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JAPANESE BUSINESS IN THE UNITED STATES BEFORE WORLD WAR II:
THE CASE OF MITSUBISHI SHOJI KAISHA, THE
SAN FRANCISCO AND SEATTLE BRANCHES

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By

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* * * * *

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ACKNOWLEDGEMENTS

Having studied in both the United States and Japan, I am indebted to many people. I deeply appreciate the knowledge, advice, support, and encouragement that have been given me by the many people mentioned below.

Professor K. Austin Kerr, chairman of my dissertation committee, was a constant source of support and encouragement in my studying as a Fulbright Student in the United States. Since meeting Professor Kerr at Waseda University in 1973, where I completed a doctoral program in commercial science, he provided the stimulus for my research. While I was writing my dissertation, he always guided me through the welter of detail in the historical documents. He devoted extraordinary time and energy to correcting my English, which is not my mother tongue. In addition, he supported me and my family in our daily lives. Without his continuous support we could not have enjoyed so much our stay in this country for the last three and half years.

Professor Mansel G. Blackford kindly offered comments on the problems of my dissertation from the viewpoint of American business history. Thanks to his efforts, I was able to develop some aspect of comparative study. He has been a good friend and has helped me in various aspects of life in this country. Professor Merrit Roe Smith also stimulated my thinking and encouraged me to study in this country. Professor Frederic D. Sturdivant guided me in matters relating to business administration.
Professor James Bartholomew contributed very useful comments from his vast knowledge of Japanese history. I would also like to thank Mr. Lane Moore, Archivist at the National Record Center in Suitland, Maryland, who helped me search for documents.

Professor Alfred D. Chandler and Professor Mira Wilkins provided the original stimulus for this work. They taught me the importance of studying Japanese business in the United States. I owe much in my study to their work and insights.

Professor Kin'ichiro Toba, who was my academic adviser at Waseda University, and who guided me to the field of business history, constantly urged me to study in this country. Professor Yoshio Togai, with whom I studied Japanese business history, provided many insights. I am also indebted to such Japanese scholars as Professors Keiichiro Nakagawa, Morikawa Hidemasa, Koichi Shimokawa, and IsuKE Koto, who gave me continuous encouragement while I was studying in the United States.

Financial support for writing my dissertation -- a Presidential Fellowship at The Ohio State University -- is gratefully acknowledged. I want also to acknowledge financial support from the Foster Rhea Dulles Memorial Fund of the History Department, from Alumni Association, and from the Japan Society, which made possible my study at the National Record Center.

I should especially like to thank my wife, Sumiko, who supported not only my studies but also our family life by joining the American work force and patiently enduring circumstances that were occasionally harsh.
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INTRODUCTION
The economic miracle of modern Japan, now the second largest national economic system in the world, has attracted considerable interest from scholars. This dissertation is an effort to add to the understanding of the history of modern business in both Japan and the United States. My focus is institutional. I am interested in explaining the evolution of one overseas operation of one firm, Mitsubishi Shoji Kaisha (Mitsubishi Trading Co.) before World War II in order to understand one particular institutional history, and through it to raise questions, and make comparisons, for a more general understanding.

The modern history of Japanese business began with the voyage of Matthew G. Perry in 1853, and the Meiji Restoration of 1868. These two political events occurred in a nation that had some of the conditions necessary to allow the industrial revolution to occur. By Meiji Restoration Japan had developed educational systems, commercial organizations, and accumulated funds and management skills in some degree.¹

Japanese businessmen and political leaders organized the industrial revolution in ways that were unique because of the timing of industrialization, and its social and cultural background. One of the distinguishing phenomena was the development of the zaibatsu. Zaibatsu is usually defined as "a business group which has a holding company owned by a particular family, under which there are a lot of companies in various industries."² Its characteristics were closed family ownership and diversified business activities. For example, by 1930 the Mitsui family controlled 97 large companies in almost all kinds of important industries.³ The situation was almost the same to other zaibatsu families such as Mitsubishi, Yasudai, and Sumitomo, although their scale was not so large.
This institution developed in Japan, reflecting the situation of Japanese industrialization. In Japan, which started as a backward country, it was important to replace imported goods from advanced western countries by domestic ones. It was a challenging job to produce the same kinds of products which were imported because they were new to the Japanese. In addition, as in Japan before the Meiji Restoration, the national market had already formed through commercial activities in the Edo Period. Japanese businessmen had to compete with foreign counterparts in the national market from the beginning. So it was necessary for them to start business activities on a large scale.

At the beginning of industrialization there were just a few merchant families that had sufficient production and managerial resources to engage in large scale industrial enterprise. They enjoyed production know how, marketing and management skills, as well as a fund and other production means. So it was efficient that particular families that had accumulated these resources entered into various kinds of businesses. The Japanese government also supported these families by subsidizing and disposing of government owned companies in order to make the nation strong enough economically to compete with western powers. So the activities of the zaibatsu were closely related with those of the government.

For the development of the zaibatsu, it was particularly necessary to have a banking company for collecting funds and distributing them among member companies. It was necessary to have profitable businesses such as copper and coal mining as creators of necessary funds, and a trading company. A trading company was very important in a zaibatsu because Japan lacked resources and markets. It imported necessary
information on advanced western technology, products, and resources, and exported traditional products and products manufactured by member companies to gain foreign currency. In Japan trading companies played a unique role in the development of the zaibatsu and the Japanese economy as a whole, becoming a unique *sogo shosha* (general trading company).

General trading companies have begun attracting the interest of scholars because of their unique role and importance in the Japanese economy. According to Alexander K. Young, "the ten largest *sogo shosha* had gross sales of $155 billion in the Japanese fiscal year that ended March 1976. They handled about 56 percent of Japan's imports and exports and almost 20 percent of the total domestic wholesale trade in Japan." 6

The *general trading company* is a very unique economic institution. It is called a *general* trading company, not simply a trading company. There are various kinds of definitions of the general trading company. For example, Yoshio Togai defines the general trading company as an economic institution that has the following characteristics:

1. Wide variety of product lines.
2. Having a lot of domestic and overseas branches, and engaging in domestic trade, export, import, and trade between countries other than Japan.
3. Large transaction volume.
4. To play a role of organizer of industry, on the one hand, by supplying machinery, technology, and materials, and on the other hand, by developing markets for its final products.
5. Having the nature of holding companies which have a lot of subsidiary and affiliated companies. 7

There are no comparable economic institutions in the Western world.

By World War II some of the trading companies had already assumed these characteristics, being general trading companies. In the period before World War II there were four large general trading companies
that guided Japanese overseas business activities, particularly between the United States and Japan: Mitsui Bussan Kaisha (Mitsui Trading Co.), M.S.K., Asano Bussan Kaisha (Asano Trading Co.), and Okura Shoji Kaisha (Okura Trading Co.). M.B.K. was the largest. It was formed in 1876, by the Mitsui family, who were among the most prosperous merchants in Japan. M.B.K. established its basis, organizing the Japanese cotton textile industry by providing machinery, raw cotton, developing markets for the products, and growing domestic spinning and weaving textile machinery companies. It also began the direct exportation of silk. At the same time, it opened many branch and representative offices in foreign countries, and it came to be engaged in export, import, and trade between foreign countries as well as domestic trade in various kinds of products.  

Asano and Okura also played an important role in the trade between the United States and Japan. Asano was established in 1918 as a joint venture of Soichiro Asano, founder of Asano Zaibatsu and R. W. Grace, an American company. A few years later Grace withdrew its capital from this venture. Asano mainly exported tea and imported wire rod, iron bar, machinery, and crude oil. As Asano Zaibatsu had its basis in heavy industries, it grew by developing oil and iron transactions as Japan developed a war economy after the Manchurian Incident in 1931. It started with a capital of ¥ 1 million, but it increased to ¥ 10 million by 1938.  

Okura started its business in 1873, when Kihachiro Okura established Okuragumi Shokai (Okuragumi Trading Co.). It imported iron and iron products from Europe and the United States. It opened the first overseas branch office among Japanese trading companies in London in 1874. In 1911 Okuragumi (Okura and Co.) was established merging its trading, construction, and mining companies. In 1918 it separated its trading
company as the Okura Trading Co. It had already opened more than thirty overseas branches and representative offices.\(^\text{10}\)

M.S.K., which is the subject of this study, was the second largest general trading company before World War II. It was established in 1918, by taking over the business of the Trade Department of Mitsubishi Goshi Kaisha (holding company of Mitsubishi Zaibatsu), as we will see later.

These four general trading companies shared common characteristics as a member company of a large zaibatsu. However, the development of each was unique. How was M.S.K. different from other trading companies? We do not know much about Okura and Asano because there are few studies. So we will compare M.S.K. and M.B.K. to clarify the nature and characteristic of M.S.K. First, the timing of development was different. M.B.K. started its business in the 1870s and M.S.K. in the 1910s. They started at a different stage of Japanese economic development. So M.B.K. is called an advance zaibatsu-type general trading company while M.S.K. is a latecomer zaibatsu-type general trading company. Second, the size of their operations was different. In 1918 when M.S.K. was established, the capital of M.B.K. was ¥ 100 million (paid-in capital was ¥ 70 million) while the capital of M.S.K. was ¥ 15 million (all paid-in). In 1920 the transaction amount of M.S.K. was just 4.7 percent of that of M.B.K. Even in 1937 M.S.K.'s transaction amount reached only half of that of M.B.K. Third, we can see a clear difference in their dominant business fields. M.S.K., which started as a latecomer, could not enter the textile business because of the dominant position of M.B.K. From the beginning, Mitsubishi Zaibatsu established its companies in heavy industries, and M.S.K. played an important role in procuring machinery, technology, and
resources from overseas, and selling and exporting their products. Its main mission was to provide services to industrial companies of the Mitsubishi Zaibatsu rather than to make a profit as an independent trading company. Besides, after World War I as various new types of zaibatsu groups, such as Nissan, Nippon Chisso, and Mori, which was mainly engaged in a particular industry, M.S.K. played a role to procuring raw resources and selling their products. Its deep involvement in heavy industry made it possible for M.S.K. to surpass M.B.K. in the terms of transaction amount after World War II.  

However, not all the general trading companies grew as a member of a zaibatsu. Today there are some general trading companies that started not as a member company of zaibatsu, but as an independent specialized trading company. Among them were Ito Chu Shoji (Ito Chu Trading Co.) (cotton yarn), Iwai Shoten (Iwai & Co.) (iron and steel), and Nippon Menka (Nippon Cotton Co.). As in the case of Iwai, some specialized trading companies had assumed some of the characteristics of general trading company before World War II, but most of them began diversifying their business activities during World War II and just after the Korean War in 1950. They had some motivations to be a general trading company. First, they had to compensate the decrease of trade or instability of their main items. Second, they had strong consciousness of competition against established zaibatsu-type general trading companies. They thought they should follow the pattern of zaibatsu-type of general trading company in order to compete them. Thus, in the 1950s most large specialized trading companies became general trading companies.  

Questions arise concerning this kind of general trading firm. Why and how did they emerge and develop? Why do they exist in Japan and not
elsewhere? What are their contributions to Japanese economic development? Just recently Japanese historians and economists have started studies of the general trading company in order to answer these questions. Their strategy is to study each general trading company, and then generalize about their development. Existing studies of the general trading company concentrate on themes of Japanese trade, Japanese colonization, capital formation, and the rise of monopoly, not on the institutions themselves. In these studies, the role of the general trading company was one of the main factors, but not their business activities and management problems. Therefore, they did not answer why and how this general trading company developed, nor how unique its operation was.  

Recently several scholars have studied general trading companies to answer these questions. There are mainly two types of approaches to the study of general trading company. One is an approach that mainly business and economic historians are taking. They perceive the problem in the historical and cultural, as well as economic setting. Several studies are complete. Some of them are studying the development of one single general trading company. Others are developing general histories of the general trading company. In the latter group some are aggressively developing generalizations of the activities and development of the general trading company. In his pioneering study, "Organized Entrepreneurship in the Course of Industrialization of Pre-War Japan," Keiichiro Nakagawa showed why and how the general trading company developed in Japan. Other scholars are following his approach, enlarging on the sophistication of his ideas. Among them Kozo Yamamura shows a useful framework for the study of the general trading company. He stressed the role of the general trading company to deduce cost and risk in
transaction, finance, and information, using principles of modern economics. This idea is very useful because economic principles are supposed to work similarly in every country. When we find different developments in deducing cost and risk in economic activities between countries, we have to search for factors other than economic ones.¹⁸

Scholars in business administration are developing another approach. They are studying the general trading company as one type of multinational corporation. They analyze mainly its present situation, particularly its product lines, areas, and trade types in which general trading company is engaged. They are not interested in the past development of general trading company, just as the scholars of the first approach do not have interests in the present situation.¹⁹

In any event, both approaches stress the importance of overseas activities of general trading company. But in spite of their importance, no systematic study has been done on the activities and roles of foreign branches. There are several questions related with the activities of overseas branches of general trading company. Why and how does headquarters open a particular branch? What is the relationship between the opening of overseas branches and diversification of product lines and functions? What is the relationship between branches and headquarters? How are they controlled? These questions have remained unanswered.

This study aims to answer these questions on general trading company's foreign operations, as well as its development as a whole. In this study I stress historical aspects of the development of the general trading company. First, I study the development of the San Francisco and Seattle Branches, looking at the changing strategy and structure of the firm. Here strategy is defined, "the determination of the basic long-term goals
and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals." I deal with how diversification of product lines and the development of overseas branches influenced the organization of these branches as well as the firm as a whole. Second, I examine comparative management, as these branches were located in different cultural areas. I deal with what kinds of problems Japanese businessmen had, and how they solved these problems, so that we can know management differences between Japan and the United States.

I chose the San Francisco and Seattle Branch of M.S.K. for two reasons. First, the studies on M.S.K. have been few compared with those on M.B.K. So by studying M.S.K., I thought I could make a contribution. Second, we have a limitation of materials. After Pearl Harbor the United States government confiscated records of some Japanese companies in the United States. The records of the Seattle and San Francisco Branches remain in the best condition. The records of the New York Branch of M.S.K., the largest branch of M.S.K. in the United States, have been destroyed. Because of the limitation of the records and materials we can use, this study was limited to the period before World War II. So this study completely depends on these materials at the National Record Center in Suitland, Maryland, R. G. 131, Office of Alien Property World War II Seized Process, Mitsubishi Shoji Kaisha (San Francisco and Seattle) (hereafter cited ad R. G. 131). I also used a company history, Jitsugyo Boekirottoku (History of Mitsubishi Shoji Kaisha). This is an excellent record of the development of the transactions of M.S.K., but, unfortunately it does not deal with
management. I used some other secondary materials, including articles and books on related topics as well as pamphlets published by the company.
Notes for Introduction

1. As for the entrepreneurship in the Edo Period, see Mataji Miyamoto, ed., Edo Jidai no Kigyosha Katsudo (Entrepreneurship of the Edo Period) (Tokyo, 1977).


10. Ibid., pp. 71-72.


13. As for the studies of these approaches, see Ikuo Akimoto, "Boeki Shosha (Trading Companies)," in Kiyoshi Matsui, ed., Kindai Nippon Boekishi (History of Trade in Modern Japan), Vol. 2 (Tokyo, 1961), Kazuo Shibagaki, Nippon Kinyu Shihon Bunseki (Analysis of Japanese Financial Capital) (Tokyo, 1965).


CHAPTER 1

JAPANESE BUSINESS IN THE UNITED STATES
This dissertation is about the activities and development of the San Francisco and Seattle Branches of M.S.K. To facilitate our understanding of this firm, this chapter will explain the general background so we may grasp more clearly the nature and characteristics of these branches. First, we will see Japanese direct investment as a whole. We will study what types of companies had direct investments in the United States and what they were doing, in order to know the position of M.S.K. branches in the United States. Second, we will see the trade structure between the United States and Japan from World War I, when the Seattle Branch was opened, to World War II, which ended Japanese business operations in the United States. We see particularly how the trade structure changed over time. Finally, we will briefly see the history of M.S.K. as a whole from the establishment of Mitsubishi Goshi Kaisha, whose Trade Department became the direct predecessor of M.S.K., to the beginning of World War II. We particularly focus on its strategies to become a sogo shosha, which translates as general trading company.

Japanese Business in the United States before World War II

In 1941, just before World War II, Japanese direct investment in the United States was $35.1 million. More than half of the investment was in the finance sector; the second largest sector was distribution. Some investment was in shipping. The type of investment of Japanese companies was simple. It arose in connection with the establishment of foreign branches to market the products of Japanese companies and buy American raw materials and products for Japanese companies. The trading companies were the main factors in this business. Other companies such as banking, insurance, and shipping supported their operation.
The largest category of Japanese investment was financial. It included banking and insurance companies. Sixteen Japanese banks had branches in New York, California, Washington, and Hawaii. The main business of these banking companies was financing foreign trade. They provided financial assistance to Japanese owned enterprises in the United States, and bought and sold foreign exchange. In the states where the law permitted, they received deposits. Among these companies, Yokohama Specie Bank was the largest, accounting for more than half of Japanese import financing from the United States. In addition to these banks, there were three Japanese insurance firms. It is assumed that both banking and insurance companies were mainly in business to support trade between the United States and Japan.

The second largest type of Japanese investment was by distribution companies. In terms of value, the investment of financial companies was larger than that of distribution companies, but not in the number of firms. Because of the nature of the business, it was not necessary for distribution companies, particularly trading companies, to have large facilities and capital resources. One person could handle a large amount of business. So, we can assume, considering the stage of Japanese economic development, that trading companies played a central role among the Japanese companies in the United States before World War II. Japanese manufacturers were not mature enough to compete with their American counterparts by producing goods in the United States. Therefore, most business related with the United States was trade. The banking and insurance companies that invested in the United States simply supplied support services.
Most big Japanese trading companies had branches mainly in New York, California, and Washington, and they did basically four types of transactions: exports to Japan, imports from Japan, trade between countries other than Japan, and domestic trade in the United States. For example, M.B.K, which was the largest trading company before World War II, opened its New York Branch in 1878 in order to import Japanese silk. (As M.B.K. failed in the silk transaction, it was soon closed. It began exporting silk again, and opened the New York Branch again in 1896.) The New York Branch imported Japanese cotton products as well as silk to the United States, exported American machinery, including railroad products, and raw cotton to Japan. It exported American raw cotton to England and machinery to Manchuria, particularly for the Southern Manchuria Railroad.

M.S.K., Asano Bussen Kaisha (Asano Trading Co.), and Okura Shoji Kaisha (Okura Trading Co.) had branches in New York, San Francisco, Seattle, and Los Angeles. These companies were also handling a wide variety of product lines, and doing similar transactions. Before 1927 Suzuki & Co. had been playing an important role as sogo shosha in the trade between the United States and Japan, having branches in New York, Seattle, Portland, Houston, and Fort Worth.

In addition to these biggest sogo shosha, there were many relatively specialized trading companies. Some dealt with silk, cotton, and textiles. Some specialized in the iron and steel business; others handled mainly canned food and miscellaneous goods. Yamanaka Shoten (Yamanaka Mercantile House), which had three wholly-owned subsidiaries in Boston, Chicago, and New York, was selling oriental art and antiques in the United States.
Yamanaka Shoten was not alone in establishing subsidiaries in the United States. Subsidiaries allowed Japanese firms to enjoy privileges, comparable to those received by American competitors, in the trade of raw cotton. M.B.K. established its Southern Products Co. in Houston in 1911 (this was moved to Dallas in 1912). Nippon Menka Kaisha (Nippon Cotton Co.) established its Japan Cotton Co. in Fort Worth in 1910. Gosho Co. established its Crawford Gosho Co. in San Antonio in 1913, and in 1918 it also established its Gosho Corp. in New York for the silk business.

Trading companies, particularly so go shosha, played some unique roles. In Japan these companies organized industrial enterprises. Branches in the United States exported American technology and production expertise to Japanese companies, as we will see in detail later. M.S.K.'s New York Branch arranged patent rights for Asahi Glass Co. to produce glass. As a part of this function of introducing American technology, branches of Japanese trading companies had to host visitors from Japan who came to learn about advanced technology.

There were several other types of Japanese companies which had direct investment in the United States. Shipping companies, which were the third largest category, had branches in large port cities, including New York, San Francisco, and Seattle. Suzuki Ajinomoto, which was a manufacturer of synthetic seasonings, opened its New York office in 1931 and later in Los Angeles. Japan Travel Bureau had opened at least an office in Los Angeles, serving Japanese tourists.

In sum, Japanese direct investment concentrated on banking, trading, and shipping in New York, California, Texas, Washington, and Hawaii. The main business was the trade between the United States and Japan. Before
World War II Japanese direct investment was limited to the branch operations of trade related companies.\textsuperscript{14}

\textbf{Trade Structure between the United States and Japan}

These firms dealt in a variety of goods. As the flow of products between Japan and the United States evolved, the types and volume of commodities changed. In this section, we will see what kinds of goods were exported and imported, and how the composition of the trade changed. We will mainly deal with the period from World War I to the beginning of World War II in which M.S.K.'s Seattle and San Francisco Branches operated.

There were three periods that categorized this trading pattern. The first period was from 1919 to 1929, demarcated by the world war and the Great Depression. During this time the weight of Japanese trade with the United States increased. The second period extended from 1929 to 1936, when Japanese exports to the United States increased rapidly. The third period, from 1937 to the beginning of World War II, saw Japan develop a war economy, with resulting changes in her trade requirements. Through these three periods, raw cotton and raw silk were the most important items of trade between two countries. The changing weight of these two commodities reveals the over-all trend in trade. The figures appear in Table 1.1.

The First World War years were important ones for the development of Japanese-American trade. The disruption of commercial patterns that was a part of the war led Japanese businessmen increasingly to turn to American suppliers for some of their most critical needs. By 1916 the United States assumed first place in Japan's import trade. Between 1914
Table 1.1
The Trend of Trade Between United States and Japan
and the Rate of Cotton and Silk
(As in millions of dollars or yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export to Japan</th>
<th>Import from Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cotton</td>
<td>%</td>
</tr>
<tr>
<td>1913</td>
<td>¥ 64</td>
<td>52.5</td>
</tr>
<tr>
<td>1915</td>
<td>56</td>
<td>54.3</td>
</tr>
<tr>
<td>1916</td>
<td>79</td>
<td>38.9</td>
</tr>
<tr>
<td>1917</td>
<td>84</td>
<td>23.4</td>
</tr>
<tr>
<td>1918</td>
<td>205</td>
<td>32.8</td>
</tr>
<tr>
<td>1919</td>
<td>286</td>
<td>37.3</td>
</tr>
<tr>
<td>1920</td>
<td>339</td>
<td>38.8</td>
</tr>
<tr>
<td>1924</td>
<td>$ 95</td>
<td>38.0</td>
</tr>
<tr>
<td>1925</td>
<td>121</td>
<td>53.1</td>
</tr>
<tr>
<td>1926</td>
<td>108</td>
<td>41.7</td>
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<td>1927</td>
<td>123</td>
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<td>1928</td>
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<td>1929</td>
<td>109</td>
<td>42.1</td>
</tr>
<tr>
<td>1930</td>
<td>66</td>
<td>40.0</td>
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<tr>
<td>1931</td>
<td>80</td>
<td>51.3</td>
</tr>
<tr>
<td>1932</td>
<td>86</td>
<td>63.7</td>
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<td>1933</td>
<td>87</td>
<td>60.8</td>
</tr>
<tr>
<td>1934</td>
<td>112</td>
<td>53.3</td>
</tr>
<tr>
<td>1937</td>
<td>62</td>
<td>21.4</td>
</tr>
<tr>
<td>1938</td>
<td>53</td>
<td>22.0</td>
</tr>
<tr>
<td>1939</td>
<td>( 36</td>
<td>17.6</td>
</tr>
</tbody>
</table>

a. Figure from January to November.

Source: United States Tariff Commission, The Foreign Trade of Japan
(Washington, D. C., 1922), pp. 201, 203. United States Tariff
Commission, Recent Development in the Foreign Trade of Japan,
T. A. Bisson, "American Trade and Japanese Aggression," The
Annals of the American Academy of Political and Social Science,
vol. 211 (September, 1940), pp. 126-127. Miriam S. Farley,
"Japanese-American Commercial Agreement Expires," Far Eastern
and 1917 the share of Japan's total imports from the United States rose from 16.5 to 34.7 percent. Peace did not reverse this phenomenon, so in the 1920s the flow of American goods to Japan remained at a high level, constituting about one-third of the island nation's total imports. This trade, however, involved very limited classes of goods for the most part. Raw cotton constituted more than one-third of the total imports into Japan from the United States, while iron and steel products accounted for nearly 60 percent of the transactions in 1919. When we add construction materials, machinery, and petroleum, they accounted for more than 70 percent of the Japanese total imports from the United States. In addition, wheat, hide and skins, Indian rubber, sheep's wool, paper pulp, pipes and tubes, automobiles and parts, were exported by the United States to Japan.

In the case of Japanese exports to the United States, many fewer items controlled the situation. A single item, raw silk and silk products accounted for more than 80 percent of the total exports. Tea, beans and peas, vegetable oils, cotton tissues, paper, coal, matches, hat materials, toys, and pottery were imported by the United States from Japan.

This trade structure remained throughout the 1920s, as shown in Table 1.1. The average share of raw silk from 1924 to 1928 in the Japanese export to the United States was 83 percent, and the percentage in 1929 was 82.4 percent. The average share of raw cotton in the exports to Japan was 44.7 percent from 1924 to 1928, and the rate was 42.2 percent in 1929. The importance of the United States in Japanese exports was more than 40 percent of the total exports for most years, and that of
imports just less than 30 percent. The composition of the trade did not change much.\textsuperscript{18}

After the onset of the depression, the trade structure changed. Japan began to buy more from the United States and sell less, proportionately. Because of increased purchases by Japan of a number of American products, the proportion of the United States in the total imports of Japan increased from 29.5 in 1929 to 33.7 in 1934. On the other hand, the percentage of exports to the United States in the Japanese total export fell from more than 40 in 1929 to 18.4 percent in 1934.\textsuperscript{19}

The value of the raw silk trade pointed the way in this drastic change in the trade structure. Before 1929, raw silk had accounted for over 80 percent of the total imports of the United States from Japan, but in 1934 it accounted for less than 60 percent. The price of raw silk declined sharply after 1929. The value of the imports from Japan other than raw silk declined in each year from 1929 to 1932, and then increased substantially after 1933. These items included tea, pyrethrum, perilla oil, furs, fertilizer materials, pottery, fish products such as canned crabmeat and tuna, vegetable products, textile products, clothing, menthol and camphor, brushes, hat material, dolls and toys, and other small products.\textsuperscript{20} So the depression years increased a substantially growing importance to Japanese firms of a diversified and retail market in the United States.

Japan became the main source of small items, particularly for chain stores. In the 1920s chain stores, particularly groceries and variety goods, developed rapidly, and they became an important retail outlet. A & P, S. H. Kress, MacCrory, S. S. Kresge, and Woolworth handled Japanese small wares. They changed their buying sources from domestic
and European suppliers to Japanese ones. American dealers gave specifications to Japanese manufacturers to make goods that were suitable to the American market.  

There are several reasons for this increase of Japanese exports to the United States. First, the abandonment of the gold standard in December, 1931 brought about the devaluation of the yen. One yen went from 48.85 cents in 1931 to 28.11 cents in 1932. This meant that Japanese goods were increasingly competitive. Second, after meeting the world depression, Japanese industries embarked on rationalization programs, increasing their efficiency. Third, many Japanese manufactured goods were very low priced grades. During the depression American consumers naturally tended to buy lower priced goods, and this tendency helped to maintain or increase imports from Japan.

In order to cope with the increase in the importation of Japanese products, domestic manufacturers began pressuring the administration and congress to protect them. They tried to raise tariff rates and develop a quota system. After 1930 hearings were held with the intention of curbing the importation of Japanese goods. To meet this trend, Japanese exporters, particularly small ones, developed export guilds. The number of guilds increased from 13 in 1930 to 74 in 1935. They controlled price, quantity, and quality to improve the reputation of Japanese products and avoid pressure from foreign countries.

However, the success of Japanese exports to the United States mostly relied on the competitive advantage of the products. When they had competitive advantage over American and foreign products, American protectionism could not prevent it. On the other hand, when they did not have competitive advantage, even a strong export association could not prevent
the decrease of exports to the United States. In this case, American regulation and competition with foreign countries easily curbed Japanese products. For example, the export of Japanese matches decreased because they encountered the rising tariff rate and Russian competition. They did not have any competitive power. However, in the case of pottery, exportation to the United States increased in spite of increasing tariffs and competition. The Japanese pottery industry had always been improving production technology, and had attained high efficiency. 24

The growth of Japanese exports resulted in a concurrent growth in the importation of raw materials for the manufacture of export products. So after 1929 the United States exports to Japan increased, particularly materials used by expanding Japanese export industries. Among these goods were metals, crude oil, gas and fuel oil, and sulphite wood pulp as well as pulp. While these products increased, many other articles, particularly highly processed goods, decreased. Timber, lumber, and unmanufactured tobacco also decreased. In this period, the diversification of products was a characteristic of the trade between the United States and Japan. 25

After 1937, when the Sino-Japanese war broke out, the composition of trade changed again. Prior to 1937 trade was determined primarily by economic factors. But after 1937, as Japan built a war economy, military objectives, imposed by the government, came to dominate the situation. The United States supplied more than half of the Japanese imports of war materials. 26 Japan bought American petroleum and its products, iron and steel scrap, metal-working machinery, and automobiles and parts. These four items accounted for 67 percent of the war materials imported from the United States in 1937, 73 percent in 1938, and 84 percent in 1939. Acute exchange difficulties compelled Japan to confine purchases from the
United States to items essential to armament and heavy industry, and to the export industries of exchange. Among these items, the sale of metal-working machinery to Japan increased drastically.\textsuperscript{27}

Some export products to Japan decreased because of the changing situation. The weight of cotton in the trade decreased from more than 50 percent to 20 percent. Japan's imports of semi-manufactured metal products and of automobiles substantially declined because of the development of heavy industry in Japan. By 1940 American shipments of raw cotton, tobacco, wood pulp, lumber, fertilizer materials, tin plate, and automobiles had all registered marked declines from the pre-incident level.\textsuperscript{28} Because of increasing restrictions on exports to Japan, for example, especially the introduction of an export licensing system on July 2, 1940, exports to Japan had almost completely stopped by the beginning of World War II.

The United States imports from Japan also gradually decreased, from $173 million in 1936 to $157 million in 1940. War time shortages of skilled labor and materials made it impossible for Japan's export industries to hold their own. Silk was the main item, accounting for more than half of the total Japanese exports to the United States. Japan exported crabmeat, tea, cotton cloth, pyrethrum flowers, canned tuna, and hat material. Each item except raw silk accounted for only a small part of the total Japanese exports to the United States.\textsuperscript{29}

In order to perform this trade, Japanese trading, banking, insurance, and shipping companies had direct investments in the United States. Now some questions arise. How were Japanese companies important in the trade between two countries? If they were playing important roles, accounting for a large part of the trade, why and how did they attain this position?
(When Japan began trading with foreign countries in 1857, Japanese merchants did not have any experience in overseas trade, and it was completely controlled by foreign merchants.) Unfortunately, there is no systematic study to answer these questions, only fragmentary evidence from which we can determine the importance of Japanese companies in trade operations.

When western powers forced Japan to open its door, foreign trading companies controlled all the trade. But by 1939 the situation was the reverse, at least with United States-Japanese trade. An American Consular office reported in 1939:

Of the commercial invoices certified at the Consulate General at Tokyo during the year, 1939, over 65 percent by value represented direct sales by Japanese treaty merchants in the United States, over 33 percent represented sales in which the intervention of a treaty merchant was not apparent, and less than three hundredths of one percent represented sales to the United States by American treaty merchants in Japan. 30

So big Japanese trading companies controlled the situation. In 1939 four Japanese trading companies -- M.B.K., M.S.K., Okura Shoji, and Asano Bussan handled more than 44 percent of the total exports from Japan to the United States. The same four companies handled 57 percent of the total imports to Japan from the United States. The total amount of export and import bills handled by American banks in Japan was less than four percent of the total value of the trade between the two countries. 31

As for the six commodities on which we have information -- raw silk, raw cotton, petroleum products, tea, machinery, and wood pulp -- that accounted for 55 percent of the total trade between the United States and Japan, Americans handled only 12.2 percent. Americans carried out 1.1 percent in raw silk, 40.2 percent in raw cotton, 5.5 percent in petroleum
products, 76.4 percent in green tea, 31.0 percent in black tea, 17.8 percent in machinery (in the case of electrical machinery, the manager of General Electric Co. in Tokyo handled 62 percent of the total imports, which was sold to one of Mitsui's subsidiaries in which G.E. invested, and the rest was handled by M.S.K.), and 60.7 percent in wood pulp. Only in the case of two commodities -- tea and wood pulp, did Americans handle more than one-half of the trade. 32

Why and how did this concentration by Japanese companies, particularly by big Japanese trading companies, occur in the trade between the United States and Japan? The consular insisted that this concentration resulted from deliberate Japanese methods of excluding foreign participation. The government controlled export or import permissions. It encouraged Japanese buyers to import through one of the agencies in the United States of the great Japanese commercial houses like M.B.K. and M.S.K. Japanese trade associations allocated volumes among their members. Newcomers and outsiders simply could not enter the business. 33

However, this concentration had begun long before the Japanese government increased its controls and restrictions. For example, M.B.K. accounted for 86 percent of silk exports to the United States in 1913. (In 1912 the silk export by Japanese companies surpassed those by foreign companies.) When we consider this situation, we have to attribute the cause of Japanese control in the trade to other reasons. 34

Probably the most important factor was the role of Japanese trading companies, particularly large ones, in the Japanese industry. Expansion of trade by Japanese merchants did not progress, and foreign trading companies controlled the trade until the revision of the commercial treaty in 1899. Japanese leaders disliked the foreign control of the
nation's international trade, and after the Meiji Restoration, the government, cooperating with businessmen, sought to change the situation. Sometimes Japanese businessmen organized associations to compete against foreign merchants. The government promoted the establishment of Japanese trading companies like Tokyo Shosha (Tokyo Trading Co.), Osaka Tsusho (Osaka Trading Co.), Doshin Kaisha (Doshin Co.), and Nippon Boeki Shokai (Nippon Trading Co.) in the 1870s and 1880s. However, these companies failed because of deficits in the governmental budget, pressure from the free-trade groups, and mismanagement. Modern trading companies established themselves only after the growth of big cotton spinning companies like Osaka Boseki Kaisha (Osaka Cotton Spinning Co.). By exporting cheap, good quality cotton yarn, Japanese trading companies gained access to the American market. These spinning companies needed a stable supply of raw cotton, which encouraged trading companies to import raw cotton. Some spinning companies established trading companies of their own, such as Nippon Menka Kaisha (Nippon Cotton Co.). Thus, trading companies controlled both raw materials and finished products, and also handled necessary machinery for spinners. They played the role of organizer in the industry.

The function of controlling the raw materials and sales of products was very important to trading companies. In cases other than the cotton industry, trading companies introduced modern technology and production know how, and promoted the growth of heavy industrial and chemical plants. M.B.K., M.S.K., and Suzuki & Co. established subsidiaries in these fields. This function as the organizer of Japanese industries may be the most important factor which led to the concentration of trade by Japanese trading companies. American or other western firms never performed...
Shipping of products between the United States and Japan was also controlled by Japanese companies. As Dudley B. Donald said, "... the Japanese merchant fleet, combined with Japanese chartered foreign tonnage, carries the lion's share of the trade between the United States and Japan." Japanese, Greek, and Scandinavian vessels carried 78 percent of the total exports to Japan. British ships carried 12.5 percent, and American vessels carried only about 5 percent. Japanese vessels carried about 86 percent of the total imports from Japan. American ships carried 4.2 percent, and the Scandinavian vessels carried most of the balance.

The managerial and technological successes by Japanese shipping companies after World War II led to this shipping monopoly. They were innovative in arranging routes and designing ships. For example, Osaka Shosen Kaisha (Osaka Line) changed the cotton trade. Rail charges for shipping cotton from the southern fields to Pacific coast ports were prohibitive. So the Osaka Lines routed their vessels to load coffee at Santos, unload it at New Orleans in favor of cotton, and return to Japan via the Panama Canal. This decreased the transportation cost of American raw cotton, which before this managerial innovation had never accounted for more than 25 percent of the total Japanese cotton consumption. It was not profitable for Japanese ships to sail unloaded to the Gulf ports through the Panama Canal. O.S.K. also opened the New York express line by using high speed ships in 1930, which transported raw silk. Now a growing volume of raw silk started to be shipped directly from Yokohama to New York, instead of by transhipment through the West Coast (this decreased the cost drastically). Other Japanese shipping companies followed these innovations, and developed their own, decreasing
transportation costs, and winning the competitive battle with American shipping companies.

In this way, the trade between the United States and Japan was controlled by Japanese companies. This was caused mainly by the function of Japanese trading companies as organizer of industries, and organizational and technical innovations by Japanese shipping companies.

Short History of M.S.K.

As we have seen in the previous sections, Japanese large trading companies played important roles in the trade between the United States and Japan. M.S.K. was one of them. By the beginning of World War II in 1941, M.S.K. had opened the New York, Seattle and San Francisco Branches, as well as the New York Bureau of the Silk Department. Although this study concentrates on the development and activities of the San Francisco and Seattle Branches, we will look at the development of M.S.K. as a whole briefly in order to understand the roles and natures of these branches.

The history of M.S.K. before World War II can be divided into three periods. The first period (1894 to 1918) covers the establishment of Mitsubishi Goshi Kaisha (Mitsubishi Combine), whose Trading Department became the direct predecessor of M.S.K., to the establishment of M.S.K. The second period (1918 to 1931) is from the establishment of M.S.K. to the Manchurian Incident. The third period (1932 to 1941) covers the years between the Manchurian Incident and World War II.

The Trade Department of Mitsubishi Goshi became the direct predecessor of M.S.K. Goshi Kaisha was established in January, 1894 in order to reorganize the business of Mitsubishi. Originally the main business of Mitsubishi was shipping. But after it competed with Kyodo Unyu Kaisha
(Kyodo Transportation Co.), Mitsubishi sold its shipping interests to Nippon Yusen. Therefore, Mitsubishi wanted to rebuild its business by establishing Goshi Kaisha. The capital of Goshi Kaisha was ¥ 5 million (about $ 2.5 million), and its main business was copper and coal mining.

Goshi Kaisha gradually increased its control over the Japanese coal mining industry by making sole agency contracts with other miners and giving advance payment to them. As it established production activities, it sought a distribution organization. In February, 1896 it established the Coal Sales Department, whose name was changed to the Trading Department in 1899. This department sold the coal and copper that Goshi Kaisha produced, and it sold them to foreign trading companies for export.

