

The History of Sogo Shosha, where Warren Buffett invested

As a Roadmap for Thinking About the Future

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- Before the opening of Japan's ports under the Edo shogunate, Japan had more contact with foreign countries than is generally imagined, but economic activity remained indirect trade conducted through foreign merchants. Even after the opening of the ports, Japan's trading organizations were underdeveloped and foreign merchants continued to control direct trade.
- In the early Meiji period, Japanese merchants gradually began to take the initiative in trade in order to conduct business on more favorable terms. In the late Meiji period, several predecessors of today's sogo shosha, including Mitsui & Co., began to develop. The distinctive development of sogo shosha in Japan can be attributed, among other things, to ① the absence of trade infrastructure, which led shosha to expand into foreign exchange, insurance, and shipping and then diversify their products to achieve scale, and to ② the need in a developing country to make full use of scarce personnel with knowledge of international trade by having them handle a wide range of products.
- During the interwar period, sharp economic fluctuations led to the elimination of many shosha. Nevertheless, major shosha such as Mitsui & Co. and Mitsubishi Corporation greatly improved risk-management practices such as credit investigations and credit-limit setting during the downturn, laying the foundation for later growth. Zaibatsu(industrial conglomerate)-affiliated shosha remained relatively resilient, but friction arose between them and a society suffering from recession and vested interests.
- During World War II, restrictions on free trade led shosha to strengthen their ties with manufacturers. This is also considered to have contributed to their later transformation into sogo shosha.

(Continued on the next page)

- After World War II, the dissolution of zaibatsu-affiliated shosha enabled non-zaibatsu shosha to advance rapidly, accelerating diversification into comprehensive trading businesses.
- During the period of high economic growth, the group of the nine major sogo shosha became established. Good relationships with banks and membership in influential corporate groups centered on those banks, which expanded managerial freedom through cross-shareholdings, were important conditions for the development of sogo shosha. In the 1970s, social friction associated with inflation and the oil shocks constrained domestic activities, prompting sogo shosha to expand overseas.
- Stimulus measures following the 1985 Plaza Accord generated Japan's bubble economy, temporarily stabilizing the performance of sogo shosha. However, responses to structural changes in industry, as highlighted in "The Winter of Sogo shosha (Nikkei Inc.)", were postponed.
- After restructuring during the Heisei recession, the number of major sogo shosha fell from nine to seven. In addition to pursuing 'selection and concentration' through more sophisticated risk management, the companies benefited from surging resource prices amid rapid growth in emerging-market economies in the late 2000s, leading to a substantial recovery in performance.

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Generally speaking, sogo shosha¹ are regarded as an industry unique to Japan². Studying

¹ It is difficult to distinguish precisely between sogo(general) shosha(Japanese trading and investment company) and shosha, so this paper does not strictly distinguish between the two words. The Shosha Handbook 2025 (edited by the Japan Foreign Trade Council), p. 8, lists the functions of shosha as 'commercial transactions (trade),' 'business management (business investment),' 'information gathering and risk management,' 'market development,' 'finance,' and 'logistics.' The earliest confirmed record of the term sogo shosha is in the Yomiuri Shimbun dated March 17, 1953, and both 'sogo shosha' and 'shosha' appear to have become common terms mainly after World War II. Marubeni described itself as a 'general merchant' in its 1951 prospectus for a new share issue, while ITOCHU described itself as a 'sogo shosha(総合商社, not 総合商社)' in its June 1953 prospectus.

² South Korea also has general trading companies (under its 1975 designated general trading company system), but they differ from Japanese sogo shosha in their emphasis on exports and concentration on parts of the heavy and chemical industries. In the United States, the Export Trading Company Act of 1982 was signed by President Reagan, but it did not lead to the establishment of full-

their history therefore means learning about the characteristics of Japan's modern trade, industry, and organizations. For people working at sogo shosha in particular, studying this history provides insights into the reason for being of the organization, including its corporate culture, and past patterns of business, and may offer useful clues for considering today's challenges.

There are many books on the history of sogo shosha, including the major references listed at the end of this paper, but most are substantial volumes and few seem easy to read casually. I have therefore extracted what I consider the essential parts of the history of sogo shosha and summarized them briefly in this paper.

1 . Before the Opening of Japan's Ports: More Contacts with Foreign Countries Than One Might Expect, but Trade Remained Indirect

The term 'sakoku' (national seclusion), which symbolizes Japan's foreign policy under the Edo shogunate, was actually a concept imported back into Japan from the thinking of a German³ of that period. In practice, however, even during the so-called period of seclusion, Japan maintained international relations through at least four channels (Nagasaki = the Netherlands and China; Tsushima = Korea; Satsuma = Ryukyu; Matsumae = the Ainu⁴). It is therefore important to note that Japan pursued a more open foreign policy than we typically imagine today. Through these channels, Japan also accumulated the human resources needed for external economic activity.

Japanese merchants could not engage in direct trade through these channels; as a rule, trade was indirect and initiated through foreign merchants. Prominent Japanese merchants involved in such indirect trade included the Sumitomo family (trade name: Izumiya; based in Kyoto; exporter of copper) and the Mitsui family (trade name: Echigoya; from Matsusaka, Ise; importer of textiles).

