

Why Were *Sogo Shosha* Needed ?

Japan's Develop-and-Import Scheme of Iron Ore in the 1960s*

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Abstract

This paper analyzes the role of *sogo shosha* (general trading companies)¹ in the develop-and-import scheme of iron ore during the days of high economic growth in Japan, and seeks the reasons behind the establishment of *sogo shosha's* oligopolistic structure during this period. In the 1960s, with rapid growth in the demand for iron ore, there was a high level of demand for large-scale develop-and-import projects of iron ore from distant locations such as Australia. Unlike previous simpler import operations, in these projects trading companies needed higher levels of competence, and only major *sogo shosha* were able to proceed successfully. Consequently they established a dominant position in the field of importing iron ore. This also meant that 'the age of specialized trading companies developing into general trading companies' came to an end, and the 'Six Major *Sogo Shosha* order' was established.

Keywords : *sogo shosha*, Japan's rapid economic growth, mineral resource, transactional relationships

JEL classification numbers : N50, N70, O19, Q30

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1 Japanese terms '*sogo*' and '*shosha*' mean 'general' and 'trading company' in English respectively.

I. Introduction : What's the Matter with *Sogo Shosha* ?

Sogo shosha is the term applied to Japan's general trading companies. They are characterized firstly by colossal sales, secondly by the diversity of goods traded (called 'from mineral water to satellites'), and thirdly by the global reach of their business network.

In countries other than Japan, large-scale trading companies generally specialize in a specific range of goods, or trade goods from a specific region. For this reason, many studies in the field of business history have examined the historic conditions that gave rise to the formation of general trading companies, which are unique to Japan. In particular, Mitsui Bussan (Mitsui General Trading Company), which was established before the Second World War, has been the subject of such studies.²

After the Second World War, several specialized companies grew into general trading companies, following the model provided by two established general trading companies: Mitsui & Co. (the English name for Mitsui Bussan) and the Mitsubishi Corporation. Five of these had previously specialized in the textile trade: the Marubeni Corporation,³ C. Itoh & Co.,⁴ Toyo Menka (Tomen),⁵ Nichimen, and Kanematsu-Gosho.⁶ Two other companies had previously traded specifically in steel: Nissho Iwai Corporation⁷ and Ataka Sangyo.⁸ The Sumitomo Corporation, on the other hand, was newly established by the Sumitomo Group. Amongst all these companies, the Mitsubishi Corporation, Mitsui & Co., the Sumitomo Corporation, Marubeni, C. Itoh and Nissho Iwai were widely known as the 'Six Major *Sogo Shosha*'.

The more new general trading companies were established, the fiercer the competition amongst them became. As a result, the general trading companies had to expand their functions further to survive. I consider that the development of the general trading companies' functions during the period of Japan's rapid economic growth should be a major

2 There are several papers written in English on this topic, such as Yonekawa and Yoshihara, eds. (1987) and Yonekawa ed. (1990).

3 Although from September 1955 to January 1972 the name of the company was Marubeni-Iida, I use Marubeni in this paper.

4 In 1992 this company adopted the English name "Itochu Corporation".

5 In 1990 this company adopted the English name "Tomen Corporation".

6 Kanematsu & Co. and the Gosho Company were merged in 1967. In 1990 the company adopted the name "the Kanematsu Corporation".

7 The Nissho Company and Iwai Sangyo were merged in 1968. In 2003 Nissho Iwai and Nichimen were merged. Now the company is called the Sojitz Holdings Corporation.

8 In 1977 this company was taken over by C. Itoh.

subject for research. Yet far fewer studies of these companies in postwar period have been made than of those in prewar period.⁹

The main stimulus for the development of general trading companies' functions was mineral resource development and importation. In this paper I shall make a case study of the develop-and-import scheme of iron ore, and seek to explain why specialized trading companies had to hasten to develop into general trading companies. Furthermore, an attempt will be made to find the key factors that determined specialized trading companies' success or failure in developing into general trading companies.

II. Japan's Develop-and-Import Scheme of Iron Ore

2.1. The Japanese Steel Industry's Raw Materials Problem and *Sogo Shosha*

From the mid 1950s to the beginning of the 1970s the Japanese economy experienced a period of high economic growth, led, in particular, by the steel industry. As a result of a rush by steel makers¹⁰ to construct new and powerful iron and steel works in the coastal zone, the production of crude steel¹¹ rose dramatically from 9 million tonnes in 1955 to 119 million tonnes in 1973.

The construction of iron and steel works, which have a blast furnace as a main feature, presupposed the importation of iron ore and coking coal as raw materials. It therefore became of crucial importance to ensure a consistent and abundant supply of raw materials at a low price, corresponding to the rapid increase in the production of crude steel.

However, both the human and capital resources of steel makers were limited, forcing them to concentrate on investing in production facilities, and to rely heavily on other trading companies for the supply of raw materials and the sale of products. This meant that general trading companies (established and newly developed), together with specialized trading companies aspiring to develop into general trading companies, were given a big business

9 Amongst studies of individual companies, Huang (1992) is outstanding.

10 At that time, the major blast furnace makers positioned at the top of the Japanese steel industry were Yawata Iron and Steel (Yawata Steel), Fuji Iron and Steel (Fuji Steel), Nippon Kokan (NKK), Kawasaki Steel, Sumitomo Metal Industries (Sumitomo Metals) and Kobe Steel. Incidentally, Yawata Steel and Fuji Steel were merged in 1971 and became Nippon Steel. NKK and Kawasaki Steel were merged in 2002 and became JFE Holdings.

11 Crude steel is generally measured in metric tonnes (MT), while iron ore is measured in wet metric tonnes (WMT).

opportunity. The expansion of iron and steel raw materials trade enhanced the trade in steel products.

For general trading companies the domestic distribution of steel products was more lucrative than importing raw materials or exporting steel products. Since their service in obtaining raw materials for steel makers was highly valued, their dealing in steel products was enhanced immediately. Particularly for the newly developed general trading companies such as Marubeni and C. Itoh, the growth in the iron and steel industry was the foundation for becoming established as general trading companies.

However, in the domestic distribution of steel products, all steel makers observed the custom that their products were sold only to the designated primary retailers.¹² It was thus difficult for the newly developed trading companies to enter as new primary retailers.¹³ Engaging in the importation of raw materials, which was more accessible than the domestic distribution of steel products, was a means of entering into business relations with the steel makers.¹⁴

In short, the rapid growth in the Japanese steel industry demanded an assured, consistent supply of raw materials, in large quantities and at a low price, and satisfying this demand became a condition for success as a general trading company. This circumstance applies to both iron ore and coking coal, but I shall concentrate on the case of iron ore.

