Direct Foreign Investment in Canada by Sogo Shosha Since 1954

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Abstract

The purposes of this paper are to clarify the roles and characteristics of sogo shosha investment and to explore the locations of their economic activities in Canada. Japanese direct foreign investment (DFI) in Canada has been relatively moderate in size while still significant in its impact. Since mature Japanese manufacturers, financial institutions and real estate companies made large investments during the 1980's, the proportion of sogo shosha investment in the total Japanese investment in Canada declined relatively. The expansion and diversification of Japanese DFI in Canada in the last decade stemmed from the changes in investment climate of the host country and the appreciation of yen. Sogo shosha, or the nine largest Japanese general trading companies, have been the chief promoters of Japanese trade and major vehicles for carrying out Japanese overseas investment during the postwar period.

Sogo shosha's investment in Canada has focused on the three major sectors; commerce, natural resource development and manufacturing. Investment in commerce resulted in establishing their wholly-owned trading subsidiaries and marketing companies. Sogo shosha participate in natural resource development projects and manufacturing joint ventures with minority equity shares and long-term purchasing contracts. Thus, the primary purpose of sogo shosha investment is to enhance their trading activities, and the leverage is enormous despite their relatively small amount of investment. Sogo shosha investment is considered a unique prototype of Japanese DFI.

Sogo shosha first emerged in the Canadian economic arena in 1954 after World War II. With the establishment of their wholly-owned trading subsidiaries which are often subordinate to the American counterparts, sogo shosha located their offices in the four strategic cities. Their locational preferences are complex. Nonetheless, the recent relocation of sogo shosha headquarters to Toronto corresponds to its dominance in the Canadian urban industrial hierarchy. The locational preference of Vancouver over Montreal is a special feature of the Japanese trading companies.

Key words: Canadian urban industrial hierarchy, direct foreign investment, joint ventures, prototype of Japanese DFI, trade, sogo shosha.

I. INTRODUCTION

Recently Japanese direct foreign investment (DFI) has drawn the attention of much of the world. Japanese manufacturers and financiers are major contributors to that huge investment. Thus, investment made by sogo shosha, or the nine largest Japanese general trading companies, has been overshadowed. Despite the relatively small amount of sogo shosha investment, this paper attempts to reveal the significance of that sogo shosha investment as an "archetypical" form of postwar Japanese overseas investment. Canada proves to be an interesting host country since the Canadian economy features a "rich, industrialized, [and] underdeveloped economy" (Levitt, 1970, p. 127).

With the rapid increase in Japanese investment in Canada, the number of excellent papers on this topic has grown. Wright (1984 and 1989), Rugman (1990) and Edgington (1990b) portray overall Japanese direct investment in Canada. Mitsuhashi (1990) discusses Japanese investment in conjunction with the Canada-U.S.

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Free Trade Agreement. Hawkins and Hay (1986) and Wright and Pauli (1987) focus on Japan's role in the financial sector. This paper focuses on the crucial roles of sogo shosha's investment and the locations of their economic activities.

The paper first examines the characteristics of postwar Japanese direct foreign investment in Canada with regard to quantity and sector. Then, special features of sogo shosha investment are elucidated within the context of postwar Japanese economic development. Next, sogo shosha investment in Canada is scrutinized to evaluate the roles and characteristics of their investment. Finally, the locations of sogo shosha offices are delineated from the perspective of the different economic roles of Canada's metropolitan areas.

II. JAPANESE DIRECT FOREIGN INVESTMENT IN CANADA

Direct foreign investment is the acquisition of foreign securities by individuals or institutions with control over, or participation in, the management of foreign operations. DFI is distinguished from indirect foreign investment, or portfolio investment, in which individuals or institutions acquire the stocks or bonds of foreign governments or companies. The purpose of portfolio investment is capital gain without managing operations.

Technically, this paper adopts the definition of DFI used by the Japanese Government. The Foreign Exchange Control Law in Japan, amended in December, 1980, defines direct foreign investment as 10% (25% before the amendment), or more, of equity acquisition in foreign operations and loans in those corporations. The 1980 amendment excludes the purchase of real estate, and it is kept statistically separate from investment in the real estate industry. It should be noted that Japanese DFI figures include all investment proposals authorized by the Ministry of Finance as well as withdrawn projects.

Direct foreign investment is accompanied not only by capital flows but also by the transfer of technology and managerial resources. With various degrees of ownership, foreign operations may be established by the take-over of existing local firms or as new ventures.

Japanese direct foreign investment should be looked at from both Canadian and Japanese viewpoints. According to Statistics Canada, direct foreign investment in Canada amounted to Canadian $126 billion at the end of 1990 (Statistics Canada, 1991, p. 15). The largest investor was the United States, and its investment was C$79 billion, consisting of 62% of all foreign direct investment in Canada. Japanese direct investment was C$5 billion, which was some 4% of the total value of DFI in Canada in 1990 (Ibid.).

Based on Japanese government data, the accumulated amount of Japanese DFI in Canada was US$5,656 million at the end of the fiscal year 1990, comprising only 1.8% of the total Japanese DFI in the world. This presents a stark contrast to Japanese DFI in the United States, which absorbed 42.0% of the total Japanese overseas investment (Ministry of Finance, 1991, p. 26).

Both data sets indicate that Japanese DFI in Canada has been relatively small for both the host and the home country in terms of quantity. Nevertheless, both data sources reveal that Japanese direct investment in Canada is rapidly growing. Indeed, Japanese DFI in Canada increased from C$168 million in 1984 to C$1 billion in 1989 (Statistics Canada, 1991, p. 60). Correspondingly, the annual flows of Japanese DFI into Canada expanded from $184 million to $1.3 billion during the same period (Ministry of Finance, 1991, pp. 62–63).

