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in the Textile and Apparel Industries

Yoko Isozaki

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Graduate School of Economics
The University of Osaka, Toyonaka, Osaka 560-0043, JAPAN

Evolutionary Pathway of Sōgō Shōsha's Internationalization in the Textile and Apparel Industries

Yoko Isozaki †1

Abstract

This study investigates the internationalization trajectories of Japan's sōgō shōsha (general trading companies) within the textile and apparel industries in East Asia. This study makes two contributions to strategic management research. First, following a history-in-theory approach and employing a dual-theoretical lens—Flying Geese model as a framework for industry-level transformation and Transaction Cost Economics that offers an analytical toolkit for firm-level governance decisions—we develop a more context-sensitive account of internationalization of sōgō shōsha. Second, by using history-to-theory approach, we extend existing lifecycle models of sōgō shōsha, capturing their transition from peripheral intermediaries through strategic orchestrators to investment-driven, MNE-traders.

Key words: general trading company; textiles and apparels; transaction cost economics; flying geese model; internationalization process.

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† Retail Consultant, LuxModa Consulting. Email: u798938f@alumni.osaka-u.ac.jp

1. INTRODUCTION

Japanese general trading companies—sōgō shōsha—have exerted a significant influence on the global economy for more than a century (Jones, 1998, 2005). As of 2025, six of the seven sōgō shōsha were listed in the *Fortune* (2024), underscoring their continued relevance in scale, scope, and strategic importance. Yet, despite their prominence, the internationalization dynamics of these firms—including the governance logics and configurations guiding their global expansion—remain insufficiently theorized in the extant literature (Johanson & Vahlne, 2009). Their highly diversified portfolios and complex organizational structures have rendered systematic analysis and comparative generalization analytically challenging.

In an era of intensified global value chain (GVC) fragmentation and heightened environmental uncertainty, coordination and governance challenges have moved to the forefront of strategic management and international business (IB) research (Kano & Oh, 2020; Kano et al., 2022). Within this context, sōgō shōsha—firms that have repeatedly demonstrated resilience in navigating exogenous shocks and turbulence—offer a highly relevant empirical setting for advancing theoretical insight into how firms adapt and reconfigure internationalization strategies amid complex and evolving global environments.

Contemporary studies on internationalization of multinational enterprises (MNEs) in Asia, particularly those situated within business group (BG) literature, have primarily focused on the mitigation of "institutional voids" (Khanna & Palepu, 2010) through internalized capabilities and relational ties (Tan & Meyer, 2010; Cuervo-Cazurra & Pananond, 2023). While such approaches have provided valuable insights—especially in the context of emerging markets—they fall short in explaining the strategic behavior of diversified firms operating in advanced economies (Aguilera et al., 2020) such as Japan.

In line with recent calls for deeper contextual theorization in strategic management (Argyres et al., 2020), IB (Welch et al., 2022; Reuber & Fischer, 2022), and entrepreneurship (De Massis et al., 2018), this study foregrounds the significance of industry, geography, and time as mutually constitutive forces that shape firm strategy. Our empirical scope is delimited to the postwar period and centers on the East Asian textile and apparel industries—sectors that exemplify sequential waves of production relocation, technological upgrading, and regulatory evolution (Gereffi & Frederick, 2010). These shifting dynamics demand rapid coordination and adaptive governance, making the sector an ideal lens through which to examine the evolution of governance mechanisms. As noted by a former director of Marubeni—one of Japan's leading sōgō shōsha—the textile and apparel sectors have long served as a vanguard for business model experimentation, often preceding transformations in other industrial domains. These features align closely with our research objectives and provide a fertile ground for modeling the internationalization of sōgō shōsha.

To fully capture internationalization trajectories of sōgō shōsha, we adopt a dual-analytical lens: Flying Geese (FG) model (Akamatsu, 1962; Ozawa, 2011); and Transaction Cost Economics (TCE) (Williamson, 1985, 1996). The FG model provides an industry-level framework to trace the long-term evolution of industry within a single country and cross-border realignments, while TCE offers a firm-level analytical toolkit to examine governance decisions especially under conditions of asset specificity and uncertainty. In this study, we define governance as the structural and processual mechanisms used to coordinate and control inter-firm transactions. Drawing from TCE, we distinguish three discrete governance alternatives: classical markets, hybrid contracting, and hierarchical governance—choices that also correspond to GVC-level decisions.

Methodologically, we employ a dual research design: a history-in-theory; and history-to-theory approach (Kipping & Üsdiken, 2014; Aguilera et al., 2020). The history-in-theory component guides our theoretically informed reconstruction of the internationalization trajectories of two leading sōgō shōsha: Mitsubishi Corporation and ITOCHU Corporation. Through this analysis, we identify three interrelated phases in sōgō shōsha internationalization: (1) portfolio building and diversification (1950s–1990s), (2) portfolio orchestration (1990s–mid-2000s), and (3) radical portfolio reconfiguration (mid-2000s–present). The history-to-theory component allows us to abstract from these empirical cases to develop a process model that conceptualizes the evolution of sōgō shōsha internationalization.

This study makes two principal contributions to IB and strategic management research. First, by embedding TCE within the broader dynamics of industrial transformation captured by the FG framework, we develop a more context-sensitive account of internationalization of sōgō shōsha. In doing so, we conceptualize sōgō shōsha internationalization as a dynamic process of continuous governance reconfiguration—unfolding in response to evolving product architectures and shifting locational imperatives. Second, we extend existing lifecycle models of internationalization of sōgō shōsha (Kim, 1986; Ellis, 2001), capturing their transition from peripheral intermediaries through strategic orchestrators to investment-driven, MNE-traders.

The remainder of this paper is structured as follows. We first review the relevant literature before introducing our analytical framework and outlining the data and research methodology. The main body presents the case analyses of Mitsubishi and ITOCHU across the three interrelated phases, and discusses the trajectory. After we propose a model, it concludes by offering broader implications and directions for future research.

2. LITERATURE REVIEW

2.1. Limitations of Existing Firm's Internationalization Theories and Internationalization Process Models

Early internationalization research developed within the tradition of internalization theory (Buckley & Casson, 1976; Rugman, 1981), which posits that firms expand abroad to internalize cross-border transactions when market failures make external exchanges inefficient. However, as Verbeke et al. (2021) observe, early internalization theory remained under-specified regarding macro-environmental contingencies—including institutional evolution, policy shifts, or locational dynamics—that shape internationalization patterns (Rugman & Verbeke, 2005). It also emphasized ownership and control by MNEs rather than inter-organizational coordination or complementarity with local partners (Hennart, 2009).

Dunning's eclectic OLI paradigm (1988) broadened the theoretical scope by integrating ownership (O), location (L), and internalization (I) advantages. Unlike early internalization theory, this OLI paradigm considered the value of complementary local assets (Hennart, 2009). Subsequent refinements (Rugman & Verbeke, 1991) emphasized the interaction between firm-specific advantages (FSAs) and country-specific advantages (CSAs), illustrating how MNEs recombine internal capabilities with external resources to innovate, reduce costs, and mitigate risks (Gooris & Peeters, 2016). Dunning made major contributions to understanding the historical foundations of international business (Jones & Khanna, 2006). Yet, as Jones and Khanna (2006) argue, historically informed analyses beyond high-tech manufacturing in developed markets have had limited impact on mainstream IB research agendas.

The resource-based view (RBV) added a micro-foundational lens by focusing on firm-specific resources, capabilities and skills (Madhok, 2002). However, RBV-oriented work still provides only a partial explanation of how internal capabilities are linked to external relational governance, or how inter-firm cooperation structures evolve (Hennart & Verbeke, 2022). These inward-looking assumptions are particularly restrictive for organizations such as sōgō shōsha, whose competitive advantage resides in orchestrating inter-firm and inter-institutional linkages rather than solely in internal resources.

