

Chap. 1 : introduction

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Introduction

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The purpose of the conference from which this book arose was to place general trading companies – particularly those of Japan – in comparative and historical perspective.

The definition of general trading companies has differed from one scholar to another: economists have emphasized their financing and organizing functions, while historians have thought a wider definition more useful, and have defined the general trading company as “a firm that trades all kinds of goods with all nations of the world,” as Yoshihara Hideki has done in his paper. We use the latter definition here because it makes comparative study more fruitful.

Japan's huge trading companies, the *sogo shosha*, are impressive, and therefore well known internationally. Today's general trading companies, however, have not descended unchanged from their formative period. The majority of them remained specialty merchant firms for a long time, later diversifying into mature general trading companies. In the process they passed through several phases:

1. Exports and imports to and from an area or a country
2. Multiplying the commodities to be handled in an area or a country
3. Exporting and importing a variety of commodities to many areas or countries
4. Dealing with a variety of commodities on a global scale

As they pass through these phases, the mature general trading companies set about financing and organizing businesses, coming to own a large number of subsidiaries.

This is not meant to be a treatise on chronological development from specialty trading firms to general trading companies. What I want to point out is that a wide grey area exists between the two kinds of companies. The uniqueness of Japanese general trading companies in terms of the scale and range of their business activities is undeniable if we limit our consideration to the present world. Most scholars have assumed that general trading companies

are peculiar to Japan. However, if we can develop a theory as to why a specialty merchant firm grew into a general trading company in Japan, such a theory has to be applicable to a company in the West as well.

Even if general trading companies do not now exist in other countries, this does not necessarily mean that they will not in the future. The governments of many countries are keen on fostering general trading companies by means of the enactment of laws, and it is useful to examine these fledgling general trading companies from a historical point of view.

In comparison with manufacturing companies, we have been little interested in the history of trading companies in the West. *Time 1000: The World's Top Companies* lists a number of international trading companies, but many of them are privately owned, so their business records are difficult to investigate. Dr. Philippe Chalmin's paper, which outlines their history and present status, is invaluable in this regard. Is there any possibility that these firms will grow into general trading companies? Can the *sogo shosha* keep their leading role in Japan's economy in the future? Participants shared their interest in these contemporary problems in the discussion sessions, although the majority of papers treat the period prior to the Second World War.

When we trace the histories of large companies back to the time of the First World War, the most remarkable characteristic is the speed with which trading companies emerged and disappeared compared with industrial companies. To be engaged in foreign trade at the time, Japanese had to get over a number of hurdles, among them what scholars have called an information gap. Even such business groups as Kuhara and Furukawa failed to make a success of their trading companies in the booming years of the First World War. The commodities most traded at that time were primary goods that tend to be subject to wide price fluctuations. Decisions have to be made quickly, sometimes without the permission of headquarters. The consequence is that the success of general trading companies depends to a considerable extent on an effective inspection system, which is closely associated with modern organization-building. Educated salaried managers (including middle management employees) are essential, because it is such people who can expand the companies they are serving into general trading companies. Yamazaki Hiroaki has mentioned these factors in his paper. A modern managerial enterprise, to use A. D. Chandler, Jr.'s terminology, is a prerequisite for establishment as a general trading company.

Compared with industrial companies, the conversion of traditional merchant firms to modern enterprises is far more difficult. Family businesses in the industrial sector have often been forced to introduce technological innovations in order to survive, with the result that they have had to raise money on the stock exchange, and the family's controlling power has weakened. In contrast, the impact of technological innovation is not direct in the case of trading firms, so that they tend to change less, sticking to dealing with commodities with which they have experience. The consequence was that in the West, industrial enterprises took the lead over trading companies

in modernization, and the integration of manufacturing companies raised barriers against trading companies' diversification of their businesses.

Industrial firms integrated their functions to the equivalent of general trading companies, to use the terminology in Yoshihara's paper. These processes are described in the papers by W. J. Reader and W. Feldenkirchen. In the West, therefore, where manufacturing companies started integrating earlier than those in Japan, foreign trade firms declined or lost the opportunity for diversification.

Japan was obliged to open the door to foreign merchants in the 1860s. Beginning foreign trade at the government's suggestion, Japanese traders had to import such soft technologies as accounting techniques, foreign exchange procedures, and insurance, in the same way as industrial companies were importing hard technologies. In fact, Japanese firms for foreign trade had to be newly created.

The last but not the least important element is the extent of the economy's dependence on foreign trade and of government support for general trading companies. Japan's dependence on foreign trade was not, until recently, very large compared with Western countries, but trade has always been of strategic importance. The Japanese government was eager to foster general trading companies, and the national consensus that foreign trade was worthwhile enabled the new companies to recruit able, educated staff. As Dr. Glen Porter's paper properly points out, there have been few opportunities for the formation of general trading companies in countries like the United States, where wholesale merchants have had ample chance for domestic investment (in organizing retailing businesses, for example) and industrial companies early on started integrating their sales functions, and where the economy's dependence on foreign trade has been negligible.

