

ANATOMY OF KOREAN GENERAL TRADING COMPANY

Dong-Sung Cho · Yeong-Do Heo***

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I. INTRODUCTION

With the unprecedented economic growth of about 10% per annum in the 1960's and the 1970's led by the even more impressive export growth of over 40% per annum in the same period, Korea has become the second most developed country in Asia after Japan, and within immediate reach of joining OECD.

Korean General Trading Companies (KGTCs), since their establishment in 1975, have been a symbol of this economic success in Korea, and frontrunner of the Korean businesses in their move toward multinationalization. Accordingly, foreign businessmen interested in seeking business opportunities in or with Korea want to know more about KGTCs. These foreign businessmen who in most cases have had experiences of dealing with Japanese General Trading Companies (Sogoshosha) may tend to regard KGTCs similarly as their Japanese counterpart. Indeed, KGTCs were modeled after the Japanese example, thus there are many aspects of KGTCs' operations which are very similar to those of Japanese General Trading Companies.

Unlike Japanese Trading Companies which have gradually developed into their being over the last hundred years, KGTCs are at an infantile stage with

Author *Research Member of the Institute of Management Research, Assistant Professor, School of Management, Seoul National University.

**MBA, School of Management, Seoul National University.

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only 5 years of history. More importantly, KGTC is an institution purposefully established by the Korean Government as a vehicle to implement its strategy of expanding Korean exports and upgrading their quality. Thus, foreign businessmen interested in having business relations with KGTCs should understand the characteristics of KGTCs which are both different from and similar to those of the Japanese General Trading Companies.

The following three characteristics mark the major structural differences:

One, since KGTCs were initiated and subsidized with various incentives by the Korean Government, they have been closely controlled by, and dependent upon, the Government in such areas as financing and risk-taking (see Exhibit 1).

Exhibit 1. Financing of KGTCs in 1979 (unit: \$1 million)

KGTC	(A) Total Financing	(B) Bank Financing	(B)/(A) (%)	KGTC	(A) Total Financing	(B) Bank Financing	(B)/(A) (%)
Samsung	151.0	116.9	77.4	Sunkyung	112.9	105.6	93.6
Daewoo	314.4	295.8	94.1	Hyundai	16.9	16.2	95.9
Kukje	120.3	78.3	65.1	Kumho	87.4	67.1	76.7
Hyosung	87.0	75.3	86.6	Samwha	108.2	95.9	88.7
Ssangyong	59.0	49.0	83.2	Hanil	92.5	76.3	82.5
Bando	63.3	38.0	60.1	Total	1212.9	1014.4	83.6

Two, only a handful of Jae-bul (a concentration of companies which are owned and controlled by a family) were eligible to establish KGTCs with their captive supply of manufactured goods for export. As a result, each KGTC is affiliated with a Jae-bul, thus plays a role of service center to export commodities for the group companies (see Exhibit 2).

Exhibit 2. KGTCs' Affiliated Groups

KGTC	Affiliated Group	KGTC	Affiliated Group
Samsung	Samsung Group	Sunkyong	Sunkyong Group
Daewoo	Daewoo Group	Hyundai	Hyundai Group
ICC	Kukje Group	Kumho	Kumho Group
Hyosung	Hyosung Group	Samwha	Samwha Group
Ssangyong	Ssangyong Group	Hanil	Hanil Group
Bando	Lucky Group		

Three, as the Government initially designed, KGTC's operation has been geared toward export activities without concurrent import activities most of which are monopolized either by the Government or by state enterprises (see Exhibit 3).

Exhibit 3. KGTC's Export and Import Amounts in 1979

(unit: \$1 million)

KGTC	(A) Export	(B) Import	(B)/(A) (%)
Samsung	769	200	26.0
Daewoo	1,119	106	9.4
ICC	564	100	17.7
Hyosung	585	100	17.1
Ssangyong	425	300	70.6
Bando	471	72	15.3
Sunkyoung	334	56	16.8
Hyundai	615	30	4.9
Kumho	305	90	29.5
Samwha	195	31	15.9
Hanil	237	—	—
Total	5,619	1,085	19.3

Besides these differences, KGTCs have not yet developed other capabilities which the Japanese counterpart has, such as financing, information gathering, resource development, organizing, and so on. In contrast with the three structural differences mentioned above, however, these capabilities are mostly due to the inexperience of KGTCs. Indeed, the Government encourages them to perform these little-experienced activities. Recently, a number of KGTCs have begun to explore such opportunities as resource development on a limited scale (see Exhibit 4). Certainly with more experiences, KGTCs are expected to play significant roles in these areas.

To introduce KGTCs more in details, this note will describe the history around the establishment of KGTCs, which is followed by their structures, functions and major problems.

II. HISTORY OF KGTC

1. Background

The Korean economy has grown rapidly since early 1960s with the implementation of a series of Five Year Economic Plans. Behind the scene was the Korean Government which adopted the strategy of using exportation as fuel for economic growth. As a result, the Korean exports which stood at \$30 million in 1962 reached \$100 million in 1964, \$1 billion in 1971, and \$10 billion in 1977, an unprecedented tenfold increase in every 7 years or less.

This quantitative expansion of Korean exports, was made possible by the Government's subsidies on financing, taxation, and foreign exchange. However, these subsidies became too burdensome for the Government to carry out as the export growth continued. At the same time, they resulted in various undesirable effects such as proliferation of small-scale manufacturer-exporters as manufacturers moved into trade to reap the benefits offered to exporters, overcompetition between exporters in overseas markets, and overdependence of exporters on the Government. In the meanwhile, aggressive marketing by Korean exporters to penetrate into overseas markets became an urgent issue as the trends of the world economic recession and protective trade policies of advanced countries became apparent.

Under these circumstances internal and external to Korea, the Government brought in the concept of "General Trading Company" which is big enough to attain scale economy in the world market, specialized in exportation to gain international competitiveness, self-sufficient and independent of the Government, and capable of overseas marketing.

2. Requisites for KGTC Designation

In April of 1975, the Government announced the procedures and requisites,

for designating General Trading Company status. Exhibit 4 shows the requisites which have been annually revised by the Government. Accordingly, a KGTC is not automatically guaranteed its status unless it keeps up with the Government mandates, and the Government can control KGTCs' operations through its power to designate the status each year.

As of the end of 1979, each KGTC must meet the following four requisites in order to maintain the General Trading Company status.

- ① Its export amount in the preceding fiscal year (January 1 through December 31) should exceed 2% of the total amount of the Korean export.
- ② It should have at least 5 products with over \$1 million exports respectively.
- ③ It should maintain at least 20 overseas branch offices. (Up to 2 offices are counted for branch offices in the United States and Japan respectively.)

Exhibit 4. Requisites for KGTCs

Item	1975	1976	1977	1978 and 1979
• Minimum capital	₩ 1 Billion	₩ 1.5 Billion	₩ 2 Billion	—
• Minimum annual exports	\$ 50 million	\$ 100 million	\$ 150 million	2% of Korean Exports
• Export items over \$1 million	7 (over \$500 thousand)	10	10	5
• Export countries over \$1 million	10	15	20	—
• Number of overseas branch offices	10	15	20 (up to 2 offices are counted in U.S.A or in Japan)	20 (up to 2 offices are counted in U.S.A or in Japan)
• Public offering of stocks	—	—	mandatory	mandatory
• Export to special areas	—	—	① Exports • Mideast: 15% • Latin & South America: 3% • Africa: 3% ② Branch offices: 2 offices in each of the 3 regions above	—

Source: The Korea Development Bank.

