

## Diversification: The Case of Mitsui Bussan

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### Introduction

Mitsui Bussan is the first and the largest general trading company in Japan, established in 1876. It dealt in over 1,000 various products, and penetrated many markets in the world. It had also invested in nearly 200 overseas companies before World War II.<sup>1</sup> It also was the nucleus of the Mitsui *zaibatsu*, the largest pre-war *zaibatsu* concern.

First, an attempt is made to explain why it was that Mitsui Bussan as a typical trading house transformed itself into a general trading company to deal in a great variety of merchandise, what the circumstances were that prompted Mitsui Bussan to deal in those main lines of products, and how those products were related to the industrial development in Japan so that they assumed the importance they did. What, in functional terms, did Mitsui Bussan do as a trading company to consolidate its position and maintain its superior position in the markets where these products were traded? This will reveal the process through which various functions of today's trading companies have evolved, as well as the inevitability of that evolution. These themes naturally run through the entire chapter, but will be treated more intensely in the first section.

The second major theme of this chapter, mainly treated in the second section in the context of the post-World War I Japanese economy, is the following series of interrelated questions: What impact did the changes in the industrial structure have on the range of merchandise handled by trading companies? In what ways did trading firms respond to the changing industrial structure? What strategy did these firms pursue? And what functions did they seek to develop and integrate? How did they respond to the product life cycle of various types of merchandise? What changes took place in the relations between manufacturers and trading companies as the former evolved and developed? When manufacturers attained their maturity and the distribution

system was perfected, what did Mitsui Bussan do to maintain its hegemony over distribution? These issues should interest us greatly in view of the contemporary setting in which we find ourselves.

Because Mitsui Bussan was the first general trading company in Japan, its case should serve as a prototype of other firms of the same kind. Because it was the core of the Mitsui *zaibatsu* group, which itself occupied the cornerstone of the pre-war Japanese economy, it should also shed important light on the relationship between *zaibatsu* concerns and general trading companies.

## I. Emergence and Initial Development as a General Trading Company – Mitsui Bussan during the Meiji Period

### 1. Starting as a “Seisho”

Mitsui Bussan started as a purveyor to the government, delivering various goods to government ministries and departments, at the specific request of the government. It imported woolen cloth for the army, served the Ministry of Finance with rice, and exported the coal from the government-operated Miike Mine as its principal activities. It embarked on initial capital accumulation by obtaining special privileges and information through personal contacts with high government officials, and by engaging in consignment business with the government. But it was little different from purveyor merchants of the Edo period serving the Tokugawa shogunate. Let us review the initial activities of Mitsui Bussan along these lines and describe the circumstances surrounding its birth.

Mitsui Bussan company opened its office in July 1876, but it had its predecessor in the Senshu company that had been established in 1874 by Inoue Kaoru, veteran statesman of the Meiji period. Inoue had resigned from the position of vice-minister of finance a year before because of dissatisfaction with government policy. Once establishing this private firm, he was engaged in the business of importing blankets, woolen cloth, and arms for the army, and exporting such goods as the rice in the government’s possession and coal out of the government-operated Miike Mine. Inoue, however, went back to government service the following year, with the result that Mitsui established Mitsui Bussan by inheriting the business of that short-lived company. Thus began Mitsui Bussan’s role as a purveyor to the government. The ties between Inoue and Mitsui were deepened in the following years, giving various information and benefits not only to Mitsui Bussan but to the entire Mitsui *zaibatsu* concern. Still later, Inoue became an advisor to the Mitsui *zaibatsu* group, greatly contributing to the development of Mitsui and its industrial enterprises, so much so that one of his political rivals, Saigo Takamori, once called him a clerk working for Mitsui.

**Table 1.** Merchandise trade and volume in the early years of Mitsui Bussan (unit: ¥1,000)

	1876 (July–December)	1890	1894 (latter half)
Raw cotton	—	2,025	5,538
Rice	228	4,762	4,355
Coal	4	2,329	3,469
Fertilizers/marine products	—	—	2,767
Fish oil	—	2,600	238
Machinery	5	—	2,589
Metalware	126	1,333	1,259
Raw silk/waste thread	—	553	1,169
Cotton yarn	—	—	670
Woolen fabrics/sundries	115	411	539
Oil	2	—	354
Paper	—	231	306
Soya beans/red beans	—	32	174
Other cereals	—	34	—
Sugar	—	75	155
Processed tea	4	146	45
Manila rope	—	—	36
Silkworm egg cards	49	—	—
Other	12	3,682	6,005
Total	545	18,214	29,669

Source: Togai Yoshio, *Mitsui Bussan Kaisha no keieishi-teki kenkyū* (A business history study of Mitsui Bussan) (Tokyo, Toyo Keizai Shinposha, 1974), p. 52.

Mitsui Bussan had another predecessor in Mitsui Kokusankata, established in 1874 to deal in various indigenous products such as marine products, raw silk, tea, and coal. Mitsui Bussan thus started with undifferentiated commercial capital to handle a great variety of types of merchandise.

What exactly did Mitsui Bussan trade in its initial stage of development? Table 1 shows the main items of merchandise and their trade volumes in the firm's early years. One is struck by the large share of rice, amounting to 42 per cent of the total business volume in 1876. As of 1877, 75 per cent of its gross profits came from rice (see table 2). In dealing in rice, it bought rice at rice markets and sold it to the government (Receipts and Disbursements Bureau of the Ministry of Finance, and the army, among other departments); it exported the rice the government had purchased to maintain its price in the country; and it sold land tax rice on behalf of the government. In the very early years, it delivered rice to the army during the Satsuma Rebellion, and it exported on request from the government the rice that the government had purchased in the open market to prevent sharp drops in rice prices due to the deflationary policy of Count Matsukata. These rice trades gave Mitsui Bussan enormous profits, but rice handling gradually came to take the form of

**Table 2.** Breakdown of the gross profits of Mitsui Bussan in the early years (in yen)

	1877	1878	1879
Gross profit	222,969	213,800	260,376
Domestic marketing of rice	116,015		
Commissions on rice delivered to finance ministry	22,629	88,341	138,963
Commissions on exporting government rice	2,828	16,153	
Commissions on rice exports to Europe		30,675	
Commissions on woolen cloth delivered to the army department	23,078	4,265	
Other commissions	5,737	4,355	
Regular trading of rice	28,601	2,850	△ 12,766
Interests on documentary bills		11,517	11,451
Profits from Yokohama branch	416	25,186	53,043
Other	23,629	30,458	44,592

Source: Nihon Keieishi Kenkyujo, ed., *Kōhon—Mitsui Bussan Kabushiki Kaisha 100-nen shi* (Draft—A 100-year history of Mitsui Bussan) (Tokyo, Nihon Keieishi Kenkyujo, 1978) 1:81.

mere marketing of the land tax rice, until in 1882 this business exceeded the volume of rice sold to the government or exported.<sup>2</sup> Mitsui Bussan was entrusted to market the land tax rice by the Ministry of Finance, and it carried out this task in co-operation with Mitsui Bank, obtaining commissions. When the Meiji government decided that the land tax would be payed not in kind but in money, peasants would ask Mitsui Bussan to market their rice, upon which Mitsui Bank would immediately draw a documentary bill in the amount of the expected sales value of the rice. This documentary bill was brought to the prefectural office as the land tax, and the prefecture would cash the bill at Mitsui Bank. In the meantime, Mitsui Bussan would sell the rice entrusted from the peasants, charge three per cent commission, and settle the account with the peasant. This was different from direct business with the government as a purveyor as such would do, but it was made possible by government authorization and under the prevailing tax payment system.<sup>3</sup>

The amount of business Mitsui Bussan carried out with the army in importing woolen cloth gave about 10 per cent of the total gross profit in 1877. But this business gradually declined as the government itself started operating its own wool-weaving plants.

Another important commodity was coal from the Miike mine under the Ministry of Industry. Ever since its establishment, Mitsui Bussan was given the exclusive right to market the coal through the good offices of then minister of industry, Ito Hirobumi, who is reputed to have decided the matter by saying "Don't be stingy. Give them the coal at the price of the cost and let

them dispose of it any way they want.”<sup>4</sup> Mitsui Bussan was entrusted with the marketing task under the enviable conditions of receiving 2.5 per cent commission on the sales volume as well as half of the profit. The government was not thinking so much of profit gained by export of the coal as of acquisition of the specie. Mitsui Bussan emphasized this operation more from around 1883, earning an annual profit of 40,000 to 50,000 yen.

Miike coal was practically dumped on the Shanghai market, so that it came to occupy the largest share by the mid-1880s. For Mitsui Bussan, this was of particular importance as the starting point for overseas expansion. Its first overseas branch in Shanghai was set up specifically for the sale of coal from Miike, and its Hong Kong branch was reopened to handle the coal after having once been closed soon after it had been opened. These two branches assumed critical importance as the foothold in Asia when cotton yarn and cotton cloth exports to Asia later increased.

As early as 1878, Mitsui Bussan borrowed the ship *Chihaya Maru* from its owner, the Ministry of Industry, for transporting coal, and also acquired loans to purchase ships from the Ministry of Finance. Thus began the shipping department. In these ways, the exportation of coal from Miike played a critical role in consolidating the foundation of this firm as a trading company.

Besides the business with the government, marine products were important, mainly salmon and fish-meal from Hokkaido. During the deflationary period of the Matsukata government, the shipping department had considerable difficulties in conducting its business. In 1885 it made a loan to a fishing ground owner in Hokkaido by the name of Suhara Kakubei in order to help him meet the need to buy stock, and then started to deal in consigned products from his fishing ground. Around 1888 its business with Suhara started to yield fruit, and the trade volume of marine products also increased until it reached a 14 per cent share of the total sales in 1890. This was followed, however, by a period of financial difficulty for Suhara, who eventually transferred the fishing rights to Mitsui Bussan in 1894. This did not serve to improve his situation very much, and he started to gradually sell his fishing ground from around 1902.

Thus, we see that from its inception until the late 1880s, Mitsui Bussan did business mainly with the government, except for marine products for a short while. This is attested to by the firm's own statement that “[our company] mainly handled government merchandise by dealing with the Ministry of the Army, the Ministry of Finance, and the Mining Department, among other offices.”<sup>5</sup> But business with the government gradually started to decline after 1885: woolen cloth was manufactured by the army's own plant; the Ministry of Finance stopped exporting rice; there were no more civil wars; and the Miike mine was sold to the private sector. The result was that “after 1889 there was hardly any more business with the government, which we initially emphasized.”<sup>6</sup> Thus, toward the end of the 1880s, Mitsui Bussan's activities as a commercial capital enterprise dealing with the government and peasantry came to a complete stop, raising the need to open up new avenues of business.

At any rate, Mitsui Bussan somehow managed to survive the turmoil surrounding the arrival of a new era, when most of its rivals – commercial capital enterprises existing since the days of the Edo period – failed to do so. It survived by making inroads into new fields of business – foreign trade and handling of the land tax rice – through congenial relations with the government. Such a method of survival was meaningful in building a firm foundation for prospective development in the ensuing years.

## 2. Mitsui Bussan during the Rise of Industrial Capitalism

It was not easy for Mitsui Bussan to find new avenues of business when its government-related operations declined. The Japanese capitalist economy itself was visited early on by a recession in 1900. But an industrial revolution had occurred prior to the Sino-Japanese War in the textile sector, followed by drastic production increases through the years of the Sino-Japanese and the Russo-Japanese wars. Mitsui Bussan expanded its operations, developing the cotton and silk industries into its own capital accumulation systems by way of the distribution process, that is, it provided the cotton industry with raw cotton, weaving machines, and coal, and it exported cotton yarn and cotton cloth, while it also engaged in silk export.

Mitsui Bussan also found a stable source of high profits in the sales of coal from the Miike mine, which it had purchased from the government during the period of its primitive accumulation. But Mitsui Bussan did not depend as entirely on export now as it did when it was purveyor to the government: it depended rather heavily on the rising domestic demand accompanying the on-going industrial revolution. Thus, Mitsui Bussan transformed itself into a modern commercial enterprise through its own very rapid growth.

As the industrial enterprises in Japan needed overseas expansion as an essential factor for their own development and consolidation, expansion into Asian markets was also extremely important for Mitsui Bussan. For instance, production and sales of cotton cloth started to taper off as soon as 1895 in Japan, but what enabled continued growth of this industry were the rising exports to Korea and China as a result of the wars with China and Russia. And Mitsui Bussan's handling of cotton products jumped precisely because it was charged with exporting these products to the Korean and Chinese markets.

Masuda Takashi of Mitsui Bussan is said to have claimed that "one must be aware that the country that supplies the largest amount of cotton products to the countries of the Orient will come to hold the commercial hegemony of the Orient."<sup>7</sup> These words symbolize the perception of cotton-cloth exports as the cornerstone of domination in Asian markets. After the Russo-Japanese War, Mitsui Bussan also obtained the exclusive rights to market camphor from Taiwan, even though it was under a government monopoly; it established the Taiwan Sugar Refinery and marketed its products exclusively; and it started to handle soya beans and soya bean cakes from Manchuria. It also established Taihei Kumiai (literally, "peace union") to export arms to

Table 3. Commodities and their trade volumes for Mitsui Bussan (¥1,000)

	1898	(%)	1901	(%)	1904	(%)	1907	(%)	1910	(%)
Coal	9,244	14.7	17,678	23.7	22,097	17.2	31,963	13.7	32,601	14.0
Raw cotton	13,238	21.1	15,064	20.2	17,674	13.8	37,929	16.3	42,718	15.4
Cotton yarn	6,208	9.9	5,633	7.5	12,186	9.5	16,946	7.2	22,746	8.2
Cotton cloth	1,408	2.2	1,175	1.5	3,763	2.9	10,489	4.5	15,630	5.6
Raw silk	3,151	5.0	4,965	6.6	8,504	6.6	29,786	12.7	31,865	11.4
Rice	9,505	15.2	1,592	2.1	11,664	9.1	15,014	6.4	4,831	1.7
Sugar	830	1.2	5,577	7.5	7,243	5.4	8,178	3.5	18,027	6.5
Copper	296	0.4	297	0.2	5,220	4.1	3,241	1.3	2,465	0.8
Machinery	3,420	5.4	3,884	5.2	2,959	2.3	9,080	3.8	14,984	5.5
Railway equipment	5,312	8.4	3,035	4.0	—	—	11,063	4.7	4,536	1.6
Lumber	—	—	25	0	805	0.6	4,126	1.7	5,048	1.8
Soya beans	745	1.1	98	0.1	833	0.6	2,372	1.0	15,765	5.6
Soya bean cakes	1,007	1.6	1,592	2.0	1,249	0.9	4,361	1.8	3,549	1.2
Wool, woollen goods	1,198	1.9	2,084	2.7	5,931	4.6	3,677	1.5	3,128	1.1
Wheat flour	—	—	312	0.4	478	0.3	3,543	1.5	2,776	1.0
Cement	165	0.2	—	—	615	0.5	2,462	1.0	1,904	0.6
Camphor	23	0	1,647	2.1	—	—	988	0.4	6,966	2.5
Matches	219	0.3	682	0.9	1,471	1.1	1,947	0.8	2,097	0.7
Tobacco	—	—	—	—	938	0.7	2,517	1.1	—	—
Phosphate rock	188	0.2	—	—	418	0.3	1,964	0.8	1,928	0.6
Total (incl. others)	62,563	100.0	74,298	100.0	127,620	100.0	232,885	100.0	278,038	100.0

Source: Mitsui Bussan Kabushiki Kaisha Enkakushi Hensan Inkaï, ed., *Mitsui Bussan enkakushi kôhon* (Draft outline of the history of Mitsui Bussan) (Tokyo, drafted 1935-1941); compiled data.

