



## The Development of the Commodity Economy in Japan During the Edo Period and the Role of the Mitsui Family

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### Abstract

The development of the Japanese economy during the Edo period was closely tied to urban development and the changing status of the merchant class. The emergence of the Mitsui family was an inevitable event in Japan's developmental history, given the changing social classes, political instability, and a complex, chaotic financial and monetary situation. Mitsui emerged to promptly meet the changing and developing needs of Japan at that time. With the characteristics of private ownership and a horizontal family management structure, their widespread influence, combined with strong internal linkages across traditional, commercial, and banking sectors, led to a high level of dominance for Mitsui that other families did not possess during this period.

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### 1. Introduction

The success of Japanese history in transitioning from feudalism to capitalism has always been fascinating to researchers of modern and contemporary history. Politically, Japan determined its capitalist trajectory while many regional countries were still struggling with a state of dependency. Economically, Japan was the first country in Asia to rapidly transition from a typical Eastern feudal socio-economic formation to a Western-model capitalist economic formation, achieving numerous accomplishments.

Mitsui is a massive and powerful Japanese economic conglomerate with numerous branches and representative offices not only in Japan but also in other countries around the world. It originated from a merchant family engaged in brewing and running a pawnshop in Edo (modern-day Tokyo) in the early 17th century. Later, it participated in the Government apparatus in the financial and monetary sector, thereby expanding into multi-industry and multi-sector business to become one of the largest economic conglomerates dominating the Japanese economy in the late 19th and early 20th centuries. It can be said that the Mitsui family became an economic conglomerate originating from a traditional feudal socio-economic society, yet it was extremely dynamic and made significant contributions to the development of urban society and the strongly developing commodity economy in Japan during the Edo period (1603 – 1868). The contributions of the Mitsui family not only contributed to Japan's economic development but also helped affirm the position and importance of the merchant class.

### 2. Literature Review

Research on the Japanese economy in general and the private economy in particular has always been a topic of interest for researchers; it is especially historically significant when studying the transition from a feudal economy to a capitalist economy, the seeds of which developed during the Edo period. According to Professor Akira Fujino, author of the book "Cultural History Cooper," after the Edo Shogunate was established in 1600, a period of peace and unity was established in Japan. That was a precious time for the Japanese to recover and develop socio-economically (Akira Fujino, 1993, p.4)<sup>[1]</sup>. This was also a period when Japanese society underwent profound transformations, containing and generating many predetermining factors for future

development.

Regarding the state of the Japanese economy during the Edo period (also known as the Tokugawa period), according to Nguyen Van Kim (1994)<sup>[2]</sup>, in the study “The Dutch – Early Years in Japan” published in the *Journal of Historical Studies*, the person holding real power in Japan at this time was Tokugawa Ieyasu (1542 – 1616), the founder of the dynasty bearing his name, who carefully adopted the policies of his predecessors. However, while striving to consolidate the government and economic strength, he paid deep attention to domestic industries and foreign trade. Throughout this period, the Edo government made many efforts to encourage domestic production capacity, creating an environment for regular commodity circulation between economic regions while enhancing the consumer demand of the domestic market. As a result, by the end of the 17th century, alongside the traditional agricultural economic structure, an industrial-commercial economic structure centered on cities had also formed. Cities in Japan played a crucial role in the development of the commodity economy, culture, and served as the concentration of the country's strength.

Vinh Sinh in his famous work *Modern Japan* (Labor Publishing House, Hanoi. 2014)<sup>[3]</sup>. This is a work on modern Japanese history, which details how state-owned enterprises were transferred at very low prices to certain merchants and capitalists, especially those who had contributed financial assistance or transportation means to the new government; typical of these merchants were Mitsui, Iwasaki, and Furukawa.