- ④ It should list its stocks on the Korean stock market.

The Minister of Commerce and Industry can modify these requisites as are needed by the changes in export markets or Korean industries.

3. Government Subsidies on KGTC

To promote the performance of KGTCs, the Government has been offering the following subsidies to KGTCs:

1) Trade administration

- the priority on the international biddings of over \$ 500 thousand.
- relaxation of the requirements for joining the Export Association of Korea.
- the right to import major raw materials for KGTCs' own use.

2) Financing

- export financing
- inventory financing of finished goods
- import financing of raw materials.

3) Foreign exchange administration.

- special treatment in controlling KGTCs' overseas branches.
- allowance of LC uses.
- increase in the limit of foreign currency holding by KGTCs' overseas branches.

Besides the subsidies cited above, the Government has been contemplating the waiver of operating taxes levied on export commissions. Nevertheless, KGTCs do not consider these subsidies a big help for their operations.

Then why are the Korean businessmen eager to have their companies designated as KGTCs? The following points may answer some of the reasons why.

One, the KGTC status can enhance the company's credibility both in Korea and in the world markets.

Two, having a KGTC, the group companies can increase the probability

of obtaining Government concessions on various Government-initiated projects such as heavy and chemical plants.

Three, the ownership of a KGTC gives a businessman a psychological reward and enhance his sense of accomplishment in his business life.

4. Designation of KGTC

The Government designated Samsung as the first KGTC in May 19, 1975, which was followed by Daewoo, Ssangyong, ICC and Hanil in the same year. 1976 saw 6 more companies designated as KGTCs: Koryo, Hyosung, Bando, Sunkyoung, Samwha and Kumho. In 1978, Yulsan and Hyundai were designated to increase the total number of KGTCs to 13.

However, Yulsan Group which was once called a "Cinderella Story" with its sales growth from a mere \$4.8 million in 1975 to over \$187 million in 1978, went bankrupt in early 1979, resulting in the liquidation of Yulsan Trading Company. Again in 1980, Hanil and Samwha failed to retain the KGTC status because their respective exports of \$237 million and \$195

Exhibit 5. Dates of Designation & Capitals of KGTCs

(unit: \$ 1 million)

KGTC	Date of designation	Capital		
		1976	1978	1979
Samsung	75. 5. 19	6. 2	24. 7	24. 7
Daewoo	75. 5. 27	24. 7	84. 1	84. 1
Ssangyong	75. 5. 27	4. 1	6. 2	6. 2
ICC	75. 11. 13	9. 6	13. 8	13. 8
Hanil	75. 12. 31	27. 7	41. 6	41. 6
Hyosung	76. 8. 24	5. 3	10. 3	10. 3
Bando	76. 11. 12	3. 1	8. 2	8. 2
Sunkyoung	76. 11. 23	10. 3	15. 5	15. 5
Samwha	76. 12. 6	7. 4	11. 3	11. 3
Kumho	76. 12	6. 8	10. 3	10. 3
Hyundai	78. 2	—	10. 3	16. 5
Koryo	76. 4. 29	—	—	—

Source: Korea Listed Companies Association.

million in 1979 fell short of 2% of the Korean total (\$ 301 million). The requisites did not apply to Koryo, which was established and owned by the Government with a purpose to foster small-scale export activities of small and medium manufacturers. Therefore, 10 KGTCs remained as of April 1980. Exhibit 5 shows the dates of designation and capitals of the 12 KGTCs as of the end of 1979.

III. PERFORMANCE OF KGTC

1. Exporting

Exhibit 6 shows the historic performance of KGTCs in exporting Korean merchandise. Daewoo achieved the highest exports in 1979 with \$1,119 million which comprised 19.7% of the KGTCs' total exports of \$ 5,670 million. Samsung and Hyundai followed the leader with \$ 769 million and \$ 615 million respectively, while the rest achieved export amounts between \$ 585 million and \$ 51 million. Put together, these KGTCs exported \$ 4,033 million and \$ 5,670 million in 1978 and 1979 respectively, which were 31.8% and 37.7% of the Korean total in corresponding years.

In contrast, 10 Japanese General Trading Companies exported \$ 54 billion in 1978, or 55% of the Japanese total, making average exports of a Japanese General Trading Company 18 times that of an average KGTC. See Exhibit 7 for the comparison of KGTCs and their Japanese counterpart on a number of criteria.

Export items handled by KGTCs in 1979 are roughly divided into the following categories: textile products; 27.4%, chemical products; 15.1%, machinery and equipment; 36.6%, nonferrous metals; 3.5%, foodstuffs; 3.5%, others; 13.8%. Exhibit 8 shows the ratio of heavy industry goods exports by each KGTC in 1977, 1978 and 1979. According to this Exhibit, 3 companies

Exhibit 6. Exports of KGTCs

(unit: \$1 million)

	1975	1976	1977	1978	1979
Korean Exports(A)	5,427	8,115	10,474	12,713	15,055
KGTC Exports(B)	833	1,682	3,255	4,033	5,670
B/A (%)	15.3	20.7	31.1	31.8	37.7
Samsung	223	355	507	493	769
Daewoo	161	301	501	706	1,119
Ssangyong	125	141	176	264	425
ICC	64	197	328	472	564
Hanil	66	104	158	188	237
Hyosung	34	113	199	338	585
Bando	31	134	212	330	471
Sunkyoung	56	114	247	283	334
Samwha	28	105	213	261	195
Kumho	32	99	204	256	305
Hyundai	—	—	320	260	615
Koryo	12	18	24	31	51
Yulsan	—	—	166	151	—

Source: Korea Traders Association.

Exhibit 7. Comparison of KGTC and JGTC

(1978 data)

	KGTC	JGTC
Export/National Total	31.8%	52.7%
Import/National Total	5.8%	64.2%
Characteristics	Trading oriented	Manufacturing oriented.
Capital (average)	\$21 million*	\$119 million*
Total assets (average)	\$235 millin	\$8,737 million
Sales (average)	\$383 million	\$23,806 millon
Exports (average)	\$310 million	\$5,400 million
Exports per overseas branch (average)	\$12.8 million	\$291.5 million.
Number of employees per overseas branch (average)	2.8 persons	27.7 persons.
Capital of Subsidiaries (average)	\$0.40 million	\$39.8 million.

* an average of largest 9 companies.

(Ssangyong, Hyundai and Bando) exported over 50% of their total with heavy industry goods in 1977, but in 1979 the number has grown to 6. Between 1977 and 1979, KGTCs increased their share of heavy industry goods from 31.8% to 50.6%.

This figure is compared favorably with the Korean average which stood at 40.3% in 1979.

Exhibit 8. KGTCs Exports of Heavy Industry Goods.

KGTC	1 9 7 7	1 9 7 8	1 9 7 9
Samsung	37.9%	39.9%	50.8%
Daewoo	25.0	31.9	46.0
Ssangyong	81.1	72.7	73.5
ICC	26.4	30.6	39.4
Hanil	3.2	3.5	4.4
Hyosung	47.5	51.5	53.6
Bando	57.2	54.2	54.3
Sunkyoung	13.2	17.4	26.8
Samwha	10.3	12.1	13.7
Kumho	47.2	62.0	63.5
Hyundai	94.1	80.7	76.2
Yulsan	—	70.2	—
KGTC average	31.8	53.5	50.6
Korean average	36.1	37.4	40.3

Source: Korea Traders Association

In terms of market diversity of KGTCs, exportation to 5 countries (U.S.A., Japan, Saudi Arabia, West Germany, and Hong Kong) amounted to 62.9%, while markets in the third world countries have not been penetrated to their potentials.

