A Comparative Study of the Economic Activities of *Sogo Shosha* in the United States and Canada in the early 1990s

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**Abstract:** The purpose of this paper is to clarify economic activities and strategies of *sogo shosha*, that is, the nine largest Japanese general trading companies, in response to different markets, namely the United States and Canada, during the early 1990s. This was a crucial period, due to the commencement of the North American Free Trade Agreement and the bursting of the Japanese bubble economy. The paper focuses on the characteristics of Japanese trading and investment patterns during the period in question, with particular attention to the activities of *sogo shosha*, in order to understand their current economic activities in North America. The American *sogo shosha* emphasize both offshore trade and domestic trade in the United States. The Canadian *sogo shosha* largely depend on the bilateral trade between Canada and Japan. *Sogo shosha* investment in the United States was more market-orientated, while that in Canada was more resource-oriented. The paper also includes exploration of the locational and functional implications of branches of *sogo shosha*. By changing their organizational operations and with concomitant functional changes in branches, four *sogo shosha* in the United States have pursued the localizing business strategies, while their counterparts in Canada have remained closer to the trading prototype. The examination of the different trading and investment patterns of *sogo shosha* in the United States and Canada reveals that they have recognized the United States and Canada as two distinct markets. It also shows the economic environments of the host and home countries have affected the economic activities of *sogo shosha* in North America.

**Key words:** direct foreign investment, trade, organizational structure, *sogo shosha*, United States, Canada, Japan

**Introduction**

The early 1990s saw the creation of two huge markets on the both sides of the Atlantic Ocean. On the one hand, the North American Free Trade Agreement (NAFTA)\(^1\) signed in 1992 by the United States, Canada and Mexico came into effect in 1994. The NAFTA is the expanded version of the previously signed U.S.-Canada Free Trade Agreement which came into force in 1989. The NAFTA is designed to eliminate tariffs and most non-tariff barriers to regional trade within ten years, except for a few import-sensitive products.

On the other hand, the European Union (EU) was created in 1993, out of the older organization referred to as the European Community which earlier had been the European Economic Community. The EU aims not only at regional economic integration but also political integration. Economically, it is planned to remove trade barriers among the member countries and to create a monetary union represented by a common currency unit, the “Euro.” Under these circumstances, the multinational corporations have adopted their strategies in accordance with the changes in the North American and European markets. It is therefore worthwhile to scrutinize their regional economic behavior in response to these regional realignments. In this paper the economic activities and strategies of Japanese multinationals in North America are examined as a case study.\(^2\)

With the rapid increase in Japanese direct foreign investment (DFI)\(^3\) since the late 1980s, a large number of theoretical and empirical studies have examined this phenomenon in order to grasp the special features of Japanese DFI from various perspectives. Among others, geographers also significantly contributed to an understanding of Japanese DFI in North America\(^4\)
as well as in the world. However, the majority of literature on Japanese DFI in North America and Europe focuses on manufacturing investment, and research on the service sectors, the commerce sector in particular, is scarce, even though the postwar Japanese DFI started with *sogo shosha* investment to establish their commercial networks for trade (Kurihara, forthcoming, a). Recently, Jones and other scholars have directed their attention to multinational trading companies (Jones 1998; Jones 2000). Therefore, it is worthwhile to examine empirical studies of *sogo shosha*, which will contribute to the understanding of a theory of service multinationals.

The purpose of this study is to understand economic strategies of *sogo shosha* in the early 1990s in response to different markets, namely the United States and Canada, by clarifying the characteristics of their trading and investment patterns, and by exploring the locational and functional implications of their branches. In particular it is crucial to examine whether the economic integration of the United States and Canada through the NAFTA might have affected *sogo shosha* activities as well as to delineate the characteristics of their investment patterns right after the Japanese "bubble economy" burst in 1990. In the era of the globalization of economies and the integration of markets, the characteristics of markets, the economic activities of multinational corporations and the economic environments of their home countries have greater than ever mutual influence. This paper presents a broad analysis of all *sogo shosha* operating in North America in 1995. A more detailed analysis of the six major *sogo shosha* in 1999 is forthcoming (Kurihara, forthcoming, b).

This paper consists of six parts. Starting with this introductory section, the major characteristics of *sogo shosha* are reviewed regarding their functions in the following section. Then, *sogo shosha* trading patterns in the United States and Canada are contrasted concerning their trade volumes, annual sales composition and trading items. The special features of *sogo shosha* direct foreign investment in the two countries are clarified. In the next section, organizational structure of *sogo shosha* and their branch functions are examined in response to the changes in economic and political environments of both home and host countries. Finally, the concluding section summarizes main research findings.

**Characteristics of Sogo Shosha**

In this paper, *sogo shosha* refers to the nine largest Japanese general trading companies: Mitsui, Mitsubishi, Marubeni, Itochu, Sumitomo, Nissho Iwai, Tomen, Nichimen and Kanematsu. These *sogo shosha* have been the chief traders in Japan during the postwar era. Since Japan has scarcities in most natural resources and foodstuffs in contrast with the large amount of their consumption, the prototype *sogo shosha* export mainly Japanese manufactured products while importing overseas raw materials and foodstuffs.

There are four primary functions of *sogo shosha*: trade, financial services, information collection, and organization and coordination of complex consortia on an international scale. Trade is, first and foremost, the crucial function of *sogo shosha*. It consists of domestic wholesale trading activities within Japan and overseas trading activities. They are characterized by huge trading volumes, and by a great variety of commodities and services covering every corner of the world.