China. It was through overseas expansion that Mitsui Bussan also expanded the range of merchandise it handled.

Let us confirm at this stage the changes in the composition of the merchandise Mitsui Bussan handled from the late 1890s to 1910 (see table 3). Throughout the period there were five items, coal, raw cotton, cotton yarn/cloth, raw silk, and machinery (including railway equipment), which together amounted to nearly half of the total business, barring slight changes in the order of importance among them. Metalware, sugar, rice, soya beans, and soya bean cakes follow as less important items. One clear overall trend is the rapid growth of Mitsui Bussan's total business volume during the wars with China and Russia.

We will now treat important lines of merchandise individually and examine how they were first taken up for trade and how they consolidated their positions as the firm's main product lines. These items of merchandise can be classified into three categories by the way in which they came to be handled by Mitsui Bussan: those originating from the purchases of government properties, those arising out of the developing textile industry, and those related to overseas expansion during the periods of the Sino-Japanese and the Russo-Japanese wars. We will pay particular attention to the characteristics of the producers and consumers and to the functions of Mitsui Bussan as a trading company that helped in acquiring hegemony over the distribution process. This should lead us to an overall review of trading companies' functions. We should also be able to see how it became a general trading company, and how these necessary functions evolved historically.

#### (1) Merchandise Originating from Purchases of Government Properties

##### (a) Coal

As mentioned, Mitsui Bussan was already involved in exporting coal from the government-operated Miike Mine even when it acted as a purveyor to the government. But what made it one of the principal items to help Mitsui Bussan attain such high profits was the decision of the government to sell the mine to the Mitsui *zaibatsu* group.<sup>8</sup> The sale was effected in 1888 at the price of 4,455,000 yen. The mine was renamed Mitsui Kozan in 1892 and became one of the three pillars supporting the Mitsui *zaibatsu*, together with Mitsui Bussan and Mitsui Bank. The government had been pursuing the policy of selling off its properties to the private sector since 1880. In the case of Miike Mine, Mitsui Bussan also lobbied very actively. The idea of purchasing the mine originated in Mitsui Bussan, which took upon itself all the necessary procedures, from procurement of the needed funds to necessary clerical chores. Mitsui Bussan thus staked its own life on the successful marketing of the coal once the purchase was made. It was after the purchase that it successfully concluded sales agreements of fuel coal with such major shipping lines as Norddeutscher Lloyd of northern Germany, P & O Co. of the United Kingdom, and Messageries Maritimes of France. It was these efforts that developed Mitsui's newly purchased mine and made it an important pillar of

the entire Mitsui *zaibatsu*. The conglomerate form of *zaibatsu* can be said to have been born with Mitsui Bussan's commercial operations as its midwife.

The quickening pace of industrialization around 1900, the resulting rise in the domestic demand for coal for motive power and railway purposes and the rapidly increasing export of coal acted together to push up the position of coal in the range of merchandise handled by Mitsui Bussan. Mitsui Kozan took over Ono Mine in 1907 and also Tagawa Mine in 1909 to occupy a dominant position in the coal-mining sector in Kyushu. Although Mitsui Bussan's trade volume of coal did increase, it was not sufficient to meet the demand created by the rapid pace of industrialization. Mitsui Bussan now had to handle coal from other producers. Faced with the need to handle such coal in a stable and profitable manner, Mitsui Bussan came up with the formula of obtaining sole agency agreements based on advance loans made to these other coal producers. This particular formula was emulated in handling other product lines, becoming an important source of accumulation. Under this formula, Mitsui Bussan would make an advance loan to the coal producer (amounting to 70 or 80 per cent of the value of the transaction) and obtain the exclusive right to sell all the coal produced by that producer. This can be considered a typical case of the financing function of trading companies. Such an arrangement was first made with Hakusui Mine and Hokoku Mine in 1896, followed by a long series of sole agency agreements obtained from a large number of coal mines in the late 1890s and the early 1900s (sometimes advance loans were made to start up the production).<sup>9</sup> Thus, Mitsui Bussan was monopolistically marketing most of the coal from the middle-echelon mines of the Chikuho, Karatsu, and Kinejima areas in addition to the coal of Mitsui Kozan. Mitsui Bank played an important role in the securing of sole agency rights for coal. Mitsui Bank had most of the mine owners in the Chikuho and other areas of Kyushu as its clients, and when the coal market softened in the early 1900s, cornering many of these mine owners, the loans forthcoming from Mitsui Bank often had the condition of a sole agency agreement with Mitsui Bussan attached.<sup>10</sup> This was the closest co-operation between Mitsui Bank and Mitsui Bussan in using financing leverage to acquire the marketing rights of coal. In 1911 a system of pooling coal was initiated with the participation of Mitsui Kozan, Kaishima Kogyo, and Aso Shoten, where all the proceeds from the sales of coal other than that from Mitsui Kozan were pooled to apportion the profits between Mitsui Bussan and the mine owners.<sup>11</sup> Trademarks of individual mines were abolished at this time and were replaced by the indication of grades on the Mitsui scale of quality. Thus, Mitsui Bussan gained dominance in the coal market with both considerable ability to manipulate the price and the possibility of stable and high profits. As of 1905, Mitsui Bussan exported over 80 per cent of the total coal exports of the country (see table 4). The comparatively high profits of the coal business also yielded 2.5 to 3 times the profits of raw cotton trading.

The following can be cited as reasons why Mitsui Bussan was able to attain such a dominant position in this industry: (1) the Mitsui *zaibatsu* group obtained a rich, lucrative mine when it bought Miike; (2) it was able to obtain

**Table 4.** Export/import volume of important items for Mitsui Bussan and their share in Japan's total (¥1,000, %)

	Coal		Raw silk		Raw cotton	
	M.B.'s export	share	M.B.'s export	share	M.B.'s import	share
1897	8,317	27.6	1,351	2.4	13,822	31.7
1898	12,241	37.0	2,542	6.0	13,237	28.9
1899	11,785	46.0	4,720	7.5	23,984	38.6
1900	13,704	45.8	6,255	14.0	18,282	30.7
1901	17,542	47.6	4,943	6.6	14,697	24.2
1902	17,270	38.6	6,623	8.6	21,736	27.2
1903	19,261	58.7	6,449	8.7	17,488	25.2
1904	14,828	77.7	8,456	9.5	17,642	24.0
1905	14,268	86.2	11,785	16.4	25,585	23.1
1906	16,280	102.5	14,267	12.9	26,217	31.7
1907	19,053	88.2	29,650	25.5	37,214	32.2
1908	18,234	87.0	24,189	22.3	28,357	31.4
1909	17,297	88.8	29,302	23.7	30,451	28.1

  

	Machinery			Cotton yarn		Cotton cloth	
	M.B.'s import of machinery	M.B.'s import of railway equipment	share	M.B.'s export	share	M.B.'s export	share
1897	8,100	4,510	35.4	3,968	29.4	166	6.6
1898	3,421	5,313	26.8	4,420	22.0	140	5.4
1899	2,439	2,385	34.0	8,498	29.8	293	7.5
1900	2,173	5,856	34.6	6,580	32.0	297	5.2
1901	3,735	3,035	30.6	4,556	31.2	371	6.8
1902	1,740	2,513	25.4	6,410	32.2	513	8.6
1903	1,763	3,577	27.9	8,896	28.3	787	11.4
1904	2,298	3,262	19.7	10,386	35.5	1,899	24.5
1905	6,911	4,904	30.2	10,716	32.2	1,028	8.9
1906	4,211	4,462	26.5	18,508	52.4	3,109	19.9
1907	8,212	11,034	42.8	8,862	29.2	6,687	40.9
1908	19,543	8,386	53.3	7,521	36.3	6,823	46.7
1909	12,032	2,053	47.1	10,532	33.3	7,442	42.1

Source: see table 3.

exclusive rights to market the coal through the advance loans to the owners of other middle-sized mines, which, thanks to the very nature of the mining industry, gave enough influence to Mitsui to be effective in dominating the market; (3) Mitsui Bussan was able to have close ties with the end users of coal, who were mainly big entities like government offices (the Railway Department in particular) and weaving firms among others; and (4) Mitsui Bussan was able to co-operate with Mitsui Bank in matters of financing.

Thus, it can be seen that, once having been established through the purchase of government property, the coal business became the core of the profit-making activities of Mitsui Bussan.

(b) *Raw Silk*

Raw silk is another commodity that Mitsui Bussan came to handle due to a purchase of government property, although the purchase merely served as a chance to enter the raw silk business, unlike the case of coal, where the purchase of government property served as the nucleus of the ensuing operation. In 1893, a modern filature at Tomioka was purchased from the government at the cost of 121,460 yen. It was managed by the industrial department of Mitsui Bussan, as were the three other filatures at Osaki, Mie, and Nagoya. These four factories put together had 1,630 basins, more than double the scale of the hitherto biggest silk producer, Katakura Seishi. Raw silk so produced had to be exported, which Mitsui Bussan now tried to do in earnest, although it had previously shown enough interest in silk export to open up branches in New York and Paris (which were subsequently closed down for a lack of business). Now silk trade had to be reopened to market Mitsui's raw silk. Since silk production can draw little benefit from the economies of scale, Mitsui's silk was more expensive cost-wise than that produced by small-scale filatures in villages. As a result, the share of self-produced silk in the total exported silk gradually declined, replaced by general domestic silk purchased at Yokohama to be exported. Until around 1897, about 80 per cent of the silk export business was monopolized by foreign dealers, but Mitsui Bussan's share started to rise rapidly around 1899 to 1900. By the early 1910s, Mitsui Bussan was exporting over 20 per cent of Japan's total silk exports (see table 4), overtaking foreign dealers and becoming the largest silk exporter both domestically and internationally. Silk exports by this time also amounted to over 10 per cent of Mitsui Bussan's total commodity trade.

An interesting question is why silk trade grew so rapidly. One might suggest the same strategy Mitsui Bussan applied in the case of coal, i.e., making advance loans to control flow, was used for silk, but actually, it could not function in the case of silk. The silk distribution system had merchants between the silk producers and exporters, and these merchants provided advance loans to silk producers to buy silk. Exporters like Mitsui Bussan exported the silk consigned to them by these merchants. But Mitsui Bussan started to conclude purchase agreements with reliable silk producers to whom it also provided advance loans. In 1910 it issued an upper limit of 465,000 yen to the total loans to be provided to 13 silk producers.<sup>12</sup> Mitsui Bussan was trying to

by-pass the merchants and purchase silk from the producers directly. But this did not go very far. The direct-purchase silk in 1908 amounted to about 10 per cent of the total silk traded by Mitsui Bussan, but it declined in the following years. Mitsui Bussan once tried to buy silk directly from the three big silk producers in Kanra, Usui, and Shimonida, but was met by stiff resistance from other exporters and silk merchants in and out of the country, only to result in utter failure in the end.<sup>13</sup> As this incident shows, the late-starting Mitsui Bussan found it quite difficult to do away with the existing distribution system in the case of the silk market. Indeed, "coming too close to silk producers invited jealousies of merchants and caused trouble."<sup>14</sup> Moreover, it was quite impossible to do away totally with these merchants in those days. Many of the silk producers were small in scale of operation, with a high turnover ratio among them, and yet they needed a considerable amount of funds to buy silk eggs, making them dependent on external loans. Their debts often grew quite big, and lenders were operating at huge risks. Lenders willing to bear such risks were the silk merchants from Yokohama. For Mitsui Bussan to replace them would have been neither safe nor advantageous. It finally ended up with dependence on the collection and loan-providing functions of the existing merchants to export silk rather than purchasing silk directly from producers or obtaining exclusive marketing rights.

Why was it then that Mitsui Bussan ranked first among numerous Japanese and foreign silk dealers? First of all, it maintained close ties with silk producers, although they ultimately bought silk from merchants. Ordinarily exporters were put at the mercy of the whims of the merchants in price quotations and trade volume. Mitsui Bussan tried to avoid these inconveniences by directly contacting local silk producers to investigate major production factors – from the quality of the year's eggs to the foreman's skills – before making final purchases. Secondly, Mitsui Bussan had ample funds to facilitate export. Although funds for collecting silk were provided by merchants, Mitsui Bussan secured export finances in the form of discounting export bills. It secured such funds, for the period of November 1910 to April 1911, from the Yokohama Specie Bank (for 40 per cent of the total), the Hong Kong and Shanghai Bank, the National City Bank, and other foreign banks.<sup>15</sup> It was able to make use of these overseas banks precisely because of its history and the confidence it enjoyed in these banks as a trading company.

Thirdly, Mitsui Bussan became the largest silk exporter because it permitted to a great extent such practices as overselling and overbuying, that is, agreeing to sell more than the total of the available inventory and the committed purchases and agreeing to buy more than the total of the inventory and the committed exports (from the late 1900s to the early 1910s), and it had a considerable amount of ready funds for these purposes. This enabled Mitsui Bussan to respond to market changes quickly enough to miss no opportunities for business that arose because of price fluctuations that occurred while contacts were being made between the purchasing branch in Yokohama and the selling branch in New York.

