The Business Activities of Mitsui & Co.'s London Branch, 1879–1896

Makoto KASUYA
University of Tokyo

BECAUSE GENERAL trading companies dealing in all manner of commodities with all manner of places throughout the world are something special to Japan, their origin and their development have been the subject of a great deal of research. Alleviation of transaction risks, the realization of economies of scale, and other factors have been pointed out as the reasons why general trading companies were considered necessary in Japan, and importance has been attributed to the training of personnel and the formation of a management structure and a risk management structure as factors within the general trading companies that have brought about that necessity.¹

¹ See, for example, Keiichirō Nakagawa, “Nihon no kōgyōka katei ni okeru ‘soshiki-ka sareta kigyōsha katsudō’” [The “activities of organized entrepreneurs” in Japan’s industrialization process], *Keieishigaku* [Japan Business History Review] vol. 2 no. 3 (1967); K. Yamamura, “General Trading Companies in Japan: Their Origins and Growth,” in H. Patrick, ed., *Japanese Industrialization and Its Social Consequences* (University of California Press, 1976); Hidemasa Morikawa, “Sōgō shōsha no seiritsu to ronri” [The origin and logic of general trading companies], in Mataji Miyamoto et al., eds., *Sōgō shōsha no keiei-shi* [The business history of general trading companies] (Tōyō Keizai Shinpōsha, 1979); Hiroaki Yamazaki, “Nihon shōsha shi no ronri” [The logic of the history of Japan’s trading companies], *Shakaikagaku kenkyū* [The Journal of Social Science] (University of Tokyo) vol. 39 no. 4 (1987); Shin’ichi Yonekawa and Hideki Yoshihara, eds., *Business*

Mitsui & Co. is the oldest general trading company in Japan. Studies have shown that in the beginning it engaged in the buying and selling of rice, the exporting of government rice, the importing of wool cloth for military use, and the exporting of coal from the government-run Miike Coal Mine (eventually purchased by the House of Mitsui in 1889); when the cotton spinning industry developed in Japan, it imported cotton spinning machines and raw cotton as well. In other words, we know from studies that the company started out as a purveyor to the government dealing primarily in commodities that met the demand of the military and of officialdom (rice and goods for military use) and from there grew into a commission merchant dealing primarily in such things as coal, raw cotton, and machinery.² The development of trading companies has often been studied this way in terms of the different commodities they dealt with. In a certain sense this is only natural, given that business varies with each different commodity, but when one analyzes the process by which Mitsui, as a general trading company, begins to deal in a large number of commodities, a different perspective becomes necessary. What is needed is an analysis of how diversification in the commodities dealt with was carried out, and how this was integrated within Mitsui & Co. In regard to internal management of the company, importance has been attributed to the setting of limits on long and short positions with regard to commodities and to the control of such transactions as the company's method of risk management;³ in the present study, however, I would like to analyze the process by which the London branch

History of General Trading Companies (University of Tokyo Press, 1987); Shin'ichi Yonekawa, ed., *General Trading Companies: A Comparative and Historical Study* (United Nations University Press, 1990).

² See Yoshio Togai, *Mitsui Bussan Kaisha no keieishiteki kenkyū*—"moto" *Mitsui Bussan Kaisha no teichaku, hatten, kaisan* [A business historical study of Mitsui & Co.: The establishment, growth, and dissolution of "the former" Mitsui & Co.] (Tōyō Keizai Shinpōsha, 1974); *Kōhon Mitsui Bussan Kabushiki Kaisha hyakunen shi* [Centennial history of Mitsui & Co.] , vol. 1 (Japan Business History Institute, 1978); Mitsui Bunko [Mitsui Research Institute for Social and Economic History—hereafter, MRSEH], ed., *Mitsui jigyō shi* [The history of Mitsui's business], *honpen* vol. 2 (1980, written by Hiroshi Iwasaki).

³ See Kunio Suzuki, "Mikomi shōbai ni suite no oboegaki—1890 nendai kōhan, 1910 nendai no Mitsui Bussan" [Memorandum concerning own account trading: Mitsui & Co. from the second half of the 1890s through the 1910s], *Mitsui Bunko ronsō* [The Journal of Mitsui Research Institute for Social and Economic History] no. 15 (1981).

was firmly established in the city that was the center of world trade, to see what light this sheds on how Mitsui & Co. integrated its diversification even before it would revise its business regulations beginning in 1890 and before it would institutionally and organizationally begin operating on its own account. My reason for doing this is that I believe the commercial know-how acquired in London—specifically, things related to finance, ships, and marine insurance—were not things that were limited to a specific commodity or region, but were useful as a base for transactions when dealing with any kind of commodity and any region anywhere on the earth.⁴

THE SIGNIFICANCE OF THE LONDON BRANCH

England was one of the industrial centers of the world at the time, and a branch in London would have been an indispensable base for engaging in machine trade. But, and there is no need to point this out as if it were something new, London was also the heart of the world's trade, and, because it was a center of commodity transactions, numerous exchanges of all kinds were located there. It was also equipped with the high-level functions of those complementary sectors that are indispensable for engaging in commodity trading: finance, merchant shipping, and marine insurance; mercantile exchanges, financial institutions, shipping companies, and marine insurers were clustered within the borders of the City of London. Transactions linking these financial, shipping, and marine insurance institutions could only be conducted there in the City.⁵ In 1866 a submarine telegraph cable had been laid between London and New York, and in 1871 this was connected with Yokohama;⁶ also, in 1869 the Suez Canal was opened, so that the world's commerce and

⁴ A book on the activities of Mitsubishi Corporation's London branch has been published; see Pernille Rudlin, *The History of Mitsubishi Corporation in London: 1915 to the Present Day* (Routledge, 2000). Mitsubishi carried on almost no business at all in London in the nineteenth century.