In the fiscal year of 1994, which started on April 1, 1994, and ended on March 31, 1995, the total sales of the nine *sogo shosha* amounted to 110 trillion yen (Table 1). Approximately, half of their total sales (50.5 trillion yen) was domestic trade within Japan. The rest of the total sales were broken into three overseas trading activities; exports from Japan, imports into Japan, and the offshore or third country trade which bypasses Japan. The rest of the total sales were broken into three overseas trading activities; exports from Japan, imports into Japan, and the offshore or third country trade which bypasses Japan. In the fiscal year of 1994, the total exports by the nine *sogo shosha* reached 13 trillion yen, while in the calendar year of 1994 the total Japanese exports were 40.5 trillion yen (Ministry of International Trade and Industry 1995: 1). Although the two exports figures did not exactly match up due to the difference in coverage periods, it is relevant to say that *sogo shosha* roughly exported 30% of the total Japanese exports in 1994. Similarly,
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Table 1. Annual sales of sogo shosha in Japan by type of transaction in FY1994 (In billion yen)

|                        | Mitsui | Mitsubishi | Itochu | Marubeni | Sumitomo |
|------------------------|--------|------------|--------|----------|----------|
| Exports                | 1,939  | 2,282      | 1,577  | 2,059    | 2,113    |
| Imports                | 2,099  | 2,574      | 1,615  | 1,619    | 2,174    |
| Offshore trade         | 5,894  | 4,316      | 5,559  | 3,778    | 4,145    |
| Domestic within Japan  | 7,103  | 8,294      | 7,920  | 7,462    | 7,707    |
| Total sales            | 17,035 | 17,466     | 16,671 | 14,918   | 16,139   |

|                        | Nissho Iwai | Tomen | Nichimen | Kanematsu | Total |
|------------------------|-------------|------|----------|-----------|-------|
| Exports                | 1,025       | 613  | 527      | 880       | 13,015|
| Imports                | 1,999       | 814  | 454      | 1,984     | 15,332|
| Offshore trade         | 2,713       | 2,095| 1,924    | 1,008     | 31,432|
| Domestic within Japan  | 4,283       | 3,422| 2,677    | 1,676     | 50,544|
| Total sales            | 10,020      | 6,944| 5,582    | 5,548     | 110,323|

Sources: Annual Reports of the nine sogo shosha in 1995.

the total imports by sogo shosha were 15.3 trillion yen, while the total Japanese imports were 28.1 trillion yen (Ministry of International Trade and Industry 1995: 2). Thus, it is estimated that about half of the total Japanese imports were carried out by sogo shosha in 1994. These two ratios indicate that sogo shosha still play an important role in Japanese foreign trade. The offshore trade contributed to 31.4 trillion yen, which was 28.5% of their total sales in the same fiscal year. The sales of the offshore trade was larger than those of both exports and imports combined. Its proportion is regarded as one of the significant indicators revealing the extent to which a company carries out business activities outside its home country.

The second significant function is financial services. In order to facilitate their trading activities, sogo shosha often provide business partners with capital, especially to those who might find it difficult to borrow necessary funds from large financial institutions. With the recent development of capital markets, this role has relatively diminished.

Moreover, sogo shosha had been major promoters of Japanese direct foreign investment until the early 1970s. Although their presence in direct foreign investment has comparatively declined due to the large presence of mature Japanese manufacturers, financial institutions and real estate companies, sogo shosha investment remains a crucial component of Japanese overseas direct investment. In order to promote their trading activities, they have also established their wholly-owned trading subsidiaries in the United States and Canada. In addition, sogo shosha have participated in many joint ventures in manufacturing and natural resource development projects with minority equity shares and often long-term purchasing contracts. Thus, their leverage is far greater than the reported investment figures.

Organizationally, sogo shosha and main banks are pivotal members of Japanese keiretsu, or six major industrial groups. The member companies are loosely connected by cross-share holdings, outside directorships and trade in intermediate products. While the interaction of group members takes place at many different levels, the most crucial meetings are the presidents' council that bring together the chief executive officers from the group's nucleus companies (Gerlach 1992: 104–105). This sogo shosha position in the keiretsu in conjunction with above-discussed three principal functions have facilitated their role as organizer or coordinator in international consortia. Now that the chief functions of sogo shosha are reviewed, their economic activities in North America are discussed in the following sections.

Trading Patterns

The United States has been the most vital trading partner for Japan after World War II. In 1994, 29.7% (12 trillion yen, or US$ 117.5 billion) of the total Japanese exports was directed
Table 2. Annual sales of *sogo shosha* in the United States and Canada

| Year | Mitsui U.S.A. | Mitsubishi International | Itochu International | Marubeni America | Sumitomo America | Nissho Iwai America | Tomen America | Nichimen America | Kanematsu USA |
|------|---------------|--------------------------|----------------------|------------------|------------------|---------------------|--------------|----------------|---------------|
| 1990 | 15,653        | 13,077                   | 12,315               | 17,451           | 13,517           | 12,422              | 2,720        | 2,159          | 2,221         |
| 1991 | 13,440        | 12,982                   | 10,822               | 17,315           | 13,409           | 9,064               | 3,674        | 2,233          | 2,055         |
| 1992 | 14,674        | 11,841                   | 10,394               | 16,012           | 13,163           | 9,331               | 3,293        | 2,130          | 1,922         |
| 1993 | *9,059*       | 9,402                    | 11,525               | 14,503           | 12,001           | 9,528               | 3,370        | *1,605*        | 1,827         |
| 1994 | 13,513        | 9,216                    | 12,127               | 10,999           | *7,650*          | 10,698              | 2,720        | 2,147          | 1,592         |