2.2. A Paradigm Shift in the Procurement of Iron Ore

2.2.1. 1950s: *The Lack of a Mass Procurement System*

Let us take a brief look at Table 1, which shows the importation of iron ore by trading companies in 1965. The table clearly shows that established general trading companies such as Mitsui & Co. and the Mitsubishi Corporation had already established a dominant position, that newly developed general trading companies (including those that were in the process of

12 On the economic role of general trading companies in domestic distribution, see Tanaka (1999).

13 Long-term business relations are commonly observed in Japanese companies, although they are not as strict as those found in the trade of steel products. Entering into long-term business relations was therefore an essential management task for trading companies, which possessed neither their own products nor technology. Japanese business term “*shoken*” or “trade right,” explicitly refers to this essential practice of trading companies. Shimada (1990) is a pioneering study on this subject.

14 Marubeni (1984: 64). Investment in the domestic distribution and processing industries, such as fabricators, coil centers and warehouses, was also a means of entering into business relations with the steel makers. Yet the most effective way was to merge the existing trading companies specializing in steel.

Table 1. Iron Ore Importer Ranking (1965FY)

Rank	Importer	Sales (thousand ton)	Share (%)	Main Business
1	Mitsui & Co.	9,488	24.5	General
2	Mitsubishi Corp.	7,282	18.8	General
3	Totsu	2,790	7.2	Iron & Steel
4	Okura Shoji	1,919	4.9	Machinery
5	Tonan Boeki	1,747	4.5	Iron & Steel
6	Gosho	1,629	4.2	Textiles → General
7	Yamamoto Shoten	1,449	3.7	Iron & Steel
8	Marubeni-Iida	1,447	3.7	Textiles → General
9	C. Itoh & Co.	1,378	3.6	Textiles → General
10	Tozai Kinzoku	1,294	3.3	Iron & Steel
11	Sumitomo Corp.	1,232	3.2	General
12	Nissho	995	2.6	Iron & Steel
13	Kakiuchi Shoji	971	2.5	Textiles
14	Iwai Sangyo	854	2.2	Iron & Steel
15	Toyo Menka	686	1.8	Textiles → General
16	Nichimen	546	1.4	Textiles → General
	Others	3,062	7.9	
	Totals	38,769	100.0	

Source: *Yunyu Tekkoseki no Choki Jukyu Bunseki [Analysis of Long-term Supply and Demand of Imported Iron Ore]*, 1965. (Quoted from Shiota, N. (1969) *Nihon no Tekko Shijo [Japanese Steel Market]*, Shiseido.)

developing into general trading companies) were not necessarily ranked higher, and also the prominence of trading companies specializing in iron and steel.

Most of the new general trading companies had developed from companies specializing in textiles, especially cotton, and were called *Kansai Gomen* (the five cotton trading companies from the Kansai region). They were trading companies established before the war, which after the war grew into the major trading companies, while Mitsui & Co. and the Mitsubishi Corporation were dissolved.¹⁵ The *Kansai Gomen* diversified their range of trading products, and the importation of iron ore was one of their diversified business operations.

Amongst the trading companies in the table that specialized in iron and steel, Nissho Iwai is the only one that succeeded in developing into a general trading company. The main business operation for trading companies specializing in steel was the domestic distribution of

¹⁵ In 1947, Mitsui Bussan was dispersed into 223 companies, and Mitsubishi Shoji into 163 companies, according to the dissolution order of the American postwar occupying administration. Both companies were restored later, as Mitsui & Co. in 1959, and the Mitsubishi Corporation in 1954.

steel products. They fell behind the trading companies specializing in cotton in their bid to developing into general trading companies. On the other hand, they made earlier inroads in the importation of iron ore, on the basis of their relations with steel makers. Trading companies specializing in steel, such as Kinoshita Sansho and Kishimoto Shoten, which had been prominent in iron ore importation, had merged with other trading companies and disappeared by the time Table 1 was compiled. Prior to these mergers, the relative importance of trading companies specializing in steel had been high.

Thus trading companies importing iron ore during the period of rapid economic growth can be classified into three groups: established general trading companies, newly developed general trading companies that formerly had specialized in cotton, and trading companies specializing in steel.

During the 1950s the volume of imported iron ore was less than ten million tonnes each year. The supply sources were concentrated in Southeast Asian countries such as Malaysia and the Philippines. The mines were relatively small, and there were often cases where exclusive business relations were made between suppliers, trading companies and steel makers, in relation to each brand.

As to the means of importation, immediately after the war the predominant method was 'simple import' or 'straight import', by which iron ore was imported at a market price from foreign resource companies with which there were no capital relations. However, with the rapid growth in steel production, trading companies were confronted with task of obtaining iron ore consistently, in large quantities and at a low cost. In consequence they embarked upon the development and importation of iron ore based upon long-term contracts with suppliers. First Japanese trading companies would finance a resource development project, and then they would import the resources — a method referred to as the 'loan-and-purchase' scheme, which began at the beginning of the 1950s. Table 2 shows that until the beginning of the 1960s, mining companies and trading companies specializing in steel were foremost amongst those companies that financed develop-and-import projects of iron ore.

2.2.2. 1960s: The Establishment of a Mass Procurement System

The rapid growth in steel production under the Third Steel Rationalization Plan, which began in 1960, and the removal of the ban on iron ore exportation, especially by the Australian government in December 1960, radically changed the conditions under which iron ore was imported to Japan.

The first clear manifestation of these changes was the diversification and increasing

Table 2. Japan's Loan-and-Purchase Projects of Iron Ore (by Early 1960s)

Country	Mine/ Brand	Owner/Shipper	Date of Contract	Lender	Amount of Loan	Importer
India/Goa	Goa (Sirigao et al.)	Chowgule & Co.	Oct. 1951 Oct. 1956 Oct. 1961	Kokan Mining Kokan Mining Kokan Mining	\$1,620,000 \$1,440,000 \$2,870,000	Kishimoto Shoten*
	Goa (Shankan)	Shantilal Khushalade & Irmaos, S. Kantial & Cia.	Feb. 1960	Gosho [†] Yamamoto Shoten* Tamura Koma [†]	¥460mln	Gosho [†] Yamamoto Shoten* Tamura Koma [†]
	Kiri Buru	The National Minerals Development Corp. (NMDC)	Mar. 1958	Kobe Steel, Hitachi, Nissho	\$8,000,000	Kishimoto Shoten* Kinoshita Shoten*
	Bailadila		Mar. 1960	Central Supply Agen- cy (Kobe Steel)	\$21,000,000	Nissho
Philippines	Larap	Philippine Iron Mining	May 1952 Feb. 1955 Nov. 1960	Kinoshita Shoten* Kinoshita Shoten* Kinoshita Shoten*	\$1,000,000 \$1,800,000 \$400,000	Kinoshita Shoten*
	Sibugey	Samar Mining	Nov. 1958	Nanyo Bussan*	\$300,000	Nanyo Bussan*
Hong Kong	Meonchan	Mutual Trust	Oct. 1952	Nittetsu Mining	¥2,009mln	
Canada	Zeballos	Zeballos Mining	Oct. 1963	Kinoshita Sansho*	\$1,570,000	Kinoshita Sansho*

Notes: * Steel (Based) trader. Kinoshita Sansho was succeeded Kinoshita Shoten.