As globalization intensified in the 1990s and 2000s, research in IB and strategy began shifting toward network and GVC perspectives. These frameworks recognized that firms increasingly rely on multi-tier coordination across boarders (Buckley & Ghauri, 2004; Mudambi, 2008). GVC governance studies—particularly those informed by Gereffi et al. (2005)—analyzed how lead firms fragment production and coordinate dispersed activities through hierarchical, modular, or relational forms of control.

While this work deepened our understanding of inter-firm interdependence, it remains lead-firm centric. Most models assume that lead MNEs (flagship firms) orchestrate entire value chains through superior resources and governance capabilities (Kano, 2018), relegating intermediaries, suppliers, and local partners to secondary roles. Yet, as Lee et al. (2020) show, effective global governance increasingly depends on the transactional characteristics and governance capabilities of peripheral actors—suppliers, intermediaries, and regional orchestrators—whose local embeddedness is indispensable for mitigating uncertainty and enabling efficient resource recombination.

Taken together, internalization theory, OLI, RBV, and GVC frameworks illuminate important aspects of firm expansion and capability development, but they share three limitations: (1) a bias toward large, manufacturing-based MNEs; (2) limited attention to inter-organizational governance and institutional dynamics; and (3) an implicit assumption that internationalization is led by firms at the apex of global hierarchies.

In contrast to structural theories, process-based approaches—notably the Uppsala model (Johanson & Vahlne, 1977)—conceptualize internationalization as a gradual, experiential learning process. Firms incrementally increase commitment to foreign markets as they accumulate experiential knowledge and reduce uncertainty. The revised model (Johanson

& Vahlne, 2009) incorporated the notions of "liability of outsidership" and "network positions," shifting the analytical focus from resource endowments to network relationships. This model provides a process-oriented alternative to variance-based theorizing that long dominated IB studies (Welch et al., 2016; Vahlne & Johanson, 2017).

However, several limitations persist. Critics question the model's linearity, noting that internationalization often unfolds through discontinuous, non-incremental processes shaped by shocks, reforms, and policy interventions (Håkanson & Kappen, 2017; Santangelo & Meyer, 2011, 2017; Coviello et al., 2017; Aaltonen, 2020). Others highlight its limited engagement with governance and coordination mechanisms, given its continued firm-centric lens (Hennart, 2008; Verbeke, 2025). As Verbeke (2025) notes, contemporary IB research increasingly foregrounds governance under uncertainty—an aspect insufficiently theorized in process models.

Kim (1986) and Ellis (2001) advanced an influential attempt to integrate Asian business systems into process theory by analyzing the evolution of GTCs. In Kim's original model, Japanese sōgō shōsha transitioned from basic commodity traders to diversified GTCs through product and geographic expansion, followed by functional diversification into services such as financing, logistics, and information brokerage. Ellis (2001) extended this framework through the concept of the "MNE-trader," describing the evolution of Hong Kong trading firms that gradually decouple from trading and emphasize investment-based activities.

Together, these models illuminate the trajectory of Asian trading companies as adaptive, diversified entities. Yet, despite their comparative and historical value, they remain functionalist and internally oriented. They emphasize the structural diversification and internal coordination of GTCs, while offering little insight into the dynamic governance mechanisms that enable cross-border collaboration with diverse institutional actors. The causal link between internal structures and external governance transformations remains undertheorized.

Consequently, there is a need for a governance-centered, mechanism-based framework that bridges firm-level decision making with broader institutional and global transformations. To address this gap, the present study foregrounds sōgō shōsha—large, diversified, non-manufacturing firms that typically operate behind the scenes of MNE-led value chains—whose strategic roles offer a distinctive vantage point on how firms coordinate transactions under shifting institutional and industrial conditions.

2.2. Large Diversified Firms in Emerging and Advanced Economies

Our study is situated at the intersection of TCE/IB and the business group (BG) literature. Large diversified firms like sōgō shōsha have been extensively analyzed within BG research (Colpan et al., 2010; Lee et al., 2022). Within this tradition, the institutional voids perspective (Khanna & Palepu, 1999, 2000; Aguilera et al., 2020) emphasizes how the absence or inefficiency of market-supporting institutions and legal systems shapes corporate strategy (Tan & Meyer, 2010). In emerging economies, such voids often compel firms to internalize market-supporting functions. A well-known example is India's Tata Group, which created internal capital and labor markets to compensate for weak external institutions (Khanna & Palepu, 1999). Thus, BG scholarship conceptualizes diversification as a structural response to underdeveloped institutions (Khanna & Rivkin, 2001).

Most of this literature predicts that large diversified groups are transitional forms that should fade as markets mature (Carney et al., 2011; Guillén, 2000). Yet many have not disappeared (Bucheli et al., 2018).

TCE-inspired IB research highlights that these firm exist because of "natural market imperfections": transaction difficulties inherent in all markets due to bounded rationality, uncertainty, and enforcement problems (Buckley & Casson, 1976; Hennart, 1982; Dunning & Rugman, 1985; Dunning & Pitelis, 2008). Bucheli et al. (2018) show that Chilean business groups emerged as adaptive responses to protectionist regimes and inefficient markets. Over time, however, their strategies created new structural market imperfections—in the sense originally discussed by Hymer (1960/1976) and Kindleberger (1969)—that entrenched group dominance. Firms hence may respond to these imperfections both structural and natural.

The convergence of BG and TCE/IB perspectives therefore offers a powerful lens for examining why large diversified firms can remain valuable governance actors under uncertainty—even after market liberalization and institutional upgrading. Nevertheless, empirical work on this persistence remains heavily skewed toward conglomerates in China, India, and Latin America, with far less attention to firms in economies that have transitioned beyond institutional voids yet retained diversified, group-like structures (Aguilera et al., 2020; Lee et al., 2022).

2.3. Evolution of sogo shosha (diversified non-manufacturing firms)

Japan's sōgō shōsha—today represented by seven major firms (ITOCHU, Sumitomo, Sojitz, Toyota Tsusho, Marubeni, Mitsui, and Mitsubishi)—constitute a unique organizational form within global capitalism. Most trace their origins to the Meiji era, emerging from two primary lineages: (1) prewar zaibatsu conglomerates (e.g., Mitsui, Mitsubishi) and (2) independent trading houses that evolved from textile merchants into diversified general trading companies (e.g., ITOCHU, Marubeni) (Tanaka, 2012). Over time, these firms expanded beyond pure trading into a multifunctional structure encompassing (1) commodity and product trading, (2) trade-related services (finance, logistics, information, and risk management), and (3) non-trading functions such as direct investment and project management (JFTC, 2023).

Historically, the rise of sōgō shōsha was closely intertwined with Japan's postwar institutional voids—specifically, the absence of efficient financial, legal, and informational infrastructures. Much like the business groups of emerging economies (Khanna & Palepu, 1999; Khanna & Rivkin, 2001), sōgō shōsha and keiretsu emerged as relational infrastructures that internalized coordination across finance, information, and distribution (Delios & Beamish, 1999; Todeva, 2005). Operating within a highly regulated and bank-centered system, they economized on transaction costs by providing credit, managing information asymmetries, and stabilizing trade networks (Buckley, 1985; Dunning & Lundan, 2008). Through these capabilities, sōgō shōsha functioned as institutional substitutes, facilitating industrial upgrading during Japan's rapid growth phase (Buckley, 1985).

By the 1990s and early 2000s, however, financial liberalization, capital-market deepening, and globalization eroded many of the institutional voids that had sustained the keiretsu system (Lincoln & Shimotani, 2008). As relational coordination weakened, sōgō shōsha confronted the challenge of redefining their raison d'être in a more open, competitive environment. This transformation raises a central question that motivates this study: how did sōgō shōsha sustain and reconfigure their competitive advantages once the institutional voids and relational structures that underpinned their existence had disappeared?