Exhibit 9. Korean Exports by Area

(unit: \$1 million)

Area	1 9 7 7				1 9 7 8				1 9 7 9			
	Korea (1)		KGTC (2)		Korea (1)		KGTC (2)		Korea (1)		KGTC (2)	
	amount	%	amount	%	amount	%	amount	%	amount	%	amount	%
North America	3,760.2	35.9	1,061.5	38.3	4,388	34.5	1,541	33.1	4,762	31.6	2,024	35.7
West Europe	1,811.7	17.3	418.0	15.1	2,379	18.7	862	17.7	2,843	18.9	1,162	20.5
Japan	2,040.2	19.5	422.9	15.1	2,627	20.7	560	12.0	3,353	22.3	777	13.7
Asia	883.5	8.4	286.1	10.3	1,229	9.7	497	10.7	1,647	10.9	754	13.3
Middle East	1,518.3	14.5	396.6	14.3	1,446	11.4	929	20.0	1,581	10.5	629	11.1
Latin & South America	147.4	1.4	49.7	1.7	243	1.9	117	2.5	355	2.4	198	3.5
Oceania	142.4	1.4	41.1	1.4	187	1.5	58	1.2	201	1.3	68	1.2
Africa	169.8	1.6	93.7	3.3	207	1.6	131	2.8	314	2.1	57	1.0
Total	10,474.2	100.0	2,769.9	100.0	12,711	100.0	4,659	100.0	15,055	100.0	5,670	100.0

Source: The Ministry of Commerce and Industry and The Korea Development Bank

KGTCs' role in strategic exportation for the long run, i.e., exportation to new markets in less developed areas of Mideast, Africa and Latin America was below industry average in 1979, as shown in Exhibit 9.

2. Importing

Exhibit 3 also shows the performance of KGTCs in importing foreign merchandise and materials. The combined amount imported by KGTCs was \$1,085 million in 1979 which comprised only 5.2% of the Korean total. Compared with 64.2% which JGTCs took out of the total Japanese imports, KGTCs' role in importation is insignificant. Even this minimal importation by KGTCs is mostly from Japan.

The major reason for this weak position of KGTCs in importsing is because most KGTCs were hastily organized, thus have not yet developed strong domestic marketing networks.

3. Financial Performance

In spite of their contribution to Korean exports with respect to quantitative expansion and qualitative improvement, KGTCs' equity positions and profitabilities in general deteriorated substantially in 1979 (see Exhibit 10).

The real trouble started in early 1979, however, when the Cabinet was changed and the new team led by Minister Shin of the Economic Planning Board put into effect the policy of tight money supply as a part of anti-inflationary measures. The first action taken by the Government was to reduce the limit of export financing together with the elimination of several subsidies given to KGTCs. Most KGTCs, which used to rely extensively on export financing as a source of their working capital, were hit hard by this action.

As a result, the Korean business community witnessed a series of unfortunate events such as liquidation of Yulsan Trading Company and near-bankruptcy

of Samwha General Trading Company.

These problems faced by KGTCs would be attributed to their management for blame in the first place. However, it could not be denied that the Korean Government was always in and behind the scene with its authorities to designate KGTCs and to control their management, thus affected their activities and financial status as well.

Exhibit 10. Financial status of KGTCs

(unit: %)

KGTC	Return on sales			Equity/Asset Ratio		
	1 9 7 7	1 9 7 8	1 9 7 9	1 9 7 7	1 9 7 8	1 9 7 9
Samsung	0.7	0.3	0.3	12.0	14.8	9.4
Daewoo	5.0	3.2	2.4	25.7	24.9	22.5
Ssangyong	0.7	0.5	0.4	8.9	6.6	8.6
ICC	1.6	1.5	1.2	26.2	20.7	14.8
Hanil	3.2	2.5	1.8	29.7	31.9	25.6
Hyosung	0.1	0.5	0.2	13.9	8.9	5.5
Bando	1.3	0.4	0.5	12.5	10.8	10.7
Sunkyong	0.7	0.9	0.2	9.7	11.8	7.5
Samwha	0.9	1.2	0.3	12.8	13.3	6.2
Kumho	0.7	1.2	0.9	14.2	13.0	9.7
Hyundai	0.3	0.9	1.2	48.4	33.8	28.3
Average	1.4	1.2	0.9	19.5	17.3	13.5

source: The Ministry of Commerce and Industry.

IV. PROFILES OF KGTC

1. Samsung Co., Ltd.

Samsung Co., Ltd. serves as the international business arm for the Samsung Group. Founded in 1938, Samsung Group started its business in the trade of agricultural and fishery products with China and Japan. Overcoming the challenges and difficult situation during World War II and the Korean war, the Group grew steadily to embrace 26 member companies which employed more than 70,000 people in 1979 and engaged in a wide spectrum of modern industrial activities ranging from manufacturing heavy machinery, shipbuilding,

petrochemicals, electronics, textiles and foodstuffs to service businesses such as insurance, mass communication and department stores.

Designated as the first KGTC in May 19, 1975, Samsung Co, Ltd. had 8 Divisions, 31 Departments and 84 Sections, with a total of 3,300 employees as of 1979. In the first couple of years as a KGTC, Samsung had been the top-ranking exporter in Korea and one of the leading firms in imports and domestic sales of quality goods. But in 1978, the exports of Samsung was down \$14 million from the previous year, and was surpassed by Daewoo (see Exhibit 3).

As of 1978, Samsung had 33 overseas branches with 108 employees in 26 countries. In the same year, the number of items and countries over \$1 million increased to 29 and 36 respectively. Samsung has gradually improved the equity/asset ratio by doubling the owners' equity between 1976 and 1978. Nevertheless, its profitability decreased substantially, as seen by the 0.3% return on sales in 1979.

2. Daewoo Industrial Company, Ltd

Daewoo Industrial Co., Ltd. is the parent company of the Daewoo family of 36 firms. Founded in 1967 as a textile exporter, Daewoo rapidly expanded its business by moving into a number of areas and gradually established itself as one of the leading trading companies in Korea. Designated as a KGTC in May 27, 1975, Daewoo has firmly established itself as the number one trading company in Korea in export volume since 1978. The export amount of Daewoo has increased by annual average growth rate of 62.4% from 1975 to 1979. In 1977, Daewoo broke the \$500 million in exports, accounting for 5.1% of the nation's exports. The efforts in 1978 and 1979 moved Daewoo to the top position in exports.

The business portfolio of Daewoo Group is similar to that of Samsung Group. Especially with an endeavor to improve the industrial structure of its group, however, Daewoo is rapidly moving toward heavy industries.

As of 1978, Daewoo had 39 overseas branches with 193 employees in 31 countries, the most among the KGTCs. In the same year, the number of items and countries over \$1 million reached 29 and 41 respectively, also the top in ranking. These statistics could qualify Daewoo as the most widely diversified among the KGTCs.

Financially, however, Daewoo has not maintained both stability and profitability. In spite of the annual increase of 50.4% in capital from 1975 to 1979, the equity/asset ratio decreased steadily. The return on sales also decreased from 5.0% in 1977 to 2.4% in 1979, although it is the highest among the KGTCs.