[†] Textile trader.

Sources: Resources Council, Science and Technology Agency (1964) *Tetsugen ni Kansuru Chosa Hokoku* [Report on Iron Material],

Nishio, S. ed. (1967) *Kaigai Tekko Shigen no Kaihatsu* [Development of Foreign Iron Resources], Insitute of Developing Economies (IDE).

Tanabe, S. (1982) *Tetsu yo Eien ni* [Iron, Forever: History of Japan's Iron Materials], Sangyo Shimbunsha.

distance of the countries from which iron ore was imported. In the 1950s adequate supplies were secured by importing from relatively small-scale mines in Southeast Asian countries. However, in the 1960s the demand for iron ore increased rapidly (see Figure 1) and the stocks of existing mines were becoming exhausted. It was therefore necessary to find new sources of supply. The sources of supply diversified and three large sources were conspicuous: Australia, Brazil and India (see Figure 2). The volume of imported iron ore reached more than 100 million tonnes.

The more distant the sources of supply became, the more significant for the Japanese steel industry was the need to reduce the cost of importation. Steel producing countries in Europe have their sources of supply in African or South American countries. The American steel industry, on the other hand, is self-sufficient for 60% of its supply, and makes up for the deficit with captive mines in South America. The Japanese steel industry's dependence on importation for its supply of iron ore is the highest of all steel producing countries. Moreover, because the sources of supply became more distant, the distances of marine transportation also became greater (see Table 3). The relative weight of freight in the CIF cost of iron ore was so

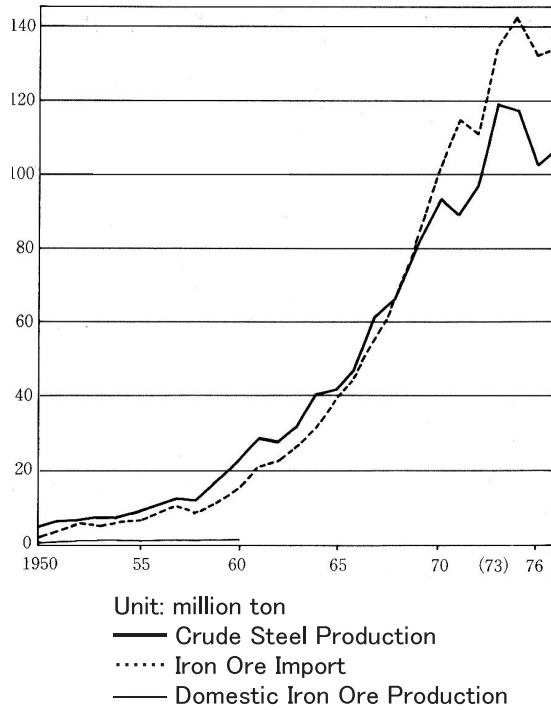


Figure 1. Trends in Crude Steel Production and Iron Ore Import in Postwar Japan

Source: JISF, *Tekko Tokei Yorán [Handbook for Iron and Steel Statistics]*, annual issues.

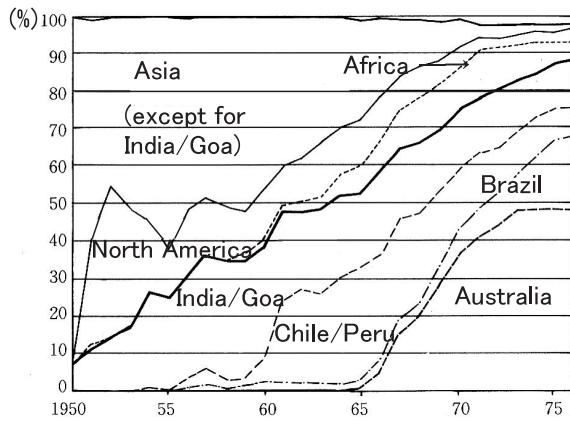


Figure 2. Trends in Japan's Source of Iron Ore by Region

Source: JISF, *Tekko Tokei Yorán [Handbook for Iron and Steel Statistics]*, annual issues.

Table 3. Trends in Distance of Marine Transportaton of Iron Ore by Steel-Making Country

FY	(mile/ton)					
	Japan	USA	W. Germany	UK	Italy	France
1950	1,940					
1951	3,100					
1952	3,430					
1953	3,190					
1954	3,100					
1955	2,900	2,400	2,100	1,900	2,400	1,800
1956	3,400	2,300	2,200	2,000	2,700	1,600
1957	3,700	2,400	2,300	2,000	2,700	1,900
1958	3,400	2,500	2,600	2,000	3,100	2,000
1959	3,500	2,700	2,600	2,000	2,900	1,900
1960	4,000	2,500	2,900	2,100	3,300	2,100
1961	4,900	2,400	3,000	2,100	3,600	2,400
1962	5,000	2,200	2,600	2,100	3,800	1,900
1963	5,100	2,100	2,900	2,200	3,820	2,970
1964	5,440	2,140	3,000	2,200	3,560	2,710

Source: JISF.

(Quoted from Tanabe, S. (1982) *Tetsu yo Eien ni [Iron, Forever: History of Japan's Iron Materials]*, Sangyo Shimbunsha.)

high that the international competitiveness of Japanese steel makers was limited by the cost to them of raw materials. In particular, the need to reduce the cost of importing coal from Brazil, the most distant source of supply, was urgent.

Secondly there was considerable change in the method of supply. In the 1960s, projects for the large-scale development of mines happened in rapid succession, as suppliers, including those in Australia, invited Japanese companies to have equity participation, in order to hedge against investment risks. In consequence the late 1960s saw the 'equity participation' scheme become the dominant means by which Japanese companies made capital investment and in turn imported raw materials (see Table 4).

Large-scale projects generally required that trading companies had multiple functions, and investment and financing for development and importation rapidly increased. Moreover, in the 1950s exclusive business relations between suppliers, trading companies and steel makers were often observed, as the scale of mines became larger and the system of joint purchase by several steel makers became more common.