By 1914 Goshi Kaisha had eight departments: General, Coal Mine, Trading, Mining, Shipbuilding, Real Estate, and Temporary Iron Works Construction. After 1917 these departments gradually became independent companies. When Koyata Iwasaki became the president of the company, he changed its organization. He abolished the position of departmental manager, and he appointed senmu riji (managing directors). Each department was to become an independent operating unit whose raw material purchases and marketing of finished products M.S.K. would handle.

In the Meiji Period, coal was one of the most important export items. So after developing new regular ship lines between Japan and Asian countries, Goshi Kaisha exported coal to Asian countries. It opened the Hankow Representative Office in 1902, and the Shanghai and Hong Kong Branches in 1906. The main business of these overseas offices was to supply Japanese and foreign ships with bunker coal, and to sell coal to local railroad, electric, gas, and manufacturing companies.
In the late 19th century, as Japanese industries and transportation developed, coal became less of an export item, more a product for domestic consumption. The total coal production that went to the export market decreased in the 20th century. By 1921 it had decreased to about 7 percent, and most coal was consumed in Japan. Goshi Kaisha supplied various companies, including iron and steel, chemical, and cement companies, as well as shipping and railroad companies.

As Japanese industries grew, various departments of Goshi developed. The Trading Department gradually increased its product lines, adding products of other departments. In addition to the products of Mitsubishi's directly controlled companies, such as Osaka Seirensko's (Osaka Refinery) copper sulphate, and tar products of Makiyama Gaitan Seisakusho (Makiyama Coke Works), it increased its operations as sales agent for the products of sub-Mitsubishi group companies, such as Kirin Beer Co. and Asahi Glass Co. It bought materials on consignment for Mining, Ship Building, and the other departments of Goshi Kaisha. Goshi Kaisha also began handling products of companies with which Mitsubishi had no direct connection.

After the outbreak of the war in Europe in 1914, Japanese industries developed rapidly. The economic disruptions that accompanied the war opened the world market to Japanese industries. In 1915, Goshi Kaisha added consignment sales to its objectives, and the Trade Department came to work formally as a commission merchant. As the transactions of various goods increased, in 1917 Goshi Kaisha established the General Merchandise Bureau in the Trade Department.

Adding product lines was closely related with the geographical development of activities. That is, a certain overseas branch was opened in order to handle a certain product or products. During this period,
along with the increasing product lines, it opened offices in Asia, North America, and Europe (see Table 1.2). By the time the business of the Trade Department was transferred to M.S.K., it handled various kinds of product lines in wide geographical areas, and it had established the basis of sogo shosha.

In April, 1918 Goshi Kaisha established M.S.K. It took over the business of the Trade Department of Goshi Kaisha. The capital of the new company was ¥ 15 million (about $ 7.5 million). It had nine hundred employees. From the establishment of the company to the Manchurian Incident in 1931, M.S.K. developed by diversifying its product lines, particularly by developing subsidiary companies and making sole agreements with other companies. It also expanded geographically by opening new offices.

Because of the rapid development of Japanese industries during World War I, and the entrepreneurship of Koyata Iwasaki, who became the chairman of M.S.K., diversification of the product lines of the Trade Department of Goshi Kaisha and M.S.K. in the early period was done at random, without any clear policy. When the Japanese economy began experiencing the post war depression in March, 1919, M.S.K. had to change its attitude. It began investigating orderly diversification by establishing a Temporary Investigation Bureau, and it created four bureaus temporarily. In April, 1920, it abolished this Investigation Bureau and established four Departments: Cotton, Oil and Fat, Machinery, and Lumber.

The expansionist strategy of M.S.K. involved two practices. The firm reached sole agency contracts with manufacturers to sell their products and buy raw materials. Its new subsidiaries in order to handle the larger volume of transactions that resulted, M.S.K. wanted to increase its control
Table 1.2
Overseas Branches of M.S.K.
(As of September, 1941)

<table>
<thead>
<tr>
<th>Branch</th>
<th>Year(s)</th>
</tr>
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<tbody>
<tr>
<td>Keijo, Korea</td>
<td>1916, 1930</td>
</tr>
<tr>
<td>Fusan, Korea</td>
<td></td>
</tr>
<tr>
<td>Gunsan, Korea</td>
<td></td>
</tr>
<tr>
<td>Seishin, Korea</td>
<td></td>
</tr>
<tr>
<td>Heijo, Korea (1931)</td>
<td></td>
</tr>
<tr>
<td>Keelung, Formosa</td>
<td></td>
</tr>
<tr>
<td>Taikoku, Formosa (1917, 1930)</td>
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</tr>
<tr>
<td>Takao, Formosa (1927, 1935)</td>
<td></td>
</tr>
<tr>
<td>Dairen, Manchukuo (1917, 1920)</td>
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</tr>
<tr>
<td>Eiko, Manchukuo</td>
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<tr>
<td>Anung, Manchukuo</td>
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</tr>
<tr>
<td>Harbin, Manchukuo (1918, 1937)</td>
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</tr>
<tr>
<td>Botanko, Manchukuo</td>
<td></td>
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<tr>
<td>Hoten, Manchukuo (1925, 1939)</td>
<td></td>
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<tr>
<td>Hsinking, Manchukuo (1933, 1937)</td>
<td></td>
</tr>
<tr>
<td>Tientsin, China (1915, 1927)</td>
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</tr>
<tr>
<td>Peiping, China</td>
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<tr>
<td>Chokaku, China (1939, 1942)</td>
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<td>Tsingtao, China (1919, 1927)</td>
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<td>Tsinan, China</td>
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<td>Shanghai, China (1906)</td>
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<td>Hongkong, China (1906)</td>
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<tr>
<td>Singapore, Strait Settlement</td>
<td>1917, 1942</td>
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<td>Saigon, French Indo-China (1941)</td>
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<td>Bangkok, Thailand (1935, 1940)</td>
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<td>Batavia, Java (1938, 1942)</td>
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<td>Soerabaja, Java (1919)</td>
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<td>London, England (1915)</td>
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<td>Sydney, Australia (1910, 1940)</td>
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<td>Melbourne, Australia (1931)</td>
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<td>Calcutta, India (1920, 1933)</td>
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<td>Bombay, India (1928, 1934)</td>
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<td>Alexandria, Egypt (1933, 1940)</td>
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<td>Teheran, Iran</td>
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<td>Johannesburg, South Africa (1934)</td>
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<td>Buenos Aires, Argentina (1934)</td>
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<td>Santiago, Chile</td>
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<td>New York (Silk Dept.), U.S.A. (1936)</td>
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<td>San Francisco, U.S.A. (1926, 1931)</td>
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<td>Seattle, U.S.A. (1917, 1924)</td>
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Note: In addition to these branches there were many representative offices. The year shows the time the branch was established. Years with underline show the time representative stationed.

Source: Report on Mitsubishi Shoji Kaisha, Ltd., San Francisco Branch, September, 1941. This was a response to questionnaire Form TFBE-1 of the Treasury Department, R. G. 131 (Seattle), F. S., 1921-1946, loose papers in box 455.
of other companies through this strategy. It had already contracted with Kyushu Tanko Kisen Kaisha (Kyushu Coal Mine Steam Ship Co.), and coal mining companies by supplying funds before World War I. After the war, M.S.K. developed contracts with such Mitsubishi related companies as Nisshin Seifun (Nisshin Flour Mills), Iwaki Cement, Nichiro Gyogyo (Nichiro Fishery Co.) as well as Mitsubishi's main companies like Mitsubishi Kogyo Kaisha (Mitsubishi Mining Co.), and Mitsubishi Denki Kaisha (Mitsubishi Electric Co.). It also contracted with small and medium sized companies outside of the Mitsubishi Zaibatsu.

This strategy was not limited to Japanese firms. M.S.K. reached sole agency contracts with well-known Western companies, including Good-year Tire, Associated Oil, and Saco-Lowell. By increased relations with foreign companies, M.S.K. introduced advanced Western technology and production knowledge to Japan, particularly for the members of the Mitsubishi Zaibatsu. Mitsubishi Heavy Industrial Co., Mitsubishi Shipbuilding Co., and Mitsubishi Electric Co. were particularly active with Western manufacturers regarding patent and production rights. Overseas branches, particularly in Europe and the United States (mostly the New York Branch) of M.S.K. made contracts, ordered products, and paid for them. From 1904 to 1937 M.S.K. made about 30 contracts for patent and production rights for Mitsubishi companies. It also brought the products and patents of Western companies to both the Japanese government and other Japanese firms, when doing so did not conflict with the interests of Mitsubishi Zaibatsu.

In the period of the Trading Department of Goshi Kaisha, all the subsidiaries and related companies were established and controlled by the Goshi Kaisha and the Iwasaki family. M.S.K. at the beginning had no
subsidiaries. After its independence, it was Koyata Iwasaki who developed the policy of establishing subsidiaries in order to handle their products and raw materials. By doing this, M.S.K. wanted to control the distribution function of these companies, leaving production to the independent manufacturers. M.S.K. established Hokuyo Gyogyo (Hokuyo Fishery Co.) and Kushiro Seizaisho (Kushiro Lumber Mills), Nippon Kiito (Nippon Silk Co.) between 1918 and 1920.52

Adding product lines by expanding relations with manufacturers and producers, M.S.K. also expanded the branch system all over the world. It sent representatives to Soerabaja, Calcutta, and Sydney in 1919 and 1920. In 1921 the London and New York Branches, which had been under the Jurisdiction of Goshi Kaisha, were transferred to M.S.K. At the same time, representative offices including those in Berlin, Paris, Lyons, Rome, and Seattle were turned over to M.S.K. management.53

Although M.S.K. steadily developed during this period, it made some mistakes which influenced later operations. In December, 1923 M.S.K. sold all its ships to Kinkai Yusen Kaisha (Kinkai Mailing Ship Co.), and it returned its sales right of coal and copper to the Mitsubishi Mining Co. Since the independence of M.S.K. and Mining Co., M.S.K had been handling the sales of the products, but when the performance of the Mining Co. became poor, the Mitsubishi Goshi, the headquarters of Mitsubishi Zaibatsu, made this decision. In order to compensate for the lost business, M.S.K. established the Fuel Department. As a result, M.S.K. made a sole agency agreement with Associated Oil Co. In order to handle the oil products of Associated, the San Francisco Office was opened in 1926 under the jurisdiction of the Seattle Branch. By selling its ships, M.S.K. chronically suffered a shortage of ship space.54
The Manchurian Incident and the re-embargo of gold changed the Japanese trade structure drastically and M.S.K. entered the third period of its history. Japan flooded the world market with its products, and the transactions of M.S.K. increased enormously. This situation continued even after the outbreak of the Sino-Japanese War in 1937, in spite of worsening international relations. The Japanese government encouraged exports to obtain foreign exchange with which to buy war materials. However, in late 1940 export controls by the United States and other countries gradually squeezed the operations of the foreign branches of M.S.K. After Japan declared war on the United States, the operations of M.S.K. in foreign countries ended, except in the South Asian areas which Japan occupied. 55

After the Manchurian Incident and the abandonment of the gold standard, Japanese exports increased drastically. Contrary to the fact that in the second period of the company's history, transactions increased slightly from about ¥ 100 million to ¥ 200 million, in this period it increased from ¥ 250 million at the beginning to ¥ 1,600 million by 1941 (see Appendix A). Because of the devaluation of the yen most branches enjoyed increasing transactions. However, at some branches that could not increase transactions, this devaluation of the yen caused the relative increase of operating expenses. For example, the Seattle Branch could not develop imports from Japan because of the nature of its local market, so it had to decrease the number of its employees. 56

After the Manchurian Incident and the Shanghai Incident, international relations worsened, but the Japanese economy experienced a "Manchurian Boom." When Manchukuo was established in March, 1932, the government at once embarked on the development of heavy and other industries including
iron and steel, oil, cement, and flour. It encouraged Japanese investment of capital and technology there.57

It was in Asian countries like Korea, Formosa, and China, as well as Manchukuo, that M.S.K. aggressively invested, although it invested in Japanese subsidiary companies. In 1917 Mitsubishi Goshi had already begun developing industries in foreign countries by making joint-ventures and giving loans, acquiring development rights from the governments of host countries. In 1917 it established the Investigation Bureau in order to investigate overseas resources, particularly energy. By the time of the Manchurian Incident it had invested in nineteen projects in North Sahalin, Manchuria, China, Korea, and Taiwan. After the Manchurian Incident investment in those areas accelerated. By 1945 the number of investments by M.S.K. in Asian countries reached one hundred. By cooperating with other member companies of the Mitsubishi Zaibatsu, or sometimes with other trading companies, it took over existing companies, arranged joint ventures, bought stocks, and reached sole agency contracts. The investment objective of M.S.K. was only to control the distribution processes, not to control production. Receiving dividends and interest on its capital was not the main M.S.K. purpose. By investment in foreign and Japanese companies, as we can see in Appendix B, M.S.K. became a kind of holding company.58

During this period, M.S.K. continued to develop its basic policies expanding product lines by making sole agency agreements. In 1932 it acquired the sole sale agency of Chile an amiter and Florida phosphate. In the same year, it resumed transactions in cotton, and in 1939 established the Cotton Department to handle Indian and American cotton. Part of this policy involved opening many representative offices,
particularly in South America, North America, and the Middle East. In 1936 M.S.K. liquidated Nippon Silk and established the Silk Department by taking over its business. The Silk Department opened its own branch in New York. By the end of this period, M.S.K. was handling a wide range of products all over the world.

After the outbreak of the Sino-Japanese War, the Japanese economy adapted to the situation. In 1938 the government enforced the National Mobilization Law to increase its control over economic activity. Various kinds of monopoly corporations were established, and M.S.K.'s autonomy gradually decreased. The government increased foreign exchange restrictions and restricted import permissions in order to decrease imports of unnecessary products and to increase imports of materials necessary for the war. Both the Japanese and Manchurian governments tried to promote exports to raise funds for imports. As a result, in spite of the worsening international situation, transactions of M.S.K. in both exports and imports increased. For example, the San Francisco Branch made its highest record of transactions in 1941. M.S.K. played a dominant role in trade with Germany through Siberia until the war between Germany and the Soviet Union began in April, 1941. In barter trade, it exchanged soy beans for automobiles with Italy in 1939, cotton for cotton cloth and opium with Iran in 1940.

As the war continued and extended in China, M.S.K. and other large trading companies were entrusted to operate confiscated factories in occupied territory. M.S.K. managed several companies, such as the Menka Baishu Kiko (Cotton Buying Organization) and the Manchurian Nosan Senkan Kosha (Manchurian Produce Monopoly Corp.). In Tintau and Tientsin M.S.K. constructed a large oil reserve facility.
As the overseas operations increased, capital became scarce. The war forced M.S.K. to turn to the public itself in order to obtain capital. In 1938 it sold 60 percent of its total stocks (360,000 shares) to customers, suppliers, and employees. In 1939 it increased its capital to ¥ 70 million, and in 1940 again to ¥ 100 million.  

After Japan entered the war in December, 1941, branches in Europe and the United States were closed. The most important business of trading companies like M.S.K. was to develop resources and procurement of munitions for military purposes in the South Asian countries that Japan occupied. M.S.K. handled sugar, copra, and molasses in the Phillipine Islands, rubber in Malaisa, copra and lumber in the East Indies, and rice and leather in Burma. After the war, it tried to reorganize, but the Occupation Army in 1947 dissolved it into one hundred thirty-nine companies as a part of its policy of democratizing the Japanese economy. The History of M.S.K. ended.
Notes for Chapter 1


2. Ibid., pp. 14-17.

3. Ibid., pp. 17-19.

4. This is simply an assumption. We need more detailed studies on the activities of banking companies to prove this.


11. Mishima, pp. 142-150.


14. According to annual reports of Alien Property Custodian, there were some Japanese owned manufacturing companies in the United States. However, these were probably owned by Japanese immigrants who still had Japanese citizenship. They were producing food and drinks for mainly Japanese-Americans. Almost all the Japanese owned retail and wholesale companies in Hawaii and about one-half of those in California belonged to this category. Alien Property Custodian, Annual Report for the Fiscal Year Ending June 30, 1944, pp. 45-45.


17. Ibid., pp. 203, 226-229.


20. Ibid., pp. 4, 5, 11, 34.

21. Ibid., p. 11.

22. Ibid., pp. 11, 25-29.


26. Ibid., p. 86.


31. Ibid.

32. Ibid.

33. Ibid.


35. Ibid., pp. 135-157.

36. Ibid., p. 162.


42. "Mitsubishi Shoji no Ayumi (History of M.S.K.)," Ryowa, No. 11 (December, 1964), p. 10.


44. Ibid., pp. 124-126.

45. Ibid., pp. 127-128. As M.S.K. was mainly transacted with member companies at its beginning, most of the member companies were in the heavy and chemical industries. So M.S.K. played an important role in these industries, and its diversification into textile industries was late. Hajime Tamaki, Nippon Zaibatsushi (History of Japanese Zaibatsu) (Tokyo, 1976), pp. 236-238.
46. Ibid., p. 131.
47. Ibid., pp. 132-133.
49. Ibid., p. 4.
51. Ibid., pp. 137-140.
52. Ibid., pp. 137-140.
53. Ibid., p. 132.
54. M.S.K., Jitsugyo Boekiroku, pp. 6-7.
56. M.S.K., Jitsugyo Boekiroku, pp. 8-9.
59. Manager of General Dept., Tokyo to Shunichi Takeuchi, Manager of San Francisco Branch, May 18, 1936, R.G. 131 (S.F.), Box 675. Fukusaburo Ueno, Manager of Silk Dept., Tokyo to San Francisco Branch, May 6, 1936, R.G. 131 (S.F.), Box 675.
61. M.S.K., Jitsugyo Boekiroku, p. 11.
62. Ibid.
63. As for the dissolution of M.S.K., see "Mitsubishi Shoji no Ayumi," pp. 13-44. M.S.K., which exists today, was formed by the merger of dissolved companies in 1955.
CHAPTER 2

THE BEGINNING OF THE OIL BUSINESS
The establishment of the San Francisco Branch of M.S.K. came amidst the complexities of the world oil business as it was evolving in the 1920s. The market for oil was expanding rapidly, not only with the widespread adoption of the automobile within the United States, but as a fuel for industry and shipping. It was the naval market that first induced M.S.K. to consider entering the oil business in a major way, and the negotiations for that entry eventually revealed the need for an office in San Francisco. The San Francisco Branch thus became the center of the relationships between M.S.K. and American oil firms, and it was through that office, in large part, that M.S.K. negotiated at the end of the decade with Standard Oil Co. and Associated Oil Co. for the establishment of a pioneering joint venture in Japan to refine crude oil. The labyrinth of those negotiations, and the creation of a corporate system for the production and distribution of petroleum products, revealed some of the cultural difficulties that separated the Japanese entrepreneurs from their occidental, mainly American, counterparts.

The Establishment of the Relationship with Associated Oil Co.

The beginning of the San Francisco Branch of M.S.K. was closely related to technological change. In the early part of this century, military and civilian demand for petroleum as a fuel increased rapidly. The United States Navy developed full conversion from coal to oil within ten years of the recommendation by the United States Navy Fuel Oil Board in 1904. The British Navy also converted to oil by 1913. Because of its economy, the number of merchant ships equipped to burn oil also increased. At the same time, growing production of internal combustion engines increased consumption of petroleum in general.¹
Japan was not an exception to this trend, although her economy adopted the motor truck somewhat later than its western counterparts. Motorization did not develop in Japan until after the Kanto Earthquake in 1923. So, Japanese businessmen and government planners thought mostly in terms of acquiring fuel oil for ocean steamships. The Japanese Navy, which converted from coal to oil, purchased 417,000 tons of oil in 1921, 507,000 tons in 1922, and 450,000 tons in 1923.\(^2\) Japanese merchant ship owners were fast coming to the realization that it was more economical and advantageous to burn fuel oil than coal, and they were also changing their vessels from coal burners. By 1923, for example, all Toyo Kisen Kaisha (Toyo Steamship Co.) passenger steamers in the trans-Pacific service were oil burners, except some of the vessels on the South American line.\(^3\) Such shipping companies as Nippon Yusen Kaisha, Osaka Shosen Kaisha (O.S.K. Line), and Yamashita Kisen Kaisha (Yamashita Steamship Co.), expanded their lines by constructing ships with oil burners and diesel engines.\(^4\)

This market alone was an inducement for M.S.K. to consider entering the oil business, but there were other factors to consider as well. Coal deposits in Japan were fast being depleted, and coal prices were rising. M.S.K. planners expected land industries soon to begin substituting fuel oil for coal.\(^5\) M.S.K., moreover, was losing the exclusive sole agency for corporate coal. As we have seen in Chapter 1, because the performance of Mitsubishi Kogyo's mining operation had been poor, Mitsubishi Goshi, the headquarters of Mitsubishi Zaibatsu, decided to instruct M.S.K. to return the right to sell coal to Mitsubishi Kogyo.\(^6\)

These considerations led M.S.K. to begin preparing for conversion to petroleum. It created a Temporary Research Committee on Liquid Fuel
in 1923. Following the advice of the committee, M.S.K. established the Fuel Department. After completing its investigations, it decided actively to engage in the oil business in a comprehensive manner. Its plan contemplated the purchase and sale of crude oil and refined products. It would require the establishment of fuel oil bunkering stations to be operated in connection with their coaling stations. The cooperation of one of the largest American oil companies to assure a steady and reliable source of supply was essential. M.S.K. could offer an American oil company the prospect of developing Oriental business. This was a substantial market, especially when the needs of Japanese steamship firms and land industries were combined.7

M.S.K. had financial interests in several Japanese steamship companies. M.S.K. had a system of bunker stations from Dairen to Singapore to supply steamship coal. It also served as an agent for other ship lines. This deep involvement in the shipping business, ranging from the laying of keels to arranging for cargoes, meant that M.S.K. officers were confident that the firm could profitably enter the oil business. Japanese merchantmen would need fuel oil and lubricants at American and Oriental ports.8

But in spite of this knowledge of shipping, M.S.K. could not enter the new business easily. Its desire to become an oil supplier emerged after another Japanese firm had entered the field. The Japanese Navy had contracted with the General Petroleum Corp. to purchase fuel oil. General Petroleum, working with M.B.K., had arranged with Socony and Standard Oil of California to supply the Navy's needs. Nevertheless, the navy market was not closed entirely to M.S.K. Apparently the Navy had arranged for its oil supply through private, personal negotiations
between some of its officers and officials of the M.B.K.\textsuperscript{9} This left the door open to other suppliers, particularly M.S.K. which had close relations with the Navy, for its affiliated company, Mitsubishi Shipbuilding Co. had been building armors for the Navy.\textsuperscript{10}

So, M.S.K. began searching for a well-known American oil company with which it could have a sole agency. M.S.K. wanted to arrange a partnership with a California company. A California company had an advantage in the cost and convenience of shipping, and the conversion from coal to oil in various fields had progressed in California, because of the lack of coal and its high transportation cost. The economy of substituting crude oil for coal as a fuel meant that California led the nation in this effort. The Tokyo headquarters ordered the Seattle Branch, which had been established in 1918, to approach American oil companies.\textsuperscript{11}

M.S.K. considered the possibility of several companies, Shell-Union Oil Co., Standard Oil of California, Union Oil Co., and Texas Oil Co., but rejected each. In the case of Shell, M.S.K. realized that it had already established marketing outlets in Asia, including the Rising Sun firm in Japan. Shell was unlikely to welcome what, in effect, would be competition from M.S.K.\textsuperscript{12} In the case of Standard, Standard of New York handled all of the Oriental business of the Standard group, and had long experience in Japan. It maintained the strict policy of making no agency agreement or giving preferential rights to anyone for any market.\textsuperscript{13} Union Oil had already reached a sole agency agreement with Asano Bussan Kaisha in early 1923. Texaco, which withdrew from Japan at the time of the Kanto Earthquake, had no intention of re-entering the Japanese market. So it was impossible to negotiate with these companies.\textsuperscript{14}
After rejecting these possibilities, from considerations outside of M.S.K.'s control, its office approached a smaller, less well-known firm, Associated Oil Co., with headquarters in San Francisco. Associated was a large California refiner without overseas markets. It had considerable experience as a fuel oil supplier. Associated Oil was originally established in 1901 by the larger oil producers in the Kern River and McKittrick fields in California to avoid intensive competition. In 1909 the Southern Pacific Railroad had acquired control of Associated. It supplied the railroad with fuel for its locomotives. Associated was interested in overseas expansion, for it had already entered Japan in a limited way. It had contracted with the Associated Oil Co. of Japan, which was unrelated to the California firm, to provide lubricants, kerosene, and gasoline for Japanese consumers. But the sales of this limited variety of products were disappointing to Associated, and it seemed to M.S.K. officials that a new joint venture might be arranged.

Associated had a refinery at Avon, on San Francisco Bay, with a daily capacity of approximately 50,000 barrels, and a small topping plant in Los Angeles with a daily capacity of about 5,000 barrels. K. K. Kneiss, Manager of the Fuel Oil Department of Associated, assured M.S.K. that he could supply up to 100,000 long tons of oil per year. Associated Oil officials assured M.S.K. that they would consider a formal proposal. So M.S.K. proceeded with an offer. It would be the sole agent for Associated for the sale of its fuel oil and crude oil of all kinds and grades in the entire Orient, including Japan, Manchuria, China, and Siberia. M.S.K. also wanted to cover bunker fuel oil and other petroleum products supplied to Japanese men-of-war and merchantmen at American ports. M.S.K. had already secured contracts with the Japanese Navy and
steamship companies for their American ports of call. They proposed that Associated guarantee a supply of at least 250,000 tons of fuel oil annually, or the average of 20,000 tons monthly, at prices mutually agreed upon. M.S.K. wanted to continue the agreement for at least two years, beginning August, 1923, and upon its expiration, to be renewed for a further term by mutual consent. Sales of fuel oil to the Japanese Navy were to be on a commission basis; the commission rate due M.S.K. set at 3½ percent of the sales price. As for other sales, M.S.K. was willing to serve Associated on a commission basis, or it was willing to purchase oil directly from Associated for resale on its own.\(^{17}\)

M.S.K. did not confine itself to discussions solely with Associated. There were other alternatives, and when the negotiations with Associated did not progress as rapidly as M.S.K. expected, it also approached the Pan American Petroleum Co. of Los Angeles. It was a subsidiary company of Pan American Petroleum & Transport Co. of Delaware. When a representative from the Seattle Branch called on Pan American in August, 1923, it displayed considerable interest in M.S.K.'s proposition.\(^{18}\)

All of the negotiations were carried on personally with J. C. Anderson, President of Pan American. After discussing the matter of sole selling agency in the Orient for all their products with Anderson, M.S.K. presented a written proposal to him which was similar to that presented to Associated. In this proposal, M.S.K. did not clarify the minimum quantity of buying from Pan American, and it became the greatest issue. In discussion on this problem we can see clearly the difference in the attitude toward business between the two companies. M.S.K. just expressed its will to sell:
Mitsubishi undertakes to assiduously and faithfully push the sale of Pan American's products and to use every means and facility at its disposal to develop and expand the market for the said products.

However, Anderson informed M.S.K. that he could not entertain its proposition for a sole agency merely on their promise to devote themselves faithfully and diligently to develop a market. He required an agreement from M.S.K. on the definite quantities of oil products purchased each year, and on the mechanism for pricing. Anderson indicated that if M.S.K. agreed to take a stated quantity of fuel oil only, Pan American would perhaps grant M.S.K. the sole agency for all its products.

Yuzo Shimatani, the Manager of the Seattle Branch, sent a report to the manager of the Fuel Department, Tokyo, stressing how Pan American had comparative advantages over Associated. He insisted, "the Associated Oil Co. is very conservative in its policy and not so accommodating in its business dealing. The Pan American interests have, in the past, made immense profits principally from their Mexican operations and were inclined to be much more liberal and progressive in their policy." Furthermore, as Pan American, unlike Associated, had no established marketing organization for the Pacific Coast, M.S.K. expected to get lower prices, covering all kinds of products. The parent company of Pan American also had one of the largest and most modern fleets of oil tankers, which the subsidiary company could use. "On January 1, 1923, this fleet consisted of forty-seven modern tankers with an aggregate deadweight tonnage of 433,276 tons." Although Pan American had its own fuel oil station only at San Pedro, its parent and affiliated companies had them at major ports in the United States, Great Britain, and Central and South America. Anderson stated that facilities could be readily provided at any
After examining this report, the headquarters of M.S.K. ordered the Seattle Branch to contract with Pan American with a minimum guarantee of 100,000 tons. However, the negotiations with Pan American failed. Although Anderson looked upon the proposal by M.S.K. favorably, he decided not to contract with M.S.K. after consulting Edward L. Doheny, Sr. and Jr., the owners of the company. Selling in the Orient would mean cut-throat competition which they were not prepared to meet at the moment. L. M. Ingstad, who was a representative from the Seattle Branch, could not elicit further reasons for this decision.

Meanwhile, the negotiations with Associated survived. Ingstad met Kneiss and his associates in early December, 1923. In these conferences, Associated wanted the contract to be on a purchase basis only, because the commission basis was contrary to its policy. It also wanted a fixed minimum quantity which M.S.K. would take, and a fixed maximum quantity which Associated must supply. It was of the greatest importance to know in advance definitely what quantity of oil Associated was obligated to furnish, and what quantity it was sure of selling, because over fifty percent of the oil it handled was purchased from other producers, usually on long term contracts, some as long as five years. Market forces and Associated would set the prices, according to minimum quantity, the field price of crude oil at the time of delivery, plus a fixed differential for pipe line charges.

One of Associated's officers, a man named Henderson, was more interested in selling to private than government customers. He had unfavorable experiences in dealing with the United States government. The Navy wanted to buy oil cheaply, but its demand was unstable. He believed
that relationship with the Japanese would be similar — that the
government would divert funds from its army and navy to provide relief
into the 1923 Kanto Earthquake.\textsuperscript{25}

The two firms finally came to terms. After Ingstad explained M.S.K.'s
position, Henderson seemed to understand, although he was not certain that
Associated would be able to furnish oil in large quantities to the
Japanese Navy, and he doubted if they would quote prices low enough for
M.S.K. to compete with other sellers. However, when Ingstad presented
to Henderson a draft of a proposed contract, he glanced over it and
instructed Kneiss to prepare a contract and include everything that
M.S.K. wanted so long as it was consistent with and protected the interest
of Associated. Henderson also suggested that a clause be inserted to
help M.S.K.; that is, if Associated was unable to offer M.S.K. enough
oil, M.S.K. was to be free to purchase from any other oil company.\textsuperscript{26}
Thus, Associated Oil Co. granted to M.S.K. the sole and exclusive right
and power to enter into negotiations with the officials of the Japanese
Navy for its requirements of crude, fuel, and diesel oil. The agreement
became effective on December 12, 1923, and was to extend to March 31,
1927.\textsuperscript{27}

This agreement of 1923 evolved over the years as the relationship
between M.S.K. and Associated matured in a trusting, and mutually pro-
fitable, manner. It took several years of experience, however, for
this trust to develop. At first, M.S.K. officers privately expressed
suspicion as to Associated's motives. Their attitude toward business was
very different. As the manager of the Fuel Department said:

The Associated paid too much attention to present business.
Results over a period of years, say, three, five, ten or even
twenty years should be taken into consideration. The Associated
has had an experience in introducing their lubricants here where the people of Japan are much slower to try new things, hampered as they are by customs and precedents. The Associated have been expecting too much. Consider the competition we must meet. Vaccum Oil Co., Standard and Rising Sun, which had been firmly established in the market for years and Japanese refineries, Nippon Sekiyu, Asahi, Ogyra, and other small firms that produce lubricating oil.28

Why did M.S.K. have this attitude toward Associated? To such a large Japanese company as M.S.K. the objective of business was to make a contribution to strengthening the national economy, and running a company was not a private affair but a national one. As long as the enterprise was making a contribution to the national economy, for example, by increasing exports, management did not need to pay much attention to profit. Therefore, as long as the company was existing, interest groups in an English sense were not interest groups to the company. They were partners and members of the company who should cooperate for the company to develop. It was most important for management to run the company as a going concern in order that members and partners achieve long term, not short term, monetary profits.29 But such attitudes were foreign to Associated.

In addition to differences in perception toward business, the status of M.S.K. as sole agency for Associated was not clear at first. Associated was selling some quantities of its lubricating oils through Nanjo & Co. and Asano Bussan in the Japanese market even at the end of 1924. M.S.K. feared that Associated could sell its products in Japan through M.S.K. as well as other smaller importers.30

Gradually, however, these views changed as Associated offered further opportunities for M.S.K. The contract of 1923 was modified on April 10, 1924 in order to cover the right to deal with fisherman's oil,
motor oil, kerosene, lubricating oil, and greases -- the products with which Japan Associated had dealt. The latter firm had already broken its earlier contract.  

On April 1, 1925 the agreement was modified and expanded substantially, allowing M.S.K. to refine oil, and market products of Associated in Europe. The new terms extended to 1935 and provided that M.S.K. could refine up to 100,000 tons of oil supplied by Associated. In this contract, it was understood that at some later date, not exceeding three years from the date of the contract, M.S.K. intended to establish or acquire control of a petroleum refinery in Japan, and that upon its so doing Associated agreed to supply the refinery with crude oil or material oil not exceeding 100,000 tons. M.S.K. was to have the right to market gasoline, motor oil, fisherman's oil, diesel fuel oil, kerosene, and fuel oil manufactured in this refinery and, with the consent of Associated, lubricants.  

According to this agreement, M.S.K. tried to sell Associated's products in Europe. At its offices in London, Berlin, Paris, Lyons, and others, it had the non-exclusive right to solicit, negotiate, and close contracts with ship owners and operators covering supplies of bunker fuel oil, diesel fuel oil, lubricating oil, and greases of Associated, for delivery at stations maintained by Associated.  

A new contract written in 1929 provided credit arrangements. Associated gave to M.S.K. a revolving credit of $150,000. As for the transaction, crude and fuel oil were consigned, and the commission was six percent of the selling price, and other products had to be bought out by M.S.K. Associated also agreed that it paid a minimum of $5,000 per year as a part of expenses covering advertising of Associated's
products in the territory of the agreement.\textsuperscript{34}

M.S.K. also acquired the sole agency from Tide Water Oil Co., whose parent company was the same as that of Associated: Tide Water Associated Oil Co. M.S.K. wanted its high class lubricating oil and the sole agency of Tide Water in the China market. However, M.S.K. had to wait until December, 1932, when Tide Water's contract with Jordine Engineering Corp., which had been the sole agent in the China market, expired.\textsuperscript{35}

As the headquarters of Tide Water was located in New York, the New York Branch of M.S.K. had the responsibility of negotiating with it. In negotiations with oil companies each branch of M.S.K. did everything except special cases, where the headquarters in Tokyo directly negotiated with them. However, even in the latter case, all the copies of records had to be sent to each branch concerned from the headquarters. A great degree of authority was given to each branch in negotiations with other companies.

The net result of these agreements appeared in M.S.K.'s organizational structure of the San Francisco Branch.

\textbf{The Establishment of Mitsubishi Sekiyu Kaisha}

The development of the relationship with Associated influenced M.S.K.'s business strategy in another significant way. It soon became clear that long and stable transactions could not be expected without expanding the refining of oil. Besides, by 1928 the general business situation had radically changed. M.S.K. began thinking that it was a common phenomenon in international trade that the import of processed products incidentally stimulated the growth of processing industries at home, and the import of raw materials gradually replaced that of
processed products. Then the import duties on processed goods were raised to protect the infant home industries, which encouraged the import of raw materials. 36

This was the case with petroleum products in Japan in the 1920s. The import duties had increased, and future increases were expected, so that home produced gasoline and kerosene should in due course have the entire market. M.S.K. officers noted in a memorandum on the oil refining industry in Japan about 1928:

Foreign exporters of refined petroleum products to this country and Japanese importers of those products should be prepared to meet this inevitable result and should contrive some means to avoid the catastrophe before it is too late. In our opinion, the only solution will be to erect their own refineries in this country. 37

Competition was another factor in M.S.K.'s decision to enter refining. Competition in the white oil market, especially gasoline, had never been so keen in those days. The market was flooded with low grades, mostly cracked gasoline, which the consumers had at least found to be good enough for ordinary purposes. The buyers were not inclined to pay the present price because "Black Shell" of Rising Sun and "Pegasus" of Socony were freely sold at considerably lower prices. These brands, although imported, seemed to retain much more competing power than M.S.K., and were vigorously attaching its buyers everywhere. However, their own market, in turn, was gradually undermined by the home produced cracked gasoline of Ogura and Nippon Sekyu, which aimed at the ultimate control of the market. 38

Refining in Japan was also a profitable business. In 1928 there were only two big refining companies in Japan: Nippon Sekiyu and Ogura Sekiyu. Their total annual production was 1,200,000 c/s, which accounted
for about one-fifth of the total consumption of gasoline in Japan. This showed that there was still ample room for new refineries. In addition, both Nippon Sekiyu and Ogura were very profitable, paying dividends of about ten percent. Their profits were mainly derived from the refineries.\(^{39}\) So entering the refining field seemed a sensible decision for M.S.K.

Success of this project depended on a permanent, stable supply of crude oil to the refinery. In 1925 the Kobe Branch of Standard Oil of New York had already approached M.S.K. to negotiate on a joint venture, but they did not develop this plan because M.S.K. felt responsibility toward Associated, with which M.S.K. had contracted to construct a refinery in 1930 or 1931.\(^{40}\)

However, M.S.K. perceived the changing situation in the American oil industry. Competition among American oil companies became very intensive. Large established companies moved into new marketing areas formerly controlled by Standard in the early 1920s. By the end of the decade, many of the Standard group went into new areas, and the pattern of regional separation of respective marketing territory ended.\(^{41}\) Standard had already, in 1925, taken over the General Petroleum Corp., with which M.B.K. had a sole agency contract. M.S.K. thought that Standard might take control of Associated. Therefore, M.S.K. wanted to know how Standard would develop its strategy in the Japanese market, and to find the clue before M.B.K. did.\(^{42}\) Besides, if possible, M.S.K. wanted to make a cooperative agreement with Standard in constructing a refinery in Japan. So M.S.K. began looking for an opportunity to negotiate with Standard.\(^{43}\)
In order to make a survey on the strategy and the relationship between Standard and Associated, M.S.K. sent Kazushige Tsutsumi of the Fuel Department to the United States in March, 1926. Although M.S.K. wanted to contact Standard, interests of other companies like Associated, Tide Water, and M.B.K. were complicatedly entangled. After arriving in the United States, Tsutsumi met representatives of these companies to learn their intentions.

First, in San Francisco Tsutsumi met A. C. MacLaughlin of Associated. MacLaughlin proposed to construct a refinery in Japan, with the cooperation between M.S.K. and Associated excluding Standard. He proposed that Associated would have less than fifty percent of stocks, without control. However, M.S.K. wanted Standard to participate in this project because the power of Standard was appealing. As a managing director said:

As this changing situation is a golden opportunity, we decided to establish our oil policy by making a tight relationship among three companies including Standard Oil.

