5

General Trading Companies in Pre-War Japan: A Sketch

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Introduction

The concept of *sogo shosha*, translated here as general trading company, emerged and was popularized in the mid-1950s in the context of the post-war development of the Japanese economy. It is understood to indicate those business enterprises engaged in foreign trade that deal in diversified lines of merchandise, serve various geographical areas, and perform a number of different forms of transactions and functions, and that on the one hand formed a tightly knit group of firms around themselves but on the other hand acted as a member of a larger group of enterprises.

Such trading firms were born precisely when foreign trade was resumed and the Japanese economy started to grow in the post-war period, and they gradually came to attract a lot of attention as their business became the dominant form of foreign trade activities in Japan. However, there had been a number of trading companies in Japan that had already developed into general trading companies before the war in terms of their actual operation, admittedly within a rather constrained historical context. General trading companies, therefore, could be said to represent a uniquely Japanese form of development. It follows that today's general trading companies can be thought of as being of two categories in terms of their development pattern: one, firms with a pre-war tradition as general trading companies; and the other, those that consolidated themselves only in the post-war period. But even the second category of firms had been established before the war as trading companies of one kind or another; we should not overlook their historical continuity.

The economy of Japan developed by importing raw materials and exporting finished products from the very outset of its industrializing process, and this has continued to the highly industrialized present. It has consistently been an entrepôt economy with foreign trade playing the central role. The trading firms in charge of this very important trade sector have developed by generalizing their business from the very outset, thereby embarking on their path to becoming "general trading companies." This tendency to become general trading companies has been an intrinsic aspect of the emergence and growth of this category of Japanese business entities. Furthermore, those firms that consolidated themselves as general trading companies after the war also looked to their pre-war predecessors for models to be emulated and aims to be achieved.

In this chapter, we review the pre-war history of Japan's trading companies with emphasis on their process of generalization. Since their development was closely intertwined with the development of industry and trade, the generalization process can be adequately grasped only in the context of the business environment of the period.

Formation and Development of Trading Companies

Emergence of Pioneering Trading Companies

Japan at the starting line of industrialization had neither knowledge of nor experience in organizations for foreign trade. In 1858, near the end of the Tokugawa era, the country was forced open, following a self-imposed isolation of over 200 years, and it concluded trade agreements with the United States and Great Britain. As these treaties became effective the following year, the three ports of Kanagawa (now Yokohama), Nagasaki, and Hakodate were made available for foreign trade.

The initial pattern of foreign trade that Japan adopted was typical of underdeveloped countries: the importing of manufactured goods such as cotton products, wool products, and metals, and the exporting of raw materials such as raw silk, tea, and silkworm egg cards. In terms of the form of foreign trade, foreign merchants, who held the exclusive rights to engage in foreign trade, built a trading house in the settlements to carry out transactions with visiting Japanese merchants. Japanese merchants were allowed only to bring goods to be sold to the trading house and to take away imported goods from the same trading house. Foreign merchants monopolized trade with the support of a trade financing capability owing to the strength of their own foreign capital, as well as to the support of marine transportation and marine insurance facilities. An additional boost was given them by unequal treaties stipulating extraterritoriality and treaty tariffs. This form of foreign trade by the use of the trading house persisted even after the settlements were abolished in 1899, and remained the predominant form of foreign trade throughout the Meiji and Taisho periods (1868–1926).[1]

The monopoly of commercial rights by foreign merchants gave rise to many undesirable effects and prompted a two-pronged national campaign in Japan around the mid-1870s: for Japanese merchants both to gain direct access to foreign markets and to recover the commercial rights to balance off the dominance of overseas merchants. The latter movement took an organized form in the 1870s–1890s, culminating in the dramatic incident involving the Joint Freight Office for Raw Silk at Yokohama.[2] The whole affair started when Japanese merchants bringing in goods to a Yokohama trade house for export jointly established their own freight office in 1881 in order to rectify certain malpractices by overseas merchants, who immediately decided to boycott these disturbing elements in the silk trade. Japanese traders in turn effected a three-month stoppage of silk trade, but the foreign merchants ultimately emerged as the winners. Following this incident, however, improvements were made in trade methods regarding export goods, and the need for direct access to overseas markets became increasingly apparent, although foreign merchants maintained their hegemony for some time to come.

During the Meiji period (1868–1912) there emerged some far-sighted Japanese merchants who predicted growing trade opportunities with overseas markets and even started to engage in direct trade abroad. When the government started to encourage direct trade as an important national policy in 1875 to expand exports and acquire foreign currencies, a number of trading firms were established to trade with foreign markets directly. Table 1 lists the principal trading companies involved in direct export/import as of the mid-1890s.

The government adopted various measures to encourage and protect trading companies: it provided loans to trading companies doing direct business; it established the Yokohama Specie Bank in 1880 (now the Bank of Tokyo), which extended loans on documentary bills. Furthermore, the government assisted Tokyo Marine Insurance Company (est. 1879) to promote Japan's marine insurance industry, and it heavily protected Nihon Yusen Kaisha (est. 1885) to promote the modern shipping industry. These supplementary measures also made a considerable contribution to the development of trading companies. But many of the early starters doing direct business with foreign markets were small and unstable, resulting in many failures after the 1880s. The subsequent government policy of export expansion, however, led to the establishment of a small number of large trading companies with direct access to foreign markets.