3. Ssangyong Corporation

Ssangyong Corporation is the principal export channel of the Ssangyong Group. The commodities handled by the Corporation are characterized as being more heavy-oriented than those handled by any other competing firms in Korea, thereby diversifying and improving the structure of Korea's exports and providing impetus to various industries in Korea. Among its export commodities are cement and cement products, iron and steel products, rolling stock and ships. Also the Corporation's exports include medium size diesel engines for ships and industrial purposes, industrial and agricultural machinery, motor-cycles and parts, chemicals and the like. The export ratio of heavy goods was 81.1% in 1977 and 73.5% in 1979, which was the second highest among KGTCs.

As of 1978, the number of items and countries over \$1 million was 24 and 19 respectively. In the same year, Ssangyong had 29 overseas branches with 52 employees in 20 countries. Regarding its financial performance, Ssangyong has performed poorly on both stability and profitability with the return on sales and equity/asset ratio at the bottom among KGTCs.

4. ICC Corporation

ICC Corporation was founded in 1949 with a small rubber footwear factory

and designated as a GTC in November 13, 1975. Today, ICC Corporation is a holding company of Kukje Group's 22 affiliated companies.

ICC Corporation achieved 72.3% of the annual average export growth rate from 1975 to 1979, but the yearly growth rates showed dwindling trends as the years passed. As of 1978, ICC Corporation had 21 overseas branches with 59 employees in 19 countries. In the same year, the number of items and countries over \$1 million reached 22 and 29 respectively.

Regarding financial aspects, ICC Corporation has performed adequately on profitability with the average return on sales among KGTCs, but poorly on stability with the equity/asset ratios decreasing.

ICC corporation handles more than 300 items, but the main item is footwear, comprising 78.7% of its total sales. For the long-run, however, the Corporation is shifting its emphasis to the sales of plant and equipment.

5. Hyosung Corporation

Founded in 1957 and designated as a KGTC in Aug. 24, 1976, Hyosung Corporation recently emerged as a rapidly growing GTC in Korea.

Major items Hyosung handles are textiles, chemical products, iron and steel products, agricultural and fishery goods, tire and rubber products, etc.

Hyosung achieved 103.6% of annual average export growth rate from 1975 to 1979. As of 1979, it had 27 overseas branches with 53 employees in 22 countries. In the same year, the number of items and countries over \$1 million reached 22 and 38 respectively.

Regarding the financial performance of Hyosung, its return on sales increased a little, but its profitability didn't reach that of the KGTC average. Its stability was lower than that of KGTC with its equity/asset ratio decreasing.

6. Bando Trading Co., Ltd.

Among the original members of the Lucky Group is the Bando Trading Company. Founded in 1953, the company has grown steadily as the trading

arm of the group composed of 17 companies.

Bando is a leader in export of ready-made garments, hair products and many other goods such as men's hosiery, marine and agricultural products. In imports, Bando deals primarily in plastics, chemicals, machinery and metals. Designated as a KGTC in Nov. 12, 1976, Bando Trading Co., Ltd. began with \$4.1 million of capital which was the smallest among the KGTCs. It achieved the annual average export growth rate of 97.5% during 1975 to 1979.

Although Bando's product portfolio is diversified, they include more heavy industry goods than Daewoo or Samsung, with 54.3% of heavy industry goods out of its total exports.

As of 1978, Bando had 25 overseas branches with 44 employees in 22 countries, much fewer than Daewoo or Samsung. The number of items and countries over \$1 million were 19 and 25 in 1978.

Regarding the financial aspects, Bando has performed poorly on profitability, with the return on sales decreasing from 1.3% in 1977 to 0.5% in 1979, which is the second lowest among KGTCs. Bando has also performed poorly on stability, with the equity/asset ratio decreasing from 12.5% in 1977 to 10.7% in 1979, which is lower than the KGTC average of 13.5%.

7. Sunkyoung Corporation

Founded in 1953 and designated as a KGTC in 1976, Sunkyoung Corporation has developed its major business line in textile industry. From the raw material to finished synthetic textile, it has integrated all the production processes. Recently, Sunkyoung added plywood, steel products, electronics, etc., in its export portfolio. Sunkyoung achieved 116.7% of annual export growth rate in 1977, and 18.0% in 1979.

As of 1978, the number of items and countries over \$1 million rapidly increased to 23 and 32 respectively. In the same year, Sunkyoung had 22 overseas branches with 65 employees in 20 countries.

Regarding the financial performance, its return on sales and the equity/asset

ratio have increased, although they are still below the KGTC average.

8. Kumho & Co., Inc.

Kumho & Co., Inc. was established in 1972 as a trading company as well as a holding company of its group companies.

Designated in December 1976 as a KGTC, Kumho showed 102.9% of annual export growth rate in 1977 and 19.1% in 1979.

In 1979, Kumho exported more than 1,000 different items to over 90 countries around the world. In the same year, Kumho rapidly shifted its item portfolio to heavy industry goods. In addition, Kumho has business interests with 12 member companies, the activities of which are in such fields as tire, synthetic rubber, lubricating oil, electronics, steel, textile and others.

As of 1978, Kumho had 32 overseas branches with 60 employees in 21 countries. In the same year, the number of items and countries over \$1 million was 17 and 29 respectively.

Regarding the financial performance, Kumho has performed well on profitability with the return on sales increasing, but poorly on stability with its low equity/asset ratio.

9. Hyundai Corporation

Hyundai Corporation was established as the trading center of the Hyundai Group in December 1976, and designated as a KGTC in 1977. It deals goods ranging from shoes to steel pipes, mushrooms to multipurpose carriers, and handles a wide variety of products.

The Hyundai Group, which uses Hyundai Corporation as an export outlet, participates in many business areas: construction, shipbuilding, automobiles and other heavy industry goods and chemicals. The export ratio of heavy industry goods of Hyundai was 76.2% in 1979, which was the highest among KGTCs. In 1978 the numbers of items and countries over \$1 million have increased rapidly. Hyundai had 22 overseas branches with 85 employees in 23 countries.

Regarding the financial performance, Hyundai's equity/asset ratio increased to 28.3% which was the highest among KGTCs, but, in 1979 the return on sales was only 1.2%.

KGTCs' major operational statistics are shown in Exhibits 11 through 15, while their major financial statistics are shown in Exhibits 16 through 22. Exhibit 23 shows graphically that most of KGTCs' stability were lowered while their sales volume increased.

Exhibit 11. Number of KGTCs' Overseas Branches

(Dec. 31, 1978)

area	Samsung	Daewoo	Ssang-yong	ICC	Hanil	Hyosung	Bando	Sunkyoung	Samwha	Kumho	Hyundai	Yulsan	Total
Asia (including Oceania)	9	10	10	5	8	10	7	5	7	8	5	6	90 (28.4%)
North America	5	9	4	4	3	5	4	6	4	7	2	4	57 (18.0%)
South America	3	2	2	1	1	2	2	3	2	5	2	3	28 (8.9%)
Europe	5	6	3	4	4	4	5	4	5	7	7	2	56 (17.7%)
Middle East (including Africa)	11	12	10	7	4	6	7	4	6	5	6	7	85 (26.9%)
Total	33	39	29	21	20	27	25	22	24	32	22	22	316 (100%)

Source: The Ministry of Commerce and Industry

Exhibit 12. Diversity of KGTC's Affiliated Companies

(September 30, 1978)