2 . After the Opening of Japan's Ports: Foreign Merchants Controlled Direct Trade

In 1858, the shogunate concluded commercial treaties with the United States, the Netherlands, Russia, Britain, and France, and direct trade with these countries began in Yokohama, Nagasaki, and Hakodate in 1859. Japan, however, had little experience in direct trade, so its trading organizations remained underdeveloped, while domestic capitalists who should have led trade were unable to devote themselves to it for various

fledged sogo shosha.

³ In his book, this German (Engelbert Kämpfer) assessed Japan's foreign policy at the time as appropriate for a resource-rich country. The term 'sakoku' emerged in the process of translating his work into Japanese.

⁴ Nikkei Business website, 'The Reality of Sakoku: Four Windows Were Actually Open.'
(<https://business.nikkei.com/atcl/seminar/19/00059/071700103/>) '

reasons. The Sumitomo family, for example, was facing financial difficulties⁵. Yataro Iwasaki, founder of the Mitsubishi zaibatsu(industrial conglomerate), had only just begun to become involved in trade in 1866 as a low-ranking official in Tosa Domain. (Iwasaki later founded Mitsubishi Shokai in 1873 and became a shipping magnate, but Mitsubishi's shipping business was absorbed into Kyodo Unyu, established by the Mitsui family and others in 1885, leading to the creation of Nippon Yusen and the loss of Mitsubishi's core shipping business.) Chubei Ito I, founder of today's Marubeni and ITOCHU, had only just begun a traveling wholesale business of hemp cloth. As a result, foreign merchants came to control trade, and by 1870, 256 foreign trading companies, mainly British-affiliated, were operating in Japan. Well-known examples included Jardine Matheson and Glover & Co. Nevertheless, partly because of the Edo shogunate's policies, foreign merchants' activities remained confined to trade, while the domestic Japanese market continued to be controlled by Japanese merchants.

Subsequently, with encouragement from the shogunate and the new Meiji government, efforts emerged to break the foreign merchants' control of trade. Local merchants without vested interests were among the first to respond. The Edo shogunate, meanwhile, established the Hyogo Shosha⁶ in 1867 with private capital, but failed to put it on a stable footing. The Japanese government also organized entities such as the Tokyo Boeki(trade) Shosha in 1868, but these did not succeed. Among private initiatives, the Kameyama Shachu led by Ryoma Sakamoto and its successor, Kaientai, are famous, but they had strong characteristics as political organizations and were quite different from modern corporations.

3. Early Meiji Period: Japanese merchants gradually began to take the initiative in trade in order to secure an advantageous position

Trade during the Meiji period consisted of exporting cotton yarn, coal, and raw silk and using the foreign currency earned from those exports to import capital goods such as cotton and machinery. In the early Meiji period, however, Japanese merchants remained at a disadvantage, for example because foreign merchants were able to force down the prices paid for raw silk due to a lack of overseas information, particularly information on silk quality and international market prices⁷.

Mitsui & Co. was established in 1876. Initially, it had a strong political-merchant

⁵ Sumitomo Metal Mining Co., Ltd. website (https://www.smm.co.jp/corp_info/story/02/)

⁶ Local influential capitalists, including brewers, also participated. At the time, the term 'shosha' appears to have been used in a sense close to 'company.'

⁷ Raw silk is inherently unstable in quality and market prices. Accordingly, few large companies originated in raw-silk trading, and none of today's sogo shosha originated in raw-silk trading. It has also been pointed out that Japan's raw-silk production technology was relatively underdeveloped at the time.

characteristics, handling government rice and coal from the government-operated Miike Coal Mine. It subsequently expanded in scale and the range of products handled, and by around 1893—when it was reorganized as a General Partnership Company and became a direct business of the Mitsui family—it had already developed into an enterprise that could be described as a sogo shosha⁸. Suzuki Shoten, a predecessor of today's Sojitz, was also established in 1874. Other trading merchants, including Okura-gumi Shokai⁹ and Morimura-gumi¹⁰, also emerged. Japanese merchants thus gradually strengthened their position and began to take the initiative in trade.

4. Late Meiji Period: Several Predecessors of Today's Sogo Shosha, Including Mitsui & Co., Developed

In the late Meiji period, several companies that would become predecessors of today's sogo shosha emerged¹¹. Nihon Menka, a predecessor of today's Sojitz specializing in cotton imports, was established in 1892, and Iwai Shoten, which imported steel products, was established in 1896. Mitsubishi Goshi Kaisha, a predecessor of Mitsubishi Corporation, was established in 1893, but its products at the time consisted mainly of so-called 'in-house goods' such as coal and copper produced by Mitsubishi itself. It had few branches and had not yet developed into a sogo shosha. After Mitsubishi Goshi Kaisha was renamed the Mitsubishi Goshi Kaisha Business Department in 1906, its transformation into a sogo shosha began around 1914, when it started handling more so-called 'outside goods'—products manufactured by other companies—against the backdrop of World War I. The brothers Chobei Ito VI and Chubei Ito I, who were involved in the founding of Marubeni and ITOCHU, had engaged in textile sales and processing¹² in Hakata and Osaka, respectively, since 1872. After succeeding Chubei Ito I as head of the family business in 1903, Chubei Ito II established the export division of Ito Honten in 1907 while modernizing its management. The influential Sumitomo family, by contrast, did not enter the trading business, maintaining its belief that 'mere commercial activities interfere with the management of mining and manufacturing.'