⁵ J. H. Dunning and E. V. Morgan, *An Economic Study of the City of London* (George Allen & Unwin, 1971), p. 34.

⁶ J. Ahvenainen, "Telegraphs, Trade and Policy: The Role of the International Telegraphs in the Years 1870–1914," in R. C. Michie, ed., *The Industrial Revolution 11: Commercial and Financial Services* (Blackwell, 1994), p. 279.

finance came to be even more closely connected. The City was also the scene where trade transactions were carried out involving goods that would not pass through England. Let us review briefly the City's role in such transactions, in regard to finance, merchant shipping, and marine insurance.

From around 1870 London would cement its position as an international financial market. The pound functioned as the key currency, and even when commercial transactions did not involve passage of goods through English ports they were mediated by the pound, and a large proportion of the bills of exchange on London that resulted, whether directly or indirectly, from world trade were received on the London market, and almost half the total amount of foreign exchange generated at the time was received on the London market.⁷ When a foreign exchange bill was accepted by a merchant banker, it enjoyed wide negotiability as a prime bill, and it was settled by credit-debit alterations in the merchant banker's account. A merchant banker also sometimes accepted finance bills not based on commercial transactions drawn by exchange traders, moneylenders, large trading companies, or enterprises.

In merchant shipping, too, English ships were transporting approximately half of the world's marine shipping right up until the beginning of the twentieth century.⁸ It was not only the regularly scheduled vessels that held such a predominant share; England's tramp ships held a similar share of the trade, especially in the carrying of bulk cargo such as grain and coal. The market related to these vessels was also well developed, with exchanges located not only in London but also in Liverpool and other port cities. Still, the dominant figure on the exchange landscape was the Baltic Exchange in the City.⁹ The Baltic Exchange had its beginnings as the Baltic Coffee House, but it also was the scene of commodity transactions, with particular strength in

⁷ Mitsuhiro Takumi, *Kokusai tsūka taisei—pondo taisei no tenkai to hōkai* [International currency systems: The evolution and collapse of the pound sterling] (University of Tokyo Press, 1976), chap. 1. Clearing banks would also become more actively involved in accepting bills of exchange, etc.

⁸ D. H. Aldcroft, *Studies in British Transport History 1870–1970* (David & Charles, 1974), p. 56.

⁹ For more on the Baltic Exchange, see H. Barty-King, *The Baltic Exchange: The History of a Unique Market* (Hutchinson Benham, 1977).

tramp ship transactions. Because it competed at the end of the nineteenth century with the London Shipping Exchange (whose strength was the regularly scheduled lines), the two exchanges would eventually merge into the Baltic Mercantile & Shipping Exchange in 1903 (but here the one term "Baltic Exchange" is used to include the company after the reorganization as well). At the Baltic Exchange brokers acted as intermediaries between the shipowners and the cargo owners and regulated supply and demand. It has been said that two-thirds of all the chartering of tramp vessels was carried out at the Baltic Exchange as late as the second half of the 1950s,¹⁰ but what the percentage was around the end of the nineteenth century is not known with any certainty.

When it comes to marine insurance, no name is more famous than Lloyd's of London. Lloyd's is organized in such a way that underwriters undertake to insure items that brokers bring to them.¹¹ In 1824 the ban on establishing marine insurance companies that were organized as companies was lifted and one marine insurance company after another was established. Lloyd's also was incorporated, gaining this status in 1871. In the midst of stiff competition, as a result of undertaking risks involving huge sums of money in the 1870s and 1880s, Lloyd's helped make London the center of the insurance market.¹² From the second half of the nineteenth century to the beginning of the twentieth century two-thirds of the world's marine insurance was handled in England, especially in the City of London.¹³ Another thing to note is that the brokering and underwriting of insurance was not completely separated; in addition, there were many insurance brokers who also doubled as marine transport brokers, and some of these even held a third hat as owners of vessels.¹⁴ Thus, marine

¹⁰ R. C. Michie, *The City of London: Continuity and Change, 1850–1990* (Macmillan, 1992), p. 40.

¹¹ H. Cockerell, *Lloyd's of London: A Portrait* (Dow Jones-Irwin, 1984), pp. 1–29.

¹² C. Wright and C. E. Fayle, *A History of Lloyd's: From the Founding of Lloyd's Coffee House to the Present Day* (Macmillan, 1928), p. 429.

¹³ Michie, *The City of London*, p. 151.

¹⁴ Nobuhiro Hiyoshi, *Hoken burōkā* [Insurance brokers], rev. ed. (Hoken Mainichi Shinbunsha, 1995), p. 17; E. Green, "Very Private Enterprise: Ownership and Finance in British Shipping, 1825–1940," in T. Yui and K. Nakagawa, eds., *Business History of Shipping* (University of Tokyo Press, 1985), p. 229.

transport and marine insurance were being run as very closely related businesses.