Along with this idea to include Standard, M.S.K. proposed the outline of a new company with the capital of ¥ 10,000,000 ($5,000,000), and paid capital was to be ¥ 5,000,000 ($2,500,000), 50 percent of which Mitsubishi was to owe.

M.S.K. had another plan to establish a selling company, which was to be controlled by three companies when Standard showed difficulty in establishing a refinery. M.S.K. felt that Standard would not construct a refinery, but renew efforts to sell products refined in the United States. Standard thought competition would become more intensive if it established a new refinery in Japan.

Tide Water proposed a plan to establish a new sales company with cooperation among M.S.K., M.B.K., Associated, and Tide Water. Tsutsumi
met A. J. Byles and Vanderhoof of Tide Water, and Vanderhoof proposed this idea. As Tide Water had contracts with M.B.K. on selling its products, it was difficult to exclude M.B.K. from the plan. M.S.K. could not accept this idea because it could not acquire control of the company, and because Standard did not participate in this plan. 46

Finally, Tsutsumi met a representative from Standard, C. E. Meyer, Vice President responsible for export. As Standard feared increasing competition in Japan, Meyer required that oil companies in Japan would make an agreement with one another. He insisted if it was impossible to make a price agreement among M.B.K., M.S.K., and Nippon Sekiyu, Standard would not make any agreement with M.S.K. 47

Tsutsumi did not develop negotiations with Standard beyond this point. The negotiations came to develop through the Kobe Branch of Standard. In Japan, the negotiations with Standard had been done parallel with those in the United States. 48 A managing director met J. C. Gould, General Manager and S. Kiyooka of the Kobe Branch. He proposed the sole agency for Standard covering Japan, Korea, Taiwan, and a part of China, by buying all the assets of Standard in Japan. Managers of the Kobe Branch did not have any plan to establish a new refinery, but they thought the sales system of Standard in Japan was expensive and its performance unsatisfactory. They thought Standard should rely upon a Japanese company for marketing. 49

Along with this plan, Gould promised to get permission to negotiate with M.S.K. from the headquarters. A managing director ordered Tsutsumi to go back to Japan. M.S.K. decided to await the answer from Standard. The answer was negative. Most executives of Standard at the headquarters thought that it was more profitable to import refined
products from the United States than to refine in Japan with the existing tariff rate, and that the establishment of a refinery should be postponed until the changes in the tariff rate occurred. It has also been the main policy of Standard to sell its products by itself, having facilities in many countries. Thus, the plan to construct a new refinery with the cooperation with Standard flickered out.\(^{50}\)

Through the negotiations with Standard, M.S.K. had realized that Standard would never change its basic strategies in Japan and develop cooperation with M.B.K. So M.S.K. decided to develop cooperation with Associated, along the line of the agreement of 1926, to establish a refinery in Japan. In 1928, M.S.K. began persuading Tide Water Associated, with which it had already established a connection, to take part in the establishment of a new refinery, stressing the importance of the stable supply of crude oil:

\[\ldots\] the most important thing from our point of view, i.e., by their [Associated] participation alone we can make sure of the permanent supply of crude oil to the refinery. A refinery without a definite guarantee of crude oil supply is a bold adventure which M.S.K. does not care to take up \ldots We must have Tide Water Associated Oil Co. in the enterprise itself, otherwise there is no alternative for us but to drop the scheme for the present.\(^{51}\)

At the beginning, the negotiations with Tide Water Associated went smoothly. At the end of May, Kyohei Kato, Managing Director, met A. J. Byles, President of Tide Water Associated and William F. Humphrey, President of Associated, and he received an approval in principle of Associated's participation.\(^{52}\) At the beginning of June, they signed an agreement based on the outline Kato proposed to organize a new company in Japan for refining crude oil and for the sale of petroleum products.\(^{53}\) According to the proposal, the capital of the company was to be ¥ 5,000,000 (all paid-up). The share of stocks was 50 to 50. Production capacity was
400,000 bbls. for distillation and 188,000 bbls. for cracking stock. The company was to be controlled by a committee of three executives. One of them should be the president, selected by Mitsubishi, another the vice president selected by Associated, and the third the managing director appointed by Mitsubishi. No decision on any important matters like financial policy was to be made without the consensus of all three members of this committee. The operation of the refinery should be under the direction of a superintendent and a foreman selected by Associated until Japanese took over their positions after acquiring sufficient engineering skills. From the beginning M.S.K. intended eventually to replace American engineers.

As far as sales were concerned, M.S.K. was to be appointed as the exclusive sales agent for the new company on the basis of a commission not to exceed six percent of the sales price of the products sold, and M.S.K. had to guarantee credit of all purchases, while the new company had to purchase all of its crude oil from Associated as long it was able to furnish the quantity.

However, they could not reach an agreement without difficulty. They had to resolve discrepancies between them. In July, officials of Associated met Kato, Yuzo Shimatani, and Shunkichi Nomura, and they tried to decide on details. In this conference naming the new company was a problem. Although Associated wanted the new company to use the name of Mitsubishi, Mitsubishi Zaibatsu had never used the name of Mitsubishi for a company whose majority it did not have. By this time Associated wanted to have 52 percent of the stocks. MacLaughlin insisted, because Associated wanted to keep control over the new company in case M.S.K. did not operate it well. Humphrey insisted that they
should await the final decision to reach a final agreement until representatives from Associated returned from an investigation of the Japanese situation.\textsuperscript{57}

As a result, M.S.K. had to wait for six months until Associated made a decision based on the report of this investigation. However, as Kato won a basic approval of the plan to develop a joint venture, and his own ideal was becoming reality, he was proud of this project as one of the earliest joint ventures between American and Japanese companies, the first one by M.S.K.:

\ldots because there are few, if any, precedents where an American firm and a Japanese firm have launched upon an enterprise in Japan with joint capital and on joint account, although there are several instances where American capital has entered Japan, such as American financiers investing in the bonds of Japanese hydro-electric companies.

As far as I know, this is the first instance that a Japanese firm embarks upon an enterprise under joint capital with an American firm \ldots it is the very first experience for M.S.K.

Therefore, whether this new attempt will succeed or fail, I believe this will be an acid test of whether or not Americans and Japanese can really work closely together.

Should this new attempt by the Associated and Mitsubishi prove a success, certainly other people in the two countries will follow suit. In other words, our joint undertaking should lead the way for the formation of many similar American-Japanese corporations.\textsuperscript{58}

Associated sent O. P. Cottrell, R. P. Sherman, and Stock to investigate in Japan in August. Cottrell was a representative from the manufacturing department. Sherman, who had spent ten years in China as a member of Standard Oil of New York, was recently hired by Associated when he came back to the United States. He was asked to help Stock, who knew the marketing conditions of the Japanese side well. The final answer from Associated was expected by the end of March, 1930. However, Associated did not decide by this time.\textsuperscript{59} It had difficult problems, such as production limits and export price agreements among American oil companies.
Associated had to gain time to check the movement of competitors.  

Before the final decision, Associated changed its attitude drastically. Associated raised a strong objection against the exclusive selling right of M.S.K. for the new company. It suggested that the new company should operate sales or that they should establish another sales company by the joint investment. Associated said that when exclusive sales right was left to M.S.K., troubles would surely occur between the new company and M.S.K. However, the real reason for this was the strong pressure from Standard and Shell. They feared the strong competition from M.S.K., which was one of the largest companies in Japan. It was necessary for Associated to keep the right to sell than to leave exclusive sales right to M.S.K. It also became clear later that they wanted to deprive M.S.K. of the right of selling crude oil and products of Associated.

M.S.K. could not resign the sales right of the new company. M.S.K. and Associated tried to find a solution, but they did not. So meeting a strong pressure from foreign oil companies, M.S.K. tried to find a way by itself. Mitsubishi began thinking of establishment of the new company alone if it could secure the supply of crude oil from Associated. In June, 1930 the policy of Mitsubishi's single investment was generally established. The capital of ¥ 5,000,000 was to be raised by three companies: Mitsubishi Goshi for ¥ 1,000,000 and M.S.K. and Mitsubishi Kogyo for ¥ 2,000,000 respectively. They began preparing for conducting research by a committee of three members, Mitani, Chairman of Kogyo, Nagahara, Director of Goshi, and Kato.

This action to establish a refinery by Mitsubishi alone changed the attitude of Associated. Associated began thinking that the exclusive
selling right of M.S.K. was unavoidable. The reason for the changing attitude of Associated was not clear. But it is conceivable that because Mitsubishi Zaibatsu's decision of single investment was clear, Standard and Shell thought that the joint venture would be better to check the move of Mitsubishi, by keeping a voice in the new company.  

Thus, Mitsubishi and Associated reached a solution. In autumn, Mitani stopped in San Francisco on the way to Europe, and he made a final contract on the joint venture with Humphrey. The main issues were solved. The share became 50 to 50 with the name of Mitsubishi: Associated invested ¥ 5,000,000; Goshi Kaisha ¥ 2,500,000; Mining Company ¥ 1,000,000; and M.S.K. ¥ 1,000,000. They appointed Shigezo Miyoshi as President, D. D. McGregor as Vice President, and Kazushige Tsutsumi as Managing Director. Sales right was given to M.S.K. exclusively. They began constructing the Kawasaki factory in November, 1931, and Mitsubishi Sekiyu Kaisha (Mitsubishi Oil Co.) was established in February of the next year. Finally, all the facilities were completed, and they began operating in December, 1932. Exclusive sales by M.S.K. continued perfectly until 1940, when the Oil Common Sales Corp. was established, and the de facto oil embargo by the United States in 1941 ended the supply of oil from Associated.
Notes for Chapter 2


5. Yuzo Shimatani, Manager of Seattle Branch to J. C. Anderson, President of Pan American Petroleum Co., August 30, 1923, R.G. 131 (Seattle), G.F., 1922-23, unmarked folder.


7. Shimatani to Anderson, August 30, 1923.

8. Ibid.

9. Ibid.


12. Memorandum on Associated.

13. Memorandum on Standard Oil Co.


67
17. Proposed Form of Sole Agency Agreement with Associated Oil.


19. Ibid.

20. Ibid.


22. Ingstad to Shimatani (telegram), December 16, 1923, (Seattle), G.F., 1923-24, unmarked folder.

23. It is possible to think Ingstad had a responsibility in all the negotiations with American oil companies.


25. Ibid.

26. Ibid.


28. Extract from a letter from Fuel Dept., Tokyo to Seattle Branch, December 27, 1924, R.G. 131 (Seattle), Box 386.


30. Extract from a letter, December 27, 1924.


32. Supplementary Agreement between Mitsubishi Shoji Kaisha, Ltd. and Associated Oil Co., April 1, 1925, R.G. 131 (Seattle), G.F., 1928-29, "Associated Contract."

33. Ibid.

34. Basic Agreement between Mitsubishi Shoji Kaisha, Ltd. and Associated Oil Co., June 8, 1929, R.G. 131 (Seattle), G.F., 1928-29, "Associated Contract."


37. Ibid.

38. Ibid.

39. Nippon Oil had plants at Tsurumi with the capacity of 1,000 bbls and the production of 40,000 c/s per month, and at Niigata with the capacity of 500 bbls. and production of 20,000 c/s per month. On the other hand, Ogura Oil had a plant at Tokyo with the capacity of 1,000 bbls. and the production of 40,000 c/s per month, *ibid.*

40. Managing Director to Tsurumi at San Francisco (telegram), June 7, 1926, R.G. 131 (Seattle), G.F., 1921-41, file has Japanese writing. Kiooka, a Japanese manager and Ensworth, manager of Kobe Branch of Standard developed this idea, and informed the headquarters. However, M.S.K. hesitated to develop negotiation. Managing Director to Tsutsumi (telegram), August 20, 1926, R.G. 131 (Seattle), G.F., 1921-1941, file has Japanese.


42. Managing Director to Fukusaburo Ueno, manager of New York Branch (telegram), March 18, 1926, R.G. 131 (Seattle), G.F., 1921-41, file has Japanese.

43. Ueno to Yuzo Shumatani, San Francisco Representative (telegram), March 24, 1926, R.G. 131 (Seattle), G.F., 1921-1941, file has Japanese.

44. Managing Director to Tsutsumi at San Francisco (telegram), April 9, 1926, R.G. 131 (Seattle), G.F., 1921-41, file has Japanese.

45. Managing Director to Tsutsumi at San Francisco (telegram), May 29, 1926, R.G. 131 (Seattle), G.F., 1921-41, file has Japanese.
   Managing Director to Tsutsumi at San Francisco (telegram), March 24, 1926, Managing Director to Seattle Branch (telegram), March 25, 1926, and Managing Director to Tsutsumi at San Francisco (telegram), June 7, 1926, R.G. 131 (Seattle), G.F., 1921-41, file has Japanese.
   Managing Director to Tsutsumi at San Francisco (telegram), June 16, 1926, R.G. 131 (Seattle), G.F., 1921-41, file has Japanese.

47. Tsutsumi to Managing Director (telegram), July 13, 1926, R. G. 131 (Seattle), G.F., 1921-41, file has Japanese.

48. On the way back to Japan, Tsutsumi was required to meet executives of Associated in San Francisco to explain the negotiations with Standard and to get guarantee of crude oil supply from Associated when they establish a refinery along the agreement in 1925. Associated insisted that they needed a permission from Tide Water which controlled them. Managing Director to Kanzo Tanaka, manager of Fuel Dept., Tokyo (telegram), August 17, 1926, and Tsutsumi at San Francisco to Managing Director (telegram), September 3, 1926, R.G. 131 (Seattle), G.F., 1921-41, file has Japanese.

49. Managing Director to Tsutsumi at New York (telegram), July 29, 1926, R.G. 131 (Seattle), G.F., 1921-41, file had Japanese.

50. Managing Director to Tsutsumi at San Francisco (telegram), August 20, 1926, R.G. 131 (Seattle), G.F., 1921-41, file has Japanese.

51. Memorandum on the Oil Refining Industry in Japan.


54. A Plan to Establish Mitsubishi Oil Co., March 24, 1928, and Basic Agreement on the Establishment of Refinery, June 8, 1928, R.G. 131 (Seattle), G.F., 1921-41, file has Japanese.

55. Ibid.


57. Ibid.


59. San Francisco Branch to Manager, Fuel Dept., Tokyo, August 7, 1928, R.G. 131 (Seattle), G.F., 1928-29, "New Corporation with Associated."
60. M.S.K., *Jitsugyo Boekiroku*, p. 53. The author cannot find evidence which shows the process of negotiation after this point. However, we can know it a little from *Jitsugyo Boekiroku*.


62. Ibid.

CHAPTER 3
THE OPENING OF THE SAN FRANCISCO OFFICE
1919–1931
World War I gave an unusual opportunity to M.S.K., opening the world market to it. M.S.K. took advantage of the situation by pursuing two basic growth strategies: diversification of product lines, and expansion of the geographical areas in which it operated. By the end of the war M.S.K. had handled a wide variety of product lines in Asia, Europe, and North America. But the firm did not plan well during the wartime boom, and the post-war depression in 1919 showed its weakness. The depression forced M.S.K. to reorganize its resources and develop efficient management systems appropriate for achieving orderly development.

The decision to enter the oil business in 1923 was part of the plan for orderly growth. The contract with Associated Oil meant that M.S.K. had to open an office in San Francisco to handle the new transactions. At first the Seattle Branch conducted the oil business, but by 1926 its importance easily justified having a staff in San Francisco. After 1926, when the San Francisco office opened, it gradually assumed independence from other M.S.K. branches, managing transactions not just in oil, but in other product lines as well. The second aspect of the strategy of orderly development was to create a new, efficient management system. During this period, M.S.K. began developing a very sophisticated organizational structure and control system. These were very similar to those developed by DuPont and General Motors in the 1920s. Both the San Francisco and Seattle Branches operated under it.

The Development of the Seattle Branch

The Seattle Branch played an important role in the development of the oil business. It collected information on the American oil industry
and negotiated with American oil firms. After making an exclusive selling contract with Associated, it actually conducted transactions in oil products. As the first M.S.K. office on the Pacific coast, Seattle participated in the development of the new management system from its inception. That development, in turn, led to the creation of the San Francisco Branch, which eventually overshadowed and controlled its parent.

In 1918 Mitsubishi Goshi Kaisha opened the Seattle office mainly to supply steel to Japan for the construction of cargo vessels for the United States Shipping Board. We know very little of its early history, or of the career of its head at the time, Yuzo Shimatani. After the creation of M.S.K., Seattle became the representative office of the New York Branch in March, 1921. At that time the original reason for the Seattle office had dissolved with the 1918 armistice; Japanese shipyards were no longer buying American steel to build ships for belligerent countries. Transactions of wheat, flour, and lumber became an important business, and, after 1924, so did oil.

Before the opening of the San Francisco office these three items accounted for almost all the transactions of the Seattle Branch, and few transactions were in metals, machinery, and provisions, as we can see in Table 3.1. As the transactions of the Seattle Branch continuously grew, it became an independent branch on August 1, 1924. It opened the San Francisco office in February, 1926 to handle oil, and the Vancouver office in August in the same year to handle wheat and lumber. The organization of the Seattle Branch had developed accordingly, as shown in Chart 3.1, divided along commodity lines.
Table 3.1
The Trend of Transactions by the Seattle Branch
(In thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>16th Term 10/'24-3/'25</th>
<th>17th Term 4/'25-9/'25</th>
<th>18th Term 10/'25-3/'26</th>
<th>19th Term 4/'26-10/'26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat and Flour</td>
<td>$8,473</td>
<td>$2,587</td>
<td>$3,482</td>
<td>$4,575</td>
</tr>
<tr>
<td>Lumber</td>
<td>1,348</td>
<td>2,157</td>
<td>1,430</td>
<td>1,067</td>
</tr>
<tr>
<td>Oil</td>
<td>935</td>
<td>2,211</td>
<td>2,166</td>
<td>2,155</td>
</tr>
<tr>
<td>Metal</td>
<td>24</td>
<td>15</td>
<td>69</td>
<td>121</td>
</tr>
<tr>
<td>Machinery</td>
<td>3</td>
<td>9</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Provisions</td>
<td>10</td>
<td>--</td>
<td>13</td>
<td>38</td>
</tr>
</tbody>
</table>

Note: Term means a settlement term. M.S.K. used half-yearly settlement of accounts. First half-year term was April 1 to September 30, and the second one October 1 to March 31 of the next year. Each term was numbered from the beginning of M.S.K.

Source: Kanekichi Imai to Managing Director, November 19, 1927, R.G. 131 (Seattle), G.F., 1927, not in folder.
Chart 3.1
The Organization of the Seattle Branch
(As of August 31, 1926)

Manager (Shimatani)

Assistant Manager (Ingstad)

General Affairs
Lumber
Accounting

Metal
Machinery
Provisions

Shipping

Vancouver Office

Produce

S.F. Office

Gen. Merchandise

Source: Seattle Branch to Personnel Section, Mitsubishi Goshi Kaisha, August 31, 1926, R.G. 131 (Seattle), G.F., 1926, folder title is broken off.
By this organization the Seattle Branch continuously developed in the period between the opening of the San Francisco office in 1926 and its independence as branch in 1931. By 1926 the Seattle Branch had extended its transactions into a wide variety of product lines, and its structure did not change much. The main business of the Seattle Branch was still with the Produce Department, Tokyo, especially in wheat and flour. The Seattle Branch handled a steady volume of business in American and Canadian wheat. However, in the autumn of 1930, the United States Federal Farm Board began to fix the price of wheat considerably above the world market, so the Seattle Branch stopped handling American wheat, because Japan and China preferred the Australian wheat that they could buy at the lower world price level. The same situation applied to the business in Canadian wheat as the transactions decreased. (See Table 4.3.)

By using its world business network, the Seattle Branch engaged in speculative transactions of wheat with the London Branch. In spite of the fact that both the London and Seattle Branches were new to this highly technical business, their operations were quite successful, and they were operating to competitive advantages from both a buying and a selling standpoint. However, in July, 1930, the head office decided to withdraw from this speculation, for the firm had suffered losses when the market price of wheat dropped at the end of 1929 with the onset of the Great Depression.

In the case of the flour business, M.S.K. had occupied a very prominent position in the trans-Pacific flour trade. However, after it became the exclusive selling agent for the export flour of Nisshin Seifun Kaisha (Nisshin Flour Mills) in 1927, the volume of business in American
and Canadian flour decreased materially. Trade in Canadian flour became almost nil, and the Seattle Branch worked on an average of less than 50,000 bbls. of American flour per annum. This flour was almost entirely confined to the Export Straight Grade produced by the Fisher Flouring Mills of Seattle. This was packed under M.S.K.'s "Red Diamond" brand, which was sold particularly on the Dairen market.

The most important item next to wheat and flour was lumber. However, the American and Canadian lumber trade with Japan had been decreasing since 1928. The reason was the world economic depression combined with the completion of the reconstruction work of the City of Tokyo after the Kanto Earthquake in 1923. A new import duty, put in effect during 1929, was another factor. The quantity of lumber handled by the Seattle Branch gradually decreased (see Table 4.4).

To meet the decrease in the lumber export market, producers in the United States and Canada were making strenuous efforts. They made agreements for the curtailment of production in order to maintain prices and profits. Douglass Fir E. & E. Co. induced several leading independent mills to join with it, and the groups of Grays Harbor Exportation Co., and Dant & Russell, Inc., and the Associated Timber Exporters of British Columbia signed an agreement for the curtailment of production and the maintenance of a minimum price. As sellers organized, the Seattle Branch felt it necessary to cooperate with M.B.K. in order to cope with their power.

In addition to these main items, the Seattle Branch developed transactions of various kinds of products. As early as 1922 it began the scrap metal business, and after that date it handled scrap copper, brass, tin clippings, dross, and cast iron and steel. As a buying office it did
transactions for the Oriental market, as requested by the Metal Department, Tokyo, Osaka, and Moji Branches.

In machinery transactions, the Seattle Branch handled such machines as cannery machinery, hoisting machinery, industrial tractors, oil burners, diesel engines, road-building equipment, and saw mill apparatus. The main market for these products was the Dairen and Shanghai Branches. In 1931, it began handling radios, particularly with the Dairen Branch. It shipped cheap radios manufactured by the Echophone Mfg. Co. in Illinois, with which M.S.K. had tentatively agreed to refrain from dealing with any other concerns for the Oriental market.8

Fertilizer and produce also became an important business at the Seattle Branch. By the end of the 1920s the Seattle Branch handled such commodities as brewer's malt, Japanese beans, Chinese peanuts, soy bean cake and meal, Japanese copra meal, linseed cake meal, sulphate of ammonia, and super phosphate of lime.9 Increased tariff rates and domestic competition retarded growth, however. For example, the high import duty placed on peanuts imported into the United States virtually prevented such trade. The Seattle Branch could not sell Japanese sulphate of ammonia in the United States because of an understanding which M.S.K. had with United States Steel.10

The Seattle Branch always sought to increase transactions in miscellaneous goods. About 1927 it negotiated with Rainier Pulp & Paper Co. of Shelton for rayon pulp, for which the New York Branch finally contracted; Seattle supervised its shipment.11 Footwear also fit into this category, working with Tsuchiya TABI's (Tsuchiya Footwear Co.) products. The manufacturer worked through the New York Branch to purchase a set of shoe lasts of American design and style so it could enter the
American and Canadian market on a full scale. American mass retailers like Sears, Roebuck & Co. were interested in these products. M.S.K. handled the transactions.\textsuperscript{12}

During this period the transaction of canned products, particularly canned crabmeat, increased. The Seattle Branch handled canned goods under jurisdiction of the New York Branch, and it worked strictly under the instructions of the New York Branch, as we will see in detail in Chapter 5. The Seattle Branch also handled tuna fish for the United States market, dry salted herring for the China market, and Siberian canned pink salmon for the Central and South American market.\textsuperscript{13}

The business of the Seattle Branch was not limited to the transactions of products. It did some subsidiary functions of trade. The Seattle Branch acted as the agent for the Steamship Department, Tokyo in the operation of two cargo motorships, Columbia Maru and Olympia Maru, in the trans-Pacific trade. As the agent for these motorships, the Seattle Branch attended to their operations of discharge of their eastbound cargo, its forwarding to local and eastern destinations, and the booking and loading of westbound cargo. The Seattle Branch received from the Steamship Department, Tokyo, a 2½ percent commission for eastbound cargo, and 4 percent for the westbound cargo. It employed one supercargo and three stevedore companies.\textsuperscript{14}

The Seattle Branch also attended to the transhipment and other shipping details for the imports of such goods as China wood oil, peanut oil, soy bean oil, and fish oil, and exports like copper and machinery through Pacific Coast ports for the account of the New York Branch.\textsuperscript{15}

The Seattle Branch also issued marine insurance certificates for shipments from the Pacific Coast ports to the Japanese and Chinese ports,
and it received a commission of 5 percent on the earned premiums from Mitsubishi Kaijo Kasai Hoken Kaisha (Mitsubishi Marine & Fire Insurance Co.), Tokyo, for the business of issuing the insurance certificates.

The Opening of the San Francisco Office

After the decision to go into the oil business on a full scale, and the contract with Associated, M.S.K. began actual transactions of oil in August, 1924. As the transactions increased, they led to the opening of the San Francisco Representative Office in February, 1926. As was the case with other offices, the San Francisco office was opened under jurisdiction of an existing branch: the one in Seattle. After it opened, although oil continued to be the dominant item there, the San Francisco office gradually diversified into various product lines such as canned products, machinery, and vegetable oil. As the San Francisco office increased transactions, it began direct transactions with headquarters and other branches.

After the beginning of the oil business, no one from the Seattle Branch stayed in San Francisco, which developed its own staff. In November, 1924, R. H. Tibbits was delegated as a representative of the Seattle Branch and stationed in San Francisco, primarily for the purpose of attending the petroleum business under contractual arrangement between M.S.K. and Associated. Tibbits came also to handle such product lines as fish fertilizer, Anshan pig iron, canned crabmeat, lumber, and machinery as side lines. As transactions in these lines became busy, it was impossible for him to deal with them alone. So, the Seattle Branch sent R. S. Hooper to help Tibbits.
While doing transactions, Tibbits prepared for the opening of a formal representative office, and the San Francisco Representative Office opened, under the jurisdiction of the Seattle Branch on February 1, 1926. Takesaburo Nasu, who had been charged in the crop and fertilizer business at the Seattle Branch, was appointed as shunin (chief).19

The opening of the San Francisco office led to changes in the transaction system of the Seattle Branch. All the communications regarding the oil business took place directly between San Francisco and Tokyo after February 15, 1926.20 The Seattle Branch handled only the delivery of fuel oil, diesel oil, and lubricating oils in the states of Washington and Oregon, for Japanese steamships with which M.S.K. had entered into contracts. The Seattle Branch only collected payment from these steamship companies, and it sent reports of delivery to the Fuel Department, Tokyo. However, copies of all the correspondence between the Fuel Department and the San Francisco Office had to be sent to the Seattle Branch by the respective office. Those between San Francisco and Seattle regarding the oil business had to be sent to Tokyo. This system informed all parties of what was transpiring in San Francisco.21

In this system, although the Seattle Branch controlled the San Francisco Branch, it had some degree of autonomy as an operating unit. Nasu, as the chief, was given authority to sign all the orders, contracts, and other documents pertaining to the oil business, except especially important ones which the manager of the Seattle Branch had to sign. Letters of credit covering petroleum orders were to be established by the Fuel Department, Tokyo in favor of the San Francisco office (or Associated Oil Co.), and shipping documents for oil were to be made out and sent by the San Francisco office directly to Tokyo. In this way,
after the beginning of direct transactions with Tokyo, the San Francisco office developed the oil business rapidly, as seen in Table 3.2. The San Francisco office as a buying office bought oil for the Fuel Department, Tokyo, Osaka, Nagoya, Kobe, Keeling, Takao, Dairen, and other branches. All communications exchanged between the San Francisco office and the Fuel Department, Tokyo. 22

Although the San Francisco office was established for the transaction of petroleum, it gradually increased product lines to use its resources efficiently. Transactions in each line increased, even if its amount was not big as that of oil. By the end of 1928, the San Francisco office had developed transactions of products handled by the Provisions, Produce, and Machinery Departments. As the transactions in these product lines increased, it developed direct transactions with headquarters and other branches without channelling them through the Seattle Branch. 23

In 1925 under the supervision of the Seattle Branch, San Francisco began the canned crabmeat business, and this became one of its most important items. On July 1, 1928, the Provision Department, Tokyo, designated the New York Branch as motoatsukaiten (original acting office), and the San Francisco as well as the Seattle Branch as selling offices in the West. Direct transactions by San Francisco began. 24

In April, 1929 Nomura, who had become the manager of the Seattle Branch in 1928, and Nasu asked headquarters to permit the San Francisco office to handle machinery and produce directly with headquarters and other branches. The main objective of this transfer of business was to eliminate duplication of work between San Francisco and Seattle. Nasu clearly stated the reason for the direct communication with other
<table>
<thead>
<tr>
<th></th>
<th>1926</th>
<th>1927</th>
<th>1928 (11 months ending December 1)</th>
</tr>
</thead>
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<tr>
<td>Crude Oil</td>
<td>$1,417,082.00</td>
<td>$1,146,169.06</td>
<td>$2,071,897.28</td>
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<td>Fuel Oil</td>
<td>1,542,055.52</td>
<td>2,486,859.88</td>
<td>2,500,739.21</td>
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<td>Diesel Fuel Oil</td>
<td>144,595.42</td>
<td>270,233.26</td>
<td>387,819.21</td>
</tr>
<tr>
<td>Motor Spirit</td>
<td>661,872.03</td>
<td>221,751.38</td>
<td>110,384.77</td>
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<tr>
<td>Gasoline</td>
<td>273,380.26</td>
<td>470,565.84</td>
<td>321,352.92</td>
</tr>
<tr>
<td>Kerosene</td>
<td>115,692.61</td>
<td>102,988.84</td>
<td>86,483.77</td>
</tr>
<tr>
<td>Lubricating Oil</td>
<td>194,646.30</td>
<td>226,315.18</td>
<td>148,149.83</td>
</tr>
<tr>
<td>Grease</td>
<td>4,704.29</td>
<td>4,699.18</td>
<td>3,676.55</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,354,028.43</strong></td>
<td><strong>$4,929,583.19</strong></td>
<td><strong>$5,630,502.91</strong></td>
</tr>
</tbody>
</table>

Source: Important Documents and Papers (San Francisco) Transferred from Shimatani to Nomura, "Business under Jurisdiction of Fuel Dept.," December 31, 1928, R.G. 131 (Seattle), F. P., Box 479.
offices in the letter to Nomura:

... direct trading by us with the selling and buying offices of the given commodities in Japan, China, and Manchuria will eliminate considerable expense that is now being incurred by the exchange of telegrams with you relative to such business, will save time in the transmittal of offers and bids and will entirely eliminate duplication of considerable paper work on your part pertaining to business transactions in our district. 25

Thus, the San Francisco office began carrying on trade by direct communication with buying offices of such products as meal, seed, beans, peas, peanuts, and arsenic, and with the selling office regarding scrap metals. It also handled such machinery as oil burners, gasoline pumps and equipment, farm implements, fish meal plant, and other machinery and equipment whose makers were located in California. The Seattle Branch handled all other machinery business as in the past. 26

Where business in other products -- potash, sodium sulphate, and bunker coal -- whose transactions at San Francisco were small, the Seattle Branch did the work. It did business in lumber and logs, except for California redwood products. 27

The San Francisco office did other business as well. It acted as an agent for the Steamship Department, Tokyo in the operation of three motor tankers, San Pedro Maru, San Diego Maru, and San Louis Maru while these ships were in California ports. It received a commission of $75.00 per tanker per voyage from the Steamship Department. It also appointed W. H. Wickersham at San Pedro as its sub-agent. He attended the tankers on behalf of M.S.K. while the ships were in Los Angeles Harbor. 28 The San Francisco office also attended to the transhipment and for other imports, particularly Oriental vegetable and fish oil, and exports, particularly lead, zinc, and machinery through California ports for the account of the New York Branch. 29
As San Francisco increased its independence in these transactions, the number of product lines and their transactions rose. To meet the situation, the San Francisco office had to reorganize and increase its staff. When it opened, Nasu, Tibbits, and Hooper concentrated their energy almost exclusively on the oil business, but, as the separation of business between San Francisco and Seattle progressed, each staff member came to specialize in a certain line or lines. Shigematsu was sent from headquarters, and M. M. Purcell and M. J. Concannon were newly hired. As a result, by December 1, 1928, Nasu was in charge of general affairs, Shigematsu of petroleum, Tibbits of metal, fertilizer, miscellaneous goods, shipping, Concannon of accounting and general affairs, and Purcell of provisions and traffic.

The Development of a Management System

As we have seen in Chapter 1, the Trade Department of Goshi Kaisha and, later, M.S.K. established its basis as sogo shosha by diversifying product lines and developing an overseas branch system. During the war, the world market was open to Japanese companies. Mitsubishi opened new offices in the United States, Europe, and Asia. It exported Japanese miscellaneous goods through branches in these areas where imports from Europe had stopped. It also imported Western advanced technology and products from offices in Europe and the United States, and raw materials from offices in Asian countries. By the time M.S.K. was established in 1918, it had handled many product lines -- coal, metal, machinery, produce, oil and fat, marine products, textiles, chemicals, and miscellaneous goods in Europe, the United States and Asia.
However, this expansion of business had been done at random without any clear policy. When the Japanese economy began meeting the post-war depression in March, 1919, M.S.K. had to change its attitude. Now it was necessary to bring order into the organization as some American enterprises like General Motors and DuPont had to do in this period. M.S.K. established the Temporary Investigation Bureau, particularly to develop the orderly transactions of general merchandise (M.S.K. called products other than coal and copper general merchandise at this time). In April, 1921, M.S.K. established four Departments to handle general merchandise: Cotton, Oil and Fat, Machinery, and Lumber.  

As the number of departments increased, and new product lines and branches emerged, it became impossible for one top manager to control all the operations of the firm. The nature of products varied widely. M.S.K. had to develop a formal organization to control this diversified operation. When M.S.K. was established in 1918, the organization was composed of one general staff department: General, three line departments; Coal, Metal, and General Merchandise, and one auxiliary department, Steamship. By 1925, as we can see in Chart 3.2, M.S.K. had three general staff departments: General, Development (Administrative), and Accounting, six line departments, Crop & Fertilizer, Metal, Machinery, Fuel, Provisions, and General Merchandise, and Steamship Department.

In 1918 the firm had only one managing director, but with growth it had to add to the number, each responsible for a few departments. The departmental managers were charged in daily operations of the department, and managing directors controlled departments from the overall viewpoint. So strategic decisions which were related with re-allocation of the firm's resources were made by the Jyomukai (Committee of Managing
Chart 3.2

The Organization of M.S.K.
(As of November 14, 1925)

Director
(Momotaro Miyagawa)

(Committee of Managing Directors)

Managing Director
(Ren'itsu Takahashi)

General Account.

Dept.

Development

Dept.

Managing Director
(Keinosuke Yamagishi)

Gen. Mds.

Dept.

Crop &

Fertil.

Managing Director
(Kyohei Kato)

Steamship

Dept.

Managing Director
(Umetaro Sato)

Metal

Dept.

Machinery

Dept.

Fuel

Dept.

Food

Dept.

Source: Produced from the letter of Manager of General Dept., Tokyo, to Manager of Seattle Branch, November 14, 1925, R.G. 131 (Seattle), G.F., 1926, "General Dept., Research Affairs."
Directors). M.S.K. also had regular Buchokai (Meeting of Departmental Managers) in which managing directors and chairmen also participated.

At the departmental level each line department had autonomy in the transactions of products it handled. It decided basic policies and plans for the transactions of products and supervised all the affairs concerning the transactions. Profits and losses of transactions, respectively were figured out by each department. Unfortunately, we do not have any evidence which shows the role of general staff departments, and their relations with other departments and top management at this period. M.S.K. was a sophisticated organization that used basic management principals. So we can get some clues on the roles of general staff departments from the organization of 1939, as shown in Appendix C. In this organization, the General Department had responsibility for law, general documents, personnel, and organization. The Development Department did coordination and control of operation, planning, and research regarding the general economic situation, and collecting various kinds of information. The Accounting Department was charged in making financial data for management as well as keeping financial records. In addition to these general staff departments, each line department had its own staff division, a secretarial bureau. It helped the departmental manager by making operative planning and policies, and in communication.

In parallel with the development of sophisticated organization, M.S.K. developed control techniques. It defined the transactions very strictly to make them efficient. On May 1, 1921, M.S.K. changed regulations drastically. This change was brought out because M.S.K. wanted to strengthen the control of the firm as a whole by avoiding competition among departments and branches as the organization became large. As a
managing director said:

We unite all offices' efforts in perfect accord and cooperation and secure successful results in transacting business with outside firms and companies, taking into consideration solely the interest of the whole body of our company without regard to the position of our respective branch offices.

In the previous regulations, transactions between the offices of the company had been recognized. Transactions were, as a rule, to be settled on c.i.f (Cost, Insurance, and Freight price which includes these charges) basis, and commissions were collected by the respective offices from other offices of the company. The new regulations abolished this system. Except in special cases, all profits and losses were to be figured out only by the motoatsukaiten (original acting office), or by the selling office for certain merchandise transactions, for which the motoatsukaiten was not provided, and the other atsukaiten (acting office) attended to transactions without any profit or commission. (Headquarters furnished the funds to cover the deficits of each branch.)

The Seattle Branch received funds through the New York Branch, and the Seattle Branch supplied the San Francisco office with funds for office and incidental expenses. By this system the branches did not need to compete with one another in the transactions.