Mitsui & Co., which was among the earliest to develop into a sogo shosha, already handled

⁸ Here, the term means 'a company handling many product categories with relatively little concentration in any one category.' Definitions of sogo shosha vary, but for sogo shosha originating in textiles, a postwar definition sometimes used was that non-textile products accounted for 50% or more of sales.

⁹ Considered the oldest Japanese shosha, established in 1873.

¹⁰ Established in 1876. It was a predecessor of today's Noritake Group, famous for ceramics.

¹¹ The abolition of extraterritoriality in 1899 and the recovery of tariff autonomy in 1911 also supported trade by Japanese merchants.

¹² From the early Meiji period until around 1930, textiles accounted for about half of Japan's total trade. This is thought to explain why many sogo shosha, including Marubeni and ITOCHU, originated in textiles. After World War II, stricter regulation of the cotton industry reduced profits and is also said to have encouraged textile companies to diversify into sogo shosha.

110 product categories in 1908 and internally described this business as a 'department-store-style wholesaling business.' One episode illustrating Mitsui & Co.'s broad activities at the time was its support for Sakichi Toyoda, inventor of the Toyota Automatic Loom. A Mitsui textile employee learned about the loom and Sakichi Toyoda through textile products, became impressed by his talent, and continued to support him. Mitsui also helped sell the loom's patent to Britain's Platt Brothers, whose cotton-spinning machinery imports had contributed significantly to Mitsui's diversification¹³. The proceeds from that sale are said to have provided the funds from which today's Toyota Motor Corporation emerged.

Possible reasons why these companies subsequently became sogo shosha include: ① in the absence of trade infrastructure, shosha (Japanese trading and investment companies) expanded into foreign exchange, insurance, and shipping, and as they grew, they needed to achieve greater scale by diversifying the products they handled; and ② as a developing country, Japan needed to make full use of scarce personnel with knowledge of trade by having them handle a wide range of products. In any event, following the emergence of Mitsui & Co. as sogo shosha, Mitsui & Co. clearly became the model for other companies seeking to develop into sogo shosha¹⁴.

5. Interwar Period: Shosha Were Consolidated amid Sharp Economic Swings, While Friction Arose Between Resilient Zaibatsu and Society

Apart from the special demand generated by World War I, the expansion and revitalization of the chartering and labor markets made it easier to enter the trading business, creating a boom in shosha. The withdrawal of European merchants from Japan due to the war in Europe further fueled the boom. Riding this wave, Suzuki Shoten, led by Naokichi Kaneko¹⁵, grew in 1917 to a scale of ¥1.5 billion in transaction value, surpassing Mitsui & Co.'s ¥1 billion. Suzuki Shoten's momentum also spread into manufacturing, where it established or acquired companies such as Kobe Steel, Teijin, Hounen Oil, and Harima Shipbuilding¹⁶. Among the zaibatsu companies, the Mitsubishi Goshi Kaisha Business Department became independent as Mitsubishi Corporation in

¹³ During World War I, Mitsui & Co. is said to have handled about two-thirds of the spinning machinery ordered overseas by Japanese spinning companies. It also had a close relationship with GE in power-generation equipment dating back to the Meiji period. It is interesting that many of today's sogo shosha have deep roots in cotton products.

¹⁴ There is a record indicating that Chubei Ito I 'aimed to become like Mitsui & Co.'

¹⁵ He is said to have had a close relationship with Shinpei Goto, who served as Governor-General of Taiwan, among other positions.

¹⁶ In contrast to the many shosha that emerged from zaibatsu, Suzuki Shoten was a case in which a shosha itself formed a zaibatsu. It was also unusual in that much of its investment was aimed at investment returns themselves, whereas much of the investment by shosha at the time was intended to maintain relationships and commercial rights. It may therefore be regarded as a forerunner of the modern sogo shosha.

1918, and in 1919 Osaka Hokko Co., Ltd., a predecessor of Sumitomo Corporation (whose main business at the time was civil engineering and real estate), was established.

However, the postwar recession of 1920 following the end of World War I led to the bankruptcy of Suzuki Shoten in 1927. Itochu Gomei Kaisha, headed by Chubei Ito II, also suffered heavy losses. Its domestic textile wholesaler, Itochu Shoten, merged with Ito Chobei Shoten, headed at the time by Chobei Ito VII¹⁷, through the mediation of Sumitomo Bank and became Marubeni Shoten in 1921, with Chobei Ito VII as president. Itochu Corporation, which was also under Itochu Gomei Kaisha, separated its trading division as Daido Boeki, one of the origins of Itochu Corporation's Kobe branch, and concentrated on its core cotton yarn and fabric business.

By contrast, major shosha such as Mitsui & Co. and Mitsubishi Corporation greatly advanced risk-management techniques such as credit investigations and credit-limit setting during the downturn. Mitsui & Co. strengthened management just before the postwar recession, including by separating its Cotton Department, which inevitably had a speculative character, as Toyo Menka Kabushiki Kaisha¹⁸ in March 1920¹⁹. This helped the company survive and contributed to its subsequent stable growth.