Item	Sam-sung	Dae-woo	Ssang-yong	ICC	Hanil	Hyo-sung	Bando	Sun-kyong	Sam-wha	Kum-ho	Hyun-dai	Total
Electronics	8	3	1	2	—	—	15	3	6	3	—	41(13.1%)
Construction	4	3	2	2	1	4	3	2	3	2	3	29 (9.3%)
Heavy & Chemical Industry	4	9	5	8	1	7	6	4	3	5	10	62(19.9%)
Textiles	2	4	1	2	5	6	2	4	10	1	—	37(11.9%)
Financing	2	5	1	2	1	1	2	—	2	2	3	21 (9.7%)
Foodstuffs	1	—	—	—	—	—	—	1	—	—	—	2 (0.6%)
Service	10	7	6	5	—	3	10	6	3	3	5	58(18.6%)
Other goods	7	10	4	3	—	4	9	7	3	3	12	62(19.9%)
Total	38	41	20	24	8	25	47	27	30	19	33	312 (100.0%)

Source: From related KGTCs

Exhibit 13. Number of Items and Countries over \$1 Million Exports by KGTCs

KGTC	Items over \$1 million		Countries over \$1 million	
	1 9 7 7	1 9 7 8	1 9 7 7	1 9 7 8
Samsung	23	29	30	36
Daewoo	21	29	29	41
Ssangyong	12	24	25	26
ICC	7	22	28	29
Hanil	17	12	17	19
Koryo	8	—	3	—
Hyosung	14	22	25	28
Bando	15	19	21	25
Sunkyoung	18	23	27	32
Samwha	18	18	26	20
Kumho	18	17	22	29
Hyundai	15	25	7	30

Source: The Ministry of Commerce and Industry

Exhibit 14. Export Item Portfolios of KGTCs

(1978)

(unit: \$1 million)

Item	Korean Total(A)	KGTCs Total(B)	B/A (%)	Samsung	Daewoo	Ssangyong	ICC	Hanil	Hyosung	Bando	Sunkyoung	Samwha	Kumho	Hyundai	Yulsan
Agricultural	600	144.7	24.1	19.8	23.6	5.1	9.4	7.3	14.1	16.6	16.1	7.8	4.6	14.0	6.4
Fishery	690	123.1	17.8	18.5	12.1	7.3	6.5	1.4	4.2	18.5	18.5	11.5	16.7	2.8	5.0
Heavy industry	4,751	2,490.5	52.4	217.7	246.3	199.6	156.2	12.3	180.1	196.1	66.4	41.6	162.5	85.7	85.3
Light industry	6,669	1,900.3	28.5	237.3	427.9	51.7	297.7	167.3	136.7	98.4	181.8	198.5	72.0	46.5	53.8
Textile	3,982	1,190.2	29.9	180.2	329.5	34.9	91.6	153.4	91.5	68.2	143.2	82.4	45.9	10.7	26.9
Total	12,711	4,658.7	36.7	493.3	709.8	263.8	469.8	188.3	335.1	329.6	282.8	259.4	255.9	920.4	150.0

Source: The Ministry of Commerce and Industry

Exhibit 15. Financing of KGTCs

(1977)

(unit: \$ 1 million)

KGTC	financing for small & medium industry	export financing	intermediary trade financing	international tender
Samsung	17.4	83.4	27.0	55.6
Daewoo	8.4	40.9	—	16.4
Ssangyong	3.1	26.6	—	10.2
ICC	5.6	77.9	1.1	4.6
Hanil	2.9	61.9	0.3	—
Hyosung	11.3	10.7	2.1	2.0
Bando	8.5	34.6	—	0.6
Sunkyong	36.5	68.9	27.5	5.9
Samwha	20.6	86.2	—	—
Kumho	6.3	33.0	5.6	3.7
Koryo	10.5	5.8	—	0.2
Total	131.0	736.0	63.6	99.0

Source: compiled from Annual Reports of KGTCs

V. FUNCTIONS OF KGTC

1. Overseas Activities

(Exporting commodities)

Most of the KGTCs were functioning as trading companies when they were designated as GTCs. Therefore, they had already accumulated sizable know-hows and experiences in export business, and had some financial capabilities.

Korean economy has been dependent a large part of its driving forces on trade because of its rare natural resources and small scales of domestic market. Therefore, the Government anticipated that KGTCs would become the leading forces in exporting Korean-manufactured commodities. In accordance with the Government's anticipation, KGTCs have made a significant contribution to the economic development of Korea with their total exports amounting to 37.7% of the Korean total in 1979.