3. THEORETICAL FRAMEWORK

To analyze the internationalization trajectories of sōgō shōsha, we adopt two complementary theoretical lenses: FG model and TCE. The FG model offers an industry-level perspective, capturing transformations across product categories and geographic locations, while TCE provides a firm-level lens to examine governance decisions. The combination of these two guides our subsequent empirical analysis and underpins the lifecycle model we propose later in the paper.

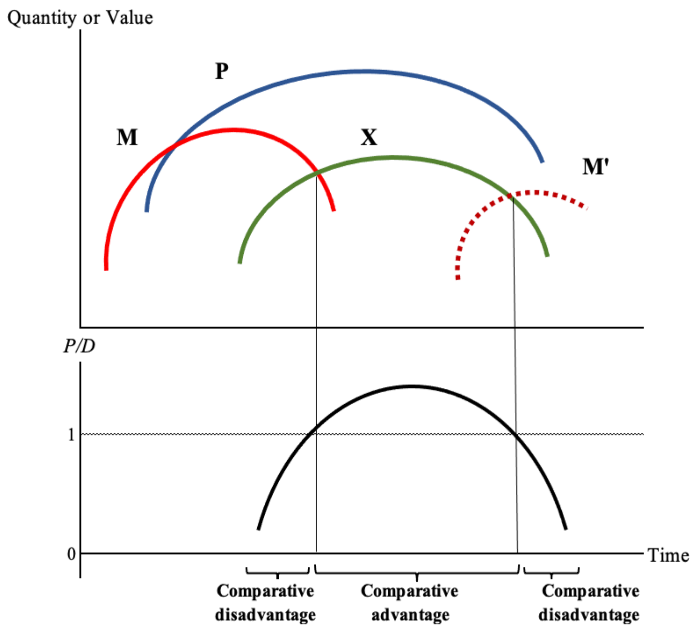
3.1. Industry-Level Dynamics: FG Model

The FG model explains three separate, though intertwined, patterns of industrial development due to the shifting comparative advantage among products and locations (Akamatsu, 1962; Shinohara, 1996; Kojima, 2000; Ozawa, 2011): Pattern A, the *MPXM'* sequence describes the full lifecycle of industrial activity: beginning with reliance on imports (M), progressing through domestic production (P), reaching export (X) maturity, and ultimately entering deindustrialization as comparative advantage diminishes (M'). Akamatsu (1962)'s classic MPX sequence was later refined to this $MPXM'$ by Shinohara (1996) to include a re-import phase (M'); Pattern B, *structural upgrading,* refers to the movement from consumer goods to capital goods and/or from simple to refined goods; and Pattern C, *cross-country industrial realignment,* reflects the spatial relocation of production from advanced to emerging economies in pursuit of cost efficiencies.

While some have criticized the FG model as Japan-centric approach (Lin & Chang, 2009; Lin, 2011; Kasahara, 2019), Ozawa (2011) contends that the model was originally conceived with a global perspective, positioning the United States as the lead "goose." Adopting this broader interpretation, we employ the FG model as an analytical lens to trace industrial transformations in product and location dimensions—providing the context within which firm-level governance decisions are embedded. Figure 1 elaborates Pattern A of the model by illustrating shifts in comparative advantage and disadvantage over time.

Figure 1

MPXM' sequence and shift in the comparative advantage and disadvantage



Note. Illustrated by the author based on Akamatsu (1962), Shinohara (1996), and Kojima (2000).

According to the model, the relationship among domestic demand (D), domestic production (P), imports (M), and exports (X) can be expressed as:

$$D = P + M - X. \qquad (3-1)$$

Dividing both sides by D yields

$$1 = \frac{P}{D} + \frac{M - X}{D}. \qquad (3-2)$$

When $P/D < 1$ and $0 < (M - X)/D$, the industry is in an import-substituting phase, typically reflecting comparative disadvantage. Conversely, when $P/D > 1$ and $(M - X)/D < 0$, the industry is in an export-oriented phase, indicating comparative advantage.

3.2. Firm-Level Governance Decisions: TCE

At the firm level, we adopt a governance-centric approach, using TCE to examine how sōgō shōsha and its partners governed their international activities in response to—or in anticipation of—industry-level shifts. TCE offers a robust framework for understanding how firms define their boundaries and select among discrete governance structures, particularly under conditions of asset specificity and environmental/behavioral uncertainty (Williamson, 1985, 1996). Although often critiqued for its static formulation, TCE contains a latent dynamic dimension. As Williamson (2010) acknowledges, intertemporal transformation across governance modes represents "primitive forms" of dynamic analysis. By embedding TCE within a historical context and tracing the evolution of governance logics over time, we respond to this critique and introduce temporal dynamism into the analysis of governance decisions.

4. METHDOLOGY

This study adopts a history-informed approach (Argyres et al., 2020), drawing on the dual strategies of "history in theory" and "history to theory" (Kipping & Üsdiken, 2014). Given the long temporal arc of industrial restructuring and organizational adaptation, qualitative, inductive research design is needed to capture how governance sequences unfold and influence strategic outcomes over time (Langley et al., 2013; Welch & Paavilainen-Mäntymäki, 2014). This approach enables us to trace complex patterns of multi-path evolution and organizational heterogeneity—dimensions often obscured by experimental or regression-based methodologies that prioritize average effects over historical contingency and causal complexity (Byrne & Ragin, 2009; Yin, 2018).

4.1. "History in Theory": Theory-Guided Process Tracing

First, we apply a "history in theory" approach by using a dual theoretical lens—FG model and TCE—to reconstruct a longitudinal, theory-informed account of sōgō shōsha internationalization. We segment our historical analysis into three phases: Phase I portfolio building and diversification (1950s–1990s); Phase II portfolio orchestration (1990s–mid-2000s); and Phase III radical portfolio reconfiguration (mid-2000s to present).

In this study, we adopt the following definitions: **Governance** refers to the structural and processual mechanisms used to coordinate and control inter-firm transactions.

Orchestration denotes the strategic alignment and coordination of portfolio elements across three key domains—geographic markets, product categories, and governance modes. **Configuration** refers to the initial design and structuring of a firm's portfolio across these domains, establishing the baseline architecture for its operations. By contrast, **Reconfiguration** captures the intentional realignment of that portfolio in response to external shocks, competitive pressures, or strategic inflection points.

4.2. "History to Theory": Inductive Modelling

In the second stage, we follow a "history to theory" approach which allows us to abstract from empirical findings to develop a process model that conceptualizes the evolution of sōgō shōsha internationalization. We build on and extend the lifecycle model originally developed by Kim's (1986) and refined by Ellis (2001). While this earlier conceptualization emphasizes three interrelated dimensions of internationalization (product diversification, geographic dispersion, and functional upgrading), we extend this by incorporating a TCE perspective, by replacing "functional upgrading" with "governance". Defining governance as an overarching mechanism through which organizational *functions* are executed, we analyze the evolution across three interrelated portfolio dimensions: products (what is transacted); locations (where transactions occur), and governance (as above defined).

4.3. Data and Case Selection

Our analysis draws on a range of qualitative data sources, including company reports, industry studies, and expert interviews (See Table 1).