During the postwar recession following World War I, zaibatsu-affiliated shosha generally remained resilient. This, however, created friction between them and society. In the 1920s, Mitsui & Co. shifted its policy from 'cautious austerity' to 'moderate activism' and sought greater efficiency in domestic egg distribution and other businesses to compensate for weak foreign trade due to the postwar recession. Society, particularly vested interests, reacted against this approach, and the Ketsumeidan (Blood Oath League) Incident²⁰ resulted in the assassination of Dan Takuma, head of the Mitsui zaibatsu. To avoid such friction, Mitsui & Co. reduced its domestic trading activities and shifted toward modernizing its business organization and clarifying its social contributions. Mitsubishi Corporation, by contrast, had maintained a certain distance from domestic transactions from the outset. This is said to have reflected guidance given in 1920 by Koyata Iwasaki, Mitsubishi's fourth president. In 1934, it was formalized as Mitsubishi Corporation's management principles, the 'Three Principles': ① Corporate responsibility to society, ② Integrity and Fairness, and ③ Global Understanding through Business²¹.

¹⁷ Recent research suggests that the seventh-generation succession theory is less likely; the theory that he was the ninth-generation successor is currently considered the leading view.

¹⁸ A predecessor of Tomen Corporation, one of the origins of today's Toyota Tsusho Corporation.

¹⁹ 'An Analysis of the Japanese Economy in the Interwar Period' (Yamakawa Publishing, 1981) P310

²⁰ This refers to a series of terrorist attacks carried out between February and March 1932 by an assassination group known as the Ketsumeidan (Blood Oath League), in which prominent figures from the political and business worlds were assassinated. It is widely believed that the attacks were driven by resentment toward the privileged class amidst the depression and social unrest.

²¹ mitsubishi.com (<https://www.mitsubishi.com/en/>)

As entry into the trading business became easier around this time, manufacturers also increasingly exported directly. In response, shosha increased investment in manufacturers and sought to maintain and strengthen their relationships and commercial rights.

6. Wartime Regime: Restrictions on Free Trade Strengthened shoshas' Ties with Manufacturers

During the period surrounding World War II, trade with China and the 'Southern regions' (mainly Southeast Asia), as well as administration of occupied territories, became core activities of shosha under national policy. Foreign-exchange controls associated with a shortage of foreign currency, caused by a sharp increase in imports of military supplies such as weapons, as well as the 'Act on Temporary Measures concerning Imports and Exports' (which allowed the government to prohibit or restrict imports and exports of specified products or raw materials), both enacted in 1937, marked the beginning of state control over trade. In July 1939, the Cabinet approved wartime trade promotion measures, including ① trade within the yen bloc (Japan, Korea, Taiwan, Manchuria, and North China), ② trade with Southeast Asia, and ③ compensation trade with Latin American countries, under which export and import values were balanced without settling the difference in foreign currency. In 1941, the Trade Control Order and the Guidelines for the Reorganization of the Trading Business followed, and in June 1943 the Government Trading Corporation was established, placing trade under direct state control. Nevertheless, most trade operations were entrusted to the private sector. In Australia, the Australian branches of shosha were seized by the Australian government when World War II began, but Kanematsu, which was well established in the Australian business community, avoided seizure by appointing an Australian as its representative and changing its company name.

As protectionism²² rose and free trade was restricted, Mitsui & Co. decided in the 1930s to shift toward industrial investment aimed at strengthening ties with manufacturers, and other shosha made similar decisions. Marubeni Shoten and Itochu Corporation²³, headed by Chubei Ito II, merged with the steel shosha Kishimoto Shoten to form Sanko Co., Ltd²⁴. They subsequently merged with the manufacturer Kureha Spinning²⁵, established by Chubei Ito II in 1929, and Daido Boeki²⁶ to form Daiken Sangyo. These closer ties

²² The prevailing view is that the direct cause was the Great Depression of 1929.

²³ The company that remained after Itochu Shoten was absorbed into Ito Chobei Shoten.

²⁴ One reason for the merger was said to be competition with Itochu Corporation as Marubeni Shoten, whose business was centered on domestic transactions, expanded into overseas markets in non-textile fields.

²⁵ As with Toyama Spinning, Chubei Ito II helped restore Itochu Corporation's performance by engaging in the manufacturing business of spinning and handling its raw materials and products.

²⁶ See p. 7. The trading division separated from Itochu Corporation when Marubeni Shoten was

between shosha and manufacturers were forced by the environment of restricted free trade, but they undeniably helped trigger the subsequent transformation into sogo shosha.

7 .After World War II: Non-Zaibatsu shosha Advanced and Diversified Following the Dissolution of Zaibatsu shosha

Under the postwar occupation policy, Mitsui & Co. and Mitsubishi Corporation were dissolved in 1947, and 223 new companies were established mainly by former employees of the former, and 139 by former employees of the latter²⁷. Given that even other giant enterprises such as Nippon Steel were split into only four companies and Mitsubishi Heavy Industries into three, the reason for the exceptionally thorough dissolution orders imposed on zaibatsu-affiliated shosha remains unclear. One theory is that the interests of competing British trading companies played a role. By contrast, Daiken Sangyo²⁸ was split into only four companies, while Iwai Sangyo and Goshu, among others, avoided dissolution, enabling non-zaibatsu shosha to retain their relative strength.