General trading companies were the only ones that could cope with this series of changes. As shown in Table 5, the volume of trade in steel by the 'Six Major *Sogo Shosha*' in 1965 was 23 million tonnes, 58.5% of the total, while in 1970 it was 74 million tonnes, a little over 70%. Subsequently it remained at 70 to 75 percent. It is estimated that prior to 1965 the percen-

Table 4. Jpan's Equity Investment Projects Developing Iron Ore (by Early 1970s)

Country	Mine/Brand	Owner/Shipper	Date of Equity Participation	Investor	Amount of Equity Investment	share (%)	Importer
Malaysia	Temangan	Oriental Mining	Jul. 1955	Kokan Mining	MAL\$585,000	39	Totsu
	Endau	Endau Iron Mining	Dec. 1956	Nippon Mining Goshō	MAL\$81,000 MAL\$66,000	27 22	Goshō
	Ipoh	Federal Mining	Jan. 1960	Marubeni-Iida	MAL\$294,000	49	Marubeni-Iida
	Pontian	Pontian Mining	Jan. 1960	Nippon Mining Iwai Sangyo	MAL\$375,000 MAL\$375,000	24.5 24.5	Iwai Sangyo
	Bunga-yanga	Bungaraya Mining	Apr. 1964	Kokan Mining Totsu	MAL\$75,000 MAL\$42,000	25 14	Totsu
Chile	Atacama	Compania Minera de Atacama	Feb. 1959	Mitsubishi Metal Mitsubishi Corp.	P125,000,000 P125,000,000	50 50	Mitsubishi Corp.
South Rhodesia	Beacon Tor	Mines de Chrome et de Fer	Dec. 1963	Kobe Steel Nissho	SFr200,000 SFr48,000	64.5 15.5	Nissho
Indonesia	Brimco	Brimco (Sungei-Gau) Mining	1965	Marubeni	n.a.	8	Marubeni
Australia	Savage River	(Uninc. J.V.)	Nov. 1965	Mitsubishi Corp. Sumitomo Corp.	\$870,000 \$290,00	37.5 12.5	Mitsubishi Corp., Sumitomo Corp.
	Mt. Newman	(Uninc. J.V.)	Apr. 1967	Mitsui & Co. C. Itoh & Co.	n.a. n.a.	7 3	Mitsui & Co., C. Itoh & Co., et al.
	Robe River	(Uninc. J.V.)	May 1970	Mitsui & Co.	n.a.	30	Mitsui & Co.
	Hammersley	Hammersley Holdings	May 1973	6 steel makers Marubeni Mitsubishi Corp.	n.a. n.a. n.a.	3.1 1.55 1.55	Mitsubishi Corp., Marubeni, et al.
Ivory Coast	Man	Pickands Mather International	1971	Mitsubishi Corp. Sumitomo Corp.	\$530,000 \$270,000	27 13	Mitsubishi Corp., Sumitomo Corp.
Liberia	Wologisi	LISCO	1971	Kawasaki Steel Nissho Iwai C. Itoh & Co. Marubeni Tomen	n.a. n.a. n.a. n.a. n.a.	12.4 4.9 4.9 1.2 1.2	
Brazil	Aguas Claras	Mineracoes Brasileiras Reunidas (MBR)	Feb. 1971	6 steel makers Mitsui & Co. C. Itoh & Co. Sumitomo Corp. Marubeni Mitsubishi Corp.	\$816,000 \$253,000 \$253,000 \$122,000 \$122,000 \$65,000	10 3.1 3.1 1.5 1.5 0.8	Mitsui & Co., C. Itoh & Co., et al.
	Nibrasco	NIBRASCO	1974	6 steel makers Nissho Iwai	\$16,807,000 \$343,000	48.02 0.98	Nissho Iwai, et al.

Sources: Nishio, S. ed. (1967) *Kaigai Tekko Shigen no Kaihatsu [Development of Foreign Iron Resources]*, IDE.

Tanabe, S. (1982) *Tetsu yo Eien ni [Iron, Forever: History of Japan's Iron Materials]*, Sangyo Shim-bunsha.

Kato, I. (1979) *Setogiwa ni Tatsu Sogo Shosha [Sogo Shosha on the Brink: Offshore Trade and Foreign Direct Investment]*, Seikei Tsushinsha.

Table 5. Tred of Ranking of Iron Ore Import Business by *Sogo Shosha*

1965FY	1968FY	1970FY	1972FY	1974FY	1988FY
1 Mitsui	1 Mitsubishi	1 Mitsui	1 Mitsui	1 Mitsui	1 Mitsui
2 Mitsubishi	2 Mitsui	2 Mitsubishi	2 Mitsubishi	2 Mitsubishi	2 Mitsubishi
8 Marubeni	3 Marubeni	3 Marubeni	3 Marubeni	3 Marubeni	3 Marubeni
9 C. Itoh	4 (Iwai Sangyo)	4 Nissho Iwai	4 Nissho Iwai	4 Nissho Iwai	4 Nissho Iwai
11 Sumitomo	5 Sumitomo	5 Sumitomo	5 C. Itoh	5 C. Itoh	5 C. Itoh
12 (Iwai Sangyo)	9 C. Itoh	6 C. Itoh	6 Sumitomo	6 Sumitomo	6 Sumitomo
14 Nissho	11 Nissho				

Start Shipping to Japan by Large-Scale Mine (*kanji* importers)

*1966. Itabira, BRA (Iwai) *1969. Mt. Newman, AUS (Mitsui, C. Itoh)

*1966. Hamersley, AUS (Mitsubishi, Marubeni) *1972. Robe River, AUS (Mitsui)

*1966. Goldsworthy, AUS (Nissho, Marubeni) *1973. MBR, BRA (Mitsui, C. Itoh)

*1968. Savage River, AUS (Mitsubishi, Sumitomo)

Sources: *Yunyu Tekkoseki Nenkan [Iron Ore Manual]*, the Tex Report Ltd., annual issues.

Yunyu Tekkoseki no Choki Jukyu Bunseki [Analysis of Longterm Supply and Demand of Imported Iron Ore], 1965.

(Quoted from Shiota, N. (1969) *Nihon no Tekko Shijo [Japanese Steel Market]*, Shiseido.)

tage of trade conducted by the general trading companies would have been less than 58.5%. Hence concentration of the trade in iron ore in the hands of the general trading companies is apparent. In the following section I shall analyze the behaviour of general trading companies and seek the causes for this type of concentration.

III. The Behaviour of the *Sogo Shosha* in the Develop-and-Import Scheme of Iron Ore

3.1. The System of Organization

3.1.1. *The Relationship between Suppliers, Steel Makers and Importers*

The parties in Japan who enter into contracts with suppliers to import iron ore are steel makers. Importers including general trading companies are merely agents. Therefore the authority to determine the volume of trade in iron ore lies with the steel makers.