Fourthly, the New York branch vigorously carried out sales activities.

About 70 per cent of Mitsui Bussan's exported silk went to the United States, where aggressive sales efforts were able to capitalize on growing demands for silk. The role Mitsui Bussan played in silk purchase seems a typical one for volatile commodities with small-scale producers.

## (2) Development of the Cotton Industry and Mitsui Bussan

### (a) *Raw Cotton*

Mitsui Bussan first became involved in the cotton industry when Osaka Boseki was established in Osaka (1883) as the first modern spinning company in Japan. The president of Mitsui Bussan, Masuda Takashi, approached "Shibusawa Eiichi in the 12th year of Meiji (1879) to propose starting a spinning company," and mentioned "a man by the name of Yamabe (later president of Osaka Boseki) who happens to be in London, who should be trained at Platt Brothers & Company there."<sup>16</sup> Yamabe was sent to Platt Brothers for training, and subsequently the spinning firm was established in Japan. Mitsui Bussan imported spindles and supplied raw cotton when the firm was opened. This was also the beginning of a serious business in raw cotton trade for Mitsui Bussan, which led to later contracts with the new spinning companies of Kanegafuchi Boseki, Miike Boseki, and Mie Boseki in 1892 to purchase Indian cotton on their behalf. The Bombay office of Mitsui Bussan was opened in the following year.

By 1894, raw cotton had become the largest single commodity handled by Mitsui Bussan. The share of this item in the total range of merchandise handled by Mitsui Bussan was 26.1 per cent in 1897, and it maintained a share exceeding the 20-per-cent level until 1902. Subsequently, it declined to the 10 per-cent level, but this was due to the more rapid growth of other products; nevertheless, Mitsui Bussan maintained its share *vis-à-vis* the total raw cotton imports of Japan at between 25 and 30 per cent (see table 4). In terms of the supply sources of raw cotton, initial dominance of Chinese raw cotton was superseded by Indian cotton by 1893, when the latter occupied over half the total raw cotton imports; and from around 1898, the United States became as important as India as a source of raw cotton for Japan.

How was it possible for Mitsui Bussan to expand the raw cotton trade so rapidly? Let us examine this trade from both the purchasing and marketing sides.

On the purchasing front, the role of Shanghai Cotton Cleaning & Working Co. was substantial. This was a ginning company established in 1888, capitalized at 75,000 taels. Mitsui Bussan was the biggest shareholder, owning stocks in the amount of 45,000 taels, and was entrusted to handle all the products of that company. From around 1892, however, Mitsui Bussan started to buy raw cotton from cultivators and, with the declining role of this ginning company, gradually withdrew from the operation of the Shanghai cotton company.<sup>17</sup> But the importance of this company in China seems to have been substantial in Mitsui Bussan's initial efforts to import raw cotton.

With respect to Indian and American cotton, the practice of buying at the

source and attaining an overbought position played an important role. Purchases of Indian cotton started to grow rapidly around 1893, when the Bombay office of Mitsui Bussan was opened. It initially bought Indian cotton through such cotton dealers as Ralli Brothers or at the Bombay cotton market, Colaba. But there were long distances to be covered from Bombay to the production sites, and the product came through many intermediaries. It was thus relatively expensive and its quality was not uniform. In 1907 Mitsui Bussan started to buy part of its Indian cotton at the supply sources, which, however, was beset with the difficulty of transportation and communications, forcing it to overbuy itself beyond the confirmed orders from the spinning companies at home.<sup>18</sup> Although the amount of overbuying permitted fluctuated, starting from 5,000 bales initially, it consistently occupied 10 to 30 per cent of the total raw cotton purchases. The special contract with Kanegafuchi, partially owned by Mitsui Gomei, is said to have played an important role in this practice. This contract in part stipulated that "what is purchased (over and above the confirmed orders) by Mitsui Bussan was to be bought up totally by Kanegafuchi Boseki," thus providing a safety valve.<sup>19</sup>

Speculative commodities like raw cotton have wide price fluctuations. By engaging in overselling and overbuying, that is, by bearing risks, Mitsui Bussan was able to supply inexpensive raw cotton and expand its trade with the help of the safety valve provided by such special contracts as that with Kanegafuchi. Mitsui Bussan enlarged the margin of overselling and overbuying at a time of economic expansion, while making the margin smaller during recession, thus effecting a cautious and flexible adjustment, while at the same time it gained more and more experience in the handling of such speculative goods.

What did Mitsui Bussan do on the marketing side? First, a "supply of spinning machines and (the use of) personal/family connections"<sup>20</sup> worked to its advantage in selling raw cotton in Japan (the selling of spinning machines will be discussed in greater detail below). Mitsui Bussan also had a number of spinners, like Kanegafuchi, for whom it served as the sole supplier of raw cotton. With Kanegafuchi it had had an effective contract to supply raw cotton since 1893, which, in 1901, led to a new contract stipulating that Mitsui Bussan should supply 70 per cent of this spinner's raw cotton needs. Such a close relation with the biggest spinner in Japan was indeed quite significant, particularly in the context of the overbought position of Mitsui Bussan in Indian cotton. In marketing raw cotton to Japanese spinners, extension of credit played a large part. The promissory notes issued by the spinning companies to Mitsui Bussan for the raw cotton purchased were discounted mainly by Mitsui Bank, which in turn had them discounted often by the Bank of Japan, making up the flow of funds from the Bank of Japan to city banks like Mitsui Bank to Mitsui Bussan and then on to spinning companies. Prior to the Russo-Japanese War, spinners were hard-pressed by the lack of operating funds in particular, with very low operating fund ratios (operating fund to fixed assets) on the part of the 10 largest spinners, especially during the period between 1894 and 1904, reaching a pathetic one per cent in 1900.<sup>21</sup>

For these spinners, the role of promissory notes to offset the lack of operating funds was indeed great, without which their continued operation would not have been possible.

Although the credit extended by Mitsui Bussan to these spinners fluctuated with the business cycle, the overall trend was upward, as the latter consolidated themselves into viable enterprises. No limit was set to the credit extended to Kanegafuchi.

After the Russo-Japanese War, the spinning companies started to have more funds, with more and more of them paying cash for the raw cotton they purchased in the early 1910s. Mitsui Bussan gradually ceased to provide credit to spinners. At the same time, competition mounted in the sales of raw cotton to them. Mitsui Bussan's cotton trade also was subjected to stiff competition from rival traders.

Credit extension served the purpose of expanding cotton trade, but when the spinners were too weak, the risk involved was excessive. On the other hand, when the spinners grew stronger, credit extension served little purpose in maintaining business relations. Such difficulties peculiar to trading companies became more conspicuous after World War I, but in the case of the spinning industry, there were early indications of the coming complications.

Mitsui Bussan was able to expand its cotton trade by a variety of measures: it carried out direct purchases of raw cotton, bore risks with some offsetting relations with affiliated companies like Kanegafuchi, and also played the financing function, not in the form of advance loans (as was the case in the coal industry), but in the form of discount bills issued by client spinners.

#### *(b) Machinery*

SPINNING MACHINES. Ever since its establishment, Mitsui Bussan had been importing various machines at the request of the government, but what provided the spring-board for this category of trade was the importation of spinning machines. As already mentioned, it was Mitsui Bussan that provided Osaka Boseki, largest spinning company in Japan, spinning machines from Platt Brothers and Co., reputed to have been the best spinning machine producer. This led to an agency agreement with that British company in 1886. When the spinning industry underwent spectacular growth a few years later, accompanied by the emergence of large spinners in various parts of Japan, many of the new plants imported spinning machines from Platt Brothers through Mitsui Bussan. For the one-year period starting in January 1892, as much as 81 per cent of the new orders for spinning machines on the contract basis went to Mitsui Bussan for Platt machines.<sup>22</sup>

After the Sino-Japanese War, spinning machine imports by Mitsui Bussan amounted to 5 to 6 million yen in 1896 and 1897, declining gradually thereafter. The decline was due to the completion of a cycle of development of the spinning industry as well as the development of domestic manufacturing by such firms as Toyoda.

RAILWAY EQUIPMENT. Next in importance in terms of relative weight for Mitsui Bussan was railway equipment. The handling of railway equipment was only

started in 1894, when Mitsui decided to enter this sector, after which it started importing such products as iron goods, locomotives, steam boilers, rails, and bridges from Great Britain and the United States. The products were first-rate, produced by American Locomotive and General Electric, and orders were received not only from Japan but also from Taiwan, Korea, and Manchuria. However, Okura Shoji had been doing more business in railway equipment, and it was not easy for Mitsui Bussan to catch up with this rival in this trade. The total imports of railway equipment rose sharply in 1907 and 1908. However, the government subsequently adopted the policy of priority use of domestically produced goods, and obligatory use of such products as rails produced by the government-owned Yahata Seitetsu, for one. Imports of railway equipment thus declined.

**OTHER MACHINERY.** Mitsui Bussan handled other categories of machinery, such as electric appliances, iron and steel products, and arms and other military equipment. After the Russo-Japanese War in particular, these other categories of machinery increased in business volume; and with the development of health and other public facilities in many municipalities, and the rapid spread of city water and electricity provisions, Mitsui Bussan acquired many of the orders for these projects.<sup>23</sup>

Mitsui Bussan also received voluminous orders for arms imports. In 1910 the first aircraft import order was placed with this trading company, and so was that for the cruiser *Kongo*, which subsequently invited a navy kickback scandal (the Siemens Incident). Mitsui Bussan also bought obsolete arms from the Japanese military authorities and exported them to such countries as Thailand and China. In 1908 Taihei Kumiai was established together with Okura Gumi and Takada Shokai to hard-sell arms to mainland China. These enterprises with foreign administrations and regimes were large in scale and quite advantageous to the trading companies involved.

This period also coincided with that of rapid growth of large-scale hydro-electric power generation, which initiated a rapidly increasing trade of machinery and equipment, such as generators.

Mitsui Bussan's share in the total machinery imports of Japan was overwhelming, amounting to over 80 per cent even toward the end of the Meiji period. Some of the reasons for this strength in machinery trade are as follows. First, Mitsui Bussan concluded agency agreements with prestigious foreign firms, made possible by the early start it made, the confidence it had built during its days as purveyor to the government by importing machinery, the accumulation of know-how on foreign trade, and the prestige of Mitsui. Second, in terms of its relations with its clients, many were government offices, spinning firms, and other large entities dealing in large volume, which meant simpler distribution routes and thus the availability of direct contact with the end users. This was indeed a trade practice in which Mitsui Bussan excelled.

In the mean time, however, the government had decided on a policy of shifting emphasis from total dependence on imported machinery to national production of these machines. The bottle-necks Mitsui Bussan faced in ac-

quiring the marketing rights of Japanese-made machinery will be examined below.

### (3) Merchandise Originating in Overseas Expansion

#### (a) *Cotton Yarn*

The handling of cotton yarn by Mitsui Bussan consisted mainly of its import until about 1890, and it only amounted to a small volume. It was only after the Sino-Japanese War that its export took on a persistent upward trend. In 1897 it exceeded Indian cotton yarn in the Chinese market, and even outgrew British cotton yarn in the market after the Russo-Japanese War. Mitsui Bussan displayed overwhelming strength in this area of cotton yarn exports, occupying about one-third of Japan's total cotton yarn exports in the 1900s, sometimes even going over the 50 per cent level. It often amounted to 10 per cent of Mitsui Bussan's total business in the 1900s.

One of the major reasons for such success has already been alluded to: the profound ties with the spinning companies forged through supplying raw cotton, coal, and spinning machines. When in 1894 Mitsui Bussan concluded special contracts with Kanegafuchi Boseki (or Kanebo for short) and Miike Boseki (or Miikebo) to supply raw cotton, it also obtained the exclusive right to market their cotton yarn abroad. This agreement with Kanebo was dropped in later years, but in the 1905 contract, provisions were made for Mitsui Bussan's handling of one-fourth of Kanebo's export-oriented cotton yarn, as well as for the former's overbought position. Such ties with the giant spinner of Kanebo was of no little significance for Mitsui Bussan. Around 1900, it also concluded sole agency agreements with such small- and medium-scale spinners as Asahibo, Chugokubo, and Yamatobo, on the condition that loans or advance payments be made by Mitsui Bussan.<sup>24</sup> Mitsui Bussan thus was able to secure a 30-per-cent share in total cotton yarn exports from Japan.

#### (b) *Cotton Cloth*

Cotton cloth production and export took longer to mature than cotton yarn. Mitsui Bussan had made early attempts to penetrate markets in the Orient with cotton cloth, achieving only meagre results in the 1890s. It first tried to develop an improved hand-loom operation and export its products, but shifted its emphasis to machine-woven cloth in the face of insurmountable competition from the West. What brought a drastic change to these efforts to export cotton cloth on the part of Mitsui Bussan was the Russo-Japanese War. When Japan emerged victorious from the war, which had been fought over hegemony in Manchuria, Japan was now going out to this area in earnest, and the initial form it took was the concerted effort of the Japanese government and Japanese private businesses to expand cotton cloth exports, with Mitsui Bussan at the fore. In 1906 it united the major spinning-weaving companies of Osakabo, Miebo, Okayamabo, and Tennambo to form Nihon Menpu Yushutsu Kumiai (Japan Cotton Export Union).

This new organization had close contacts with and the strong support of the government, the Japanese consulates, Japanese military outposts, and the Yokohama Specie Bank to initiate dumping Japanese cotton cloth in the Manchurian market. This had the double purpose of destroying US positions in cotton cloth trade there and of collecting military notes that had been liberally issued for use in Manchuria during the war with Russia. Mitsui Bussan had exclusive charge of selling Japanese cotton cloth in Manchuria. Under this scheme, it sold as much cotton cloth as 40,000 bales during the two years 1906 and 1907, totally doing away with American cotton cloth in Manchuria.<sup>25</sup>

Mitsui Bussan also facilitated the formation of a union of spinners to penetrate the Korean market, this time bringing in Osakabo, Miebo, and Kanakin Seishoku in March 1907 and also acquiring sole agency rights for their products. Both in the case of cotton yarn and that of cotton cloth, Mitsui Bussan's rapid growth stemmed not from its domestic sales growth but from that abroad. Mitsui Bussan's role in overseas expansion can be looked upon as a typical case of a trading company performing the organizer function in its effort to increase exports together with the government, which was also intent on overseas expansion through the two wars with China and Russia.