Postwar trade was initially under the control of GHQ and the Trade Agency. Immediately after the war, the dissolution of Mitsui and Mitsubishi led to a proliferation of shosha, but most were barely functional²⁹. The reconstruction policy's emphasis on strengthening manufacturing industries such as coal and steel also reduced the relative position of shosha. Despite this difficult environment, non-zaibatsu shosha saw the dissolution of zaibatsu shosha as an opportunity, accumulated diverse practical experience under controlled trade, and used it as a springboard for diversification. For example, Nichimen, a predecessor of today's Sojitz, gained experience in grain imports by participating in U.S. food aid. Marubeni, meanwhile, set as its 'first objective' in 1949 to reduce the share of textiles in its business to 50% and set out to diversify proactively³⁰. Private exports were

established.

²⁷ The number of newly established companies is based on 'Konosuke Matsushita: Penetrating Thought (II)'

<https://dl.ndl.go.jp/view/preparedownload?itemId=info:ndljp/pid/8695781&bundleNo=1&contentNo=1>

Former executives were prohibited from establishing a new company with two or more former executives, and former general employees were prohibited from doing so with 100 or more former general employees.

²⁸ According to New Edition: 'Kansai-Based Sogo Shosha' (Koyo Shobo, 2000), p. 33, Daiken Sangyo's retained earnings of ¥321.621 million were allocated as follows: ¥50.308 million to ITOCHU and ¥15.941 million to Marubeni, with the remainder allocated to Kureha Spinning and Amagasaki Nail Works.

²⁹ The share of the top ten companies fell from 51.7% before the war to 30.5% in 1951. Conversely, this reflects the exceptionally strong position of Mitsui and Mitsubishi in prewar Japanese trade, whose combined share of total trade was said to be about 30%.

³⁰ The linkage system adopted by the government from 1953 to promote exports and eliminate the current-account deficit, under which exporters were given preferential access to imports, also promoted diversification into sogo shosha. Around this time, many Kansai-based shosha seeking to

liberalized in 1949, private imports in 1950, and the establishment of overseas branches was generally permitted in 1950. The special-demand boom from the Korean War³¹ that began in 1950 then became a turning point for the rapid growth of shosha. The dissolution of zaibatsu shosha and the continued textile-centered structure of trade in the 1950s worked to the advantage of Kansai(Refers primarily to Osaka.)-based shosha with strengths in textiles.

After the Korean War Armistice Agreement in July 1953, a postwar recession hit. Textile prices and commodity markets, including rubber, raw hides, and oilseed materials such as soybeans, collapsed, causing severe damage to some shosha³². Others, however, used this as an opportunity to develop into sogo shosha. Marubeni, for example, acquired Takashimaya-Iida³³, which had been hit hard by falling soybean prices, under the leadership of Fuji Bank and thereby obtained the domestic steel commercial rights it had long sought³⁴³⁵. The government's recognition of the need to strengthen shosha, particularly to promote exports, after seeing their plight during the recession also became a tailwind for the industry³⁶.

become sogo shosha upgraded their Tokyo branches to Tokyo offices.

³¹ In 1951, exports rose 70% year on year and imports were 2.7 times the previous year's level. This reflected the U.S. occupation policy's shift from 'demilitarization' to 'economic reconstruction' following the beginning of the Cold War with the Soviet Union, the so-called 'reverse course.'

³² At the time, textile companies repeatedly came to the rescue of shosha because shosha played an important role in textile companies' purchasing and sales, as illustrated by the fact that much of the inventory caused by export cancellations and undelivered letters of credit consisted of cotton products.

³³ The trading division spun off in 1916 from Takashimaya, a used-clothing and cotton retailer founded in 1829. Immediately before the merger, its 1955 sales mix was already 44% textiles and 56% non-textiles, indicating its development into sogo shosha. It was a designated wholesaler for Yawata Iron & Steel and Fuji Iron & Steel, meaning a wholesaler recommended by steelmakers to the Price Adjustment Corporation. The kimono and retail division separated in 1919 was the origin of today's Takashimaya department store.

³⁴ In later years, there were also cases of diversification through reinforcement of textile divisions by former zaibatsu shosha, such as Mitsui & Co.'s affiliation with Tamurakoma and Mitsubishi Corporation's affiliation with Mataichi. Many of the companies that attained leading sogo shosha status had held strong positions in either textiles or steel trading.

³⁵ In 1955, Marubeni merged with Takashimaya-Iida and surpassed ITOCHU in sales in fiscal 1956. As a result, Marubeni became a leading sogo shosha after Daiichi Bussan (today Mitsui & Co.) and Mitsubishi Corporation. The September 10, 1955 issue of 'Weekly Economist' described this as the 'arrival of the 3M era.'

³⁶ In fiscal 1953, measures including ① a reserve system for export contract cancellations, ② an export income deduction system, and ③ special depreciation for assets used by overseas branches were introduced. Foreign-currency allocations for shosha were also considered in 1953-54.

Among the former zaibatsu shosha, Mitsubishi Corporation³⁷ first achieved reunification³⁸ in 1954. Mitsui & Co. followed in 1959, but was unable to incorporate General Bussan, which held oil trading rights³⁹. Sumitomo, which had previously refused to enter commerce, established Nippon Kensetsu Sangyo in 1945, originating from Osaka Hokko Co., Ltd., and renamed it Sumitomo Corporation in 1952, clearly entering the commercial business.