(In US$ million)

| Year | Mitsui Canada | Mitsubishi Canada | Itochu Canada | Marubeni Canada | Sumitomo Canada | Nissho Iwai Canada | Tomen Canada | Kanematsu Canada |
|------|---------------|-------------------|---------------|-----------------|-----------------|-------------------|--------------|------------------|
| 1990 | 2,680         | 1,338             | 1,280         | 1,325           | 1,106           | 530               | 137          | 192              |
| 1991 | 3,125         | 1,381             | 1,367         | 1,094           | 920             | 471               | 127          | 145              |
| 1992 | 3,045         | 1,261             | 1,353         | 1,113           | 847             | 580               | 143          | 156              |
| 1993 | 2,423         | 1,332             | 1,184         | 1,358           | 940             | 780               | 207          | 144              |
| 1994 | 2,802         | 1,413             | 974           | 1,763           | 971             | 644               | 208          | 144              |

(In C$ million)

Note: *indicate sales for nine months due to the changes in year-end from March to December.

Sources: *Burenu, Canadian Business, The Financial Post 500*, and interviews by the author.

to the United States, while 22.9% (6.4 trillion yen, or US$ 62.6 billion) of the total Japanese imports was from the United States (Ministry of International Trade and Industry 1995: 6-7). Although the size of trading volumes between Japan and Canada has been relatively small, Canada is one of the important supplier countries of natural resources and foodstuffs for Japan (Langdon 1983). In addition, both the United States and Canada are resource-rich and industrialized countries, but their economic, political, geographical and social factors create different environments. As the research by Pass, Prescott and Buckley (1998) presented, continued differences between the Canadian and American markets mean that many companies are continuing to treat the markets as two separate entities. Therefore, it is worth examining *sogo shosha* trading activities between North America and Japan.

This section focuses on their trading patterns in terms of trade volumes, annual sales composition and trading items. The largest annual sales of *sogo shosha* in the United States amounted to US$ 13.5 billion by Mitsui & Co. (U.S.A.) in 1994, followed by Itochu International Inc.’s US$ 12 billion. The annual sales of both Marubeni America Corp. and Nissho Iwai American Corp. were over US$ 10 billion. The annual sales of Mitsubishi International Corp. reached US$ 9 billion, while those of Sumitomo Corp. of America were US$ 7.6 billion, which only covered nine months due to the change in year-end from March to December. The annual sales of Tomen America Inc., Nichimen America Inc., and Kanematsu USA Inc., were US$ 2.7 billion, US$ 2.1 billion, and US$ 1.5 billion, respectively (Table 2).

In Canada the largest annual sales were made by Mitsui Canada with C$ 2.8 billion. The second and third largest annual sales were approximately half of the first one; C$ 1.4 billion by Mitsubishi Canada and C$ 1.3 billion by Marubeni Canada. The annual sales of Itochu Canada (C$ 974 million) and Sumitomo Canada (C$ 971 million) were slightly less than C$ 1 billion. They were followed by Nissho Iwai Canada (C$ 644 million), Tomen Canada (C$ 208 million), and Kanematsu Canada (C$ 144 million).

When the exchange rate of US$ 1 = C$ 1.4025 at the end of December, 1994 is applied, the annual sales of Mitsui Canada were converted to nearly US$ 2 billion, and those of Mitsubishi Canada to US$ 1 billion. Consequently, when the largest annual sales in the United States and Canada are compared, the size of Mitsui USA was some 6.7 times as much as that of
Table 3. Annual sales of sogo shosha by type of transaction in the United States in 1994 and in Canada in 1993 (%)

|                          | Exports from US to Japan | Imports from Japan to US | Offshore trade | Domestic within US |
|--------------------------|--------------------------|--------------------------|----------------|-------------------|
| Mitsui USA               | 21.1                     | 8.7                      | 60.6           | 9.6               |
| Mitsubishi International | 25.0                     | 13.5                     | 49.8           | 11.8              |
| Itochu International     | 23.1                     | 32.4                     | 15.6           | 28.8              |
| Marubeni America         | 22.9                     | 21.3                     | 25.2           | 30.5              |
| Sumitomo America         | 12.0                     | 10.5                     | 66.4           | 11.2              |
| Nissho Iwai American     | 25.8                     | 12.2                     | 52.8           | 9.2               |
| Tomen America            | 45.0                     | 22.5                     | 22.7           | 9.8               |
| Nichinen America         | 36.0                     | 15.4                     | 44.8           | 3.9               |
| Kanematsu USA            | 36.9                     | 19.4                     | 27.6           | 16.1              |

|                          | Exports from Canada to Japan | Imports from Japan to Canada | Offshore trade and Domestic within Canada |
|--------------------------|-----------------------------|-----------------------------|------------------------------------------|
| Mitsui Canada            | 40.0                        | 40.0                        | 20.0                                     |
| Mitsubishi Canada        | 76.9                        | 19.2                        | 3.8                                      |
| Itochu Canada            | 60.0                        | 40.0                        | 0.0                                      |
| Marubeni Canada          | 70.0                        | 10.0                        | 2.0                                      |
| Sumitomo Canada          | 68.0                        | 8.7                         | 23.4                                     |
| Nissho Iwai Canada       | 80.7                        | 16.4                        | 2.9                                      |
| Tomen Canada             | 75.0                        | 20.0                        | 5.0                                      |
| Nichinen Canada          | 72.0                        | 9.0                         | 19.0                                     |
| Kanematsu Canada         | 34.0                        | 8.0                         | 58.0                                     |

Notes: 1) 1992 figures, 2) 1993 figure, and 3) 1994 figure.
Data on Canadian sogo shosha are adopted from Table 2 (Kurihara, 1995: 329).
In spite of the data acquired locally in two different years in the United States and Canada, the comparisons are still valid and significant in showing the different trends in the two countries. There are no regularly collected or published statistics of Canadian sogo shosha available, which would give more complete data annually or otherwise.
Sources: Interviews by the author.