Since the Japanese government data provide more current and more detailed information regarding industrial sectors than the Canadian government sources, the following analyses are based on the Japanese data. Table 1 shows the amounts and sectors of Japanese investment in Canada since 1951. It reveals a large amount of investment as well as changes in investment sectors in the 1980's. Specifically, from 1980 to 1990 the total of all Japanese DFI in Canada amounted to $4,848, which consisted of 85.7% of the total accumulated investment amount during the last four decades. These figures endorse the view of sharply increasing Japanese investment in Canada.
Prior to 1980, investment was focused in the three major sectors: manufacturing (36.6%), especially lumber and pulp (17.0%); mining (29.8%); and commerce (18.8%). These indicate that Japanese prime interests have been in securing the supply of Canadian forest and mineral resources for Japan. Equally important, the establishment of commercial networks has had great weight due to the promotion of the bilateral trade between Japan and Canada.

Since 1980 there have been new developments in investment sectors. The manufacturing industry continued to capture the lion's share of investment of $2,282 million, accounting for 47.1% of the total Japanese investment between 1980 and 1990. In the manufacturing sector, the lumber and pulp industry remained the largest recipient (23.0%). A new phenomenon was the diversification of investment to assembly type manufacturing and high tech industries: transportation equipment (9.7%), electrical equipment (3.2%), and ordinary machinery (2.9%). Each of these three industries received over 90.0% of its total investment within the last decade.

Among the non-manufacturing industries, three new sectors attracted Japanese investment in addition to traditional investment concentrations in mining and commerce. The real estate industry, finance and insurance, and services received 13.4%, 11.9%, and 10.5% of the total Japanese investment, respectively.

Since the Japanese government data are not broken down by geographical location, data in Shukan Toyo Keizai are often used as a surrogate. BLAIN and NORCLIFFE (1988) report that from 1965 to 1984 British Columbia and Ontario accounted for 72% of all projects. Moreover, projects within these provinces were highly concentrated in Vancouver and Toronto, and
each city accounted for nearly one-third of the Canadian total\(^\text{19}\). Contrasting, resource-related investments dominate in Vancouver, whereas trading activities are of greatest importance in Toronto. Investment projects were located in Calgary and Montreal as well (p. 149).

During the 1980's the geographical pattern of investment concentration has been slightly modified due to the changes in investment amount and sector. With the growth of investment in the manufacturing industry such as automobiles and electronics and in the financial and service industries, Ontario has increased in importance as the locus of Japanese investment. Considering the fact that the former industry requires diverse and supportive suppliers and the latter large markets, Ontario's supremacy in these regards is easily explained.

The changes in investment amount and sector in the 1980's, which in turn were reflected in location, stem largely from four major factors. First, revisions of the Canadian Bank Act, effective January 1981, contributed to the increase in Japanese investment in the financial sector. Prior to 1981, the presence of foreign banks in Canada was restricted to representative offices, which could neither accept deposits nor make loans. After the revisions, a limited number of foreign banks are permitted to open full-service branches in Canada\(^\text{19}\) (WRIGHT, 1984, pp. 64 and 66). Second, the Japanese yen has appreciated against the U.S. and Canadian dollars since the Plaza Accord of 1985. Appreciation of the yen spurred Japanese investors to make further foreign investment. Appreciation of the yen spurred Japanese investors to make further foreign investment. Third, the Canadian federal government changed from the Liberal Party to the Progressive Conservative Party in 1984. Accordingly, in 1985 the Foreign Investment Review Agency was replaced by Investment Canada, which encouraged foreign investment into Canada. Finally, the Canada-U.S. Free Trade Agreement was signed in 1988. Some Japanese manufacturers, such as car makers, anticipated the creation of a huge single market, by setting up their assembly plants in Canada. Therefore, the changes in economic and political environment of the home and host countries contributed to the expansion of Japanese DFI in Canada for the last decade\(^\text{19}\).

To sum up, the initial Japanese DFI in Canada centered in resource-oriented sectors such as the lumber and pulp industry and the mining industry. Investment in commerce was a prerequisite for trade between Japan and Canada. In the 1980's Japanese DFI continued to be funneled into these sectors. Furthermore, it was diverted into new sectors: manufacturing such as transportation, the real estate industry, finance and insurance, and services. Geographically, Japanese DFI has been concentrated in British Columbia and Ontario, and to a certain extent in Alberta and Quebec. The last decade saw Ontario attracting further Japanese investment. The expansion and diversification of Japanese DFI in Canada are ascribed to the changes in investment climate of the host country as well as the appreciation of the yen.

Vigorous investment activities by large Japanese manufacturers, financiers and real estate companies in the 1980's contributed to the relative decline of sogo shosha's investment in the proportion of overall Japanese DFI in Canada. Certainly, investments prior to 1965 were made mostly by trading companies (BLAIN and NORCLIFFE, p. 143). Later, WRIGHT estimated that sogo shosha had invested the equivalent of $179 million in Canada, as of 1981, that is, 20% of all Japanese investment in Canada (WRIGHT, 1984, p. xx)\(^\text{19}\). Since that time the ratio of sogo shosha investment to total Japanese DFI has further declined. Nevertheless, the continuing and significant roles of their investment will be verified in section III.

### III. CHARACTERISTICS OF DIRECT FOREIGN INVESTMENT BY SOGO SHOSHA

Sogo shosha are large Japanese general trading companies. They handle a wide variety of commodities with large transaction volumes, and adopt global business strategies. In this paper, sogo shosha refer to the nine largest trading companies, that is, C. Itoh, Sumitomo, Marubeni, Mitsui, Mitsubishi, Nissho Iwai, Tomen, Nichimen, and Kanematsu, ranked by their sales in 1990 (MORIMOTO, ed., 1991, p. 45).