The conclusion would seem to be obvious: gaining some foothold in a key place like the City of London, and acquiring expertise in the administration of finance, merchant shipping, and marine insurance would have held a decisive significance from the point of view of carrying out the handling of important commodities, as well as from the point of view of carrying out transactions not passing through England.

THE OPENING OF THE LONDON BRANCH

In April 1874 Mitsui & Co. entered into an agency contract with Robert W. Irwin, who, as part of Edward Fischer & Co. of Yokohama, had been closely involved with Senshū Kaisha, one of the forerunners of Mitsui & Co. Irwin sailed to London, where he opened an office at 1 Crosby Square, Bishopgate Street. Mitsui entrusted the agency with the administration of its exports to London of rice and barley and its imports into Japan of wool cloth and woolen blankets, but the agency also handled other things such as black tea, raw silk, and abalone. In 1878 Mitsui posted Yōnosuke Mitsui to London to supervise matters. It was felt the agency was on track, so Irwin left London that same year and returned to Japan, where he was appointed an adviser to Mitsui & Co. Mitsui decided, partly because of advice from Masayoshi Matsukata, a high-ranking government official who would later become finance minister and prime minister, to set up a branch office in London, and Motoaki Sasase sailed for London to be the first head of that branch office, which officially opened in September 1879.¹⁵

Thus Mitsui & Co. used the foreign businessman, Irwin, to gain entry into London, and the question that arises is, what significance did his work there have for prosecution of the business affairs of the London branch? We can consider this question on the basis of

¹⁵ *Mitsui jigyōshi* [The history of Mitsui business], vol. 2, pp. 284–86; Tomoko Higuchi, “Shiryō shōkai—Mitsui Yōnosuke (Takaaki) London rajō: kaidai” [Source materials: Letters of Yōnosuke (Takaaki) Mitsui received from London, explanatory notes], *Mitsui Bunko ronsō* no. 19 (1985).

documents produced in 1890, when Irwin, attempting to clear away some debts to Mitsui, sought payment for the valuable contribution he made to the company in London, in response to which Mitsui sought mediation by Kaoru Inoue, a former high-ranking government official and finance minister who was closely connected with the House of Mitsui.¹⁶

Irwin's account of the situation runs as follows. When he arrived in London in June 1877, he entered into a business relationship with Martin & Co., one of the leading bankers in London, through an introduction provided by Baring Bros. & Co. on account of personal friendship with him (Irwin), and he opened an agency under his own name. This agency, using Irwin's name, managed to conclude business deals worth three to four million yen. The agency dealt in things like thick wool cloth, woolen blankets, steamships, and rice. Now, in England at the time, general practices made it necessary for companies to go to the customer's bank, check up on the customer's background, and make sure that the customer's identity was confirmed, before one could be able to enter into a buying or selling contract, and because Martin & Co. always told Irwin's clients that they had full trust in him, at that time and afterwards as well Irwin's name was trusted in England—if it were not, in England it would be impossible for the agency to build up trust, or gain expertise in doing business, or do any business whatsoever. And then Mitsui wanted to set up a branch in London and it took over the London business under Irwin's name; in accordance with Mitsui's wishes the account with the bank continued under Irwin's name for several years. The fact that Mitsui was able to carry out business in London was due mainly to the trust and business that Irwin had solidly established during the period 1878 to 1880; if it were not for this, Mitsui clearly would never have been able to carry on such a good business in the most conservative place on earth, London.

We see here that Irwin emphasized the considerable goodwill he had built up in London. Baring Bros. & Co. and Martin & Co. were well-known banks in the City, and Mitsui had made the maximum use of connections made through Irwin to build up trust in the City. This is Irwin's side of the story.

As Mitsui & Co. saw it, however, the situation was different from

¹⁶ MRISEH, *Archive Bussan* 293.

what Irwin claimed. Mitsui's London branch office had continued in the red until 1882, and it was not able to register a profit until 1883 and afterwards, after it had fired all the foreigners that had taken over from Irwin; the foreign clerks named Richard B. Irwin (Robert Irwin's older brother) and B. P. Seare had not been content with receiving large salaries, they also had borrowed money from Mitsui and the company was made responsible for the loans.

In its business report of 1881 Mitsui & Co. made the following points. Because the company had taken on a shop in a land several thousand kilometers away from Japan, there had been various disputes, but at long last the company had been able to separate the liabilities that should be borne by Irwin's agency and those that should be borne by Mitsui, so that keeping clear accounts had become possible. Even so, there remained large sums of money loaned to former foreign employees and others; a large amount of time and effort had been required to bring about repayment of the money and settlement of the matter, to such an extent that getting a full night's sleep had been impossible. Once reorganization had been done, the branch office had been able to do several million yen's worth of business just using Japanese staff, and this, too, was a result of the company's representatives having endured these tribulations.¹⁷

Here we see that Mitsui maintains that the reason the London branch office got on track was the hard work of Japanese employees. Thus the claims made by Irwin and by Mitsui each went its separate way, with no points of agreement. Kaoru Inoue, while aiming to find a compromise between the two sides, did recognize the services of Irwin, saying that it was because of the groundwork laid by Irwin in the first two years that the London branch had been able to raise a profit. We would have to conclude, then, that Irwin's agency was a considerably significant factor as far as Mitsui's entry into London was concerned.

THE RICE EXPORTING BUSINESS

Table 1 represents in summary form some profit and loss statements of the London branch. The account for the period from September 1879 to December 1882 records a huge deficit of 5,947 pounds; the

¹⁷ MRISEH, Archive Bussan 533–3.