Suppliers do not pay much attention to which trading companies act as 'windows' for export to Japan. As for the relationship between suppliers and steel makers, the former provide enough raw materials for steel production to the latter, while the latter offer a suitable market for large volumes of raw materials to the former. They therefore have a mutual interest.

In the case of large-scale develop-and-import projects, steel makers, as purchasers, select a coordinating company out of themselves for each source of supply,¹⁶ so that they can present a

united front for negotiation with suppliers, but contracts are made individually between suppliers and each steel maker. They call this method 'joint purchase.' In each mine there exist several (sometimes more than ten) trading companies as agents for import business, and each steel maker allocates trading volume to these importers.

As a result of the joint purchases by Japanese steel makers from the large-scale mines, the importation business has been operated by several trading companies, and these companies have had one or two '*kanji*'¹⁷ or coordinator of importers engaging in each brand.

The official duties of these *kanji* importers are as follows. Firstly, they act as assistants for steel makers in meetings or negotiations with suppliers (interpreters). Secondly they observe local operations and offer information to steel makers. Thirdly they adjust business amongst many other trading companies (such as the allocation of ships).¹⁸ In addition, as I shall mention later in 3.2, they needed to have more diverse functions. Because becoming *kanji* importers means that they are guaranteed preference in the importation business for each brand, fierce competition for the position of *kanji* importers has unfolded amongst trading companies.

3.1.2. *The Struggle for 'Kanji' Importer Positions*

As shown in Table 5, the commencement of importation from large-scale develop-and-import projects corresponds with an increase in the share of trade held by *kanji* importers. In particular, four big Australian projects (Mt. Newman, Hamersley, Goldsworthy and Robe River) had an immense influence on *kanji* importers.

In the late 1950s trading companies were gradually 'dividing' world iron ore mines, depending on the distribution of their overseas branches.¹⁹ When the Australian government lifted the ban on the exportation of iron ore in December 1960, trading companies began fiercely contesting for the Australian mines, which were relatively close to Japan, and had plentiful reserves. As a result of this stiff competition, the large-scale Australian supply sources were divided between the 'Six Major *Sogo Shosha*' (see Table 6).

For instance, the process by which the Hamersley Project's *kanji* importers came to be the Mitsubishi Corporation and Marubeni was as follows. The newly developed general trading

16 In Australia, the main coordinating steel maker is Nippon Steel, and the deputy one is Sumitomo Metals.

17 Japanese term '*kanji*' means, in English, a representative or an coordinator for certain event.

18 This information is based on enquiries I made with the Mitsubishi Corporation and Nissho Iwai in 1991.

19 Kishimoto Shoten acquired a predominant position in India, Iwai Sangyo (Nissho Iwai) in Brazil and the Mitsubishi Corporation in Chile and Peru.

Table 6. Importers of Australian IronOre (1973FY)
(thousand ton)

	Mt. Newman	Ham- ersley	Robe River	Golds- worthy	Savage River	Other Mines	Totals
Mitsui & Co.	6,262	-	8,186	825	-	-	15,273
Marubeni	45	8,037	-	3,761	-	-	11,843
Mitsubishi Corp.	-	8,157	-	-	1,875	-	10,032
C. Itoh	4,734	-	-	-	-	152	4,886
Sumitomo Corp.	2,464	370	-	-	625	1,000	4,459
Nissho Iwai	812	-	-	2,603	-	568	3,983
Overall	14,317	16,564	8,186	7,189	2,500	1,720	50,476
Others (Number of Them)	7,001 (15)	2,615 (11)	0 (0)	824 (6)	0 (0)	3,601 (3)	14,041
Totals	21,318	19,179	8,186	8,013	2,500	5,321	64,517

Note: Bald means *kanji* importers of each mine.

Source: *Yunyu Tekkoseki Nenkan [Iron Ore Manual]*, the Tex Report Ltd., 1973 issue.

company Marubeni took a risk and attempted to increase its share of the iron ore trade by embarking on iron ore exploration. Marubeni was the first trading company to set up an 'overseas natural resources development bureau', which was independent from its sales division, and embarked on iron ore exploration activity, with a special focus on Australia.

As a result of cooperative exploration with the English-based multinational corporation the Rio Tinto Company (the present Rio Tinto plc), Marubeni discovered the Mt. Newman and Robe River ore deposits in 1961, and the Mt. Tom Price ore deposit (Hamersley) in the following year. That is, Marubeni discovered three out of four major deposits. While Rio Tinto did not wish to risk sharing all the development costs, and abandoned all mining authorities except for Hamersley, which was considered to be the most promising, Marubeni was prepared to take a risk and shared half the cost of exploration.²⁰ As a result, Marubeni secured the position of *kanji* importer at the Hamersley project.

On the other hand, ConzincRiotinto of Australia (CRA), established as Rio Tinto's Australian control branch, decided to invite an American natural resource company, the Kaiser Steel Corporation, to the project, in order to secure the finance and technology for the development of the mines. In consequence, the Mitsubishi Corporation, which had maintained a close relationship with the Kaiser Steel Corporation, automatically became a second *kanji* importer at the Hamersley project.

In 1966 the Hamersley project began shipping to Japan. The Mitsubishi Corporation and

²⁰ See Maruoka (1981).

Marubeni each enjoyed a little over 40% of this trade. Both companies received the same business result, though the costs and risks taken on by Marubeni had been much greater than those of the Mitsubishi Corporation.

Yet the Mitsubishi Corporation's success was not attributable to good fortune or accident either. The Mitsubishi Corporation had extensive connections with many influential world companies. Its complete network was therefore superior to Marubeni's. Here lies the difference in competitiveness between established general trading companies and newly developed general trading companies.

3.2. *Sogo Shosha's* Functions in Develop-and-Import Scheme

3.2.1. *Systemic Transaction*

General trading companies, as *kanji* importers, needed to master diverse functions, as they had to ensure the smooth operation of large-scale development projects.

Firstly they needed to export facilities, machinery and materials for the project. As the development projects became larger, their requirements for a diverse range of commodities increased, and it was the general trading companies' duty to locate and acquire these commodities and enterprises.

The Pilbara region in Western Australia, where the above-mentioned Hamersley mine was located, was a vast wasteland, and in the first instance it was necessary to build a settlement where the workers could live.²¹ Large sums were also invested to prepare the harbour so that large ships for exporting iron ore would be able to enter service.²²

Through *kanji* importers, who were responsible for the projects, large infrastructure facilities, machinery and materials were often supplied (see Table 7).

Thus, in large-scale development projects the importation of mineral products and the export of facilities, machinery and materials are carried on concurrently. This procedure was termed '*shisutemu-teki torihiki*' or 'systemic transaction', and when general trading companies participated in a project, this was the most significant point to consider. Mitsui & Co. com-

21 The total population of Tom Price, where the mine is located, and the port towns Dampier and Karratha, is 14,000. Those people who are connected with the Hamersley mine and their families total 9,900 (71%) (from Hamersley Holdings, *Annual Report*, 1976, p. 8.).