The rising trade volume in the 1880s was further accelerated in the following decade, accompanied by a change in the type of merchandise traded. Exports of raw silk increased, those of tea started to stagnate, and those of cotton yarn were begun. However, imports of raw cotton, rice, and sugar showed steady growth. And the share of goods exported directly rose from 3 per cent in 1874 to 27 per cent in 1897; at the same time, the share of goods imported directly also rose, from 6 per cent to 37 per cent.[3] One should note, however, that coal and cotton yarn enjoyed particularly high ratios of direct exports, while raw silk went through foreign merchants to a far greater extent. It was only when the use of better equipment became much more common in the production of raw silk that its ratio of direct export started to rise. A rapidly rising share of machinery and tools directly imported also served to eliminate many of the undesirable effects created by the existence of intermediary foreign merchants in importation.[4]

Table 1. Principal trading companies 1869–1893

	Established	Capital (¥1,000)	Merchandise handled	Export or Import	Trade with
Maruzen	1869	100	books, fancy goods	import	Europe/USA
Okura Gumi	1873	150	textile-related goods	both	Europe/USA
Kiritsu Kosho	1873		art objects	export	Europe/USA
Morimura Gumi	1875	(30)	sundries/cereals	export	USA
Kogyo Shokai	1876–1886		Hokkaido specialties	export	China
Mitsui Bussan	1876		all	both	all regions
Shinsuisha	1876	(75)	matches	export	China
Kaitsusha	1877		raw silk	export	USA
Sano Rihachi	1875–1881		raw silk	export	USA
Sato Hyakutaro	1875–1879		raw silk, tea, sundries	export	USA
Nihon Shokai	1879		sundries	export	USA
Doshin Kaisha	1890		raw silk	export	USA
Boeki Shokai	1890–1893	(200)	raw silk, sundries	both	Europe/USA
Fuso Shokai	1891	(300)	raw silk	export	USA
Enchu Gumi	1891		raw silk	export	Europe
Takada Shokai	1881		machines, weapons, etc.	import	Europe/USA
Kansai Boekisha	1891–1893	(1,000)	marine goods, raw silk	export	China/Europe/USA
Nozawa Shokai	1882		fancy goods, iron goods	both	all regions
Iroha Shokai	1882–1885		raw silk	export	Europe/USA
Kai Shokai	1885		chinaware, cotton cloth	export	USA
Naigaimen	1887	(500)	raw cotton, cotton yarn, cotton cloth	both	Asia
Nihon Yushutsumai Shosha	1887–1889	(200)	rice, cereals	export	
Nichigo Boeki Kanematsu Fusajiro Shokai	1889	(30)	wool, chinaware	both	Australia
Nihon Menka	1892	(100) 100	raw cotton	import	Asia
Yokohama Kiito Gomei	1893	510	raw silk	export	USA
Horikoshi Shokai	1893	(100) 200	silk fabrics, rugs	export	USA

Sources: Murakami Hatsu, "Gaishi to minzoku shihon" (Foreign capital and national capital), in Yui Tsunehiko, ed., *Kōgyōka to kigyōsha katsudō* (Industrialization and entrepreneur activities), Nihon Keieishi Koza, vol. 2 (Tokyo, Nihon Keizai Shimbunsha, 1976), pp. 204–205.
Note: Capital in parentheses indicates that as of the time of the company's establishment, while other figures indicate that of around 1897.

This trading method of going through an intermediary in the settlements suffered a major setback as the modern spinning industry started to gain a foothold on the industrial scene in Japan. As the use of modern spinning machines became prevalent in the 1880s, a new pattern of trade appeared: imports of raw cotton and exports of cotton yarn. By 1890 domestic production of cotton yarn surpassed imports, and by 1897 exports exceeded imports. This development of a modern spinning industry necessitated big imports of raw materials, with rising dependency ratios on foreign suppliers such as China, India, and the United States, prompting the rise of cotton-importing companies. Furthermore, in order to secure a low price for imported raw cotton, "organized entrepreneurial activities" of the government and private enterprises (spinning, raw cotton importers, and marine transporters) were effected to do away with the dominance of foreign shipping companies.[5] At the same time, efforts to eliminate import duties for raw cotton succeeded in 1896, further encouraging the growth of cotton importers. Against such a background, cotton yarn production showed a dramatic increase, giving a major impetus to greater exports of this product. When cotton yarn export duties were abolished in 1895 and the Sino-Japanese War opened up the Chinese market, cotton spinning came to achieve its position as a major export industry of Japan.

While the new treaties eliminated extraterritoriality in 1899, the recovered right to determine tariffs on the part of the Japanese authorities was not sufficient to completely do away with partiality in trade duty. In terms of the trade pattern, however, there was a gradual emergence of a dual structure: the export/import pattern typical of underdeveloped countries *vis-à-vis* Europe and the United States and that of an advanced economy *vis-à-vis* Asia; that is, importing raw materials and semi-finished goods and exporting manufactured goods. Such a change in the trade pattern was bound to affect the activities of trading companies, but one must note the existence early on of those trading firms that had handled diversified merchandise in a variety of forms in different geographical areas. Mitsui Bussan was such a firm, as can be seen from table 1.

Diversification of Trading Activities

Japan's foreign trade increased by leaps and bounds through the Sino-Japanese and Russo-Japanese wars: it more than quadrupled from 1894 to the early 1910s.[6] But the trade pattern remained essentially the same from the 1890s: raw cotton imports increased very rapidly, as did those of metal machinery; exports of raw silk increased but not quite as rapidly as the total export volume, thereby suffering a drop in the share, while exports of cotton yarn, cotton fabrics, and silk fabrics gained in their shares. Rising exports of cotton yarn/cotton fabrics and rising imports of raw cotton manifested themselves in a big jump in trade with Asian countries, pushing up the share of Japan's trade with Asia to over 50 per cent during the Taisho period (1912–1926). The share of trade with Europe steadily declined to give its place to emerging Latin America, South Africa, and New Zealand. Throughout this period, except for a short time following the Russo-Japanese War, Japan suffered a continual deficit in its balance of trade. This was aggravated by additional deficits in invisible trade. Japan remained a deficit country until the time of World War I.

Institution of the gold standard in 1897 and the revision of the unequal treaties drastically changed the position of the Japanese economy *vis-à-vis* the world economy. When the second revision of the unequal treaties was effected in 1911, nearly restoring to Japan the right to set its own tariff rates, Japan stood on an equal footing with the rest of the world. The gold standard helped to increase trade with other gold standard countries through more purchases of machinery from Europe or cotton from India, while treaty revisions served as important impetuses to trading companies in their efforts to expand their commercial rights.