Mitsui Canada. Regarding their annual sales, Itochu International was more than ten times and Marubeni America was approximately ten times as much as their Canadian counterparts. Table 3 shows the annual sales composition of sogo shosha in the United States in 1994 and in Canada in 1993. For American sogo shosha, the bilateral trade between the United States and Japan tended to be less significant, while the offshore and domestic trade became major contributors to their annual sales. In the case of Mitsui USA, the proportion of trade between the United States and Japan consisted of about 30.0% of the total sales in 1994, while offshore trade contributed to 60.6% and domestic trade to 9.6%. Similarly, the ratios of offshore trade of Sumitomo America, Nissho Iwai American, and Mitsubishi America were 66.4%, 52.8%, and 49.8%, respectively. It should be pointed out that offshore trade and domestic trade within the United States contributed 60% to 70% of the total annual sales of the four large American sogo shosha.

As for Itochu International, bilateral trade accounted for 55.5% of total annual sales. Yet, the proportion of the domestic trade (28.8%) was the highest among the nine companies. This indicator demonstrates the company policy of localizing their business, which means buying and selling locally, in the North American markets. However, the composition pattern of three smaller American sogo shosha was comparatively closer to that of Canadian sogo shosha.

The annual sales composition of Canadian sogo shosha presents a stark contrast to that of larger American counterparts. Although there were three types among the nine companies (Kurihara 1995: 327–335), they have in common that more than 80% of their annual sales was
attributed to the bilateral trade between Canada and Japan, except for Kanematsu. Contrari-ly, the weight of the offshore and domestic trade was less significant compared with large American sogo shosha.

Turning to the trade items, American sogo shosha mainly imported Japanese manufactured goods to the United States, while exporting American foodstuffs and natural resources. Yet, they handled a variety of commodity mixes in their offshore trade, which were significant portions of their annual sales. A similar trading pattern is observed with Canadian sogo shosha, where they imported mainly Japanese manufactured products such as machinery, while they exported Canadian foodstuffs such as wheat and meat, and natural resources such as lumber, pulp and coal. The major difference is that bilateral trade consisted of most of the annual sales of Canadian sogo shosha.

The different trading patterns were largely attributed to the differences in the size of American and Canadian economies. In 1994 American gross domestic product (GDP) was US$ 6,738 billion, while Canadian GDP was US$ 549 billion (Yano Tsuneta kinen-kai 1996: 149), which was about one-twelfth American counterpart. In addition, the location of markets is another key factor. In the United States with a population of 260.6 million in 1994 (Yano Tsuneta kinen-kai 1996: 78), there have been megalopolises, or densely populated conurbations, one of which stretches from Boston to Washington, D.C. In contrast, Canada is a huge country with a relatively small population of 29 million in the same year (Yano Tsuneta kinen-kai 1996: 78). Population concentrations are found in three major areas; the Windsor-Quebec City corridor (McCann and Gunn 1998; Yeates 1998), and with lesser urban axes, the Edmonton-Calgary corridor and the Vancouver-Victoria strait (Driedger 1991: 59). There were four metropolitan areas of at least one million population in Canada in 1996, while there were 47 in the United States (Statistics Canada 1998; The world almanac and book of facts 2000, 1999: 389). Hence, the different size of the economies and the location of markets indicate that it is much more efficient for sogo shosha to cultivate larger, geographically con-
centrated American markets rather than smaller Canadian markets.

In sum, the size of the trading volumes of the large American sogo shosha was from six to ten times as much as that of the Canadian counterparts, reflecting the fact that the American market is twelve times as large as the Canadian market. However, the sales composition and trading items distinguish American sogo shosha from Canadian ones. With the larger proportion of the domestic and offshore trade as well as a variety of commodity mixes, it is apposite to say that the large American sogo shosha, departing from the trading prototype, have become full-fledged multinationals. By contrast, Canadian sogo shosha retain the major characteristics of the trading prototype.

Direct Foreign Investment

The United States is not only the largest trading partner for Japan but also the single, largest recipient country of postwar Japanese direct foreign investment. Direct foreign investment is the acquisition of foreign securities by individuals or institutions with control over, or participation in, the management of foreign operations. According to the Japanese Ministry of Finance data, the accumulated Japanese DFI in the United States from fiscal year 1951 to 1994 amounted to US$ 194.4 billion, which consisted of 41.9% of total Japanese overseas direct investment. During the same period, the accumulated Japanese DFI in Canada was US$ 8.2 billion, which accounted for merely 1.8% of the total postwar Japanese DFI (Ministry of Finance 1995: 33–43). Even though the ratio of the Canadian economy against the American economy was one-twelfth, the degree of overall Japanese preference for the United States over Canada as an investment destination was far greater than the differences in size of the two economies.