Researching the role of the Mitsui family in Japan's development is a novel topic, even though it spans over two centuries, drawing the interest of domestic and foreign scholars from both East and West. The most prominent work when mentioning the private economy is by researcher John H. Sagers, “The Importance of Entrepreneurship in Japan’s Late Nineteenth-Century Meiji Industrial Transformation” (*Education About ASIA*, Volume 24, Number 2, p.40-45, 2019)<sup>[4]</sup>. The author pointed out the importance of entrepreneurship in Japan's late 19th-century Meiji industrial transformation process. The role of political entrepreneurs in the government was much more successful in stimulating economic development through institutional support for private property rights and infrastructure investment compared to centralized planning and management of state-owned enterprises. Private sector entrepreneurs then seized new market opportunities and invested their energy and resources into enterprises, contributing to Japan's economic development. However, it has not clearly analyzed the relationship between the government and political entrepreneurs.

John G. Roberts (1973)<sup>[5]</sup>, *Mitsui: Three Centuries of Japanese Business* (1), Weatherhill. Political and economic institutions gave birth to Japanese merchants, nurtured their industries, and promoted the formation and development of zaibatsu, whose influence and power extended to all classes of Japanese society. The Mitsui conglomerate started and developed from a family in the brewing business. Because of their merit in assisting the Meiji government in overthrowing the Shogunate, they gradually formed an increasingly strong relationship with the government, contributing to the

country's stable economic development after Japan opened up to the West.

### 3. Research Methods

Regarding research methods, since this is a historical research work, historical scientific methods, logical methods, and a combination of both are used as the main thread in the study. By utilizing the historical method, I began researching from the origins of the Mitsui family's formation, to its developmental process and the transformation of its business model from a feudal society progressing towards capitalism. Additionally, the historical method helps me reconstruct a complete picture of the "Development of the commodity economy in Japan and the role of the Mitsui family" that needs to be studied.

### 4. Research Results

#### 4.1. The development of the commodity economy in Japan during the Edo period.

The development of cities as centers of production, consumption, commerce, and finance was an important factor creating an environment for the Japanese economy to continue developing. During the Edo period, Japan had up to 200 cities and hundreds of port towns. That number both demonstrates the level of urbanization and reflects the fundamental shifts in socio-economic life under the impact of new domestic and international factors during this period. The major cities in Japan with the most developed commodity economies nationwide were: Osaka, Kyoto, Edo, Nara, Nagasaki, and Sakai.

The development of the commodity economy, including domestic and foreign trade, at the beginning of the Edo period led to the emergence of cities, townspeople, merchants, craftsmen, and Western-style handicraft workshops in this East Asian nation. In Japan at this time, thanks to the development of the commodity economy—with production in rural areas and consumption in urban areas—people began to know flexible lending and money exchange methods; linked to this was the process of the formation, rise, and development of the Mitsui family as they became government officials and participated in government affairs in the financial and monetary sector.

#### 4.2. History of the Mitsui family's formation Politically, establishing a new political institution

With the goal of building a stable institution and rebuilding national peace and unity, the Shogunate made efforts to consolidate a centralized feudal government with direct administration from the central authority. To achieve effective administration by the central government over local areas, they utilized a parallel operational mechanism: the Shogunate, headed by the Shogun in Edo, and the daimyo ruling 265 domains. This mechanism was called *Bakuhau Taisei* (the Shogunate-Domain system), existing based on the absolute loyalty of the warrior class and a balance in the power structure between the central and local levels regarding the two most important issues: economics and politics.

Besides, the reign of the Tokugawa clan is considered the period that laid the foundation for a qualitative leap in Japanese history by creating the prerequisites for the Meiji Restoration, putting Japan into the ranks of capitalist powers.

During this period, the Bakuhan Taisei structure was a characteristic model within the power structure of the Tokugawa Shogunate government (Nguyen Van Tan, 2018). The Shogunate continuously perfected the government apparatus; by the time of the third Shogun, Tokugawa Iemitsu (1604 – 1651, the de facto ruler of Japan from 1623 until his death), the political mechanism established in a military style had developed relatively completely. Besides establishing the political mechanism, the Shogunate also built an administrative mechanism consisting of a system of imperial commissioners, inspectors, etc., who were regularly dispatched to local areas. Thanks to this, the Edo government was able to strictly manage local feudal lords, and Japan experienced a long period without internal rebellion or war (Nguyen Quoc Hung (ed.), 2012, p.193) <sup>[8]</sup>. Simultaneously, institutionalizing the administrative apparatus brought the management of society into a legal framework based on regulations for the warrior class; the status and duties of the han towards the central government; and the principles and behaviors of each class in society.