In the case of transactions between motoatsukaiten and atsukaiten, the offers of motoatsukaiten had to be made at the lowest acceptable price, and the bid of atsukaiten to be made at the best selling price obtainable. On conclusion of a contract with an outside company, the atsukaiten figured out the net proceeds of the motoatsukaiten by deducting the estimated amounts of freight, charges, and interest from the selling price. Offers of the purchasing office had to be made at low cost and bids of the selling office had to be made at the best selling
price obtainable. On conclusion of a contract with an outside company, the account had to be settled at net cost between the two offices. Handling merchandise which was shipped on consignment had to be the same as set forth in the transaction between motoatsukaiten and atsukaiten. 38

As the ability of a trading company to obtain and create credit was very important, M.S.K. had strict payment rules. Payment for goods was settled between the purchasing office and the selling office. In the case of transactions between Japan, the Orient, or the South Seas and the United States, 90 d/s draft had to be drawn upon each shipment. However, all drafts from the United States had to be drawn on the New York Branch. However, in the case of a consignment, convenient means could be arranged. 39 In the case of transactions with outside firms, cash transaction was the rule. In cases where credit had to be granted according to commerical custom, the matter had previously to be submitted to and approved by the department concerned. In cases where any branch office was entrusted by other firms to sell or purchase on commission, a special agreement had to be made between the branch office and the other firm. By so doing, the branch was not held liable for the non-fulfillment of obligation by the other party of the sale or purchase and any damage not covered by conveyors or underwriters. When any branch opened business with a new correspondent, the condition of the correspondent's credit had to be reported to the department concerned. 40

In the transaction, the activities of branches were completely controlled by the department concerned at headquarters. The main control means was to limit credit. When any branch office intended to act on
any new or important matters, it had to submit the matter previously
to and be approved by the department concerned. The outcome had to be
reported to the department. It had to follow this regulation when it
entered into the transaction of new merchandise, to accept the agency
of other companies, to make loans to other firms, and to make agreements
with other companies.41

In order to control the activities of branches, M.S.K. set the
credit limits of transactions. The branches had to follow these rules
strictly. The amount of credit and transaction was not so large, and
headquarters carefully controlled the branches. By August, 1930 trans­
actions by branches in the United States and Europe and their credit
had been limited within a certain amount. Only within this limit could
managers of branches make a decision without inquiring of the head
office. In buying contracts, the limit of buying transactions was
¥ 100,000 ($ 50,000) while the limit of buying credit was ¥ 50,000
($ 25,000). In the case of sales contracts, the limit of sales trans­
action was ¥ 20,000 ($ 10,000) and the limit of credit was ¥ 30,000
($ 15,000). However, for business with the Japanese government and
companies within the Mitsubishi Zaibatsu, it was unnecessary to inquire,
irrespective of the transaction amount.42

In addition to this general limit, the manager of each department
also could set the limit in transactions for each handling item. For
example, Mishima, Manager of the Machinery Department, Tokyo, sent a
letter on the limit of transaction amount to overseas branches includ­
ing the San Francisco office. Only in the case of transactions less
than ¥ 3,000 ($ 1,500) could the managers of branches make a decision
on the transaction of machinery, and they had to get permission from
headquarter in advance when the transaction amount exceeded this limit. 43

This limit of transaction and credit also played an important role in preventing speculation by branches. M.S.K., as a large organization, prohibited speculation strictly. It distinguished between speculation and anticipatory transactions clearly. For example, when Koyata Iwasaki became the chairman of the Board of Directors in May, 1920, he emphasized the difference at the meeting of branch managers:

I want to exclude speculation, as a principle, for our business . . . I think we can distinguish clearly with common knowledge between unapprovable speculation and approvable anticipatory transaction. There is a big difference in the motivation between speculation that aims at unreasonable profit by trusting chance and dreaming of making a fortune at a stroke, and anticipatory transaction that is done by careful research and study with cautious calculation. I think, regarding this problem we should stress motivation of the person concerned more than nominal distinction. As people say that Mitsubishi Shoji is deliberately tend to be speculative-minded today, we should not follow this trend . . . As for the anticipatory transaction for each item, managing directors and managers of departments would respectively show the standard limit of transactions and credit. As long as it is concerned, needless to say, observe this strictly and not do transactions beyond this limit. 44

Besides the limits on transactions and credit, M.S.K. developed communication and reporting systems to attain an effective control of diversified activities of the branches. Managers of branches submitted various reports regularly. They had to issue tri-monthly reports separately for each department, reports on market conditions, and summaries of their transactions to the respective department. On the conclusion of a contract with other firms, all branch offices had to report the points of the contract with their sale or purchase report. They also had to submit to each department reports on various topics at the beginning of the following month: monthly statement of income and
expenditure, and profit and loss on the merchandise handled, monthly statement of balance of sale and purchase contracts, and monthly statement of goods which were not yet disposed of. Finally, they had to report conditions and results of the business during each business term.  

M.S.K. had a way to control the operations of branches directly. Headquarters sent people to branches to audit accounts regularly. In the case of San Francisco, as it was under the jurisdiction of the Seattle Branch, the Seattle Branch sent people to San Francisco. In September, 1926 the first auditing was performed by Kojiro Nishikawa, who was in charge of accounting at the Seattle Office. In this auditing he checked cash balance, bank deposits, unpaid debts, uncollected credits, inventory of goods, and furniture at the manager's house (Nasu as the chief of the office could rent a house at company expenses). As the Seattle Branch had controlled operations, payment and collection daily, it was unnecessary to inspect in detail in this audit. The Seattle Branch itself was audited by people sent by headquarters from other branches.  

After auditing, inspectors reported their results. It is not clear who had the responsibility for this. But gradually headquarters realized this report could be used as a means of control. In addition to financial situations, inspectors referred to the problems of organization and management in their reports. M.S.K. began thinking this kind of report could be a means not only for financial control but also for the control of overseas operations as a whole. So although earlier reports were sent to the manager of the Accounting Department, later ones were sent to the managing director or the manager of the Development Department.
Coordination and control were necessary locally, too. In the United States there were three branches: New York, Seattle, and San Francisco. As the operations of these three offices increased, it became necessary to coordinate them. As a result, neighboring branch offices had to make preliminary arrangements concerning their respective transacting districts in order to avoid interference or competition that, otherwise, might have occurred among them. Any transaction within the boundary of the district covered by another branch office had to be made through that branch.

Knowing that M.B.K. had been holding a meeting of its managers in the New York, Seattle, and San Francisco Branches every two years with good results, Shimatani proposed in August, 1926, similar conferences. Their purpose was to talk about their operations, particularly general affairs, transactions and shipping, accounting, and personnel management, by stressing the promotion of the total interests of M.S.K. as a whole. However, the meeting did not occur because the managers could not coordinate their schedule.

In this way, after World War I M.S.K. embarked on establishing its management system. As it had already increased its product lines and branches during the war boom, it was necessary to control this enlarged organization efficiently. We need more studies on the development of M.S.K. in order to compare its management system with American counterparts. However, M.S.K. took very similar steps to solve problems they met after the war. It developed divisionalization, which led top management to concentrate on strategic problems. Managers of departments and branches had full responsibilities in daily operations of
their own parts as operating units. In order to control these de-centralized units, it was necessary to create control means and a communication system. By developing this management system, M.S.K. could open a way to develop as a general trading company.
Notes for Chapter 3


2. Kanekichi Imai to Managing Director, November 19, 1927, R.G. 131 (Seattle), G.F., 1927, no folders, but between "Athletic Affairs" and "Fuel Order 391-400."


4. Ibid. The Seattle Branch lost about $150,000 because of the decline in wheat price. Jyuro Watanabe, Manager of Seattle Branch to Kato, Managing Director and Takahashi, Managing Director, July 20, 1931, R.G. 131 (Seattle), F.S., 1921-41, in folder with private code marked through.

5. "Business under Jurisdiction of Produce Dept."

6. Ibid. Important Documents and Papers (San Francisco) Transferred from Shimatani to Nomura, "Business under the Jurisdiction of General Merchandise Dept. as of April 30, 1931, R.G. 131 (Seattle), F.S., 1921-41, no file folders in box 477.

7. Ibid.

8. Important Documents and Papers (San Francisco) Transferred from Shimatani to Nomura, "Business under the Jurisdiction of Machinery Dept. as of April 30th," R.G. 131 (Seattle), F.S., 1921-41, no file folders in box 477.


10. Ibid.

11. "Business under Jurisdiction of General Merchandise Dept."

12. Ibid.


17. Tibbits, "Memorandum Setting Forth History."

18. Shimatani to Manager of General Dept., Tokyo, October 12, 1925, R.G. 131 (Seattle), G.F., 1926, "General Department Personal Affairs."


21. "Arrangement Covering Business of San Francisco Office." This seems to have been written when the San Francisco office was opened. R.G. 131 (Seattle), G.F., 1925, "S.M.D. Pulp and Paper."

22. "Business under Jurisdiction of Fuel Dept."


24. "Business under Jurisdiction of Provision Dept."


27. Nasu to Manager of Seattle Branch, April 23, 1929.


29. Important Documents and Papers (San Francisco) Transferred from Shimatani to Nomura, "Business under Jurisdiction of Traffic Dept.,” December 31, 1928, R.G. 131 (Seattle), F.P., box 479.


34. Manager of General Dept., Tokyo to Manager of Seattle Branch, November 14, 1925, R.G. 131 (Seattle), G.F., 1926, "General Dept., Research Affairs." The number of managing directors varied time to time, usually from three to five.


36. Ibid.

38. Regulations Governing Transactions in Merchandise for M.S.K. Effective May 1, 1921, R.G. 131 (Seattle), G.F., 1926, "General Dept., Research Affairs."

39. Ibid. This policy was taken not because the New York Branch controlled other offices in the United States, but because the interest rate was more advantageous in New York than on the West Coast.

40. Ibid.

41. Ibid.


43. Mishima to San Francisco Representative Office, January 1, 1930, R.G. 131 (S.F.), Box 653.

44. Speech by Koyata Iwasaki, Chairman of the Board of Directors, at the Meeting of Branch Managers, May, 1920 (excerption), R.G. 131 (S.F.), box 669.

45. Renitsu Takahashi, Managing Director to Manager of Seattle Branch, June 23, 1926, R.G. 131 (Seattle), G.F., 1926, "General Department, 1926." Regulations Governing Transactions, May 1, 1921. Probably Manager of General Dept., Tokyo had a direct responsibility for the operations of branches.

46. Kanekichi Imai to Managing Director, November 19, 1927, not in folder.

47. See notes 23, and 24.

48. Regulations Governing Transactions, May 1, 1921.

49. Shimatani to Takesaburo Kazama, August 9, 1926, R.G. 131 (Seattle), G.F., "22 Conference of Managers of New York and Seattle Branch, 1929." They also wanted to extend this meeting among European branches. Shimatani to Kazama, November 9, 1926, R.G. 131 (Seattle), G.F., box 386. Kazama to Manager of Seattle Branch, August 6, 1928, R.G. 131 (Seattle), G.F. "22 Conference of Managers of New York and Seattle Branch, 1929." Hachimaki to Kazama, August 27, 1928, R.G. 131 (Seattle), G.F., "22 Conference of Managers of New York and Seattle Branch, 1929."

50. As for American experience, see Alfred D. Chandler, Jr., Visible Hand: The Managerial Revolution in American Business (Cambridge, 1977), and Alfred P. Sloan, Jr., My Years with General Motors (New York, 1963), Chaps. 7,8.
CHAPTER 4

THE INDEPENDENCE OF THE SAN FRANCISCO BRANCH,

1931-1935
In the inter-war period, M.S.K. was an expanding firm, seeking to establish itself as a close rival in international trade to its chief competitor, M.B.K. Company officials developed a corporate ideology that fit in with its mercantile goals, promoted its doctrine among its employees around the world, while enlarging its product lines and expanding its branch operations. The establishment of the San Francisco office as an independent Branch of M.S.K. was part of the story. It reveals some of the difficulties of the parent firm, and its ability to overcome them.

As the activities and autonomy of the San Francisco office increased, M.S.K. changed its status from a representative to a branch office in May, 1931. This development occurred during a time when Japanese industries were suffering from the depression with over production. They tried to find outlets for their products in the overseas market. Trading companies began aggressively exporting such goods as canned crabmeat, fertilizer, clothing, pottery, and other small wares. This development influenced the activities of the San Francisco and Seattle Branches of M.S.K. Headquarters was always driving them to develop new markets for Japanese goods. This task was difficult even when their products were competitive because the American market was also suffering from the depression. So Japanese companies began cut-throat competition to acquire and enlarge their small share of the market. They faced severe competition from American and European counterparts that had already established their status in the market. The Japanese soon encountered restrictive policies of the U.S. government designed to prevent the influx of imported goods.
M.S.K. grew to be a large organization by continuously increasing product lines and geographical areas. It was necessary to improve its communication and management systems. During this time, it particularly stressed the unification of the organization, and its contribution to the nation as a big business. The San Francisco Branch, now independent, had to adjust to this changing business environment by developing its own organization.

From Representative to Branch Office

When the San Francisco office became a branch, its organizational structure did not change basically. Nasu, already serving as chief of the representative office, became the branch manager. Two Japanese employees were sent from Tokyo: Takenosuke Okumura, a graduate from Kyoto University, and Komei Chin, a graduate from Keio University. As the number of staff members and the transactions in some product lines increased, one person handled a few product lines. The transaction value of most of the products was not big enough to be handled independently. The branch had to use its personnel resources effectively, using its Japanese employees most effectively. The organization at the beginning of the branch is shown in Chart 4.1. Komei Chin had responsibility for accounting and general affairs. Mitani was the chief of the Fuel Department, and Okumura was in charge of handling marine products, fertilizers, and others. By November, 1931, in addition to these Japanese employees, the San Francisco office hired six American clerks and five stenographers, including two Japanese-Americans.
Chart 4.1

The Organization of the San Francisco Branch

(As of September 31, 1931)

Manager
(Takesaburo Nasu)

- Takenosuke Okumura
  - Metal
  - Fertil.
  - Gen.
  - Mds.
  - Goods
- Yuichiro Mitani
  - Shipping
- Komei Chin
  - Petroleum
  - Accounting and General Affairs
- Steam
- Machinery
- Marine
- Products

Source: Job Allocation, September 31, 1931, and American Staff Members, October 3, 1931, R.G. 131 (S.F.), box 682.
Part of the change in status of the San Francisco office involved new accounting procedures. The San Francisco Branch had to open its own accounts. This was done by headquarters. Toji Yanase, Manager of the Accounting Department, Tokyo instructed all the firm's departments and branches to send reports on buying and selling, copies of letters, and other papers and documents that were related with the San Francisco office, in order to establish its accounts. Profits and losses of the San Francisco office up to April 30, 1931 were kept at the Seattle Branch. All other accounts were transferred to the Accounting Department, Tokyo. By using the documents from other departments and branches, the Accounting Department compiled a detailed list of transferred accounts and sent them to the San Francisco Branch. Thus, the San Francisco office became a branch that operated on its own account.

As part of its strategy in the depression, headquarters of M.S.K. ordered overseas branches to conduct a comprehensive survey of the prospect of future transactions in new goods. They wanted to find the possibilities of expanding trade. So, overseas branches became spearheads to find the markets for Japanese products. As an employee of the Seattle Branch stated in a report on the business under jurisdiction of the Metal Department:

In our metal business we have frequently been called upon to investigate the prospects of importing certain commodities and we are now in the midst of several investigations on prospects of importing Japanese cast iron pipe manufactured by Kubota Iron Works, ferro alloys of Nippon Kokan Kaisha, kenjiho pig iron of Mitsubishi Seiitetsu Kaisha and cylinder wire cloth of the Tokio Wire Cloth Co.

This situation was not limited to the metal business but was presented in almost all product lines. Japanese manufacturers were always requesting M.S.K. to pay attention to export prospects. This request
became stronger as foreign countries increased custom duties, re-
strained imports, and changed foreign exchange rates in order to block
the advancement of Japanese exports. Headquarters of M.S.K. in Tokyo
sent directions to overseas branches to find ways to break these ob-
stacles for such Japanese companies as the Asahi Glass Co. (window glass),
Nippon Optical Co. (optical products), and Yokogawa Electric Co.
(electric meters), whose products were able to compete with Western
counterparts.

The overseas branches provided manufacturers with various kinds of
marketing information. First, they did test marketing with a small
consignment. When they found that Japanese products could not penetrate
the market because of quality, the taste of the market, prices, and
competition, they conveyed information to manufacturers to enable them
to overcome these problems. By 1935 the Seattle Branch developed a
market for Japanese iron pipe, which had not been promising in 1931,
after the fabricators improved its quality.

Besides simply finding the market for Japanese manufacturers, M.S.K.
worked to organize entire industries. It wanted "to lead promoting
trade and control domestic manufacturers or cooperate with them."
M.S.K. played an important role particularly in the export of such small
wares as cotton textile products. Each textile was very small, and had
no ability to find its own overseas market. They competed harshly by
cutting prices. The cotton textile product industries could not benefit
from the economies of scale, in the absence of cooperative organization
among the manufacturers. It was necessary for M.S.K. to decrease these
weak points by making close relations with domestic manufacturers,
directing and controlling them, and encouraging shipping companies to
make a proper freight policy. Export finance by M.S.K. was important in controlling them. M.S.K. coordinated the flow of products from production and marketing. Overseas branches played an important role in integrating these functions by giving necessary marketing information to the manufacturers.\textsuperscript{10}

Headquarters of M.S.K. always encouraged the overseas branches to develop new product lines. The San Francisco Branch had problems with this policy at the beginning. Nasu preferred concentrating on the existing products to adding new ones. Nasu agreed upon the idea of promoting the handling of Japanese products, but he hesitated to do so when the San Francisco office became a branch. As there were relatively fewer staff members, one employee had to deal with various product lines. The number of lines was increasing as the Seattle Branch transferred some of its functions.\textsuperscript{11} For example, just after the San Francisco office became a branch, almost all the machinery transactions of the Seattle Branch, except radios, were transferred to San Francisco. Therefore, Nasu was afraid that employees could not pay full attention to daily operations if the office increased the variety of its products. Nor did it seem wise to increase the number of employees at the beginning of a branch. Transactions had not been established yet, and the market was still stagnant because of the depression. Adding staff might just increase operating cost.\textsuperscript{12}

\textbf{The Development of the Fertilizer Business}

Nasu concentrated on the existing product lines at the beginning of the San Francisco Branch. However, by the middle of 1933 he began considering the development of transactions of some new products.
Fertilizer was one of them. He began thinking of the development of this business on the West Coast, particularly in California, considering the increasing consumption of fertilizer, as shown in Table 4.1, and the new relationship between M.S.K. and Nippon Chisso Kaisha (Nippon Nitrogen Fertilizer Co.). Nasu had thought that the increased importation of fertilizer from Japan was just temporary because of its price advantage caused by the devaluation of the yen. He also thought that increasing staff members to handle this product would just lead to increased operation costs. He had been very skeptical about the development of the fertilizer business in full force. But when he learned of the new relationship with Nippon Chisso, he had confidence in a relatively bright future with a large stable supplier, and a large market. Nasu asked headquarters to send one sein to handle this business.

The result, in the middle of 1933, was San Francisco's full scale entrance into the transactions of such synthetic fertilizers as sulphate of ammonia, phosphate of ammonia, and super-phosphate of lime, all produced by Nippon Chisso. San Francisco increased their transactions steadily. It sold only 1,915 tons of sulphate of ammonia in 1932, but in the last six months of 1933, it sold 10,500 tons. During 1934, an agreement with the European Syndicate prohibited Japan from exporting sulphate of ammonia. The San Francisco Branch sold 6,325 tons of super-phosphate of lime in 1932, 1,500 tons in 1933, 1,700 tons in 1934, and 500 tons in 1935. In the case of phosphate of ammonia it sold 475 tons in 1932, 3,000 tons in 1933, and 250 tons in 1934 (in 1934 Japan had very little stock to offer). The Seattle Branch did not sell so much fertilizer, and it sold 2,300 tons super-phosphate of lime in 1934. (We cannot find the figures for the Seattle Branch before 1932.)
Fertilizer Consumption in California

<table>
<thead>
<tr>
<th>Material</th>
<th>1928</th>
<th>1929</th>
<th>1930</th>
<th>1931</th>
<th>1932</th>
<th>1933</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phosphate of Ammonia</td>
<td>1,067</td>
<td>2,891</td>
<td>2,799</td>
<td>2,737</td>
<td>5,029</td>
<td></td>
</tr>
<tr>
<td>Sulphate of Ammonia</td>
<td>13,225</td>
<td>15,168</td>
<td>20,125</td>
<td>27,014</td>
<td>31,887</td>
<td>32,761</td>
</tr>
<tr>
<td>Super-Phosphate</td>
<td>2,315</td>
<td>2,213</td>
<td>4,116</td>
<td>2,889</td>
<td>4,279</td>
<td>6,083</td>
</tr>
<tr>
<td>Fish Meal</td>
<td>9,231</td>
<td>11,228</td>
<td>10,340</td>
<td>11,943</td>
<td>17,120</td>
<td>16,752</td>
</tr>
</tbody>
</table>

It was very hard for the San Francisco and Seattle Branches to develop the fertilizer business. In the synthetic fertilizer business Japan was a latecomer, and the market was already controlled by local companies. The San Francisco and Seattle Branches met severe competition from European and American products. Generally, Japanese products were not as good in quality as the domestic ones. The domestic product was free running and could be used in fertilizer drills, but the Japanese counterpart was not free running and could only be placed in the soil by the "broadcasting method." Although Japanese producers continuously improved the quality of the products, they had to sell at lower prices to compensate for the quality. This caused a severe opposition from domestic manufacturers.\(^{15}\)

European and American manufacturers wanted to prevent the development of the Japanese trade. Japanese producers of sulphate of ammonia were forced to sign an agreement with the European Syndicate on February 9, 1935, to the effect that 150,000 tons could be imported from Europe during the first half of the year, and that Japan was permitted to export 60,000 tons. According to the agreement Japanese producers or exporters were not allowed to sell sulphate of ammonia at less than 4 percent under the selling price of sulphate of ammonia at which the European Syndicate was offering it. This meant that San Francisco could not sell less than 4 percent below the price offered by Barret & Co., a strong competitor. Although the antitrust law prevented Barret from joining the syndicate, because it sold sulphate of ammonia produced by the Shell Chemical Co., its market power was sufficient to enable it to take advantage of the terms of the agreement.\(^{16}\)
Local companies used various means to prevent the importation of Japanese sulphate of ammonia. They tried to prevent the large manufacturers from purchasing Japanese products by using price competition. Stauffer Chemical Co. advertised that it would meet any price quoted on Japanese super-phosphate of lime. The Seattle Branch also faced strong competition from the Consolidated Mining and Smelting Co. of Toronto in the transaction of super-phosphate of lime.

M.S.K., as a latecomer, had some other disadvantages in addition to severe competition and poor quality. It had to guarantee to indemnify buyers against any assessment or penalty imposed by the United States government under the provisions of the existing Anti-Dumping Law. M.S.K. also had to guarantee that the product was sound upon arrival.

In addition to synthetic fertilizer, the Fertilizer Department of the San Francisco and Seattle Branches handled such products as soybean meal, peanut cake meal, linseed cake meal, copra meal, hempseed cake meal, Manchurian hempseeds and buckwheat, Chinese flaxseeds, and vegetable oils. The trend of transactions of some of these products is shown in Table 4.2.

Most of these products had competitive power since M.S.K. could quote almost the same price as local merchants did. But in some products, such as copra meal, hempseed cake meal, and Chinese peanuts, it was difficult for M.S.K. to develop transactions because of high tariffs and competition. For example, there was a duty of $6.00 per ton of Japanese copra meal, but no duty on Philippine copra meal. It was almost impossible to sell Chinese peanuts in the American market. High import tariffs protected domestic products. In the transactions of Chinese flaxseeds, M.S.K. faced the strong competition from Argentine flaxseeds.
Table 4.2

The Fertilizer Transactions by the San Francisco and Seattle Branches a
(unit: short ton)

<table>
<thead>
<tr>
<th>Material</th>
<th>1931</th>
<th>1932</th>
<th>1933</th>
<th>1934</th>
<th>1935</th>
<th>1935</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>S.F.</td>
<td>S.F.</td>
<td>S.F.</td>
<td>Seattle</td>
<td>S.F.</td>
<td>Seattle</td>
</tr>
<tr>
<td>Soya Bean Meal b</td>
<td>2,315</td>
<td>400</td>
<td>1,900</td>
<td>(2,130) c</td>
<td>6,726</td>
<td>(905)</td>
</tr>
<tr>
<td>Peanut Cake Meal</td>
<td>715</td>
<td>-</td>
<td>800</td>
<td>( 540)</td>
<td>1,700</td>
<td>(375)</td>
</tr>
<tr>
<td>Copra Meal</td>
<td>900</td>
<td>150</td>
<td>800</td>
<td>( 250)</td>
<td>150</td>
<td>(500)</td>
</tr>
<tr>
<td>Hempseed Cake Meal</td>
<td>125</td>
<td>485</td>
<td>-</td>
<td>-</td>
<td>400</td>
<td>-</td>
</tr>
<tr>
<td>Manchurian Hempseeds</td>
<td>575</td>
<td>482</td>
<td>135</td>
<td>-</td>
<td>4,500</td>
<td>-</td>
</tr>
<tr>
<td>Hardened Fish Oils</td>
<td>-</td>
<td>-</td>
<td>350</td>
<td>-</td>
<td>1,116</td>
<td>-</td>
</tr>
<tr>
<td>Linseed Cake Meal</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,110)</td>
<td>-</td>
<td>(125)</td>
</tr>
<tr>
<td>Sardine Meal</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>( 610)</td>
<td>-</td>
<td>(425)</td>
</tr>
</tbody>
</table>

a. We have figures of the Seattle Branch only for 1933 and 1934.
b. Soya Bean Meal for the Seattle Branch includes soya bean cake.
c. Figures in the parentheses show the transaction of the Seattle Branch.

Therefore, only the Seattle Branch could develop these transactions, confining its efforts almost entirely to buyers in British Columbia. It consummated an arrangement with Donald H. Bain, one of the most prominent brokerage concerns in Canada, for the transaction of Chinese peanuts.21

Both San Francisco and Seattle gradually developed transactions in other products. In September, 1934 they started the transaction of Kapok seeds with the Soerabaya Branch, and in December the Manchurian buckwheat business. They also handled hardened fish oil. This was a very profitable business. The San Francisco Branch sold this fish oil to local exporters who in turn sold it to customers in Mexico, Central America and South America. M.S.K. used local merchants because it knew the failure that M.B.K. had experienced. Its rival had endeavored to transact this business directly with buyers in Mexico and failed. M.B.K. then approached local importers, but M.S.K. had already developed the business with them. Both branches also handled sardine meal. However, this business depended heavily on production in Alaska, British Columbia, and California. There was an opportunity to sell Japanese products only when the local production was low. So in this period the San Francisco Branch could not develop the business because of the unprecedented production in California. The Seattle Branch did some business.22 In these transactions M.S.K. did not stick to one particular sales policy. It adapted various policies flexibly in order to meet competition, and its lack of knowledge on the market.
The Development of Transactions

After the change of its status, the San Francisco Branch continuously tried to develop transactions in new products, as we have seen in the case of the fertilizer business. However, they were not always successful, meeting strong competition from established companies and import restrictions by the United States government. Overcoming various problems, the San Francisco Branch established its transaction system in this period, but the Seattle Branch gradually lost its ground.

During this period the main business of the San Francisco Branch was still oil products. After the Manchurian Incident in September, 1931, when Japanese military expansion began in Manchuria, the oil business rapidly increased. The San Francisco Branch mainly handled five types of oil products: crude oil, fuel oil, lubricating oil, lubricating grease, and bunker oil. But Associated could not supply enough products on a competitive basis because its ability could not meet the increasing demand. M.S.K. had problems particularly in the crude and fuel oil business because of the shortage and higher prices of the products.

As for crude oil, M.S.K. received from time to time inquiries on crude oil for the Japanese Navy, Manchurian Oil Co., and Ogura Oil. However, M.S.K. could not meet their demand. M.S.K. received complaints from these customers on the price, quality, and quantity. So Kyohei Kato, Managing Director, went to San Francisco in the summer of 1933 to negotiate with Associated on these problems. Kato stressed that M.S.K. was losing a lot of customers. Moreover, some other oil companies, like Union Oil, were acquiring a lot of contracts from Japan. Associated was providing the lowest prices to M.S.K. among its customers, but it could
not always offer lower prices than other companies, depending on the conditions of its finance and storage. Depending on the conditions of its finance and storage, these problems continued until the de facto embargo on oil by the American government was attained in 1941.

In the bunker oil business, questions of quality and supply were involved here, too. Despite the strong negotiations with Associated to improve the quality, it could not solve the problem. This matter was of vital importance in view of the desire to continue securing bunker contracts with these buyers from year to year. M.S.K. had bunker contracts with such companies as Nippon Yusen, Osaka Shosen, Mitsui Senpaku (Mitsui Shipping Co.). Their motorships took on bunker fuel oil at San Francisco and other ports on the West Coast.

Concerning lubricating oil, M.S.K. made a one year contract with such companies as Itaya Shosen Kaisha (Itaya Merchant Shipping Co.), Dai-Nippon Seihyo Kaisha (Dai-Nippon Ice Manufacturing Co.), and the Manchukuo Government Railway. Associated supplied its greases at competitive prices meeting specifications desired by buyers in Japan. M.S.K. also tried to repack "Cycol Cup" grease in lithographed cans with Mitsubishi's own design in Japan to appeal to Japanese customers.

As Associated could not supply enough oil on a competitive basis, it authorized M.S.K. to distribute the Manchurian Oil Co.'s products on certain conditions. M.S.K. also asked Associated to give them authority to negotiate and supply through other companies besides Associated at ports where Associated did not have bunkering facilities.

The relationship between M.S.K. and Associated was generally good, but they sometimes had problems besides the supply and quality of the products because they did not understand one another's way of doing
business. For example, Graves, Executive Vice-President of Associated, who had been in China for a long while, was not as hostile but skeptical of M.S.K.'s transactions. He knew Chinese businessmen very well, and he thought that Japanese businessmen behaved like their Chinese counterparts. Therefore, M.S.K. invited executives of Associated, including Graves, to Japan to show how M.S.K., as a large company, conducted transactions fairly. 28

Both the San Francisco and Seattle Branches continuously made efforts to develop transactions of products other than oil. The Produce Department of San Francisco began handling such items as beet pulp, beans, chillies, and white peas. These moved in very small volume. Each of them were seasonal products with a very sporadic supply. For example, it sold about 125 tons of Manchurian white peas during 1933, but after that it did not sell a pound. 29

During this period the San Francisco Branch paid attention to the tea business, although it failed. As the Produce Department, Tokyo became active in the tea business in early 1934, the San Francisco Branch tried to establish the business in its territory. It especially wanted to develop the black tea business. It attempted to do business with such big tea dealers in San Francisco as B. C. Ireland & Co., G. S. Haly Co., M. M. Brandenstein & Co., and M.J.B. However, they reported that it was difficult to sell Japanese black tea because its quality was much inferior to Indian and Java teas. As M. M. Brandenstein said, "Japan black tea lacks the quality to suitably blend with the brands of tea we have established with the trade for many years." 30

It was practically impossible to get them to use teas from countries other than India and Java. They had established their tea business on
blends of teas from these countries. In addition, the leading buyers had their own representative or agent in the Orient and consequently did not purchase teas from local importers in large quantities. The tea trade was one of the few in which American merchants kept influential power as late as 1940. The situation of the world tea market at that time also made it difficult to develop this business. It was deplorable, with abnormally large stocks on hand and distressed prices prevailing. Okumura and Purcell said:

The possibilities are exceedingly light for us to do business in Black Tea from Japan unless world market conditions improve substantially and stocks and prices become normal. Even then our business would be confined to smaller or obscure buyers unless the producers in Japan can improve the quality of their Black Tea by improving the process of fermentation. Our only chance at present to do business might be in South America and we intend to try and develop that market if possible.

Thus, the San Francisco Branch could not develop the tea business.

The main products of the Produce Department of the Seattle Branch were still wheat and wheat flour, but their volume of transactions gradually decreased. The transaction of American wheat was continuously prevented by the cheaper Australian wheat and the activities of the United States government to maintain prices above the world level. In late 1933 United States government worked out a subsidy arrangement on Pacific Northwest wheat in order to reduce the surplus, and the export business of American wheat became active. The volume of Canadian wheat also decreased, but on account of its glutinous quality it still continuously exported from Vancouver to the Orient for blending purposes on a sporadic basis. The transaction of wheat flour was very frequent. (See Table 4.3.)
Table 4.3

Wheat and Flour Transactions by the Seattle Branch
(unit: short ton for wheat and bbl. for flour)

<table>
<thead>
<tr>
<th>Year</th>
<th>AMERICAN</th>
<th>CANADIAN</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wheat</td>
<td>Flour</td>
<td>Wheat</td>
</tr>
<tr>
<td>1929</td>
<td>115,200</td>
<td>49,000</td>
<td>121,460</td>
</tr>
<tr>
<td>1930</td>
<td>104,600</td>
<td>44,000</td>
<td>130,990</td>
</tr>
<tr>
<td>1931</td>
<td>33,900</td>
<td>17,500</td>
<td>92,390</td>
</tr>
<tr>
<td>1932</td>
<td>---</td>
<td>---</td>
<td>72,900</td>
</tr>
<tr>
<td>1933</td>
<td>22,500</td>
<td>---</td>
<td>40,730</td>
</tr>
<tr>
<td>1934</td>
<td>30,800</td>
<td>---</td>
<td>23,301</td>
</tr>
<tr>
<td>1935</td>
<td>---</td>
<td>---</td>
<td>5,300</td>
</tr>
</tbody>
</table>

(To Mar. 31)

Source: Important Documents and Papers Transferred to Mr. S. Takeuchi by Mr. J. Watanabe, "Business under the Jurisdiction of Produce Dept.," March 31, 1935, R.G. 131 (Seattle), F.S., box 484, loose papers. Important Documents and Papers Transferred to Mr. T. Nasu (on behalf of Mr. J. Watanabe) by Mr. S. Nomura, "Business under Jurisdiction of Produce Dept." April 30, 1931, R.G. 131 (Seattle), F.S., 1921-41, no file folders in box 476.
In the metal business during this period, scrap metal gradually became important to both branches. They handled such metals as cast iron, and brass, with scrap steel the most important item. The San Francisco Branch imported crude and refined arsenic, and was looking for the opportunities for Korean barytes, barbed wire, for import and zinc concentrates, pyrites, molybdenum, and iron ore for export. It developed the Latin American business through W. G. Grace & Co. and McAllister & Co. in San Francisco and Raul Cucalon Jimenz of Equador. They infrequently handled slab tin.  

After it became a branch, the San Francisco Branch developed the machinery business. Almost all the business was transferred from Seattle to San Francisco. The business of the Seattle Branch was mostly confined to radios for the Manchurian market, but it gradually established the import business of wire rope. San Francisco began the importation of pipe fittings, link belts, bicycles and parts, and wire rope. It exported heavy duty machine tools, dredges and parts, oil well equipment, and farm machinery. It also developed the Latin American business.  

The most distinguished development was in transactions of miscellaneous goods. The General Merchandise Department of the San Francisco office, which had a good market, began handling various kinds of small wares from Japan, reflecting the changing Japanese export structure. It imported such chemicals as calcium chloride and sodium bicarbonate and various kinds of miscellaneous goods including textiles, cotton knit gloves, hat blades, rayon yarn, cotton yarn, canvas shoes, transparent paper, beer, safety matches, fish netting, and glass. It was always investigating the possibility of almost every kind of Japanese miscellaneous
goods. Contrary, it exported a small number of items like crude sea
salt, refined slated, soda ash, and old newspapers. It frequently sent
Nicaraguan lignum vitae logs to the Nagasaki Works of Mitsubishi Heavy
Industrial Co. 37

As the Seattle Branch did not have any good market, it did not
develop the importation of Japanese miscellaneous goods, compared with
the San Francisco Branch. The main business of the General Merchandise
Department of the Seattle Branch was exporting lumber, logs, piling,
and other forest products from North America to the Orient. Japan was
the principal market, and Manchukuo was becoming an important market.
It handled airplane spruce lumber for the Nagoya Works of Mitsubishi
Heavy Industrial. As shown in Table 4.4 the Seattle Branch handled
about 6 or 7 percent of the total lumber exports from the Seattle
District to Japan. 38

The Seattle Branch handled some other products. Window glass was
becoming an important item. In 1927 Asahi Glass Co. asked M.S.K. to
investigate the possibility of the sales of window glass in its overseas
market. At that time Asahi Glass could not compete with the new machine
that made Belgian Glass in the Seattle market. However, after Asahi Glass
began using the new Fourcault process, its business increased sizeably in
1934 in the United States and Canada. It also imported calcium chloride
and Tsuchiya rubber footwear. The U.S. government stopped the profitable
rubber footwear business in 1935 when it raised tariffs. 39

In addition to the transactions of products, both branches continu-
ously performed some supplementary functions which supported transactions.
Both branches worked as the agents for the Steamship Department, Tokyo in
the operation of cargo motorships. They also attended to the transhipment
Table 4.4
The Importance of the Seattle Branch in the Export of Lumber

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Lumber Exports to Japan from the Seattle Market</th>
<th>Sales by the Seattle Branch</th>
<th>Seattle Branch Export as a % of Seattle Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>641,110,000 Ft. B.M.</td>
<td>44,775,356 Ft. B.M.</td>
<td>7.0%</td>
</tr>
<tr>
<td>1931</td>
<td>622,496,000</td>
<td>41,830,087</td>
<td>6.7%</td>
</tr>
<tr>
<td>1932</td>
<td>355,041,605</td>
<td>27,472,402</td>
<td>7.7%</td>
</tr>
<tr>
<td>1933</td>
<td>368,924,065</td>
<td>19,251,400</td>
<td>5.2%</td>
</tr>
<tr>
<td>1934</td>
<td>414,212,832</td>
<td>31,389,750</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

Source: Important Documents and Papers Transferred to Mr. S. Takeuchi by Mr. J. Watanabe, "Business under Jurisdiction of General Merchandise Dept. (Lumber Dept.)," March 30, 1935, R.G. 131 (Seattle), F.S., box 484, loose papers.
and other shipping details for the importations and exportations through Pacific Coast ports for the account of the New York Branch. The principal imports consisted of lily bulbs, China wood oil, peanut oil, soybean oil, matches, and canned crabmeat and tuna fish. The principal exports consisted of copper, and Rainier wood pulp.\textsuperscript{40}

During this period, the San Francisco Branch developed the transactions of various kinds of products, as well as its main item, oil products, because of its commercial location. However, in the case of the Seattle Branch, transactions in the products it traditionally handled, such as wheat, wheat flour, and lumber, decreased. Located in a poor market area, it could not develop the miscellaneous goods whose importation to the United States increased rapidly. So by the end of this period the weight of the San Francisco and Seattle Branch in the trade seems to have reversed, although we do not have figures on the total transactions of both branches.\textsuperscript{41}

The Improvement of the Administrative System

An essential ingredient in the growth strategy of M.S.K. and its branches was the development of an effective administrative system. M.S.K., which had now grown to be a company which handled various kinds of product lines over the world, needed a strict control system to attain smooth operation. It continuously improved its administrative methods, although its basic idea was the same as that discussed in the previous chapter. Gradually the system grew more sophisticated. The San Francisco office also had to establish an effective control system within the framework of the company as a whole.
It was extremely important for a trading company such as M.S.K. to decrease credit risks and to increase the speed of collecting its accounts. M.S.K. set strict rules for transactions and credit limits, the risk of slow collection of credit and bad debt loss, and it continuously improved them. For example, in December, 1932 M.S.K. unified its system of transactions and limit of credit between domestic and overseas branches. 42

In spite of the fact that the headquarters often directed the head of each department and operation unit, these rules were not observed well. For example, contrary to expectations, after returning from an investigation of branches in the South Pacific and China, inspectors found some problems. Some branches exceeded the limit of sales credit, and others did not collect debts even after the period of payment had passed. Much worse, some branches did not keep complete records. After finding these problems, headquarters urged managers of each department and branch to observe their orders:

It is regrettable to have to find these unpleasant cases. The neglect of the limit of credit is just a result of rushing forward increasing the transaction amount. For in the light of our last experience there are many cases to enumerate which have brought a large amount of loss because of the exceeding limit of credit. We think as we have already made every effort to advise you, there is no other way than to carry out. If there is no improvement, hereafter, there is only the way to treat an offender severely, considering the situation . . . 43

Although headquarters strictly controlled transactions, it increased the authority of departments and branch managers. M.S.K revised and simplified rules on the transactions and credit limit in September, 1934. Their goal was to have the departments and branches quickly adapt to changing transaction conditions and spontaneously realize their own responsibilities. 44
On September 1, 1937 M.S.K. again modified its rules. This modification required branches in Europe, North America, and Australia to ask the approval of limits from the managers of departments when they set them. They studied the financial status of suppliers and customers, set credit limits, and reported to the manager of the department concerned without delay. We cannot find any evidence as to why this rule was applied only to branches in these areas. Headquarters probably continued to limit transactions of branches in other areas because in these areas people lacked business morality and a stable economic system. Headquarters required branches in these areas to keep the transactions and check the balance of limits strictly.

