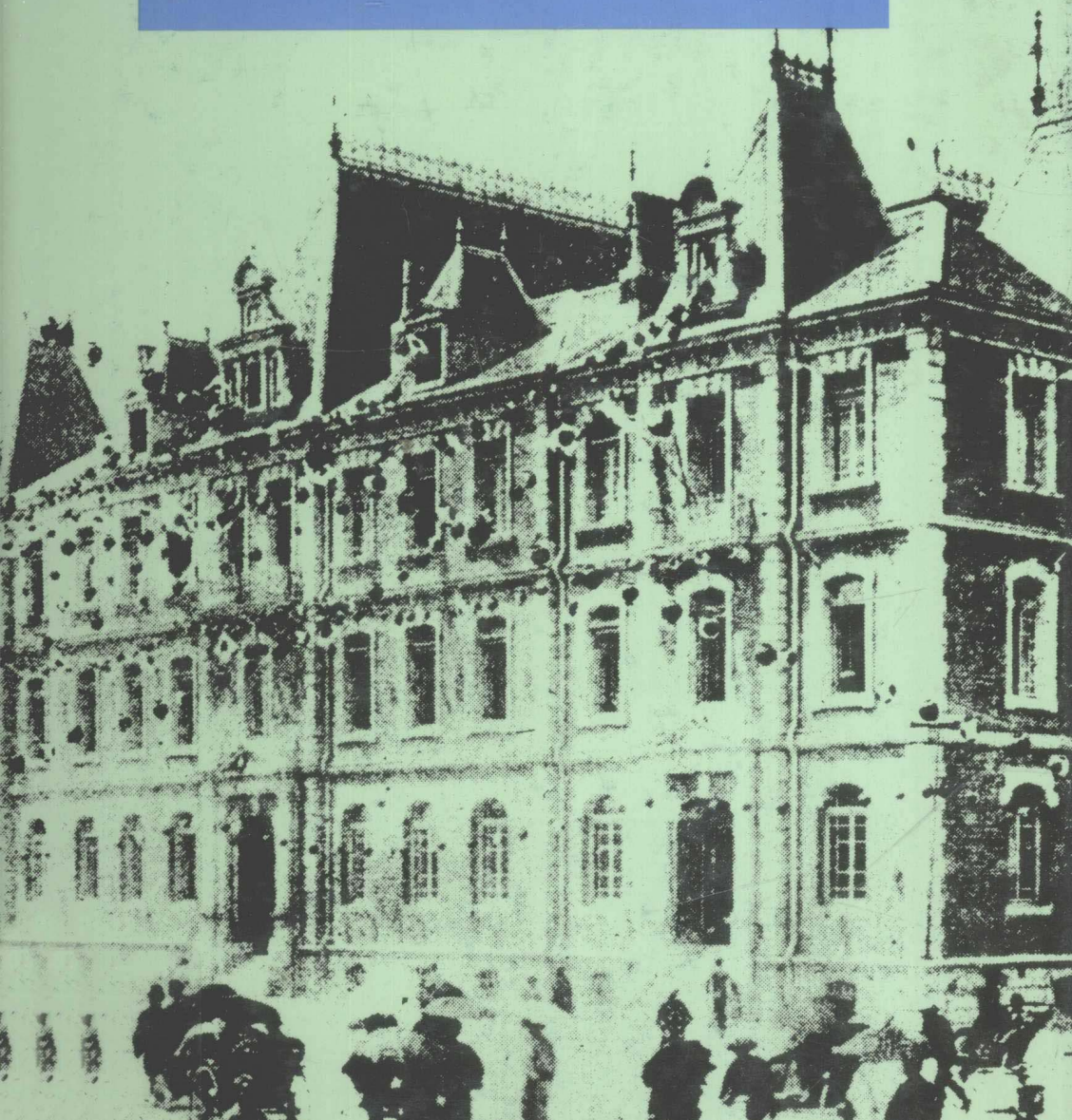


General Trading Companies

A Comparative and Historical Study

Edited by
Shin'ichi Yonekawa



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United Nations University Press

The United Nations University project on Technology Transfer, Transformation, and Development: The Japanese Experience was carried out from 1978 to 1982. Its objective was to contribute to an understanding of the process of technological development in Japan as a case study. The project enquired into the infrastructure of technology, human resources development, and social and economic conditions and analysed the problems of technology transfer, transformation, and development from the time of the Meiji Restoration to the present. The research was undertaken by more than 120 Japanese specialists and covered a wide range of subjects, including iron and steel, transportation, textiles, mining, financial institutions, rural and urban society, small industry, the female labour force, education, and technology policy.