After establishing the political apparatus and administrative mechanism to ensure reliability and centralization of power, Tokugawa Ieyasu also forced the feudal lords to successively sign pledges of loyalty to the Shogunate regime. Furthermore, to prevent another civil war, the Laws for the Military Houses also contained several provisions such as: forbidding the han from repairing or building new castles without permission; forbidding feudal lords from arbitrarily forming alliances or intermarrying; prohibiting the building of large ships (to avoid alliances with other countries), restricting the construction of bridges, and applying the Sankin Kotai (Alternate Attendance) system to the daimyo. Sankin Kotai initially was just a voluntary act by feudal lords returning to Edo to express their loyalty to their lord. But later, this system was regulated more strictly and became a mandatory duty for all daimyo. This was essentially a hostage system, forcing feudal lords to present themselves in Edo. After a while, they were allowed to return to their domains but had to leave their wives and children behind at their secondary residences in Edo. The sight of processions, sometimes numbering up to thousands of people, flocking to Edo from all over the country to present themselves was a highly convincing reality, showing the authority of the central government in the lord-vassal relationship in Japan during this period. The massive expenses for these journeys and for the mansions in Edo usually consumed more than half of the feudal lords' income, leading to a severe weakening of their financial resources, thereby reducing their capacity for rebellion.

The feudal lords living in Edo for such a long time lost the rustic nature of warriors and became aristocratized, and moreover, this reduced their fear of the institution. Furthermore, frequent interactions with a large proportion of the ruling class between Edo and the provinces increased the homogeneity in culture, knowledge, and ideology in Japan more than in any other country in the world. Importantly, along with the shifts in socio-economic life, the Sankin Kotai system created objective factors that promoted the development of many manufacturing industries, expanded transportation routes, and simultaneously accelerated urbanization, consumer demand, and commercial activities (Nguyen Quoc Hung (ed.), 2012, p.200) <sup>[8]</sup>. This was the condition that stimulated the consumption of goods and the exchange of currency, and feudal lords who lacked the

finances to perform the attendance would borrow money from the merchant class; the seeds of the money exchange profession forming and strongly developing in the Edo period also originated from this cause.

### **Economically, urban development and expansion of commercial activities**

**Investment in industry and commerce:** although agriculture was considered the fundamental economic sector, transformations in agriculture always had close connections with the development of industry and commerce. The growth of many economic sectors relied on the purchasing power of the domestic market, in which farmers accounted for up to 80% of the population (Nguyen Quoc Hung (ed.), 2012, p.207) <sup>[8]</sup>. The development of a commercially oriented agricultural economy created a new cycle for production, accelerating the process of differentiation among agriculture, handicrafts, and commerce. Moreover, thanks to the production encouragement policies of many feudal lords, along with the application of new production techniques and the ability to expand production scale, consumer demand for goods and the purchasing power of townspeople increasingly rose; from there, Japanese industry and commerce took many outstanding developmental steps. Nationwide, many handicraft centers with relatively large scales were formed, attracting hundreds of laborers, and specialization among trades was clearly demonstrated. Industries were formed such as consumer goods manufacturing like silk weaving, ceramics, paper, printing, and lacquerware; food processing industries like brewing, sugar production, tea, and seafood processing; and industrial mining, metallurgy, weapons manufacturing, etc.

### **Urban development and the expansion of commercial activities:**

The development of cities as economic centers was another significant factor creating a new face for Japanese society. During the Edo period, Japan had up to 200 cities and port towns, which were the concentration points of the most prominent transformations in the Japanese economy while also playing a leading role in the overall development of the entire economy. By the end of the 17th century, alongside the traditional agricultural economic structure, an industrial-commercial and urban economic structure had formed in Japan, acting as a center with a massive driving force for agricultural development; many cities experienced remarkable development and became centers of production and trade for vast surrounding regions.