Turning to sogo shosha investment activities, the size and sector of their DFI in the United States and Canada is scrutinized as follows. Tables 4 and 5 show the stock of sogo shosha direct investment in the United States and Canada in 1994, and these investment figures include DFI made by both parent sogo shosha and
Table 4. Direct foreign investment by *sogo shosha* in the United States in 1994 (In US$ thousand)

| Manufacturing                          | Mitsui | Mitsubishi | Itochu | Marubeni | Sumitomo | Nissho Iwai | Tomen | Nichimen | Kanematsu | Total |
|----------------------------------------|--------|-------------|--------|----------|----------|-------------|-------|----------|-----------|-------|
| Foodstuffs                             | 23,400 | 34,388      | 7,693  | 31,485   | —        | 1,598       | 1,500 | —        | —         | 100,064|
| Textiles                               | 1,602  | —           | —      | 6,643    | —        | 2,043       | —     | 120      | —         | 4,670 |
| Lumber and Pulp                        | 3,050  | 1,500       | —      | —        | —        | —           | —     | —        | —         | 4,670 |
| Chemicals                              | 132,725| 38,429      | —      | 27,823   | 27,880   | —           | 6,000 | 253      | —         | 233,110|
| Ferrous and Non-ferrous metals         | 41,857 | 27,891      | 30,772 | 17,929   | 49,663   | 24,832      | 9,880 | 6,000    | 7,331     | 216,155|
| Ordinary machinery                     | 3,061  | 11,026      | 1,518  | —        | 17,184   | 12          | —     | 10       | —         | 32,811 |
| Electrical equipment                   | 1,339  | 5,250       | —      | 2,054    | 5,701    | 9,643       | 73    | 480      | —         | 24,540 |
| Transportation equipment               | 13,475 | 25,965      | 13,800 | 2,157    | 3,299    | 3,108       | —     | —        | —         | 61,804 |
| Others                                 | 5,610  | 45,422      | 3,017  | 3,889    | 6,888    | 4,700       | 26,650| 245      | —         | 96,421 |
| **Sub total**                          | 226,119| 183,871     | 56,800 | 91,980   | 110,615  | 45,936      | 44,223| 7,411    | 22,775    | 795,730|
| Agriculture and Forestry               | 103    | —           | —      | —        | 7,250    | —           | —     | —        | —         | 7,353 |
| Fisheries                              | —      | —           | —      | —        | —        | —           | —     | —        | —         | 4,643 |
| Mining                                 | 640    | 14,870      | —      | 2,360    | —        | 3,500       | —     | —        | —         | 21,370 |
| Construction                           | 0      | 4,490       | —      | 1,350    | —        | —           | —     | —        | —         | 6,453 |
| Commerce                               | 490,602| 467,331     | 370,659| 329,634  | 347,322  | 259,629     | 163,244| 146,119  | 131,761   | 2,706,501|
| (Capital of *sogo shosha*)             | 350,000| 388,000     | 275,000| 269,000  | 302,000  | 235,000     | 140,000| 144,000  | 100,000   | 2,203,000|
| Finance and Insurance                  | 43,155 | 171,380     | 16,131 | 24,230   | 3,060    | 111         | 6,900 | 800      | —         | 265,767 |
| Services                               | 10,276 | 11,743      | 265,844| 11,709   | 12,590   | 882         | 16,065| —        | 478       | 329,587 |
| Transportation                         | 24,690 | 6,383       | 3,240  | 31,400   | 1,221    | 1,027       | 170   | 3,700    | —         | 71,831 |
| Real estate industry                   | 115,810| 22,370      | 7,750  | 27,720   | 1,360    | —           | 5,690 | 15,500   | —         | 196,200 |
| Others                                 | —      | —           | —      | —        | —        | —           | —     | —        | —         | 3,000 |
| **Total**                              | 911,395| 886,638     | 723,424| 520,383  | 483,418  | 307,585     | 240,405| 173,530  | 155,014   | 4,403,792|

Sources: *Shukan Toyo Keizai: Kaigai Shinshutsu Kigyo Soran*, no. 5273 (1995: 870-1087), and interviews by the author.
Table 5. Direct foreign investment by *sogo shosha* in Canada in 1994 (In C$ thousand)

|                    | Mitsui | Mitsubishi | Itochu | Marubeni | Sumitomo | Nissho Iwai | Tomen | Nichimen | Kanematsu | Total |
|--------------------|--------|------------|--------|----------|----------|-------------|-------|----------|-----------|-------|
| Manufacturing      |        |            |        |          |          |             |       |          |           |       |
| Foodstuffs         | —      | 4,471      | —      | —        | 1,050    | —           | —     | —        | —         | 2,521 |
| Textiles           | 30,250 | —          | —      | —        | —        | —           | —     | —        | —         | 30,250|
| Lumber and Pulp    | 4,680  | 25,257     | 14,900 | 131,000  | —        | —           | —     | —        | —         | 175,837|
| Chemicals          | —      | 4,362      | —      | —        | —        | —           | —     | —        | —         | 4,362 |
| Ferrous and Non-ferrous metals | 7,352  | 28,000     | —      | 26,500   | —        | —           | —     | —        | —         | 61,852 |
| Ordinary machinery | —      | —          | —      | 50       | —        | —           | —     | —        | —         | 50    |
| Electrical equipment| 35,875 | —          | —      | —        | —        | —           | —     | —        | —         | 35,875|
| Transportation equipment | 19,636 | 83,481     | —      | —        | 4,340    | —           | —     | —        | —         | 107,457|
| Others             | —      | 3,500      | —      | 65       | —        | —           | —     | —        | —         | 3,565 |
| Sub total          | 97,793 | 146,071    | 25,900 | 157,615  | 1,050    | 0           | 0     | 4,340    | 0         | 421,769|
| Agriculture and Forestry |        |            |        |          |          |             |       |          |           |       |
| Fisheries          | —      | —          | —      | —        | —        | —           | —     | —        | —         | —     |
| Mining             | 54,090 | 62,000     | 0      | —        | 18,808   | 6,690       | —     | —        | —         | 141,588|
| Construction       | 10     | —          | —      | —        | —        | —           | —     | —        | —         | 10    |
| Commerce           | 40,254 | 30,969     | 25,200 | 14,000   | 11,300   | 10,035      | —     | 3,480    | 2,270     | 6,200 |
| (Capital of *sogo shosha*) | 32,750 | 30,000     | 20,000 | 11,000   | 5,000    | 10,000      | 3,200 | 2,270    | 6,200     | 120,420|
| Finance and Insurance | —     | 390        | —      | —        | —        | —           | —     | —        | —         | 390   |
| Services           | 59     | —          | —      | —        | —        | —           | —     | —        | —         | 59    |
| Transportation     | 1,300  | —          | —      | —        | —        | 2,000       | —     | —        | —         | 3,300 |
| Real estate industry | 2,400  | —          | —      | —        | —        | —           | —     | —        | —         | 2,400 |
| Others             | —      | —          | —      | —        | —        | —           | —     | —        | —         | —     |
| Total              | 195,906| 239,430    | 40,100 | 171,615  | 31,158   | 18,725      | 3,480 | 6,610    | 6,200     | 713,224|