Economic circumstances, however, should be considered a necessary, but not a sufficient, condition in explaining why general trading companies emerged in some countries and not in others. Nakagawa (19) emphasizes the entry barriers Japan faced as a latecomer. This is persuasive but leaves unexplained why even in Japan some companies succeeded in their diversifying while others remained specialty trading companies until the years following the Second World War. This is one reason we should focus our attention on the companies' internal organization and management policy.

Bibliography on General Trading Companies

A great number of writings on general trading companies have appeared, although most are not academic works. Furthermore, many academic works refer to general trading companies only as constituent parts of business groups, not describing in detail their internal managerial problems, organizational working, and financing arrangements (13; 22). The few studies that focus on specific companies often rely extensively on interviews.

It is only during the past couple of decades that works on the business history of general trading companies have begun to come out (24). A major contribution has been the publication of voluminous company histories by the companies themselves. Historians have in some cases participated in their compiling and writing. In particular, the publication of a history of Mitsui Bussan in 1977 contributed greatly to historical understanding (15). Almost all the general trading companies have published company histories except Mitsubishi Shoji, whose company history is still in the course of preparation (12). The latest contribution, by a general trading company originally in the textile business, is Marubeni's history (9). Small-scale general trading companies like Itoman have also compiled company histories (5). However, only Mitsui Bussan has a short history in English (14).

There are even some works dating from the pre-war period. C. Itoh published a booklet in 1937, which outlined its business activities at the time (4). The history of the bankruptcy of Suzuki Shoten, which was merged with Mitsui Bussan during the First World War, has been discussed in a conference proceedings (6). The history of Takada Shokai, however, which was mainly engaged in importing machinery and was dissolved in 1925, is still to be written.

Business historians have not been slow to work on the history of general trading companies. The eighth annual meeting of Japan's Business History Society, held in 1972, focused on their origin and development (8; 16). The work so far, however, has concentrated on the pre-war period. As a result, dialogue between historians and economists on general trading companies has not been lively. While historians' attention has been focused on the companies' origins, economists have concentrated on their current and changing functions (1; 3). This unfortunate situation makes it almost impossible to outline their history as a whole from a comparative point of view. Stress should be put again on the fact that Mitsui Bussan had a strong influence as the model general trading company and that, in spite of this, the majority of present full-fledged companies attained their diversification in the post-war period.

The volume (in Japanese) based on papers presented at the 1972 Business History Society meeting mentioned above is comprehensive and well balanced, except that it includes just one paper concerning trading company development in the post-war period. Umezu has written two books, one, which outlines their development, aimed at general readers, and one that treats mainly their recent business activities (25; 26). Two volumes on specific *zaibatsu* outline the histories of Mitsui Bussan and Mitsubishi Shoji (30; 11). In English, Yoshihara Kunio's *Sogo Shosha: The Vanguard of the Japanese Economy* focuses mainly on the recent development of general trading companies in both the pre- and post-war periods; his arguments on the growth of general trading companies in Japan are persuasive, although he does not take a comparative perspective. He emphasizes a "cultural gap" peculiar to Meiji Japan which necessitated the emergence of general trading companies that were independent of manufacturing companies (33).

In English, *The Sogo Shosha: Japan's Multinational Trading Companies* by A. K. Young aimed to analyse contemporary problems these companies are facing, presenting a number of useful tables of their activities. His historical description, however, is not always exact (35). Yamamura analysed the growth of general trading companies from the point of view of transaction cost of modern economics. His work is most stimulating, but one-sided in the sense that he does not explain why his analysis is not applicable to companies in the West (27). Yamazawa's work aims to demonstrate, using the regression method, that the replacement of foreign merchant houses by native trading companies contributed to the remarkable increase of Japan's foreign trade (29). D. Haber wrote *L'Empire du commerce levant* for general readers; in it he speaks highly of Japanese general trading companies as contributors to high economic growth (2). Nakagawa's *Organized Entrepreneurship*, already mentioned, was a pioneering work from the comparative point of view (19). My 1985 article aimed at being a comparative study, looking for reasons why general trading companies became important in Japan but not in Western countries (31).

A number of works on important functions of general trading companies have come out in Japanese or English. Mitsubishi Shoji's pre-war activities in the United States were detailed by Kawabe (7). Two articles described in detail Mitsui Bussan's business in collusion with military forces in Manchuria and China in the 1930s (20; 21). Sole agent contracts in the pre-war period have been analysed (28; 32). Morikawa directed attention to the creation of an organization and the common account system in Mitsui Bussan (17). He also attached importance to human resources as a major reason for the growth of general trading companies (18). Their investment policy in the post-war period was the focus of two articles in English (1; 23). Debates on why general trading companies were created in Japan have attracted particular interest among scholars as is mentioned in Yoshikawa Hideki's paper presented at this conference.

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