The three largest cities at this time were Osaka, Nara, and Kyoto; these were the regions achieving the most dynamic economic development with a high degree of commercialization and urbanization; this was also where wealthy merchants and skilled laborers gathered, capable of producing export-quality goods such as silk and fine handicrafts; and it was where up to 40% of the essential commodities in Japan at that time were produced (Nguyen Quoc Hung (ed.), 2012, p.216) <sup>[8]</sup>. Self-sufficient agriculture became a commercialized agriculture, and merchants increasingly augmented their wealth and power. Along with this was the situation where rich peasants appropriated land to conduct new forms of business, and poor farmers lost their arable land, causing them to abandon the land to participate in handicraft activities or move to cities to seek employment. The prosperity of handicraft workshops made the demand for wage labor increasingly common, and merchant families who

were creditors of the daimyo also quickly grew wealthy. The major cities in Japan during the Edo period were originally all administrative capitals of the daimyo. Because of this, besides natural conditions and economic location, the policies of various levels of government also significantly influenced the tendency and extent of development of each city in Japan during this period. And the contributions of wealthy merchant families were the practical support for the government to develop the country, among which the most prominent in the financial and monetary sector was the Mitsui family.

#### 4.3. The Role of the Mitsui Family

**Regarding foreign trade activities:** among the major merchant families in Japan during this period, Mitsui was the enterprise undertaking import-export activities for the Meiji government. The branch specializing in import and export for Mitsui was Mitsui Bussan, established in 1876, one of the pioneering Japanese enterprises in developing large-scale commercial business in China before 1914. Mitsui Bussan opened its first overseas branch in Shanghai in 1877, just one year after its inception. This branch was tasked with trading coal products that Japan exported to China for Mitsui's loyal clients, which were British companies such as Jardine, Matheson & Company, and Butterfield and Swire. Prior to 1886, the business functions of the Mitsui Bussan Shanghai branch were expanded to include the importation of raw cotton for the Osaka Spinning Mills, which had ties with Mitsui, as well as trading exported Japanese products like cotton yarn, silk goods, and woolen fabrics in China. Mitsui Bussan also established branches in Hong Kong, Paris, Milan, and New York. The New York branch undertook the export of raw silk to the United States and the import of raw cotton, railway equipment, and machinery from the US back to Japan.

**Regarding financial and banking activities:** Finance and banking, the decree allowing the establishment of financial credit organizations called "national banks" enacted in 1872 by the Meiji government led to a state of banking "chaos" in Japan. In essence, a national bank meant a bank established and operating within the framework of a decree issued by the government, but its capital was privately owned. The main purpose for the government allowing the establishment of the aforementioned national banking system was to recall and convert the amount of currency that had been issued, while consolidating financial capacity, especially to prepare budgets for industrial and commercial development policies. Therefore, the banks established under the 1872 decree were considered national banks. These banks did not have a central bank, and each bank had the right to issue paper currency based on the gold standard system. However, because hoarding gold was too expensive, initially only four private banks were established. Later, up to 153 banks emerged when the gold standard system was relaxed in 1876, and a considerable amount of money was issued by these banks. Mitsui Bank was the first private bank to emerge in Japan in 1876. Although previously, at the beginning of the Meiji period, Mitsui had submitted an intention to establish a private bank, the government did not permit it due to the policy of establishing a system of national banks under state management. The private banks that emerged during this stage mostly belonged to the ownership of currency traders, wealthy merchants, and feudal lords from the Tokugawa

period. Most banks were established in large cities where there were bustling foreign trade activities such as Tokyo, Osaka, Yokohama, Kobe; or in regions specializing in producing commodities like rice, tea, and silk threads such as Niigata, Miyagi, Shizuoka, Fukushima, Nagano.

Mitsui Bank served as the exclusive financial agent for Mitsui trading companies. Due to its good relationship with the government, the bank enjoyed many special privileges and benefits. Japan's modern banking system was officially formed with the establishment of the Bank of Japan in 1882. This was Japan's central bank, officially issuing currency for the country. Of the six private banks of particular importance in Japan during the Meiji period, four were owned by the Zaibatsu, including Mitsui Bank (established 1876), Mitsubishi Bank (1895), Yasuda Bank (1880), and Sumitomo Bank (1895). Mitsui was the bank with the highest founding capital at 2 million yen, while the private bank with the lowest founding capital during this phase was 10 thousand yen. By 1913, Yasuda Bank was consolidated from 13 small banks with the largest invested capital, up to 150 million yen. It can be said that right from the early days of the Meiji period, large banks belonging to Mitsui, Mitsubishi, and Yasuda played a very important role in forming the Japanese financial and banking system with modern institutions.