Sogo shosha have played crucial roles in the postwar Japanese economic development. They remain key players in commerce, and have
taken a major role in Japanese overseas investment. In 1973 the overseas loan and investment by the nine sogo shosha amounted to 261,800 million yen, which accounted for 66.0% of the overseas loans and investment made by the top twenty companies (Shukan Toyo Keizai, 1973, p. 2). At the early stage, DFI by sogo shosha made up a large part of Japan's overall foreign investment. With the rapid growth of investment by Japanese manufacturers, financial institutions and real estate companies, sogo shosha's DFI has declined relatively in overall Japanese DFI, but still comprises its essential component. Thus, the characteristics of sogo shosha's investment needs to be further explored.

In order to understand sogo shosha's investment activities, their functions and organizational structure are summarized here. The key functions of sogo shosha are trade, information collection and financial services. Organizationally, they are situated at the core of keiretsu, or industrial groups, along with their main banks. Their major functions and position at the organizational structure have enabled sogo shosha to develop the organizer/coordinator role, which is crucial in overseas ventures. Sogo shosha organize and coordinate consortia of companies within their affiliated keiretsu group, or with other keiretsu groups (Young, 1979, Tsurumi, 1984, Kojima and Ozawa, 1984, and Kurihara, 1991).

Sogo shosha have concentrated their overseas investment in three major sectors; commerce, natural resource development and manufacturing. Since sogo shosha's core activity is trade, which includes foreign, domestic and offshore trade, their largest investment was in commerce. As of March 1988, 800 billion yen, namely 44% of the total nine sogo shosha's overseas direct investment, was directed to commerce (Nihon Boeki-kai, 1990, p. 9). Investment in commerce took place in the form of sogo shosha's wholly-owned trading subsidiaries and their marketing companies.

As early as in the 1950's, sogo shosha embarked in overseas investment to establish their branches and wholly-owned subsidiaries to build their worldwide commercial networks. These overseas subsidiaries are crucial for their trading activities. Even though they are independent companies in principle, they are closely linked to their parent companies in Japan for all facets of business transactions. However, the degree of subsidiaries' autonomy is different in different countries. According to Edginton (1990a), the essential function of an Australian subsidiary was a go-between for the local suppliers and the parent company and its customers in Japan, but the Mitsubishi American subsidiary became a more independent organization. This contrast stemmed from different roles. The former subsidiary supplied Australian raw materials for the world markets, while the latter was a net importer of Japanese products (pp. 106–108).

In addition to trading subsidiaries, investment in commerce has resulted in the creation of marketing companies. Some marketing companies are sogo shosha's wholly-owned specialized subsidiaries such as cotton companies. Some marketing companies are joint ventures between sogo shosha and Japanese manufacturers in order to sell their products. Although the "departure-from-traders" phenomenon has appeared, there are still many manufacturers who depend on sogo shosha to market their products due to the superb information collection ability (Kurihara, 1991, pp. 157–158).

Until the early 1970's Japanese DFI in manufacturing and resource development projects were joint ventures in which sogo shosha were often included as inseparable partners. According to the Ministry of International Trade and Industry, trading companies were involved in 81 out of 165 development-and-import projects undertaken by the Japanese (Wakasugi, 1973, p. 233). Under the development-and-import formula, capital, technology and equipment are furnished to foreign countries with Japan receiving natural resources in return.

The last two decades have seen sogo shosha's function persist as vital organizer in natural resource development projects. Sogo shosha often take minority equity shares with long-term purchasing contracts, for their major purposes are to secure supplies of imports to Japan and to reduce external vulnerability (Hood and Young, 1979, p. 68). Since natural resource development projects require a huge amount of
capital, the minority equity share position makes it possible for \textit{sogo shosha} to participate in many projects and to reduce their business risks.

With the sharp increase in labor cost in Japan during the 1960's, labor-intensive manufacturing industries shifted their locations from Japan to developing countries which supplied cheap labor. Since these manufacturers possess neither huge capital, nor advanced technology, or managerial resources, \textit{sogo shosha} were dispensable for their manufacturing operations. These joint ventures often took a characteristic form, or a "troika style," that is, involving a concerned Japanese company, a trading firm, and a local business (Yoshihara, 1981, p. 70). In this scheme, the Japanese manufacturer and the trading company most likely belong to the same keiretsu group. The objectives of \textit{sogo shosha}'s investment in this case are the expansion of their trade volume and the strengthening of their commercial ties with manufacturers.

\textit{Sogo shosha}'s involvement in manufacturing joint ventures continued after more mature Japanese manufacturers commenced DFI in the 1970's. Since Japanese electrical and automotive industries have made large investments, \textit{sogo shosha}'s DFI in manufacturing have become relatively smaller. Still, \textit{sogo shosha} actively participate in manufacturing joint ventures in developed countries as well as in developing countries.

With \textit{sogo shosha}'s participation, Japanese DFI took place in both resource-oriented investment and labor-intensive investment which are regarded as "trade-oriented" by Kojima. This type of investment is made in areas where the home country is losing and a host country is gaining a comparative advantage. Consequently, it promotes trade between the two countries (Kojima, 1977, pp. 75–91). Indeed, DFI by \textit{sogo shosha} is distinguished from DFI by mature Japanese manufacturers and financiers whose investment is more market-oriented. Thus, \textit{sogo shosha}'s DFI is considered archetypical Japanese DFI.

In sum, \textit{sogo shosha}'s overseas direct investment is characterized by the establishment of wholly-owned trading subsidiaries, and joint ventures in manufacturing and natural resource development projects with minority equity shares and long-term purchasing contracts. As we have seen business partners are often affiliated companies within the same keiretsu group. Because of these characteristics, \textit{sogo shosha} will continue to be a catalyst in drawing more Japanese DFI to host countries. The amount of \textit{sogo shosha} investment is analogous to the tip of an iceberg, and their leverage is enormous.

### IV. DIRECT FOREIGN INVESTMENT IN CANADA BY \textit{SOGO SHOSHA}

The presence of \textit{sogo shosha} in Canada took place as early as in the 1950's. Direct foreign investment by \textit{sogo shosha} has been intertwined with their trading activities. Therefore, the characteristics of \textit{sogo shosha} investment in Canada are discussed focusing on the three major sectors: commerce, natural resource development and manufacturing.