The share of trading companies in the total foreign trade of Japan showed dramatic increases, from 15.5 per cent to 51.1 per cent in exports from 1891 to 1911 and from 19.1 per cent to 63.8 per cent in imports during the same period.[7] It was also during this period that these trading companies became involved in capital export: although Japan was still dependent on the inflow of overseas capital, Japanese capital started to be exported mainly to Korea and China, in the form of loans and also of direct investment in plants and equipment in such sectors as mining and spinning. Mitsui Bussan placed emphasis on China, especially after the establishment of Shanghai Cotton Manufacturing Ltd. in 1902. In 1909 Nihon Menka (later Nichimen Jitsugyo, presently Nichimen) also opened a spinning plant in Shanghai, followed by Okuragumi (later Okura Shoji), which launched a joint venture with the Shenyang local government to develop the Benxihu mines in 1910 by establishing Benxihu Coal Mining Co. (later, Benxihu Coal and Iron Co.). These were the beginnings of the coming wave of capital export by Japan.

After the initial trade pattern of importing raw cotton and exporting cotton yarn was established, hand looms started to be introduced in the cotton fabrics sector, promoting export of cotton fabrics to Korea and China. By 1909 exports of cotton fabrics had surpassed imports, thanks to the spinners' effort to take on the production of cotton yarn also. When the cotton industry thus became a mature export industry, raw cotton importers became involved in the export of cotton yarn/cotton fabrics, while a new brand of cotton yarn/cotton fabric exporters also emerged.[8] The former is typified by Nichimen. The new exporters of finished cotton products emerged from among two sources: cotton yarn wholesalers mainly engaged in domestic trading of cotton yarn, and importer-marketers of Western draperies.[9] Early success cases were C. Itoh (in the first group) and Itoman (in the second group).

The single most important export item, raw silk, continued to increase its absolute export volume, but its share started to drop after the Sino-Japanese War and did not register a rise again until after World War I. Raw silk trade was the traditional stronghold of foreign merchants, who had monopolized approximately 80 per cent of the total export volume since around 1897.

Among Japanese trading companies engaged in raw silk exports were Doshin Kaisha and Yokohama Kiito Gomei, which were joined by Mitsui Bussan in 1893 when it resumed raw silk trade after a temporary absence and, in 1901, by Hara Gomei. Mitsui Bussan made such a dramatic inroad that by 1907 it was handling as much as 25 per cent of the total raw silk export. In due time it surpassed the share of foreign merchants, contributing to a rising share of raw silk exports by Japanese nationals until they came to handle more than half in 1912, thus tipping the balance between Japanese and foreign merchants in Japan's favour.[10]

To raw silk, raw cotton, and cotton yarn/cotton fabrics were added iron and steel products and raw materials for the emerging heavy industries of Japan once they started to pick up their pace of development after the Russo-Japanese War. The rising volume of these new import items was handled mostly by existing trading companies but also by new entries such as Ataka Shokai. It was in this period of the first wave of thriving trading activities that Mitsui Bussan perfected its system of handling a greatly diversified array of merchandise. By 1907 it had come to handle over 20 per cent of the total export/import trade of Japan.[11] At this time it handled as many as over 120 items, among which coal, cotton fabrics, raw cotton, and machinery were the most important. In terms of trading forms, it had become involved in third-country trade as early as the mid-1890s; this trade amounted to as much as 16.9 per cent of its total business volume (with exports occupying 30.3 per cent, imports 38.1 per cent, and domestic trade 14.7 per cent).[12] Its overseas offices numbered over 30, its marine transportation and related businesses were all internalized, and it invested and nurtured various industries. In other words, Mitsui Bussan was a general trading company.

The Rise of Trading Companies and Ensuing Difficulties

Expansion of Trading Activities

Following World War I, Japan achieved a rapid expansion in its foreign trade. Imports had been rising up to 1914, but 1915 saw a sudden shift in the trend as exports to warring countries and Asia started to increase dramatically to give Japan a continuous surplus in its balance of trade through to 1918. Among export merchandise, foods and raw materials suffered a loss of their shares, while manufactured goods gained. Manufactured imports declined while more raw materials started to be purchased abroad. There was thus an emerging new trade pattern for Japan. Raw silk remained an important export item, and cotton yarn as well as cotton fabrics increased, but cotton fabrics surpassed cotton yarn in their export volume in 1917, with the ensuing trend favouring fabrics. Japan's trade with Europe had increased temporarily before World War I, but then started to decline once the war made its impact felt. Europe's place was taken over rapidly on a permanent basis by the United States and Asia, resulting in a geographical expansion of Japan's export markets. World War I also promoted Japan's heavy and chemical industrialization (this process had started after the Russo-Japanese War) and prompted the rise of new trading companies, the entry of manufacturers and domestic dealers into direct export/import trade, and the growth of existing trading companies. As a result, Japanese traders had come to occupy about 70 per cent of the export business and 90 per cent of the import business at the port of Kobe by 1920.[13]

Among the newly born trading companies, many were small or medium-sized in scale, but some conglomerate *zaibatsu* entities created new trading arms: Furukawa establishing Furukawa Shoji in 1917, Asano creating Asano Bussan in 1918, and Kuhara creating Kuhara Shoji in 1919. Also in 1918 Mitsubishi Shoji became independent of its parent company, Mitsubishi Goshi Kaisha, while Okura Gumi was reorganized to become Okura Shoji. Many *zaibatsu* units came to have their own internalized trading arms, among which the biggest was Mitsui Bussan, which had already come a long way toward being a general trading company.