22 Hamersley JV's fixed assets at the end of 1969 were as follows. While production facilities such as mine, machinery and pelletizing plant accounted for 32%, railway facilities accounted for 26%, harbor facilities for 17%, residential accommodation for 16% and power facilities for 9% (from Hamersley Holdings, *Annual Report*, 1969, p. 14.).

Table 7. Exported Plants Related to Iron Ore Development Projects

Year	Contractor	Project	Value	Remarks
1972	Mitsui & Co.	MBR (Brazil) Robe River (Australia) Hamersley (Australia)	US\$150,000ths US\$4,100ths US&1,545ths	ore car from Nippon Sharyo ore car from Nippon Sharyo
	C. Itoh	MBR (Brazil)	US\$150,000ths	
1973	Mitsui & Co.	Robe River (Australia)	US\$6,000ths	ore car from Nippon Sharyo
1974	Marubeni	Hamersley (Australia)	¥210mln ¥798mln	shovel from Kobelco shovel from Kobelco

Source : *Sogo Shosha Nenkan [Sogo Shosha Yearbook]*, Seikei Tsushinsha, annual issues.

mented on systemic transaction as follows :

When trading companies embark on resource development, we cannot only export materials and machinery for development, but also extend exports according to the demand in developing countries. In this way we can promote trade reform.²³

3.2.2. Combined Transportation

When the sources of supply diversified and became located at greater distances, Japanese steel makers faced the challenge of reducing freight costs. They took steps such as bringing into service large ships exclusively for iron ore, so that they could pursue economies of scale, and that the world marine transportation market would not affect their shipping. In the case of iron ore from South America, the most effective and decisive approach was 'combined transportation', which utilized ore/oil carriers (capable of carrying mineral oil).

The Mitsubishi Corporation was the very first general trading company to embark on the development of Chile's Atacama mine, through joint investment with Mitsubishi Metal. The Mitsubishi Corporation gave a high priority to key sources of supply in South America.

The steel materials department of the Mitsubishi Corporation directed their attention to the fact that on the outward route to Brazil their ships were empty, so they attempted to shorten the ballast voyage period. Their plan led to an agreement between Signal Oil & Gas and NYK Line, and was referred to as 'triangle transportation'. Both companies built 75,000 DWT ore/oil carriers: the *M. C. Mosher* and *Tsukushi-maru*. They then signed a charter contract with the Mitsubishi Corporation. The two ore/oil carriers circulate through the following course : they carry Middle Eastern oil to Europe and Brazilian iron ore to Japan.²⁴

²³ JBHI (1978 : 273).

²⁴ Mitsubishi Corporation. (1986 : 273).

Mitsubishi Heavy Industries (MHI) built two ore/oil carriers on the condition that four Japanese steel makers (Yawata Steel, Fuji Steel, NKK and Sumitomo Metals) guarantee iron ore cargo. However, in order to function as ore/oil carriers, oil cargo must also be steady. It was thus necessary for the Mitsubishi Corporation general trading company to act as a go-between. That is, the plan was only brought to fruition when the Mitsubishi Corporation acted as a *kanji* importer for NYK Line and MHI, which all belonged to the Mitsubishi Group, and the steel makers and Signal Oil & Gas.

Combined transportation, which utilized ore/oil carriers, was developed in a variety of combinations. For instance, carriers might take iron ore from Africa to Japan, and then carry oil from the Middle East to South and North America. Along with the enlargement of ships, combined transportation was effective in reducing the cost of long-distance shipping of iron ore, and created better conditions for expanding its importation. From Figure 3 we can see that the reduction in price of iron ore from Brazil was greater than the average reduction during the late 1960s.

The Mitsubishi Corporation's performance records show that the volume of trade in iron ore from the Itabira mine in Brazil increased from 54,000 tonnes (4.6%) in 1965 to 297,000

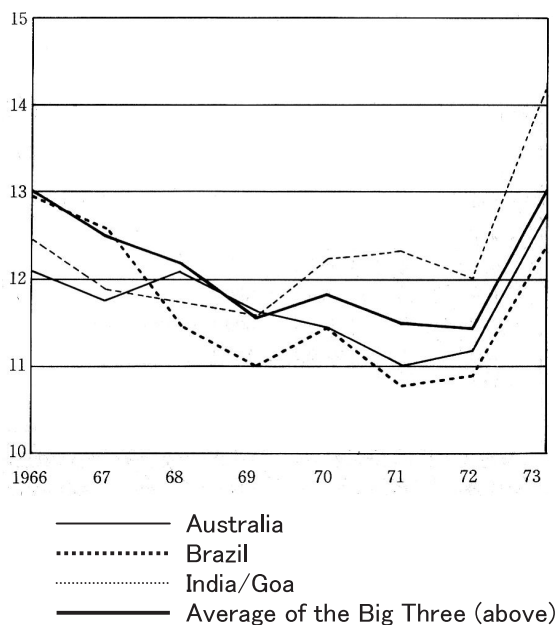


Figure 3. Trends in CIF Price of Iron Ore for Japan (\$/ton)

Source: *Yunyu Tekkoseki Nenkan [Iron Ore Manual]*, the Tex Report Ltd., annual issues.

Table 8. Trends in Share of Import Business of "Itabira" Ore

(%)

FY	1965	1966	1967	1968	1969	1970	1971	1972	1973
Nissho Iwai (Iwai Sangyo) (Nissho)	(86.8) 86.8 0.0	(50.4) 46.3 4.1	(42.6) 39.3 3.3	(39.1) 37.2 1.9	39.3	38.7	41.1	41.0	39.7
Mitsubishi Corp. C. Itoh	4.6 0.0	18.3 4.6	25.6 5.4	19.6 10.6	19.0 9.3	19.8 9.6	18.0 10.1	18.4 8.9	18.3 8.9
Mitsui & Co. Marubeni	0.0 4.0	10.2 4.4	10.2 4.6	10.2 4.4	11.0 4.1	10.7 4.6	9.6 4.9	8.2 5.0	7.9 5.2
Sumitomo Corp.	0.0	3.0	1.9	2.6	3.6	2.5	2.3	2.8	3.1
Others (Number of them)	4.6 (1)	9.1 (3)	9.7 (4)	13.5 (8)	13.7 (8)	14.1 (8)	14.0 (10)	15.7 (12)	16.9 (13)
Totals	100	100	100	100	100	100	100	100	100

Source: *Yunyu Tekkoseki Nenkan [Iron Ore Manual]*, the Tex Report Ltd., annual issues.

tonnes (18.3%) in 1966 (see Table 8). One of the reasons for this increase must have been the positive response by steel makers to the implementation of triangle transportation.²⁵

3.2.3. Loans and Investment

The dominant form of Japanese develop-and-import scheme of iron ore after the 1960s is the 'equity participation' scheme. Investment by Japanese companies aimed not at profit from the mines, but at stable importation of resources to Japan.²⁶ From this point of view, both the financing of mines and participation in their development perform similar functions, and there is no substantial difference between them. It is, however, advantageous for Japanese companies to avoid participating in investment that involves risk. Hence they only invest when suppliers demand, and generally they only take a small share.