On October 1, 1938 M.S.K. began a classified system for limits of transaction, depending on the ability of suppliers and customers. Considering the boom after the start of war in China, M.S.K. set the system to avoid reckless expansion of trade, which might ultimately end in losses. It classified customers into seven grades that defined the credit limits that M.S.K. would grant. In the first grade, the limit of credit was set over ¥ 3 million ($855,000); for the seventh grade, at less than $500,000.

In the case of selection of customers and changes of their class, the manager of the General Department, Tokyo had to obtain approval from the managing director after discussing it with the manager of a given department. Transactions with the member companies of Mitsubishi Zaibatsu and Japanese government agencies had no limitations.

In order that employees could understand the meaning of the rules set by headquarters, the San Francisco Branch had its own by-laws. These stressed the importance of surveying the credit status of customers with
the use of past records, bank information, as well as public information like Dun's Reports. They consulted bank reports whenever the limit of transaction exceeded $1,000.00 and the credit more than $300.00. At the beginning of each month, the manager of each department had to submit records on the transaction and credit to the branch manager. Any correction or adjustment of limits, or establishment of a new limit, needed the manager's signature.

The problems that arose in enforcing these policies arose from an inefficient communication system. Takesaburo Kazama, Manager of the New York Branch, prevailed upon headquarters to make a unified rule among all the departments and branches to write business correspondence in English in order to raise the efficiency of branches abroad where many foreigners were employed. As Kazama said:

If any department makes any new regulations in Japanese applicable to the branch abroad, a great many of the branch offices have to translate the same thing into English, causing a great deal of trouble and loss of time on the part of so many branches . . . It is quite advisable for our company to issue such regulations on commodity transactions in English . . . We are greatly handicapped by the reduction of our Japanese staff, and if this new system is introduced, it will be easier to gain the objectives of raising our efficiency, as well as maintaining the Japanese staff at the prevailing reduced state. If these regulations on commodity transactions be issued in Japan in English, all the branch offices of our company situation abroad will be greatly benefited. 48

Considering this opinion, in July, 1934, Tokujiro Yanase, Manager of the General Department, Tokyo, ordered that they write correspondence on these regulations in English (except with China and Manchurian Branches). However, in other correspondence, the use of English did not become popular.

The communication problem existed in other fields. Many branches at one time sent a similar inquiry regarding the American situation. This
happened especially at the time of the gold embargo and bank holidays because other branches wanted to learn quickly the situation in the United States. It was very costly to reply to the various branches on practically the same subject by cablegram. Inasmuch as they were actively engaged in foreign trade, they had to provide for some competent arrangement among the departments and branches to dispatch and receive information between the foreign branches. Regarding personnel matters, the General Department, Tokyo, had a system of relaying the same advice among the branch offices in the United States. As Kazama insisted: "Something similar to that arrangement should be made for transmitting various valuable information among the branches not only in Japan but in the United States and elsewhere." 49

New York had wheat transactions that required a variety of information, and the Produce Department, Tokyo, from time to time was in a position to receive general news about the American market. In making the above arrangement, they hoped that headquarters would consider the position of the department without any duplicating expenses in sending the similar news to other departments or branches. Thus, the branch offices abroad would be furnished with important Japanese information in general. By this time, the San Francisco and Seattle Branches had already built up relations with many American firms, which also frequently called upon them to supply information on the Japanese situation. 50

In this way, as M.S.K. grew to be a big business, it continuously tried to attain an effective administrative and communication system. By the time of the establishment of the San Francisco Branch, M.S.K. had become a world-wide business handling a large variety of important
products. To control this big organization M.S.K. developed not only the management system but also corporate ideologies in order to integrate the effort of various people and interest groups. Corporate ideologies are the basic ideas of a company. So when a business organization becomes large, it is necessary for top management to clarify its own corporate ideologies to show its raison d'être and the path for raising esprit de corps.

In Japan from the end of the Meiji Period to the Taisho Period (around World War I), as business firms grew from family owned companies to modern multi-unit, hierarchical organizations, many companies began establishing their corporate ideology. They stressed the relationship between individual welfare and the development of the firm and the nation. Nominally the objective of the business firm was to make a contribution to the development of the nation. Therefore, an individual also could contribute to the nation by developing the business firm where he or she was working. Profit was not stressed, as in the case of the American business firm. In this sense, employees, customers, suppliers as well as managers were not interest groups as in the United States, where everyone was working for his or her own profit. Instead they were all seeking to contribute to the nation. 51

After the depression many companies began to develop a new understanding of their corporate ideologies, they had a difficult time doing so. Japanese industries were suffering from over-production. They tried to open outlets for their products. By the devaluation of the yen, Japanese products became relatively competitive, and Japanese trading companies rushed to export Japanese products to the overseas market. M.S.K., for example, met severe competition with other Japanese trading
companies, cutting prices, as we will see in the next chapter on the canned crabmeat business. To M.S.K., M.B.K. was particularly a strong competitor because it had established its base in the overseas market. M.S.K. had to distinguish its own ideology in order to motivate people and justify their activities. In order to compete with M.B.K. and other trading firms, M.S.K. wanted to make every employee understand the basic principles of the company, hoping that he or she behaved as a member of a dignified large enterprise. As militarism grew after the Manchurian Incident and depression, it was accompanied by anti-business public sentiment, and M.S.K. sought to overcome it.52

In February, 1934 Momotaro Miyagawa, Chairman, began stressing the importance of observing the following corporate ideologies which Koyata Iwasaki, the former chairman, made in 1918 right after M.S.K. was established.53

1. Shoki Hoko (Contribution to the Nation)
2. Shoji Komyo (Fair Trade Practice)
3. Ritsugyo Boeki (Trading Business)

Miyagawa stressed the contribution to the nation and society as a whole as the final objective of business enterprise. M.S.K. had to develop foreign trade to attain this objective as a large enterprise, saying "the foreign trade needs large organization and a lot of human resources. Fortunately, now we meet this need."54 Moreover, in the trade business, M.S.K. stressed fairness and dignity. M.S.K. particularly avoided squeezing small business, by choosing the right business for a large trading company. As Miyagawa said:

1. As for export transactions, it is natural that we should choose goods that are suitable to our transaction . . .
2. . . . it is significant to compete with foreign trading companies in order to enlarge significantly the commercial
power of our country by developing the transactions . . .
3. . . . we need to make efforts in introducing and importing foreign products considering various conditions wisely without suppressing Japanese products and advertising to national interest.55

Related to these corporate ideologies, M.S.K. stressed its trademark, "Three Diamonds," as a symbol of its fairness. The Credit of M.S.K. was shown with "Three Diamonds." When employees used it, they were asked to pay attention to the quality of the products and not "lose over credit depending on the nature of products." The name of Mitsubishi was also a symbol of esprit de corps, and it played an important role in integrating and motivating people because the development of the firm was closely related with their welfare.56
Notes for Chapter 4

1. Shigezo Hayakawa, Manager of General Dept., Tokyo to Manager of San Francisco Branch, June 6, 1931, R.G. 131 (S.F.), box 669.

2. Job Allocation, September 31, 1933, R.G. 131 (S.F.), box 682 and American Staff Members, October 3, 1931, R.G. 131 (S.F.), box 682. At M.S.K. employees who were hired by each overseas branch were called yoin (hired person), and those hired by headquarters were called seiin (formal employee). There was no difference in their treatment. The status of both types of employees were called koin (full-time employee). For example, it was Japanese custom to give employees special allowance two times a year, and employees hired by the San Francisco Branch also could receive these as Japanese counterparts did. However, generally speaking, seiin occupied the position of the manager and the chief of department of the branch. Report on the Payment of Summer Bonus to Foreign Employees, June 22, 1931, R.G. 131 (S.F.), box 669.

3. Renzo Takahashi, Managing Director to San Francisco Representative Office, April 23, 1931, R.G. 131 (S.F.), box 650.


5. Shigezo Hayakawa to Manager of San Francisco Branch, no date, R.G. 131 (S.F.), box 652.

6. Important Documents and Papers Transferred to Mr. S. Takeuchi by Mr. J. Watanabe, "Business under Jurisdiction of Metal Dept. (Seattle)," March 31, 1935, R.G. 131 (Seattle), F.S., box 484, loose papers.


9. Important Documents and Papers Transferred to Mr. S. Takeuchi by Mr. J. Watanabe, "Business under Jurisdiction of Metal Dept. (Seattle)," March 31, 1935, R.G. 131 (Seattle), F.S., box 484, loose papers.

10. Shigezo Hayakawa to Manager of San Francisco, April 12, 1934, R.G. 131 (S.F.), box 645.

11. Takesaburo Nasu to Manager of General Dept., Tokyo, R.G. 131 (S.F.), box 669.

12. Manager of Machinery Dept., Tokyo to San Francisco Branch, R.G. 131 (S.F.), box 662.

13. Takesaburo Nasu to Kanzo Tanaka, Managing Director, July 11, 1933, R.G. 131 (S.F.), box 669.


15. Ibid.

16. Ibid.

17. Ibid.

18. Important Documents and Papers Transferred to Mr. S. Takeuchi by Mr. J. Watanabe, "Business under Jurisdiction of Metal Dept. (Seattle)," March 31, 1935, R.G. 131 (Seattle), F.S., box 484, loose papers.


21. Ibid.

22. Ibid.


25. "Petroleum Department."

26. Ibid.
27. Ibid.

28. For example, M.S.K. bought Coalings crude oil from the Associated with the condition of $1.20 per bbl., f.o.b., Port Costa and M.S.K. sold it to Ogura Oil Co. with the condition of $1.25 per bbl., f.o.b. In addition to this, M.S.K. received a fair amount of money as commission. Nasu to Manager of Fuel Dept., Tokyo, July 12, 1933, R.G. 131 (S.F.), box 669.


30. T. Okumura and M. M. Purcell, "Produce Department: Tea Business," April 30, 1935, R.G. 131 (S.F.), no file folder, unmarked box. The tea was one of the two items whose trade was controlled by American merchants. As late as 1939, the amount shipped by American merchants was 84.5 percent of the green tea and 40.4 percent of black tea. As green tea was controlled by American merchants completely, M.S.K. seemed to concentrate on black tea.


32. "Produce Department: Tea Business."

33. Ibid.

34. Important Documents and Papers Transferred to Mr. S. Takeuchi by Mr. J. Watanabe, "Business under Jurisdiction of Produce Dept. (Seattle)," March 31, 1935, R.G. 131 (Seattle), F.S., box 484, loose papers.


36. Important Documents and Papers Transferred to Mr. S. Takeuchi by Mr. J. Watanabe, "Business under Jurisdiction of Machinery Business (Seattle)," March 31, 1945, R.G. 131 (Seattle), F.S., box 484, loose papers.

37. Ibid.


39. Ibid.
40. Ibid.


42. For example, the following limits were allowed at the discretion of Seattle Branch as of October 1, 1933.

<table>
<thead>
<tr>
<th>Dept.</th>
<th>Limits of Transaction</th>
<th>Credit</th>
<th>Usance of Draft</th>
<th>Deferred Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metal</td>
<td>¥ 30,000</td>
<td>10,000</td>
<td>up to 90 d/s</td>
<td>up to 60 d/s</td>
</tr>
<tr>
<td>Machinery</td>
<td>30,000 (sale)</td>
<td>10,000</td>
<td>up to 90 d/s</td>
<td>up to 60 d/s</td>
</tr>
<tr>
<td></td>
<td>50,000 (buy)</td>
<td>5,000</td>
<td>up to 90 d/s</td>
<td>4 m/s</td>
</tr>
<tr>
<td>Produce</td>
<td>100,000 (wheat)</td>
<td>15,000</td>
<td>up to 90 d/s</td>
<td>up to 60 d/s</td>
</tr>
<tr>
<td></td>
<td>60,000 (others)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fertilizer</td>
<td>10,000</td>
<td>1,000</td>
<td>up to 60 d/s</td>
<td>15 d/s</td>
</tr>
<tr>
<td>Mar. Prod.</td>
<td>4,500</td>
<td>1,500</td>
<td>90 d/s</td>
<td>60 d/s</td>
</tr>
<tr>
<td>Gen. Mds.</td>
<td>15,00</td>
<td>5,000</td>
<td>90 d/s</td>
<td>60 d/s</td>
</tr>
</tbody>
</table>

Source: Limit allowed at the Discretion of the Manager of Seattle Branch, October 1, 1933, R.G. 131 (Seattle), box 656.

43. Momotaro Miyagawa to Manager of San Francisco Branch, December 6, 1935, R.G. 131 (S.F.), box 652.

44. Shigezo Hayakawa to Manager of San Francisco Branch, July 17, 1935, R.G. 131 (S.F.), box 652.

45. Kyoichiro Noma, Manager of General Dept., Tokyo to Manager of San Francisco Branch, September 1, 1937, R.G. 131 (S.F.), box 652.

46. Shigezo Hayakawa to Manager of San Francisco, October 1, 1938, R.G. 131 (S.F.), box 652.


48. Takesaburo Kazama, Manager of New York Branch to Y. Yanase, Manager of General Dept., Tokyo, June 28, 1933, 131 (Seattle), G.F., 1921-41, no file folder, box 446.

49. Ibid.
50. Ibid.


CHAPTER 5
SELL "THREE DIAMONDS"
Although M.S.K. continuously tried to expand its transactions, it particularly made efforts to develop three product lines: lumber, silk, and marine products. It assumed the second position, next to M.B.K., in the transaction of silk; it always failed in the lumber business. In the case of marine products, M.S.K. surpassed other companies, and it was sometimes called "Mitsubishi of marine business." In this chapter, we will see how M.S.K. established its strong basis in the marine business, particularly in the canned crab business. By so doing, we can clarify the roles of the trading company and its overseas branches in the development of Japanese industry.

Traditionally, the fishing industry was characterized by instable production by many small firms in fierce competition with one another. M.S.K. tried to bring order to the industry by organizing these small fishery companies. Its method was to provide capital and a marketing organization. M.S.K. performed this in canned marine products, particularly canned salmon for the British market, and canned crabmeat for the United States market. Several types and grades of canned crabmeat were sold in the United States: king crab, blue crab, dungeness crab, and Korean crab. The Japanese canned crabmeat exported to the United States was mainly king crabmeat of the highest grade, Fancy.

The branches in the United States became an important part of the integration of production and marketing. The San Francisco and Seattle Branches, as well as the New York Branch, aggressively developed marketing activities. By directly appealing to consumers with their "Three Diamonds" brand, they tried to secure the market for Japanese marine products in order to have a stable flow of products from production to the final consumers.
The Involvement in the Reorganization of the Industry

Although the Japanese had started taking king crabs in the Sea of Japan in 1892, the industry developed in response to political events. The war with Russia opened new fishery grounds around Sakhalin, and the limitations of the domestic lobster catch in the United States opened a new market for Japanese crabs. In this situation, two types of canned crabmeat industries developed: the land and floating cannery industries. The land cannery industry developed first. After the Russo-Japanese War, Japanese fishermen started the canned crabmeat business on a small scale but production increased rapidly: about 30,000 cases in 1909, 60,000 cases in 1921, and more than 150,000 cases in 1926. In 1919 the Russo-Japanese Fishery Treaty was revised, and the fishing ground for crab was set in Kamchatka and the Maritime Province of Siberia. Such large companies as Nichiro Gogyo Kaisha (Nichiro Fishery Co.) and Hokuyo Gogyo Kaisha (Hokuyo Fishery Co.) made a successful bid, beginning to control the land cannery industry. In 1931 there were 26 land canneries in Hokkaido and 64 in Sakhalin. Over fishing had become a problem.²

The floating cannery industry also began developing some years later. In 1920 the first commercial floating cannery appeared in Japan, and the number soon increased to add to the conditions of instability. The Japanese government began to enforce a licensing system to conserve the resource. In 1921 there were already 11 companies which had 15 floating canneries with the production of 33,000 cases, expanding their operations into the Bering Sea. By 1930 there were 19 floating canneries in operation.³

Most fishery companies, both land and floating canneries, were small, and there was no overall control of either the size of crab catch, or the
sale of the canned product. Price competition was intense, leading to strategies of the consolidation of fishery companies. In the process of consolidation, M.S.K. played an important role because of its nature as a trading company.

Consolidation of land canneries, which started earlier, progressed under the leadership of Nichiro. M.S.K. gradually increased its power in Nichiro, and began controlling a large part of the sales of land canneries. Of the firms that operated in the Russian territory, all but 42 petty independent fisheries, and Hokuyo Gyogyo in which M.S.K. had invested, merged with Nichiro in 1921. This merger was promoted by the Japanese government as well as businessmen in order to meet the changing situation after the Russian Revolution. Through such a large company, the Japanese government hoped to have a competitive advantage over the Russians.

After this merger competition between Nichiro and Hokuyo became very intensive, and further consolidation was necessary. The Russians fished in troubled waters between these two competing companies. The buying price of red salmon from the native Russian increased from 6 sen at the time of merger to 45 sen. M.S.K. began considering the merger of Hokuyo with Nichiro. The Japanese Navy began developing the same idea from the point of view of the protection of Japanese fishermen. Thus, in November, 1922 Taihoku Gyogyo Kaisha (Taihoku Fishery Co.) was established as the joint venture between Nichiro and Hokuyo Gyogyo. M.S.K. had experienced the difficulties of operating the fishery company. So it transferred the fishing operation to Nichiro through Taihoku Gyogyo. M.S.K. assumed the functions of marketing and financing, and it helped the sales rights of all the products of Taihoku and all the products of
the east coast of Kamchatka produced by Nichiro. 6

However, this division of labor between M.S.K. and Nichiro did not last. M.S.K. gradually increased its voice in Nichiro's management. From late 1928 to 1930 Nichiro experienced unusual problems, conflicting with Tokuzo Shima. In order to solve these problems, M.S.K. used its financial and political power, and it had influential power in Nichiro. From late 1928 to the beginning of 1929, Shima, the former president of Nichiro and a famous stock broker, began selling the stocks of Nichiro. In order to meet this, Nichiro asked such customers as Sale, Flazer and Co. and M.S.K. to buy stocks. M.S.K. bought 30,000 shares and financed Nichiro's stock purchases, and it became one of the largest stockholders of Nichiro. 7

The struggle between Nichiro and Shima continued. In 1929 the Shima group successfully bid for seventy good fishing grounds out of one hundred twenty-seven, which had been bid by Nichiro. Knowing these grounds were necessary for Nichiro, Shima wanted to sell them to Nichiro at a higher price. The struggle between Nichiro and Shima was deadlocked. So, Momotaro Miyagawa, Chairman of M.S.K., asked Seinosuke Go to intervene. Go was a fixer of the Japanese business world and a friend of Shima. As a result of mediation by Go, Nichiro could buy the rights to these grounds, but its management resigned. M.S.K. and the London banking group financed Nichiro to re-establish its operation. M.S.K. increased its influence by sending management. Through these events, M.S.K. acquired the sole sales agency of all the products of Nichiro, except red and silver salmon of the west coast of Kamchatka, which were allocated to Sale, Flazer and Co. In this way, M.S.K. increased its control powers in finance, sales, and management as a whole of Nichiro. 8
In the floating cannery industry, M.S.K. played a much more important role. Through several consolidations, M.S.K. controlled almost all the sales of the industry. In 1927 the Japanese government and businessmen planned a large consolidation in order to prevent over-fishing and to keep up the market price. As the first step, M.S.K. promoted the consolidation of 6 companies into Showa Kosakusen Kaisha (Showa Floating Cannery Association). After 1924, M.S.K. had supplied member companies of Showa with funds for fishing and made consignment sales agreements. So, it was involved in this consolidation. Nine other floating companies consolidated into Nippon Kosakusen Kaisha (Nippon Floating Canneries Association). In 1930 four companies consolidated to form Higashi Kosakusen Kaisha (Higashi Floating Canneries Association) with the intention of integrating the operation at the east coast of Kamchatka.

After consolidation, Showa Kosakusen and Nippon Kosakusen wanted to control distribution as well as production. In 1928 they formed a joint sales company, Kani Kanzume Kyodo Hanbai Kaisha (Canned Crabmeat Sales Corporation) with Nichiro Gyogyo. The main objective of this company was to stabilize the market price by adjusting the output to the changing demand of the market. The three companies turned over their whole output to the sales company, and it sold the products under the fixed condition. However, M.S.K. made an agreement that it could exclusively sell the entire product of Showa Kosen. This sales company sold only to exporters in Japan, and it did not export. Products of other firms were sold to exporters in the Yokohama market.

However, Kani Kyohan became meaningless when in 1930 all the canned crabmeat of Nichiro went to the sales organization of M.S.K. Therefore,
Nippon Kosakusen proposed that Kani Kyohan deal with the products of Nichiro. After consideration, M.S.K. decided to export only 123,000 cases, which overseas branches were sure they could sell, and the remainder, about 102,000 cases, were to be reconsigned to Kani Kyohan. Thus, M.S.K. came to handle only the products for export while Kani Kyohan sold products to other exporters in the Yokohama market.

This agreement seemed to go well. But the Great Depression, which decreased the demand for canned crabmeat, disclosed the problem of the industry. Under the after-effects of the Great Depression in the 1930s, businessmen and government had to find a way to stabilize production and prices. However, through the decade, struggle between land canneries, backed by independent exporters, and floating canneries, supported by M.S.K., increased. In 1930, the industry was beset by oversupply of goods in the face of the depression. Floating canneries put up 400,000 cases, and land canneries packed 170,000 cases. This was too large a volume for profitable sales, especially in face of a Russian aggressive sales promotion in the United States market. So by the end of 1930 the Japanese producers had accumulated stocks reaching nearly 300,000 cases.

Again, M.S.K. aggressively embarked on solving this problem. The response by the Japanese Canned Crabmeat Packers was an arrangement. The Bank of Chosen, Colonial Bank, and M.S.K. extended loans to hold 200,000 cases of the year's pack off the market. The firms hoped that the scheme would insure profitable sales for 300,000 cases (the 1929 sales volume was 340,000). M.S.K.'s share of this financing was 50 percent. As the Journal of Commerce said, this plan was "formulated in order to restore stability to the crabmeat market in America, England, and other principal consumer markets of the world, where increasing
competition from Russian packed products is a factor to be reckoned with." \(^16\)

It was not an easy job to attain this objective. It was necessary to control the production and distribution of the industry as a whole. Land Canneries were particularly a problem. One third of the land cannery production came from Nichiro, with the majority coming from small firms. The quality of their products was generally inferior to those of floating canneries, and they used various kinds of distribution channels. They were unable to control production and sales volume. Such conditions required changes in the distribution system, even if the canners merged. Nippon Kosakusen, Showa Kosakusen, and Tatsunosuke Takasaki of Toyo Seikan Kaisha (Toyo Can Company) began advocating a unified sales company. At the general meeting of the Canned Crabmeat Packers Association, they established Nippon Kani Kanzume Kyodo Hambai Kaisha (Nippon Canned Crabmeat Sales Corporation) in March, 1931. This was called "New Kyohan" to distinguish it from Kyohan, established in 1927. At the same time, the old Kyohan was dissolved. \(^17\)

The New Kyohan, as a rule, sent its own representatives overseas and sold directly. As we will see later, they stationed them at the branches of M.S.K. in the United States. So M.S.K. increased its influence over New Kyohan. New Kyohan asked M.S.K. to cease the sales agency of Showa Kosakusen, Nichiro, Yagi, and Hayashikane, and to stop direct sales. However, all the export business affairs, including shipping, were given to M.S.K. M.S.K. reconsigned all the products to the New Kyohan, and it still continued to keep the sales rights for these companies' products and to finance them. M.S.K. received the commission of 1.5 percent of sales (2 percent in the case where M.S.K.
had a responsibility for sales credit). 18

Some opposed this agreement between M.S.K. and New Kyohan. The Canned Crabmeat Exporters Association, led by Ikuji Kato, insisted that the agreement was suicidal for the independent exporters. Because of this strong opposition, New Kyohan had to continue selling products on the Yokohama market, which in turn, were exported to the overseas market. This brought intense competition and price cutting. 19

In any event, the agreement to curb production was not observed. The struggle between land and floating canneries on the production limit increased. In 1931 the total production was 400,000 cases, instead of the planned limitation of 380,000 cases. In 1932 they strengthened the production limit, and both land and floating canneries decreased their production. But the struggle between two parties remained. Finally, in April, 1933 New Kyohan was split when floating canneries merged to establish Godo Kosakusen Kaisha (Godo Floating Canners Co.). This company took over more than half of the stocks of New Kyohan. Then negotiations between the land and floating canneries broke down. Land canneries withdrew from the New Kyohan, and formed Kyowakai Godo Hanbaisho (Kyowakai Joint Sales Bureau). 20 The New Kyohan, now meaningless, was dissolved. Godo Kosen consigned all its products to M.S.K. As M.S.K. financed the fishing, it received a commission of 2.5 percent of sales without responsibility for sales credit. The amount produced was 170,000 cases, and the sales proceeds reached ¥ 10 million ($ 2.5 million). This consignment continued until 1939. M.S.K. mostly exported directly to the United States. Kyowakai handled all the products of land canneries, but, without export facilities, it sold to M.B.K. and other exporters in Yokohama. This split continued until 1939 when Kani Kansume Hanbai Kaisah
(Canned Crabmeat Sales Corp.) was established. 21

Government policies began more directly to change this industry in the 1930s. In 1934 the Japanese government began enforcing the Marine Products Export Regulation Law in order to control reckless production and to coordinate supply and demand. This policy succeeded. Then when the undeclared war broke out in China in 1937, the government turned to fishery exports as a source of foreign currency needed for the military effort. In 1938, in spite of the fact that the overseas market was not so good, prices were kept high. Stocks reached 417,000 cases by the end of the year, and the stocks were expected to be 867,000 cases when the production of the next year was considered. The Japanese government decided to export these stocks aggressively in order to obtain foreign currency. It began to subsidize fishery companies with the condition that the land and floating canneries merge. Thus, in June, 1939, they merged to establish Canned Crabmeat Sales Corp. 22

This measure weakened M.S.K.'s position a little. This company took all the stocks of packers and sold them to M.S.K. and M.B.K. at the ratio 3 to 2. The position of M.B.K. was relatively increased. Nozaki and Domoto, which had overseas branches, were sold through M.B.K. and M.S.K. according to the ratio. They received a commission of 4 percent of sales including 1 percent commission for financing. 23

By the end of the decade the market system broke down because of the worsening international situation. The war prohibited imports of canned crabmeat to Europe, and the abrogation of the Treaty of Commerce with the United States effectively closed that market. So at the beginning of 1940 M.S.K. and M.B.K. shipped a large amount of products to the United States, but most of these products were frozen in July, 1940.
As canned crabmeat was too luxurious a product for war time, in 1941 most canneries stopped production. The industry produced only 11,300 cases that year.24

By governmental control the relative power of M.S.K. in the canned crabmeat business decreased. However, by that time, M.S.K. had controlled more than one-third of the land canneries and almost all the floating canneries production. M.S.K. attained this high degree of concentration in production in seeking orderly production and marketing. Its strong weapon was its function of financing canneries. However, controlling production was not enough to secure the stability of the industry. So M.S.K. embarked on the reorganization of the distribution system.

Development of Marketing System

By using its strong financial power, M.S.K. promoted consolidations of canned crabmeat packers. It increased influence over them in order to attain stability in production volumes. To achieve stability the firm needed to establish a sales system. But this was a difficult task. Other firms had already entered the United States market, established competing brand names, and could undersell M.S.K.'s "Three Diamonds" product.25

The Japanese began to market canned crabmeat in the United States in 1906. The trade expanded gradually, reaching $3,000,000 and 9,000,000 pounds in 1929 (see Table 5.1). M.S.K. entered the trade seriously in 1925 when it began to use the "Three Diamonds" label. The firm faced stiff competition, both from other Japanese firms that already established their names, and Russian sources.26
<table>
<thead>
<tr>
<th>Year</th>
<th>Japan Quantity</th>
<th>Japan Value</th>
<th>Other Countries Quantity</th>
<th>Other Countries Value</th>
<th>Total Quantity</th>
<th>Total Value</th>
</tr>
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<tbody>
<tr>
<td>1925</td>
<td>9,035</td>
<td>3,051</td>
<td>148</td>
<td>61</td>
<td>9,183</td>
<td>3,112</td>
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<tr>
<td>1926</td>
<td>7,916</td>
<td>3,679</td>
<td>392</td>
<td>91</td>
<td>8,308</td>
<td>3,770</td>
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<tr>
<td>1927</td>
<td>8,700</td>
<td>3,703</td>
<td>285</td>
<td>81</td>
<td>8,984</td>
<td>3,784</td>
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<tr>
<td>1928</td>
<td>12,744</td>
<td>5,030</td>
<td>31</td>
<td>13</td>
<td>12,775</td>
<td>5,042</td>
</tr>
<tr>
<td>1929</td>
<td>10,681</td>
<td>5,001</td>
<td>256</td>
<td>111</td>
<td>10,937</td>
<td>5,112</td>
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<td>1930</td>
<td>9,491</td>
<td>4,188</td>
<td>2,984</td>
<td>867</td>
<td>12,475</td>
<td>5,056</td>
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<tr>
<td>1931</td>
<td>8,391</td>
<td>3,449</td>
<td>1,871</td>
<td>555</td>
<td>10,261</td>
<td>4,004</td>
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<tr>
<td>1932</td>
<td>6,358</td>
<td>2,776</td>
<td>2,512</td>
<td>835</td>
<td>8,870</td>
<td>3,111</td>
</tr>
<tr>
<td>1933</td>
<td>6,943</td>
<td>2,057</td>
<td>2,583</td>
<td>836</td>
<td>9,526</td>
<td>2,893</td>
</tr>
<tr>
<td>1934</td>
<td>5,232</td>
<td>1,747</td>
<td>2,150</td>
<td>492</td>
<td>7,382</td>
<td>2,239</td>
</tr>
<tr>
<td>1935</td>
<td>8,783</td>
<td>3,070</td>
<td>2,001</td>
<td>427</td>
<td>10,784</td>
<td>3,497</td>
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<td>1936</td>
<td>7,305</td>
<td>2,568</td>
<td>1,714</td>
<td>360</td>
<td>9,019</td>
<td>2,928</td>
</tr>
<tr>
<td>1937</td>
<td>8,103</td>
<td>2,909</td>
<td>3,054</td>
<td>767</td>
<td>11,157</td>
<td>3,676</td>
</tr>
<tr>
<td>1938</td>
<td>5,974</td>
<td>2,213</td>
<td>1,840</td>
<td>528</td>
<td>7,814</td>
<td>2,741</td>
</tr>
<tr>
<td>1939</td>
<td>10,720</td>
<td>3,768</td>
<td>2,787</td>
<td>814</td>
<td>13,507</td>
<td>4,582</td>
</tr>
<tr>
<td>1940</td>
<td>10,709</td>
<td>3,269</td>
<td>1,162</td>
<td>328</td>
<td>11,861</td>
<td>3,597</td>
</tr>
</tbody>
</table>

a. Most years include negligible quantities of crab paste and crab sauce.

b. Soviet Union accounted for more than 85 percent each year.

The canned crabmeat business was carried on in very close cooperation among three branches in the United States: New York, San Francisco, and Seattle. The New York Branch worked as the center of the business, and it was practice to discuss all matters with the New York Branch in as much detail as possible. The New York Branch decided final policies and prices, and it gave various instructions with regard to handling this business to the San Francisco and Seattle Branches.

In the sales of canned crabmeat, each branch had its own territory. After the San Francisco office was established, the Seattle Branch covered Washington, Oregon, and Montana, a part of Idaho and Wyoming, and all of Western Canada. The San Francisco office covered California, Utah, Colorado, Texas, Arizona, and Mexico. The New York Branch covered the rest of the United States and Canada. They had basically two types of channels. One was sales to Japanese importers such as Domoto Shokai (North American Mercantile Company) and Nozaki Brothers. The other was direct sales to American chain stores and jobbers through more than ten brokers. Brokers received a three percent commission. M.S.K. also sold to hotels and restaurants, but the amount was negligible.

Before the Great Depression in 1929, M.S.K. followed a conservative policy in the sales of canned crabmeat in the United States. In order to develop the business, it insisted on stability in the sales policy. Price was not made the basis of sales competition. M.S.K. tried to impress upon its buyers the reliability of M.S.K. and the fact that it was carrying tremendous stocks, amounting to as much as $700,000 in 18 cities (30 cities by the war) that were located in strategic points. M.S.K. could make deliveries to buyers at a moment's notice. Through this quick and stable distribution of canned crabmeat M.S.K. stressed the
the protection of regular customers.  

This stable distribution was supported by some other policies: maintaining high quality and stressing a brand name. The maintaining of a high quality was necessary in establishing a brand name. As canned king crabmeat was a very new product, it was necessary to establish its brand for developing a new market. M.S.K. controlled packers, particularly large ones, in Japan. It was not depending upon the Yokohama market for supplies. Its sales were confirmed to the quality it knew would be available. This assured a uniformity of quality not obtainable in any other way. As the manager of the New York Branch insisted:

We are not depending upon outside sources for crabmeat and know definitely what we are selling when making a contract. From the start of our crabmeat business we have controlled our own goods and have not relied upon outside sources.

M.S.K. also stressed the importance of the brand. By establishing its brand, M.S.K. thought it could create a consumer demand that would force jobbers using other labels to handle "Three Diamonds."

These policies were particularly necessary when M.S.K. considered the changing situation of canned crabmeat distribution. In the 1920s chain stores rapidly grew, and they became a main outlet for M.S.K. It tried to develop the national distribution system through such large chain stores as A & P, First National Stores, Kroger, National Tea Company, and Safeway. By the end of the 1920s the chain store accounted for 40 percent of the retail food business in the United States. As chain stores became bigger, competition among them also increased. They wanted to deal with nationally advertised products to appeal to consumers. In addition, it was very important for them to acquire stocks and sell more quickly than independent small grocers. The stable supply of
qualified, nationally known products was very important to them.34

To M.S.K. a list of reliable chain stores was important, because it assured them an outlet for definite quantities each season. It also could increase the speed of the large and stable flow of stocks. These afforded M.S.K. the utmost protection in negotiation with packers. Through these chain stores its brand was constantly before a vast number of consumers and was always creating the goodwill so necessary to successful merchandising.35

As chain stores developed, price competition among Japanese importers of canned crabmeat increased. They wanted to develop the business with chain stores, so they cut prices. As we have already seen, in 1928 Showa Kosakusen, Nippon Kosakusen, and Nichiro Gyogyo formed the joint sales company in order to attain stability in production and market price. As this company did not export, it sold the products of three canneries to M.S.K. and other exporters like Domoto, Nozaki, and Komada. Therefore, even if the sales company sold them at the same price, their sales prices were different owing to the difference in their margin, transportation charge, etc. At the beginning of the sales company, M.S.K. noticed this problem. So it wanted to take all the products of the three companies on consignment in order to unify the sales system. However, this could not be attained because of opposition from independent exporters.36

Exporters tried to cooperate in setting the lowest price, and in 1927 M.B.K., Domoto, Nozaki, and Komada formed the Japan Canned Crabmeat Exporters Association. However, this attempt did not succeed because some exporters did not join. M.S.K. did not participate in this because it thought price stability could not be attained as long as the cooperation among packers was not secured. Besides, such foreign exporters as
Sale, Flazer and Co. were not members of this association.  

As M.S.K. and other exporters failed in solving price competition, by October, 1929 the New York Branch began considering the use of rebates. Rebates had been widespread in the grocery field, in doing business with chain stores. To obtain volume and increase turnover, meeting intense competition, it was necessary to develop outlets for huge quantities. M.S.K. thought that if a slight price concession would greatly stimulate sales, the concession would be justified. In the crabmeat business Domoto was allowing A & P, the nation's largest chain store, 2 percent as brokerage.

However, it was not easy for M.S.K. to secure the business of the important chains. "Geisha" and "Namco" brands were very widely advertised throughout the Eastern and Western part of the United States. They had created consumer demand for their brands. So most chain stores wanted to deal with these brands. Therefore, in order to handle "Three Diamonds" there would have to be a distinct price advantage to offset the increasing cost. M.S.K. could not establish a strong position in the United States until the Great Depression.

The Great Depression which began with the declines on the Stock Exchange in the late 1929 changed the situation drastically. Decreasing demand for canned crabmeat brought about intensive, cut-throat competition among importers. As canned crabmeat was a luxurious item, by November most chain stores had already issued instructions to their buyers to curtail purchases. Consumers began purchasing more staples. Under this situation, the matter of price became more important in the distribution of canned crabmeat, and price competition among Japanese importers became very intensive.
Such competitors as M.B.K., Nozaki, and Domoto tried to develop consumer demand for their brands through advertising and rebates. M.B.K. was the most powerful competitor of M.S.K. Its business with New York A & P, for example, declined simply because M.B.K. had a strong position; M.B.K. developed aggressive price cutting. Because it had a big unsold stock on the Pacific Coast, it was anxious to dispose of it. As Mitsui was far better known throughout the country than Mitsubishi, this was a real threat to M.S.K. M.B.K. aggressively sold its "Blue Flag" brand.41

In addition to these Japanese competitors, Russian products joined in the price competition. By December, 1930 the competition from Russian products became clear. As shown in Table 5.1, in 1930 imports from countries other than Japan increased from $110,000 in 1929 to $867,171. The Soviet Union accounted for over 85 percent of this increase. The Russians used special concession and advertising allowances, and the price of Japanese products became higher by $1.25 per case. At the beginning of 1931 the Russians began an extensive advertising campaign of their "Chatka" brand.42

Once a brand was displaced, recovery of the business was exceedingly difficult and reputation suffered severely, so M.S.K. had to meet the competition. As the manager of the New York Branch said, "The big problem confronting us is the maintenance of our established business."43 In order to increase the business, a well formulated plan was necessary. The San Francisco Branch developed three basic strategies: (1) to distribute larger quantities at a smaller profit per case, (2) to enter into price arrangements with the large buyers in order to secure their large volume of business, and (3) to consider a sliding price schedule to prevent the discrimination in prices whereby the smallest buyer received the
same price as the largest buyer.\textsuperscript{44} M.S.K. stressed price and quick turnover. These strategies were basically the same as those of department stores, mail order houses, and chain stores: mass sales with a small margin by increasing the turnover.\textsuperscript{45}

It was difficult for M.S.K. to meet competition only by developing its own sales strategies. It was necessary to control the distribution system of canned crabmeat as a whole if it wanted to control prices. However, it was almost impossible to do so because canned crabmeat was distributed through many channels, and because it was difficult to differentiate the products.