*(c) Soya Beans and Soya Bean Cakes*

On the other side of the coin of the growth of cotton yarn/cloth exports was the import of Manchurian soya cakes, beans, and oil. Soya cakes gained widespread popularity in Japanese villages as superb fertilizer after the Russo-Japanese War, and Mitsui Bussan bought this item in Manchuria with the export revenue it collected from the sales of cotton yarn/cloth, sugar, wheat flour, and arms in China. "If one had to borrow money from the Specie Bank to buy soybean cakes, one would have to pay a rather high interest rate,"<sup>26</sup> but an effective combination of export and import activities made it possible to use the available funds very efficiently. Also, the Manchurian peasantry gained greater purchasing power (to buy cotton cloth from Japan) by selling soya beans. The soya bean trade was intimately tied to the export of cotton products.

Soya beans had been an important global commodity since Mitsui Bussan started exporting them to Europe in 1908 for extracting oil. This pioneer soya bean trader went deeper into the interior of the country in search of supply sources. Purchases at the Talien and Yingkou markets alone would be speculative in nature, pushing up the price if purchase volumes were large, prompting Mitsui Bussan to buy in interior local markets at such places as Tieling and Kuangchengzi. Subsequently, it established advance posts in such other places as Andong, Changchun, Xipingjie, Kaiping, and Gongzhuling, further consolidating its interior purchasing network. In 1906 it also established Santai Oil Mills, Ltd. Highly speculative in nature, other trading companies entered the soya bean trade to create stiffer competition, but Mitsui Bussan maintained its top position. The trading of soya beans, bean cakes,

and soya oil was also one of the most important categories of products for the total business of Mitsui Bussan.

This development of the soya bean trade, as well as the cotton products trade, was inconceivable without the acquisition of the Manchurian Railway through the Russo-Japanese War. This railway enhanced the value of the Manchurian market immensely by completing the huge cycle of merchandise flow through the sales of cotton cloth and the purchase of soya beans in the villages along the railway. The impact of fare reductions by this railway and the improvement of port facilities and otherwise more convenient transportation facilities was also considerable. At any rate, the development of the cotton and soya bean trade was firmly based on the political and military advances Japan made in Asia.

Another important item whose trading volume increased as a result of Japan's expansion in Asia was sugar. Initially it was imported only in small quantities, amounting to 320,000 yen in 1897. In 1902, after Taiwan had become Japan's colony as a result of the Sino-Japanese War, Taiwan Seito Kabushiki Kaisha was established under the leadership of Mitsui Bussan, exclusively marketing its products. Mitsui Bussan also acquired the sole agency rights for the products of Nihon Seito for the Kyushu area. Within the context of the rapidly growing sugar industry at this time, Mitsui Bussan's volume of sugar sales increased, together with the shifting emphasis on its imports from foreign countries to domestic buying and selling. By 1907 the total sugar sales had come to amount to 8,170,000 yen, but it subsequently increased by leaps and bounds to make sugar one of the most important items of merchandise for Mitsui Bussan during the interwar years.

#### (4) Background to the Financing Function – Financial Operations of Mitsui Bussan

Among a number of factors behind the expanding array of merchandise Mitsui Bussan handled, of central importance was the substantial financing function of this company. Let us briefly review its financial operations so far as is necessary to have a better understanding of its entire trading business.

When Mitsui Bussan was first established, it was merely a private entity with no capital endowment, except for the agreement with Mitsui Bank to borrow 50,000 yen. This was mainly because the Mitsui family was uncertain about the prospects of their new business, and, as was expected, they seem to have had considerable financial difficulties in the initial years, often borrowing funds from the Ministry of Finance, Daiichi Kokuritsu Ginko (the First National Bank), and Mitsui Bank. It was in 1893 that it was incorporated into an unlimited partnership company with a capital of 1 million yen.

After the Sino-Japanese War, the business of Mitsui Bussan expanded rapidly and the internal reserves also increased quickly, reaching about 2 million yen by 1896. In the 1900s, the reserve fund kept increasing at a high rate, and a grant from Mitsui Dozokukai for the purpose of raising the capital added further. In 1909 a huge amount of assets was transferred from the

**Table 5.** Main financial indicators of Mitsui Bussan (1893–1908) (¥1,000)<sup>1</sup>

	Capital	Reserve fund <sup>2</sup>	Reserve fund for various purposes <sup>3</sup>	Payment for family ass'n	Profits
1893	1,000	301	—	—	180
1894	1,000	563	125	—	390
1895	1,000	1,000	692	—	553
1896	1,000	1,250	804	—	363
1897	1,000	NK	NK	—	630
1898	1,000	NK	NK	—	910
1899	1,000	NK	NK	—	1,137
1900	1,000	3,740	1,833	—	628
1901	1,000	4,370	1,798	—	1,077
1902	1,000	4,740	1,701	NK	778
1903	1,000	5,480	3,095	NK	932
1904	1,000	6,450	3,515	920	1,197
1905	1,000	8,500	3,210	2,450	1,198
1906	1,000	11,150	3,115	4,320	1,077
1907	1,000	13,100	3,781	5,530	1,026
1908	1,000	14,450	2,942	5,690	779

  

	Loans	Negotiable securities	Real estate	Ships	Small steamers
1893	49	146	251	460	—
1894	42	153	127	373	—
1895	37	171	128	823	—
1896	59	176	139	770	—
1897	37	181	416	1,460	—
1898	75	353	521	1,463	—
1899	62	532	688	2,012	—
1900	221	743	850	2,332	—
1901	84	934	821	2,329	100
1902	1,531	1,167	827	1,092	113
1903	2,015	1,112	687	2,078	173
1904	2,009	1,064	791	2,697	233
1905	1,404	420	971	1,938	387
1906	2,302	864	1,743	2,054	538
1907	1,803	1,928	2,262	2,054	560
1908	1,423	1,620	3,405	1,658	785

*Source:* Compiled from Matsumoto Hiroshi, "Nihon shihonshugi kakuritsuki ni okeru Mitsui Bussan no hatten" (Development of Mitsui Bussan during the period of consolidation of Japanese capitalism), *Mitsui Bunko Ronso*, no. 7, pp. 125, 126. The original source for the data from which this table is compiled comes from balance sheets of Mitsui Bussan Gomei Kaisha.

reserve fund to capital, the partnership now becoming a joint stock company with a capital of 20 million yen.

In addition to these big internal reserves, one is struck by the short-term loans Mitsui Bussan received from foreign banks and Mitsui Bank. Its ties with Mitsui Bank were particularly strong, naturally involving discounting of bills, but in times of difficulties, Mitsui Bank supported Mitsui Bussan financially, even by recovering loans to other firms.

How did Mitsui Bussan operate its trading financing? Here the role of the Yokohama Specie Bank was indispensable. This bank was of a special kind, specifically established to provide trade financing through low-interest loans from the Bank of Japan. Mitsui Bussan borrowed from the former almost unlimitedly to meet most of its foreign exchange fund needs. Rapidly expanding business eventually resulted in such large credits provided to Mitsui Bussan that "the bank had to share the fate of Mitsui Bussan." This resulted in the conclusion of an agreement between the two that set a limit to the amount of credit to be extended. The initial ceiling was 12 million yen. Mitsui Bussan thus had to turn to other banks, resorting to active use of credit houses, with Mitsui Bank establishing a foreign affairs section to expand and support foreign exchange businesses.<sup>27</sup>

In supporting the financing operations of Mitsui Bussan, the roles of the government and of the government-funded Yokohama Specie Bank were substantial. Full use of its membership in a *zaibatsu* organization was also apparent, as can be seen from the support Mitsui Bank extended to the trading company.

## II. Reorganization as a General Trading Company during the Interwar Years

### 1. Business Strategy during the Interwar Years

Japanese capitalism achieved phenomenal growth through World War I. Prior to the war, the Japanese economy was so deep in recession that it was nearly forced to abandon the gold standard because of large trade deficits and growing interest payments on foreign debts. World War I proved truly to be a Godsend for the Japanese economy. The war boom brought about an unprecedented prosperity to Japanese capitalism, almost tripling its GNP from 1914 to 1919 and almost quintupling its industrial production during the same period.

World War I had an equally big impact on Mitsui Bussan. Its scale of operations grew suddenly, and its sales volume jumped from the 400-million-yen level before the war to 2.1 billion yen in 1919. A capital increase was effected in 1918 from 20 million yen to 100 million yen, and the total was paid up in only two years. The number of commodities handled also increased rapidly, to over 1,000 items. Mitsui Bussan's penetration into the Chinese market also became much more vigorous during and after World War I.

While Mitsui Bussan's operations expanded, new problems also arose, among which the most serious were the emergence of powerful rivals and the rapid growth of manufacturing enterprises. In the war years, trading firms were established one after another, and all of them threatened the markets of Mitsui Bussan. Suzuki Shoten above all looked as if it was ready to overtake Mitsui Bussan. The growth of manufacturers lowered the financial dependence on Mitsui Bussan also, making it no longer possible to maintain the marketing rights in the traditional way on many fronts, while cases arose where manufacturers themselves entered into distribution. Domestic production in general threatened the position of Mitsui Bussan, which had been strongest in import activities. Advances into the Chinese market also did not meet initial expectations due to violent political turmoil, making it doubly important to maintain its position in the domestic distribution system.

How did Mitsui Bussan perceive these difficulties, and what countermeasures did it map out? Many of these problems have features in common with the problems being faced by trading companies today. In this section, the new management strategies during the interwar years will be revealed, together with their impact on the actual trading activities of Mitsui Bussan.

#### (a) Greater Vigour in Penetrating the Chinese Market

One of the most conspicuous trends in Mitsui Bussan's business operations during World War I was a greater vigour exercised in its efforts to penetrate the Chinese market. Capitalizing on entry into the war, Japan presented China with the Twenty-One Demands to secure a position of strength in the race of splitting up China. Mitsui Bussan, on its part, felt that "it is quite natural to make the best use of this opportunity to expand our business," and was resolved to make the most of the political exploits of the Twenty-One Demands, claiming that "business in China must be pursued with the greatest vigor by all means."<sup>28</sup>

At the heart of its business in China was its approach to the central and local governments to sell equipment and machinery related to railways and various public projects, such as electric power generation, telegraph and telephone, as well as arms and ammunitions. But the biggest bottle-neck in these efforts was the lack of sufficient funds to pay for the merchandise on the part of many of the clients, often making it "impossible to carry out business unless loans are provided, thus involving us in money lending."<sup>29</sup>

The Yüan Shih-k'ai regime, establishing itself by suppressing the 1911 Revolution, received a total of 68 loans, large and small, between 1912 and 1916. The Japanese government provided loan after loan to this military regime, the most conspicuous among them being the Nishihara loan, amounting to 145 million yen. Mitsui Bussan itself also provided the central government with loans for arms as well as for the printing bureau of the Finance Department and for telegraph operations of the navy. These loans were made on condition that specific products would be bought, but some of them resulted in default.

There was less certainty in securing payments from local governments and

**Table 6.** Mitsui Bussan's credit to China (as of the end of April 1925)

Debtor	Balance of principal	(Interest rate)	Mortgage	Credit-extending office	Product sold
National securities of finance dep't	1,188,416 won	(7%)*	Tobacco & alcohol tax revenue	Headqtrs.	Armament
Printing bureau of finance dep't	2,588,834 yen	(10%)	Whole assets of bureau	Headqtrs.	Machinery
Jinghan railway of transport dep't	53,877 won 315,655 yen	} (12%)		Tienchin Tienchin	Sleeper Sleeper
Jinpu railway of transport dep't	540,300 US\$ 133,245 won		} (10%)		Tienchin Tienchin
Jingsui railway of transport dep't	618,282 yen 37,340 US\$ 3,074 yen	(12%) (10%)			Tienchin Tienchin Tienchin
	2,860,325 yen	(8%)	Revenues & 42 locomotives	Tienchin	Locomotive
Jinpu railway of transport dep't	3,376,730 won	(10%)		Machinery section	Lease of wagons
Wuhan telephone office of transport dep't	79,271 pounds	(9%)	Telephone equipment	Machinery section	Materials
Mint of finance dep't	2,533 taels	(10%)		Hankou	Bleaching powder
Total	4,752,268 won 6,386,181 yen 79,271 pounds 577,640 US\$ 2,533 taels		13,900,000 yen		

Source: Mitsui Bunko, ed., *Mitsui jigyōshi hompen dai 3 kan jō* (The history of Mitsui operations), main volume 3, part 1, p. 368.

Note:

The following conversion ratios are used:

£1 = ¥10, US\$1 = ¥2, 1 won = ¥1, 70 taels = ¥100.

\* indicates "negotiation under way to raise the interest rate to 10%."

private firms. For this reason, Mitsui Bussan sometimes resorted to having investment firms geared to China take over the task of investment in China by “making use of such investment organizations as Chunichi Jitsugyo, Shina Kogyo, the recently established Chuka Dengyo, Taiwan Ginko, and Kogyo Ginko, which were asked to provide loans, so that we could act as an intermediary and be paid for this service by contracts to sell machinery and materials.”<sup>30</sup>

Mitsui Bussan also foresaw that “the situation in China seems to enter an era of strenuous race mainly for mining concessions as the war in Europe comes to an end,”<sup>31</sup> prompting it to invest in mines and in Fengshan Coal Mine. For the same reasons, it took part in the establishment of Xingyuan Company and Shandong Mines, among others, and bought stocks of Kailuan Coal Mine.

In spite of these investments in China, the political situation there remained unstable. Yüan Shih-k'ai died in 1916, followed by a series of wars among warlords, such as the Anzhi War in 1920, the Fengzhi War in 1922, and the second Fengzhi War in 1924. People's resistance movements also emerged and developed through such incidents as the May 4 Movement in 1919 and the May 30 Movement in 1925. Under such circumstances, repayment of debts was not made smoothly, inevitably preventing further penetration into the Chinese market. Business with the central government of China or with local warlords was similar in nature to the business as a purveyor to the government, closely tied to political eventualities and therefore highly unstable.