Let us consider the Hamersley Project. In 1962, when Hamersley Holdings was established by CRA, Kaiser Steel and other minor local investors, no Japanese companies participated in the investment. Later, when Hamersley Holdings undertook an extension of the project, on the assumption that the Japanese steel industry would continue to grow, it requested that six major Japanese steel makers, the Mitsubishi Corporation and Marubeni participate in the investment, in order to guarantee steady trade. As a result, the Japanese companies purchased a 6.2% share from Kaiser Steel in May 1973.

²⁵ The Mitsubishi Corporation was well placed to organize these complicated trading arrangements, as it had close relations with many influential companies around the world. See Okumura (1987: 136).

²⁶ Kojima (1977: 16).

For general trading companies, investment meant shouldering the burden of steel makers, which were generally short of capital because of strong competition for investment in plant and equipment.²⁷ At the same time, they could secure the position of *kanji* importers. It can thus be seen that trading companies as *kanji* importers needed a substantial capacity to raise finance, and a healthy financial structure so as to be able to service the interest on their borrowings.

When trading companies financed or invested in develop-and-import projects, finance was raised by a cooperative finance group of Japanese banks, which was commonly organized by the Export-Import Bank of Japan (JEXIM) with commercial banks. As shown in Table 9, large-scale projects, for which JEXIM's approved finance was in excess of one billion yen, were always conducted by general trading companies. The larger projects became, the greater the capacity to raise finance needed to be. It was thus rather difficult for companies specializing in steel to finance or invest.

General trading companies coped well with these changing conditions for the importation of iron ore, and the range of functions they fulfilled appealed to the steel makers. This was how general trading companies came to monopolize the iron ore importation business. Trading companies specializing in steel, on the other hand, despite having been the major parties in the importation business, were unable to continue their business, because they lacked the range of functions which general trading companies were able to fulfil. In the following section we shall examine the decline of the steel traders as exemplified by Kinoshita Sansho.

IV. The Decline of a Steel Trader

4.1. The Rise and Fall of Kinoshita Sansho

Kinoshita Sansho was a trading company specializing in iron and steel, and became one of primary retailers for Yawata Steel and Fuji Steel after the World War II. It based its business on domestic distribution, but subsequently embarked on import and export business. Then this company grew rapidly.

Kinoshita Shoten, the predecessor of Kinoshita Sansho, developed the Larap mine in the Philippines in the early 1950s, and negotiated an exclusive contract to import iron ore from it.

²⁷ JISF (1981: 253). In the 1960s it was common for general trading companies to invest on their own. In projects conducted during the 1970s, however, it was more common for them to invest jointly with steel makers. This shows that steel makers' financial circumstances have improved.

Table 9. The Export-Import Bank of Japan's Financing to Iron Ore Development (by 1970FY)

(million yen)

FY	Outlet	Mode	Amount
1951	Goa (Sirigao et al.)	Exportation	428
1953	Hong Kong (Meonchan)	Investment	134
1954	Goa (Sirigao et al.)*	Exportation	38
1955	The Philippines (Larap)	Exportation	518
1956	Malaysia (Temangan)	Exportation	904
1957	Malaysia (Endau)	Exportation	105
	Malaysia (Temangan)*	Exportation	39
	Goa (Sirigao et al.)*	Exportation	500
1958	Goa (Sirigao et al.)*	Exportation	144
1959	Malaysia (Temanga)*	Exportation	206
	Chile (Atacama)	Importation	1,461
	Chile (Atacama)	Investment	66
1960	Malaysia (Pontian)	Importation	187
	Malaysia (Pontian)	Investment	6
	Goa (Sancordem et al.)	Exportation	221
1961	Malaysia (Rompin)	Exportation	284
	India (Kiri Buru)	Exportation	698
	Goa (Betool et al.)	Importation	113
	Malaysia (Wardeebahn)	Exportation	62
	Chile (Atacama)*	Importation	497
1962	India (Kiri Buru)*	Exportation	256
1963	Malaysia (Rompin)*	Exportation	22
1964	India (Kiri Buru)*	Exportation	94
1965	India (Sancordem et al.)	Importation	200
1966	India (Bailadila)	Exportation	1,990
	Australia (SavageRiver)	Investment	3,339
1967	India (Bailadila)*	Exportation	40
	India (Bailadila)*	Technology Transfer	68
	Australia (Mt. Newman)	Investment	3,743
1969	Angola (Cassinga)	Exportation	536
1970	Australia (Mt. Newman)*	Investment	950
	Australia (Robe River)	Investment	19,604
	Panama (iron sand)	Investment	744
	India (Sancordem et al.)	Exportation	576
	Australia (Paraburdo)	Exportation	1,225

Note: in terms of approval of financing.

* means additional loans.

Source: The Export-Import Bank of Japan (1971) *20 Nen no Ayumi [Footsteps in 20 Years]*.

The Larap mine produced one million tonnes of iron ore per year, which was equivalent to one quarter of all the iron ore imported into Japan at that time. The volume of iron ore traded by Kinoshita Sansho in 1964 was more than six million tonnes, which was more than 20% of the

total amount of iron ore imported. Kinoshita Sansho occupied the first place among trading companies in its import performance about iron ore.²⁸

In 1960 Kinoshita Shoten had spined off its foreign trading division under the name Kinoshita Sansho, in cooperation with Yawata Steel, Fuji Steel and its trading bank. Then it made clear its intention to develop into a general trading company. Kinoshita Sansho first engaged in exporting ships, on the basis of a reparations treaty between Japan and Indonesia. Having gained a firm foothold in ship exportation, Kinoshita Sansho embarked on other exporting businesses in a variety of areas such as machinery, timber, agricultural products and textiles.

Following credit restrictions in the autumn of 1961, many trading companies specializing in steel suffered a loss in profits, and an increased burden from interest on their borrowings, as a result of a decline in the price of steel. Kinoshita Sansho had a large interest burden from its develop-and-import of iron ore as well as its domestic operations, and it faced serious financial difficulties. Then in June 1965 Kinoshita Sansho merged with Mitsui & Co., with mediation from Yawata Steel, Fuji Steel, Fuji Bank and Mitsubishi Bank.