**Table 1. Calculations of Profits and Losses of London Branch: 1
(Unit: Pounds)**

		1879-82	1883	1884	1885
Income	Export-rice commissions	2,333	4,649 ¹	11,424 ²	204
	Ordinary commissions	2,759	466	2,343	1,523
	Miscellaneous	1,441	1,250	1,475 ³	1,770
	Totals	6,533	6,365	15,242	3,497
Expenditure	Wages	8,035	906	1,013	727
	Miscellaneous	4,445	1,091	1,100	622
	Profits for these periods	-5,947	4,369	13,129	2,148

Source: MRISEH, Archive Bussan 534-3, 535-3, 536-3, 537-6.

Notes: 1. Includes commission of 921 pounds for ship hiring.

2. Includes commission of 2,208 pounds for ship hiring.

3. Includes rebates of 499 pounds connected with Army wool cloth, Army blankets, and the Mint.

breakdown of this figure is: 2,356 pounds for 1879-80; 3,097 pounds for 1881; 494 pounds for 1882. The reason for the deficit is the low amount of commission income stemming from the absence of any rice export dealings in 1880-81 and from the loss of wool cloth import deals resulting from the starting up of the government-run Senju Wool-Weaving Mill;¹⁸ to this must be added the excessively large salaries paid. All the foreign employees would be retrenched by the end of March 1883, but the salary of Richard Irwin, who had worked there until that year, was 1,000 pounds a year—three times the 330-pound salary of the manager of the branch, Motoaki Sasase.¹⁹ This gives a good idea of the kind of high salaries the foreign employees were receiving. And since the foreign employee Seare was also working there in the London branch, it is patently clear that payment of the salaries of these two was a burden on the London branch. Again, the same table makes it clear that the profits of the London branch were supported by export rice transactions (most of which is

¹⁸ Ibid. Losses were also registered in wax (tallow) and antimony.

¹⁹ MRISEH, Archive Bussan 535-3. Note, however, that in 1884 Sasase's salary was raised to 400 pounds, retroactively to April 1883.

believed to have been government rice), and the London branch's ability to raise a profit with the aid of Japanese personnel alone was largely due to the increase in government-rice exports. But despite its being a purveyor to the government, this by no means meant that all of the government-rice exports were entrusted to Mitsui & Co. In 1884, when such dealings increased, it was quite difficult to carry out everything smoothly—the chartering of ships to load the rice in different places, the selling of the rice, and so on—and foreign rivals in the same business were watching to see if Mitsui could bring the deals to a successful end, but through the efforts of the company's staff they managed to carry out everything successfully. On this point the company expressed its appreciation, saying that the tribulations of two to three years before had borne fruit, with the London branch taking in large amounts of commission.²⁰ But in 1885, when the rice export transactions declined, commission income also declined, and the branch's profits took a huge nosedive.²¹ We know that the value of transactions handled by the London branch in 1883 amounted to 187,022 pounds sterling from imports into England of unpolished rice (161,097 pounds), raw silk (15,757 pounds), white (refined) wax (9,065 pounds), copper ore (805 pounds), etc., and 21,089 pounds sterling from exporting out of England ship's fittings (4,094 pounds), bricks and tiles (3,221 pounds), machinery (3,184 pounds), woolen blankets (2,695 pounds), cotton products (2,191 pounds), coal (2,052 pounds), copper and iron (1,729 pounds), etc.²² Thus the London branch's business leaned heavily on rice, and the importing into Japan of machinery was not growing.

What kind of know-how was Mitsui accumulating during this

²⁰ MRISEH, Archive Betsu 2273 Hei-5.

²¹ MRISEH, Archive Betsu 2630-1.

²² *Meiji jūshichinen kamihanki tsūshō ihen* [1884, first half; commercial compilation]. We know that the Ōkuragumi exported to England 26,386 dollars' worth of goods, including 20,000 dollars' worth of raw silk (the previous year's portion), while it imported from England woven wool fabric (12,667 pounds' worth), copper, iron, and brass (10,333 pounds), wool (4,860 pounds), indigo (4,566 pounds), machinery (1,071 pounds) and other items, to the tune of 38,000 pounds. Similarly, the Takatagumi did deals worth approximately 150,000 pounds, all on imports from England into Japan: implements of war (97,000 pounds), iron plating (25,000 pounds), tools (10,000 pounds), household furniture (8,000 pounds), textiles (4,900 pounds), copper and brass (4,000 pounds), and other items. From this we can see that Mitsui's London branch office had the largest scale of dealings, but that, if one takes out the rice, its scale of operations was not large by any means.

period? Let us first consider the matter in terms of the vessels used to export rice from Japan. Its allocation of steamer tonnage to East Asia after the opening of the Suez Canal increased; from the 1870s the Blue Funnel line, France's mail steamers (the Messageries Impériales), and the P & O line were included under its wings, as well as the Glen, the Castle, and the Watts Milburn lines; in the 1880s German ships were added on, and regularly scheduled steamer vessels in East Asia became a remarkably regular phenomenon. In addition, in the latter half of the 1880s a large number of non-regularly scheduled vessels appeared in East Asia. Sometimes rice and other bulk cargo was loaded onto regularly scheduled vessels, but often enough they were loaded onto tramp vessels.²³