Rather than sales offensives, businesses on the basis of capitalistic development of China developed more persistently. Particularly, trade between China and third countries grew steadily, consisting of the sales of Indian cotton to Japanese spinners in China or Chinese spinners, the export of Chinese soya beans and oil to Europe, the import of linen bags to China, the import of American wheat to China for the Chinese flour-milling industry, and the import of Javanese sugar, among others. The rapid increase of third-country trade after World War I was due to the rising volume of trade involving China at either end. Trade between China and third countries was perceived to be one important means of business growth, and it was said that “one feels a strong need to pursue trade between China and other foreign countries vigorously.”<sup>32</sup> For all the years following World War I, except for 1922, the volume of third-country trade remained larger than either exports, imports, or domestic trade. But, as demonstrated by the unprecedentedly large share of domestic trade for 1927, there was a gradual shift toward emphasis on domestic trade. The Chinese market remained quite unstable throughout the 1920s, and the explosive growth of trade with China only occurred after Japan's war with China.

#### (b) Emergence and Decline of Rival Trading Companies

World War I brought forth numerous trading companies and their rapid growth. In 1917 the Furukawa *zaibatsu* established Furukawa Shoji, and in

**Table 7.** Proportion of Mitsui Bussan export/import/domestic/third-country trade (in %)

	Export	Import	Domestic trade	Third-country trade
1913	38.0	33.5	14.8	13.7
1914	37.0	34.0	15.0	14.0
1915	34.0	25.0	17.4	23.0
1916	32.6	23.3	16.4	27.8
1917	28.7	18.4	22.5	30.4
1918	24.8	20.2	25.1	30.0
1919	19.0	23.0	24.5	33.5
1920	20.0	22.4	24.3	33.3
1921	25.7	22.1	23.7	28.5
1922	30.2	25.7	23.3	20.8
1923	26.2	22.9	25.3	25.4
1924	25.5	24.4	24.1	26.0
1925	25.0	23.2	24.8	27.0
1926	23.7	23.7	24.8	27.8
1927	23.6	23.1	28.0	25.3
1928	23.2	22.4	23.3	21.1
1929	23.3	21.3	35.3	20.2
1930	20.7	20.6	25.8	22.9
1931	20.6	16.5	38.4	24.5
1932	20.4	16.4	37.9	21.2

*Source:* Compiled from Daiichi Bussan Kabushiki Kaisha, ed., *Mitsui Bussan Kaisha Shoshi* (A brief history of Mitsui Bussan Kabushiki Kaisha) (Tokyo, Daiichi Bussan Kabushiki Kaisha, 1951), pp. 161–168.

1918 the Mitsubishi *zaibatsu* established Mitsubishi Shoji. Both Asano Bussan and Kuhara Shoji were born in the same period, in 1918 and 1919 respectively. And Suzuki Shoten, having been established in early Meiji, grew dramatically during the war years, and was almost catching up with Mitsui Bussan. Numerous other trading companies also grew so rapidly that Mitsui Bussan's share in the total foreign trade in Japan declined from World War I through the 1920s (see table 8).

The basic contribution factor to the dramatic surge of trading companies in this period was the rapid expansion of industry and trade brought about by the outbreak of World War I. In terms of the management strategy being pursued at the time, however, there was a considerable amount of speculative transactions, riding on the wave of the wartime boom, that brought in substantial windfall profits. Another factor was the investment and loans made in the manufacturing sector, or even the starting up of manufacturing operations on the part of trading companies, which characterized their development as *zaibatsu*-oriented phenomena.

On speculative operations by trading companies, for instance, Suzuki

**Table 8.** Mitsui Bussan's share in Japan's foreign trade

Fiscal year	Export	Import	Total	Fiscal year	Export	Import	Total
1904	13.7	14.9	14.3	1918	20.6	19.5	20.1
1905	16.1	17.4	16.8	1919	19.7	22.0	20.9
1906	16.9	17.8	18.4	1920	16.5	15.9	16.2
1907	19.0	21.1	20.1	1921	17.1	11.0	13.6
1908	18.8	23.5	21.3	1922	15.8	10.7	13.0
1909	25.9	22.8	24.3	1923	15.3	9.9	12.2
1910	22.4	19.8	21.1	1924	14.9	10.0	12.0
1911	24.5	21.4	22.8	1925	12.3	9.7	10.9
1912	24.8	20.0	22.2	1926	12.8	10.7	11.7
1913	24.8	19.1	21.8	1927	13.2	11.5	12.3
1914	27.3	23.9	25.6	1928	14.4	12.1	13.2
1915	22.3	19.8	21.2	1929	13.9	11.5	12.7
1916	22.8	22.6	22.7	1930	13.8	12.3	13.0
1917	21.0	20.5	20.8	1931	13.8	10.5	12.1

*Source:* Yamazaki Hiroaki, "1920 nendai no Mitsui Bussan" (Mitsui Bussan in the 1920s), in Nakamura Takafusa, ed., *Senkanki no Nihon keizai bunseki* (The Japanese economy in the inter-war years) (Tokyo, Yamakawa Shuppansha, 1981), p. 309.

Shoten sent telegrams to branch offices, instructing them to "buy anything with iron & steel in it in any quantity at any price," immediately after the outbreak of World War I. Huge windfall profits resulted.<sup>33</sup> But Mitsui Bussan remained critical of speculative dealings by rival traders, and was sceptical about the possibility of "surviving the sure-to-come violent changes and difficulties if they continued with blind and head-long offensives as seen now." At Mitsui Bussan, there was a realistic perception of the on-going turmoil in 1916 to the effect that prices were now "war prices, rising as if there were no limits," that would inevitably "plummet sooner or later when peace returns."<sup>34</sup> It was preparing itself for the coming reactions. Not only did Mitsui Bussan advise itself against speculation, it surveyed the credit worthiness of its clients, and, where necessary, instructed its branches to restrain long-term contracts or dealings and even curtail (or enlarge) the upper limits of credit extended. It made distinctions between overbuying and overselling that are essential for business on the one hand and speculation on the other, and tried to suppress the latter in fully preparing itself for the boom's aftermath that it clearly foresaw.

This cautious attitude put it in a defensive position in the face of the onslaught by galloping rival trading companies riding on the wave of rising prices, inviting a declining market share for Mitsui Bussan. However, the same cautious attitude was to secure a high and stable level of profits in the

1920s, especially in the latter half of the 1920s, when many of its former rivals went out of business one after another.

Many other trading companies sank in the series of economic hardships following the end of World War I: the first wave of panic in 1920, the panic caused by the Great Kanto Earthquake in 1923, and the financial panic of 1927. Already in 1920 the post-war price collapse and lack of cash flow invited the declines of Mogi Gomei (a star trading company during the war), Masuda Boeki, Abeko Shoten, Yuasa Boeki, Furukawa Shoji, and Kuhara Shoji, among others. The panic following the devastating earthquake and the ensuing exchange loss brought down Takada Shokai, the largest importer of machinery in Japan, and the 1927 financial panic did away with Suzuki Shoten. Suzuki had had considerable difficulties since the immediate post-war panic, but the bankruptcy of its main bank, Taiwan Bank, proved its last straw. Taiwan Bank had provided loans to Suzuki Shoten and Suzuki Gomei amounting to about half of the total loans, and they represented a fund that was put together after considerable manoeuvring through taking in call money.<sup>35</sup> These events showed that speculation and a vulnerable financial basis were the root cause of many of the bankruptcies of trading companies in this period.

The contrasting caution on the part of Mitsui Bussan in avoiding speculation has been mentioned. In fact the company went beyond caution against speculation: it jettisoned the cotton-related products from its lines because of their speculative nature and forced Toyo Menka to become independent. One sees here a culmination of the wisdom of Mitsui Bussan, which had by then survived many war booms and equally numerous reactions to the booms since its inception.

However, Mitsui Bussan was deeply concerned about another reason for the rapid growth of its rivals – the expansion of their merchandise through capital ties with manufacturers. For instance, there was a voice in a meeting of the heads of branch offices claiming that “it goes without saying that trading companies with ties with manufacturers that mainly deal in self-produced products and only subordinately deal in general merchandise have a far stronger basis of business than those that rely wholly on commission businesses alone.”<sup>36</sup>

And indeed those trading houses that had been separated from trading divisions of existing *zaibatsu* groups (such as Mitsubishi Shoji, Kuhara Shoji, Asano Bussan, and Furukawa Shoji) emphasized the products from manufacturers belonging to the same group. And many trading companies established their own companies or invested in manufacturers. Suzuki Shoten for one had as many as 29 direct affiliates and 62 general affiliates as of 1923.

It is generally postulated that monopolistic capitalism tends to eliminate commercial capital enterprises. But in the case of Japan, commercial capital enterprises played leading roles in nurturing industrial capital since the Meiji period, when *zaibatsu* groups were being formed, and this specifically Japanese trend was even strengthened in the 1920s in new forms. Mitsui Bussan began investing actively, partly as the inevitable result of competition

with other trading companies. *Zaibatsu* groups thus pursued the strategy of conglomerate formation with commercial interests at the forefront.

(c) Growth of Manufacturing Firms and Investment Policy

Another problem faced by Mitsui Bussan during the post-World War I period – that of the relationship with manufacturing firms – has already been mentioned. A glimpse into the complexities of the relationship between manufacturers and distributor/trading companies can be gained through such comments as the following: Mitsui Bussan saw Mitsui Mining and other Mitsui-group companies harbouring “a constant feeling of scepticism toward our company, somehow feeling that our great profits include some of the profits that are due to them, resulting in a dormant animosity to our company.”<sup>37</sup> Mitsui Bussan indeed had a realistic perception of its relations with other manufacturers outside the Mitsui orbit: there are only three cases of manufacturers asking Mitsui Bussan to market their products – when their brand names are so little known that Mitsui prestige serves their purpose; when they are “forced” to forego their own marketing activities “due to a lack of funds or financing; or when they have no marketing staff of their own.” But whenever these restrictions disappear, so that “they can market their own products by their own hands, they invariably try to sell their products directly to end users without going through intermediaries.”<sup>38</sup> And as a matter of fact, the end of World War I saw a rapid rise in the development of manufacturing firms in metals, machinery, raw-silk- and cotton-related products, gradually eroding the hitherto consignment relations between Mitsui Bussan and these firms (see below for details).

Commodities also have their own product life cycle, “inevitably inviting fluctuations in demands for all commodities,” which calls for development of new and “promising” merchandise to be handled.<sup>39</sup> This was particularly urgent under the government policy of promoting heavy and chemical industrialization domestically.

Mitsui Bussan adopted one specific countermeasure: to invest and finance even more actively than before. It had traditionally avoided long-term fixed investment as a principle of strategy. It did not dispatch its own personnel to serve on the board of other firms. But in this period a new trend emerged “with a slight change in our thinking, that [we should] own stocks and [our directors] should go to our affiliates.”<sup>40</sup> Mitsui Bussan was going one more step forward from the traditional policy of subjugating manufacturers by making advance loans to them to the new line of effecting direct investment in them, sending its directors to them, and thus taking hold of the marketing rights from them by internally intervening in their management. This move resulted from the stiffer competition with rival trading companies, but the growth of the manufacturers themselves was also a contributing factor.

Mitsui Bussan’s investments jumped dramatically between 1916 and 1920. The trend was arrested for a while during the post-World War I panic, but in 1926 the new trend was confirmed to the effect that “[Mitsui Bussan] should adapt itself to the changing circumstances by investing in manufacturing and

equipment industries in the directions of certainty as broadly as finance allows."<sup>41</sup> This pronouncement was followed by another surge of investment in other firms.

During World War I Mitsui Bussan invested more heavily abroad as a precursor to its prospective advances to China. When in the 1920s heavy and chemical industrialization proceeded, it started to invest in heavy industry and chemical firms, and as the silk and cotton industries developed, more investment was made there also. Among other diversified areas of investment were foodstuffs and sundry goods. Many of these investments were made as the price for agreements involving sales of raw materials or purchases of products. Ties with manufacturers were strengthened not merely through investment. Financing and other traditional methods were also usefully combined.<sup>42</sup>

Thus, a greater vigour in investment and financing was one of the principal management strategies of Mitsui Bussan following the end of World War I. However, it had several hundred firms with which it had agency agreements (simply because it handled a large variety of commodities as a general trading company), and it was impossible to provide finance to all of these firms without limit. And there was a natural tendency to avoid fixing assets during a recession. Some also claimed that "it is impossible as well as undesirable to meet infinite demands by finite funds necessarily involving risks of immobilizing assets and/or getting no repayments, compelling us to come up with new devices."<sup>43</sup> Thus, the strategy of investing and financing was supplemented by other means, including various tactics to obtain commercial rights by penetrating local markets, as will be described below.

#### (d) Advances into Local Markets and the Use of Control Agencies and Unions

The investing and financing strategy had a parallel line of activities from about the mid-1920s in local market penetration and the use of control agencies and unions. Let us first deal with how the former was implemented. The policy was one of expanding sales networks in local municipalities and villages in Japan so that Mitsui Bussan would be dealing directly with local wholesalers and consumers. At the same time, the policy was aimed at greater trade volume for smaller items for daily use by ordinary Japanese, including rice, fertilizers, foodstuffs, sundry goods, small-scale machinery, and heating stoves. In a word, it was a policy of circumventing the stagnant large-scale demands in large cities by developing new markets. This policy, announced as the most urgent matter at a meeting of branch office heads in 1926, was immediately implemented, resulting in an increase in the number of local wholesalers with which Mitsui Bussan dealt from 318 in 1925 to 991 four years later.<sup>44</sup> Villages had been the traditional exploit of rice-fertilizer dealers, into which this large general trading house made important penetration by expanding sales networks. The hegemony thus established over local

distribution channels was to lead to a greater volume of business in sugar, wheat, soya beans, and other foodstuffs, as well as (chemical) fertilizers.

Mitsui Bussan also embarked on improving and streamlining the nerve ends of the distribution networks, reaching the consumers themselves. To take the case of coal, Mitsui Bussan had traditionally supplied coal only to such large clients as the railway authorities, with demands exceeding 1 million tons a year, and to big businesses, in addition to coal export. In order to avoid being locked in this small sector, Mitsui Bussan established marketing companies: Sanshi Sekitan in 1924, and Sanrin Rentan Genryo and Toyo Muentan in 1925. In 1928 it effected capital participation in Munakata Shokai in order to be able to serve as a middleman in the coal business.