At the time, Japan did not have diplomatic relations with China. Nevertheless, by establishing proxy shosha—Mitsubishi = Meiwa Sangyo; Daiichi Bussan (later Mitsui & Co.) = Daiichi Tsusho; Sumitomo Corporation = Taika Boeki; Marubeni = Wako Boeki, among others—the companies preserved their know-how in China-related business and maintained Japan-China trade.

8. High-Growth Period: The Nine Major sogo shosha Take Shape, Friction with Society Increases, and Expansion Overseas and into New Fields

In 1960, the Outline of the Plan for Trade and Foreign Exchange Liberalization was formulated. Japan became a GATT Article XI country in 1963 and an IMF Article VIII country in 1964, making it impossible to impose trade restrictions for balance-of-payments reasons such as foreign-currency shortages or foreign-exchange restrictions because of current-account deficits. Japanese trade therefore became increasingly liberalized⁴⁰. Japan also joined the OECD in 1964.

At this time, Japan was advancing heavy and chemical industrialization under the Income Doubling Plan, and sogo shosha played an important role in securing stable supplies of resources^{41,42}. They also played an important role in selling products. In the case of ships,

³⁷ Beginning with the establishment of Mitsubishi Oil in 1930, Mitsubishi Corporation placed importance on the oil business and was the only sogo shosha to hold, as of 1957, an oil import right under the then Petroleum Industry Law.

³⁸ The entry into force of the San Francisco Peace Treaty in 1952 made it possible to restore and use the former zaibatsu names and is also thought to have encouraged reunification.

³⁹ 'Memoirs: Mitsui & Co., Ltd. ' (Mitsui & Co., Ltd., 1976), p. 110. General Bussan was a predecessor of Tonen General Sekiyu K.K., one of the predecessors of today's ENEOS Corporation.

⁴⁰ The import liberalization rate rose from 40% in April 1960 to 93% by October 1965.

⁴¹ As developmental imports of resources increased, the ability to evaluate mining assets, rather than mere product knowledge, became necessary. Some employees therefore studied at universities specializing in resource development. Around this time, divisional organization was introduced, and companies formulated long-term plans in line with the government's Income Doubling Plan (1960), making competition for market share more conscious. To fill gaps in the divisional structure (organized by industry and called the 'vertical'), companies also established overseas planning departments or business departments organized by region (the 'horizontal').

⁴² For example, in 1961 Marubeni concluded that ① there was a sufficient possibility of discovering good iron-ore deposits in Australia, which was then thought to have no large deposits; ② if

for example, they demonstrated their sales capabilities through value-added functions such as arranging cargo⁴³. Introducing technologies needed for heavy and chemical industries was another important role of sogo shosha.

It was also around this time that the 'decline of shosha' theory⁴⁴ began to be heard. In reality, however, opportunities for sogo shosha expanded, including as the need for coordinators of corporate groups and the creation of sales networks for small and medium-sized enterprises grew larger. Through these activities, sogo shosha also benefited from economies of scale and diversification⁴⁵. During this period, belonging to influential corporate groups, which expanded managerial freedom through cross-shareholdings, and maintaining good relationships with major banks were important conditions for the development of sogo shosha.

However, the securities crisis that began in 1964 accelerated restructuring among shosha. Mitsui & Co. merged with steel specialist Kinoshita Sansho in 1965; Marubeni-Iida merged with Totsu, Nippon Kokan's largest designated shosha, in 1966; Gosho merged with Kanematsu in 1967; and Iwai Sangyo merged with Nissho in 1968, among other deals. By the end of the 1960s, a group of ten major sogo shosha had emerged: Mitsubishi Corporation, Mitsui & Co., Marubeni-Iida, ITOCHU, Nissho Iwai, Sumitomo Corporation, Tomen⁴⁶, Nichimen Jitsugyo, Kanematsu-Gosho, and Ataka Sangyo. When Ataka Sangyo merged with ITOCHU in 1977, the group subsequently settled into nine major sogo shosha.

At this time, the strengthening of resource nationalism, including in the wake of the oil shocks, made stable resource supplies through developmental imports an urgent priority. Investment to secure resources was enormous, making the organizer function of sogo

discovered, Australia would be a closer supply source than India or South America and would therefore certainly attract demand from Japanese steelmakers; and ③ for Marubeni, which was behind in entering Brazil, moving early into an undeveloped region would offer greater benefits if successful. It therefore pursued Australian iron-ore development and struck a major deposit.

⁴³ Even in the generally unstable shipping industry, sogo shosha with their scale and broad product range had strong coordination capabilities. They also contributed through 'combination transportation,' procuring diverse cargoes from around the world and using vessel capacity efficiently to reduce freight costs.

⁴⁴ Published by Misonou, a lecturer at Sophia University, in the magazine "Weekly Economist". The arguments were ① loss of information advantages, ② increasing dominance of industrial capital, ③ growth of direct trade by manufacturers, and ④ declining weight of sogo shosha's finance. A problem with the 'decline of shosha' theory was that it treated the various functions of shosha as independent, whereas their strength in reality lay in the integration of those functions, and it also treated them as unchanging.

⁴⁵ Marubeni reached a non-textile share of 50% of sales in 1960, and ITOCHU reached the same level in 1962.

⁴⁶ The company history Tomen: Forty Years, p. 243, states that its transformation into a sogo shosha took place around 1955.

shosha—forming project teams involving multiple companies and distributing the risk among them—even more important. Resource-rich countries that earned huge profits from soaring resource prices also placed more orders for plants, increasing sogo shosha's third-country trade through plant installation and the sale of resulting products⁴⁷.