In 1930 Japanese manufacturers accumulated a lot of stock because of over-production, the depression, and competition from Russian products. Price competition among importers became much more intense. So manufacturers, as we have already seen, established New Kyohan to control price and production.\textsuperscript{46} As a principle, this company took a policy to send its own representatives overseas. In the United States, they stationed them at the branches of M.S.K. because M.S.K. did all the export affairs for them.\textsuperscript{47}

As New Kyohan could sell to other exporters than M.S.K. at Yokohama, they sold products with their own brands. This gradually ate the territory which M.S.K. established. M.S.K. wanted to stop the sales on the Yokohama market and control the business. However, because the Japan Canned Crabmeat Exporters Association developed a strong protest movement against the agreement between New Kyohan and M.S.K., they had to agree to continue selling on the Yokohama market. Besides, the struggle between floating canneries and land canneries meant that efforts to limit production failed. So, price competition among exporters continued.\textsuperscript{48}
In order to meet the situation, Japanese exporters, including M.S.K., M.B.K., Domoto, Nozaki, Furuya, and Yoshinaga agreed to discontinue their dealings in canned crabmeat in cases where they reduced selling prices by any means. But the arrangement was unenforceable, and price cutting continued. Other means to solve the problem were needed. As the manager of the New York Branch said:

As price competition which is still going on is very harmful, it is difficult to expect the development of this [canned crabmeat] business without remedying this practice. Fortunately, it became clear that the cause of this disease exists in Japanese exporters. There is no way to solve this problem as long as the existing sales system is continued because the price competition is done totally among Japanese exporters. Everyone can accept that necessity of the fundamental reform by returning it to the ideal at the time of establishing New Kyohan.

By March, 1932 New Kyohan had stopped the sales to exporters on the Yokohama market lest they should disturb the prices. They used canned crabmeat for financing means. As a result, only merchants who had branches in the United States could deal in the products. The amount of canned crabmeat handled by them accounted for 90 percent of the total exports to the United States. M.S.K. wanted to go far to exclude even them, by using an American agent like General Foods to stabilize the market. However, New Kyohan did not agree to this idea, and M.S.K. had to resign to this plan. Moreover, they had to begin the sales to independent exporters of the Yokohama market again because of the strong opposition from independent exporters. This struggle between M.S.K. and other exporters continued. Finally, in April, 1933 New Kyohan was split between the land and floating canneries, because they could not coordinate production limitations.

Although the price competition and split continued until 1939, the situation improved. By the middle of 1933 the drastic price revision
and aggressive advertising of Japanese crabmeat products evidently took
the Russians by surprise, and they did not promptly meet the Japanese
prices. Small differences in the price, for example, 50 cents per case,
was not sufficient to warrant buyers switching to Russian products be­
cause of the long established status of Japanese products. Besides,
there was a shortage of Russian products. They could not supply jobbers
to whom they were selling. As they were unable to deliver, M.S.K. and
other Japanese importers took advantage of the opportunity. (The Russian
products never accounted for more than 12 percent of the total canned
[\text{crabmeat imports}.^{53}] In addition, the governmental regulation by the
Marine Products Export Regulation Law and the establishment of Canned
Crabmeat Sales Corp. ended the reckless production and price competition.

The Creation of Consumer Demand

M.S.K. always tried to control the production and distribution of
canned crabmeat in order to stabilize the business. However, it was
impossible to control the flow of the products without securing the
consumer demand for them. The San Francisco and Seattle branches under
the control of the New York Branch tried to create demand and to win
goodwill from consumers, particularly by aggressive advertising and
sales promotions.

It was necessary to create demand because canned crabmeat was a new
product to Americans. Traditionally, in the United States almost the
entire products of crabmeat were put in unsealed tins, which were called
"fresh crabmeat." Products in unsealed tins were very perishable, and
they were sold almost entirely in coastal areas, principally by seafood
dealers. Because of its perishability and because relatively few retail
food stores were equipped to handle the products, the domestic fresh crabmeat could not have national distribution before World War II. Because of this, most of the production of fresh crabmeat was consumed in coastal states by restaurants, hotels, and clubs.\textsuperscript{54}

Imported canned crabmeat was completely different from domestic fresh crabmeat. Imported products were sealed in tins, which were called "canned crabmeat." As they were not perishable, it was possible to distribute them nationally. Consumers could buy at any time at a rather stable price. Canned crabmeat was distributed by retail grocery stores and consumed in homes.\textsuperscript{55}

As canned crabmeat was a new product to Americans, it was very important to establish a brand name among consumers. M.S.K. branches in the United States stressed the importance of brand almost from the beginning of the canned crabmeat business. From their experience, by 1925 they had found that it was very disadvantageous to sell in the United States canned crabmeat of the same cannery marked under different labels, because they competed against one another. For example, the same products with other brands invaded the Central and Eastern market, seriously affecting the canned crabmeat business of the New York Branch. Therefore, they endeavored to sell "Fancy" grade canned crabmeat labelled with the "Three Diamonds" brand.\textsuperscript{56}

It was not easy for M.S.K. to develop the business by establishing its brand name. When the branches of M.S.K. in the United States began the canned crabmeat business, such Japanese importers as Nozaki and Domoto had been in the business for years. They advertised their brands of canned crabmeat throughout the entire Western and Eastern United States, particularly in the New England, New York, and California markets.
In large cities they used billboard advertising. In some cities they put up their "Geisha" and "Namco" brands of canned crabmeat in small glass jars, distributing them to thousands of customers free of charge. They also used newspaper advertisements, as well as distributing large calendars to various buyers. These activities succeeded in creating consumer demand. "Geisha" and "Namco" brands were known to consumers much better than "Three Diamonds."\(^{57}\)

In order to meet this situation and penetrate the market, it was necessary to advertise the "Three Diamonds" brand. As the manager of the Seattle Branch said:

> The demand for such a product as our canned crabmeat must be created by advertising. No matter how fine the quality of our canned crabmeat may be or at how low a price we sell, the consumer will not request our Brands of Canned Crabmeat unless they are made known to them and it is only through advertising that a large demand for our Canned Crabmeat would be created. The consumer would pass their request for our Brands to the retailers and the retailers in turn would pass their request to the wholesaler and thus the wholesaler would be obliged to buy our Canned Crabmeat and would undoubtedly be satisfied with the sale of same. . .\(^{58}\)

By advertising its brand directly to consumers, M.S.K. wanted to keep control over jobbers and chain stores in order to get a secure market. We can see the same kind of situation in some other products. For example, in the cigarette and other products sold in the grocery, drug, and hardware trade, where outlets were dispersed and there was no particular marketing problem, the role of advertising was very important for manufacturers to develop demand for their products. As a result, the distributors' status deteriorated, because they became simply carriers of the products.\(^{59}\) However, M.S.K. and other Japanese importers limited their advertising to regional markets until they had a hard time caused by the Great Depression and the Russian competition.\(^{60}\)
The Great Depression in 1929 and strong competition from Russian products in 1930 changed the ideas of M.S.K. drastically. Price competition among importers and chain stores increased. Now the real problem to M.S.K. was to create and maintain an effective consumer demand for their brand. By this time, most Americans were accustomed to the use of canned food. They could not use crabmeat just because of the distribution problem of domestic fresh crabmeat. Therefore, there was a huge demand which M.S.K. had to awaken by an intelligent advertising campaign.61

Competition among retail merchants, including chain stores, for public patronage was extremely keen, and profit margins became small. For this reason, these merchants were giving the utmost study to the question of turnover and endeavoring to eliminate all items which did not sell rapidly.62 In this process, unadvertised brands were discarded. While the unit margin of profit on advertised brands was low, the volume was great enough to offset this factor. Consumer buying habits had changed. Progressive firms and various associations through extensive advertising campaigns educated the public to buy branded, advertised products.63 Unknown brands were becoming more difficult to sell. The retailers favored advertised brands and were reluctant to handle those unknown to consumers. Retail merchants could not afford to ignore the demand of their customers. By making M.S.K.'s brand known to the actual consumers and keeping it constantly before them, the firm could gain a tremendous advantage and secured a position which competitors could not break down.64

Because of the depression and the strong competition from Russian products, the importation of canned crabmeat from Japan actually decreased. During September, 1931 it was 3,240 cases. This was an unprecedented low. In addition, Russian products began changing their style of
advertising. They abolished the name of the Soviet Union and advertised only the "Chatka" brand, considering the feeling of Americans against the Soviet Union. It became difficult for consumers to distinguish between Russian and Japanese products. Therefore, if New Kyohan advertised Japanese products as a whole, it would also increase the sales of Russian products. So they decided to advertise the brand of each Japanese company, as well as general advertising of Japanese products as a whole.65

They started a campaign with a national advertising in the Good Housekeeping-Magazine of January, 1932.66 The housewife was the chief purchaser of canned crabmeat, and it was to her that all the advertising was directed.67 General advertising was done by local representatives of New Kyohan, and they used various kinds of media. The representative in San Francisco used the N.B.C. radio network with the aid of N. W. Ayer and Son on the Pacific Coast. It was done for ten weeks from September 18, 1930 and February 19, 1931, respectively.68 Through these programs they gave the listeners a recipe booklet. They used newspaper advertising on the evening preceding the radio broadcast. They also used the Sunset Magazine. They held recipe contests. Recipes played a very important role, because canned crabmeat was new to many customers. By developing its new use, they could create a new demand. So they always stressed the new use of canned crabmeat in developing recipes in almost any kind of advertisement.69

Along with this general advertising, each importer did its own advertising and sales promotions to stress its own brand. Importers like M.S.K., M.B.K., Domoto, and Nozaki asked the packers ¥ 1 (49 cents per case for advertising. As, so far, this advertising allowance had been
used as means for cutting price, the representatives of New Kyohan required all the importers to submit the advertising plan to check on their activities. Thus, M.S.K. and other Japanese importers began an aggressive advertising campaign from late 1931 to the Lenten season of 1932. For example, in October the Seattle Times Electric Cooking School was held in Seattle. The Seattle Branch joined this. A home economist talked on the use and advantages of Japanese canned crabmeat, particularly "Three Diamonds," and the director of cuisine for the Milwaukee Railroad demonstrated cooking which used canned crabmeat. They also had a session of cake and pie baking contest, and "Three Diamonds" was given as a prize. The Seattle Branch also displayed M.S.K. brands in conjunction with George A. Jensen and Company, the broker of Nozaki in Seattle. They gave a printed program to each patron. It contained recipe books and other literature. Jensen furnished copies of a booklet picturing and describing the "Geisha" brand and containing many recipes for the use of this commodity.

M.S.K. sometimes developed advertisements with the manufacturers of other products and retail stores. It developed cooperation with Kraft Mayonnaise. Canned crabmeat was mainly used for salad in which mayonnaise was used. Kraft stressed the national advertising and newspaper advertising with which the Japanese Deep-Sea crabmeat was associated. It stressed the Japanese crabmeat-Kraft Mayonnaise combination. Window strips and counter cards were also used to feature the combination with Japanese crabmeat, saying, "The combination special should be put on sale with crabmeat brands marked 'Packed in Japan' on the label; no others should be used." Kraft advertised in 500 newspapers throughout the country, in which they mentioned crabmeat recipes. M.S.K. worked with Nalley's
Mayonnaise in the same manner.  

The Seattle Branch used other media, too. It took the matter up with the P.S.O. Stores, and arranged for them to include and advertise M.S.K.'s canned crabmeat in their Store News and newspaper advertisements. It used the same medium, for example, Weekly Food Chats, published by Augustine & Kyer, manufacturers' selling agent. Both the San Francisco and Seattle Branches used newspaper advertisements. A small newspaper advertisement was very useful to get an immediate effect. So they developed a small newspaper advertising campaign continuously.

By this aggressive advertisement, M.S.K. could penetrate the market with its "Three Diamonds" brand as well as Japanese canned crabmeat in general. This effort worked well, and they defeated the competition from Russian products. After 1937 the United States domestic production of canned crabmeat began on the large scale. However, because of the long-established market positions, achieved by advertising and a distribution system allowing immediate delivery, as a report by the United States Tariff Commission said, M.S.K. and other Japanese importers could keep their strong position. However, the total consumption of canned crabmeat did not increase because of the after-effect of the depression.
Notes for Chapter 5

1. M.S.K. controlled the canned salmon industry much more than the canned crabmeat industry. However, as canned salmon was not exported until 1937 to the United States because the domestic production of the United States was large. Therefore, we deal with only canned crabmeat which was very important to the activities of the branches of M.S.K. in the United States. The situation of canned salmon was very similar to that of canned crabmeat. United States Tariff Commission, Crab Meat, Report No. 57, Second Series (Washington, D.C., 1933), pp. 1, 5. Mansel G. Blackford, Pioneering a Modern Small Business: Wakefield Seafoods and the Alaskan Frontier (Greenwick, 1979), p. 3.


4. The Russian Revolution had a big influence over the Japanese fishing in the Russian territory. The assets in Russia of Denby and Co., the leading fishery company in the production of canned salmon was taken over by the revolutionary government. Denby wanted to re-establish its business by cooperating with a Japanese powerful trading company because he did not want to be acquired by Japanese competitors such as Tsutsumi & Co., Yushutsu Shokuhin Kaisha (Provision Exporting Co.), and Nichiro. As a result, Hokuyo Gyogyo was established as a joint between M.S.K. and Denby. On the other hand, Seiroku Tsutsumi, who established Tsutsumi & Co. in 1906, had been seeking the total consolidation of the Japanese fishery companies in the Russian territory to stabilize the operation and to meet the changeable foreign relations. Finally, he promoted the big consolidation of Tsutsumi & Co., Nichiro, and Yushutsu Shokuhin into New Nichiro, which accounted for 67 percent of fishing in the Russian territory. This movement to consolidation was supported by the Japanese government because it was easy to protect national interests through such a large company against the rise of socialistic nationalized company and new policy of the Soviet government. As for the development of the fishery industry in the Russian territory and the relationship between business and government, see Yasuo Mishima's eminent study. Yasuo Mishima, Hokuyo Gyogyo no Keieishiteki Kenkyu (The Study on the Business History of Northern-Seas Fishery) (Kyoto, 1971), particularly, pp. 1-70, 88, and part II.


6. Ibid., pp. 174-175.

8. Ibid., pp. 105-135. In this event, M.S.K. expanded its sales right into pink salmon of the west coast of Kamchatuka and all the canned crabmeat, ibid., p. 134.

9. Provision Department, Tokyo to New York Branch (telegram), November 7, 1927, R.G. 131, (S.F.), Marine Products (hereafter cites as M.P.), 1927, "1-c Crabmeat 1927."


11. Provision Department, Tokyo to New York Branch (telegram), November 7, 1927.

12. Yuko Tanakamaru, Manager of Provision Department, Tokyo to the Chief of San Francisco Representative Office, January 9, 1928, R.G. 131, (S.F.), M.P., "1-Crabmeat 1927." The number of stocks of each company was as follows: Yagi 12,780 stocks, Taisei 13,440 stocks, Hayashikane 9,060 stocks, M.S.K. 4,720. Jitsugyo Boeki-roku, p. 588.


15. Ibid., p. 578.


17. M.S.K., Jitsugyo Boeki-roku, p. 578. The ratio of the stocks was:

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nippon Kosen</td>
<td>18,000 stocks</td>
</tr>
<tr>
<td>Higashi Kosen</td>
<td>10,000</td>
</tr>
<tr>
<td>Hokkaido, etc.</td>
<td>11,500</td>
</tr>
<tr>
<td>Showa Kosen</td>
<td>10,000</td>
</tr>
<tr>
<td>Nichiro</td>
<td>8,000</td>
</tr>
<tr>
<td>Hayashikane</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60,000</strong></td>
</tr>
</tbody>
</table>

18. Ibid., p. 578.

19. Ibid., p. 579.

20. Ibid.

21. Ibid.

22. Ibid., p. 576, 575.

23. Ibid.

24. Ibid., pp. 576, 577.
25. Some exporters such as Komada, Domoto, Nozaki, and others had branches in the United States. Therefore, they were exporters as well as importers.


27. Important Documents and Papers Transferred from Nasu to Takeuchi, "Business under Jurisdiction of Marine Products Dept. (Seattle)," March 31, 1935, R.G. 131, (Seattle), F.S., box 484, loose papers.


32. M.S.K. made a plan to cover the whole country using the following chain stores. They also stress the danger to rely on one particular chain store.

<table>
<thead>
<tr>
<th>Name of Store</th>
<th>Number of Stores</th>
<th>Territory</th>
</tr>
</thead>
<tbody>
<tr>
<td>A &amp; P</td>
<td>18,000</td>
<td>East of Rocky Mts.</td>
</tr>
<tr>
<td>First National Stores</td>
<td>2,000</td>
<td>New England</td>
</tr>
<tr>
<td>National Grocery Co.</td>
<td>900</td>
<td>New Jersey</td>
</tr>
<tr>
<td>American Stores Co.</td>
<td>2,500</td>
<td>Pennsylvania and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New Jersey</td>
</tr>
<tr>
<td>Daniel Reeves</td>
<td>700</td>
<td>New York City</td>
</tr>
<tr>
<td>Kroger</td>
<td>5,300</td>
<td>Southwest</td>
</tr>
<tr>
<td>National Tea Co.</td>
<td>1,600</td>
<td>Middle West</td>
</tr>
<tr>
<td>Safeway Stores</td>
<td>2,000</td>
<td>Pacific Coast</td>
</tr>
<tr>
<td>McMarr Stores</td>
<td>1,100</td>
<td>Pacific Coast</td>
</tr>
<tr>
<td>D. Pender Grocery Co.</td>
<td>400</td>
<td>South</td>
</tr>
</tbody>
</table>


35. Manager of New York Branch to Manager of Provision Dept., Tokyo, October 17, 1929, R.G. 131 (S.F.), "1-B Canned Crabmeat-General 1930."

36. Tanakamaru to Chief of San Francisco Representative Office, January 9, 1928, R.G. 131 (S.F.), M.P., "1-C Crabmeat 1927."

37. Tanakamaru to Chief of San Francisco Representative Office, February 7, 1928, R.G. 131 (S.F.), M.P., "1-C Crabmeat 1927."

38. PDN, New York Branch to Harry L. Whitte, Mohr-Witte Co., Cincinnati, Ohio, March 21, 1929, R.G. 131 (S.F.), M.P., "4 Copies of Seattle Correspondence 1929."


42. San Francisco Branch to New York Branch, September 27, 1930.


44. Memorandum to Nasu on Canned Crabmeat Distribution, February 4, 1930, R.G. 131 (S.F.), M.P., "1-B Canned Crabmeat General 1930."


49. Memorandum on the Agreement Regarding Canned Crab Prices, no date (c. November, 1930), R.G. 131 (S.F.), M.P., "1930 Canned Crabmeat."
There were several types of allowances: (1) advertising allowances, (2) quantity discounts, (3) local feature services, (4) cost savings agreements, (5) floor space rental agreements, (6) sign space rental agreements, and (7) special newspaper supplement sales. M. A. Adelman, A & P: A Study in Price-Cost Behavior and Public Policy (Cambridge, 1959), p. 133.


51. Ibid.

52. Manager of New York Branch to Manager of Marine Products Dept., Tokyo, June 6, 1933, R.G. 131 (S.F.), M.P., 1932, "1932 Russian Crabmeat."


54. Ibid., p. 23. United States Tariff Commission, Crab Meat, Report No. 57, 1933, pp. 3,6. This can be seen in canned oranges. The American never developed canned oranges while the Japanese changed its concept by developing canned oranges.


57. Manager of Seattle Branch to Manager of Provision Dept., July 27, 1927.

58. Ibid.


60. Memorandum to Nasu, February 4, 1930.

62. This is the basic principle of chain stores. Lebhar, Chain Stores, Chap. 5.


64. There were several grades of king crabmeat which was mainly imported canned crabmeat. Imports from Japan were mainly "Fancy" and "Passed A," higher grades. M.S.K. sold "Fancy" with "Three Diamonds" and "Passed A" with "Iceberg," but it sold "Fancy" mostly.

65. Nasu to Manager of New York Branch, October 27, 1931, R.G. 131 (S.F.), M.P., 1931, "1931 King Crab Advertising General Correspondence."

66. New York Office of Japan Canned Crab Packers and Exporters Association to Importers, no date (c. December, 1931), R.G. 131 (S.F.), M.P., 1931, "1931 Good House Keeping Advertising (King Crab)."


68. Manager of San Francisco Branch to Manager of Marine Products Dept., Tokyo, R.G. 131 (S.F.), Marine Products, 1931, "1931 King Crab Advertising General Correspondence."


70. Nasu to Manager of New York Branch, October 27, 1931.


73. Kelly Clarke Co. to Bert Levi, Bert Levi Distributing Co. (copy), March 5, 1932, R.G. 131 (S.F.), "1931 Crabmeat Advertising 'Three Diamonds' Miscellaneous."

74. Manager of Seattle Branch to Manager of San Francisco Branch, February 17, 1932, R.G. 131 (S.F.), M.P., "1931 Three Diamonds Advertisement Seattle."

CHAPTER 6

THE PERIOD OF INSTABILITY, 1935-1940

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From 1935 to 1940, when Shunichi Takeuchi was manager of both the San Francisco and Seattle Branches, the business environment rapidly changed. As the general relationship between the United States and Japan worsened, the result for business was tightened foreign exchange controls. Competition among trading companies intensified, and they all suffered a shortage of ship space. To meet these problems, M.S.K. cooperated with Nippon Yusen to win special rates, with Kirin Beer to construct a new beer company, and with Toyo Kohan (Toyo Sheet Metal Co.) and Toyo Seikan (Toyo Can Co.) to solve the problem of foreign exchange.

The activities of the San Francisco and Seattle Branches were influenced by these movements inside and outside of the company. As Japan developed a war economy, the trade pattern of the branches rapidly changed. The export of war related materials, like oil and scrap iron, increased, while imports from Japan decreased. The firms tried to develop domestic American transactions, and they turned to non-Japanese sources for import goods. This changing pattern of trade led to changing patterns of the development of the two branches. The San Francisco Branch opened representative offices in Mexico and Los Angeles, while the business of the Seattle Branch decreased. Takeuchi adjusted to these conditions by reorganizing both branches.

Trade in the Unstable Period

As was the case with other overseas branches of M.S.K., both the San Francisco and Seattle Branches did four types of transactions: exports to Japan, imports from Japan, trade within the host countries (in the case of the San Francisco and Seattle Branches, within the United States), and trade between countries other than Japan. After the outbreak
of the Sino-Japanese War in 1937, as Japan developed a war economy, ex-
ports to Japan of such products as oil and scrap iron increased. War
related materials were the main items of both branches. On the other
hand, because of the depression and the increasing anti-Japanese feel-
ing in the United States, the shortage of shipping space, and longshore-
men's strikes, it became difficult to develop imports from Japan. To
compensate, both branches tried to develop trade in the United States
and between countries other than Japan. Although they failed in the
former effort, they did develop the latter slightly\(^1\) (see Tables 6.1
and 6.2).

The first and more important type of trade was exports to Japan.
As the war in China continued, the United States became the most impor-
tant supplier of war materials for Japan. The San Francisco and Seattle
Branches came to play an important role in exporting these materials to
Japan. This trend became obvious after 1937, when the Japanese govern-
ment intensified the foreign exchange control and the exportation of
civilian goods became almost nil. The main item of the San Francisco
Branch was oil products, which accounted for more than 90 percent of the
exports handled by San Francisco until the \textit{de facto} embargo by the United
States government. It exported mainly fuel and crude oil to the Japan-
ese Navy and, later, to the Kyowa Kogyo Kaisha (Kyowa Mining Co.).\(^2\)
However, it was dangerous for M.S.K. to rely completely on this kind of
transaction because trade with the Navy was based on bidding. So, it
wanted to develop new lines, such as lubricant oil and crude oil for
private companies in Japan. The bunkering of oil for foreign ships in
Japanese ports also increased. M.S.K. made an agreement with M.B.K. and
Rising Sun to share this business equally. Because of the development
Table 6.1
The Trend of Business at the San Francisco Branch
(In thousands of dollars)

<table>
<thead>
<tr>
<th>Term</th>
<th>Import from Japan</th>
<th>Export to Japan</th>
<th>Trade in U.S.</th>
<th>Trade between Countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>35 (4/35-9/35)</td>
<td>4,003 (32.9)</td>
<td>7,250 (59.6)</td>
<td>352 (2.9)</td>
<td>561 (4.6)</td>
<td>12,166</td>
</tr>
<tr>
<td>36 (10/35-3/36)</td>
<td>3,982 (28.8)</td>
<td>8,377 (60.5)</td>
<td>143 (1.0)</td>
<td>1,337 (9.7)</td>
<td>13,839</td>
</tr>
<tr>
<td>37 (4/36-9/36)</td>
<td>4,068 (35.5)</td>
<td>6,416 (55.9)</td>
<td>-</td>
<td>-</td>
<td>11,469</td>
</tr>
<tr>
<td>38 (10/36-3/37)</td>
<td>4,914 (19.8)</td>
<td>17,702 (71.3)</td>
<td>84 (0.3)</td>
<td>2,127 (8.6)</td>
<td>24,827</td>
</tr>
<tr>
<td>39 (4/37-9/37)</td>
<td>3,019 (14.2)</td>
<td>16,177 (76.3)</td>
<td>286 (1.3)</td>
<td>1,729 (8.2)</td>
<td>21,205</td>
</tr>
<tr>
<td>40 (10/37-3/38)</td>
<td>3,343 (12.4)</td>
<td>21,035 (77.9)</td>
<td>239 (0.9)</td>
<td>2,387 (8.8)</td>
<td>27,005</td>
</tr>
<tr>
<td>41 (4/38-9/38)</td>
<td>2,707 (9.0)</td>
<td>26,751 (88.5)</td>
<td>125 (0.4)</td>
<td>656 (2.2)</td>
<td>30,239</td>
</tr>
<tr>
<td>42 (10/38-3/39)</td>
<td>1,798 (4.2)</td>
<td>36,231 (84.1)</td>
<td>159 (0.4)</td>
<td>4,018 (11.2)</td>
<td>43,106</td>
</tr>
<tr>
<td>43 (4/39-9/39)</td>
<td>2,402 (5.5)</td>
<td>35,116 (80.2)</td>
<td>-</td>
<td>6,215 (14.2)</td>
<td>43,775</td>
</tr>
<tr>
<td>44 (10/39-3/40)</td>
<td>2,260 (4.1)</td>
<td>42,087 (76.7)</td>
<td>-</td>
<td>10,330 (18.8)</td>
<td>54,877</td>
</tr>
<tr>
<td>45 (4/40-9/40)</td>
<td>1,454 (3.0)</td>
<td>38,608 (80.2)</td>
<td>-</td>
<td>8,048 (16.7)</td>
<td>48,110</td>
</tr>
<tr>
<td>46 (10/40-3/41)</td>
<td>1,339 (2.0)</td>
<td>60,084 (89.2)</td>
<td>-</td>
<td>5,978 (8.9)</td>
<td>67,396</td>
</tr>
</tbody>
</table>

a. The amount includes purchase and sales contracts concluded.

### Table 6.2
The Trend of Business at the Seattle Branch
(In thousands of dollars)

<table>
<thead>
<tr>
<th>Term</th>
<th>Import from Japan</th>
<th>Export to Japan</th>
<th>Trade in U.S.</th>
<th>Trade between Countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>36 (10/35-3/36)</td>
<td>2,900 (76.5)</td>
<td>390 (10.3)</td>
<td>-</td>
<td>500 (13.2)</td>
<td>3,790</td>
</tr>
<tr>
<td>37 (4/36-9/36)</td>
<td>2,610 (63.2)</td>
<td>720 (17.4)</td>
<td>-</td>
<td>800 (19.4)</td>
<td>4,130</td>
</tr>
<tr>
<td>38 (10/36-3/37)</td>
<td>3,600 (55.5)</td>
<td>790 (12.2)</td>
<td>1,350 (20.8)</td>
<td>750 (11.6)</td>
<td>6,490</td>
</tr>
<tr>
<td>39 (4/37-9/37)</td>
<td>4,830 (80.5)</td>
<td>680 (11.3)</td>
<td>-</td>
<td>490 (8.2)</td>
<td>6,000</td>
</tr>
<tr>
<td>40 (10/37-3/38)</td>
<td>2,865 (69.0)</td>
<td>245 (6.0)</td>
<td>1 (0.02)</td>
<td>1,008 (24.5)</td>
<td>4,119</td>
</tr>
<tr>
<td>41 (4/38-9/38)</td>
<td>538 (27.0)</td>
<td>263 (13.2)</td>
<td>39 (2.0)</td>
<td>1,156 (57.9)</td>
<td>1,996</td>
</tr>
<tr>
<td>42 (10/38-3/39)</td>
<td>2,225 (57.0)</td>
<td>323 (8.3)</td>
<td>56 (1.4)</td>
<td>1,302 (33.3)</td>
<td>3,906</td>
</tr>
<tr>
<td>43 (4/39-9/39)</td>
<td>3,435 (57.0)</td>
<td>798 (13.2)</td>
<td>13 (0.2)</td>
<td>1,781 (29.6)</td>
<td>6,027</td>
</tr>
<tr>
<td>44 (10/39-3/40)</td>
<td>6,379 (69.7)</td>
<td>840 (9.2)</td>
<td>287 (3.1)</td>
<td>1,653 (18.1)</td>
<td>9,159</td>
</tr>
<tr>
<td>45 (4/40-9/40)</td>
<td>5,441 (46.6)</td>
<td>503 (4.3)</td>
<td>233 (2.0)</td>
<td>5,510 (47.1)</td>
<td>11,687</td>
</tr>
<tr>
<td>46 (10/40-3/41)</td>
<td>3,980 (69.9)</td>
<td>367 (6.4)</td>
<td>175 (3.1)</td>
<td>1,175 (20.6)</td>
<td>5,697</td>
</tr>
<tr>
<td>47 (4/41-9/41)</td>
<td>793 (10.1)</td>
<td>235 (3.0)</td>
<td>7 (0.1)</td>
<td>6,826 (86.9)</td>
<td>7,859</td>
</tr>
</tbody>
</table>

a. The amount is contracts included, which is the concept of sales and purchases. The transaction amount is the concept of accounting, which has already processed, that is shipped.

**Source:** Report on the Operation of the Seattle Branch, the 37th Term to the 48th Term, R.G. 131 (Seattle), F.S., 1921-41, box 484.
of the oil business, M.S.K. suffered chronically from a short supply from Associated. M.S.K. began secretly conducting a survey of the possibilities of new relations with other oil companies like Caltex. The firm also moved to strengthen its ties with Associated through personal overtures to its executives, and arranging for Associated to station a representative in Tokyo to handle the increasing business.

Scrap iron and steel became important export items for the San Francisco Branch. As the Axis Powers developed their war economies, scrap iron and steel on the East Coast and Mexican Gulf markets were exported to Europe, and the Western market became gradually more important to Japan. In the case of scrap iron, headquarters to the New York Branch issued buying orders, which in turn, allocated proper amounts to the branches on the West Coast. However, allocation of foreign exchange and the shortage of cargo space retarded the scrap metal trade.

San Francisco handled goods which were not directly related with war. In February, 1939 M.S.K. started the transaction of California raw cotton, and it became an important item of export to Japan, particularly after the independence of the Cotton Department at headquarters in April, 1939. The San Francisco Branch developed two basic policies for the cotton business, in order to meet the increasing difficulty of exporting to Japan because of foreign exchange restrictions. One was to expand international transactions, and the other was to develop communication with such branches as Sydney, Bombay, Manila, and Santiago, because there was a prospect of beginning transactions among them.

The San Francisco Branch also handled such export goods as frozen shrimp, which Nippon Suisan (Nippon Marine Products Co.) began in the early 1935, and salt for Nichiro Gyogyo. It also handled machine tools
for arms-making and pig iron for Nippon Steel Co. However, generally, because of foreign exchange restrictions the transactions of civilian goods had become almost nil by 1939.⁶

The business structure of the Seattle Branch changed. Traditionally, its main export items were lumber, wheat, and wheat flour. In the case of wheat, due to high prices of Canadian and American wheat, it was difficult to export to Japan in competition with Australian and domestic wheat. The Seattle Branch could export them only when there was a struggle on the tariff rate on wheat between Japan and Australia. As for lumber, the Seattle Branch constantly exported to Japan, accounting for 7 or 8 percent of the total exports of lumber to Japan.⁷ On the other hand, scrap iron and steel became important items, retarded by the shortage of ship space. As the Japanese metal refining industry progressed, the Seattle Branch tried to handle nickel and other materials for Mitsubishi Kogyo and Sumitomo Kinzoku Kaisha (Sumitomo Metal Co.).⁸

The second type of transaction was imports from Japan. After 1932 the diversification of Japanese exports to the United States began. M.S.K. branches handled various kinds of miscellaneous goods. Compared with the export business, the weight of this type of trade at the San Francisco and Seattle Branches was not large. However, after the outbreak of the Sino-Japanese War, it became less because Japanese export industries suffered from shortages of materials, and because anti-Japanese feeling increased in the United States.

In the oil and fat and fertilizer businesses, the San Francisco Branch handled such products as vegetable oil, fertilizer, feed, hardened oil, canned goods, fabrics, beer, and chemicals.⁹ As M.S.K. gradually established the transaction system of vegetable oil centering on the
Osaka Branch, the San Francisco Branch established the trade. In August, 1936 the United States imposed an excise tax on vegetable oil, and the trade stopped. But when prices of domestic oils rose, M.S.K. resumed trade in vegetable oil. The San Francisco Branch handled sulphate of ammonia and other chemical fertilizers at the beginning of this period. However, after the Japanese government prohibited the export of chemical fertilizer, the transaction of fertilizer came to be limited to fish fertilizer like sardine meal.

The Marine Products Department of the San Francisco Branch imported various kinds of canned goods. Above all, canned crabmeat was the most stable and important one, although it suffered from a stagnant market and boycotts of Japanese goods, competition from domestic and Russian products, and the Robinson-Patman Act, which regulated retail price competition. The San Francisco Branch during this period began handling the business of canned salmon of Nichiro Gyogyo, frozen tuna fish of Shinko Suisan Kaisha (Shinko Marine Products Co.), and sea bass of Kyodo Gyogyo.11

The San Francisco Branch also handled various miscellaneous goods. Kirin Beer was one of them. As soon as prohibition ended in 1933, M.S.K. obtained the sole agency to sell Kirin Beer in Hawaii and California where the Japanese population wanted to drink Japanese beer. Although the transaction amount was small, it was very profitable. The San Francisco Branch diversified in the transactions of cotton fabrics and gloves, fish nets, fitting pipes, wire ropes, bulbs, chemicals, canned mandarin oranges, iron pipes, and lumber.12

Political events shaped these activities. With the outbreak of the China War, anti-Japanese feeling grew in the United States. The United States was still suffering from the Great Depression. The result was
a quota system for cotton and silk products that gradually reduced the volume of imports from Japan.

At the Seattle Branch wire rope, fertilizers, and glass were important items imported from Japan. During this period, the Seattle Branch established its status in the transaction of fertilizer and feed. It had good relationships with local fertilizer companies. However, this business was not so stable, varying according to farming conditions. In the case of glass and wire rope, as the demand in Japan was increased, manufacturers could not supply enough products to the United States market. So, the Seattle Branch could not develop these lines. The Seattle Branch could handle products like canned crabmeat, pig hair of Mango Shokusan to local paint brush manufacturers, bicycle parts, bulbs, Tsuchiya footwear without much effort.

As was the case with the San Francisco Branch, the Seattle Branch also suffered from anti-Japanese feeling. In addition, because of domestic demand in Japan and shortages of materials, Japanese manufacturers sometimes had to reject the transactions even if the Seattle Branch had contracted for them. So, imports from Japan diminished to less than 10 percent of the total transactions of the Seattle Branch.

In order to compensate for the decrease in trade, particularly imports from Japan, both the San Francisco and Seattle Branches developed the third type of transaction: trade between countries other than Japan. They developed trade mainly between China and Manchukuo and the United States. After December, 1932 when M.S.K. made a sole agency agreement with Associated to sell its products in Manchukuo and China, the San Francisco Branch began handling kerosene and crude oil to the Manchurian Petroleum Co. In late 1938, as the military situation stabilized in
North and Middle China, the Tientsin, Chintau, Shanghai, and Dairen Branches began aggressive oil transactions, they competed with Standard, Shell, and Texaco, which had established their business there. The San Francisco Branch also handled vegetable oil and fertilizer between China and Manchukuo and the United States.

At the Seattle Branch, transactions between countries other than Japan became much more important. Between China and Manchukuo and the United States it handled lumber, feed, wheat flour, and peanuts. It increased the export of lumber to the Dairen Branch, for the construction of a railroad in Manchukuo. However, in 1938 the Manchukuo government changes its policy, using South Sea lumber, and the export of North American lumber to Manchukuo decreased. But exports of lumber to North China compensated for this shift.

Both branches also developed the transactions with other areas. San Francisco developed the Mexican market, as we will see in detail later. After July, 1936, by making an agreement with Ruben Mereles as agent, the San Francisco Branch launched a full scale Mexican trade, and started transactions of raw rubber from Malaya through the Singapore Branch. In 1937 the New York Branch transferred the rayon business to San Francisco. It also handled other fabrics, cement, fertilizer, tire core, and Gulf Shrimp.

In other areas, both the San Francisco and Seattle Branches developed transactions sporadically. San Francisco imported burlap from the Calcutta Branch, and exported rails to the Manila Branch. The Seattle Branch exported wheat flour to the Phillipines. The export to the Phillipines was important, because the United States government subsidized this transaction. However, the firm could not develop this
business because of the shortage of ship space and the anti-Japanese feeling in the Philippines. Products handled by Japanese merchants were thought of as Japanese products even if they were North American in origin.24

Both Branches also tried to develop the fourth type of transaction: domestic trade. But they generally failed to do so. In the case of the San Francisco Branch, these transactions were limited to bunker oil, with a limited business in Honolulu and San Pedro. The Seattle Branch handled a small amount of frozen fish of Nippon Suisan, and sold some lubricant oil to Japanese ships in the ports of its territory. Sometimes it had to sell wheat intended for Nisshin Seifun in the United States because of longshoremen's strikes.25

Changing Organization

Between 1935 and 1940 the transactions of M.S.K. developed rapidly. At the beginning of this period, the effect of the devaluation of the yen had become obvious. Most of the overseas branches increased their transactions, but at some branches, which did not have a good market, operating costs grew relatively higher without increasing transactions. The outbreak of the Sino-Japanese War made M.S.K., as well as other Japanese trading companies, increase transactions much more drastically. As Japan developed a war economy, M.S.K. imported war materials, and exported Japanese products to obtain foreign exchange. M.S.K. had to adjust to this changing situation by reallocating its resources and continuously developing a sophisticated bureaucratic organization, as we can see in Appendix C. The changing pattern of trade, needless to say, influenced the operation of overseas branches. This was obvious to the
branches in the United States because it became the most important supplier of war materials. The San Francisco and Seattle Branches had to reorganize in order to meet this changing situation.