All this was done "in order to come as close as possible to the demand creators, that is, the consumers. . . . Since a higher profit ratio is a very positive aspect of local business, the closer we get to consumers, the greater the profit will be." It followed that "going to local markets to approach consumers ever more closely requires the establishment of sales organizations."<sup>45</sup> Thus, Mitsui Bussan wanted to open up new distribution channels in Japan to be tied directly with consumers or with a newer strata of consumers.

What this policy entailed was the use of control agencies and unions, such as Zenkoren (National Federation of Consumers Unions), Nomin Kumiai (Federation of Farmers), and Yushutsunyu Kumiai (Exporters and Importers Association). Mitsui Bussan was to "take part in the planning of these organizations to help them in being established," and to "enjoy enough of their confidence so that they will entrust our company with sales and purchases."<sup>46</sup> The essence of the policy was to "found a union to unify manufacturers and wholesalers" in dealing with small and medium-sized local industries, and to deal with farmers by helping with their production or purchase or sales unions so that Mitsui Bussan would "acquire exclusive marketing rights."<sup>47</sup> Mitsui Bussan thus would lend funds, raw materials, or machinery to small and medium-sized local industrialists and farmers and have them organize themselves into unions, while it maintained exclusive sale's rights to their products. It was in this manner that Mitsui Bussan had farmers produce chickens, oranges, ham, and dairy products, and also had small and medium-sized industries organize themselves and produce bicycles, woolen goods, knit goods, and shell buttons. For instance, bicycles were produced by organizing a number of parts makers and providing advance loans to them so that they would manufacture bicycles to be exported.

Local markets were emphasized not merely as outlets for commodities. Production was organized, too, so that their products could be marketed both domestically and internationally. One factor behind such a move on the part of Mitsui Bussan was the government policy of placing a priority on the export of miscellaneous goods (the Important Export Goods Industries Union Act was promulgated in 1925), as well as the growing trend to organize and control industries. As a way of dealing with the international payment

deficits in the 1920s, the government looked to the possibility of the export of products produced by small and medium-scale industries (which already had contributed greatly to the country's export performance) and by farmers as a sideline.

The domestic distribution system had confronted Mitsui with the issue of how to deal with rapidly rising farmers' and producers' unions. At any rate, Mitsui Bussan now started to perform its organizer function in earnest.

## 2. Commodity Dealings during the Interwar Years

What impact did the management strategy described above have on the ways in which individual commodities were handled? What was the financial position of the company?

Let us first examine the financial position of Mitsui Bussan (see table 9). Earnings more than quadrupled during the war years, declined rapidly after the second half of 1920, but started to pick up again after 1924 to remain rather stable at around 20 million yen until the 1929 panic. Internal reserves also increased during the war, and so did the capital – from 20 million yen to 100 million yen in February 1918, all paid up by 1920. On the assets side, the rise in stocks owned is most conspicuous, showing a 2.5-fold increase from 13,300,000 yen in 1919 to 33,520,000 yen in 1926 (from an inventory included in business reports for the relevant years). It registered a large surplus in inter-enterprise credit extension also. On the liabilities side, the decline in bank account is noteworthy, indicating the financial strength of this trading firm.

In general, Mitsui Bussan accumulated a huge fund in the context of the war boom during and immediately after the war. Profits declined somewhat during the post-war panic, but remained high through the rest of the 1920s. It had ample funds and it continued to increase investment and credit extension. Such a stable financial position as that enjoyed by this firm seems to attest to the validity of its business strategy, especially in view of the many bankruptcies trading firms suffered in the 1920s.

The volume of business of individual products, as indicated in table 10, showed a five-fold increase of total commodity transactions from the pre-war years to 1919. Between 1920 and 1923, commodity trade declined to the 800-million-yen level, due to the impact of the post-war panic and also to the separation of Toyo Menka. But it started to rise again after 1924, growing beyond 1 billion yen. Despite the dropping of cotton products (they had occupied about 40 per cent of total commodity transactions), trade was maintained at the high level attained during the war years throughout the 1920s. In terms of the break-up into export, import, and domestic and third-country trade, the war years also witnessed a big change: prior to the war, export and import occupied about 70 per cent of total trade; during the war, however, domestic trade and third-country trade increased drastically, so that roughly a one-to-one ratio was obtained between foreign trade involving Japan on either end on the one hand and domestic and third-country trade on the other (see table 7).

Many of the important commodities retained their status in this period – raw silk, coal, raw cotton, cotton yarn/cloth, machinery, metalware, sugar, rice, soya, and soya oil – but there was a trend for a greater diversity of commodities, numbering over 1,000 by this time, so that the relative weight of key products gradually declined. Let us examine individually the trend for some key commodities below.<sup>48</sup>

### Coal

Although the volume of coal trade declined somewhat between 1914 and 1918, its value increased by about 2 or 3 times due to the sharp price increases for coal between 1916 and 1920. Another change in coal trade was the large drop in export in contrast to rises in domestic trade. In 1913 these two outlets were about equal, but in 1919 domestic sales were about five times as large as export sales. This was caused by rising domestic demand, due in turn to the war boom. Coal was no longer an export commodity but became the source of motive power for domestic industries. In order to stabilize its domestic trade in coal, Mitsui Bussan secured long-term contracts with Osaka Shosen, Taiwan Seito, Kurashiki Boseki, Tokyo Gas, Hiroshima Gas, Kyushu Tetsudo, and the Railway Department.

The trade volume of Chinese coal increased during this period also. Mitsui Bussan had already obtained the exclusive sales rights for the coal from Fushun Mine (operated by the Manchurian Railway) in 1907 and had started selling it abroad; it finally started to market it in Japan around 1912. In 1914 it also concluded an exclusive sales agreement for Kailuan coal, thus consolidating its indisputable position and capable of “exercising complete *control* over the coal market of the Orient.”<sup>49</sup> By that time, Mitsui Bussan was already handling about 40 per cent of domestically produced coal. It now had control over the coal from Fushun as well as from Kailuan. Furthermore, in October 1916 Mitsui Bussan took the lead in concluding a sales agreement for Asia among Mitsubishi, Furukawa, the Manchurian Railway, the Kailuan Mine, and itself.

But when the war boom was over (after 1920), the price of coal started to drop. The demand for coal as fuel for foreign ships dropped sharply, Japanese industries had the boom years behind them, and development of the coal industry in China brought forth large amounts of imports to Japan from Fushun, Kaiping, Shangtung, and Hongji among other localities.

This also happened to be the transitional period from the use of coal to that of electricity as the source of energy, meaning a total decline for the coal industry as a whole. One notes in passing that electric motors exceeded steam engines in 1915, and that by 1930 about 80 per cent of the needed motive power was derived from electricity.

In the face of this secular downward trend in the price of coal, the five companies of Mitsui, Mitsubishi, Furukawa, Yasukawa, and Kaijima formed Koshikai, a coal cartel, in 1924, in order to make adjustments in the price of coal and its outlets. Despite such an effort, however, the declining trend could not be reversed.

**Table 9.** Balance sheet of Mitsui Bussan

(a) Assets (¥1,000)

Item	As of the end of the first half of																	
	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930
Land, buildings, ships Marketable securities, etc. } Merchandise account Shipbuilding account	10,022	9,407	11,135	10,796	13,913	24,017	37,031	48,570	53,928	53,657	65,420	61,773	64,278	67,088	80,254	80,091	90,311	95,515
Client account	23,217	33,655	30,648	51,579	112,407	237,832	278,623	159,588	68,778	49,560	43,544	31,267	49,168	46,222	62,618	67,740	76,137	60,464
Bills receivable	43,146	42,725	39,974	51,173	69,142	140,689	175,675	112,364	78,572	1,508	1,122	82	495	388	162	1,616	954	483
Contra-account for request of remittance	21,868	30,343	31,037	25,858	28,473	34,948	52,644	63,472	55,800	89,119	85,732	82,866	93,567	98,673	106,689	115,134	120,948	114,012
Various bonds	—	—	—	27,229	25,281	51,889	43,745	42,454	26,087	63,491	66,270	72,080	73,414	65,285	47,076	61,560	64,805	50,983
Cash	31,414	50,816	42,502	48,422	24,129	35,797	44,933	29,776	51,648	3,978	5,609	11,415	10,989	19,218	34,033	53,635	60,530	29,467
<b>Total</b>	<b>133,644</b>	<b>172,555</b>	<b>166,710</b>	<b>226,044</b>	<b>292,564</b>	<b>559,204</b>	<b>686,286</b>	<b>516,754</b>	<b>364,281</b>	<b>133,644</b>	<b>172,555</b>	<b>166,710</b>	<b>226,044</b>	<b>292,564</b>	<b>559,204</b>	<b>686,286</b>	<b>516,754</b>	<b>364,281</b>
Land, buildings, ships Marketable securities, etc. } Merchandise account Shipbuilding account	53,657	65,420	61,773	64,278	67,088	80,254	80,091	90,311	95,515	53,657	65,420	61,773	64,278	67,088	80,254	80,091	90,311	95,515
Client account	49,560	43,544	31,267	49,168	46,222	62,618	67,740	76,137	60,464	49,560	43,544	31,267	49,168	46,222	62,618	67,740	76,137	60,464
Bills receivable	1,508	1,122	82	495	388	162	1,616	954	483	1,508	1,122	82	495	388	162	1,616	954	483
Contra-account for request of remittance	89,119	85,732	82,866	93,567	98,673	106,689	115,134	120,948	114,012	63,491	66,270	72,080	73,414	65,285	47,076	61,560	64,805	50,983
Various bonds	28,867	35,174	34,589	27,709	30,730	33,462	35,957	33,207	16,884	28,867	35,174	34,589	27,709	30,730	33,462	35,957	33,207	16,884
Cash	35,366	31,645	13,301	4,985	14,541	20,075	26,213	26,094	18,641	51,947	50,661	45,651	42,051	71,855	68,086	77,298	78,409	62,954
<b>Total</b>	<b>373,516</b>	<b>379,570</b>	<b>341,610</b>	<b>357,667</b>	<b>394,782</b>	<b>418,423</b>	<b>465,609</b>	<b>490,870</b>	<b>419,937</b>	<b>373,516</b>	<b>379,570</b>	<b>341,610</b>	<b>357,667</b>	<b>394,782</b>	<b>418,423</b>	<b>465,609</b>	<b>490,870</b>	<b>419,937</b>

## (b) Liabilities (¥1,000)

	1913	1914	1915	1916	1917	1918	1919	1920	1921
Paid-up capital	20,000	20,000	20,000	20,000	20,000	70,000	70,000	100,000	100,000
Various reserves	11,271	14,558	16,044	21,461	35,185	11,153	43,119	24,202	33,098
Client account	—	—	—	24,692	28,554	85,127	112,132	79,265	55,351
Bills payable	59,542	88,237	73,251	74,992	81,296	120,288	186,724	122,105	41,113
Account for request of remittance	—	—	—	27,229	25,281	51,889	43,745	42,454	26,087
Liabilities account	39,993	46,928	54,193	48,817	81,979	201,548	220,446	137,109	104,393
Balance brought over from the last account	285	283	273	357	399	685 •	469	295	159
Earnings of this account	2,553	2,549	2,950	8,497	19,870	18,514	9,653	11,323	4,080
<b>Total</b>	<b>133,644</b>	<b>172,555</b>	<b>166,710</b>	<b>226,044</b>	<b>292,564</b>	<b>559,204</b>	<b>686,286</b>	<b>516,754</b>	<b>364,281</b>
	1922	1923	1924	1925	1926	1927	1928	1929	1930
Paid-up capital	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Various reserves	33,928	36,471	39,744	43,766	44,418	48,517	53,416	58,337	61,594
Client account	44,337	37,451	19,561	57,777	67,200	53,063	60,455	69,470	60,163
Bills payable	71,939	83,562	104,746	82,305	97,442	100,453	122,002	136,129	82,034
Account for request of remittance	28,867	35,174	34,589	27,709	30,730	33,462	35,957	33,207	16,884
Liabilities account	87,905	79,207	35,448	37,420	41,403	74,619	84,051	84,266	90,669
Balance brought over from the last account	1,466	1,552	545	638	799	727	748	665	660
Earnings of this account	5,075	6,153	6,977	8,052	12,790	7,583	8,981	8,797	7,933
<b>Total</b>	<b>373,516</b>	<b>379,570</b>	<b>341,610</b>	<b>357,667</b>	<b>394,782</b>	<b>418,423</b>	<b>465,609</b>	<b>490,870</b>	<b>419,937</b>

Source: Togai Yoshio, *Mitsui Bussan Kaisha no keitishi-teki kenkyō* (A business history study of Mitsui Bussan) (Tokyo, Toyo Keizai Shinposha, 1974), pp. 125, 150.