\textit{Sogo shosha}'s vital investment in commerce, as noted above, aims to establish wholly-owned trading subsidiaries. The initial presence of \textit{sogo shosha} in Canada was as branch offices or offices\textsuperscript{11} of either their parent companies or American subsidiaries. These offices were located in the three major metropolises, Montreal, Toronto and Vancouver, in the mid-1950's (Figure 1a).

\textit{Sogo shosha} eventually set up their own separate Canadian subsidiaries. Among the nine trading companies, the present Mitsui Canada was the first trading subsidiary in the postwar period, and was established in 1956 by Daiichi Bussan, from which the present Mitsui\textsuperscript{12} emerged (Japan Business History Institute, 1977, appendices p. 24). Mitsui remains the largest \textit{sogo shosha} in Canada in terms of its capital and sales. In 1990 the sales of Mitsui were C$2,680 million, almost twice as large as the second largest sales of Mitsubishi (Table 2). Nichimen Canada and Tomen Canada were founded as recently as in 1974 (Shukan Toyo Keizai, 1992, pp. 734 and 736). Present paid-up capital of the nine trading subsidiaries amounts to C$96.56 million, consisting of some 23% of the total \textit{sogo shosha} investment in Canada (ap-
proximately C$420 million\(^{13}\).

Despite the independence of Canadian sogo shosha, they are closely linked to American trading subsidiaries as well as to their parent companies in Japan. Their positions are often subject to the American counterparts. Some trading companies installed a “General Manager for North America” who takes charge of all North American operations\(^{14}\). “The General Manager” is the president of the American subsidiary while he wears another hat as chairman of the Canadian subsidiary. Although some companies have abolished this system, Marubeni still practices it\(^{15}\).

This continental subordination is ascribed to three major factors. First, the Canadian market is much smaller than the American one. Given that Canadian purchasing power per capita is almost equivalent to the American level, the Canadian economy (US$529 billion in 1989) is one-tenth the American economy (US$ 5,201 billion) in terms of Gross National Product (MORIMOTO, p. 11).

Second, the geographical distribution of Canadian population is heavily concentrated in two central provinces. Ontario and Quebec possessed some 62% of the total Canadian population in 1991 (Statistics Canada, 1992a, p. 6.94), and form the principal market in Canada. Toronto and Montreal are the centers of this region, and are geographically close to New York which is the economic hub in the United States.

Finally, after World War II the influx of American direct investment into Canada created a branch-plant economy in this country. Since American multinationals often control their Canadian subsidiaries, especially in manufacturing, important decisions are likely made in the parent companies in the United States. Consequently, this hierarchical relationship is reflected in sogo shosha’s business conduct. Sogo shosha in Japan often deal with American multinationals directly by bypassing American subsidiaries in Canada regarding business transactions. This, in turn, affects the position of sogo shosha’s Canadian subsidiaries, which are often bypassed by parent sogo shosha concerning key business decisions\(^{16}\). In this sense, the positions of Canadian and Australian sogo shosha subsidiaries are similar. In a nutshell, the small size of the Canadian market, the location of its major market, and high dependency on American DFI have contributed to Canadian trading subsidiaries being subject to their American counterparts. The General Manager for North America is a reminder of the persistence of this hierarchy.

Investment in commerce may take another form, by establishing marketing companies. Some marketing companies are sogo shosha’s wholly-owned specialized subsidiaries, and some are joint ventures between trading companies and Japanese manufacturers. Two automotive marketing companies are typical examples illustrating the long-term relationships between sogo shosha and Japanese manufacturers.
Toyota Canada Inc., formerly known as the Canadian Motor Industries Holding Ltd., was established in Ontario in 1964 by Mitsui and Toyota as a distributor of Toyota automobiles and their parts17). The company was ranked 84th among Canada’s largest 500 companies in 1990, with sales of C$1,505 million (Canadian Business, 1991, pp. 106-107). Toyota and Mitsui each hold half shares of C$10 million (Shukan Toyo Keizai, 1992, p. 734).

Another car marketing company is Mazda Canada Inc. set up in Ontario in 1968. The capital of C$1.3 million is owned by Mazda (60% of its equity) and C. Itoh (40%) (Ibid., p. 740). Even though both Toyota and Mazda have grown into full-fledged multinationals with accumulated financial and managerial resources, they have chosen to retain close business relationships with *sogo shosha*. Thus, these two ventures exemplify that *sogo shosha* are still considered important business partners by leading Japanese manufacturers.

Following investment in commerce, *sogo shosha* have directed a large amount of money into natural resource developments. *Sogo shosha* have been especially interested in Canadian mineral resources such as iron, lead, zinc, nickel and copper. At first, they imported these mineral resources. Then, in the late 1950’s and 1960’s *sogo shosha* switched to development-and-import contracts, in which they provided capital and received goods in exchange. For example, in 1957 Sumitomo and Mitsui provided Cowichan Copper Co. with capital for infrastructure in order to import copper from Vancouver Island in British Columbia (Sumitomo, 1972, p. 482). In 1965, the Mitsubishi and Sumitomo groups signed a development-and-import contract, in which they provided capital and received goods in exchange. For example, in 1965 Sumitomo and Mitsui provided Cowichan Copper Co. with capital for infrastructure in order to import copper from Vancouver Island in British Columbia (Sumitomo, 1972, p. 482). In 1965, the Mitsubishi and Sumitomo groups signed a development-and-import contract with Granisle Copper Ltd., Vancouver. The two groups invested C$7.5 million; 30% by Mitsubishi and 70% by Sumitomo, and, in return, they agreed to purchase copper for 10 years (Ibid., pp. 484 and 798).