This volume constitutes a comprehensive examination of the historical background and functions of general trading companies in relation to the broader economic development of Japan.

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The Japanese Experience
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Foreword

In defining “technology” one must think beyond only machines and equipment. Technology encompasses not only hardware and software but also the institutional and social interface which operates the system of technology. This view is based fully on our experiences dealing with the difficulties contained in today’s “development” problématique.

Japan’s general trading companies played a vital role in the transfer of technology to Japan as an importer of machinery and equipment. Today, general trading companies export as well as import these items and thus continue their crucial part in technology transfer even today.

General trading companies also serve as a development model, since they developed by transferring and adapting technologies for forming and operating an enterprise. In the process of their own development, they acquired practical know-how of how to carry out foreign trade in its daily operation (which was distinctly different from domestic trading activities in terms of the merchandise handled, quality evaluation, pricing, method of clearance, transportation, and insurance), while adjusting and co-ordinating their new activities with the surrounding environment in Japan.

Successful execution of the business of general trading companies requires detailed information regarding the needs of the markets in and out of the country, as well as practical know-how and experience regarding the nature of individual merchandise items, market opportunities or their absence, means of transportation, emergency measures, and a host of other matters. Thus, their economic and management operations amounted to a systematic accumulation of know-how and its efficient utilization, both of which required a high-quality source of manpower as the initiating as well as ultimate resource.

General trading companies sometimes are looked upon as a specifically Japanese phenomenon born out of the uniquely Japanese history of their development. We have no explicit objection to such a view. But we do object to the denial of their universality on the basis of their uniqueness. No one

would deny the *raison d'être* of individual nations and peoples because they have undergone a unique process of nation-building: the precise opposite should be the case. So should universality and generality be operationally confirmed following a painstaking accumulation of case-studies. Thus, the case of Japan should not be denied merely because it is unique but, instead, should be characterized as one of many unique entities. It can be shown that there were factors that helped general trading companies develop in the way they did and that similar cases can be found in the West and are not exclusive to Japan. Specialty dealers not only form the mainstream of distributors in the West but can also be found in Japan, past and present. Both specialty and general trading companies are possible, particular historical and social conditions either promoting the formation of general trading companies or denying their development.

Our choice of general trading companies in Japan as a research subject has received staunch support and generous encouragement from numerous development specialists and intellectuals from developing countries gathered at the United Nations University, a truly global intellectual forum. They recognize the important roles these companies play in transferring technology and also it is their ardent hope to possess their own general trading houses and commercial fleet.

An absolute need for technology in development pushes them to seek, perhaps too hastily, the large-scale and quick transfer of technology. But easily transferable technology in the form of machinery and equipment has already been transplanted and is being operated. What comes over and above that which has already been achieved belongs to the realm of technology where theoretical transferability is defied by practical difficulties in the transfer itself or in making it operative. Our aim was to pursue a dialogue by examining these difficulties in terms of the five Ms of contemporary technology, that is, materials, machines, manpower, management, and market, so that crucial problems could be identified. What emerged was the following: what integrates these five Ms is information and services, and what links the first M with the last (i.e., materials with market) is the general trading company. General trading companies are thus seen to be that partner who is most keenly aware of the high value as well as the high price of technological information and services. Viewed from development perspectives, both the activities and organizations of general trading companies underwent changes and diversification as technology changed and developed.