**Table 10.** Product-by-product business volumes of Mitsui Bussan (¥1,000)

	1913	(%)	1916	(%)	1919	(%)	1922	(%)
Raw cotton	39,347	9.7	114,567	15.8	300,310	13.8	—	—
Cotton yarn	29,032	7.2	37,039	5.1	84,781	3.9	—	—
Cotton cloth	19,227	4.7	41,034	5.6	241,949	11.3	—	—
Raw silk	52,529	12.9	99,647	13.7	136,963	6.4	196,663	22.6
Coal	58,138	14.4	61,948	8.6	196,117	9.2	121,034	13.9
Machinery	30,457	7.4	23,055	3.2	99,093	4.6	121,489	13.9
Metalware	21,238	5.2	66,621	9.1	82,963	3.8	59,151	6.8
Lumber	9,003	2.2	12,895	1.8	30,272	1.4	19,104	2.2
Sugar	22,618	5.5	52,452	7.2	148,574	6.9	93,160	10.7
Rice	21,472	5.2	8,855	1.2	157,518	7.3	9,592	1.1
Soya beans	9,085	2.2	10,609	1.4	18,832	0.8	10,077	1.2
Soya bean cakes	6,330	1.5	12,963	1.8	31,990	1.5	7,176	0.8
Soya bean oil	(3,592)	(0.8)	9,700	1.3	94,199	4.4	8,008	0.9
Wheat	3,818	0.8	—	—	—	—	17,968	2.0
Wheat flour	7,884	1.9	8,336	1.1	14,911	0.7	9,281	1.1
Ammonium sulphate	3,223	0.7	2,513	0.3	11,470	0.5	7,181	0.8
Rubber materials	—	—	1,621	0.2	28,504	1.3	4,858	0.5
Linen cloth/bag	—	—	30,904	4.3	99,049	4.6	26,321	3.0
Top/wool	4,121	0.9	8,590	1.2	32,758	1.5	24,096	2.8
Cement	1,994	0.4	3,138	0.4	7,380	0.3	8,122	0.9
Total (inc. others)	402,040	100.0	720,543	100.0	2,130,270	100.0	865,162	100.0

	1925	(%)	1928	(%)	1931	(%)	1934	(%)
Raw cotton	—	—	—	—	—	—	—	—
Cotton yarn	—	—	—	—	—	—	—	—
Cotton cloth	—	—	—	—	—	—	—	—
Raw silk	209,813	18.3	199,599	15.7	100,667	11.9	105,862	7.0
Coal	138,052	12.0	149,540	11.7	98,648	11.6	118,155	7.8
Machinery	68,240	5.9	94,089	7.4	69,654	8.3	129,069	8.6
Metalware	93,448	8.1	104,328	8.2	65,773	7.8	206,521	13.7
Lumber	26,630	2.2	31,933	2.5	16,691	1.9	36,430	2.4
Sugar	152,554	13.3	115,480	9.0	68,781	8.1	83,041	5.5
Rice	22,581	1.9	32,282	2.5	20,105	2.4	46,349	3.1
Soya beans	20,895	1.7	39,215	3.0	33,940	4.0	57,038	3.8
Soya bean cakes	18,903	1.5	27,019	2.1	12,143	1.4	14,343	0.9
Soya bean oil	20,459	1.7	13,617	1.0	8,604	1.0	7,916	0.5
Wheat	17,067	1.4	33,742	2.6	37,255	4.4	19,779	1.3
Wheat flour	12,381	1.0	62,198	4.9	31,652	3.7	51,428	3.4
Ammonium sulphate	21,808	1.9	29,386	2.3	18,636	2.2	27,654	1.8
Rubber materials	50,930	4.5	36,296	2.8	44,735	5.3	117,744	7.8
Linen cloth/bag	58,282	5.0	49,837	3.9	19,512	2.3	39,285	2.6
Top/wool	39,101	3.4	36,391	2.8	15,865	1.8	49,463	3.2
Cement	13,909	1.2	17,576	1.4	18,423	2.2	27,542	1.8
Total (inc. others)	1,141,729	100.0	1,265,044	100.0	841,732	100.0	1,499,530	100.0

Sources: Compiled from Mitsui Bussan, *Jigyō hōkokusho* (Business report) for the years cited; Mitsui Bussan Kabushiki Kaisha Chosaka, ed., *Dai 8 kai shitenchō kaigi shiryō 12: Satkin 7 nen kan tōsha eigyō tokēihyō oyobi gaisetsu* (Materials for the 8th meeting of heads of branch offices, 12: Business statistics for the last 7 years and an outline) (Tokyo, Mitsui Bussan, 1921). Refer also to Yamamura Mutsuo, "1910-20 nendai ni okeru Mitsui Bussan kaisha no hatten dōkō" (Development trends of the Mitsui Bussan company in the 1910s and 1920s), *Asahikawa Daigaku Kiyo*, no. 10, table 1.

Notes:

1. Figures are on the settlement basis for external sales.
2. Soya bean oil for fiscal year 1913 includes other oil fertilizers.

### Raw Silk

Raw silk was one commodity whose trade volume did not rise drastically while that of many other products did. But even after 1920, when these other commodities plunged in business volume, raw silk continued to fare well, registering sales of nearly 200 million yen each year after 1920. For Mitsui Bussan it afforded the largest trade volume for a single item throughout the 1920s, since it had abandoned earlier cotton trade. Silk trade was strong while that of most other commodities faced difficulties of one kind or another. This was basically because of the prosperity in the US economy, which absorbed over 70 per cent of the total silk trade of Mitsui Bussan: "The boom in the United States brought about increased sales of silk fabrics."<sup>50</sup>

Other factors supporting Mitsui Bussan's superior performance were the investment it made in good domestic filatures such as Gunze Seishi and the larger volumes of Chinese silk it brought into its silk trade. We have already noted that Mitsui Bussan had bought most raw silk through merchants at Yokohama during the Meiji period. Some attempts were made to carry out direct transactions with major filatures, but this only invited the animosity of foreign merchants. It was neither advisable nor possible to completely replace the financing capacity of the merchants. For these reasons, Mitsui Bussan never did attain direct trade with silk producers. However, as filatures gradually came to attain financial strength and rationalized their operations, thus reducing the risks involved in direct trade with them, elimination of the intermediary became a natural concept. It was said that "when filatures become wealthier, merchants will be merely brokers. Our policy should be adjusted to such an eventuality. There is a definite need to form close ties with silk producers."<sup>51</sup> Advance loans for silk had been made prior to World War I in the amount of "300 to 400 thousand yen in total," but as the war boom gave additional strength to silk producers, Mitsui Bussan started to make advance loans to Gunze Seishi and Katakura Seishi. The total amount now reached the 3-million-yen level.<sup>52</sup> It also started to subscribe to stocks issued by major filatures. "Owing to the needs in the silk business [we] subscribed to the stock of Teikoku Yoson Kabushiki Kaisha, and also to that of Kono Seishi, Katakura Seishi, Nikka Sanshi, and Gunze Seishi, among others," and this was done "from the viewpoint of encouraging exclusive marketing." The exclusive marketing arrangement based on the agreement with major silk producers on the basis of investment and financing relations was an important factor for Mitsui Bussan's success in consolidating its position in the silk trade. It is said that "the reason for our supremacy in Japan (in silk trade) lies in our possession of special silk in addition to ordinary silk purchased in the market, that is, we have such affiliates as Gunze, from which we can buy and sell *carte blanche*. This is a weapon we possess."<sup>53</sup> It was the ability of Mitsui Bussan to buy and sell silk from major producers like Gunze without limit that pushed up the position of this trading company in the volatile silk market.

Mitsui Bussan also was handling a greater volume of Chinese silk. It first

started to deal in Shanghai silk as early as in 1906, and in the next year it started to deal in Shanghai tussler silk; in 1911, in Kuangtung yarn; and in 1913, in Shanghai machine-produced silk. In 1917 it contributed half the cost of building a filature, Hankou Yarn Factory, and marketed its products exclusively. The volume of Chinese silk handled by Mitsui Bussan thus increased.

On the domestic front, however, silk producers gradually accumulated financial strength. Katakura Seishi started to export its products directly by opening up a branch office in New York in 1924. Gunze Seishi opened up its Kobe branch in 1923 to start up wholesaling, that is, expanding its activities to distribution. The development of the rayon industry in the United States, however, forced down the silk price in a secular trend. Although volume increases offset the declining price, difficulties remained in the silk trade.

Since silk was a luxury item mainly for the United States market, it was critically dependent on the behaviour of the American economy. This vulnerability very clearly revealed itself after the global panic. Silk was a first ranking commodity in 1929, its trade amounting to 16 per cent of the total business of Mitsui Bussan, but after 1931 it had fallen to half that, until it amounted to only 6 per cent of the total in 1935. Although the immediate cause was the invention and propagation of a substitute, nylon, silk as a commodity had entered a declining phase.

#### Machinery

In machinery trade, the proportion of imports dropped substantially during the war. Prior to World War I, 80 to 90 per cent of Mitsui Bussan's machine trade was made up of imports. But the share of domestic trade of machinery had already started to rise during the war, lowering the share of imports to 50 to 60 per cent of the total. Its domestic trade reached the 20-per-cent level in the first half of the 1920s, the 30- to 40-per-cent level in the latter half of the same decade, and as high as the 60-per-cent level in 1932, with imports accounting for only 10 per cent of the total (based on business reports for the respective years). Herein lay a big problem for Mitsui Bussan, however. When machinery was being imported, Mitsui Bussan was in an overwhelmingly strong position with agency agreements with many major manufacturers. But in handling domestic machinery, the small number of machinery manufacturers within the Mitsui *zaibatsu* proved quite detrimental to Mitsui Bussan, because "trading firms like Mitsubishi with affiliated machine manufacturers or those firms like Furukawa, Sumitomo, Kawasaki Shipbuilding, and Kuhara, which both manufacture and sell," grew stronger.<sup>54</sup> Or the manufacturers themselves preferred "to sell directly to the users rather than going through intermediaries," causing Mitsui Bussan deep concern: "If those, like our own company, with no strong ties with manufacturers proceed as they are, the future prospects make one shiver."<sup>55</sup>

The situation became very serious in the 1920s, but already during and immediately after the war, Mitsui Bussan and others had shown genuine concern and started to voice proposals to invest actively in Japanese firms in the

heavy industries. Mention has been made of the new strategy of Mitsui Bussan during the interwar years to invest in manufacturing, and this policy was emphasized most strongly in the machinery division. At the 1918 meeting of the heads of the branch offices, the following proposal was made: "In doing business in machinery today we must maintain close ties with manufacturers within the homeland, for which there could be a number of methods, but whichever method we are to adopt, we must first and foremost possess *interests* in that company by *investing* in it."<sup>56</sup>

In 1917 Mitsui Bussan acquired stocks of Nihon Denki and concluded an agency agreement for the Chinese market with this electric company. It established Sanki Kogyo in 1925, Sansho Jidosha and Tsugami Seisakusho in 1928, and invested in Toyo Babcock. It also bought stocks of Yuasa Chikudenchi Seizo (Yuasa Storage Battery Manufacturing Co., Ltd.) and Naigai Dennetsuki Seizo and started taking part in management.

The policy of Mitsui Bussan to promote investment in manufacturing applied to all spheres of manufacturing activities, but it came about first and foremost from a sense of crisis in the machinery section.

However, as this investment policy could not be pursued with equal vigour throughout the 1920s, it was not applied consistently even within the machinery sector. Investment for the purpose of acquiring commercial rights had to be made in numerous companies, thus each investment was small in scale. In cases where the companies that were invested in lacked technical ties with other like companies, the investment had little effect in terms of on-going heavy industrialization. Unlike the war years, the 1920s were marked by recessions, which also prevented smooth heavy industrialization. Furthermore, Mitsui Bussan's financial position did not allow large funds to be tied down. As a result of all these factors, serious investments in heavy industries had to wait until after the Manchurian Incident and the war with China.

#### Raw Cotton and Cotton Yarn/Cloth

Mitsui Bussan's raw cotton business also jumped during the war years from the 1915 import figure of 1,738,000 bales (amounting to 4,160,000 yen) to 2,078,000 bales (equivalent to 183,500,000 yen) in 1919, while its third-country trade in raw cotton increased from 288,000 piculs (6,300,000 yen) in 1915 to 1,330,000 piculs (115,650,000 yen) in 1919 (from the business report for each year). One notes a far greater increase of the value of trade rather than the volume, due to rising prices, and a bigger increase in third-country trade than in imports. The post-1916 jumps in raw cotton imports were due to the development of the domestic cotton industry assisted by the rising exports of cotton and the rising prices of cotton goods. The increases in third-country raw cotton trade were largely due to the growing export of American raw cotton to Europe.

Cotton yarn trade increased both in volume and value due to bigger business in Chinese cotton yarn, but in terms of the share of Mitsui Bussan's cotton yarn export value in Japan's total exports of the same product, it declined from 40 per cent in 1916 to a mere 5 per cent in 1919.

Regarding cotton cloth and cotton goods, we note that supply breakdowns of European and American products due to World War I made it possible to expand exports to China and other Asian countries as well as to Latin America and even to the Near and Middle East.

However, applying to the business of both raw cotton and cotton yarn/cloth, "their prices change violently, implying (very grave) dangers," and the situation could "change dramatically depending on the outcome of diplomacy or wars." Furthermore, competition with rival trading firms "grew ever stiffer day by day." Particularly, "Nihon Shogyo Kaisha, under the management of Suzuki (Shoten), started dealing in raw cotton, cotton yarn, and cotton cloth, and its ample funds made it possible for it to acquire overnight a majority share of Tenman Orimono Kaisha, our long-standing client, to snatch away our business."<sup>57</sup> The very basis of Mitsui Bussan's cotton trade was being eroded. Both in cotton yarn and cotton cloth, its share in the total trade in Japan declined.

Such loss of ground was also due to the cautious attitude of Mitsui Bussan regarding overselling and overbuying. Particularly during and immediately after World War I, "selling and buying on speculation is rampant, and it is not possible to engage in trade without long-term speculation." While other trading companies "were sometimes engaged in quite extraordinary speculations," Mitsui Bussan on the other hand "was of the thought that there was no knowing what violent changes might take place depending on how the war goes," and that "although huge profits could be expected on the assumption that long-term forecasts are possible," Mitsui Bussan held on to the policy of "avoiding large risks as much as possible." Such a policy put Mitsui Bussan on the defensive, but it also saved Mitsui Bussan from suffering fatal damage from the collapsing market, as in the case of Mogi Shokai. However, since cotton trade was in fact "quite speculative and the competition was far keener than in other trades," Mitsui Bussan finally established Toyo Menka as a separate company in April 1920 to carry on the entire trade in raw cotton and cotton products.<sup>58</sup> Although the idea of having a separate company for cotton goods was not new, the final decision was made rather quickly in March 1920 in the face of the growing seriousness of the post-war economy.

One can see a very clear indication of Mitsui Bussan's attitude toward speculation in the way it responded to the challenge posed to it in the cotton market.

### Metals

Mitsui Bussan's metals trade consisted mainly of the importation and domestic marketing of pig-iron, the exportation of copper, the importation and third-country trade of tin, and the domestic trade of zinc.

When World War I broke out, the prices and value of such militarily important materials as zinc, antimony, and copper rose sharply. The shipping boom pushed up the demand for rolled steel, pig-iron, and tin plate, among other products. Iron products occupied about 30 to 40 per cent of the total metal trade during the war years, and while their trade was mostly made up

of imports initially, their rising prices in Europe and the United States and the embargo from Europe and the United States gradually raised the share of domestic trade until, in 1918, domestic trade amounted to half of that in imports.