The 1970’s saw a proliferation of Japanese investment in energy-related ventures, and *sogo shosha* took an active part in coal development projects either as an organizer or an indispensable partner. The oil crises of 1973 and 1979, increased demand for coking and thermal coal by Japanese steel companies and sporadic strikes in Australia and the United States made Canadian coal more attractive. Even before the oil crises, Mitsubishi negotiated with Kaiser Steel Company of California, on behalf of nine Japanese companies. Agreement was reached in 1968 to take 45 million tonnes over a fifteen-year period (Langdon, 1983, p. 126).

In 1982 the Canadian federal and British Columbia provincial governments announced a mega-project “Northeast Coal Development Project in B.C.” after they succeeded in gaining Japanese acceptance of seven million tonnes per annum, starting in 1983 and continuing for 15 years (Ibid., p. 129). This C$2.5 billion project was to develop new Quintette and Bullmoose coal mines in the northeast of British Columbia. The two governments financed the necessary infrastructure including railways, roads, and the coal port at Ridley Island near Prince Rupert, and the Tumbler Ridge new town site (Province of British Columbia), while Japanese companies agreed to long-term coal prices and tonnage sufficient to cover all the costs (Langdon, 1990, p. 137).

Quintette coal turned out to be very expensive. Consequently, the Japanese companies pressed Quintette Coal Ltd. to reduce the price after facing an oversupply of coal and falling world prices. In order to settle the dispute between Quintette Coal Ltd. and a consortium of Japanese steel mills over coal prices, the international arbitration process was used18. Current shareholders of Quintette Coal Ltd. are Denison Mines Ltd. (50% of C$425 million), Mitsui Mining Overseas Company Ltd. (12.5%), Tokyo Boeki Ltd. (10.49%), Charbonnages de France (12.01%), Sumitomo (5%), and others (10%) (Shukan Toyo Keizai, 1992, p. 741). Final assessment of the success of this controversial project is yet to be carried out.

Among the manufacturing industries, the lumber and pulp industry has attracted the largest amount of Japanese investment. Two prominent pulp companies illustrate *sogo shosha*’s involvement in Canadian forest resources. Crestbrook Forest Industries Ltd. in B.C. was a joint venture of the troika type, and was founded by Mitsubishi, Honshu Paper and Crestbrook Timber in 1967 (Mitsubishi, 1986, p. 589, and 1987, p. 395). In 1990 the sales of the
Figure 1. Location of sogo
Notes
1. One office location identifies one merged company. Accordingly, Nissho Iwai and Kanematsu are each represented by one office on Figures 1a-b, even though they were each two companies respectively before the mergers.
2. The status of an office indicates the latest one. When a head office was moved, its location is spotted where the head office was located for a longer period of time during the decade.
3. In 1986 Kanematsu moved its head office from Toronto to Mississauga which belongs to the Toronto Metropolitan Area. Thus, it is indicated as a head office in Toronto.

Sources: The limited company histories and a large number of difficult-to-locate annual reports and other company records.

shosha offices in Canada.
company came to C$220 million, ranked 344 of Canada's largest 500 companies (Canadian Business, 1991, pp. 118-119). Currently, each of Honshu Paper and Mitsubishi holds 26.8% of the company's capital of C$92.96 million, while local shareholders have 46.4% (Shukan Toyo Keizai, 1992, p. 740).

The other is Daishowa-Marubeni International Ltd. (DMI) in B.C. It was a joint venture among Marubeni, Daishowa Paper and Weldwood of Canada Ltd. in 1969. At the same time Cariboo Pulp & Paper Co. was set up as a marketing company for DMI (Marubeni, 1984, p. 67). At the end of 1991 the capital of DMI was C$12 million, owned by Marubeni (50%) and Daishowa Paper (50%) (Shukan Toyo Keizai, 1992, p. 733).

With the diversification of Japanese investment, sogo shosha's investment in manufacturing also expanded from the resource-oriented industries, such as pulp, to the assembly-type and high tech industries. Here is another troika scheme observed in 1989. Mitsui, Daikyo and Magna International Inc. established DDM Plastics Inc. in Ontario to produce automobile plastic parts for CAMI Automotive Inc., a joint venture between Suzuki Motors and General Motors of Canada, in Ingersoll, Ontario. The initial capital of C$20 million was funded by Daikyo (40%), Mitsui (10%) and Magna International (50%) (Shukan Toyo Keizai, 1990, p. 480).

Another case is Atoma International Inc., a subsidiary of Magna International Inc., in Ontario. Since 1989 Mitsubishi has pursued a mutually collaborative business relationship with Atoma, which specializes in automotive interior systems and components. Mitsubishi provides 24.5% of the capital of C$167 million, and Magna the remainder (Shukan Toyo Keizai, 1992, p. 743).

To sum up, sogo shosha investment in commerce, natural resource development and manufacturing, fits in with promotion of their trade mainly between Canada and Japan. Sogo shosha's key investment establishes the nine trading subsidiaries and marketing companies such as those in the automobile sector. Moreover, sogo shosha participate in many joint ventures in natural resource development with minority equity shares and long-term purchasing contracts. As well, sogo shosha are involved with many manufacturing joint ventures with minority equity shares. These ventures include both traditional resource processing industries and assembly-type industries. The major purposes of sogo shosha's commitment are procurement of materials and sales of the products. Canada has hosted many of these troika scheme ventures. Because of these special features, sogo shosha investment is characterized as a prototype of Japanese overseas investment, and their influence extends well beyond their immediate investment amounts. Sogo shosha investment has played a significant role in facilitating trade and investment between the host and the home country.