Changes in the organization and staffing of the San Francisco and Seattle Branches occurred in the context of these evolving trade conditions between 1935 and 1940. The most important development was the merger of the direction of the branches under one title, Pacific Coastal Manager, held by Shunichi Takeuchi, a graduate of Tokyo Commerce College (Tokyo Shoka Daigaku). This appointment reflected the growing importance of the office in San Francisco, a result of the oil trade. The firm added staff members who were knowledgeable in oil affairs, sending Ichiro Terao from the Fuel Department in Tokyo, to take charge of the business in San Francisco.26

So in 1935 there were four managers (sein) including Takeuchi stationed in San Francisco. Komei Chin was in charge of accounting and general office affairs. Terao headed fuel, shipping, and passenger traffic, and Okumura was in charge of fertilizer, lumber, and miscellaneous goods. These officers were supported, of course, by the necessary clerical staff.27

This structure was not adequate for managing the business as it evolved. Coordinating traffic flow became an especially critical problem as the volume of business increased, and as political and market changes redirected the patterns of activity. So a separate traffic department was created to support the line departments. Its officer had to have a broad understanding of the entire operations of the branches, and know about the problems of scheduling and insuring shipping. An American, R. H. Tibbits, who had worked for M.S.K. since 1919, took
charge of traffic management with the creation of a separate depart-
ment in 1939.38

In addition to the usual business affairs, the traffic department
played an important social role in the company's affairs. San Francisco
was the main port of entry for Japanese visitors to the United States,
and the M.S.K. office had to escort members of firms with which it was
doing business through the intricacies of customs regulations and,
especially, the unfamiliar, day-to-day routines of a busy American city.
During this period, the San Francisco Branch took care of about 300
persons on the average per year.29

As transactions increased, it became necessary to add Japanese
staff members. This was obvious particularly in the machinery business.
The machinery business had been a side job in the San Francisco Branch.
After the transactions of mining machinery, machine tools, agricultural
machinery and equipment with the Manchuria Heavy Industry Co. increased,
Takeuchi realized such was no longer the case.30 The staff member who
was responsible for the machinery business at that time was also in charge
of other fields. Tadakazu Kasahara, who came to the San Francisco Branch
after Okumura was responsible for the machinery business, was from the
General Merchandising Department, Tokyo, and he had little knowledge of
machinery transactions. In addition, as the cotton business became
important, Kasahara had to concentrate his energy on it. Visitors from
Japan who passed through San Francisco were mainly related with the
machinery transactions. Therefore, Takeuchi thought a specialist in the
machinery business was necessary, and he asked headquarters to send a
qualified manager.31
In the fuel business, transactions greatly increased as the war in China continued, as shown in Table 6.1. Takeuchi asked headquarters to send Japanese employees to manage it. In other business fields there was a shortage of staff members. All of the Japanese employees were over worked. As the abrogation of Japanese-United States Commercial and Navigation Treaty was to take effect in January, 1940, they felt compelled to add to the Japanese staff lest the law prevent immigration. 32

As the transactions grew, and new staff members came, and as the firm opened the Los Angeles and Mexico Representative Offices, as we will see later, the jobs related with general affairs and accounting also increased. Therefore, as communications among the San Francisco, Los Angeles, Mexico, and Tokyo worsened, Takeuchi asked for a college graduate employee who had a few years' experience in general affairs or accounting. 33

Although the requests of Takeuchi were not completely filled, by the time he was transferred to the Nagoya Branch in August, 1940, the number of Japanese employees had increased, as shown in Chart 6.1. There were eight seiin, including Takeuchi, at the San Francisco Branch, and one seiin at the Los Angeles and Mexico City Representative Offices respectively. Needless to say, as the transactions increased, the number of employees locally hired also increased, as we will see in detail later.

While the organization of San Francisco developed, the Seattle Branch showed problems of decline and inefficiency. The value of its transactions was steadily declining from its peak in 1927-1928, down to ¥ 5 million by 1934-1935, one eighth of the earlier high of ¥ 41 million. 34 But its expenses did not fall proportionately, particularly because of the devaluation of yen. The expenses of branches in the United States
Chart 6.1

The Organization of the San Francisco Branch
(As of September 30, 1940)

Hokichi Inoue
(Manager)

<table>
<thead>
<tr>
<th>Tadatoshi Tsuji</th>
<th>Ichiro</th>
<th>Tadakatsu</th>
<th>Teiji</th>
<th>Chiaki</th>
<th>Koshiro</th>
<th>Fusao</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goro Sawada &amp; Kikuo</td>
<td>Kasahara</td>
<td>Mori</td>
<td>Yoshino</td>
<td>Tsukada</td>
<td>Yamaguchi</td>
<td></td>
</tr>
<tr>
<td>Kikuo Kuwata</td>
<td>Cotton</td>
<td>Oil &amp; Marine</td>
<td>Products L.A. Office</td>
<td>Mexico Office</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Affairs &amp; Accounting</td>
<td>Gen.</td>
<td>Fat &amp; Produce</td>
<td>Machinery Metals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td>Fuel &amp; Shipping</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Manager of San Francisco Branch to Manager, Personnel Div., General Dept., Tokyo, October 28, 1940, R.G. 131 (Seattle) Miscellaneous Correspondence 1929-41, folder title is in Japanese, box 694.
became relatively high. There was also a decided problem of efficiency when compared to the San Francisco operation, as Table 6.3 shows.

In spite of the fact that the Seattle business was small, the number of employees and salary per person were relatively higher than those of San Francisco. M.S.K. did not decrease the number of employees once hired, even after the transactions decreased. To make matters worse, as there were more employees who had been working for a long while because the Seattle Branch was older, the rate of salary was higher. So the efficiency of the Seattle Branch had become very low.

The Seattle Branch had another problem of its top management: it was difficult for Takeuchi to control it when he was in San Francisco. Takeuchi set up rules to control the branch, ones that its last manager had devised for his absence. An assistant manager was present, and each department manager, who had whole and direct responsibility for his department, had to report to L. M. Ingstad. For important matters, the department chief had to send a written report to Takeuchi in San Francisco, and to follow his directions. In the cases where Ingstad and the departmental chief disagreed, Ingstad had to turn to Takeuchi for instructions.

As time went on, a leadership problem became evident. Ingstad lacked leadership ability. He had to work as de facto acting manager, but he could not control the branch as a whole. He was an excellent clerk, but his authority was ambiguous, and he had to rely on cooperation from the Japanese seinin who was the chief of the department. Ambitious Japanese employees did not want to work under an American manager who could not understand either Japanese or the intentions of headquarters. So when Takeuchi was in San Francisco, the efficiency of the Seattle Branch
Table 6.3
Comparison on the Management Efficiency between the San Francisco and Seattle Branches (the 37th Term, 10/34-3/35) (In thousands of dollars)

<table>
<thead>
<tr>
<th>Branch</th>
<th>Transaction Amount</th>
<th>Number of Employees</th>
<th>Transaction Amount Per Person</th>
<th>Labor Cost</th>
<th>Salary Per Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seattle</td>
<td>5,089</td>
<td>18</td>
<td>283</td>
<td>84</td>
<td>4,667</td>
</tr>
<tr>
<td>S. F.</td>
<td>13,151</td>
<td>27</td>
<td>487</td>
<td>91</td>
<td>3,370</td>
</tr>
<tr>
<td>Rate</td>
<td>39%</td>
<td>67%</td>
<td>58%</td>
<td>92%</td>
<td>139%</td>
</tr>
</tbody>
</table>

Source: Takeuchi to Manager of General Dept., Tokyo, April 15, 1937, R.G. 131 (S.F.), box 669.
suffered. Judging the situation, Takeuchi concluded, "It is unreasonable to give an American the post which represents the branch as a whole." 37

In order to improve the situation, Takeuchi embarked on a reorganization of the Seattle Branch that conformed to Japanese personnel policies. He developed two basic policies: (1) to decrease the number of employees, particularly those with high salaries, and (2) to replace the American assistant manager with a Japanese acting manager with full responsibility for a branch. 38 This meant that Ingstad and others had to go.

But Ingstad had been a faithful employee since 1919, an assistant manager for thirteen years. So M.S.K. stressed that his departure was not based on his personal ability, but on the changing situation of the branch. Takeuchi insisted on retaining Ingstad until November, 1938, when he would have worked for M.S.K. for twenty years. To reward his long loyalty he was paid a retirement allowance of $10,000. This helped ease the violation of the Japanese tradition of secure employment. 39 In May, headquarters sent Kazuji Kuribayashi to be acting manager. His status was the same as that of the chief of the representative office. By the end of 1938 the staff of the Seattle Branch numbered fourteen, including three seinin. 40

One of the most distinguished characteristics of the San Francisco and Seattle Branches was that they employed a comparatively large number of Japanese-Americans, especially in San Francisco. This was Takeuchi's personal policy. The Japanese-American employee was rooted in both countries and Takeuchi explained it as: "... a practical" policy. But it also revealed his feelings about their position as outcasts in
American society. "It is to brighten their life by showing sympathy to them to ease their difficulty to find jobs." These citizens, who suffered severe unemployment in the depression and prejudiced-ridden society, responded with loyal service. Many dreamed of working for distinguished Japanese firms in their new homeland.

Takeuchi hired them carefully, and sought to promote them to seiin in order to motivate them. For example, Susumu Yamashita, who came to the United States in 1922, was a School of Commerce graduate of the University of California. He also had studied advanced economics at Harvard, and had three years experience with the Japanese Chamber of Commerce. He had joined M.S.K. in 1933, and Takeuchi wanted to make him the central figure of the Fuel Department by sending him to the Fuel Department, Tokyo, for training. In this he was frustrated. The home office, for some unexplained reason, imposed a rule that no employee hired overseas could enter the ranks of top management.

One significant employment opportunity for Japanese-Americans was in engineering. However much the home office may have insisted on avoiding a reliance on foreign expertise, the demand for engineers in Japan reached extraordinary proportions as heavy industry expanded to satisfy military needs. This circumstance opened opportunities for Japanese-Americans in the land of their heritage, and firms recruited Nisei graduates of American engineering schools. As Takeuchi noted,

Recently, there is a trend that Japanese companies look for and employ eminent Nisei Japanese-American engineers. Therefore, we keep the close relationship with them and make an effort to recommend eminent persons to Mitsubishi related companies. Please let us know if you have any requirement and conditions.

So the branches in San Francisco, Seattle, Los Angeles, and New York
served the home office as recruiters of these highly skilled persons, and American born and trained engineers began to serve the Japanese war effort in aircraft design and other areas of heavy industry.  

The employment of Americans by the overseas branches was not confined to persons of Japanese ancestry. Other Americans accounted for one-half of the employees in San Francisco and Seattle. This was a deliberate policy intended to foster a favorable image for M.S.K. in this American market. The policy led to the formation of the Mitsubishi Club, a device to develop good relationships with American employees. Through this organization, there were picnics, golf tournaments, and Christmas parties. Takeuchi, moreover, urged headquarters to invite American employees of twenty year standing for a visit to Japan. He was convinced that such a policy would promote morale favorable to the firm.

The tensions aroused by the growing international rivalry appear to have affected M.S.K.'s relationship with its American employees. The evidence is scanty, but one staff member, who sued to recover insurance benefits, asserted that she left the firm for three reasons. As she said,  

... the main reason for my leaving the employment of Mitsubishi Co. were (1) the tension caused by the international situation. (2) the lack of business, which eliminated what small chance of advancement ever existed, and (3) the continuous confusion resulting from continuous arrivals of non-English speaking Japanese, who also were intolerable.

In this case, at least, the firm's policy of rotating seijin every three or four years created an unpleasant situation for an American employee. The military mobilization in Japan probably left M.S.K. without enough able Japanese staff, and contributed to the problem.
The Opening of the Los Angeles and Mexico Representative Offices

As the transactions by the San Francisco Branch increased rapidly, opening offices in Los Angeles and Mexico became important for M.S.K. Los Angeles was a good location for oil and fat, general merchandise, and scrap iron. Local merchants were becoming aware that trade with Japan held profitable prospects. But M.S.K. was slow in establishing an office there, and the international political situation cut short the operation.  

Other firms were opening offices in Los Angeles, and by 1937 Takeuchi had begun thinking of following suit. Takeuchi planned to send Kasahara as the representative to Los Angeles, and he asked headquarters to transfer an employee who had some experience in the General Merchandise Department to replace him. However, headquarters could not find anyone. They told Takeuchi to postpone the opening of the Los Angeles office, if he could not manage to supplement Kasahara’s position within the branch. The business of the branch was increasing, and he could not find a way to solve this. He had to postpone his Los Angeles plan until 1939.  

In July, 1939 headquarters decided to send Teiji Mori of the Fertilizer Department, Tokyo, to reinforce the personnel of the San Francisco Branch, which Takeuchi had called for two years before. Takeuchi sent Tsukada, who had moved from the Seattle Branch, to Los Angeles in August to survey the Los Angeles market, and he hired Yozen Kameyama, a graduate from the University of California, who was well acquainted with the local situation, to plan for the opening of the Los Angeles Representative Office.
Tsukada wrote in the winter of 1939 a report titled "Economic Condition of Southern California Centering Los Angeles." In spite of the fact that the United States had already abrogated the American-Japanese Commerce and Navigation Treaty, effective at the beginning of 1940, he was very optimistic. He thought the conflict between the two countries would end shortly, considering the importance of trade between them. He insisted that M.S.K. should prepare for the future. American capitalists would soon see the advantages to them of Japan's new power over the China market:

... There are some people who think that the exports to China will naturally increase after constructing a new central government in China where Japan is fighting for a holy war and making a new relationship with Japan and Manchukuo. The most of existing exports to Manchuria and future exports to the new China would be materials for the industrial development. After these industrial materials, semi-finished or final consumer goods would be increased. As the third country, the United States which has products such as petroleum and cotton is standing on the most advantageous place. If the Trade with the above mentioned Japan-Manchuku-China block could be realized, it [Los Angeles] would be able to occupy a very advantageous place.

In addition to the strategic position of Los Angeles, there was another factor. As the war in China continued, the Japanese government was exercising ever growing controls over trade. It was important for a trading company to develop its overseas sales network in order to acquire a larger quota, which would be based on regions and volume of its operation. M.S.K. needed to open a representative office as soon as possible to compete in Los Angeles.

Before the decision to open an office in Los Angeles, the manager of the General Department at headquarters tried to achieve consensus in the firm. He sent letters requesting the opinions of departmental managers on the opening of the Los Angeles Representative Office. Teiji Terada,
Manager of the Marine Products Department, replied, "Please understand that our department supports the idea of the San Francisco Branch opening a representative office in Los Angeles." After receiving agreements from other departments, the manager of the General Department finally approved the project, and the Los Angeles Representative Office opened on February 1, 1940. Tsukada, who had been preparing for the opening of the office since August, 1939, became its chief; Kameyama was a regular staff member.

But the new office remained small, and limited its operations to a few goods, such as silk and cotton cloth, juto, and lumber, the market for which was larger in Los Angeles than in San Francisco. At the beginning, the transactions with headquarters were done through the San Francisco Branch, but they were gradually transferred to be direct transactions between Los Angeles and Tokyo. For other important products transactions flowed through San Francisco which had already established relationships with dealers and customers. In order to develop new business relations in Los Angeles, its office supported San Francisco by collecting information and overseeing the loading of these products.

Another important task of the Los Angeles office was hosting Japanese visitors. For example, in August, 1941, they hosted sixteen passengers of seven groups, including American governmental officials, Japanese professors, a Dietman, governmental officials, as well as employees of private companies. Although M.S.K. officials had to spend a lot of time and money to look after these people, this was important to obtain business. Takeuchi, asking approval of expenditures, noted that "Because of the location at Los Angeles there were many passengers who are related with Mitsubishi Group ... we have to spend unusual time and money
to receive and take care of them. However, it is not useless to pay a little cost when we get profit from transactions with them, which can be brought by their good impression in Los Angeles."60

Although the Los Angeles Representative Office opened with high expectations, they were not met. As the relationship between the United States and Japan worsened and business activities decreased, M.S.K. had to close the office on September 16, 1941.61

The Mexican trade also suffered because of political tensions. After San Francisco hired Ruben Mereles as an agent in Mexico in July, 1936, it developed trade with Mexico aggressively. Takeuchi sent Kasahara to conduct a survey of the Mexican market, and he wrote a report to Takeuchi urging the establishment of a permanent representative in Mexico.62

The trade with Japan accounted only for one percent of the total trade of Mexico. This small trade was attributed mainly to the fact that Japanese large trading companies lacked adequate knowledge on the Mexican market. They had a pre-conceived idea that Mexico was a risky country because of political instability. Japan allowed British and American companies to dominate the trade.

M.S.K. had already began small transactions with Mexico prior to 1936. The New York Branch was buying minerals through an American company, and selling pipe fittings, piece goods, and rayon yarn through Mexican agents. The San Francisco Branch was handling raw rubber and general merchandise through Mereles, and it sold hardened oil through an agent in San Francisco. Government related special transactions were done through Kokusai Seiyaku Kaisha (Kokusai Pharmaceutical Co.) in Mexico. Glass, raw silk, tire cord, pharmaceutical goods, and chemicals were
added for exports and mineral resources like copper, oil, and others were expected to be imported from Mexico.

M.S.K. wanted to establish the base of transactions in Mexico to get ahead of other Japanese companies. There were some Japanese companies that had already been doing business in Mexico. Kokusai Seiyaku had a department to import medical equipment, rayon yarn, chemicals, and patent medicines. However, the activities of the rival Japanese firms in Mexico were generally small. They had to control local agents in order to establish a sales network in order to overcome the unpredictable rivalries among Mexican entrepreneurs. It was especially important to control credit in Mexico. Japanese representatives could not rely on Mexican businessmen to gather market information, for they lacked knowledge of Japanese needs.

M.S.K.'s plan to send a representative to Mexico was slow to develop. Business with Mexico was blocked by the changing structure of Japanese trade brought by the outbreak of the Sino-Japanese War, and the changing Mexican economic situation brought about by the nationalization of the oil fields. In July, 1939 Takeuchi began thinking of sending a representative to Mexico again. Mexican trade with Japan had decreased between 1936 and 1939, but Takeuchi thought this was a temporary and unusual situation that would improve. He stressed that exports to Mexico would increase. It was worth thinking of buying Mexican minerals directly, up to now completely controlled by the Americans and British. Army officials, especially Lieutenant-Colonel Yoshiaki Nishi, who was stationed in Mexico, urged the large Japanese companies to go into this line.

The drastically changed international environment had a direct impact on the decision to send a representative to Mexico. While
headquarters was considering sending a representative, war broke out in Europe, European trade with Mexico stopped, and the Mexicans began to turn to trade prospects with Japan. Inquiries of various goods and proposals from those who wanted to be agents rapidly increased. On the Japanese side, the abrogation of the Japan–United States Commerce and Navigation Treaty increased the desirability of trade with Mexico. 

After asking the Japanese minister to Mexico for advice, M.S.K. sent Fusao Yamaguchi of the New York Branch as a temporary visitor. He settled in Mexico City in August, 1940, not using the Mitsubishi name so as to avoid tax problems. For the moment basically transactions were to be done through San Francisco, and gradually they were to be transferred to direct transactions by the representative. In either case, the representative could not be a partner of the transaction. That is, he could not sign contracts and shipping documents. These kinds of affairs were still done at the San Francisco Branch. However, ironically, when they sent a representative to Mexico, the international situation was becoming worse.

As a result of the changing international situation, the representative had a problem of his status. The Mexican government refused to extend the stay of temporary visitors, and Yamaguchi had to leave Mexico by February 20, 1941. The United States government was pressuring Mexico to retard Japanese efforts to open trade. M.S.K. had to rely on a succession of temporary visitors to handle its affairs there, and the war soon ended even that effort. The Mexican office was closed by the end of 1941.
Cooperation with Other Companies

During the tenure of Takeuchi as the manager of the San Francisco Branch, M.S.K. began seeking cooperative agreements with other firms. This impulse arose from two important developments. Competition between M.S.K. and M.B.K. was becoming intensive. Because of the expansion of the war in China, the Japanese government began controlling foreign exchange and other operations of trading companies. M.S.K. turned to cooperation to protect its interests.

The competition rivalry between Mitsubishi and Mitsui primarily included shipping and brewing. M.B.K. intensified competition when it introduced low transportation rates through its subsidiary shipping firm. In order to cope with this situation, M.S.K. looked for a coalition with a shipping company. M.S.K. considered establishing a new shipping company of its own, but rejected the idea in the interest of maintaining harmony with other shipping companies. M.S.K. was able secretly to reach an agreement with Nippon Yusen Kaisha on freight rates. According to this agreement, when M.S.K. could not pay the defined rate because of competition from Mitsui, managers of the M.S.K. branches could directly apply for a special rate to branch managers of N.Y.K. This agreement excluded foreign lines that were not influenced by Mitsui.

Takeuchi was very pleased with this close relationship between M.S.K. and N.Y.K. because it helped the San Francisco Branch. The main export items of the San Francisco Branch, including scrap iron, machine oil, and frozen fish were very competitive, and without its own ships it was at a disadvantage compared with M.B.K.

This special contract between M.S.K. and N.Y.K. defined only special rates, and did not deal with the severe shortage of ship space. M.S.K's
strategy toward this situation was clear. The New York manager explained to headquarters:

... We have to ask you to see the high officials of every steamship line and request them to give instructions to their branches on this side to cooperate with us more than with Mitsui who are in a competitive steamship business against them, as we have no fleet of our own and have to depend on them for carrying our freight.72

In order to benefit from the secret agreement with N.Y.K., of course, M.B.K. had to secure cargo space on that line. This was difficult because the vessels that stopped at San Francisco were passenger carriers with schedules to maintain. So Takeuchi asked the managers of the Seattle and San Francisco Branches of N.Y.K. to give M.S.K. the priority for space.73 This policy worked well, and M.S.K. could sometimes make sales contracts by keeping necessary ship space, although it suffered from a chronic shortage of ship space.74

Competition became intense in the profitable brewing business, where M.S.K. imported Kirin Beer to Hawaii and the West Coast. M.B.K. arranged with Dai-Nippon Beer Co. to construct a new brewery in Manila, whose production capacity was 100,000 cases per year. (One case contained four dozen large bottles. A large bottle contained 760 ml.) The demand for beer in the Philippines was 150,000 cases per year, and there already was a strong local competitor, Summigel, which produced 120,000 cases per year. Therefore, the objective of the new venture was to export beer to the United States, in the very market that M.S.K. wanted to develop. A Japanese company with a brewery in the Philippines would have the advantage of favorable tariff.75

Kirin proposed constructing a brewery in Hawaii to compete with the action of Dai-Nippon and M.B.K., and M.S.K. accepted the plan without
hesitation. The idea was to use American capital and management while maintaining Japanese control. As Ichiro Hattori, Manager of the General Merchandise Department, Tokyo said:

The main goal for the new factory is to keep the taste of Kirin Beer persistently by using the Kirin method of production. However, the composition of capital of the new company should be separate from this. We rather induce the local capital, if possible, capital from the powerful Americans, than limit it to that of Mitsubishi and Kirin. By participation of local capital, the manager of the company would be smooth and ease. At the same time, this could prevent the establishment of competing company, which could attain some security to it in the future.

Even in the case in which American participation in it, it is necessary for us to keep majority control....

They planned a factory to produce 200,000 cases per year, marketing on the West Coast, in Guam and Hawaii. After developing concrete plans, they sent Ikunosuke Kubota of the General Merchandise Department, Tokyo, and Shikazo Ohotsuka, an engineer of Kirin, to Hawaii to conduct a survey for three months in 1937. Hattori directed Takeuchi to support their research by conducting surveys on various kinds of problems related to the beer business in America — production, consumption, imports, market prices, relationship between brewers and distributors, raw materials, restrictions on production, taxes, transportation costs, machinery and equipment, and the condition of supplying bottles.

During his stay in Hawaii, Kubota learned that there were many problems they might meet in the establishment of a new factory. First, the Hawaiian economy was closely controlled by a few firms and families who were reluctant to grant access to outside interests. Second, raising the necessary capital was difficult. Hawaiian banking law restricted a bank from loaning more than 20 percent of its total and surplus fund to one borrower. This effectively limited the local Japanese banks to $150,000 for the brewery venture. Third, local law prohibited bringing Japanese
citizens to work for the firm. Then there was the complex problem of securing a permit from the Liquor Commission. Such a permit required verification of need for a new plant. It was a very delicate problem to obtain permission because the new factory would be owned by Japanese. The alternative for M.S.K. was to buy an existing Hawaiian brewing company. The American Brewing Co. was interested in selling out, but when Kubota was able to see the factory, he thought it was not worth buying.

In any case, it was a most difficult and delicate matter to find partners who could invest in the new company. The outbreak of the Sino-Japanese War made the situation worse. Takeuchi was asked to find American partners who could invest in the new brewery, and he suggested some names. Kubota had approached some local businessmen, but because of the outbreak of the war they rejected this plan. So he approached Walter F. Dillingham, who was the president of a local railroad company and an executive of American Factors. Since he had his own real estate and construction companies, Kubota thought the construction of the new brewing company would be attractive to him.

Dillingham asked Kubota for a prospectus of the new company. Kubota proposed that Kirin and M.S.K. invest one-third of the total capital respectively, the remainder to be raised in Hawaii. He estimated that sales would be $1,460,654.20, expenses $1,309,473.59, and net profit $151,180. After seeing this prospectus, Dillingham promised his cooperation. Confident about the permit for the construction of a new brewery, Kubota began actual preparation.

But then the Japanese Foreign Exchange Control Act came into effect in September, 1937 making it impossible to export Japanese capital to foreign countries. The only way to establish the new company without
Japanese capital was to raise all the necessary funds in the United States, but this had already proved impossible. The result of all the planning and negotiations was nil before the war. Only later would be a new style of M.S.K. arranging a joint venture with local capital of a host country come into play.

So in the end Dai-Nippon was scheduled to begin operating a new factory in Manila in 1938, and it began its marketing plans. Now M.S.K. had no other way than to compete with M.B.K. by developing aggressive advertising and sales promotion. Okubo wrote a letter to the executive director of Kirin Beer that they should support the sales activities of Cherry Shokai (Cherry Mercantile House), who was the agent of M.S.K. in Hawaii.

The tightening control of foreign exchange also influenced other aspects of the operation of M.S.K., resulting in further inter-firm cooperation. For example, M.S.K. developed a special settlement of Toyo Kohan Barter Account. M.S.K. was buying materials exclusively for Toyo Seikan. In order to settle for these materials, they tried to use export sales of canned products handled by the Marine Products Department. In February, 1938 Toyo Kohan, Toyo Seikan, and M.S.K. (the Metal and Marine Products Department) reached an understanding. As a principle, they decided to get a permission of "non foreign exchange export and non sales collection" when M.S.K. exported canned goods whose cans were made from materials imported by M.S.K. for Toyo Kohan, and they centered sales in New York and London to settle the payment for the can materials.

They made special accounts for this settlement in the New York and London Branches, which raised money for buying materials for cans and collected sales proceeds. Such expenses as buying materials, transportation,
insurance, and interest, were entered as debts, while the sales of exported canned products were entered as credits. So the proceeds of the San Francisco and Seattle Branches were remitted to the New York Branch. A statement of income and expenditure was sent twice a month to the Marine Products Department, Tokyo, and its copies were sent to the Metal Department and the Accounting Division of the Metal and Marine Products Department.  

Canned goods that could be used for this settlement were products for export using cans produced by Toyo Kohan and Toyo Seikan from materials imported by M.S.K. The small amount of transactions, or those directly sold to foreign buyers, were excluded from this special settlement. As a result, these goods by the Johannesburg, Manila, Soerabaja, Indian Branches and some others were excluded. Sales to Greece were also excluded because of her government's foreign exchange control. Therefore, this settlement was limited to the New York, San Francisco, Seattle (dollar transaction), London, Alexandria, Casablanca Branches and German Mitsubishi and France Mitsubishi (pound transaction), and pound transactions of canned sardines and mackerel by the Singapore Branch.  

In order to supervise this settlement, the Committee on Special Settlement was created, being composed of persons from the Accounting, Metal, and Marine Products Departments. The role of this committee was to decide the approximate amount of yen which was applied to foreign exchange settlement M.S.K. would accept from Toyo Kohan, to make an agreement on the expected foreign exchange rate of non foreign exchange export of canned fishes with Toyo Kohan and Toyo Seikan, and to supervise the situation of this special settlement, and to make a future plan.
Each member took the responsibility of the matters which were related to their own sections.
Notes for Chapter 6

1. In addition to the transaction, a foreign branch was allowed to do the foreign exchange transaction. However, this was not done by the San Francisco and Seattle Branches. Manager of General Dept, June 14, 1935, R.G. 131 (S.F.), box 665.

2. Important Documents and Papers Transferred from Takeuchi to Inoue, "Fuel and Shipping Related Jobs," July 27, 1940; Kyowa Kogyo Kaisha (Kyowa Mining Co.) was established by the joint investment of Mitsubishi, Mitsui, and Sumitomo to supply the Navy with foreign resources like oil, no folder, no box number.

3. Reports on the Operation at the San Francisco Branch, 37th, 38th, 40th, 42nd, and 43rd Terms, R.G. 131 (S.F.), box 627 and 39th and 41st Terms, R.G. 131 (S.F.), box 622.

4. Important Documents and Papers Transferred from Takeuchi to Inoue, "Essentials on Fishery and Metal Related Jobs," July 31, 1940, R.G. 131 (S.F.), no file folder, no box number. In Japan iron and steel companies formed Kuzutetsu Kyodo Kobai Kumiai (Cooperative Buying Corporation for Scrap Iron), and each member company had to buy scrap iron on its allocation. On the other hand, such importers as M.S.K., M.B.K., Iwai, and Asano were appointed as importers for it. However, in July, 1940 Nippon Tekko Genryo Tosei Kabushiki Kaisha (Japan Iron and Steel Material Control Co.) was formed, and Kyodo Kobai Kumiai was dissolved in order to achieve more smooth and efficient buying of scrap iron. The former six importers played the same role as before.


6. Reports on the Operation at San Francisco Branch, 37th to 43rd Terms.

7. Report on the Operation at the Seattle Branch, 38th to 45th Terms, R.G. 131 (Seattle), 5-1921-41, "Report on the Operation at Seattle Branch." The following statements on the Seattle Branch in this section was completely based on these reports.

8. Ibid., particularly 38th, 39th, and 40th Terms.


10. Important Documents and Papers Transferred from Takeuchi to Inoue, "Oil and Fat, Fertilizer, and Produce Business," July 31, 1940, R.G. 131 (S.F.), no file folder, no box number.
11. Important Documents and Papers Transferred from Takeuchi to Inoue, "Oil and Metal."


14. Ibid., especially 38th and 40th Terms.

15. Ibid., especially 39th and 40th Terms.


19. Ibid., 42nd Terms.


23. Ibid., 40th Term. By the end of this term, the trade of machinery between the United States and other countries like Thailand and Manchukuo increased (Manchuria Heavy Industry Co. was the main customer of M.S.K. in Manchukuo), ibid., 43rd Term.

24. Ibid., especially 41st Term.


31. Ibid.


33. Ibid.

34. The Tables on the Comparison on the Transactions and Operating Expenses of the Seattle Branch, April 14, 1937, R.G. 131 (S.F.), box 669.

35. Takeuchi to Manager of General Dept., Tokyo, April 15, 1937, R.G. 131 (S.F.), box 669.

36. Ibid.

37. Tanaka to Takeuchi, no date (c. 1937), R.G. 131 (S.F.), box 669. Takeuchi asked Tanaka of the Seattle Branch to write his idea how they should reorganize the Seattle Branch. After writing this letter, Tanaka seems to have been transferred to Japan. However, this letter gave a big influence on the reorganization of the branch.


42. Toshio T. Tomatsu to R. H. Tibbits, September 11, 1936, R.G. 131 (S.F.), box 666.
Takeuchi to Manager of General Dept., Tokyo, April 20, 1937, R.G.
131 (Seattle), F.P., box 477. Takeuchi to Chief of Personnel Div.,
General Dept., Tokyo, November 3, 1937, R.G. 131 (S.F.), box 692.

44. Manager of San Francisco to Chief of Personnel Div., General Dept.,
Mitsubishi Heavy Industry Co., R.G. 131 (S.F.), box 689.

45. Representative to Managing Director, Mitsubishi Heavy Industry Co.,
R.G.131 (S.F.), box 689. Tsutomu Ueno of New York Branch to
Kuribayashi, March 27, 1940, R.G. 131 (S.F.), box 689. Takeuchi to
Manager of General Dept., Tokyo, June 6, 1940, R.G. 131 (S.F.),
box 689. Chief of Personnel Div., Mitsubishi Heavy Industry Co. to
Manager of Seattle Branch, July 12, 1940, R.G. 131 (S.F.), box 689.
Okano, Chief of Personnel Div., Mitsubishi Heavy Industry Co. to
Manager of Seattle Branch, October 17, 1940. Inoue to General
Manager of Mitsubishi Mining Co., February 8, 1941. Inoue to Chief
of Personnel Div., Mitsubishi Mining Co., August 8, 1940.
Okano to Takeuchi, October 16, 1940, R.G. 131 (S.F.), box 689.

46. Important Documents and Papers Transferred from Takeuchi to Inoue,
"Personnel Affairs," December 9, 1940.

47. In Mitsubishi Club the employees of all the companies of Mitsubishi
Zaibatsu could join. Headquarters was in the Mitsubishi Goshi Kaisha.
There are branches, for example, in New York and San Francisco.
Inoue to Manager of Mitsubishi Club, New York, June 9, 1941, R.G.
131 (S.F.), box 650.

48. Important Documents and Papers Transferred from Takeuchi to Inoue,
"Personnel Affairs," December 19, 1940.

49. California Dept. of Employment, April 16, R.G. 131 (S.F.), box 612.

50. The Importance of Los Angeles in the United Trade is shown in the
following figures.

<table>
<thead>
<tr>
<th>Term</th>
<th>Los Angeles Export</th>
<th>Los Angeles Import</th>
<th>San Francisco Export</th>
<th>San Francisco Import</th>
<th>U.S. Total Export</th>
<th>U.S. Total Import</th>
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</thead>
<tbody>
<tr>
<td>1933</td>
<td>58,111</td>
<td>25,814</td>
<td>84,512</td>
<td>55,514</td>
<td>1,674,994</td>
<td>1,449,559</td>
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<tr>
<td>1934</td>
<td>86,261</td>
<td>31,837</td>
<td>91,686</td>
<td>54,976</td>
<td>2,132,800</td>
<td>1,636,003</td>
</tr>
<tr>
<td>1935</td>
<td>98,393</td>
<td>48,254</td>
<td>108,393</td>
<td>71,669</td>
<td>2,282,874</td>
<td>2,038,905</td>
</tr>
<tr>
<td>1936</td>
<td>91,989</td>
<td>64,827</td>
<td>98,560</td>
<td>71,065</td>
<td>2,455,978</td>
<td>2,423,977</td>
</tr>
<tr>
<td>1937</td>
<td>136,657</td>
<td>80,457</td>
<td>136,351</td>
<td>87,751</td>
<td>3,349,167</td>
<td>3,009,852</td>
</tr>
</tbody>
</table>

Source: Koshiro Tsukada, "Economic Condition of Southern California
Centering Los Angeles," (Winter, 1939), R.G. 131 (S.F.),
box 627.
51. It was not easy to train employees to work at overseas. This shortage of human resource gave the pattern of development of Japanese trading companies. Hidemasa Morikawa, "Sogo Shosha no Seiritsu to Lonri (The Rise of General Trading Companies and Its Logic)," Mataji Miyamoto, Yoshio Togai, and Yasuo Mishima, eds., Sogo Shosha no Keieishi (Business History of General Trading Companies), (Tokyo, 1976), pp. 66-67.

52. Manager of General Dept., Tokyo to Takeuchi (telegram), May 23, 1939 and Takeuchi to Manager of General Dept., Tokyo, July 27, 1939, R.G. 131 (S.F.), box 627.


54. Takeuchi to Manager of General Dept., Tokyo, July 26, 1939, R.G. 131 (S.F.), box 627.

55. Teijiro Terada, Manager of Marine Products Dept., Tokyo to Manager of General Dept., Tokyo, January 27, 1940 and Eiichi Okita, Manager of Fertilizer Dept., Tokyo to Manager of General Dept., Tokyo, January 29, 1940, R.G. 131 (S.F.), box 627.

56. Shigeo Okubo, Manager of General Dept., Tokyo to Takeuchi (telegram), January 30, 1940 and Takeuchi to Manager of General Dept., Tokyo, January 3, 1940, R.G. 131 (S.F.), box 627.

57. Takeuchi to Manager of General Dept., Tokyo, January 3, 1940.

58. Ibid.

59. Tsukada to Takeuchi, August 9, 1941, R.G. 131 (S.F.), box 627.

60. Takeuchi to Manager of General Dept., Tokyo, January 3, 1941, R.G. 131 (S.F.), box 627.

61. Takeuchi to Manager of General Dept., Tokyo (telegram), September 16, 1941, R.G. 131 (S.F.), box 673.


63. Ibid.

64. Ibid.

65. Takeuchi to Manager of General Dept., Tokyo, July 13, 1939, R.G. 131 (S.F.), box 668.

66. Takeuchi to Manager of General Dept., Tokyo, October 11, 1939, R.G. 131 (S.F.), box 621. They held the Japan-Mexico Conference in Tokyo and Osaka in 1940 to discuss the trade between the representatives from Japan and Mexico. Takesaburo Kazoma, Manager of Osaka
Branch to Manager of Administrative Dept., May 4, 1940, R.G. 131 (S.F.), box 668.

67. Takeuchi to Koshida, Japanese Minister to Mexico, April 12, 1940, R.G. 131 (S.F.), box 668. According to the immigration law in Mexico, foreigners could not be engaged in commerce and working except those who were engaged in exporting and in manufacturing. Those who lived in Mexico more than five years could acquire permanent visa. Therefore, the representative of M.S.K. could not be engaged in commerce in either case of using the name of representative office or Yamaguchi's personal name. Therefore, Yamaguchi entered Mexico as a temporary visitor with the nominal objective of market survey, but he had to extend his stay every six months for five years until he could get a permanent visa. Yasutaro Hanai, Japanese General Consulate in Mexico to Takeuchi, May 2, 1940, R.G. 131 (S.F.), box 668. Yamaguchi to Takeuchi, February 25, 1941 and Manager of General Dept., Tokyo to Managers of Departments and Branches, August 31, 1940, R.G. 131 (S.F.), box 668. Inoue to Manager of Administrative Dept., Tokyo, December 17, 1940, R.G. 131 (S.F.), box 668. This is the exception of the letter dated December 3, 1941 from Yamaguchi to Inoue.