General trading companies transformed their function from an initial preoccupation with import to more emphasis on export, and further on to heavier involvement in third-party trading. In this process, they have often been criticized by their countrymen, and not merely by academicians alone, for being redundant or doomed to oblivion. This criticism constitutes an interesting topic for discussion, particularly when efforts are being made in a number of developing countries to create general trading companies by policy measures; any such discussion is likely to lead to a confirmation that this category of trading companies is not free of the constraints and challenges of

the particular stage of development of their economy and at the historical period in which they operate. As developing countries request "counter purchases" and package import associated with Japan's exports of industrial plants and development of natural resources, Japanese manufacturers and financial organizations have come once again to expect a great deal out of the vast know-how these trading companies have on third-party trading on a global scale. This is a complete about-face from the trend two decades ago, when manufacturers themselves tried to export their own products, develop their own markets, and establish their own services network, giving rise to the claim that there was no need for general trading companies. But the renewed expectation regarding the role of these traders is only a reflection of the stage of development of the international economy in which we now find ourselves.

The methodology adopted in this study is that of business management, where general trading companies are examined from the global point of view in comparative historical perspectives. Through analyses of the various functions they performed and still perform (such as developing products and markets, co-ordinating various industrial sectors, organizing, money exchange and financing, and providing information and services), the reader can gain insights into what a particular country needs and can reasonably hope to attain in its plans to encourage such traders' activities.

Thus, the study published here is unique in its polemic and the kinds of questions that are addressed. As the project planner, I can say I am quite content with the result. I would like to express my profound gratitude to the researchers, who, in addition to their on-going professional duties, gladly consented to the strenuous undertaking and completed their superb work within the short period of a mere two years. I would like to mention, too, that a few years have passed since the research underlying this volume was completed in 1982, and it should be noted that the contributions presented here are not intended by the authors to be taken as necessarily representative of the most recent research on the subject.

In the publication stage, we have been greatly assisted by Dr. Takeo Uchida of the United Nations University and Dr. Kinhide Mushakoji and Mr. Shigeo Minowa, formerly of the UNU. Assistance was also provided by Mr. Kazuo Tsushima, Secretary-General of the Japan Foundation for the UNU. Final arrangement of the manuscript and administrative tasks were handled by Mr. Shoji Ito and Ms. Akiko Akemine, both my colleagues. Thanks are also due to Mr. Masaomi Kondo, the translator.

Takeshi Hayashi
Project Co-ordinator

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Introduction

Shin'ichi Yonekawa

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Bibliography on General Trading Companies

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

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

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

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

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

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

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

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General Trading Companies in a Comparative Context

Shin'ichi Yonekawa

Are General Trading Companies Unique to Japan?

Japanese general trading companies (*sogo shosha*) in the post-war period have received much attention because they are considered to have given indirect aid to the smooth industrialization of the Japanese economy from the Meiji period onward. A good deal has already been published on this subject in the research on Japanese business history.¹ In addition, the world cannot overlook the role that the general trading companies played in the construction of Japan's post-war economy, as well as in the process of nurturing its international competitiveness. Currently, not only Japanese scholars but also a number of foreign researchers are interested in this area of study.²

As a result of the great volume of research on general trading companies, the actual conditions pertaining to their development have been clarified considerably. Unfortunately, however, not much research has been done on them from the viewpoint of comparative world business history. Due to this lack of an international perspective, the uniqueness of the Japanese general trading companies seems to have been overemphasized. Scarcely anyone would disagree that historically the most typical of the general trading companies in Japan – defined as “enterprises engaged in the transaction of a multitude of commodities on a world-wide scale” – have been Mitsui Bussan and Mitsubishi Shoji. Both companies once formed a part of business combines called *zaibatsu*, and most scholars would assume that they were able to develop as a result of having been part of *zaibatsu* groups.

If the *zaibatsu* is a business phenomenon peculiar to Japan, it might not be unnatural to take a step further and infer that the general trading company, too, is characteristic of Japan. Although I am not certain whether such an inference has actually affected researchers, the general trading company has often been understood as being uniquely characteristic of Japan, sometimes much more than the *zaibatsu*.³

In the past, the development of Mitsui Bussan was explained as a unique