Mitsui & Co. also engaged in the chartering of vessels for rice exports, and this was carried out not only in Japan but also in London. On 17 March 1882 the London branch office, acting through the chartering agent and freight broker H. D. Blyth & Co., entered into a contract of charter to transport rice from Japan "to a safe port in the United Kingdom or on the Continent between Le Havre and Hamburg," the vessel being the *Langshaw* owned by Macintyre Bros. & Co. It was customary practice not to designate ahead of time the unloading port but to give instructions during its voyage as to where to unload its cargo most advantageously. In the signing of this contract B. P. Seare acted per pro on behalf of Mitsui.²⁴ Japanese government documents also record that the *Langshaw* carried rice to London on 31 May of 1882,²⁵ so both sets of documents are in agreement. In other words, the London branch office was using a foreign employee for the purpose of carrying out, through the export of government rice,

²³ See Hidemasa Kokaze, *Teikoku shugi-ka no Nihon kaiun—kokusai kyōsō to taigai jiritsu* [Japanese marine transport under imperialism: International competition and independence of foreign domination] (Yamakawa Shuppansha, 1995), pp. 42–44; F. E. Hyde and J. R. Harris, *Blue Funnel: A History of Alfred Hold & Company of Liverpool from 1865 to 1914* (Liverpool University Press, 1957), p. 41; S. Jones, "George Benjamin Dodwell: A Shipping Agent in the Far East, 1872–1908," *The Journal of Transport History* 3rd series, vol. 6, no. 1 (1985), p. 32. A regularly scheduled vessel was allocated a principal port by the agency, and this meant it did not always require a contract to be drawn up in London. Western-style sailing ships were also used for shipping rice.

²⁴ MRISEH, Archive Kawamura 12–10.

²⁵ Matsuo Shigeyoshi-ke monjo 74–14, kept in the Modern Japanese Political History Materials Room, the National Diet Library, Tokyo.

the practical business of chartering a ship through a shipping exchange.

This can also be confirmed by an account in a journal of Mitsui & Co.'s head office.²⁶ It records that on 31 December 1882 the head office split the commission obtained from the Japanese government for the *Langshaw* cargo of rice, 50-50 with the London branch office. It also records a payment of 3,778 yen to Seare in London for the hiring of Mitsui ships, so this makes it clear that Seare was chartering ships in London.

From other journals we can confirm the chartering of ships in London in 1886 and 1887. On 31 December 1886 the Mitsui head office transfers across to the London branch account a sum of 775 yen as part of the commission for hiring the *Huntington*,²⁷ and at the end of 1887 it transfers across to the London branch account a sum of 1,141 yen as part of the commission for the hiring of the *Gratitude*.²⁸ Japanese government documents also confirm the fact that the *Huntington* was carrying rice to Liverpool and London, and the *Gratitude* to Bremen.²⁹ In this manner, in the process of trying its hand at rice exports, the London branch went on gaining expertise in transactions at London's shipping exchange. As is clear from Table 1, the ship chartering business was an operation that cannot be ignored when one looks at the aspect of the London branch's income.

Business operations dealing with shipping also evolved in the area of marine insurance, which has a very close connection with ship chartering. On 31 December 1886 Mitsui & Co.'s head office transferred to the London branch's account fees and commissions for insurance on the cargos carried by the *Galveston* and the *Gibraltar* (which we can confirm from Japanese government documents were involved in the export of rice).³⁰ Thus the London branch office was gaining experience in the handling of marine insurance, as well. True, the *Langshaw* was also insured in Yokohama,³¹ so Mitsui was making abundant

²⁶ MRISEH, Archive Bussan 668.

²⁷ MRISEH, Archive Bussan 672.

²⁸ MRISEH, Archive Bussan 673.

²⁹ Matsuo Shigeyoshi-ke monjo 74–23, kept in the Modern Japanese Political History Materials Room, National Diet Library.

³⁰ MRISEH, Archive Bussan 672.

³¹ MRISEH, Archive Bussan 667.

use of the Tokio Marine Insurance Co. and of Yokohama agencies of overseas insurance companies.³² Still, even in those cases, Mitsui was avoiding unfavorable tariffs by being able to have insurance added on in London.

CONNECTIONS WITH THE MIKE COAL EXPORT BUSINESS

Mitsui & Co. was using its own vessels for exporting Miike coal, but because these were not enough to handle all the business, Mitsui was chartering vessels as well. On 1 November 1887 the head office transferred from the account of the Hong Kong branch into the account of the London branch the latter branch's fee for chartering, on behalf of the Hong Kong branch, a vessel called the *Norden*, along with the necessary fees for the chartering agent.³³ On 28 February 1888 the head office performed the same accounting procedure in regard to the chartering of *Gratitude II*.³⁴ This is confirmed by yet another document that mentions that in the fiscal year 1887 Mitsui chartered vessels named *Norden* and *Gratitude* for the purpose of exporting Miike coal to Hong Kong.³⁵ What this means is that the London branch office of Mitsui was chartering vessels for coal exports, and so the chartering operations that it gained expertise in as a result of its rice operations, were now proving useful for coal export operations.³⁶

Furthermore, the largest customers for coal in Shanghai and Hong Kong were the steamship companies (or agents of theirs like Butterfield & Swire);³⁷ now, because most of the steamship companies (if we except those catering only for coastal shipping) had their bases in England, even sales of coal to Eastern ports were generally

³² MRISEH, Archive Bussan 718.

³³ MRISEH, Archive Bussan 671.