Table 1

Description of data

Data Types	Amount	Use in Analysis
Newspaper articles		
Newspaper articles from four Nikkei-affiliated publications (1979–2024), and *Senken*	245 articles from *Nikkei, Nikkei Sangyo Shimbun, Nikkei MJ, Nikkei Finance Shimbun* ; *Senkeen Shimbun*	Used to construct macro-industry timelines and trace discursive changes in public narratives surrounding sōgō shōsha activities
Industry reports and quantitative data		
Textile and apparel statistics (1950–2023)	Ministry of Economy, Trade, and Industry, *Yearbook of Textiles and Consumer Goods Statistics* , 1950–2023, Japan Chemical Fiber Association (JCFA) *Seni Handbook,* 1959-2023, Statistics Bureau of Japan, *Historical Statistics of Japan* New Edition, vol. 3 2006	Tracked the production, import, and export of goods, including value, quality, destination, and locational shifts.
FDI directories (1978–2020)	Data from Mitubishi Research Institute, 21st Century China Research Institute (1,651 firms, 2,879 entries including Itochu (143), Mitsubishi (35))	Identified FDI patterns in China and assessed the change in governance modes, and the ownership structure
Interviews		
Semi-structured interviews with ex-executives and managers from ex-executive, ITOCHU Italiana S.p.A, ex-vice president, Armani Japan, and ex-director, Mitsubishi China	6 interviews at Tokyo, Osaka, Kyoto, Phone in 2020–2024	Traced firm-level strategic responses and governance adaptation
Company press releases (since 2001)	28 releases	Tracked coporatee and international strategies and business model transformation
EDINET corporate disclosures	Continuous filings	Triangulated investment behavior and validated changes

Note. Prepared by the author.

Our core analysis centers on two leading sōgō shōsha, Mitsubishi and ITOCHU, which represent distinct historical lineages—zaibatsu-originated and textile trader-evolved, respectively—making them ideal "extreme" cases for capturing strategic variation (Pettigrew, 1990; Fiss, 2009). Their divergent trajectories provide empirical leverage to explore *equifinality* (i.e., different paths to similar strategic outcomes) and *causal complexity* (Welch

& Paavilainen-Mäntymäki, 2014). The broader developmental patterns identified in this study through the comparison of these two also resonate across other sōgō shōsha, while some of which may have leapfrogged phases or experienced overlapping transitions.

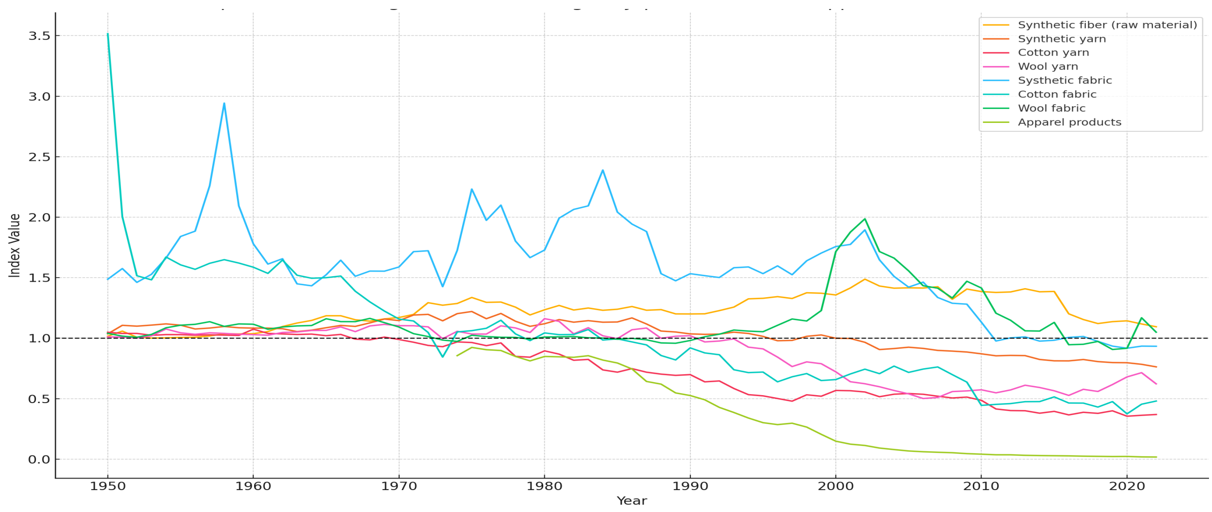
Our temporal scope spans from the immediate postwar period to the present—an era marked by frequent disruption. We begin in the 1950s, when former zaibatsu conglomerates such as Mitsubishi, restructured under Allied Occupation, re-emerged as sōgō shōsha. Around the same time, companies like ITOCHU, initially focused on textile trading, evolved into full-spectrum sōgō shōsha.

4. INDUSTRY TRANSFORMATION

Japan's textile and apparel industries have undergone significant structural transformations since the WWII era. Figure 2 presents an overview of product-based changes, from 1950 to 2022, while Figure 3 illustrates the corresponding locational shifts. In the early postwar years, as shown in Figure 2, Japan experienced a rapid expansion in domestic textile production—initially in cotton and later in synthetic fibers—driven by robust domestic demand and growing export markets. This period aligns with the early pattern of FG model, in which Japan enjoyed a strong comparative advantage as textile producers. By the 1970s and 1980s, however, rising production costs began to erode Japan's competitive edge in textile and apparel manufacturing. In response, the industry's center of gravity shifted to neighboring East Asian economies such as Korea, Taiwan, and Hong Kong. This marked a critical inflection point in Japan's industrial trajectory, reflecting broader regional shifts in comparative advantage.

Figure 2

Comparative advantage and disadvantage in Japan's textile/apparel sectors, 1950-2022

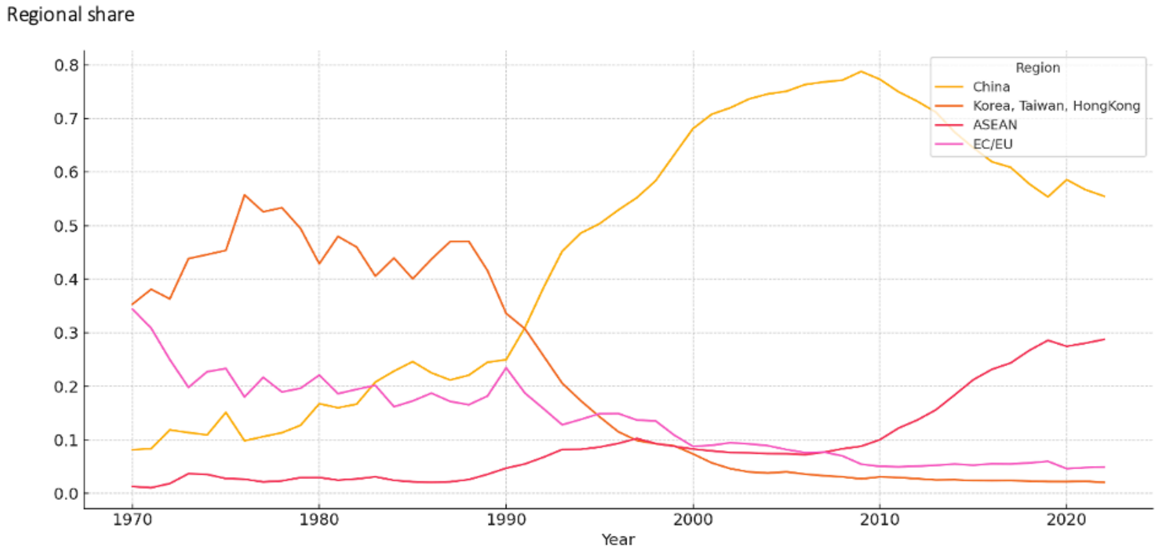


Note. Author's calculation using data from the Japan Chemical Fiber Association (JCFA), the Statistic Bureau of Japan, and the Ministry of Economy, Trade, and Industry (METI).

The rise of China as a dominant textile exporter in the 1990s further accelerated structural transformation of Japan's impots landscape (Figure 3). By 1991, China had overtaken Korea, Taiwan, and Hong Kong to become Japan's leading supplier of textile and apparel products. In the subsequent years, imports from China grew exponentially, peaking in 2009. However, this import structure has shifted once again in more recent years, with ASEAN countries—particularly Vietnam and Cambodia—emerging as Japan's new dominant sourcing partners.

Figure 3

Locational transformation of Japan's textile/apparel imports, 1970-present



Note. Author's compilation based on JCFA, Statics Bureau of Japan, and METI.