Note: The exchange rate was US$ 1 = C$ 1.4025 at the end of December, 1994.
Sources: The same as Table 4.
their subsidiaries, but exclude DFI which were previously divested. Based on Tables 4 and 5, the stock of *sogo shosha* direct investment in the United States amounted to approximately US$ 4.4 billion, while that in Canada was C$ 713 million (US$ 508 million). The size of *sogo shosha* investment in the United States was approximately nine times as large as the size of their investment in Canada. This proportion is closer to the difference in the size of the two host countries' economies than the above-mentioned proportion of overall Japanese DFI.

Tables 4 and 5 also reveal different investment concentrations by sector in the United States and Canada. In the United States, US$ 2,706 million (61.5%) of *sogo shosha* investment was focused on the commerce sector, establishing their wholly-owned trading subsidiaries and many marketing companies. In particular, investment in wholly-owned American trading subsidiaries were indispensable to promote their trading activities. The aggregate capital of the nine American *sogo shosha* was US$ 2.2 billion, which indeed consisted of 50.0% of the total DFI made by *sogo shosha* in the United States. Investment in commerce was largely reflected by the capital of each *sogo shosha*. The largest capital was Mitsubishi International's US$ 388 million, followed by Mitsui USA (US$ 350 million) and Sumitomo America (US$ 302 million). The capital funds of Itochu International, Marubeni America and Nissho Iwai American were US$ 275 million, US$ 269 million and US$ 235 million, respectively. Three smaller *sogo shosha* capitals were US$ 144 million (Nichimen America), US$ 140 million (Tommen America) and US$ 100 million (Kanematsu USA).

Among the nine *sogo shosha*, the largest investment was made by Mitsui with US$ 911 million, which was followed by Mitsubishi with US$ 888 million and by Itochu with US$ 723 million. Marubeni's investment was US$ 520 million, while that of Sumitomo was US$ 483 million. The smallest investment was carried out by Kanematsu with US$ 155 million.

Apart from the commerce sector, services drew the second largest investment with 7.5%, which was followed by the finance and insurance sector with 6.0% and by real estate industry with 4.5%. The manufacturing industry as a whole attracted 18.1% of the total investment. Within this sector, chemicals and the ferrous and non-ferrous metals industry received 5.3% and 4.9%, respectively.

In services, Itochu's investment of US$ 265 million was the largest, and its US$ 250 million was the capital of wholly-owned Itochu Enterprise Inc. which invested in Time Warner Inc. In finance and insurance, Mitsubishi's investment of US$ 171 million was outstanding. Mitsubishi held 80% of the equities of MAC Credit Corp. with capital of US$ 175 million to finance sales. Mitsubishi (10.4%) and Mitsubishi Motor Corp. (89.6%) established Mitsubishi Motor Sales of America Inc. (US$ 284 million capital) to sell automobiles, and this jointly-owned company further set up Mitsubishi Motor Credit of America, Inc. (US$ 150 million capital) to finance car sales. In the real estate industry, Mitsui's investment was the largest of US$ 115 million, and Mitsui's 17 real estate companies in California were such examples.

In the manufacturing sector, Mitsui invested US$ 132 million in chemicals, and Sumitomo and Mitsui invested US$ 49 million and US$ 41 million, respectively, in ferrous and non-ferrous metals. In the former sector, Mitsui (65%) and Nippon Soda (35%) established Novus International Inc. (US$ 100 million capital), which produced chemicals for feed in Missouri. In the latter sector, some US$ 27 million invested by Mitsui was associated with Mitalco Inc. which consigned aluminum metals to be processed in Georgia. Sumitomo (98.84%) and Matsuda Steel (1.16%) jointly owned Michigan Steel Processing Inc. (US$ 12.28 million capital) which processed steel for automobiles.

*Sogo shosha* investment in the United States in the early 1990s was characterized by more investment in the finance and insurance sector as well as in the real estate industry than in the late 1990s. This period was identified as a transition period from the era of the bubble economy in Japan to the era of its long-lasting stagnation. During the bubble economy, Japanese investment in stocks and real estate, or the real estate industry, was prevailing both in Japan and in the world. After the bubble burst and the recession started, Japanese companies
began to withdraw these investments to adjust to the sluggish economic conditions in Japan. Consequently, this adjustment from the ground up has made no exception of *sogo shosha*. The early 1990s saw investment projects left over from earlier by *sogo shosha*.