Nevertheless, LGTCs' overseas marketing capabilities are still at an infantile

Exhibit 16. KGTCs' Sales Growth Rates 74 : 100=log2

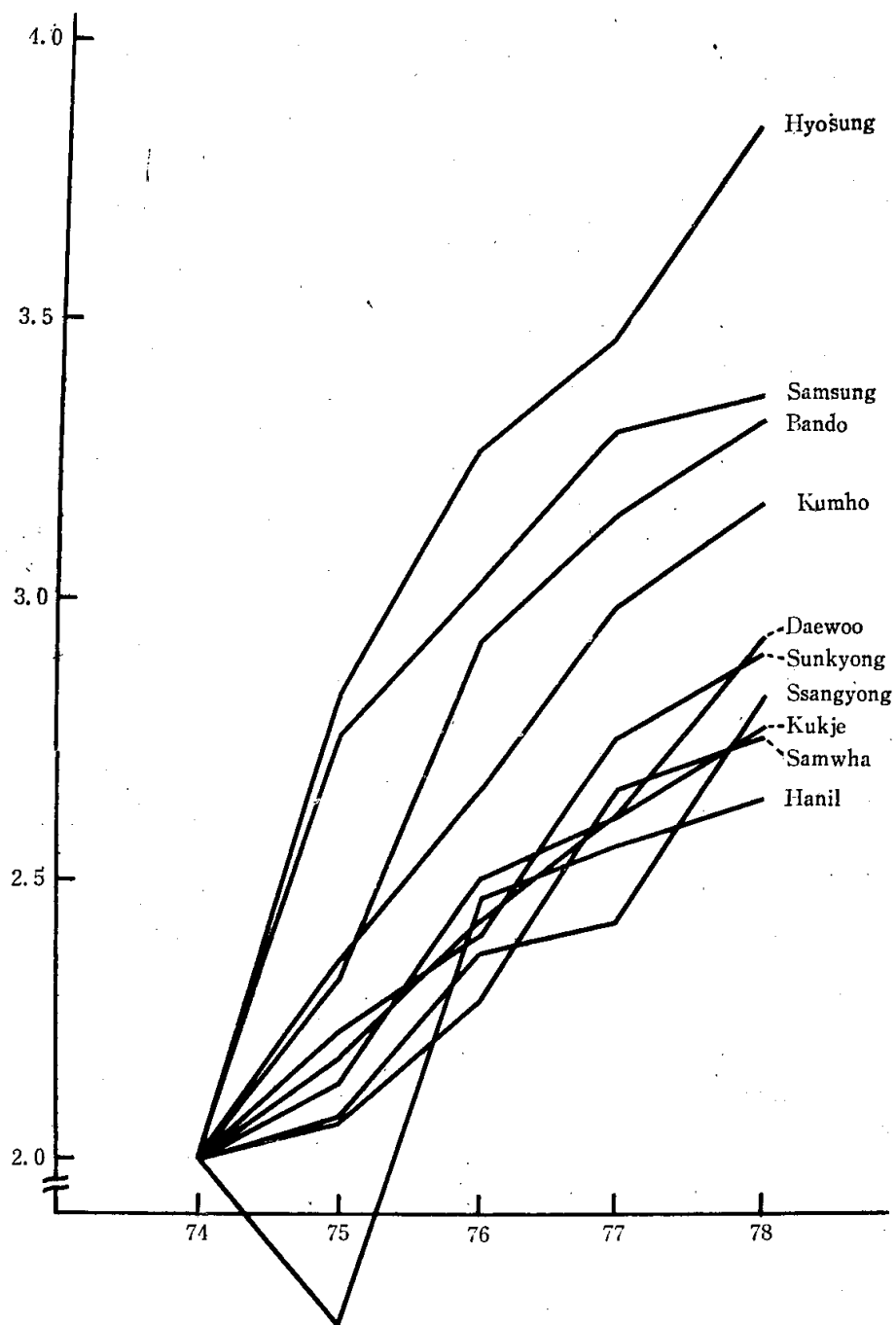


Exhibit 17. KGTCs' Return on Sales