³⁴ MRISEH, Archive Bussan 672.

³⁵ "Confidential memorandum to Takashi Masuda in Tokyo from Yasusaburō Ueda in Shanghai, dated 31 August 1888," *Mitsui Bunko ronsō* no. 7 (1973), p. 276.

³⁶ Seiji Sasaki, "Mitsui Bussan Gōmeigaisha seitan no kaiun-shi teki igi" [The significance from a marine transport history perspective of the birth of Mitsui Bussan Gōmeigaisha], *Kokumin keiei zasshi* [Journal of Economics and Business Administration] vol. 104 no. 3 (1961), p. 52.

³⁷ MRISEH, Archive Iko 421, 422.

Table 2. Calculations of Profits and Losses of London Branch: 2
(Unit: Pounds)

		1888	1889
Income	Commissions for selling export rice	5,747	5,254
	Commissions for hiring ships for export rice	2,130	2,620 ²
	Commissions for buying machinery	2,743 ¹	—
	Commissions for buying various goods	2,139	3,062 ³
	Rebates on goods ordered	1,058	2,016
	Rebates on marine insurance	1,577	88
	Miscellaneous	3,499	7,710 ⁴
	Totals	18,893	20,749
Expenditures	Wages	1,312	1,497
	Miscellaneous	1,831	2,978
	Profits for these periods	15,749	16,274

Source: MRISEH, Archive Bussan 579, 583.

- Notes: 1. Commissions for purchasing cotton spinning machines.
 2. Commissions for hiring vessels.
 3. Commissions for ordered goods.
 4. Includes commissions of 1,138 pounds for buying raw cotton and 321 pounds for selling Miike coal.

contracted for in London.³⁸ We can confirm a case in which sales of coal in Singapore were contracted for at the London branch office.³⁹ Thus the existence of the London branch was of extremely great significance for the sale of Miike coal destined for the East Asian market as well.

MACHINE EXPORT BUSINESS

Table 2 summarizes the profit and loss statements of the London branch for the 1888 and 1889 fiscal years. The commissions received for its export-rice operations continue to bring in the lion's share of the income,

³⁸ MRISEH, Archive Toku 472.

³⁹ "Confidential memorandum to Takashi Masuda in Tokyo from Yasusaburō Ueda in Shanghai, dated 13 September 1888," *Mitsui Bunko ronsō* no. 7, p. 279.

and commissions for hiring ships reach a substantial level. Note, however, that the export of government rice would end with 1889, and so rice-related commissions would decline from then on. Commissions for machinery were increasing, however; for cotton spinning machines in 1888 alone there was an income of 2,743 pounds. In 1889 the manager of the London branch, Senjirō Watanabe,⁴⁰ returned for a short spell to Japan, made direct inquiries with domestic businesses, was able to satisfy them, and as a result was able to exude confidence about the future: "Even if our sales for the government are reduced to zero, I feel certain the London branch office will be able to turn a profit on nongovernment-related business dealings."⁴¹

The London branch's handling of machines began when in 1882 Mitsui imported cotton spinning machines for Osaka Cotton Spinning Co. Its relationship with Platt Bros. & Co., with which it concluded an agency contract in 1886, is already well known; Platt Bros. machines would become one of Mitsui's leading commodities of trade. Other manufacturers that the London branch would come to have dealings with before 1890 included Joseph Sykes Brothers (makers of cotton card clothing), Mather & Platt, Ltd. (electric generators, horizontal steam engines, three-bowl calenders, brush dampers), Dronsfield Brothers Ltd. (card grinding machines), John Ormerod & Sons Ltd. (leather goods for the textile industry), and Greenwood & Batley Ltd. (a plant of machinery for the manufacture of small arms, and complete plants for the spinning of waste silk yarns).⁴² As can be seen, most of the manufacturers were in the cotton spinning and weaving industry. Thus the London branch had succeeded in building up close ties through its connections with a manufacturer of machines for the cotton spinning and weaving industry.

⁴⁰ The first general manager, Sasase, was replaced in 1885 by Jirōichi Tanabe, but he returned to Japan the following year because of illness, and his place was taken by Senjirō Watanabe.

⁴¹ MRISEH, Archive Bussan 289.

⁴² Mitsui & Co., Ltd., *The Development of Anglo-Japanese Trade* (Albion Publishing, ca. 1930). Only the names of companies that had close dealings with Mitsui around 1930 are listed in this book; the names in the text above are those that were current around 1930.

Table 3. Calculations of Profits and Losses of London Branch: 3
(Unit: Pounds)

	1st half 1892	2nd half '92	1st half 1893	2nd half '93
Income				
Commissions/rebates for buying ordered goods	4,934	5,201	2,929	8,664
Profit from buying/ selling export rice	—	768	370	–808
Commissions for selling coal, hiring ships	699	803	415	647
Commissions as agent of Tokio Marine & Fire	1,236	1,045	486	861
Miscellaneous	1,590	2,448	1,916	2,237
Totals	8,460	10,266	6,116	11,601
Expenditures				
Wages	898	1,022	753	1,256
Miscellaneous	1,406	1,571	1,018	1,679
Profits for these periods	6,156	7,673	4,345	8,666

Source: MRISEH, Archive Bussan 544–11, 546–9, 548, 550–1.

Note: The first half of 1893 was from 1 January to 30 April 1893. From this point on each period was a 6-month period.