On the contrary, *sogo shosha* investment in Canada presents a different concentration pattern by sector. Manufacturing attracted 59.1% (C$ 421 million) of the total *sogo shosha* investment in Canada, which contrasted to the previous pattern that commerce captured 61.5% of its equivalent in the United States. Among manufacturing, the lumber and pulp industry hosted 24.7% of the total investment, while the transportation equipment industry received 15.1%. The former was evidently intended to supply lumber and pulp to Japan, and the latter was related to automobile and auto parts industries. The commerce sector received 20.1% while the mining sector attracted 19.9%.

Among the nine *sogo shosha*, the top three *sogo shosha*, namely, Mitsubishi, Mitsui and Marubeni, were leading investors, and the investment made by the three companies contributed to 85.1% of the total *sogo shosha* investment in Canada in 1994. The following three companies, that is, Itochu, Sumitomo and Nissho Iwai, made investment of 12.6% of the total *sogo shosha* investment. Investment made by Tomen, Nichimen and Kanematsu generally presented the capital of their wholly-owned Canadian subsidiaries, and was comprised of merely 2.3% of the total *sogo shosha* investment.

In manufacturing, Marubeni's C$ 131 million in the lumber and pulp industry was outstanding. It was 50% share of a joint venture Daishowa-Marubeni International Ltd. with Daishowa Paper, which had the remaining half share. In the transportation equipment industry, Mitsubishi totally invested C$ 83 million in the automobile-related industry. Investment in Atoma International Inc., a subsidiary of Magna International, which produced auto parts for Big Three, and one in Rockwell International Suspension Systems Co., which produced springs for automobiles, were examples.

In mining, Mitsubishi investment of C$ 62 million and Mitsui investment of C$ 54 million were major contributors to this sector. Mitsubishi had 20% of the equity of Iron Ore Company of Canada and Mitsui owned 25% of the equity of Quebec Cartier Mining Co. Investment in commerce was greatly attributed to the paid-up capital of the nine trading subsidiaries in Canada, amounting to C$ 120 million (US$ 85.9 million). It should be noted that the aggregate capital of the nine *sogo shosha* in Canada was far smaller than the counterpart (US$ 2,203 million) in the United States, and that investment in marketing companies in Canada was also very limited in scale and number.

Similar to the size of annual sales, the investment amounts of *sogo shosha* in the United States were also proportionately larger than those in Canada, which rather directly reflected the differences in the size of the two markets. However, the concentrations of investment sectors reveal that *sogo shosha* investment in the United States was more market-oriented, while that in Canada was more resource-oriented. The large *sogo shosha* in the United States have adopted their strategies of localizing business by taking advantage of the large, affluent American market. By contrast, *sogo shosha* in Canada have generally regarded Canada as a stable supplier of rich natural resources and foodstuffs, which were shipped back to Japan. However, to a certain extent *sogo shosha* investment in the auto-related sector in Canada signified their localizing business, which would be further encouraged by the local content requirements of the NAFTA.11

Now, the question arises as to the *sogo shosha* response to the NAFTA which would eventually create a huge single market. Examination of their recent organizational restructuring provides a clue to answering this question.

**Organizational Structure and Function of Branches**

There has been a common structure to *sogo shosha* in the United States with the headquarters in New York and many branches and offices spread over the country. A branch is an accounting unit, engaging in several business lines with many staff members, while an office such as a detached office or a representative.
office, generally has one or two business lines with a couple of staff members. In terms of accounting, the office is subject to the branch, and a branch manager is responsible for the business performance of his/her branch and offices in the territory.

In October 1992 C. Itoh & Co. (America) Inc. drastically changed its structure by establishing a new company, Itochu International Inc., which consisted of two divisions: Itochu International Trading and Itochu International Enterprise.12 Itochu International Trading was responsible for the core trading operations, which were divided into seven, later nine, vertically-integrated commodity groups. Each commodity group became an accounting unit and the manager of the group took responsibility for the business performance of the commodity group over the entire country. Thus, an employee in a particular commodity group had to report directly to the group manager in New York by bypassing the branch manager where he/she was working. This scheme applied to seven commodity groups,13 with the exception of the chemical and energy group whose manager resided in Houston and the non-ferrous metal group whose manager was in San Francisco.

Itochu International Enterprise supervised its seven U.S.-based subsidiaries including Unique Stamping and Coating Inc. and Master-Halco Inc. Because of their excellent performance, the share of domestic sales was highest among the eight sogo shosha, as discussed previously.

In January 1993 Itochu International Inc. integrated Canadian operations by taking over the capital of Itochu Canada from its Japanese parent company. Thus, although Itochu Canada is a legally separate company, its operations are part of the American company.

In 1995 Itochu International Inc. had its Head Office in New York, ten branches (seven in the United States and three in Canada), and five offices (four in the United States and one in Canada). The American branches were located in Los Angeles, San Francisco, Chicago, Houston, Seattle, Detroit and Atlanta, while the Canadian branches were in Vancouver, Toronto and Montreal. The offices were located in Washington, D.C., Pittsburgh, Akron, Portland and Calgary (Figure 1).

Following Itochu, Mitsubishi14 in 1994, and both Marubeni15 and Sumitomo16 in 1995 adopted a similar system based on commodity groups as accounting units, thereby depriving branches of the accounting unit function. The merits of this system are that they can enjoy economies of scale, smoothly channel headquarters' policies, and minimize the number of personnel. On the other hand, one of the demerits of the system is that it is difficult to explore local niche markets.