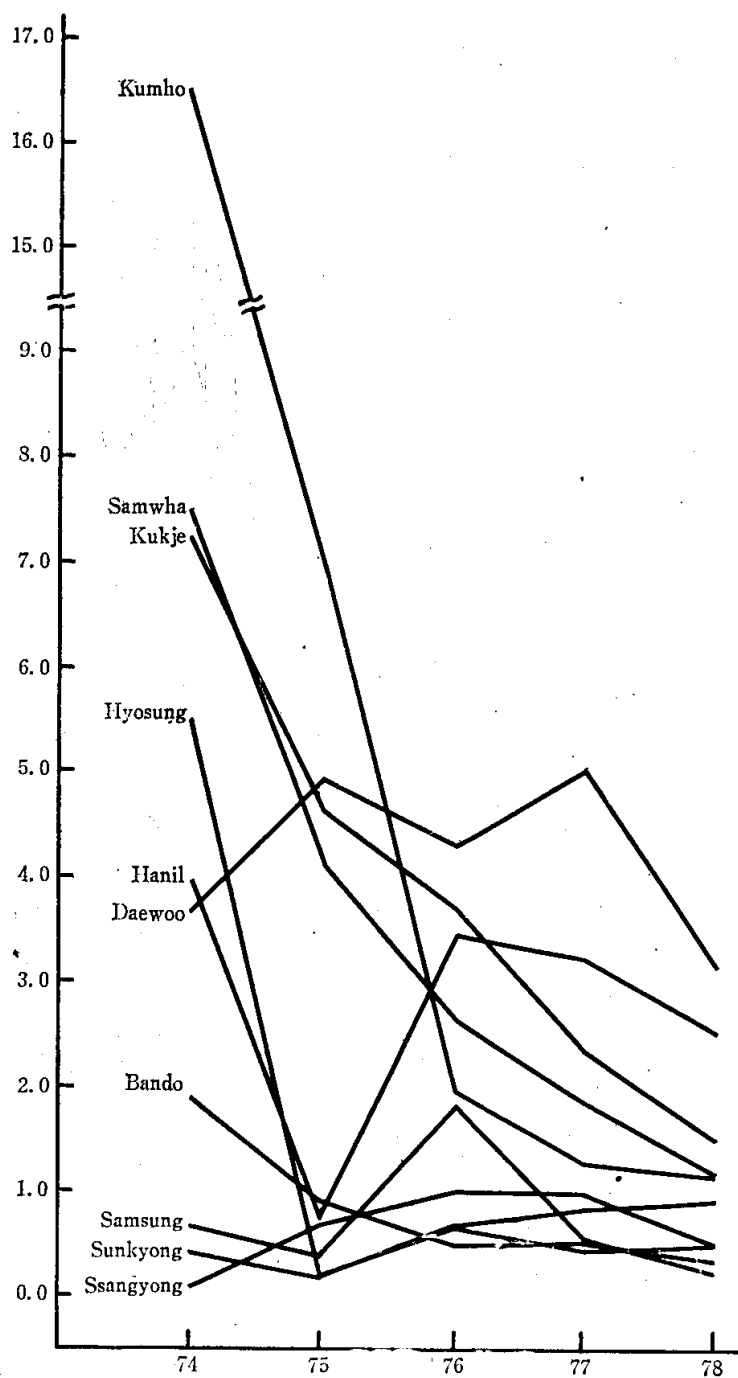


Exhibit 18. KGTCs' Equity/Asset Ratios

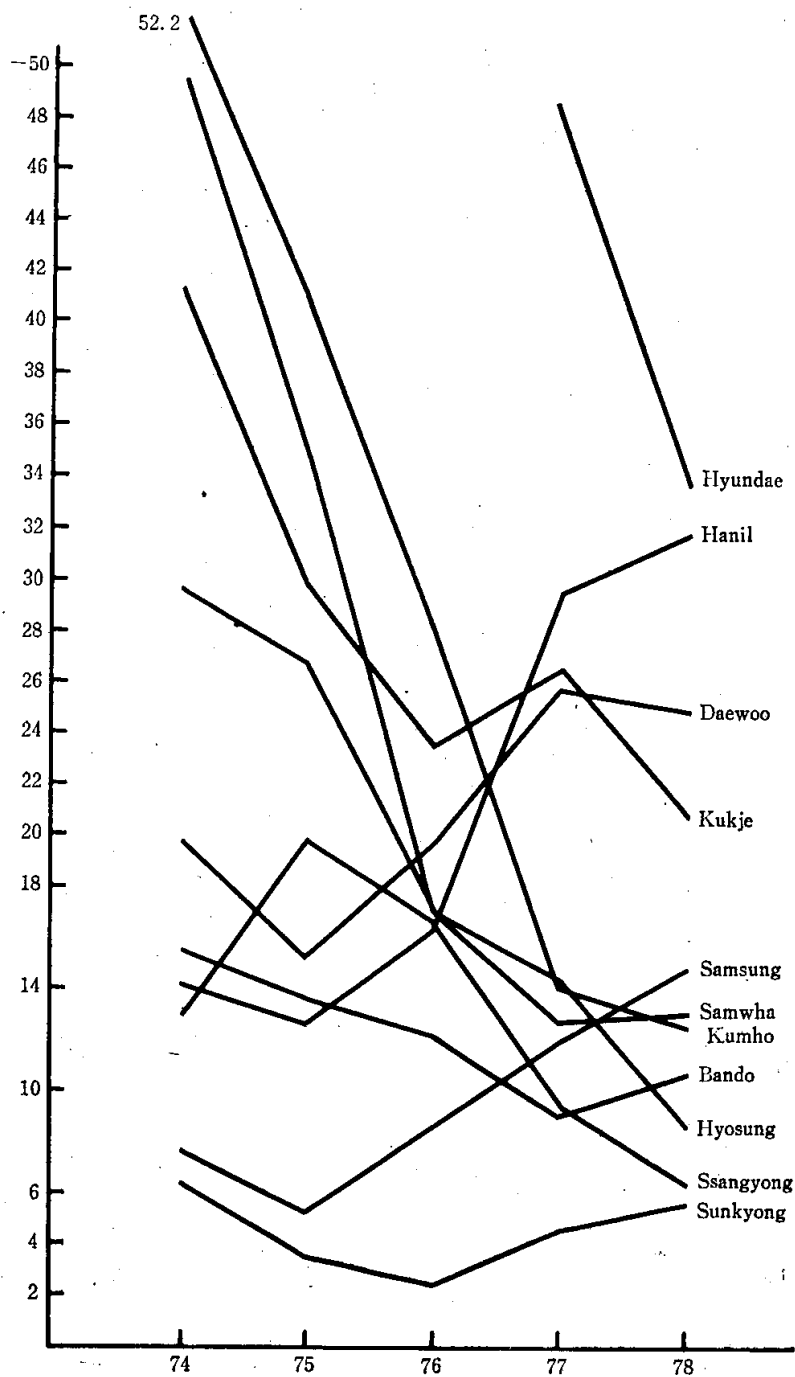


Exhibit 19. KGTCs' Asset Turnovers

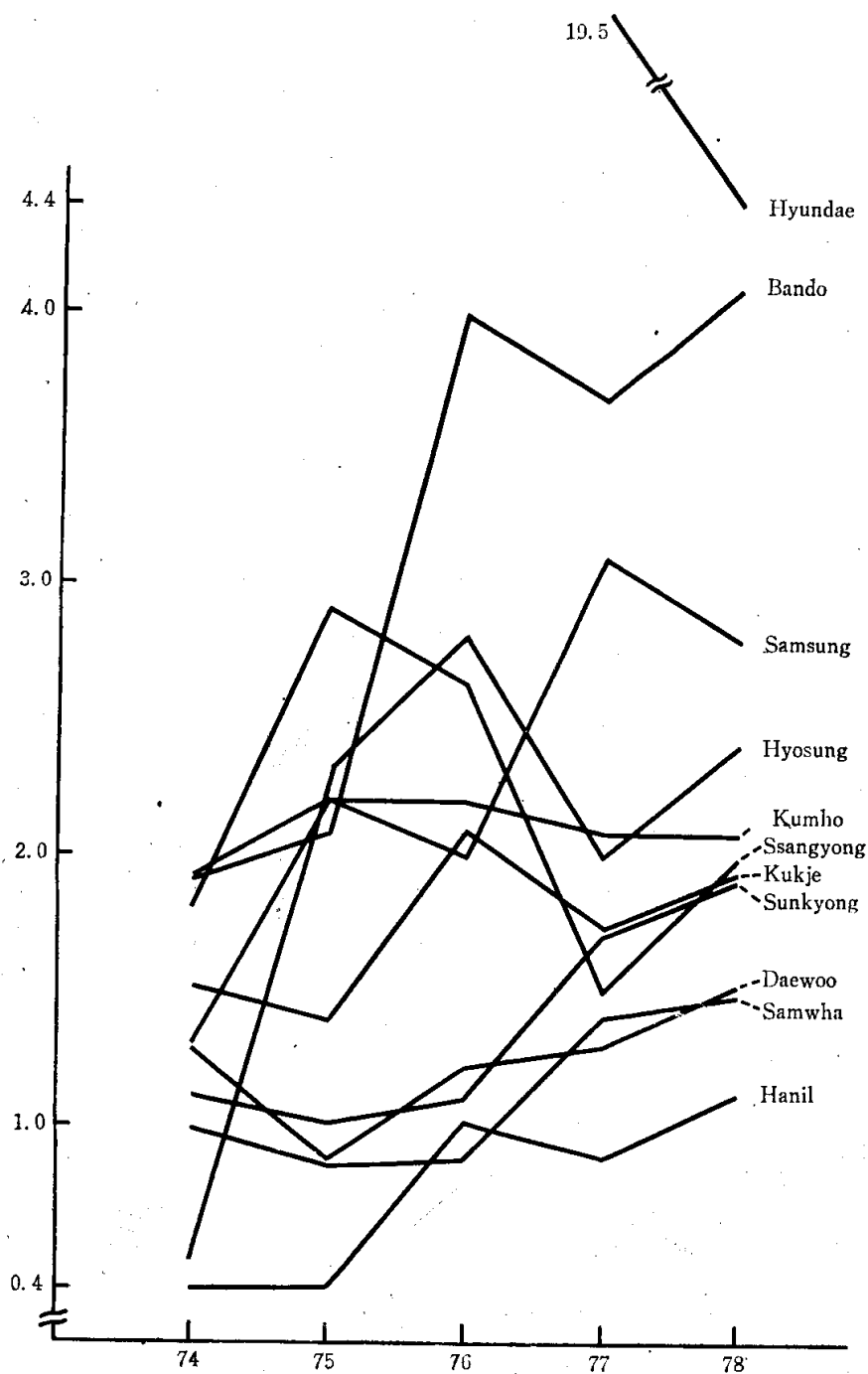


Exhibit 20. KGTCs' Current Ratios