V. OFFICE LOCATIONS OF SOGO SHOSHA IN CANADA

The locations of sogo shosha offices in Canada are traced from the 1950's to the present to identify characteristics and patterns of office distribution. Particular attention is paid to the headquarters, for these locations are closely re-

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<thead>
<tr>
<th>Table 3. Population of census metropolitan areas in Canada</th>
<th>(In thousands)</th>
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<tbody>
<tr>
<td>Toronto</td>
<td>1,262</td>
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<tr>
<td>Montreal</td>
<td>1,539</td>
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<tr>
<td>Vancouver</td>
<td>586</td>
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<td>Edmonton</td>
<td>194</td>
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<tr>
<td>Calgary</td>
<td>142</td>
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Note: Population is based on the boundaries of C.M.A.s at time of that particular census.
lated to the functions of a city, the economic well-being in the area, and the particular and contrasting needs of the Japanese companies.

In 1954 Tomen and Gosho, one of the predecessors of present Kanematsu, commenced opening their offices in Montreal. These early offices belonged to the parent company of Gosho (Kanematsu, 1990, p. 328) and Tomen's American trading subsidiary (Tomen, 1991b, p. 510) (Figure 1a). The two offices were upgraded to branches in the later 1950's.

Montreal was the largest metropolitan center in Canada at that time (Table 3). In addition to the city's large market, its proximity to the United States and the developed clothing industry in that area induced the opening up of Montreal offices of sogo shosha, since both Tomen and Gosho started as cotton traders, and textiles remained the most important components of their trade.

As previously described, Mitsui first established a wholly-owned trading subsidiary in Canada in 1956. Next was the present Nissho Iwai in 1959. Their head offices were located in Toronto, which was then the second largest metropolis in Canada (Table 3). In both Montreal and Toronto three additional sogo shosha also opened their offices in each center.

The third largest city, Vancouver, has been a strategic point for the traders. Because Vancouver is a gateway port to the Pacific Ocean and a break-of-bulk point, through which most trade in commodities between Canada and Japan goes, six sogo shosha set up branches and offices there in the 1950's.

In the 1960's four other sogo shosha established their independent Canadian trading subsidiaries; Marubeni in 1960, Sumitomo in 1961, Mitsubishi in 1965 and C. Itoh in 1969. The locations of their headquarters were in Toronto (Marubeni), Vancouver (Sumitomo and Mitsubishi) and Montreal (C. Itoh) (Figure 1b). With the establishment of the Canadian trading subsidiaries, the branches and offices which formerly belonged to either parent companies or American subsidiaries were reassigned to the newly established ones.

In 1965 Mitsui opened an office in Edmonton to engage in the energy-related business. Edmonton is the capital of Alberta and one of the fastest growing cities since 1941 because of the expansion of the oil industry.

The 1970's saw the completion of the establishment of Canadian trading subsidiaries. After the merger of Kanematsu and Gosho in 1967, Kanematsu Canada, then Kanematsu Gosho Canada, was founded in 1972 with its headquarters in Montreal. Only two years later the head office was moved to Toronto. In 1974 Tomen Canada and Nichimen Canada were created. Tomen placed its head office in Toronto while Nichimen located in Montreal (Figure 1c). Note that Nichimen was developed from a cotton trader, and thus its strength resided in the textiles, as well.

An outstanding development in the 1970's was the expansion of offices in Calgary (Figure 1c). Calgary is the second largest city in Alberta and a booming city due to the burgeoning petroleum industry, which attracted sogo shosha particularly after the oil crises. In 1972 Mitsui moved its office from Edmonton to Calgary, while in 1974 Nissho Iwai opened up its Edmonton office.

A Halifax office was opened by Marubeni in 1972 and closed shortly thereafter in 1977. The major function of this office was to export Canadian fish such as herring, smelt and squid to Japan. Marubeni was distinguished from other trading companies by being financially involved in some packing firms that canned salmon and trout in Canada (KURIHARA, 1986, pp. 372-373). Later the company withdrew from marine products-related ventures since buying processed fish in the markets was profitable enough.

The 1980's saw the relocations of headquarters (Figure 1d). C. Itoh moved its head office from Montreal to Calgary in 1981, then to Vancouver in 1983. Tomen shifted its head office from Toronto to Vancouver in 1982. The headquarters of these two companies remain in Vancouver at present.

In contrast, three companies, Nissho Iwai, Nichimen and Mitsubishi, ultimately moved their head offices to Toronto. Nissho Iwai relocated its head office from Toronto to Vancouver in 1983, since the company was involved in prospective energy projects, especially the ill-fated LNG development in Alberta. With a shift...
of interest from natural resources to manufacturing related business, the company moved its head office back to Toronto in 1988. In 1983 Nichimen relocated its head office from Montreal to Toronto. The present Montreal office belongs to the jurisdiction of Nichimen America.

Mitsubishi took two steps to move its head office. First, the company moved its president and chief executive officer from Vancouver to Toronto, while retaining the registered corporate head office and Chairman of the Board of Directors in Vancouver (KURIHARA, 1986, p. 368). Then Mitsubishi designated Toronto as an official head office in 1986. According to the Chairman, Mitsubishi is already strong in western Canada so the company has had to strengthen its business in the East.

A new development in the 1980's was the opening of an office in Whitby near Toronto by Nissho Iwai in 1987. Only a year later the office was moved to Ingersoll, where the forenamed CAMI plant is located. This decision was also motivated by Nissho Iwai's desire to be engaged in manufacturing related business in southern Ontario.

As recently as in 1990 Sumitomo moved its headquarters from Vancouver to Toronto. At present seven out of nine sogo shosha have their head offices in Toronto, while the rest are in Vancouver (Figure 1e).

The movement of head offices from Vancouver to Toronto in the 1980's and 1990's may be attributed to a number of social, economic and political factors. By 1981 Toronto had became the largest urban center in Canada, surpassing Montreal. During the 1970's the acceleration of the drive for protection of the French-language in Quebec encouraged the exodus of many English-speaking Quebecers. The Parti Quebecois, which won the 1976 provincial election, passed language legislation establishing French as the province's sole official language. As a result, many English-speaking residents left Montreal, and anglophone companies relocated to Toronto. Thus, these political, social and cultural pressures explain why Montreal has fallen behind Toronto.