The next section examines the internationalization strategies of sōgō shōsha in detail, with a particular focus on how these firm-level responses were shaped by broader industry-level transformations.

5. FIRM STRATEGY

5.1. Phase I Portfolio Building and Diversification (1950s–1990s)

This foundational phase captures the decades during which sōgō shōsha actively constructed and diversified their product and geographic portfolios in alignment with Japan's ascent within the FG Pattern A, specifically, the $MPXM'$ sequence. Their activities primarily centered on standardized, low-asset-specific goods, with governance structures designed to minimize production and distribution costs. Although location portfolios were globally dispersed, signs of convergence toward China emerged by the late 1970s, foreshadowing its later dominance in production. Figure 4 depicts this evolving portfolio landscape.

5.1.1. Fragmented portfolios in the early post-war era

During the 1950s and 1960s, sōgō shōsha operated with highly fragmented, globally distributed location (trade) portfolios. Cotton fabrics, supported by stable comparative advantage—formed the backbone of their early product lines (Figure 2). In this period, sōgō shōsha played dual roles across the value chain: upstream, they sourced raw cotton from countries such as the United States, Mexico, and Ecuador; downstream, they exported processed yarn and fabric, produced by Japanese mills, to Southeast Asian markets including Indonesia. However, this export-oriented structure came under pressure from three converging external forces: rising domestic labor costs, intensifying U.S.-Japan trade frictions, and the sudden yen appreciation triggered by the 1971 Nixon Shock. These external shocks collectively undermined Japan's cost competitiveness in cotton textiles. In response, sōgō shōsha shifted toward their product portfolio toward synthetic fabrics, fibers, and yarns, which had been gaining comparative advantage since the late 1960s. This strategic adjustment opened new export markets including the U.S., Saudi Arabia, Hong Kong, and Singapore. Concurrently, sōgō shōsha responded to import-substitution industrialization policies in host countries by facilitating tripartite ventures among Japanese synthetic textile manufacturers, local firms, notably in Taiwan (Yasumuro, 1998). These arrangements aimed for sōgō shōsha to maintain raw material supply channels or import markets (Yasumuro, 1998). By the mid-1970s, sōgō shōsha came to handle roughly 60 percent of Taiwan's total textile exports (UNCTAD, 1995, p. 215). Concurrently, as apparel industries emerged across Asia, these firms leveraged their coordination capabilities to establish trilateral trade flows—supplying fabrics and yarn from Japan to OEM apparel makers in Taiwan and Korea (Kato, 2017).

5.1.2. Convergence into China

The normalization of diplomatic relations between Japan and China in 1972 opened a new frontier for Japanese firms. Prior to this, only a select group of designated "Friendly

Firms" could directly trade with China; most sōgō shōsha relied on proxy "dummy companies" for exploratory trade and intelligence gathering (Noda, 2020). Following normalization, they rapidly expanded their footprint via Beijing representative offices and Hong Kong subsidiaries. In 1979, ITOCHU pioneered compensation trade with Chinese state-owned enterprises, exchanging industrial equipment (e.g., sewing machines) and technical know-how for finished apparel products[1]. This marked the beginning of subcontracting networks that linked Hong Kong garment contractors with suppliers in Guangdong and Fujian, two regions newly designated as Special Economic Zones. Mitsubishi also used Hong Kong as a regional hub. In one illustrative case, Mitsubishi coordinated a transnational production network involving a UK-based spinner, Hong Kong apparel manufacturers, and Chinese subcontractors, with the finished garments ultimately sold in Japan[2].

The 1985 Plaza Accord accelerated the erosion of Japan's comparative advantage in labor-intensive manufacturing. By 1991, the apparel industry's P/D index had fallen below the 0.5 threshold as shown in Figure 2 (M': re-import phase in Pattern A), indicating that imports accounted for nearly half of Japan's apparel consumption. That same year, China overtook the combined import share of Korea, Taiwan, and Hong Kong, becoming Japan's leading textile and apparel supplier (Figure 3). Importantly, this transition was not a passive consequence of market forces. Sōgō shōsha actively guided the relocation of production networks through targeted capital investments. Marubeni was an early mover, launching supply chain JVs in China through Hong Kong capital in 1986. In 1992, ITOCHU founded Japan's first wholly-owned trading firm in the Shanghai's Free Trade Zone, followed by the creation of an umbrella company in Beijing in 1993, making it the first Japanese firm to

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[1] *Nikkei Sangyo Shimbun*, July 26, 1979. 伊藤忠、中国に衣料加工基地、紳士ズボン輸入へ [Itochu to establish garment processing base in China to import men's trousers].

[2] *Nikkei Sangyo Shimbun*, September 28, 1983, 繊維２次製品輸出に活［Exporting secondary textile products is a way forward].

receive national treatment in China[3]. These developments signaled a decisive break from traditional trading functions. Sōgō shōsha increasingly embedded local market intelligence and manufacturing knowledge into their service offerings.

5.2. Phase II Portfolio Orchestration (1990s–mid-2000s)

Phase II unfolded amid profound industrial transformations, reflecting Pattern B of the FG model—namely structural upgrading. As consumer markets in advanced economies matured, demand increasingly shifted toward differentiated, value-added products. This shift intensified competition—particularly in the luxury industry—and accelerated the rise of the fast fashion industry. These industry-level developments heightened the need for sophisticated coordination capabilities, especially among MNEs transacting highly specific assets but lacking strong institutional embeddedness in host-country markets. Consequently, transaction costs rose substantially, generating new governance challenges. In response, sōgō shōsha restructured their product portfolios along two strategic trajectories. First, they moved away from high-volume trade in standardized goods toward high-value refined products. Within this refined segment, they pursued two strategic directions: (1) branded goods—by facilitating the market entry and distribution of Western luxury brands in Japan; and (2) technology-driven goods—by building and developing agile supply chain platforms in China to support the globalization of emerging Japanese retailers. These strategic shifts are exemplified by two emblematic cases: ITOCHU's partnership with Armani, and Mitsubishi's collaboration with Fast Retailing (FR).

5.2.1. Branded goods: Armani–ITOCHU collaboration

[3] *Nikkei Shimbun*, December 12, 1993, 伊藤忠商事、対中国ビジネスを強化 [Itochu Strengthens Business in China].

Competitive advantage in luxury fashion derives from symbolic attributes such as exclusivity, aspiration, and experiential value (Kapferer & Bastien, 2012). Creating and preserving these attributes require significant physical and human specific investments, rendering transactions highly idiosyncratic (Williamson, 1996). Such idiosyncrasy exposes luxury brands to "natural market imperfections" (Hennart, 1991, p. 73), including risks of free-riding and brand dilution. To mitigate these risks, tight control over production and distribution—often through vertical integration—is widely regarded as essential to safeguard brand equity (Kapferer & Bastien, 2012).

Yet, international growth ambitions often create a strategic tension between control and scalability. While WOSs allow firm to maintain brand value but limits the speed and flexibility of market entry. Conversely, collaborative governance modes, such as licensing, offer rapid market access but frequently compromise brand prestige (Kapferer, 2015). Indeed, many luxury brands have historically expanded through licensing arrangements, only to face subsequent brand erosion and down-market repositioning (Kapferer & Valette-Florence, 2016).

Armani's entry into Japan illustrates how ITOCHU helped navigate this governance trade-off. Following a distribution agreement with Seibu Department Store in 1984, Armani transitioned in 1987 to a tripartite joint venture structure, facilitated by ITOCHU. Two separate JVs were formed: one for high-end imports (Armani, ITOCHU, Seibu) and another for mid-market licensed production by Japanese subcontractors (Armani, ITOCHU, Raika), each with equal equity shares. This dual structure enabled rapid market presence through licensing, while maintaining brand value via exclusive distribution channels. ITOCHU's local presence also strengthened governance oversight across subcontracting networks, mitigating transaction costs associated with governance challenges (i.e., opportunism).

