones would extensively use communication strategies to conceal such malpractices under the eyes of the international community and protect their image towards stakeholders.

And, while on one hand we might question if Sogo Shosha have a decent degree of awareness in terms of environmental and socioeconomic consequences related to their projects, on the other hand these aforementioned cases are not to be considered neither the standard nor the

majority. Still, it is necessary to carefully monitor each project on the basis of any environmental and socioeconomic impacts it might cause and draw specific conclusions.
As a matter of fact, in parallel, other projects started from the same companies are considered extremely valuable from the same international community.
That is why it is ultimately important to reflect on the fact that, in their range of functions and business, the Japanese general trading companies are left to face a dichotomy between national self-interest and compliance with sustainable business model.
This dichotomy is definitely affecting the approach of Sogo Shosha to Sustainability, and ultimately is creating a deviation from the intrinsic meaning and understanding of what can be defined sustainable.
And, while in this scenario Japan, as a nation, would likely achieve its targets emerging politically unharmed by every negative environmental and social consequences of supporting such businesses, Sogo Shosha would have to make their best efforts to protect the image of the company abroad and gain the trust of stakeholders while staying afloat in a stormy sea of geopolitical tensions and global supply chain crisis outside Japanese borders that characterize this early twenty first century.
Nevertheless, in spite of everything, there is no doubt that their role in the Japanese panorama remains arguably the major hope to rescue Japan again from its current political issues and race for a future “sustainable” economic development of the nation.

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List of Figures

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