One of those *zaibatsu*-related trading firms which became a full-fledged general trading company around this time was Mitsubishi Shoji. Mitsubishi *zaibatsu* concerns had embarked on trading as early as 1896, when the coal selling section of Mitsubishi Goshi was set up to handle its mineral products. Although this section went through organizational reshuffling a few times, it consistently dealt with its own coal and copper. It was around 1910 that it started to export certain merchandise produced by other Mitsubishi-family companies, then also merchandise produced by non-Mitsubishi firms, and eventually to engage in third-country trade. From 1915 to 1920 it became firmly established as a true general trading company, although it lagged far behind Mitsui Bussan in its scale and range of operation.[14]

It was Suzuki Shoten that achieved dramatic growth by its expansion strategy during World War I, thus becoming a rival to Mitsui Bussan as a trading firm. It began as a small trader in Kobe around 1877, handling overseas sugar, overseas silver, oil, and soya cakes. Its business rapidly expanded as it started to handle camphor from Taiwan, until it became an unlimited partnership in 1902. It increasingly diversified the range of merchandise it handled, opened more and more overseas offices, and entered such manufacturing sectors as sugar refining, flour milling, and iron and steel production. During World War I, diversification of the products it handled was accelerated, and it also became active in third-country trading by daringly using its own as well as chartered tonnage. Not only existing production facilities were expanded but also such new sectors as shipbuilding, oil refining, dyeing, and explosives manufacturing were entered. At the height of its glory it embraced more than 60 companies under its direct and collateral lines. Toward the end of World War I, Suzuki had become a conglomerate with strength comparable to that of Mitsui and Mitsubishi.[15]

Iwai Shoten was another example, after Okura Shoji and Suzuki Shoten, particularly the latter, of a firm growing out of a trading business to become increasingly general in its operations, until it came to form a *zaibatsu* unit of its own as a true conglomerate (later Iwai Sangyo, and now Nissho-Iwai). Iwai had become a powerful trader in Osaka by the 1880s, but around 1890 it started to seek direct access to the British market and embarked on import substitution of certain products. After the turn of the century, its foreign trade business became markedly active; and it sought greater direct access to overseas markets and promoted its manufacturing activities in Japan also, thus becoming a thriving conglomerate. In 1912 it was reorganized to become a corporation, and four years later it set up a partnership, Iwai Honten, as a holding company to establish itself as a *zaibatsu* unit. In the mean time, it consolidated the foundation for its future as an iron and steel dealer by forging ties with the government-owned Yahata Steel Works, among other related companies.[16]

In addition to these growing *zaibatsu*-related trading companies, many existing traders also grew in such sectors as raw cotton, cotton yarn, cotton fabrics, raw silk, and sundry goods. At the same time, some firms shifted their emphasis from domestic business into foreign trade. Raw cotton dealers, pushed by the remarkable development of the cotton spinning industry, went not merely to India but to the United States in search of available raw cotton (by that time the United States had become increasingly important as a global raw cotton supplier). In addition to the export of cotton yarn and cotton fabrics, the building of spinning/ginning/weaving plants and the import of wool and silk handling were also undertaken, thus greatly diversifying its business. As Naigaimen had become a spinner by this time, Gosho became one of the Big Three in cotton dealings, together with Nichimen and the cotton section of Mitsui Bussan (it became independent as Toyomenka in April 1920; now known as Tomen). Gosho thus reorganized itself to emphasize the import of raw cotton and export of cotton yarn and cotton fabrics by liquidating its spinning sector.

From among the ranks of cotton yarn wholesalers and importer-marketers of Western drapery (see the preceding section) emerged some that sought new lines of business, many of which were reorganized as corporations. From among the cotton yarn wholesalers, in addition to the already mentioned C. Itoh, such firms as Yagi Shoten, Tatsuki Shoten (which later merged with Nichimen), Maruei Shoten (later merged with Nichimen), Mataichi (now Kinsho Mataichi), and Toyoshima were born. From among the importer-marketers of Western drapery sprang, besides Itoman, as previously mentioned, Tamurakoma and Yamaguchi Shoten.

Let us take up here the rather unique case of C. Itoh. In the early 1900s, C. Itoh was engaged separately in a large array of businesses: wholesale business in traditional clothing, import of woolen cloth, domestic marketing of home-produced and imported cotton yarn, operation of a dyeing plant, and export of cotton fabrics. In 1908 C. Itoh Honbu was established to integrate these separate lines of business, when at the same time Itoh Yushutsuten was established to be in charge of the foreign trade business of all the affiliated companies. This export/import company embarked on direct trade with China and the Philippines around 1910. In 1913, a new section was organized to deal with cotton cloth and export to China, leaving cotton yarn trading to Itoh Ten. Trade with the Philippines was handled by the Kanda branch office. C. Itoh became C. Itoh Gomei Kaisha, an unlimited partnership, in 1914, when the cotton yarn section was absorbed by Itoh Ten, providing the latter with a foundation for its future development as a trading company.

In 1918 C. Itoh Gomei divided its marketing section into two sections and created the two companies of C. Itoh Shoten, a corporation, and C. Itoh Shoji, with the parent company becoming the holding company to control all their business. C. Itoh Gomei drew its principal strength from the head office of the parent company, which dealt in traditional clothing and Western cloth, while C. Itoh Shoji was made up mainly of Itoh Ten (handling cotton yarn and cotton fabrics) and the Kobe/Yokohama/overseas offices engaged in foreign trade. Expansion of the latter's business was quite remarkable. In 1919 it opened offices in New York and London. Its Kobe branch came to handle machinery in a newly created section for this purpose, making a total of five such sections: sundry imports, sundry exports, oil fertilizer, and cereals and fertilizers. C. Itoh Shoji not only diversified the products it handled but also entered the business of processing cotton fabrics.[17]

This was a period during which some cotton trading companies with export/import activities emerged from among the ranks of cotton traders, cotton yarn wholesalers, and importer-marketers of Western drapery.

The Search for New Directions

The Japanese economy plunged into a period of chronic recession following the post-war depression of 1920: the great confusion in the economy caused by the Great Kanto Earthquake of 1923, leading without interruption to the financial panic in 1927, followed by the Showa panic in the context of the global depression. Foreign trade remained stagnant throughout this period, and there was a persistent and substantial deficit in Japan's balance of trade. Dependency on cotton and cotton products was even aggravated after World War I, although growing industrialization made itself felt in the shift in the merchandise traded. As flour milling developed, wheat imports and flour exports rose; and as the woolen industry developed, woolen goods imports were partially replaced by wool imports.