TAKING ROOT AND MAKING CHANGES

Tables 3 and 4 summarize the profit and loss statements of the London branch from 1892 to 1894 and for 1896. Because of the termination of its government-rice exporting operations, its rice-related profits were reduced, and in the second half of the 1893 fiscal year it recorded a slight loss. Machinery became its leading trade commodity and formed the main prop of the branch's income. In addition, export items to Japan other than machinery also brought in increasing profits. In coal transactions it was Miike coal that was the mainstay, but in the second half of 1894 commissions for British coal were increasing. It is likely that the London branch had begun dealing in Cardiff coal.

Table 4. Calculations of Profits and Losses of London Branch: 4
(Unit: Yen)

	1st half 1894	2nd half '94	1st half 1896	2nd half '96
Income				
Machinery	36,652	57,849	40,595	96,162
Imported goods	10,892	13,057	51,758	9,514 ³
Sundry goods	6,566	30,473	15,861	68,611
Coal	7,042	13,023	5,231	2,764
Raw cotton	6,264	— ¹	—	4,382 ⁴
Insurance commissions	6,888	7,563	4,126	3,973
Vessels	3,481	4,353	3,334	2,212
Miscellaneous	17,411	38,608 ²	13,637	21,428 ⁵
Totals	95,195	164,927	134,542	209,044
Expenditures				
Wages	11,529	12,158	14,391	15,997
Miscellaneous	5,309	3,080	11,933	8,391
Profits for these periods	78,356	149,688	108,217	184,657

Source: MRISEH, Archive Bussan 558, 559, 560, 561.

- Notes:
1. The London chapter of the raw cotton division had a profit of 2,447 yen, but this was not included in the London branch's statement of profits and losses.
 2. Agricultural products.
 3. Materials for railways.
 4. This figure represents a combination of the figures for the first and second halves. This belongs to the raw cotton division, but it was added to the calculations of the London branch.
 5. This includes an income of 15,044 yen in regard to export rice.

The London branch's balance sheets from the second half of 1891 up to the first half of the 1895 fiscal year can be used to give a fuller picture.⁴³ At the end of fiscal 1891 the branch had total assets of 29,690 pounds, against which it owed to the head office 25,061 pounds; thus almost all of its necessary funds were procured through a debit account with the head office. At the end of the first half of 1892, however, it recorded a loan balance of 15,800 pounds with Kleinwort, Sons & Co. (it still had a balance of 25,802 pounds owing to the head office).

⁴³ MRISEH, Archive Bussan 541-29, 543-35, 545-23, 547-24, 549-21, 551-30, 553-26, 555-18.

The Kleinwort, Sons & Co. loan balance was 21,100 pounds in the second half of fiscal 1892, 30,400 pounds in the first half of 1893, nothing at all in the second half of 1893, 18,500 pounds in the first half of 1894, 1,800 pounds in the second half, and 25,100 pounds in the first half of 1895; in other words, the London branch had obviously managed to develop a continuing relationship with Kleinwort, Sons & Co., a company that had become a top-ranking merchant banker after the Baring crisis of 1890, with a reputation for their independent approach to acceptances and for taking risks.⁴⁴ It is safe to say that Mitsui's London branch office was aggressively expanding the range of its transactions, yet it had managed to have a huge amount of credit extended to it from a top-ranking merchant banker in the City, so that it had managed to make full use of its presence in the City in regard to obtaining funds as well. In turn, it was precisely because this relationship of trust existed that it was able to make a rapid expansion in the range of commodities it exported to Japan, beginning with machinery.

Let us look at shipping relations now. While the balances of loans from H. D. Blyth & Co. were themselves not large, we find a series of them beginning from the end of 1891. This means that the London branch had been maintaining a close business relationship over the years with the same company with which it had arranged for the chartering of the *Langshaw* in 1882 to transport rice from Japan. In addition, it also had dealings with Norddeutscher Lloyd, a company with a regular service to East Asia, and with Gellatly Hankey Sewell & Co., a shipping agency handling cargo destined for the Orient as well as insurance broker.⁴⁵

From the above it is clear that by the mid-1890s Mitsui & Co. already had a foothold in the City of London in regard to finance, marine transport, and marine insurance, and this represented an established network that could fully cope with a later expansion of

⁴⁴ S. Chapman, *The Rise of Merchant Banking* (George Allen & Unwin, 1984), pp. 121, 125, 175; J. Wake, *Kleinwort Benson: The History of Two Families in Banking* (Oxford University Press, 1997), pp. 115–17.

⁴⁵ Japan Business History Institute, ed., *Tōkyō Kaijō Kasai Hoken Kabushikigaisha hyakunen shi* [Hundred-year history of Tokio Marine & Fire Insurance Co., Ltd.] (Tokio Marine & Fire Insurance Co., 1979), p. 115. Gellatly Hankey Sewell & Co. was acting as a subagent for Tokio Marine & Fire; Mitsui's London branch was the London agent for Tokio Marine & Fire.

business. Mitsui's transactions, which would suddenly increase after the Sino-Japanese War, were premised on the firm hold the London branch's roots had taken in the City.