In 1995, Armani and ITOCHU dissolved the licensing JV and restructured their partnership, with Armani acquiring a 67% majority stake in a new JV and the rest for ITOCHU. Shortly thereafter, it opened its first flagship store in Tokyo—an effort to restore brand equity that somehow had weakened under licensing. By 2005, Armani had acquired full control. This governance sequences enabled Armani to rapidly scale in the Japanese market while protecting brand equity, gradually reclaiming strategic control. It exemplifies how longitudinal governance design can reconcile the conflicting imperatives of short-term expansion and long-term brand value preservation under conditions of high asset specificity and acute governance challenges.

5.2.2. Technology-based fashion: Mitsubishi–Fast Retailing collaboration

A parallel evolution unfolded in the fast fashion segment, where competitive advantage derived not from symbolic differentiation, but from operational performance—namely, cost-efficiency, speed to market, and product quality. Fast Retailing (FR), the parent company of UNIQLO, adopted a subcontracting model that concentrated production in low-cost locations, particularly China (Fast Retailing, 2024). Unlike Inditex, which pursued vertical integration through in-house manufacturing, FR prioritized external sourcing to maximize agility and scalability. However, this externalization strategy introduced significant governance challenges. Subcontracting in 1990s China exposed FR to an underdeveloped institutional environment, especially in areas such as intellectual property protection, where legal frameworks and enforcement mechanisms were weak (Schotter & Teagarden, 2014). These institutional deficiencies, coupled with the high asset specificity involved in FR's proprietary textile innovations co-developed with partners such as Toray (Choi, 2011) further heightened both ex-ante and ex-post transaction costs.

To address these vulnerabilities, FR embedded Mitsubishi within its value chain architecture. Mitsubishi assumed key orchestration functions—including product planning, raw material procurement, supplier coordination, and inventory control (Mitsubishi, 2011). Drawing on its extensive regional network, Mitsubishi constructed a supply chain platform that enabled real-time responsiveness to operational disruptions and facilitated just-in-time manufacturing.

This Mitsubishi-embedded governance model allowed FR to realize the benefits of subcontracting—namely flexibility and production cost savings—while simultaneously mitigating the transaction costs and operational risks typically associated with externalized production. Under conditions of high environmental uncertainty and asset specificity, where the trade-off between control and flexibility is most acute, this governance arrangement proved to be a contextually adaptive alternative to full vertical integration.

5.3.Phase III Radical Portfolio Reconfiguration (Mid-2000s–Present)

Phase III was characterized by a wave of regional industrial transformations, reflecting Pattern C of the FG model—cross-country industrial realignment. A turning point occurred in December 2004, when the Chinese government relaxed restrictions on local distribution (Yahagi, 2008). This policy shift permitted sōgō shōsha to operate as fully integrated "general" trading companies within China to encompass a range of non-trading functions. The result was a profound transformation in strategic posture, as sōgō shōsha began reconfiguring their portfolios through capital reallocation, and the adoption of more globally integrated operational models.

5.3.1. ITOCHU: Repositioning beyond the home country

ITOCHU exemplified this strategic transformation. Even before the 2004 liberalization of China's wholesale and retail sectors, ITOCHU had already initiated a decisive reorientation toward the Chinese market. This shift is reflected in clearly reflected in its FDI and ownership patterns. As shown in Table 2, the proportion of ITOCHU ventures majority-owned by Chinese partners increased sharply—from 16% before 2000 to 66% thereafter—while the share of Japanese-majority ventures declined from 79% to 29%. These patterns signal a deliberate strategic move toward deeper local embeddedness.

Table 2

Investment patterns of ITOCHU and Mitsubishi, 1988-2014

Governance mode and investment type			Sōgō shōsha's ownership ratio	Joint venture partners
Wholly owned subsidiary (Holding company, logstics, trading, etc)		**A**	100%	n/a
Wholly owned subsidiary (Apparel manufacturing)		**A'**	100%	n/a
Type of Joint venture	Two-party joint venture	**B**	Majority	Japanese firm
		B'	Minority	Japanese firm
		C	Majority	Chinese firm
		C'	Minority	Chinese firm
	Multi-party joint venture	**D**	Majority	Japanese firms only
		D'	Minority	Japanese firms only
		E	Majority	including Chinese firm(s)
		E'	Minority	including Chinese firm(s)

ITOCHU

	A																	B	C	A+B+C
	100%		50:50 owenership			Majority owned by Chinese firms				Majority owned by Japanese firms								JV	Unknown	**Grand total**
Investment type	A	A'	C'	E'	**Total**	C	C'	E'	**Total**	B	B'	C	D	D'	E	E'	**Total**	**Total**		
Before 2000 (a)	13	0	1	3	**4**		1	11	**12**	1	12	1	3	10	1	33	**61**	**77**	1	**91**
After 2000 (b)	4	10		2	**2**	1	8	16	**25**	1	3				2	5	**11**	**38**	0	**52**
Total (a+b)	17	10	1	5	**6**	1	9	27	**37**	2	15	1	3	10	3	38	**72**	**115**	1	**143**
Before 2000	n/a	n/a	1%	4%	**5%**	0%	1%	14%	**16%**	1%	16%	1%	4%	13%	1%	43%	**79%**	**100%**		
After 2000	n/a	n/a	0%	5%	**5%**	3%	21%	42%	**66%**	3%	8%	0%	0%	0%	5%	13%	**29%**	**100%**		

Mitsubishi

	A		JV															B	C	A+B+C
	100%		50:50 owenership			Majority owned by Chinese firms				Majority owned by Japanese firms								JV	Unknown	**Grand total**
Investment type	A	A'	C'	E'	**Total**	C	C'	E'	**Total**	B	B'	C	D	D'	E	E'	**Total**	**Total**		
Before 2000 (a)	7	0		2	**2**		1	2	**3**		4	2		1	2	7	**16**	**21**	0	**28**
After 2000 (b)	2	1			**0**		1		**1**						1	2	**3**	**4**	0	**7**
Total (a+b)	9	1	0	2	**2**	0	2	2	**4**	0	4	2		1	3	9	**19**	**25**	0	**35**
Before 2000	n/a	n/a	0%	10%	**10%**	0%	5%	10%	**14%**	0%	19%	10%	0%	5%	10%	33%	**76%**	**100%**		
After 2000	n/a	n/a	0%	0%	**0%**	0%	25%	0%	**25%**	0%	0%	0%	0%	0%	25%	50%	**75%**	**100%**		

Note. Author calculations based on data from Mitsubishi Research Institute/the 21st Century China Research Institute.

Following this shift, ITOCHU further consolidated its position within China's textile and apparel sectors by forming equity-based alliances across multiple stages of the chain. These included partnerships with yarn producers (e.g., Veken Group, Weiqiao Textile), textile manufacturers (e.g., Younger, Luthai Textile), and apparel brand operators (e.g., Qingdao Jifa). By the mid-2010s, ITOCHU had constructed a comprehensive value chain platform in China, culminating in its strategic alliance with state-run conglomerate CITIC, marked by $5 billion equity investment. This alliance underscored its evolution toward a full-spectrum GVC orchestrator in China operating beyond the confines of its home-country logic.

5.3.2. Mitsubishi: Strategic exit from legacy industry

In contrast, Mitsubishi gradually disengaged from the textile and apparel sector. As FR matured and internalized key functions, Mitsubishi's FR-related apparel activities had been scaled back to marketing and distribution operations in selected international markets such as Russia by the late-2010s[4]. The exit from sectors accelerated during the 2020s. In May 2024, Mitsubishi divested its SPA business unit to Muji, a prominent Japanese household brand. The following year, it sold its WOS, Mitsubishi Corporation Fashion, to World Co., a domestic apparel firm—moves that marked a definitive exit from apparel industry[5]. These decisions reflect a deliberate strategy to shed overhead tied to asset-specific OEM operations and to reallocate capital toward higher-value-added sectors and investment-intensive GVCs.