The organizational structure of Mitsui U.S.A. was slightly changed in 1995 to a combination type.17 In the New York headquarters business operations were divided into eight divisions based on commodity groups, and each division was responsible for its business performance which did not extend to the whole country. At the same time, their branches retained the former function of independent accounting units.

Mitsui U.S.A. had headquarters in New York, four branches and nine offices. The four branches included Chicago, Houston, Seattle and Los Angeles. The Detroit, Cleveland and Lexington offices were subject to the Chicago branch, and the Dallas, Atlanta and Nashville offices were subject to the Houston branch. The Portland office belonged to the Seattle branch, and the San Francisco office to the Los Angeles branch. The Washington, D.C. office directly belonged to the President and C.E.O. (Figure 2).

There were no significant changes in the organizational structure of the remaining four sogo shosha18 in the United States in 1995. They were characterized as smaller companies in terms of annual sales.

There were three major factors which promoted the organizational restructuring of sogo shosha. The larger American sogo shosha, especially Itochu International, have partly responded to the emerging integrated North American market by reorganizing their operations. They combined the American and Canadian operations into a de facto single company by adopting the system of vertically-integrated commodity groups, which oversee trading activities both in the United States and in Canada. The appreciation of the yen also partly encouraged the organizational restructuring by de-
increasing the number of Japanese employees in the United States, whose salaries increased by the changes in the exchange rates. Moreover, the worldwide recession both in North America and in Japan in the early 1990s stimulated a lean organizational structure, as well.

Conclusion

The examination of trading patterns, investment patterns and organizational structure of sogo shosha in North America in the early 1990s presents different characteristics of sogo shosha in each aspect. On the one hand, the economic activities by sogo shosha in the United States were grand in scale, more market-oriented and Americanized. The examination illustrates, on the other hand, that the corresponding activities in Canada were small in scale and highly dependent on the bilateral trade between Canada and Japan. In other words, sogo shosha in Canada retained the special features of the trading prototype. In a nutshell, sogo shosha have recognized the United States and Canada as two distinct markets.

However, their economic activities in North America were considerably affected by both the economic environments of the host countries and the economic conditions of the home country. In North America the economic integration through the NAFTA has partly facilitated the adjustments of sogo shosha operations in order to respond to the new market situations. After the bubble economy burst, Japan has entered into a long-lasting recession, which forced companies to restructure their organizations as well as to review their previous business activities in order to strive for survival. Accordingly, sogo shosha embarked on their adjustments. The early 1990s was regarded as the transition period which juxtaposed economic activities by sogo shosha in the past and their structural transformation corresponding to the emerging market integration.
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Notes

1. For detailed discussions on the United States-Canada Free Trade Agreement and the NAFTA, see External Affairs and International Trade Canada (1993), Kurihara (1995: 314–322), and Coffey (1999).
2. The author is presently carrying out research into the economic strategies of the sogo shosha in the European Union. This will be the subject of other papers.
3. Direct Foreign Investment (DFI) is synonymous with Foreign Direct Investment (FDI). Although FDI has been in wide currency, DFI is also used, for example, by Hymer (1977), Magee (1977), Kojima (1978), and Riley (1999).
4. See, for example, Florida and Kenney (1992), Florida and Kenney (1994), Reid (1995), Ó Huallacháin and Reid (1997), and Bagchi-Sen (1995).
5. Young (1979), Tsurumi (1980), and Kojima and Ozawa (1984) provide general discussions on sogo shosha. For more recent discussions on sogo shosha, see Herbert (1992), Mirza (1993: 62–81), Kurihara (1993), Dicken and Miyamaichi (1998: 55–78), Jones (1998), and Nakatani (1998). For a summary of theoretical arguments concerning Japanese direct foreign investment and sogo shosha, see Kurihara (forthcoming, b). For detailed discussions on free-standing company, see Wilkins (1988a, 1988b), Casson (1994), Hennart (1994a, 1994b), and Yasumuro (1998).
6. Although the NAFTA includes the United States, Canada and Mexico, the discussions in this paper are focused on the two developed countries, the United States and Canada, with similar purchasing power, in order to compare and contrast sogo shosha activities.
7. The annual sales of Nichimen Canada was estimated at US$ 150 million for 1994. (Kurihara, 1995: 334–335.)
8. For a discussion on megalopolis, see, for example, Paterson (1994: 333).
9. For discussions on overall Japanese direct investment in the United States and Canada, see
In 1998 the top six sogo shosha, which were the major investors in 1994, made investment of US$ 198 million in the finance and insurance sector and US$ 113 million in the real estate industry in the United States (Kurihara, forthcoming, b).

The NAFTA went into effect in 1994. Therefore, this paper only indicates foreseeable investment developments in response to the NAFTA. The late 1990s saw positive and negative responses by Japanese companies to the NAFTA in terms of Japanese DFI. See Kurihara (1997: 64–65).

The seven commodity groups were as follows: textile; machinery; aerospace and electronics; steel and raw materials; food, forest products and general merchandise; construction and real estate; and capital market.

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Interview with Kiyoto Oku, general manager, corporate planning department, Sumitomo Corporation of America, 11 August 1995, New York.

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Interviews with Tatsuo Dejima, senior vice president, Kanematsu USA Inc., with Ichiro Watanabe, manager, corporate planning and coordination, Nichimen America Inc., with Sumio Shibata, vice president and general manager, and Kazumitsu Saitaka, manager, corporate planning department, Nissho Iwai American Corporation, and with Shuzo Ohshima, vice president and general manager, corporate planning department, Tomen America Inc., all interviewed in August 1995, New York.

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