The 1920 depression dealt a severe blow to the trading companies, which had made hefty progress during World War I. Newer traders went bankrupt one after another, and not a few were forced to contract their business or withdraw from foreign trade altogether. Among those that went out of business in this period of post-war recession were Furukawa Shoji, Kuhara Shoji, and others of *zaibatsu* lineage, as well as Mogi Gomei, formerly a raw silk trader at Yokohama. Their common ground for failures was their lack of experience in foreign trade and their entry into the newest sectors of that trade.[18]

More and more trading companies failed, including the largest machinery importer of the day, Takada Shokai, in 1925. Suzuki Shoten, which had developed into a full-fledged general trading company with a status comparable to Mitsui Bussan, also went bankrupt in 1925 after having suffered a loss of financial flexibility immediately after the end of World War I and following a series of minor disasters: financial difficulties of its subsidiaries; mismanagement of the soya trade in Talien; and an inability to import caused by a rapidly declining yen exchange value that ultimately made it unable to meet payment deadlines. Suzuki failed not because of the economy-wide recession but more because of its own weaknesses: an autocratic management style, loss of financial flexibility by investing irretrievable capital in its subsidiaries, and excessive financial dependence on the Bank of Taiwan.[19] Regarding the aftermath of Suzuki's failure, one notes that Nihon Shogyo Kaisha (Suzuki's textile trading arm, est. 1909) and Suzuki's employees in charge of foreign trade got together to establish Nissho in 1928 (now Nissho Iwai), which subsequently consolidated its business basis by importing Indian Tata pig-iron and California oil.

Cotton-related trading companies suffered a heavy blow under the continual recession, and some of them went bankrupt, withdrew from foreign trade, or were forced to reduce dividend payments in the 1920 panic. This crisis was overcome by co-operation between spinning firms and cotton traders, but this also came to mark the beginning of the supremacy of the spinning firms. The recession hit bottom in 1924 when the yen suffered devaluation, which, however, spurred export. This recovery proved merely temporary, however, because of the ensuing government tight money policy, bringing about a recovery in the yen exchange ratio, a drop of the price of silver bullion abroad, and a boycott against Japanese goods in China, all damaging domestic demand increase and Japan's exports. Trading companies were forced to seek new methods of survival. Ultimately, the 1930–1931 lifting of the gold embargo and the global depression forced a number of them to incur huge losses.

Let us take up once again the case of C. Itoh to review the fate of cotton-related trading firms during this period. The post-war recession caused much damage to both C. Itoh Shoji and C. Itoh Shoten, but more to the former, which subsequently contracted its business to concentrate on cotton yarn and cotton fabrics in the more restricted service areas of Japan and China. This led to the establishment of Daido Boeki in 1920 by separating the Kobe branch and the machinery section as well as the business offices in Yokohama, Manila, London, New York, and Seattle. This reorganization of C. Itoh Shoji was accompanied by a reduction of its paid-up capital, but, engaged now in cotton yarn and cotton fabrics as its main business, it was again forced to reduce its paid-up capital in 1928. In 1930 its performance improved, but in the process of recovery, it had expanded the range of merchandise it handled to include processed cotton fabrics, rayon yarn, and rayon textiles; it had also been importing raw cotton since 1927 by establishing a raw cotton section, and had already entered manufacturing by establishing Kureha Boseki in 1929.[20]

C. Itoh Shoten, on the other hand, successfully contracted its business during the post-war recession and became Marubeni Shoten by merging with Ito Chobei Shoten in 1921 (now Marubeni). As a fabrics wholesaler, it grew rather steadily, despite some temporary set-backs in the context of the continuing recession. This also applies to such processed fabrics dealers as Itoman, Yamaguchi Shoten, and Tamurakoma. These four big wholesalers were able to improve performances in the midst of the recession through their control of the printers, and embarked on the development of overseas markets for rayon as well as for processed cotton fabrics.[21]

All the raw cotton importers experienced difficulties during the 1920 depression but were in a position to effect a quick recovery, because the spinning firms bore most of the risks involved. But at the time of the 1929 crash, Nichimen and Gosho were forced to reduce their paid-up capital and suffered heavy losses. This was because the price of raw cotton dropped, cotton yarn/cotton fabrics could not be exported easily, and the failure in the newly entered rayon yarn sector, but more fundamentally because fully grown spinners became independent of cotton dealers and could make positive use of the fluctuating raw cotton market themselves.

Exports of raw silk dropped sharply in 1920 relative to the previous year, but throughout the 1920s it almost always increased. Over 90 per cent of raw silk exports went to the United States market, occupying over 80 per cent of the raw silk market in that country.[22] Some raw silk exporters did go out of business during the recession, such as Mogi Gomei and Suzuki Shoten mentioned above, as well as Yokohama Kiito (reorganized in 1915 from an unlimited partnership to a corporation, but failing during this recession, subsequently absorbed by Nihon Kiito, an affiliate of Mitsubishi Shoji since its establishment in 1924). But the general trend was a strong continuity among powerful raw silk exporters, among which were Mitsui Bussan, Nihon Kiito, and Hara Gomei; new entrants after World War I included such firms as Gosho, Nichimen, Asahi Silk, and a silk-reeling firm, Katakura Seishi.[23]

Mitsui Bussan was on its way to becoming a general trading company in the midst of the turmoil and confusion confronting other trading companies, and maintained a superior position among its rivals with its great financial power and steady and high profits. It handled raw silk, coal, machinery, ironware, and sugar, while consolidating related business such as shipping and shipbuilding, investing in a good number of subsidiaries such as Toyo Reiyon (rayon), Sanki Kogyo, and Nihon Seifun, and thus transforming itself into a holding company. This was how Mitsui adapted itself to the heavy and chemical industrialization that was on its way in Japan at this time. Mitsubishi Shoji was not far behind Mitsui with heavy trading in fuels, foods, and fertilizer, while vigorously assisting such subsidiaries as Nihon Kiito and Hokuyo Shokai. However, the newly independent Mitsubishi Shoji suffered frequent losses in commodity trading, compensated only by other, miscellaneous activities. Despite its definitely being a general trading company by this time, its foundation was not so solid as that of Mitsui.