Mitsui and Co.'s purpose in merging was to continue Kinoshita Sansho's iron importation business :

Needless to say, the greatest merit of this merger was to inherit the valuable trade right to import iron ore and other related operations... When these two companies merged into one, their volume of importation in iron ore reached approximately 10 million tonnes, or 30% of Japan's total volume. Moreover they were able to expand their trade into related operations, such as transportation, insurance and shipbuilding. It was thus widely expected that there would be enormous benefits from the merger.²⁹

At that time the volume of iron ore imported by Mitsui & Co. was 8% of the total volume of those by Japan. Mitsui & Co. came in third after Kinoshita Sansho and the Mitsubishi Corporation. After the merger, Mitsui & Co. has maintained the number one place in iron ore importation.

28 JBHI (1978 : 357).

29 *Ibid.*

4.2. Comparison between Kinoshita Sansho and Mitsui & Co.

Compared to Mitsui & Co., Kinoshita Sansho had the following weak points:

Firstly, Kinoshita Sansho's business was concentrated in Southeast Asia. It had also undertaken the development of Robe River in Australia, but the iron ore produced in this mine was of a low quality hydrous type. Kinoshita Sansho did not have the capacity to process it into an importable form.³⁰

Secondly, when the trading profile of Kinoshita Sansho for 1963 is compared with that of Mitsui & Co. (see Figure 4), it can be seen that iron and steel occupy approximately 70%, which means the steel area is weighted too heavily. Kinoshita Sansho was in the process of developing into a general trading company, which differentiated it from other companies specializing in steel, and it could therefore make up for deficiencies in the steel area with other areas such as machinery. However, Kinoshita Sansho had only made the first steps towards developing into a general trading company.

Thirdly, the financial structure of Kinoshita Sansho was far inferior to that of other general trading companies. This was the greatest obstacle to Kinoshita Sansho transforming itself

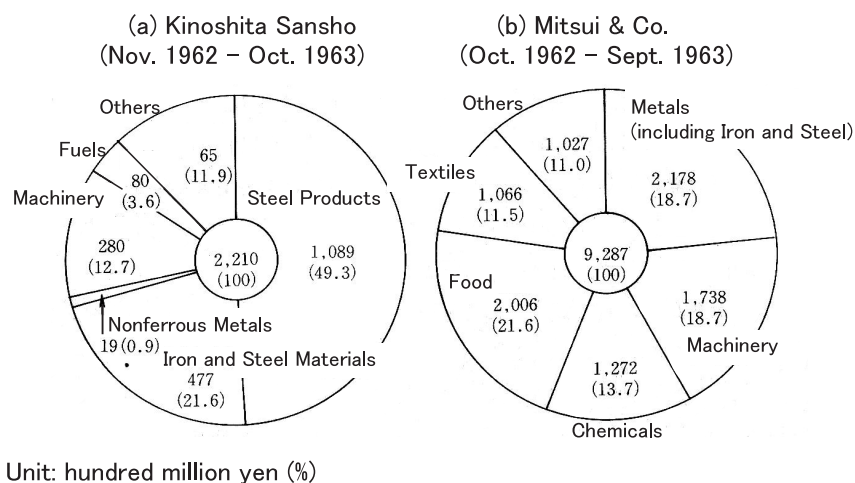


Figure 4. Kinoshita Sansho and Mitsui & Co.'s Sales by Product

Sources: Japan Business History Institute (1978) *Kohon Mitsui Bussan Kabushiki Kaisha 100 Nenshi: Gekan [Manuscript Work of 100 Year History of Mitsui & Co. vol. 2]*. Mitsui & Co., *Yuka Shoken Hokokusho Soran [Financial Report]*.

³⁰ The Robe River project was taken over by Mitsui and Co, who invited in an American company that possessed pellet technology. Mitsui & Co. also financed 30% of the project, and eventually it was successful.

from a steel trader to a general trading company.

The merger between Kinoshita Sansho and Mitsui & Co. is a symbolic indication that steel makers had given up relying on steel traders and decided to deal with general trading companies. Other major trading companies that had specialized in the steel trade in the 1950s were merged with general trading companies just the same as Kinoshita Sansho one after another,³¹ except for Nissho Iwai, which succeeded in transforming itself into a general trading company.

Thus, almost all major trading companies specializing in steel disappeared from the importation business. Although many minor steel traders continued to operate, their trading share is far less stable than that of general trading companies (*kanji* importers).³² Trading share is often determined by steel makers, and steel traders are allowed to continue their importation business only if they are loyal to the steel makers.³³

V. Conclusion

There were three types of trading companies that were in charge of iron ore importation during Japan's rapid economic growth period — a) established general trading companies, b) newly developed general trading companies (former trading companies specializing in textiles) and c) trading companies specializing in steel.

During the 1960s, as a consequence of rapid growth in the Japanese steel industry, the importation of iron ore was often carried out in association with distant large-scale development projects. Consequently trading companies responsible for importing iron ore needed to be competent to carry out multiple functions, including systemic transaction, combined transportation and the raising of large amounts of finance.

Amongst three types established general trading companies, which took the lead in globalizing their trade and diversifying their trading products, were able to carry out the multiple functions most smoothly and successfully, using their extensive business networks.

Some newly developed trading companies, despite being inferior in competence, managed

31 For instance, Totsu and Nan'yo Bussan were merged with Marubeni in 1966 and 1973 respectively, while Kishimono Shoten was merged in 1964 with Okura Shoji, which was a quasi-general trading company.

32 In the case of Goldsworthy, for example, while there existed more than a dozen of importers in 1968, the number reduced to nine in the 1970s.

33 Steel makers are skilled in manipulating the distribution of trade between the general trading companies and steel traders. See Tanaka (1995).

to succeed in participating in the iron ore trade, but only through investing heavily at considerable cost to themselves.

Those two types of general trading companies succeeded in carrying out required functions, secured positions as '*kanji*' importers of large-scale projects, and were able to expand their share of the importation of iron ore.

Almost all of trading companies specializing in Steel, on the other hand, which had weaknesses in the area of finance, could not carry out all the functions that general trading companies could. Hence they were either merged with general trading companies, or became more dependent on steel makers as minor steel traders.

During the 1960s and 1970s, in the case of other resources such as coking coal, nonferrous metals and crude oil, develop-and-import scheme again became a key strategy, and general trading companies played a major role in these projects.

The most significant fact is that during these processes, the disparity between specialist and general trading companies became apparent, and since the conditions that permitted specialist trading companies to transform themselves into general trading companies only lasted a short time, the oligarchy of existing general trading companies soon became deeply entrenched.

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