Mutual Control and Mutual Dependency

Theory on mutual trade

Reciprocal business, or mutually beneficial trade, in its simplest form, results when company A and company B agree to buy and sell from each other on mutually agreeable terms. As noted below, such trade relationships in Japan are extremely common.

Reciprocal business started to become popular in America in the 1920s, but with the move towards amalgamating conglomerates in the 1960s, it became a problem in the eyes of anti-trust lawyers. So to counter the growth of reciprocal business, article seven of the Clayton Act was applied to conclude its illegality in a number of cases. In Japan, on the other hand, reciprocal business is common, is seen as natural and does not seem to run foul of unfair trade practice laws, in spite of its accountability having to be questioned.

The first condition for reciprocal business is that the structure of the market should be oligopolistic on both sides of demanders and suppliers. Only under such a condition would the trading partners be able to decide terms like price, quality and service; otherwise, say, under perfect competition, they are determined in the market, hence there are no incentives for mutual trading. On the other hand, under monopoly too there is no meaning for making mutual trade. Thus, oligopoly is the only situation in which mutual trade is meaningful and attractive.

The next required condition is that both sellers and buyers are sufficiently diversified in business. This is because, if all firms produced only one type of goods, there would be no possibility of mutual trade where one of them buys the product of another and vice versa.
Thus, mutual trade is made in an oligopoly market between diversified firms. It will be seen below, following the argument of W. Mueller, how the structure of the market affects trade.

Firstly, prices are fixed under oligopoly, resulting in the misallocation of resources. Of course, under effective competition, price, quality and service are left to be determined by market forces. But under mutual trade, transaction depends on other issues such as the condition that buying from a certain party occurs only if other purchases are made by that party, so that it cannot be effectively competitive. This kind of non-price competition is different from other usual kinds of non-price competition such as the advertising or sales facilitation which does not increase the sales across the whole industry. Rather, it gives rise to sales to one firm in the industry at the expense of another firm.

Next, participation by new entrants is deterred. In the most extreme case, if all producers specialising in one area and those specialising in another agree to buy only from each other, they can lock out new competitors. If they want to enter the market, they must seek out a partner of mutual trade. In this way, the net of mutual trade is expanded. Thus, mutual trade is an obstacle for a new firm that is a barrier caused by an element other than the scale of economy.

Third, a firm engaged in reciprocal business will increase the demand for its own products, but the relative reduction caused to competitive firms will result in greater concentration upon the oligopolistic firm within the industry.

Fourth, it is seen that all the things discussed above create structural change in the whole economy. The products are diversified, as mutual trades between firms are expanded and the conglomerate industrial structure becomes prevalent and a powerful source of economic expansion, and hence creates a further advancement of the oligopoly.

In America, markets that are controlled by anti-competitive practices like these are regarded as being in conflict with the anti-trust laws, but they are not seen in Japan as a problem. According to Mitsuko Akabori, there is a problem, ‘whether the reciprocal business is considered in Japan as illegal under anti-monopoly law or not. The answer to this is probably related with the Japanese habit regarding long-standing customers more favourably’. In response to this, Tetsu Negishi has the following to say:

Mutually beneficial trade that locks up the essential part of the side of sellers of the market by controlling trading partners and