Third-country trade of tin was also noteworthy. Most of it concerned the sales of Malaysian tin to the United States, which in 1919 occupied nearly 30 per cent of Mitsui Bussan's total metal trade.

But Mitsui Bussan's share in Japan's total metals trade dropped from 21.2 per cent in export and 16.9 per cent in import in 1914 to 13.4 per cent in export and 5.5 per cent in import in 1919.<sup>59</sup> Such a weakening of Mitsui Bussan's position in metals trade was due mainly to the fact that the Mitsui *zaibatsu* only had one mining company, as "the basis of our business (in this metal trade) is merely the refining activities of lead and zinc at Mitsui Kozan." As a result, in connection with the export of copper to China, it happened that "electrolytic copper, which we have tried to propagate for three years with a lot of sweat, has now fallen in the hands of Furukawa, amounting to a loss of important and hard-won business."<sup>60</sup>

In pig-iron trade, Mitsui Bussan had "had a very strong basis" by acting as an agent for Hanyang Iron Works, having agreed to buy up one year's production from Tata Iron Works, and also handling part of the products from the Wanishi Plant of Hokkai Seitetsu. However, by the war years that basis had been shaken to a considerable extent with the embargo placed on Hanyang Iron Works as well as on Tata, and most of the products from the Wanishi Plant going over to Nihon Seikosho.

Yahata Seitetsusho had traditionally apportioned 140,000 tons of pig-iron to Mitsui Bussan, out of which 40,000 to 50,000 tons had been specifically earmarked for this trading company. However, "the steel works changed its method and adopted a new method of public bidding," and since it was done in small lots, "small merchants came to bid quite successfully." On the export front, "because many of the metal merchants have come to have abundant funds, they prefer to buy directly."<sup>61</sup>

Mitsui Bussan had maintained its monopolistic position through its special ties with the government, its superb financing capacity, and its ties with foreign manufacturers, but the rapid growth of trading companies as well as manufacturers in Japan now made it difficult to retain such a position in the traditional way. How Mitsui Bussan responded to this challenge can be examined through the case of iron and steel, the most important metals commodity in the 1920s. The first option was to strengthen sole agency arrangements with the use of investment and financing as a leverage. In 1924 it concluded a sole agency agreement *sine die* with Kamaishi Kozan and Yusei Seitetsu, due to "deepening ties, including lending of funds in the recent past."<sup>62</sup>

Another response was to occupy an important position as a member of sales cartels. In the area of rolled steel, Yahata Seitetsusho had come to suffer from excessive inventory by 1924 as a result of global disarmament, and it adopted a system of having only designated traders bid for its products,

appointing seven companies, including Mitsui Bussan. Two years later, it limited its sales routes to only five companies (Mitsui Bussan, Mitsubishi Shoji, Iwai Shoten, Ataka Sangyo, and Suzuki Shoten, the last of which subsequently went bankrupt, leaving only four trading companies), while securing the sales rights of Yahata's products. After Suzuki Shoten disappeared from the scene, Mitsui Bussan was able to secure the largest share of the remaining four, at 33 per cent.

In 1927, four private steel firms (Nihon Kokan, Fuji Seitetsu, Kamaishi Kozan, and Azuma Tekko) formed the Kanto Steel Sales Union with the five assigned traders of Mitsui Bussan, Mitsubishi Shoji, Iwai Shoten, Ataka Sangyo, and Fuji Kozai. This was the first of a number of such product-based joint sales unions that would come about by 1934, all of which designated Mitsui, Mitsubishi, Iwai, and Ataka, among other traders.

A sales union for pig-iron was formed in 1926 by the five steel works of Nihon Seikoshō (later Wanishi Seitetsu), Kamaishi Kozan, Mitsubishi Seitetsu, Benxiho Coal and Iron Co. and the South Manchuria Railway. Mitsui Bussan was recommended by Nihon Seikoshō and Kamaishi Kozan to serve as the appointed marketer.<sup>63</sup>

Thus, although Mitsui Bussan had lost ground in iron and steel trade during the war boom years, it recovered lost ground and more by consolidating its position as the designated steel dealer as anti-depression cartels were formed in the latter half of the 1920s. Such an accomplishment was partly due to taking Kamaishi Kozan and Wanishi Seitetsu into the Mitsubishi orbit, but of greater importance was the integration of its ties with the national Yahata Seitetsu within the context of sales cartels.

By the latter half of the 1920s, metals had come to yield solid business to Mitsui Bussan, of equal importance to it as machinery and soya products, next only to raw silk, coal, and sugar in importance. In the 1930s, metals registered rapidly rising trade volumes, attaining a number one position. Pig-iron, steel, and scrap iron were most important in terms of their relative weight, together occupying about a 50-per-cent share by 1934. The foundation for this later development clearly was laid during the 1920s. Metals trade was typical of Mitsui Bussan's strategy in that investment-financing was efficiently combined with the use of control agencies in order to build a foundation for prospective growth in the ensuing decade.

#### Foodstuffs

Trade in foodstuffs increased sharply during World War I, and its precipitous but temporary drop immediately after the end of the war was followed by considerable recovery to occupy over 20 per cent of the total commodity trade of Mitsui Bussan. Table 10 shows that the five largest items were sugar, rice, wheat, wheat flour, and soya products. Let us examine them one by one. Sugar retained its top ranking during the 1920s, and Mitsui Bussan occupied the first or second place among all the Japanese sugar dealers by exercising sole agency rights for products of its affiliate, Taiwan Seito (this company itself was consistently the top sugar producer), and purchasing raw materials

in Java for Japanese sugar producers. Sugar consumption in Japan registered a four-fold increase from 1921 to 1930, which was the main factor for greater trade volumes of sugar. But in the late 1920s and the early 1930s, the global oversupply of sugar brought about “a pathetic downward trend” in sugar prices.<sup>64</sup>

It was in this context that Mitsui Bussan played an important role in the formation of a production restraining agreement by the sugar association in 1926. In the following year, the sugar supply union was formed by six sugar companies. Mitsui Bussan became one of its designated sugar dealers and made efforts to maintain the price of this food item. The perpetual need to expand the market was conveniently met by Mitsui Bussan's policy of penetrating local markets.

Mitsui Bussan's rice trade grew steadily after the mid-1920s. Since the end of the Meiji period, its rice trade had consisted largely of rice imports and domestic distribution of the imported rice. In 1918 the Imported Rice Control Ordinance was issued to increase supplies, and four companies – Mitsui, Suzuki, Yuasa, and Iwai – were designated as foreign rice dealers.

In addition to importation of rice from abroad, Mitsui Bussan also gained large profits by bringing in Korean and Taiwanese rice to Japan and also by taking the rice of Rangoon and Saigon origin to Korea and Taiwan.<sup>65</sup> One-fourth of the rice trade by Mitsui Bussan was indeed of the latter, third-country type.

Trading in wheat and wheat flour made up two sides of the same coin. The wheat trade consisted mainly of wheat imports and third-country trade, bringing Canadian, Australian, American, and Chinese wheat either to Japan or to other countries. As domestic wheat flour production grew, its export also rose. There were a growing number of cases where wheat was supplied “to flour mills in our homeland” and wheat flour was exported “as compensation for the wheat imported.” But up until the early 1920s, most of the wheat trade consisted of importation, domestic trading, and third-country trade. When in 1927 Suzuki Shoten went out of business, however, Mitsui Bussan became involved in the management of Nihon Seifun, a subsidiary of Suzuki Shoten, and obtained the sole agency rights for the products of Nihon Seifun. This sharply pushed up the wheat flour trade of Mitsui Bussan, until the trade volume registered a record exceeding 40 million yen in 1929. When Japan's presence in China as well as in Manchuria became more apparent in the 1930s, the third-country wheat trade of importing wheat from Australia and other sources to China assumed increasingly greater importance.

The three soya products, that is, beans, oil, and cakes, were next only to sugar in their importance. Soya bean cakes had been in greater demand since the end of Meiji as a fertilizer replacing fish, and most of it came from Manchuria. Soya beans had been a valuable global commodity ever since Mitsui Bussan first sold Manchurian soya beans to Europe in 1908, where they were used as a welcome oil substitute for cotton seeds and linseeds. A lot of soya oil was exported to the United States, particularly during World War I.

These three products were of great importance for the Manchurian economy, in which they constituted 50 to 60 per cent of total exports.

Mitsui Bussan's trade in these three products increased rapidly from 1917 to 1919. It plummeted thereafter, but it started to rise again from around 1923 to the end of the 1920s, until it amounted to over 100 million yen at the end of the decade. This trade value was comparable to that of machinery and metals.

Mitsui Bussan's success in the soya bean trade was due to its efforts to go to the interior of China to seek supplies. As early as the years following the Russo-Japanese War, it bought soya beans not only in large central distribution centres at Talien and Yingkou but also in such smaller local markets as Tieling and Kuanchengzi. By the end of the 1920s, it had "advanced to north-eastern Manchuria, to the Ji Chang line, to the Feng Hai line, and to the Songhua River, to which a tightly knit purchasing net was extended."<sup>66</sup> However, toward the end of the 1920s, Mitsui Bussan ran into ever deeper conflicts with Manchurian military regimes, which themselves sought to be engaged in the soya bean trade.

The overall picture of trade in foodstuffs in the 1920s reveals that the loss of sugar trade was offset by that in cereals. One should note that this foodstuffs trade had its basis in the Asian markets, and that it was closely connected to Mitsui Bussan's policy at the time of advancing into local markets and villages in Japan.

Foodstuffs continued to grow in the 1930s, to the extent that they made up about 40 per cent of the total commodity trade of Mitsui Bussan. This increase was due mainly to larger cereals trade by branches in Manchuria and China. Japan's war with China at this time was fought precisely over agricultural products there. Mitsui Bussan was one with the Japanese military in this context, and it acted on the request from the military to extract cereals from the Chinese and Manchurian peasantry and market them in the Japanese homeland or in its colonies or occupied areas.

## Conclusions

What are some of the reasons for the development of Mitsui Bussan as a general trading company?<sup>67</sup> First of all, we must mention the way in which it was born. It was born as a purveyor to the government and, as such, was to import or export a great variety of merchandise. Since one of its parent bodies was Mitsui Kokusankata, it was engaged not only in foreign trade but also in domestic trading of marine products and rice from the very outset. These two categories of trade were both strongly characterized by government patronage, and the personal relations with high government officials that helped this infant trader obtain these commercial rights were naturally of great assistance in expanding business in all directions.

The second reason for Mitsui Bussan's success as a general trading company was its strategy of doing away with its purveyor character during the

period in which industrial capitalism consolidated itself and of attaining a firm grasp over the textile industries through the distribution system. The importance of this factor becomes crystal clear, particularly when one compares the case of Mitsui Bussan with that of Okura Shoji, which also started as a purveyor to the government, sometimes even outshining Mitsui Bussan, which, however, subsequently stagnated due to its failure to establish a firm enough hegemony on industrial capital.

In order for a general trading company like Mitsui Bussan to achieve sustained growth, it was not enough to deal in a large variety of merchandise. It was necessary to have commodities with a large growth potential in its repertoire. Of singular importance in this context is its success in placing the cotton industry under its control during the period of its consolidation as an industrial capital enterprise through the entire production process, from the supply of raw materials, foreign machinery, and the source of motive power, coal, to the exportation of its products.

Additional factors that favourably affected the fate of trading companies were the great weight of exports in the development of both cotton products and raw silk, and their dependence on imported raw cotton and state-of-the-art machinery. In other words, it was Japan's reproduction structure itself that allowed for the vigorous activity of the trading companies.

Thirdly, one should mention the concurrent growth of both Mitsui Bussan and the Mitsui *zaibatsu* as a reason for the former's success. The purchase of the Miike mine and the establishment of Mitsui Kozan were inconceivable without Mitsui Bussan, and, conversely, as indicated above, the importance of Miike coal for Mitsui Bussan was enormous. There are other areas where business diversification with financial backing from Mitsui Bank and Mitsui Gomei positively assisted Mitsui Bussan in its growth.

Running through all of these reasons for Mitsui Bussan's success is the extremely important role of the government, direct or indirect. Naturally it was important in Mitsui Bussan's operation as a purveyor to the government and through its purchases of government properties. The foreign policy of the country was also intrinsically related to this trader's exports of cotton yarn and cotton cloth. It was heavily dependent on the Yokohama Specie Bank for its needs of foreign currencies.

One must not overlook the sound judgment and extreme caution that Mitsui Bussan exercised in handling individual commodities, expanding the array of merchandise handled, and broadening its operations and functions. The point has been made throughout this chapter, making it superfluous to cite individual functions here again.

One should also note the rich human resources Mitsui Bussan possessed as an indispensable factor behind the sound management policy it pursued. It has always recruited many graduates from both commercial institutions and general universities ever since its inception. The term "treasure box of human resources" has often been applied.

At the same time, however, Mitsui Bussan's development in the Meiji period was also due to its early start, its monopolistic control, and the under-

developed state of Japan's manufacturing industries and the distribution system. When these conditions disappeared in the years after World War I, it had to confront squarely the agonies of commercial capital under a new set of circumstances. It then reorganized its trading functions, invested in manufacturing industries to strengthen its ties with them, made advances to and organized the nerve ends of the distribution system, made use of control agencies and various unions, rearranged its relations with state capital.

However, there were manufacturers who started to engage in distribution, and there were commodities (like silk) whose life cycle dictated a downturn. The areas in which trading companies could serve useful purposes became more closely identified, they being first agricultural products and raw materials. No mention has been made in this chapter of Mitsui Bussan's activities in the 1930s, but it was in these areas where Mitsui Bussan played its most specific roles in that decade, partially due to the circumstances of World War II. The second major area for trading companies was the handling of products produced by the affiliated companies within the same *zaibatsu* group. Thirdly, there was a group of commodities handled in third-country trade. Last, one can mention various products produced by small and medium-sized industries, for which Mitsui Bussan fulfilled a necessary financing and marketing role and for which it could perform its role as an organizer to the fullest. And these activities of Mitsui Bussan continued on into the post-World War II era, and served as a prototype for other trading companies to follow.