Changes in the Trading Companies' Operations

New Directions in Business

The Manchurian Incident occurred in 1931 and the gold embargo was imposed once again. In 1937 Japan plunged into a period of wartime controls of economic activities. Between these two dates, the world economy split into blocks of intensifying confrontation, while war preparations were mounted in Japan. It was also during this period that the heavy and chemical industries came to occupy over 50 per cent of the total domestic industrial production, and many cartels were formed to push through the industry rationalization policy. Foreign trade increased rapidly thanks to the policy of export promotion following the devaluation of Japanese currency: exports increased 2.6 times, while imports attained a 3.2-fold increase. Among the exports, textile products continued to fare prominently, but within this category raw silk stagnated while cotton fabrics, especially to Asian and African markets, increased. Eventually Japan's total cotton fabrics export surpassed that of Great Britain in 1933, when Japan's biggest export item shifted from raw silk to cotton products. Rayon textiles also registered an increase, while exports of chinaware, toys, electric bulbs, and other products made by small and medium-sized firms, as well as machinery, copper products, and other key industrial goods, also grew. Among the imported merchandise, raw cotton increased most rapidly, followed by iron. During this period, both exports and imports grew, but the pace of imports growth was quicker, incurring a persistent trade deficit, except in 1935. Invisible trade also turned unfavourably for Japan after 1934, contributing to an aggravating international balance of payments.[24] Despite these difficulties for Japan, the growth of Japanese exports became quite conspicuous, attracting considerable world attention and inviting higher import barriers.

Trading companies recovered themselves, using the reimposed gold embargo as leverage. However, those handling raw silk as their principal trading item constituted exceptions to this general trend, as the American silk market shrank due to the depression and to the development of synthetic fibres. In this period, Mitsui Bussan suffered a decline in its exports to the United States, eventually resulting in the overall decline of its export business, largely because of the damage incurred in its raw silk trade. Nihon Kiito, a rival raw silk dealer belonging to the Mitsubishi Shoji group, suffered a heavy loss in 1936 and eventually merged with Mitsubishi Shoji into its raw silk section.[25] Silk as a main export item greatly contributed to the process of industrialization in Japan, but, with the exception of a brief comeback, it was never to regain such a prominent position.

Trading companies of *zaibatsu* lineage were compelled to switch their strategies also as the *zaibatsu* groups themselves underwent changes. While Mitsui Bussan relinquished its small dealings in the domestic market, Mitsubishi Shoji came up with a specific set of criteria according to which it decided what merchandise to handle without suppressing small industry sectors.[26]

Mitsui Bussan's operations stagnated due to export stagnation and the relative weakness of the heavy industrial sectors of the Mitsui *zaibatsu* itself, but it launched a policy of promoting heavy industries within its orbit by actively investing in them. It also invested heavily in natural resources development overseas, in China and in South-East Asia in particular. Mitsubishi Shoji made remarkable progress during this period. The range of merchandise it handled grew as metals and machinery were added, and in 1932, processed cotton fabrics regained their position on the list. When in 1934 it also started to handle raw cotton, it had a full range of commodities of major importance in its merchandise list.[27]

Cotton-related trading companies generally attained greater stability in their operation, becoming more and more general in the textile field.[28] However, Nichimen and Gosho, however, were slow among the Big Three in recovering. Nor were the major yarn-handling traders left unaffected; they either became agents for spinners or consolidated their hold on cotton weavers. The Big Three had been handling 70 per cent of the total raw cotton imports already by 1924, but raw cotton dealers enfeebled in the recession suffered further relative decline of their position owing to the more active role of spinning firms in the imports of raw cotton, thus becoming even more dependent on the cotton yarn and cotton fabrics trade.[29] Some spinners were able to manipulate raw cotton trade by investing in it. Also, cotton yarn traders tended to become mere agents for spinners, often engaging in substantial trading in cotton fabrics and even raw cotton in some cases. Cotton-related trading companies increasingly came to handle other commodities besides cotton products. C. Itoh Shoji, for example, had four sections dealing in cotton yarn, cotton fabrics, raw cotton, and silk/wool as of 1931, but began to handle staple fibre (or rayon staple) in the cotton yarn section in 1934; it reorganized the raw cotton section to become a raw materials section to handle pulp, and started to deal in wool in that section in 1936.[30]

As heavy and chemical industrialization proceeded, exports of steel products surpassed their imports in 1932, attaining in that year the self-sufficiency ratio for steel products of 103 per cent, from a level of 77 per cent in 1929. With respect to pig-iron, however, the self-sufficiency ratio only reached 80 per cent in 1940. This was because private Japanese iron and steel manufacturers had no blast-furnaces at that time, consequently emphasizing steel making, few of them supplying their own pig-iron. They preferred to use imported pig-iron and scrap-iron over domestic pig-iron. This preference of imported pig-iron or scrap-iron on the part of private steel makers served to develop iron and steel traders as importers, but rising exports of iron products enabled iron and steel traders also to go into export.

Iron and steel products were first directly imported after the Sino-Japanese War, pioneered by Mitsui Bussan, Okura Gumi, and Takada Shokai, among others.[31] Later entrants included Mitsubishi Shoji, Suzuki Shoten, Ataka Shokai, Iwai Shoten, and finally such wholesalers as Kishimoto Shoten. Japan's iron and steel industry laid its foundation in 1901 when domestic production of pig-iron exceeded its imports, but it took this industry until

1925 to produce more steel products than it was importing. The pig-iron sector saw an early maturation owing to the establishment of Yahata Seitetsusho (Yahata Iron Works) as a government-run enterprise. While this public entity let more and more of its products be handled by private sector companies, it created a sales arm around 1910 together with Mitsui Bussan, Okura Gumi, Takada Shokai, and other trading companies and domestic wholesalers. Several steel firms were established, both by *zaibatsu* groups and trading firms, between the mid-1900s and the mid-1910s, producing mainly steel products, which could now conveniently be marketed by trading companies: Suzuki Shoten handling the products of Kobe Seikosho, Mitsui Bussan handling those of Nihon Seikosho, and Iwai Shoten handling those of Osaka Teppan (later Nihon Teppan), among other combinations.