Amid rising living standards in Japan, sogo shosha, whose main business had traditionally been wholesale trade, also entered consumer markets⁴⁸. In response to the bowling boom around 1971, they imported bowling equipment from overseas. As meat consumption became established, they also entered the broiler business, from importing improved breeds to selling chicken and eggs, contributing to lower prices. Seeking outlets for chicken, Mitsubishi Corporation established Kentucky Fried Chicken Japan in 1970 as a joint venture with a U.S. company⁴⁹.

Inflation emerged in 1971 as a result of stimulus measures responding to the Nixon Shock. As the view spread that this inflation was caused by the machinations of sogo shosha, the Ministry of International Trade and Industry (MITI) asked sogo shosha in April 1973 to refrain from excessive economic activity⁵⁰. Public criticism intensified after MITI investigated the six major sogo shosha and published a report titled 'Survey of the Actual State of Business Activities of Major shosha'⁵¹. In April 1973, the heads of the six major sogo shosha were summoned as unsworn witnesses to the House of Representatives (Japan) Special Committee on Prices and questioned about hoarding and withholding of land and commodities. In response, the Japan Foreign Trade Council adopted the 'Code of Conduct for Sogo Shosha' in May 1973, calling for particular caution in handling land, shares, and daily necessities in light of management principles and functions, and the sogo shosha also formulated guidelines emphasizing social contribution. However, the oil shock caused by the Fourth Arab-Israeli War in October 1973 further accelerated inflation and intensified criticism of sogo shosha. In April 1974, the heads of the six major sogo shosha were again summoned to the Diet and became the focus of attacks during intensive deliberations on prices. As a result, the Ministry of Finance issued a Bank Bureau Director-General's notification in December 1974 titled 'On Restrictions on Large-Amount Bank Lending,' and the 1977 amendment to the Act on Prohibition of Private

⁴⁷ The Act on Temporary Measures to Promote Exports of Plants was enacted in 1959, when Japan established itself as a capital-exporting country. According to a survey by the Export-Import Bank of Japan, sogo shosha accounted for 11% of Japan's overseas investment in fiscal 1966-69 on a standalone basis, rising to 38% when joint investments were included.

⁴⁸ As symbolized by the industry-based business headquarters system, sogo shosha had until recently remained focused primarily on suppliers and companies.

⁴⁹ The second stage of capital liberalization in 1969 allowed 100% foreign ownership and entry into the food-service industry.

⁵⁰ In 1975, the top ten sogo shosha accounted for half of exports and 60% of imports.

⁵¹ The 1974 'Survey Report on Sogo Shosha' prepared by the Fair Trade Commission expressed concern about their diversified functions and enormous financial resources.

Monopolization and Maintenance of Fair Trade restricted the total amount of shares that large enterprises could hold. Sogo shosha's activities were therefore substantially constrained, prompting them to increase overseas financing and investment. Meanwhile, the Lockheed scandal involving Marubeni came to light in 1976, further intensifying public criticism of sogo shosha.

Against this backdrop, and with the additional impact of the oil shocks, shosha's performance deteriorated, and in 1983 Nikkei Inc. published "The Winter of Sogo shosha". Its argument was that the role of sogo shosha would shrink because of ① increased direct exports by manufacturers (greater processing of products, branding and distribution-channel strategies, and accumulation of management resources by manufacturers), ② increased foreign-exchange and country risks (Japan's shift to a floating exchange-rate system in 1973 and the Iran-Japan petrochemical project⁵²), and ③ increased lending by city banks to small and medium-sized enterprises.

To respond to these structural changes in industry, the sogo shosha rushed into knowledge- and capital-intensive sectors such as high technology, new energy, biotechnology, new media, computers, and advanced materials. They also increased overseas investment and began seeking trading opportunities around the world.

9. Bubble Economy: Performance Stabilized Temporarily, but Responses to Industrial Structural Changes Were Postponed

When the bubble economy emerged as a result of stimulus measures following the 1985 Plaza Accord, sogo shosha had more opportunities to raise funds through equity financing and invest them. Financial liberalization and internationalization also encouraged these activities. Specific investment destinations included large time deposits⁵³, foreign bonds, specified money trusts⁵⁴, fund trusts⁵⁵, and real estate.

The yen's appreciation also triggered a boom in Japanese companies' overseas expansion and acquisitions, creating efforts to turn this into business opportunities. Marubeni established an overseas-expansion consulting team in 1986 and an M&A team the following year. This boom also expanded third-country transactions by sogo shosha,

⁵² Mitsui & Co. began construction in 1976, but abandoned additional funding in 1983 and effectively withdrew following the Iranian Revolution in 1979 and the subsequent Iran-Iraq War.

⁵³ A time deposit in which a substantial amount of funds is deposited; interest rates had been liberalized.

⁵⁴ A type of money trust in which a trust bank manages funds for an investor, including a corporation. The investor specifies the investment method and securities individually, and the funds are managed in securities such as shares and bonds. Also called a 'tokkin.'

⁵⁵ A designated money-outside trust in which a trust bank exercises discretion in investing an investor's funds in public and corporate bonds, shares, etc., and returns the securities or cash to the investor when the trust period ends. Also called a 'fantra.'

partly because their gold trading surged as transactions in individual gold savings accounts⁵⁶ increased.