Still, the branch's shift from importing rice from Japan to exporting machinery and other items to Japan was producing aspects of business operations that were different in the 1890s from what they were in the 1880s. According to a survey made by Kenkichi Kagami of Tokio Marine & Fire Insurance Co. around 1895, cargoes being sent from England to Japan around that time were being loaded onto regularly scheduled vessels.⁴⁶ It is believed that the factors coming into play were the spread of regular services and the fact that things like machinery were as a rule not put on tramp vessels. Therefore it would seem that shipping exchanges were no longer playing a large role in regard to the growth area of the export of English commodities to the Orient.

The London branch office acted as the London agent of Tokio Marine & Fire Insurance Co. from 1880 on. Table 3 shows that commissions for being Tokio Marine & Fire's agent amounted to quite a handsome sum. True, this was a consequence of the fact that the insurance company's business in London had grown, but it was also the result of closer cooperation between Mitsui and Tokio Marine & Fire. Whereas Mitsui had taken out insurance with the latter around 1893 only on the coal being shipped from Miike to Shanghai and Hong Kong, around 1896 it was spending quite a large amount of money for insurance on ships and cargoes.⁴⁷ What this means is that Mitsui's London branch was no longer in a situation in which it had no access to insurance outside the London insurance market.⁴⁸

Thus we see that the position Mitsui built up in the City of London

⁴⁶ Suesaburō Inagaki, ed., "*Kagami shi no shuki*" to "*Tai-Ei chū no hōkoku oyobi ikensho*" ["Memos of Mr. Kagami" and "Reports and expressions of opinion during his residence in England"] (Tokio Marine & Fire Insurance Co., 1951), p. 30.

⁴⁷ Ibid., pp. 10, 282.

⁴⁸ In passing let it be noted that, in 1902, the places at which Mitsui's Moji branch chartered or hired vessels were: Moji (28 times), Shanghai (20), Hong Kong (18), London (11), Tokyo (7), Singapore (1), and Nagasaki (1) (see Hisayuki Ōshima, "Mitsui Bussan no sekitan yusō—senpakubu o chūshin to shite" [Mitsui's coal transport, with a focus on the ship division], *Senshū shakaikagaku ronshū* [Studies in Social Sciences] no. 14 (1994), p. 25. Thus the proportion of charters in East Asia was high. At the present time it is not known what this proportion was in the 1880s and 1890s.

in the areas of finance, marine transport, and marine insurance underwent some slight changes, but to be able to charter ships and take out insurance on them at any time, and to be able to gain trust in regard to commodity transactions must surely have been something that, in the Japan of that time, would have been possible only in the case of very, very few companies.

CONCLUSION

Mitsui & Co. took as its core business the buying and selling of domestic rice and then took up the trading businesses of exporting rice and coal and importing wool cloth. This was the business structure with which it began. In regard to the exporting of rice and the importing of wool cloth, the existence of the London branch office was indispensable; in order to gain a foothold in the City of London, a world in which conservative practices were in control, Mitsui had to make use of the personal connections held by a foreign merchant named Irwin. Naturally, Mitsui had to be prepared to extend to Irwin and other foreign employees such truly exceptional treatment as a salary that would be more than three times as great as the salary of the branch manager, and they were even compelled to suffer the cost of taking on their debts.

During the Matsukata deflation period of 1882 to 1885 the core business became the exporting of coal and the exporting of government rice, but after the London branch retrenched its foreign employees, in the course of taking on the exporting of government rice it slowly but steadily accumulated in the City know-how related to shipping and marine insurance and built up close relations with brokers of all sorts. And the know-how that was thus accumulated was—as can be seen from the ease with which it was applied to the coal business—something that could be of full use in the development of new commodities to handle.

Using as a foundation the trust so gained, from the mid-1880s Mitsui went on expanding its business of importing machinery into Japan, but until this machinery importing gained full momentum, rice exports continued to underpin Mitsui's profits. There were a few years that were exceptions, but on the whole rice transactions were at the base of the company's operations; the fact that steady commissions

were forthcoming from the government can certainly be considered very important not only for the London branch office but also for the whole of Mitsui & Co.⁴⁹ The import of machinery connected with the cotton spinning industry expanded rapidly in the 1890s and formed the core of Mitsui's profits, but one of the conditions making such an expansion possible was the fact that (through its London branch) the company had acquired a foothold in the City to a degree symbolized by the amount of credit extended to it by Kleinwort, Sons & Co.⁵⁰

One can conclude that Mitsui formed at this time a solid business foundation that enabled it to grow into Japan's first general trading company, but one might add that Mitsui clearly revealed its special features as a trading company that began its growth in the final quarter of the nineteenth century, after telegraph cables had been laid, the Suez Canal opened, and the world's markets closely linked, with the City of London acting as their hub. On such a foundation Mitsui & Co. would go on to build up know-how in regard to long and short positions in buying and selling.

⁴⁹ H. Yamazaki, "The Logic of the History of Japan's Trading Companies" (see note 1 for full reference details), p. 161.

⁵⁰ Judging from the commodities handled by the London branch in 1883 for Mitsui & Co, Takatagumi, and Ōkuragumi, it would seem that there was no inevitability about Mitsui's acquisition of a business relationship with Platt Bros. & Co.; the other two companies were fully capable of forming that relationship. It seems that a major factor behind Mitsui's gaining that relationship were the personal connections of two people who had strong powers of influence over Osaka Cotton Spinning Co. (which introduced the machines manufactured by Platt Bros.): Eiichi Shibusawa and the first president of Mitsui & Co., Takashi Masuda. This suggests that Mitsui had the organizational capability to maintain and develop the relationship that it had acquired through these connections.