Although Yahata Seitetsusho enjoyed an overwhelming position in the Japanese market, it had no strong marketing operation of its own and was constantly threatened by imported iron and steel products. An attempt was made to solve this problem in 1926 by introducing a system whereby designated trading companies were given specific sales territories. This was to bring iron and steel import trading companies into its embrace. Among those firms that participated in this scheme were Mitsui Bussan, Mitsubishi Shoji, Suzuki Shoten, Iwai Shoten, Morioka Shoten, and Kishimoto Shoten. Morioka and Kishimoto later withdrew, and Ataka Shokai replaced Suzuki when the latter went out of business. The four trading companies of Mitsui, Mitsubishi, Iwai, and Ataka tended to become sales agents of Yahata within the context of consolidated cartels. From the mid-1920s to the early 1930s, pig-iron and steel products continued to be imported, giving iron and steel traders a measure of independence. But as the country geared toward a war economy, a complete cartelization was quickly achieved. When Nihon Seitetsu was established in 1934 and the Seitetsu Jigyo Ho (Iron Act) was promulgated in the following year, the freedom of operation for iron and steel traders was lost.

Not only such genuinely generalized trading companies as Mitsui Bussan, Mitsubishi Shoji, and Suzuki Shoten, but also iron and steel traders all expanded the range of merchandise they handled, and participated in the management of, and invested in, affiliated companies. Ataka Shokai, reorganized as a corporation in 1919, had begun to handle by the time of this recession, besides iron and steel, gold ingot, woolen yarn, woolen textiles, fertilizers, pulp, Western paper, and industrial drugs. When the economy shifted to a war economy, the list had been further enlarged to include such items as machinery, cotton yarn, rayon textiles, and lumber.[32] This was a trend applicable to other trading companies, some of which also imported iron ore.

The Changing Nature of Business Activities of the Trading Companies

When the war with China started in 1937, reorganization of the Japanese economy for the purpose of waging a war was effected in a decisive and final manner, with very rigid control imposed on all economic activities, including foreign trade and foreign exchange. An emergency act placing all export and import activities under tight control was passed to impose the strictest controls and regulations on both foreign and domestic trading. Japan's balance of trade improved, not as a result of rising exports but because imports were suppressed and thus dropped sharply.

The policy governing Japan's foreign trade underwent a change that placed emphasis on export promotion, particularly to third countries, for the purpose of earning foreign reserves, and on securing raw materials to increase exports. Specific measures were implemented one after another, from linking foreign exchange allowance to export performance to trade financing schemes. The linkage system made export promotion to third countries feasible, and measures directed at the yen block received much emphasis. The fact remained, however, that there were consistent surpluses *vis-à-vis* yen block countries and persistent trade deficits *vis-à-vis* third countries. This trend was aggravated until the beginning of World War II. Export promotion policies pushed up the export volume substantially for 1939 and 1940. But with the start of the war in September 1939 and the US action to abrogate its trade agreement with Japan, general conditions prevailing on export-import activities with dollar and sterling areas worsened, prompting Japan to reorganize foreign trade arrangements, to plan for exports, and to seek compensation through multiple means for the loss of trade with these areas. Japan was excluded from the European and American markets and left to attempt an expansion in the southern areas.[33]

In May 1941, the Trade Control Ordinance was announced and implemented on the basis of the National Total Mobilization Act, placing foreign trade under state control. In December of the same year, the Pacific war interrupted all trade with Europe and the United States. Stoppage of imports from the United States instantly reduced Japan's imports by nearly 40 per cent, greatly damaging Japan's military industry.[34] This made it urgent to establish an economic sphere within the context of which Japan could be self-sufficient, leading to the Great East Asian Co-Prosperity Sphere embracing all the yen blocks, French Indochina, Thailand, and other Asian areas. Trade with these countries and areas occupied as much as 95.6 per cent of the total in 1942 and 95.8 per cent in 1944. Japan's volume of trade reached its peak in 1940, descending rapidly thereafter.

Japan's institutional arrangement for foreign trade was overhauled on the basis of the Total Mobilization Act, resulting in the creation of Nihon Boeki Kai (Japan Foreign Trade Council) in January 1942 as the central authority to administer foreign trade. As indicated by the change of its name to Boeki Tosei Kai (Foreign Trade Control Board) in May of the same year, it controlled export/import activities by supervising such member organizations as the associations of exporters/importers for individual commodities and export/import control companies. However, since it did not itself carry out actual trading activities, another organization was called for to control and operate foreign trade, and that was realized through the creation in 1943 of Boeki

Eidan (Government Trade Corporation), established by integrating and absorbing Boeki Tosei Kai and Juyobusshi Kanri Eidan (Government Corporation for Managing Important Materials). At the bottom end of these government-sponsored organizations, from Nihon Boeki Kai to Boeki Tosei Kai and Boeki Eidan, were the actual traders. They had already been reduced in number in 1941, as authorized by the official guide-lines to streamline the trading business, when the number of trading units exporting to third countries went down from 3,009 to 707. When the second wave of streamlining was carried out in 1943, the total number of exporters/importers dropped from 6,000 to about 600.