In addition to the influx of people from Quebec, Toronto attracts a considerable number of immigrants from abroad and migrants from other provinces (SIMMONS and BOURNE, 1989, pp. 34-35). It has become the dominant metropolis by creating the largest market in the country.

Toronto's strategic location in industrial southern Ontario has also contributed to its growth. The Industrial Heartland of Canada (YEATES, 1987, pp. 109-147) overlaps the metropolitan corridor stretching from Windsor to Quebec City. Since Toronto is surrounded by numerous other industrial centers, its industrial power is unmatched elsewhere in Canada.

Measured by the degree of control exercised by Canadian and foreign corporations located in Toronto and Montreal, the two largest metropolitan centers are the leaders in the four major sectors of finance, manufacturing, services and resources in the Canadian economy. "Toronto is at the apex of the Canadian urban industrial hierarchy, and Montreal is clearly second" (DRIEDGGER, 1991, p. 175).

The Canada-U.S. Free Trade Agreement of 1988 has reinforced this trend. As previously mentioned, since some Japanese manufacturers were afraid of being excluded from the newly established market, they set up their plants in the Industrial Heartland. Sogo shosha have also been drawn to Toronto, for the greater number of business opportunities in this area.

The province of Quebec's language policy, the existence of the largest market, the strategic location of the Industrial Heartland, the locus of large corporations and the Free Trade Agreement, have all contributed to the supremacy of Toronto in the Canadian urban industrial hierarchy. The relocation of sogo shosha headquarters to Toronto in the 1980's and 1990's is an indicator of the growth of this metropolitan center.

Figure 1e summarizes the distribution of sogo shosha offices in Canada in the 1990's. Toronto has seven headquarters and two branches; Vancouver two headquarters, six branches and one office; Montreal four branches and five offices; Calgary one branch and five offices; and Ingersoll one branch. Based on the number and the size of sogo shosha offices, Toronto is the most significant, and Vancouver is second. Montreal is ranked third followed by Calgary which is
fourth.

This ranking is different from the above-mentioned Canadian urban industrial hierarchy, in which Montreal is second. Because sogo shosha are engaged in the bilateral trade and investment activities, Vancouver is more significant for sogo shosha than Montreal. Consequently, it can be concluded that the office locations of sogo shosha reflect the growth and economic success of Canadian urban centers as in the case of the expansion to Calgary in the 1970's and the recent relocation of headquarters to Toronto. Moreover, the distribution of sogo shosha offices is distinctive in emphasizing the significance of Vancouver. This may well reflect perceptions of the growing importance of Vancouver as the Canadian gateway to the Pacific Rim as well as geographical proximity to Japan.

VI. CONCLUSION

Japanese direct foreign investment in Canada has been relatively moderate in size, but is still significant in its impact. In fact, the 1980's saw the rapid increase in investment and the diversification of investment sectors. Since mature Japanese manufacturers, financial institutions and real estate companies were the major contributors to this trend, the proportion of sogo shosha investment in the total Japanese investment in Canada has declined relatively. Geographically, British Columbia and Ontario have been the two leading host provinces of Japanese DFI. During the 1980's Ontario attracted further Japanese investment. The expansion and diversification of Japanese DFI in Canada for the last decade were attributed to the changes in investment climate of the host country and the appreciation of the yen.

Sogo shosha, or the nine largest Japanese general trading companies, have been the chief promoters of Japanese trade and major vehicles for bringing in Japanese overseas investment during the postwar period. Their organizational and functional characteristics enable sogo shosha to play a crucial role in organizing and coordinating overseas projects.

In Canada sogo shosha have been engaged in various investments. The most important investment is in commerce, through the establishment of their trading subsidiaries and marketing companies. The troika scheme has been adopted in manufacturing joint ventures. Participation in natural resource development projects comes along with minority equity shares and long-term purchasing contracts. Hence, the three principal types of sogo shosha investment are trade-oriented and uniquely archetypical Japanese DFI. Despite their relatively small amount of investment, the leverage is enormous, since sogo shosha have been involved in many joint ventures with minority equity shares. Sogo shosha investment is a catalyst to draw other Japanese investment into Canada.

The postwar presence of sogo shosha in Canada has been traced back to 1954. Eventually, all nine sogo shosha have set up their wholly-owned trading subsidiaries. The Canadian trading subsidiaries, however, are often subject to their American counterparts, due to the small size of the Canadian market, the location of its major market and high dependency on American DFI.

Their economic activities are also reflected in the location of sogo shosha offices. Toronto, Montreal and Vancouver have been the loci of sogo shosha offices since the 1950's, and Calgary since the 1970's. These locational preferences are attributed to a number of factors: the functions and size of a city, the proximity to domestic and Japanese markets, the locale of the Industrial Heartland, federal and provincial government policies, and companies' strategies. In particular, the relocation of sogo shosha headquarters to Toronto in the 1980's and 1990's confirms Toronto's position at the top of the Canadian urban industrial hierarchy. The preference for Vancouver over Montreal is a significant feature of the Japanese trading companies.

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Notes

1) A detailed discussion of the overall investment
in Canada by sogo shosha in terms of investment
amount, sector and location is not part of this
paper.

2) See Kurihara (1990) for a summary of the histo-
ry of Japanese overseas investment after World
War II.

3) The Foreign Exchange Control Law amendment
in April, 1991 came into effect as of January 1,
1992. However, it has had little effect on the
matters discussed in this paper.

4) In the 1980 amendment, the authorization of
Japanese overseas investment changed from ap-
proval by the Ministry of Finance to prior decla-
ration to the Ministry.

5) Hereafter, the dollar indicates the U.S. dollar,
unless otherwise specified.

6) The Japanese government data are given for the
fiscal year which starts in April and ends in the
following March.

7) Although most projects are recorded by their
location, a few that involve several locations are
recorded by the main site of investment or by
the corporate head office.