Importantly, this transformation had been foreshadowed well in advance. Mitsubishi's 2008 annual report articulated a strategic shift from commission-based intermediation to a

[4] *Mitsubishi Corporation*, August 30, 2018, ベトナムにおける合弁会社に関するお知らせ [Notice regarding joint venture in Vietnam]

[5] *Senken*, December 2, 2024, 三菱商事ファッションがワールド傘下に商社 OEM を取り巻く事業環境を象徴 [Mitsubishi Corporation Fashion becomes a subsidiary of World].

global investment management model. This transition materialized in 2009, when non-trading income surpassed trading income for the first time—a development that qualifies Mitsubishi as an "MNE-trader" under Ellis's (2001) typology. ITOCHU followed suit in 2016. Additional evidence of Mitsubishi's global strategic reorientation is reflected in its overseas sales ratio (on a consolidated basis), which rose markedly from 18.5% in 2010 to 41.1% in 2020, and further to 50.9% by 2024. ITOCHU's corresponding overseas sales ratios showed a more moderate trajectory—25.0% in 2010, declining to 20.9% in 2020 and slightly recovering to 23.6% in 2024—partly reflecting the impact of the Chinese economic slowdown (ITOCHU, 2024). Taken together, these developments illustrate that both firms were on a path toward global orientation, while Mitsubishi's transformation was more rapid and decisive.

6. DISCUSSION

6.1. Phase I Portfolio Building and Diversification (1950s–1990s)

This phase marked the foundational stage of sōgō shōsha internationalization, shaped by both industrial shifts captured in FG Pattern A and governance responses explained through TCE. As Japan's textile and apparel industries leveraged comparative advantages in labor and scale, sōgō shōsha mainly served as international intermediaries facilitating the outward movement of standardized manufacturing. Their role was reflected an adaptive alignment of governance structures to low-asset-specific activities under relatively stable institutional conditions.

The dominant strategic logic during this period centered on minimizing production costs through scale economies. Core activities involved managing high-volume transactions in standardized, low-complexity goods—such as cotton fabrics, synthetic textiles, and eventually finished apparel. The low asset specificity of these products enabled sōgō shōsha to efficiently manage these transactions with relatively low transaction costs (reduced ex ante contracting difficulties and ex post enforcement risks). These lower transaction costs enabled the use of long-term contracts, while often underpinned by keiretsu-based relational ties.

Geographically, their initially dispersed international operations gradually became more concentrated in China, which was emerging as a key production base. This evolution aligns with Goerzen and Makino's (2007) observation that sōgō shōsha transition from less location-specific to more location-specific activities over time.

Importantly, this development was far from linear. Rather, portfolio diversification unfolded through a dynamic process of iterative reconfiguration—marked by the simultaneous addition of new product–market combinations and the withdrawal from obsolete ones. This continuous adaptation enhanced their ability to realign governance structures with shifting product and locational dynamics and to govern transactions in cost-efficient production environments, even under highly uncertainty conditions.

6.2. Phase II Portfolio Orchestration (1990s-Mid-2000s)

We characterize this period as a transitional phase toward becoming MNE-traders. Firms had not yet met the benchmark—where earnings from offshore investments surpass those from pure trading—, and trading activities continued to account for the majority of profits throughout this phase.

Phase II represented a critical inflection point in the evolution of sōgō shōsha, coinciding with a broader shift in the textile and apparel industries from FG Pattern A (cost-driven production relocation) to FG Pattern B (structural upgrading), both within Japan and globally. In response to these structural transformations, sōgō shōsha reoriented their focus from high-volume trading of standardized goods to the transactions of high-value, refined product flows. This strategic transition necessitated a functional upgrade from basic trade intermediaries into orchestrators of governance within an increasingly complex GVC.

Refined goods, such as luxury apparel and technology-integrated fashion, are typified by high asset specificity and are particularly susceptible to diverse sources of uncertainty. These conditions demand precise coordination among multiple stakeholders and transaction interfaces. As illustrated in the emblematic cases of Armani/ITOCHU and FR/Mitsubishi, sōgō shōsha provided effective governance solutions to both established and emerging MNEs facing acute transaction hazards. In contexts where unified ownership or direct contractual governance was infeasible or strategically suboptimal, they implemented a range of tailored governance mechanisms to manage operational trade-offs and mitigate high transaction costs.

Three governance strategies stand out: (1) Governance mode complementarity: ITOCHU combined multiple governance modes to counterbalance the limitations of any single form—particularly in managing asset-specific branded goods; (2) personnel secondments: under the heightened uncertainty of 1990s China, Mitsubishi embedded itself within client value chains to exert operational control in a fast-evolving industry where flexibility and responsiveness is necessary; and (3) Temporal sequencing: ITOCHU used staged governance modifications to align short-term performance imperatives with long-term value preservation.

Thus, Phase II marks a fundamental strategic shift—from prioritizing production cost minimization to focusing on transaction cost economization. This shift driven by departure from FG Pattern A, sets the stage for the global footprint reconfiguration that defines the next phase.

6.3. Phase III Radical Portfolio Reconfiguration (Mid-2000s–Present)

Phase III is defined by a radical reconfiguration of sōgō shōsha portfolios across both locational and product dimensions, consistent with FG Pattern C—cross-country industrial realignment. Geographically, sōgō shōsha shifted their revenue base away from a stagnating domestic economy toward high-growth international markets, while continuing to extract residual value from declining industries in Japan. In recent years, firms such as Mitsubishi have exited these legacy sectors altogether, reallocating capital and organizational capabilities toward high-value-added, future-oriented domains with greater strategic potential.

During this phase, sōgō shōsha evolved from their earlier roles as peripheral actors (non-lead MNEs) linking Japan to global markets or foreign investors to Japanese markets, into MNE-traders who assumed more business management responsibilities within GVCs. This transformation is evidenced by the timing at which profits from investment-related activities surpassed those from traditional trading: Mitsubishi achieved this milestone in 2009, followed by ITOCHU in 2016. These developments are consistent with Goerzen and Makino's (2007) observation that sōgō shōsha progressively shift from wholesale trade operations toward differentiated, non-trade strategic domains.

Crucially, the groundwork for this transformation was laid during Phase I, a period to which our analysis devotes particular attention in order to clarify the underlying developmental dynamics. Their deep involvement in Japan and other East Asian economy's postwar development—particularly in building import-export infrastructure and managing resource flows—enabled them to orchestrate diversified portfolios and manage complex cross-border operations at scale in subsequent phases.

7. TOWARD THE INTERNATIONALIZATION MODEL OF SŌGŌ SHŌSHA

Building on the preceding analysis, this section proposes a revised lifecycle model of sōgō shōsha that offers a conceptual foundation for future theoretical refinement. The model integrates empirical insights from our longitudinal study with prior models developed by Kim (1986) and Ellis (2001). Our revised model is bounded by temporal and spatial parameters: the post–World War II period and the textile and apparel industries in East Asia. We begin by revisiting the Kim–Ellis model (Figure 4), which both outlines a multi-stage transformation across products, locations and functions.

Figure 4

Lifecycle model of general trading companies' evolution

strategic investment into non--trading areas

Developmental stage / Diversification		I Trading Company	II General Trading Company	III Toward a Comgromerete	MNE-Trader
Product		Low		High	n/a
Location (area)		Low		High	n/a
Functional	Scope of the activities	Trading	Trading	Trading	Trading
			Trade-related	Trade-related	Trade-related
				Non-trading	Non-trading
	Core activity	Trading	Trading	Trading	Non-trading

Kim's model
Ellis's model *
*Paths leading to manufacturer-exporter evolution are excluded from this figure due to their lesser relevance to this study.

Note. Complied by the author based on Kim (1986) and Ellis (2001).