**Regarding politics:** The Samurai in the Tokugawa period did not directly participate in the business process. Therefore, the trading of goods and money exchange were reliably entrusted to merchants. It can be said that the exchange of interests and power between wealthy merchants and government officials, based on trust, compromise, and mutual benefit, became a characteristic of political culture that persisted throughout the Tokugawa period onwards. By the Meiji period, most new leaders originated from the Samurai class and therefore continued to entrust finance and commerce-related matters to wealthy and reputable merchants. If before 1873, agricultural taxes were paid in rice, and then merchants would exchange the rice for money for the government; after 1873, when agricultural taxes were stipulated to be paid in cash, merchants would purchase rice from farmers, sell it to the rice markets in Tokyo and Osaka, and then pay taxes to the government. Although the regulations changed, the cooperation and profits remained the same.

Mitsui established a close connection with the government from the very first years of the Meiji period when Mitsui Takafuku and Minoura Rizaemon became semi-official financial experts for the imperial court and government. Subsequently, Mitsui had a close relationship with Inoue Kaoru (1836-1915), the Minister of Finance of the Meiji government and later the Minister of Foreign Affairs in the cabinet of Japan's first prime minister. This closeness facilitated Mitsui in acquiring the properties left by the Shogun and other feudal lords from the Tokugawa era.

Thus, the role of the Mitsui family during the capitalist period in Japan: firstly, it was a prerequisite to alter the position of social classes and strongly develop the seeds of capitalism; secondly, the development of the Mitsui family created momentum to promote the commodity economy and the country's industrialization, making particularly massive contributions to the financial and monetary sector during this period; thirdly, it created completeness in the complex 'sanka' monetary system of the Japanese economy.

## 5. Discussion

The Mitsui family is a large trading company established in 1673, possessing immense dominating power through three companies: Mitsui Bank, and Mitsui Bussan. Furthermore, it participated in many other activities, including insurance, trust banking, chemical industry, and paper manufacturing. Mitsui Bank often met the financial needs of many companies in exchange for having a voice in the operations of these companies. Mitsui Bussan held the right to consume products or the right to supply raw materials to those companies. The Mitsui family's growth was due to the tight collusion among three entities: the government, the bank, and the enterprise. Alongside those achievements, "What challenges did the Mitsui family face in the process of developing the private economy in Japan?" is a matter for discussion in this topic. Each family operated for immediate financial goals and enlisted government support to achieve those goals, not yet focusing on the quality of business operations across all fields of the family. The market penetration of Western countries created contradictions with traditional Japanese business practices. During the Edo period, Japan increased freight transport by ships, expanded domestic trade, and began trading with foreign countries. Although this opening of trade happened early, causing the Japanese economy to develop rapidly, up to now, the Japanese economy is still not entirely dependent on foreign companies. Families at this time faced the risk of being annexed by the West. The Mitsui family itself had to both continuously improve business operations in its sectors and compete with other families possessing strengths in the same industry or operating market share in the same field.

## 6. Conclusion

Thanks to the development of commerce and cities, a contingent of wealthy merchants was formed, holding the major economic lifeblood of the entire country. From individual business families, they allied to form Nakama merchant guilds to establish unified rules and regulations for their business operations; they controlled the market and increased revenue for the national treasury alongside agricultural taxes. Moreover, merchant guilds also made monetary and credit business operations increasingly complete, meeting the livelihood needs of townspeople while accelerating the process of capital accumulation among a subset of wealthy merchants; this was the class that helped drive the industrialization process during the Meiji period.

The contributions of the Mitsui family were demonstrated across all three aspects: economic, political, and social. Promoting Japan's economic development helped the government stabilize domestic and foreign politics, and solved employment issues for the vast majority of farmers who had lost their land and had no fields to plow. Concurrently, when weighing Mitsui on the same scale with other wealthy merchant families, it also revealed limitations that needed overcoming and future challenges that the management apparatus of the Mitsui family needed to conquer.

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