8) There are two important qualifications. First,
total assets of all foreign banks are limited to 8%
of the total domestic assets of all banks in
Canada. Second, each foreign bank must limit its
assets in Canada to 20 times its deemed capital
base (Wright, 1984, p. 66).

9) See Kurihara (1990) for a detailed discussion on
the Canadian investment climate as compared
with the American one. Also see Kurihara
(1991) for changes in the economic and political
environment in Canada and Japan.

10) The aggregate data of Shukan Toyo Keizai can
not be directly compared with the Japanese gov-
ernment data, because the latter include both
planned, yet unmaterialized projects and already
withdrawn projects.

11) In this paper, all those offices which are smaller
than branch offices in terms of staff numbers are
classified as offices. Thus, they include represen-
tative offices, local offices and detached offices. In
addition, branches often keep their own ac-
counts.

12) By the occupation General Headquarters order
Mitsui was dissolved into 223 separate com-
panies in 1947. After the mergers of spin-off
companies, the present Mitsui was formed in
1959.

13) Calculated by the author, based on data from
Shukan Toyo Keizai (1992, pp. 726-744) and in-
terviews. Data on Rockwell International Sus-
pension Systems is not available.

14) Telephone interview with T. Kamo, America-
Europe section, international corporate planning
department, Marubeni Corporation, 25 May, and
facsimile 29 May 1992, Tokyo.

15) Telephone interview with S. Asama, president,
Marubeni Steel Corporation, 28 February 1992,
Tokyo.

16) Ibid.

17) Letters from Y. Inagaki, overseas coordination
and administration division, second overseas de-
partment, Mitsui & Co., Ltd., 18 May and 12 June
1992, Tokyo.

18) The panel ruled that the price should be reduced
to C$82.40 on January 1, 1991 from C$94.90 on
April 1, 1990. The current world coal price is
approximately C$ 62 per tonne (Canada Japan

19) The capital of DDM Plastics Inc. was increased
to C$50.5 million. The ownership of the company
was changed as follows: Daikyo (55.6%), Suzuki
(33.5%) and Mitsui (11.1%), as of December 1991
(Shukan Toyo Keizai, 1992, p. 733). In this paper,
percentages of sogo shosha's equities indicate the
total equities possessed by both parent sogo
shosha and their subsidiaries.

20) See Kurihara (1991) for provincial gross domes-
tic product.

21) Source for office locations: Kanematsu history,
national reports, and interviews with T. Fujihara,
associate general manager, overseas relations de-
partment, and with K. Shinohara of public relations

22) Source for office locations: Nissho Iwai histories,
annual reports, and facsimile from M. Kawaguchi
and H. Suzuki, international planning depart-
ment, 27 August and 31 August 1992, Tokyo.

23) Source for office locations: Sumitomo history,
national reports, and facsimile 13 March; tele-
phone interview with T. Ishihara, overseas
planning and coordination department no. 1, 4
September 1992, Tokyo.

24) Source for office locations: Mitsui histories,
national reports, and Inagaki, op. cit.

25) Source for office locations: Nichimen history,
national reports, and facsimile from I. Kawanishi,
public relations department, 30 September 1992,
Tokyo.

26) Kamo, op. cit.

27) Ibid.

28) In 1983 Vancouver became an operational head-
quarters where the company president resided,
and in 1987 it became an official headquarters. Facsimile from Y. Naito, no. 1 Western Hemisphere section, overseas administration and planning department, C. Itoh & Co., Ltd., 11 May 1992, Tokyo.


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Tokyo, 422 p. (J) The English version is The 100 Year History of Mitsui & Co., Ltd., 1876-1976.


1954年以降の総合商社による対加直接投資

栗原 武美子*

この論文は、カナダにおける総合商社（ここでは、戦後の中日貿易ならびに海外直接投資の主たる担当手たる九九大社をさす）の直接投資の基本的特徴と、その経済活動の立地を明らかにすることを目的としている。

カナダにおける日本の直接投資は、これまで相対的には決して大きかなかった。しかし、近年の投資額の増加は、カナダにおける日本の直接投資の影響力をますます高めつつある。この直接投資の重要な担い手の一つである総合商社に関しては、確かに1980年代に入って、日本の対加直接投資総額に占める割合において、相対的にその地位が低下したと言える。なぜなら、受入れ国の投資環境の変化と円高により、日本の製造業者や金融機関、不動産会社が巨額の投資を行なうようになったからである。にもかかわらず、日本の対加直接投資における総合商社の中心的役割は少しも低下していない。

カナダへの総合商社による投資は、主として商業、資源開発および製造業の3分野に集中している。商業投資は、自己資本100％の現地法人組織子会社や、販売会社の設立が中心である。商社が天然資源開発プロジェクトや製造業の合弁事業に参加する際、多くの場合商社の出資比率は少數であるが、商社は資源の長期購入契約を結んだり、製品の販売を一手に引き受ける。このように、総合商社の投資額は相対的に小さいが、その貿易促進力および合弁事業の組織力はきわめて大きい。このような総合商社の投資活動は、他に類を見ないものであり、その意味で日本の海外直接投資の独特の原型と考えられる。

総合商社は1954年よりカナダの経済界で経済活動を行ってきた。市場の小規模性、オンタリオ・ケベック州を中心とする市場の位置、アメリカ資本への強い依存というカナダに特殊な要因が、100％子会社のカナダ現地法人経済活動に影響し、このためカナダ会社は、しばしば親会社によるアメリカ現地法人よりも下位に位置づけられている。商社は主要4都市に事務所を開設しているが、その立地選好は様々な要因の複合である。

近年では、トロントがカナダの都市階層の経済活動の首位を占めていることに対抗して、トロントへの本社の移転がなされている。また、米加企業が一社に選好するモントリオールよりも、日加貿易の窓口であるバンクーバーを選好するのが、日本の商社の特徴である。

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