However, trade friction constrained business in the latter half of the 1980s, and the sogo shosha simultaneously pursued domestic-demand opportunities. They competed intensely to enter the information and communications field, particularly the international telephone market⁵⁷. This was facilitated by deregulation in international communications under the new Telecommunications Business Act of 1985. Examples included Mitsubishi Corporation's entry into satellite communications and mobile communications, Mitsui & Co.'s international VAN⁵⁸ (Value Added Network) business, and Sumitomo Corporation's entry into CATV and related infrastructure. In other domestic-demand sectors, sogo shosha also entered luxury consumer goods, including the introduction of overseas brands and art dealing. Benefiting from the favorable economic environment, major sogo shosha posted record sales and ordinary profits, but this also resulted in postponement of the structural adjustments highlighted in The Winter of Sogo Shosha.

1 0 . Heisei Period: Performance Recovers through 'Selection and Concentration' and Rising Resource Prices amid Emerging-Market Growth

After the bursting of the bubble economy and the deterioration of credit ratings, the prestigious Okura Shoji, originating from the Okura-gumi Shokai founded in 1873, went bankrupt in 1998. The following year, the recession reached the nine major sogo shosha as well. In May 1999, Kanematsu narrowed its business focus to IT and food-related operations. In 2000, Toyota Tsusho⁵⁹ and Tomen entered into a capital and business alliance, and in 2006 Toyota Tsusho absorbed Tomen in a merger led by Tokai Bank, the main bank of both companies. In 2003, Nissho Iwai and Nichimen integrated their management, leading to the creation of Sojitz. Thus, the group of nine sogo shosha that had continued since ITOCHU's merger with Ataka Sangyo in 1977 came to an end, and the industry shifted to a group of seven sogo shosha.

⁵⁶ A financial product in which a financial institution sells gold on the condition that it will buy it back after a specified period, with the profit fixed at the time of purchase.

⁵⁷ Mitsubishi, Mitsui, Sumitomo, Marubeni, Nissho, Matsushita Electric, and the Bank of Tokyo, among others, invested in International Japan Telecommunications (IJT), while ITOCHU, Toyota, and Cable & Wireless (C&W), among others, invested in International Digital Communications (IDC), competing with KDD on price.

⁵⁸ A network that adds many services, such as conversion functions that connect computers made by different manufacturers, in addition to simply transmitting data.

⁵⁹ Toyota Tsusho's company history regards 1959 as the company's 'first year as a sogo shosha.' However, "The History of Sogo Shosha" (Kwansei Gakuin University Press, 2011), pp. 223-224, regards its 1999 business alliance with mid-sized shosha Kasho as the first step toward becoming a sogo shosha.

The restructuring of sogo shosha during the Heisei period is attributed not only to the need to dispose of huge bad assets and interest-bearing debt accumulated after the bubble burst, but also to manufacturers' 'cutting out the middleman' as well as fee reductions amid the recession. This was particularly pronounced in domestic steel distribution, where shosha were especially hard hit as major automakers narrowed the number of purchasing shosha they used. As a result, ITOCHU and Marubeni integrated their steel divisions in 2001 to establish Marubeni-Itochu Steel Inc⁶⁰, while Mitsubishi Corporation and Nissho Iwai integrated their steel businesses in 2003 to launch Metal One Corporation.

Another characteristic of industry during the Heisei period was financial restructuring that crossed over the boundaries of the six major corporate groups⁶¹ as well as the unwinding of cross-shareholdings. As a result, the ties among the traditional corporate groups are considered to have weakened relatively.

During the restructuring of the Heisei recession, each sogo shosha seriously pursued organizational reforms that had previously been postponed. Two common approaches were: ① rigorous project evaluation by comparing risk and return, introduced ahead of other companies by Sumitomo Corporation in 1998; and ② moving away from 'rough-and-ready accounting' by introducing business-unit structures (smaller operating units) pioneered by Mitsubishi Corporation. By adopting these approaches, the companies moved away from 'management premised on high economic growth' and 'all-encompassing comprehensiveness' toward 'selection and concentration' and 'strategic comprehensiveness.'

A characteristic activity of sogo shosha during this period was investment in convenience stores. Each company recognized the future potential of convenience stores sold during the recession and competed to invest in them. Examples include Mitsubishi Corporation's investment in Lawson and ITOCHU's investment in FamilyMart. The companies also increased investments in food wholesalers in order to influence the midstream wholesale segment of food distribution.

From the latter half of the 2000s onward, resource prices surged against the backdrop of rapid growth in emerging-market economies led by China. As a result, the performance of sogo shosha, which held resource interests around the world, improved substantially⁶².

⁶⁰ Mr. Chihaya, then president of Nippon Steel, is said to have told the heads of both companies, 'There is no point in creating a mere steel shosha. The role of a shosha is to gather a wide range of information beyond steel.'

⁶¹ A corporate group centered on the six major city banks—Mitsubishi, Mitsui, Sumitomo, Fuji, Sanwa, and Dai-Ichi Kangyo—but its structure changed substantially as a result of financial restructuring.

⁶² For the fiscal year ended March 2004, Mitsubishi Corporation became the first company in the sogo shosha industry to achieve net income of more than ¥100 billion.

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