The process of greater control over the economy and trade coincided with a dramatic change in the functions of trading companies. The linking of foreign reserve allowances to export performance increasingly put manufacturers in charge of both the export of finished products and import of raw materials, suffocating the free activities of trading companies.[35] This linkage system was initially (in 1937 and 1938) applied to individual commodities, for instance, soap, wool and cotton products, rayon yarn and cloth, and leather. It was not applied to such items as sundries, whose raw materials were too diverse to be identified and controlled. In 1939 a specified linkage system was introduced in which the link applied to 22 export items and their principal raw materials.[36] In the instance of the linkage between cotton yarn/cloth and raw cotton, spinners and traders had roughly the following relations: spinners held hegemony from the import of raw cotton all the way to the handling of the finished products, leaving traders with only the exporting function.[37]

This change in the functions of cotton-related traders applied also to their counterparts dealing in iron and steel. When in 1937 Nihon Kozai Hanbai Rengo Kai (Japan Federation of Steel Products Sales Companies, known from 1938 as Nihon Kozai Rengo Kai) was established, the "designated merchants" in each joint marketing association were renamed "designated marketers," which increased from four to eight when Mitsui Bussan, Mitsubishi Shoji, Iwai Shoten, and Ataka Shokai were newly joined by Nissho, Nihon Kozai, Asano Shoji, and Okura Shoji. Later Takashimaya also joined the group.[38] These designated marketers came under the direction of Nihon Kozai Rengo Kai and were restricted from deviating from the prices set by the federation, engaging in importation, and in short selling or hoarding. When, later in 1939, Nihon Kozai Hanbai Kabushiki Kaisha (Japan Steel Products Sales Co., Ltd.) was established, the designated marketers were made part of Zenkoku Kozai Shogyo Kumiai (National Association of Steel Products Commerce), which had been set up under Shogyo Kumiai Ho (the Commerce Association Act).

While these measures of control restricted the activities of trading firms in many ways, they served to expand the range of activities in other ways. In the process of applying more rigid controls, the range of merchandise handled grew and resulted in expanded sales networks. C. Itoh Shoji, among others, established an "agency section" to be able to handle a greater range of non-textile products through agency contracts or exclusive seller arrangements.

This section was upgraded to the Second Marketing Department at the headquarters in 1940 and was subsequently renamed the Heavy Chemical Industry Products Department. When in 1941 C. Itoh merged with Marubeni Shoten (an affiliate of C. Itoh) and Kishimoto Shoten (iron and steel trader) to become Sanko, the new company had a ratio of textile to non-textile products of 85:15.[39] In addition to the case of C. Itoh's merger, a number of other trading companies increased their capital before the start of the Pacific war in order to adapt themselves to bigger arrays of merchandise.

Since Boeki Eidan did not engage directly in export/import activities, it had to have its subordinate traders in a variety of fields to actually execute foreign trade as either freight agents or executive arms of export/import adjustment organizations under Boeki Eidan, whereby these traders earned handling charges or commissions. When the Pacific war started, these same traders who had worked under the direction of Boeki Eidan were given contracts by the armed forces both in Japan and South-East Asia, and thus came to be engaged in a variety of non-trading activities, such as managing manufacturing plants and developing natural resources.

As these trading companies expanded their field of activities into non-trading areas, their names also changed. In 1943 Ataka Shokai was renamed Ataka Sangyo; and many other trading firms changed their names in the same year: Kanematsu Shoten to Kanematsu; Nihon Menka to Nichimen Jitsugyo; Okura Shoji to Okura Sangyo; Iwai Shoten to Iwai Sangyo; and Nissho to Nissho Sangyo (*jitsugyo* meaning "business," and *sangyo* "industry"). Two of them reverted back to their initial names after the war: Nissho and Okura Shoji (Okura Shoji was called Naigai Tsusho before becoming Okura Shoji again). Sanko merged with Daido Boeki in 1944 to become Taiken Sangyo. One might also note that Mitsui Bussan took over Mitsui Gomei in 1940 to become the umbrella unlimited partnership over the entire Mitsui group of businesses, excepting the financial institutions. In 1944 the name was changed to Kabushiki Kaisha Mitsui Honsha, and there was a reorganization of the firm. At this time Mitsui Bussan was separated as the foreign trade arm of the group, to concentrate on trading again. At any rate, under the increasing restrictive business environment regarding foreign trade, trading companies attempted to adapt themselves to the tide of the times by going out into other business lines besides trading.

Conclusions

Trading companies in Japan diversified and generalized themselves in the process of expansion and growth and built up their management organizations to fit such a process of development. Many of the institutions and arrangements that developed historically have served as the very foundation of today's general trading companies in their management practices and organization: limits to overbuying and overselling have been set; and a self-supporting accounting system has been developed for each commodity and sales area, a form of decentralization in management. This does not mean, however, that general trading companies have always been successful in devising appropriate organizations and institutions to diversify and generalize. There was a certain institutional limit, therefore, in the extent to which they could generalize.

Institutional limitations to generalization could be observed in the case of pre-war Mitsui in its practice of establishing separate splinter enterprises out of certain sections or departments in the parent body. The first such incident occurred in 1918 when the Menka Bu (Raw Cotton Department) was separated to become Toyo Menka; the second occurred in 1937 when the Shipbuilding Department was separated as Tama Zosensho; and the third occurred in 1942 when the Shipping Department became independent as Mitsui Senpaku. The Shipbuilding Department became independent in the context of Mitsui's overall policy to consolidate its heavy industry portions; nevertheless, it is not surprising that Mitsui Bussan separated this particular line, considering the substantial capital outlay in fixed assets it required. This indeed seems to suggest a definite limit in the extent to which trading companies can internalize manufacturing activities. How should one then interpret the case of the shipping section being separated, it being a rather closely related business of a trading company? Mitsui Senpaku came about because the shipping business was subjected to state controls, as has been mentioned. But "independence of the shipping section has been repeatedly debated ever since the late Meiji period,"[40] and "the number of company-owned ships had tended to increase rapidly during the recessionary years of the late Taisho and early Showa periods. . . . It was merely a matter of time that the shipping section was to be separated into an independent company."[41] A characteristic feature of general trading companies is the internalizing of related businesses, but in this case, the shipping operation developed beyond what a department within a company can handle into something of a public business.

A more important case in this regard is that of the raw cotton department being made into an independent company. This department handled raw cotton and cotton yarn, major items of merchandise for all trading companies. The immediate cause of the separation was the risk posed to the entire company by the sharp drop of raw cotton prices after the First World War. But opinions had been voiced as to the desirability of having the raw cotton section separated from the main body as early as the mid-1910s. Mitsui Bussan allegedly had neither the mobility nor capital to adequately deal in such volatile commodities as raw cotton and cotton yarn. It is clear that certain business lines, despite their importance, could not be internalized into the trading companies' overall organizational set-up. The process of generalization for trading companies, then, is also one of institution building for effective management of business entities.