In Kim's original formulation, Japanese sōgō shōsha transitioned from basic traders to diversified general trading companies through expansion across *product* categories and geographic regions. This was followed by *functional* diversification into ancillary services such as financing and logistics. Ellis (2001) subsequently introduced the concept of the MNE-trader—based on Hong Kong firms—describing a final stage in which companies decouple from traditional trading functions and increasingly emphasize investment-driven, non-trading activities. While the original model captures the general trajectory of (general) trading firms, it remains agnostic to industry-specific dynamics and governance mechanisms. In contrast, our model explicitly incorporates sectoral contingencies gained from FG lens and governance logics drawn from TCE, and captures the strategic inflection points that structure internationalization across three phases.

Figure 5 presents our revised process model. Two clarifications are in order. First, our model begins in the immediate postwar period, by which point goods-specialized trading companies (e.g., ITOCHU) had already transitioned into fully integrated sōgō shōsha—a transformation largely completed by the early 1960s (Tanaka, 2012, p. 104). Accordingly, we omit what the Kim–Ellis model designates as Stage I (the trading company phase) and instead commences from Stage II, corresponding to what we identify as Phase I: general trading company phase. Second, while the original model is sector-agnostic, our version focuses explicitly on the textile and apparel industries—sectors that served as laboratories for experimentation with new governance structures under evolving industry architectures.

Figure 5

Internationalization pathway in sōgō shōsha's textile/apparel businesses, 1950-present

			I General Trading Company	II Toward a MNE-trader	III MNE-trader
			1950s - 1990s	1990s to mid-2000s	Mid-2000s to present
			Diversification	Orchestration	Radical Reconfiguration
FG industrial development pattern			A & C (NIEs)	B & C (China)	-
Product			Simple goods	Refiined goods	Refiined goods
Location (area)			Home-based	Home-based	Highly internationalized
Governance	Functional	Scope of the activities	Trading	Trading	Trading
			Trade-related	Trade-related	Trade-related
			Non-trading	Non-trading	Non-trading
		Core activity	Trading/Trade-related	Trading/Trade-related	Non-trading
	Laed MNEs		Japanese manufacturers seeking to secure export markets and/or to reduce production costs	MNEs seeking to economize on transaction costs	GTCs (move toward lead MNEs)
	Governance modes		Long-term contracts, triparty joint ventures	Mode combinations	Mode combinations

Note. Drafted by the author, adopted from Figure 4.

Our revised model introduces three interrelated refinements—each anchored in the empirical insights derived from Phases I–III.

7.1. Product Portfolio Reclassification Based on Asset Specificity

Whereas the original model treats product diversification in binary (e.g., high vs. low variables) or aggregated index terms, our model introduces a TCE-informed lens that categorizes products by asset specificity. This reframing captures the transition from low-asset-specific, standardized products in Phase I (e.g., yarn, cotton) to high-asset-specific, complex goods in Phase II (e.g., luxury fashion, technology-integrated apparel). This shift also reflects a strategic shift from volume-based comparative advantage toward quality-intensive, transaction-sensitive domains, consistent with a move from FG Pattern A to Pattern B.

7.2. Locational Portfolio Shift from Domestic Anchoring to Global Repositioning

Our findings highlight a fundamental reconfiguration in geographic portfolio. While Phases I and II centered on facilitating Japanese MNE expansion or bringing foreign brands into Japan, Phase III reflects a break with this home-market anchoring. Firms reallocated resources toward high-growth global regions, as illustrated by Mitsubishi's rapidly increasing overseas sales ratio and ITOCHU's regional strategic repositioning to China. This shift parallels FG Pattern C and signals a reorientation toward globally embedded operations, not merely extensions of domestic mandates.

7.3. Introduction of Governance Logic Grounded in TCE

The most substantive contribution of our model lies in its incorporation of governance logics, instead of the use of functions on which the prior studies focused. We tracked how the cross-border transactions have been governed and transformed, who exerted control over transactions. Phase II case studies demonstrate how MNEs and *sōgō shōsha* co-designed governance arrangements to address emergent governance challenges.

The introduction of governance-centered logic not only aligns with recent calls for the process model development (Welch et al., 2016; Aaltonen, 2020) but also strengthens the model's explanatory precision in today's high-complexity environments. For functional aspects, the original model implies minimal non-trading engagement in Stage II, our evidence suggests that *sōgō shōsha* were already actively involved in investment, financing, and coordination during this early phase, as evidenced by their role in facilitating Japanese firms' offshore production through triparty JVs which indicates an early adoption of functions beyond pure trading. We hence propose a revision of the original model's assumptions regarding the timing and scope of functional diversification.

8. CONCLUSION

This study has examined the internationalization trajectories of Japan's sōgō shōsha—highly diversified enterprises whose strategic evolution has been shaped not only by a firm-level intent or resources, but also by broader institutional and industrial forces.

We make two interrelated contribute to extant literature. First, adopting a history-in-theory approach (Kipping & Üsdiken, 2014) and applying a dual-theoretical lens—FG as a model for an industry-level transformation and TCE as a framework for firm-level decisions—we develop a governance-centered account of how sōgō shōsha adapt internationalization strategies amid industrial shifts. Prior research on the internationalization of large MNEs has tended to treat internationalization as firm-level outcomes (Aguilera et al., 2020; Lee et al., 2022) and external environments as static contexts (Yi et al., 2013). By contrast, we conceptualize sōgō shōsha internationalization as a dynamic process of governance reconfiguration in response to evolving product architectures and shifting locational imperatives. This responds to recent calls for longitudinal and context-sensitive analyses of diversified MNEs in Asia (Lee et al., 2022).

Second, following a history-to-theory approach (Kipping & Üsdiken, 2014), we extend existing life-cycle models (Kim, 1986; Ellis, 2001), capturing the evolution of sōgō shōsha internationalization, from peripheral intermediaries (Phase I), through strategic orchestrators (Phase II), to investment-driven "MNE-traders" (Phase III). This revised model introduces a TCE-informed governance dimension that has been largely absent in prior frameworks.

Importantly, our study shows that historical context is not merely a passive backdrop to strategy, but a constitutive force that shapes the evolution of strategic choice and governance. In this respect, we generate two managerial implications. First, contrary to the dominant view that diversification necessarily leads to inefficiencies—commonly referred to as the "conglomerate discount" (*The Economist*, 2020; Calhoun, 2020)—our findings demonstrate that, when purposefully managed, diversification can serve as a source of creative advantage. Sōgō shōsha sustained competitiveness by dynamically reconfiguring product-location combinations and deploying governance structures tailored to transaction-specific characteristics. Their deep understanding of which governance mechanisms work, under what conditions and in which contexts, enabled them to act as agile orchestrators across volatile environments.

Second, while portfolio diversity is essential for sustaining competitive advantage (Lamberg & Peltoniemi, 2020), the governance structures and legacy assets that previously generated value may become liabilities when underlying industry or institutional logics shift. In such cases, beyond reconfiguration (Suddaby et al., 2020), firms need to engage in selective reallocation of legacy resources. As Phase III illustrates, this process involved discontinuous and bold decisions, including full divestiture from structurally declining sectors and withdrawal from home markets. These moves reflect deliberate, future-oriented transformation grounded in what Jones and Pitelis (2015) term a “historically informed imagination.”

These insights open promising avenues for future research. First, given the context-specific nature of internationalization processes, future studies should examine how governance transformation unfolds across different sectors and geographic settings.

Second, the conceptual contours of the “MNE-trader” remain underdeveloped. Recent developments—including ITOCHU’s acquisition of global consumer brands and Mitsubishi’s strategic repositioning under new leadership—suggest that sōgō shōsha may now be transitioning into full-fledged value chain leaders. This raises important questions regarding how GVC governance and leadership are constructed, contested, and institutionalized in an increasingly volatile and multipolar global economy.

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