69. Seijiro Matsui, Manager ofShipping Dept., Tokyo to Takeuchi, January 14, 1937, R.G. 131 (S.F.), box 659.

70. Yasuharu Shimizu, Executive Director of Nippon Yusen Kaisha to Kanzo Tanaka, Managing Director of Mitsubishi Shoji Kaisha, January 9, 1937, R.G. 131 (S.F.), box 659.

71. Takeuchi to Manager of Shipping Dept., Tokyo, R.G. 131 (S.F.), box 659.

72. Manager of New York Branch to Managing Director, January 6, 1934, R.G. 131 (Seattle), G.F., loose papers, box 446.

73. Takeuchi to Manager of Shipping Dept., Tokyo, Takeuchi to Minoru Ikoma, Manager of Seattle Branch, N.Y.K., March 22, 1937, R.G. 131 (S.F.), and Takeuchi to Kazuo Takahashi, Manager of San Francisco, N.Y.K, April 7, 1937, R.G. 131 (S.F.), box 659.

75. M.S.K., Jitsugyo Boeki-roku, p. 848.

76. Ichiro Hattori, Manager of General Merchandise Dept., Tokyo to Manager of San Francisco, April 17, 1937, R.G. 131 (S.F.), box 652.

77. Ibid. Manager of General Merchandise Dept., Tokyo to Takeuchi and Inoue to Ikunosuka Kubota, June 4, 1937, R.G. 131 (S.F.), box 652.

78. Ibid.


81. Ibid. Takeuchi listed Wallane Alexander, the Chairman of Alexander-Baldwin and the President of Japan Society and I. J. Phillips, the General Manager of Pacific Guans Fertilizer which was one of the customers of the San Francisco Branch. Among beer related persons, he referred to W. F. Humphrey who was one of the largest stockholders of Rainier Beer and Sullivan, the Vice-President of American Can. Kubota to Manager of General Merchandise Dept., Tokyo, June 14, 1937, R.G. 131 (S.F.), box 652.


83. Kubota to Hattori (telegram), July 30, 1937, Kubota to Manager of General Merchandise Dept., Tokyo, June 18, 1937, and Kubota to Hattori (telegram), July 30, 1937, R.G. 131 (S.F.), box 652. The capital of the company was not clear. In other evidence, he showed his intentions to raise at least $500,000 for capital.

84. Takeuchi to Hattori, September 17, 1937, R.G. (S.F.), box 652.


86. Teijiro Terada, Manager of Marine Products, Dept., Tokyo to Manager of Seattle Branch, February 16, 1938, R.G. 131 (S.F.), box 623.

87. Ibid.

88. Ibid.

89. Ibid.
CHAPTER 7

TOWARD THE WAR, 1941-1942
Hokichi Inour's service as manager of both the San Francisco and Seattle branches, which began in August, 1940, when he succeeded Shunichi Takeuchi, coincided with the worsening relations between the United States and Japan that culminated in war. After the Manchurian Incident in 1931, and particularly after the outbreak of the Sino-Japanese War in 1937, the United States government became suspicious of Japanese moves. International political events had reached the point where they shaped the existence of individual private companies, which they in turn could not influence. Regulations of trade by both countries were intensified, and trade volume between two countries gradually decreased. In July, 1941, the American government, by freezing Japanese assets in the United States, ended actual operations of both branches. Inoue had to consider the withdrawal of Japanese employees and their families, and the dismissal of American employees, in order to meet the emergency. When war began on December 7, 1941, the United States government took control of both branches and liquidated them.

The Worsened Business Environment

After the outbreak of the Manchurian Incident, diplomatic relations between the United States and Japan gradually worsened. Public attitudes among American consumers, however, did not begin to affect sales of Japanese products until some time later. Only the manufacturers and businessmen who faced strong competition from Japanese products after 1932 expressed antagonistic sentiments toward Japan. They pressured the administration and Congress to restrict imports from Japan.1

As Japanese exports to the United States increased rapidly after 1932, they became one of the chief objects of federal trade regulations,
intended to lessen the effects of the depression upon American business firms. These regulations began under the National Industrial Recovery Act of 1933 and the Tariff Act of 1930. These statutes provided for federal investigations of production costs in the United States in comparison with those in foreign countries. The government could adjust tariff rates to prevent "unfair" competition from foreigners. The investigations principally concerned Japanese exports to the United States. By 1936 a number of products, all minor when compared to the larger pattern of trade, were investigated. These included wood-cased pencils, rag rug, matches, sun goggles, pottery, rubber eraser, cotton cloth, frozen swordfish, and wool-knit gloves. These were not the principal Japanese exports to the American market. The value of each item was very small, and their total value hardly amounted to more than 25 percent of the total imports from Japan.²

Due to these investigations and the resulting higher tariff rates, the number of products admitted free of duty decreased. The percentage of Japanese goods which were free of duty in the total imports dropped steadily, from 85 percent in 1930, to 59 percent in 1937. Some goods like cotton goods, pencils, and others were particularly influenced, and their imports decreased drastically. These actions to restrict Japanese imports were controversial within the United States. They were a response to the needs of particular business firms, and ran counter to the larger interests of consumers. The general public wanted cheap Japanese goods, especially during the unemployment and lowered wages that were the Great Depression.³

After the outbreak of the Sino-Japanese war in July, 1937, the situation changed rapidly. Before this war the anti-Japanese feeling
was limited to partial businessmen, but now it spread all over the country to include businessmen who had been engaged in the trade between the United States and Japan and American consumers. Soon pressures mounted. Some efforts were made to bring about private boycotts against Japanese products. Demands for economic sanctions against the export of American goods, particularly war related materials such as scrap iron, arose. In San Francisco, on August 19, 1937, on Grand Avenue where there were many Japanese art and general stores, Chinese-Americans began a movement for a general boycott of Japanese goods.

On October 5, on the way to the West, President Roosevelt, in an address, denounced Japan as a belligerent country. This speech worsened economic relations. On October 9, for instance, there was a demonstration at the Japanese consulate in San Francisco, and a few hundred Americans vowed to boycott Japanese products.

The Panay incident on December 12, 1937 poured oil onto the fire. Public opinion in the United States became very harsh against Japan. There were some groups that aggressively developed the movement. Such peace movement organizations as the American Committee for Non Participation in Japanese Aggression, and the Women's International League for Peace and Freedom, developed the anti-Japanese campaign on a mass basis. They also demanded laws to prevent exports of war material like scrap iron, oil, and trucks.

Trade unions were the main agencies promoting boycotts of Japanese products. Leaders of the A.F.L. and C.I.O declared a boycott in the general meeting in late 1937. The longshoremen's union often picketed shipments to Japan. However, their decision on the boycott was limited only to Japanese manufactured goods, not raw materials that were
important in American industry for the jobs of American workers.8

The popular American antipathy for Japanese military action was soon to affect major American retailers. In close touch with the attitudes of consumers on the retail level, department stores and chain stores hesitated to handle Japanese products which clearly showed "Made in Japan," and there were some cases where goods were returned from these stores. Such chain stores as S. H. Kress, MacCrory Stores, S. S. Kresge, and Woolworth indicated that they were not placing commitments to buy Japanese goods. Although they had begun dealing with Japanese products again by 1939, the amount of Japanese products they handled clearly decreased.9

The effect of the anti-Japanese feeling was different according to types of products. It hurt particularly the miscellaneous goods from Japan such as stockings, gloves, table cloths, napkins, and canned products. These goods were sold directly to the final consumers and had the "Made in Japan" label on each good. It was difficult to sell these products in the face of boycott movement. These products represented about 23 percent of the total imports from Japan. Their imports decreased about 40 percent, and approximately 55 percent of the decrease was due to the boycott. In the case of raw silk, which made up more than half of the imports from Japan, the boycott caused a decrease of 15 percent. Such products, recognizable as Japanese, or, for which there were no available substitutes, or which were raw or semi-manufactured materials sold at the wholesale level, were not affected by the boycott. Other decreases of the imports from Japan were due mainly to the business recession in the United States, the increasing usage of substitute for silk (rayon), and various factors in Japan, including the lack of raw
materials because of strong exchange restrictions. (Japan imported materials which were useful to war efforts at the cost of importing materials for the export trades.\textsuperscript{10})

In addition to the increasing private boycott movement, the United States government gradually applied economic sanctions against Japan. By June, 1938 a "moral embargo" had been placed on the export of aircraft, engines, parts, armaments, aerial bombs, and torpedoes. There were no formal prohibitions on their export, but they were never sent to Japan after that summer. The Department of Commerce advised American exporters to have a "confirmed irrevocable letter of credit in their hands before accepting orders for shipment to Japan." In December, 1939 this embargo was extended to include molybdenum, aluminum, and information on the production of high quality aviation gas.\textsuperscript{11}

The sanction was strengthened from moral embargoes to mandatory ones. On July 26, 1939 the United States government informed Tokyo of the abrogation of the United States-Japan Commerce and Navigation Treaty of 1911, effective on January 26, 1940. Legally the United States could not embargo shipment to Japan under existing conditions without violating the 1911 treaty. This restriction was removed when the treaty was abrogated on January 26, 1940. In July, 1940 a licensing system for United States exports was established, requiring permits for forty-six items, including metal, and oil products for aircraft gasoline.\textsuperscript{12}

The United States government took other formal actions. It began to apply custom procedures very carefully to Japanese goods. They were always careful about the dumping of Japanese products. If they found violations of law by a Japanese company, they treated it strictly. For example, the United States government restricted the import of Japanese
tooth brushes for the reason they were not healthy. Considering a
claim of dumping from the government, the San Francisco Branch hesi-
tated to sell glass products in the market. 13

In short, by the time when Inoue transferred to the San Francisco
Branch, a deep shadow was creeping over American-Japanese trade.

Withdrawal

It was under these severe conditions that, in August, 1940, Inoue
became the manager of the San Francisco and Seattle Branches. Inoue was
a graduate of Tokyo Commerce College and had been working in the
machinery field since he entered M.S.K. in 1921. He also had experience
working at foreign branches, including Berlin and London. It is obvious
that he was sent to meet the increasing transactions of machinery at the
San Francisco Branch, for which Takeuchi had asked for the assignment of
seiin a few years before. 14

After Inoue became the manager, the transactions of the Seattle
Branch decreased because of the increasing sanctions against Japan by
the Canadian and United States governments. By the autumn of 1940
both governments prohibited the export of wheat and scrap iron, which
were major items of the branch. It was handling only lumber, glass,
and a few minor import items. 15

In spite of the severe situation, however, most overseas branches
of M.S.K. were busy with emergency buying. They wanted to do trans-
actions before western governments completely stopped trade. For ex-
ample, the San Francisco Branch recorded the largest transactions in the
46th Term (10/1/40 - 3/31/41) because it handled a lot of crude oil and
fuel oil, expecting the restriction of oil exports. 16 By March, 1941
the permission for oil exports ceased. By May, 1941 both the San Francisco and Seattle Branches went into the situation where no trade came in through the open door.

Both branches encountered other serious problems related to the growing tension between Japan and the United States. Even most businessmen who had a stake in trade with Japan changed their attitude gradually after 1937 because of their patriotism. Considering the emergency, most American businessmen did not want to give loans and credit to Japanese trading companies. Some sellers, for example, required advance payment, or a letter of credit issued by foreign not Japanese banks. This blocked transactions drastically because Japanese trading companies, including M.S.K., relied on these credits and loans. Their basic principle of operation was to have a high turnover of transactions by using credit or loans from outside sources without resorting to their own capital.

Ship space was another problem. In spite of the fact that transactions of war related materials were curtailed, both the San Francisco and Seattle Branches suffered from a shortage of ship space. This shortage, which had prevailed since it began in 1934, worsened after the outbreak of the Sino-Japanese War in 1937. Japan had to use continuously a lot of ships to pursue the war in China, and to trade with Australia, the Indies, and the Philippines. As Japanese interests monopolized shipping across the Pacific, American shipping companies withdrew from operation there. In addition, European countries withdrew ships from the Pacific after war broke out in Europe. The shortage of ship space hampered the transactions by M.S.K. branches in the United States. Even when the Seattle Branch could contract to export wheat flour (the
export of wheat flour to China was permitted even if it was shipped by Japanese) and lumber, it could not perform without finding ship space.

M.S.K. sought solutions to meet this tough situation. In March, 1941 the manager of the New York Branch considered the establishment of a new distribution company for canned products in the United States in order to avoid the pressure from the boycott movement. As canned products had labels that clearly showed the name of the Japanese company, M.S.K. had a disadvantage. In the case of an American based company, it was unnecessary to give a Japanese name because this would be a pure American company. However, it was too late to materialize this idea.

The San Francisco Branch bought a dummy company. In July, 1940 it bought an auxiliary schooner of Nichiro Gyogyo Kaisha in the United States, but it was impossible to transfer the nationality of the ship from the United States to Japan. Therefore, M.S.K. tried to register this ship in Panama and transfer it to Japan from Panama. M.S.K. acquired the stocks of Compania Colonial de Navegacion, a Panamanian corporation. Tibbits became the president of the company, and his wife and Purcell were directors. A law firm in Panama City was the resident agent for CCdN, and through this company the San Francisco Branch could send this ship to Nichiro in October, 1941.

In spite of these measures taken by the branches of M.S.K. to meet the situation, the relations between the United States and Japan had become worse far beyond their control. Finally, in July, 1941 the United States government froze Japanese assets in the United States, placing all the assets of Japanese companies under its control. Now without permission from the United Stated government, Japanese companies could not do anything, and transactions by both the San Francisco and
Seattle Branches actually stopped. Under this worsening situation, some Japanese companies had begun closing their branches in the United States. In Seattle, Kanematsu Shoten (Kanematsu Merchantile House), Asano Bussan, and Toa Kigyo (Toa Enterprise) had closed their offices by February, 1941. Yamashita Kisen, M.B.K., and N.Y.K. decreased the number of American employees, and sent most Japanese employees back to Japan. M.S.K. had to consider the withdrawal of Japanese employees and decrease the number of American employees. Judging the situation right after the Tripartite Pact in September, 1940, which made the situation worse, Shoji Masuda, the Manager of the New York Branch, began thinking of the withdrawal of the families of Japanese employees. In January, 1941 Kanzo Tanaka, Chairman of M.S.K., ordered that the Japanese employees of branches in the United States be transferred to branches in Japan and other countries, considering the emergency. By the time of the freeze of assets, the New York Branch had sent back more than half of its Japanese employees. However, the San Francisco Branch did not send back any Japanese employees because they had been busy with the transaction of oil, and because Inoue considered the impact of the withdrawal on the Japanese-American community in San Francisco. Inoue had to be careful on this decision because the withdrawal of such a big corporation as M.S.K. would give the impression of despair that the relations between the two countries had reached the worst point.

In spite of the fact that the volume of transactions as a whole had decreased, the branches of M.S.K. in the United States had never ceased operations until the Japanese assets were frozen. After this, they could not do any transactions without permission from the United States.
government, and this completely stopped their jobs. It became clear that they had to decrease the number of American employees. To Japanese managers who had a strong motivation to keep the operations going, it was really sad to announce the dismissal of employees. The manager of the New York Branch announced the decrease of the number of employees on August 15, and most of them were dismissed on September 15. He expressed his feeling:

... On July 26 Ordinance of Japanese Asset Freeze was issued and enforced on the same day. It is very regrettable, although the result of the international relations which we cannot control, that we have to reduce business drastically of this branch our predecessor has attained always developed by efforts for more than twenty years since the opening in January, 1921 ....

It is the traditional spirit of the Japanese people to go as long as possible together with good co-workers and employees, and our Mitsubishi Company has been particularly well-known as an organization that most faithfully lives up to such tradition. But recent development of the general situation does not allow my company to do what it would like to do. I really do not know to express the sadness and sorrow in my heart at this moment.

Inoue had the same feelings. As the San Francisco Branch hired relatively many Japanese-Americans, it seemed a delicate problem to dismiss American employees when he considered the influence of his action on the Japanese-American population. However, Inoue had to announce the dismissal. Except Tibbits, Purcell, Yamashita, Baba, and Fukagai at the San Francisco Branch, Olsen and Hoshide at the Seattle Branch, and some stenographers, all the American employees were dismissed on September 15. In addition, Inoue decided to transfer Japanese employees to Japan, and most of them were transferred to Japan and other countries before Pearl Harbor. Inoue, Terao, and Tsuji (San Francisco) and Usui (Seattle) were to leave for Japan in the middle of December.
The managers of the M.S.K. branches in the United States were very concerned about jobs for the dismissed employees. It was particularly difficult for Japanese-Americans to find a new job under a severe international relation. Inoue tried to find jobs for them in the companies with which M.S.K. had business relations, and in Mitsubishi companies in Japan. For example, Harry Naka got a job at Hamilton Company with which M.S.K. had cotton transactions. However, most of the dismissed employees could not find a job in spite of Inoue's efforts.34

On December 7, 1941 war was declared by Japan by the surprise attack of Pearl Harbor. On that day, the United States government immediately exercised jurisdiction and control of the offices, books, records, and files of the M.S.K. branches, and Inoue was taken into custody by the United States government. R. A. Nelson, the United States Treasury representative, took charge of the San Francisco Branch. With the outbreak of war between the United States and Japan, the branches of M.S.K. in the United States were closed by the American government.35

The San Francisco Branch re-opened under supervision and control of the Federal Reserve Bank on April 1, 1942. It got a license, which was limited to the conservation of and the conversion of the assets of M.S.K. into cash, including the payment of expenses incidental to such conservation and conversion. It did not permit liquidation or operation or payment of general creditors. All proceedings, including correspondence and inbursement, required the approval, supervision and counter signature of the representative of the Federal Reserve Bank.36

After the creation of the Office of Alien Property Custodian in March, 1942, the control of the San Francisco Branch went to it.37 In March and April, 1942 power of attorney and authorization were transferred
from Inoue to Tibbits. As in the case with most other commercial companies like trading, banking, and insurance companies which were not useful for war efforts, the Office of Alien Property Custodian made efforts to liquidate the San Francisco Branch as well as other M.S.K. branches. Tibbits and Purcell remained at the office, doing liquidation work. According to the annual report of the Office of Alien Property Custodian, the assets of the three M.S.K. branches remained vested in the Alien Property Custodian until 1946, but most assets of the San Francisco Branch were sold by the end of 1942. The Seattle Branch probably had the same experience. The war ended the history of both branches.
Notes for Chapter 7


3. Ibid.


12. Ibid.


15. Reports on the Operation of the Seattle Branch, 46th, 47th, and 48th Terms, R.G. 131 (Seattle), F.S., 1921-41, box 484.

16. Manager of San Francisco and Seattle Branches to Manager of General Dept., Tokyo, no date (c. September, 1941), R.G. 131 (S.F.), box 653.


18. Manager of San Francisco and Seattle Branches, no date.


27. Shoji Masuda, Manager of New York Branch to Manager of General Dept., Tokyo, October 16, 1940, R.G. 131 (S.F.), box 637.


30. Inoue, Withdrawal of San Francisco Branch.


33. Inoue, Withdrawal of San Francisco Branch.

34. Ibid.


36. Ibid.

37. Business owned by enemy national was generally controlled by the office of Alien Property Custodian while securities were controlled by Treasury Department. Office of Alien Property Custodian, Annual Report for the Period March 1, 1942, to June 30, 1943, pp. 9-10.

38. Nelson to Stoner.


40. Nelson to Stoner.
CONCLUSION
Before World War II the direct investment of Japanese business in the United States was limited to branch operations. Banks, insurance, trading, and shipping companies had branches in the United States. Among them trading companies were the most important, because Japanese made direct investments to perform trade between the United States and Japan. Other companies gave subsidiary service to trading companies: export financing, marine insurance, and shipping.

M.S.K. was one of the largest among trading companies that had branches in the United States. It had branches in New York, San Francisco, and Seattle before the war. The San Francisco and Seattle Branches, which are the subject of this study, exported mainly oil, wheat and wheat flour, lumber, scrap iron, and machinery to Japan and imported canned crab meat, vegetable oils, fertilizers, and small wares to the United States. They also developed trade between the United States and third countries, including China, Manchukukuo, the Philippines, and Mexico. However, they did not develop domestic trade. They also performed other functions, including shipping, insurance agent, and hosting visitors from Japan.

As M.S.K. developed in the 1920s and 1930s, it was both an example of a distinctly Japanese business institution, the general trading company, and, of course, a unique firm in its own right. The intensive analysis of M.S.K. in this dissertation was limited to the San Francisco and Seattle Branches. The documentation for these two offices was most complete, but even it had shortcomings that made it impossible to reconstruct the full story of all their important activities. Nevertheless, this study enlarges our understanding of M.S.K. in particular and the trading company in general.
In understanding the development of the general trading company, it is essential to keep in mind the nature of the zaibatsu. M.S.K. was part of a family of companies, none of which developed according to the American model because of their membership. Whereas American firms were rapidly developing their ability to acquire raw materials, process them into finished products, and distribute them to consumers, such was not the case with Japanese companies before 1941. Instead, the general trading company performed these integrative functions. This performance was especially important in an island nation dependent on the importation of raw materials, and the export market. The result was that the institutional structure of Japanese and American business firms differed. The general trading company was the most visible of these differences.

Each American integrated large enterprise tried to procure raw materials and sell its products. But M.S.K. worked as the procurement and sales department of member industrial companies of the Mitsubishi Zaibatsu. Whenever a member company needed a new material or manufactured new products, M.S.K. had to add them to its product lines. Why did not they integrate these functions like most American big business firms? The answer probably lies in their development with one company group. Most key members were departments of Mitsubishi Goshi Kaisha. After they became independent they left these functions to M.S.K. They had common interests as members of the same zaibatsu. This is clearly shown in the limits of transactions and credit; in transactions with member companies M.S.K. did not impose limitations. Their fate was M.S.K.'s fate. With this consciousness, member companies left these functions to another, without the necessity of controlling the flow of products on their own.
In Japan because of the scarcity of raw materials and limited market, it had to find overseas supply sources and markets for member companies. As a result, the diversification of product lines was closely related with the development of overseas branches. For example, M.S.K. opened both the San Francisco and Seattle Branches in order to develop a particular product or products. It opened the Seattle Branch to sell iron to Japanese shipping companies, particularly the Mitsubishi Shipping Co. It opened the San Francisco Branch to handle oil products for the Japanese Navy, which was a large and secured market in Japan, and which had a close relationship with the Mitsubishi Zaibatsu.

This role of M.S.K. as procurement and sales departments of a zaibatsu group and, later, non-member companies was very useful for overseas trade. Different American companies, each member company did not need its own overseas activities, and M.S.K. attained economy of scale as it acquired the functions of member companies.

Moreover, by increasing the number of overseas branches while increasing diversification, M.S.K. internalized some functions of international trade that traditionally outside importers and exporters of host countries had performed. By internalizing international trade, M.S.K. was able to do business without the difficulties caused by communication and cultural gaps. International transactions became those either between headquarters and branches (export and import), or between overseas branches (trade between countries other than Japan). They could decrease risk in international transactions by leaving daily operations to employees hired locally (yoin), and Japanese employees (sein) controlled their activities. In this sense, hiring Japanese-Americans as employees was practical because they understood the
business practices of both Japan and the United States. So it was natural that San Francisco hired relatively many Japanese-Americans.

Once this internalized transaction system was established, theoretically trading companies could increase their product lines and overseas branches without limit. They could find the cheapest raw materials and the most profitable market all over the world. However, actually there appeared many problems which prevented further development of general trading companies. For example, there was a possibility that these branches and departments might compete one another as independent operating units, with M.S.K. experiencing diseconomy of scale. M.S.K. had to overcome these problems to grow continuously. It developed a new organizational structure and management system. It developed a de-centralized, divisional structure along product lines (line departments) and geographical areas (overseas branches). By this organization top management could concentrate its efforts on long-range, strategic problems, and department and branch managers had responsibility for the daily operations of their departments and branches. In the transaction each line department became an independent operating unit, and became headquarters for the transactions of the products it handled. Transactions were done among departments of headquarters and domestic and overseas branches. In order to avoid competition among them, M.S.K. induced the motoatsukaiten (original acting office) and atsukaiten (acting office) systems. This attributed profits and losses of a particular product to original acting office alone.

In order to control overseas branches and the firms as a whole effectively, M.S.K. set limits on transactions and credit. Each branch could transact only within these limits. It also continuously improved
its communication and reporting system, by which headquarters could
know and coordinate the activities of branches. It was one of the
most important things for a trading company to collect the right infor-
mation as soon as possible to coordinate the activities of branches.
By developing this sophisticated organizational structure and manage-
ment system, M.S.K. could overcome problems it met, and it continuously
grew to become a big business.

A stable and regular flow of products was necessary to control the
internalized transactions effectively. It is said the general trading
company handled various kinds of products, "from noodles to missiles."
We have the impression that it handled an unlimited variety of products.
However, careful study shows that the products it handled were limited
to those for which it could effectively control their flow from suppliers
to customers. In order to attain a stable and regular flow of products,
the general trading company had to perform various kinds of subsidiary
functions.

The main products M.S.K. handled were (1) raw materials from large
suppliers to large customers, (2) highly mechanized, expensive products,
particularly machinery, and (3) undifferentiated, unperishable small
products that sold through many channels. In the first category, oil,
which was the main item of the San Francisco Branch, was a good example.
M.S.K., after making a survey on the future of the business and securing
a big market, the Japanese Navy, entered the business. In order to
secure the supply of oil it had to make a sole agency contract with
Associated Oil Co. In this kind of business, there were few marketing
problems because of the nature of the products and the market. Only
after establishing its basis, M.S.K. entered more competitive product
lines such as gasoline and motor oil.

In the second category of products, M.S.K. handled mainly advanced Western machinery and technology for the member companies of the Mitsubishi Zaibatsu. In these transactions, M.S.K. seems to have given supplementary service to them. It did preliminary negotiations, collecting information on both products and export business affairs. Generally, manufacturing companies sent their representatives to negotiate with American suppliers. Such large American companies like General Electric had their own offices in Japan and gave service to Japanese business firms.

The third category of products, undifferentiated, unperishable small products, were mainly export items to the American market. Canned crabmeat was one of them. At the time of M.S.K.'s birth, economic opportunities in the United States were themselves evolving. The United States enjoyed the largest G.N.P. of any nation by the time of World War I, and the costs of the war to the European belligerents made it the world economic leader by 1919. For purpose of understanding the interrelation of M.S.K. and Japanese business firms with the United States, we need to recall that the American market had the largest number of customers in the world. The American system of reaching these customers underwent important structural changes in the 1920s when M.S.K. branches in Seattle and San Francisco became important. Marketing techniques operated by chain stores were becoming increasingly important, as was product advertising aimed directly at influencing the consumer.

M.S.K. never missed this opportunity by handling the third type of products. Canned crabmeat was one of them. The canned crabmeat industry was very competitive and unstable with many small canneries. M.S.K.
tried to secure the supply of products in several ways. By supplying them with funds for fisher or export financing, M.S.K. could control the suppliers. It played a role of promoter in the consolidation of small manufacturers into a large company. M.S.K. tried to integrate the small amount of products of small producers into a large transaction unit, and it sold them to American brokers and Japanese importers, which in turn, sold through various channels. This decreased the transaction cost and risk. It was necessary to control distribution in the United States in order to increase the efficiency of the internalized transactions and stable flow of the products, so M.S.K. aggressively developed advertising. By appealing to final consumers directly, M.S.K. could keep its supremacy over distributors, and control the flow of the products from production to consumption. Even during the Great Depression when most Japanese companies provided cheaper products under the specification of large chain stores such as Woolworth and Kresge, M.S.K. wisely kept, although it did not develop, the luxurious market for canned crabmeat.

In other categories of products, the general trading company might not have controlled the flow of products. For example, in the durable consumer goods whose industries developed after World War II in Japan, the general trading company was inappropriate. Toyota and Nissen developed their own distribution system in the overseas market in the sales of automobiles, and Sony and Matsushita in electric appliances.

On the process of adding product lines and overseas branches, M.S.K. internalized the international transactions in its own organization. Now the management of M.S.K. had to coordinate and control their departments and branches effectively in order to attain efficient transactions.
M.S.K. developed a new decentralized organization with strong centralized control. In order to attain profit in transactions, it was necessary to control the flow of products they handled. M.S.K. did this by supplying funds, making sole agency contracts, and investing in suppliers. It also had to do other functions, such as scheduling shipping, collecting market information, and hosting visitors from Japan. Once an effective transaction system was established, M.S.K. did not want this disturbed by competitors, and competition among trading companies, particularly with M.B.K., was intensive because they wanted to keep their established flow of products and their transactions systems intact. By this effective system of internalized transactions, Japanese large trading companies controlled the American-Japanese trade before World War II, in spite of the fact that they met restrictions by the United States government, and strong competition from established American and European business interests.
Notes for Conclusion

APPENDIX A
Appendix A
Sales Volume of M.S.K.
(1920-1941)
(As in One Thousand Yen)

<table>
<thead>
<tr>
<th>Term</th>
<th>Year</th>
<th>Sales Volume</th>
</tr>
</thead>
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<tr>
<td>5</td>
<td>(5/20-10/20)</td>
<td>65,199</td>
</tr>
<tr>
<td>6</td>
<td>(11/20-4/21)</td>
<td>34,330</td>
</tr>
<tr>
<td>7</td>
<td>(5/21-10/21)</td>
<td>56,734</td>
</tr>
<tr>
<td>8</td>
<td>(11/21-4/22)</td>
<td>67,806</td>
</tr>
<tr>
<td>9</td>
<td>(5/22-10/22)</td>
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</tr>
<tr>
<td>10</td>
<td>(11/22-4/23)</td>
<td>110,465</td>
</tr>
<tr>
<td>11</td>
<td>(5/23-10/23)</td>
<td>103,014</td>
</tr>
<tr>
<td>12</td>
<td>(11/23-4/24)</td>
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</tr>
<tr>
<td>13</td>
<td>(5/24-10/24)</td>
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</tr>
<tr>
<td>14</td>
<td>(11/24-3/25)</td>
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</tr>
<tr>
<td>16</td>
<td>(10/25-3/26)</td>
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</tr>
<tr>
<td>17</td>
<td>(4/26-9/26)</td>
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<td>18</td>
<td>(10/26-3/27)</td>
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<tr>
<td>19</td>
<td>(4/27-9/27)</td>
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<tr>
<td>20</td>
<td>(10/27-3/28)</td>
<td>214,931</td>
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<tr>
<td>21</td>
<td>(4/28-9/28)</td>
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<tr>
<td>22</td>
<td>(10/28-3/29)</td>
<td>239,739</td>
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<td>23</td>
<td>(4/29-9/29)</td>
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<td>24</td>
<td>(10/29-3/30)</td>
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<tr>
<td>25</td>
<td>(4/30-9/30)</td>
<td>199,530</td>
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<tr>
<td>26</td>
<td>(10/30-3/31)</td>
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</tr>
<tr>
<td>27</td>
<td>(4/31-9/31)</td>
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</tr>
<tr>
<td>28</td>
<td>(10/31-3/32)</td>
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</tr>
<tr>
<td>29</td>
<td>(4/32-9/32)</td>
<td>169,428</td>
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<tr>
<td>30</td>
<td>(10/32-3/33)</td>
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<td>31</td>
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<td>33</td>
<td>(4/34-9/34)</td>
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</tr>
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<td>34</td>
<td>(10/34-3/35)</td>
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<td>35</td>
<td>(4/35-9/35)</td>
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<td>(4/39-9/39)</td>
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<td>45</td>
<td>(4/40-9/40)</td>
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<td>46</td>
<td>(10/40-3/41)</td>
<td>1,249,742</td>
</tr>
<tr>
<td>47</td>
<td>(4/41-9/41)</td>
<td>1,172,845</td>
</tr>
</tbody>
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### Appendix B

**M.S.K.'s Investment in Other Companies**
(As of June, 1939)

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Capital (1000 Yen)</th>
<th>Rate of M.S.K.</th>
<th>Number of Executives from M.S.K.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai Mitsubishi Soko</td>
<td>1,000</td>
<td>25 (%)</td>
<td>1</td>
</tr>
<tr>
<td>Mitsubishi Sekiyu</td>
<td>10,000</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Kiyosumi Seizaisho</td>
<td>400</td>
<td>100</td>
<td>4</td>
</tr>
<tr>
<td>Kokuyo Shokai</td>
<td>400</td>
<td>100</td>
<td>4</td>
</tr>
<tr>
<td>Mango Shokusan</td>
<td>500</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Daito Shokuhin</td>
<td>450</td>
<td>50</td>
<td>3</td>
</tr>
<tr>
<td>Chiyoda Sekiyu</td>
<td>500</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Daito Boshoku</td>
<td>10,000</td>
<td>1.2</td>
<td>1</td>
</tr>
<tr>
<td>Nichiro Gyogyo</td>
<td>53,800</td>
<td>2.8</td>
<td>1</td>
</tr>
<tr>
<td>Osaka Seihan</td>
<td>5,000</td>
<td>7.5</td>
<td>1</td>
</tr>
<tr>
<td>Morimura Arai</td>
<td>1,000</td>
<td>100</td>
<td>4</td>
</tr>
<tr>
<td>Sanwa Jidosha</td>
<td>35</td>
<td>25.7</td>
<td></td>
</tr>
<tr>
<td>Nitto Seifun</td>
<td>12,300</td>
<td>3.3</td>
<td>1</td>
</tr>
<tr>
<td>Manchurian Sekiyu</td>
<td>20,000</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Nichiman Seifun</td>
<td>10,000</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Tekkan Keishu Hanbai</td>
<td>500</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Nanshu Kiki</td>
<td>10,000</td>
<td>12.5</td>
<td>3</td>
</tr>
<tr>
<td>Mitsubishi Kako</td>
<td>5,000</td>
<td>23.5</td>
<td>2</td>
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<tr>
<td>Nippon Kentetsu Kogyo</td>
<td>1,000</td>
<td>70</td>
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</tr>
<tr>
<td>Honan Unyu</td>
<td>200</td>
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<td></td>
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<tr>
<td>Sekiyu Rengo</td>
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<td>7.7</td>
<td>3</td>
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<tr>
<td>Godo Match</td>
<td>30</td>
<td>36.7</td>
<td></td>
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<tr>
<td>Company Name</td>
<td>Investment</td>
<td>Percentage</td>
<td>Rank</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>------------</td>
<td>------------</td>
<td>------</td>
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<tr>
<td>Kyodo Kigyo</td>
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<tr>
<td>Nippon Ryuan</td>
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<td>1</td>
</tr>
<tr>
<td>Nanyo Shinjyu</td>
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<td>Shiryo Haigo</td>
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<tr>
<td>Becchín Koruten Yushutsu Shinko</td>
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<td>1</td>
</tr>
<tr>
<td>Nippon Kozai Hanbai</td>
<td>30,000</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Showa Tsusho</td>
<td>15,000</td>
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<tr>
<td>Taiwan Kansho</td>
<td>480</td>
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<tr>
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<td>1</td>
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<td>Taiwan Ryuan</td>
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<tr>
<td>Nanking Mato Kojin</td>
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<td>1</td>
</tr>
<tr>
<td>Teikoku Kogyo Kaihatsu</td>
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<td>1.7</td>
<td>1</td>
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<tr>
<td>Seibu Yushutsu Kogyo</td>
<td>1,000</td>
<td>0.5</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: Among companies in which M.S.K. invested, we chose the companies according to the following rules:
1. M.S.K. held more than 25 percent of the stocks of the company.
2. M.S.K. sent at least one member of top management even if it had less than 25 percent of the company stocks.

Source: Department of Development, Wagasha no Toshi Yoran (An Survey on M.S.K.'s Investment in Other Companies), May 12 and June 20, 1939, R.G. 131 (S.F.), box 619.
I have based this study mainly on the records of the company concerned. Immediately after Pearl Harbor the United States government confiscated the records of Japanese companies in the United States. Some were destroyed, but others remained at the Washington National Record Center in Suitland, Maryland. Among them were records of the New York Branches of Horikoshi and Co., Okura Shoji Kaisha, Yokohama Specie Bank, Mitsubishi Bank, and the San Francisco and Seattle Branches of M.S.K. and M.B.K. I found these materials in Record Group 131, Office of Alien Property World War II Seized Process. However, as these documents have not been screened yet, there is no formal catalogue of them. The most valuable guide is "Records in the National Archives Relating to Japanese-American Commercial Relations in the Interwar Periods," written by T. Lane Moore, Archivist at the National Record Center.

This study is based on the records of the San Francisco and Seattle Branches of R.G. 131. The records of the New York Branch are necessary for a full study of the operations of M.S.K. in the United States, because it was the largest among the branches. Unfortunately they were destroyed. The records of the San Francisco and Seattle Branches were in boxes along functional departments and product lines: for example, Miscellaneous Correspondence (files of branch manager), Fuel Department, Cotton Department, Accounting Department, etc. But the records are not necessarily classified neatly along these lines. So it was necessary to open each box to know what they contained.

Most of the records were related to daily routine operations, mostly shipping orders and receipts. Among the valuable records were reports called Important Documents and Papers Transferred. When the
branch manager was transferred, he had to report on the major development of the transactions and managerial problems during his tenure. Another set of important documents were the Reports on the Operations at Branch. These contain the trend of transactions, general economic conditions, relationship with customers and suppliers, and competition with other companies. Unfortunately, I did not find all of them, because they are not in a discrete file, and the enormous volume of paper prevented me from making a complete research.

Other records are correspondence between headquarters in Tokyo and other branches and the San Francisco and Seattle Branches. These include both very routine letters and those on special projects, such as entering new business and special agreement with other companies and changing organizations. Accounting records of both branches are very sporadic. These records were written in Japanese and English. Most important documents which are related with strategies were mainly written in Japanese, and some of the documents were translated into English. I did not show in footnotes in which languages the documents were written. There is some evidence which shows that branches of M.S.K. in the United States sent back important documents to Japan before the freezing of the Japanese assets in July, 1941, but we do not know what kinds of documents they were.

Jitsugyo Boekiroku (History of M.S.K.) is also valuable. It is surprising that the number of studies of M.S.K. is really small compared with those of M.B.K. This is probably because of the closed system of Mitsubishi. I understand that Mitsubishi is going to publish the documents of Goshi Kaisha in more than forty volumes in the near future. Before they appear, Jitsugyo Boekiroku is the most important study. It
traced the development of transactions very carefully. However, it
does not deal with the managerial aspect of the company at all. At
this moment there is no study which handled the development of the
administrative structure and methods of M.S.K.

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