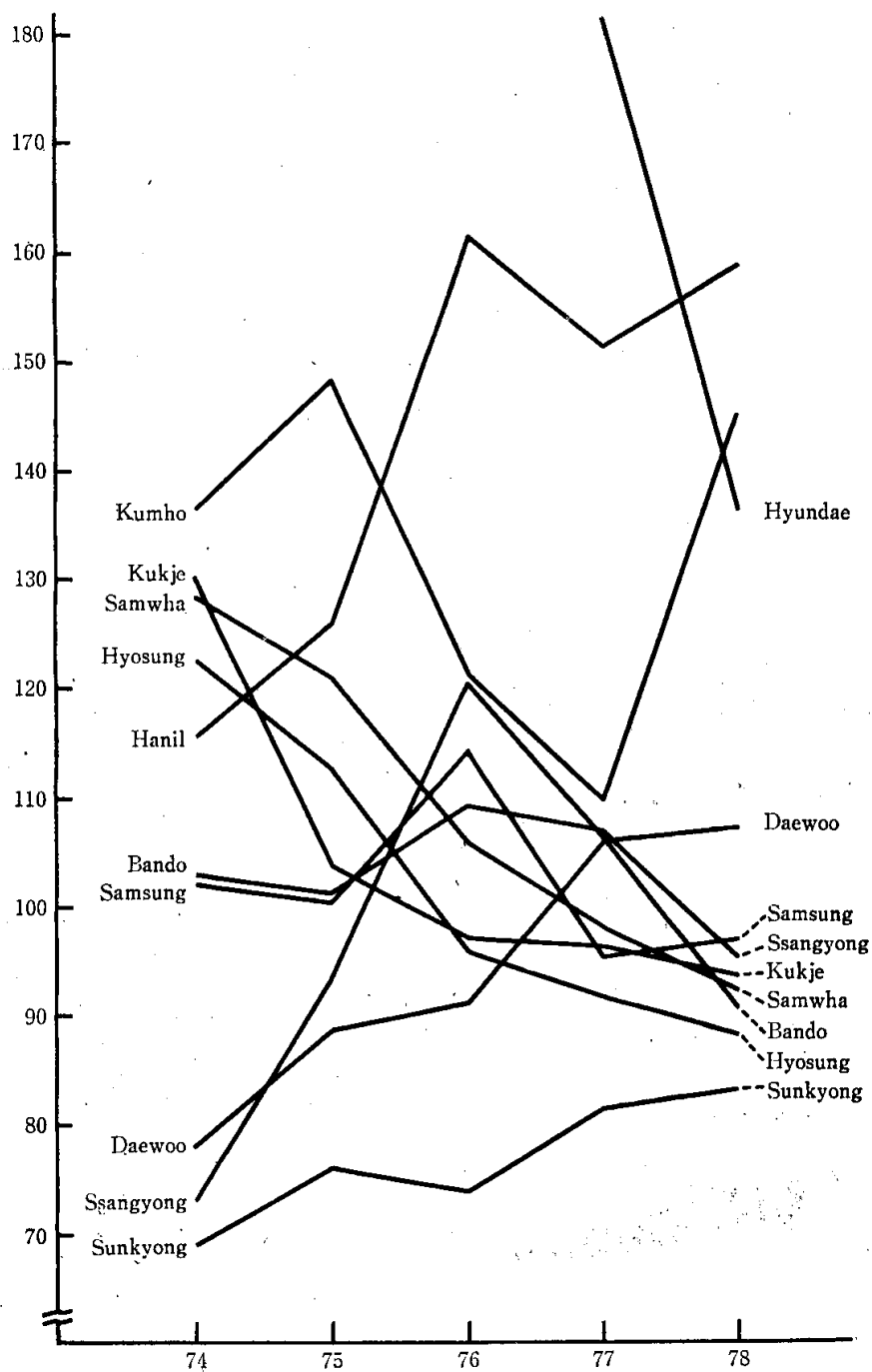


Exhibit 21. KGTCs' Leverage Ratios

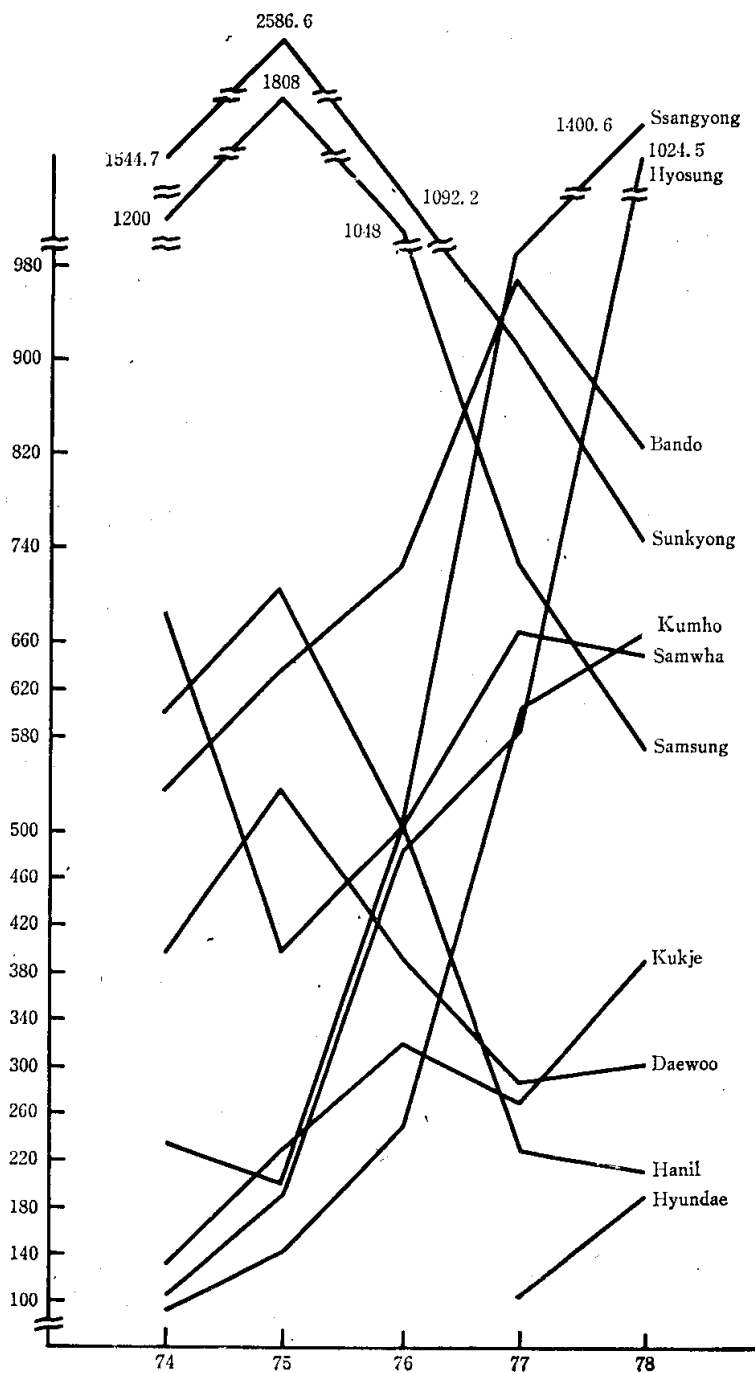


Exhibit 22. Comparison of KGTCs' growth, profitability and risk

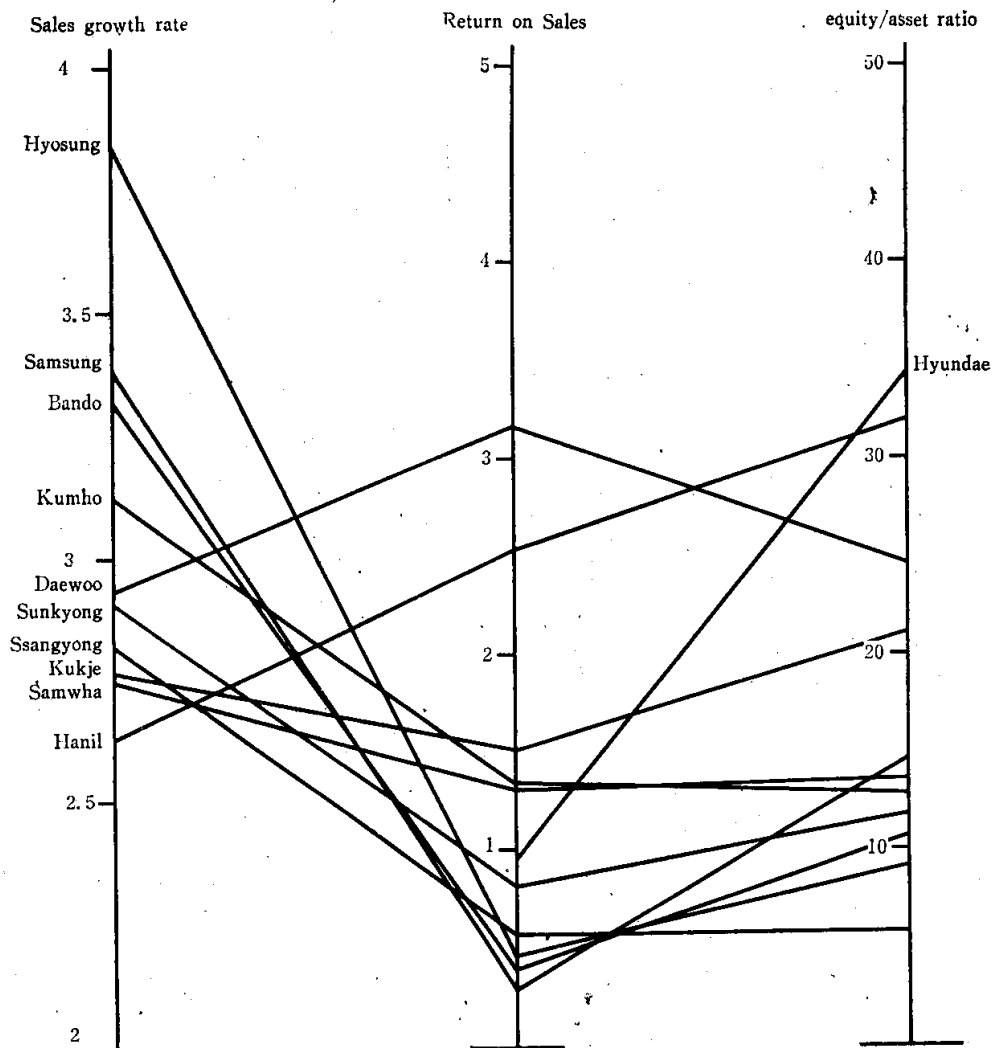
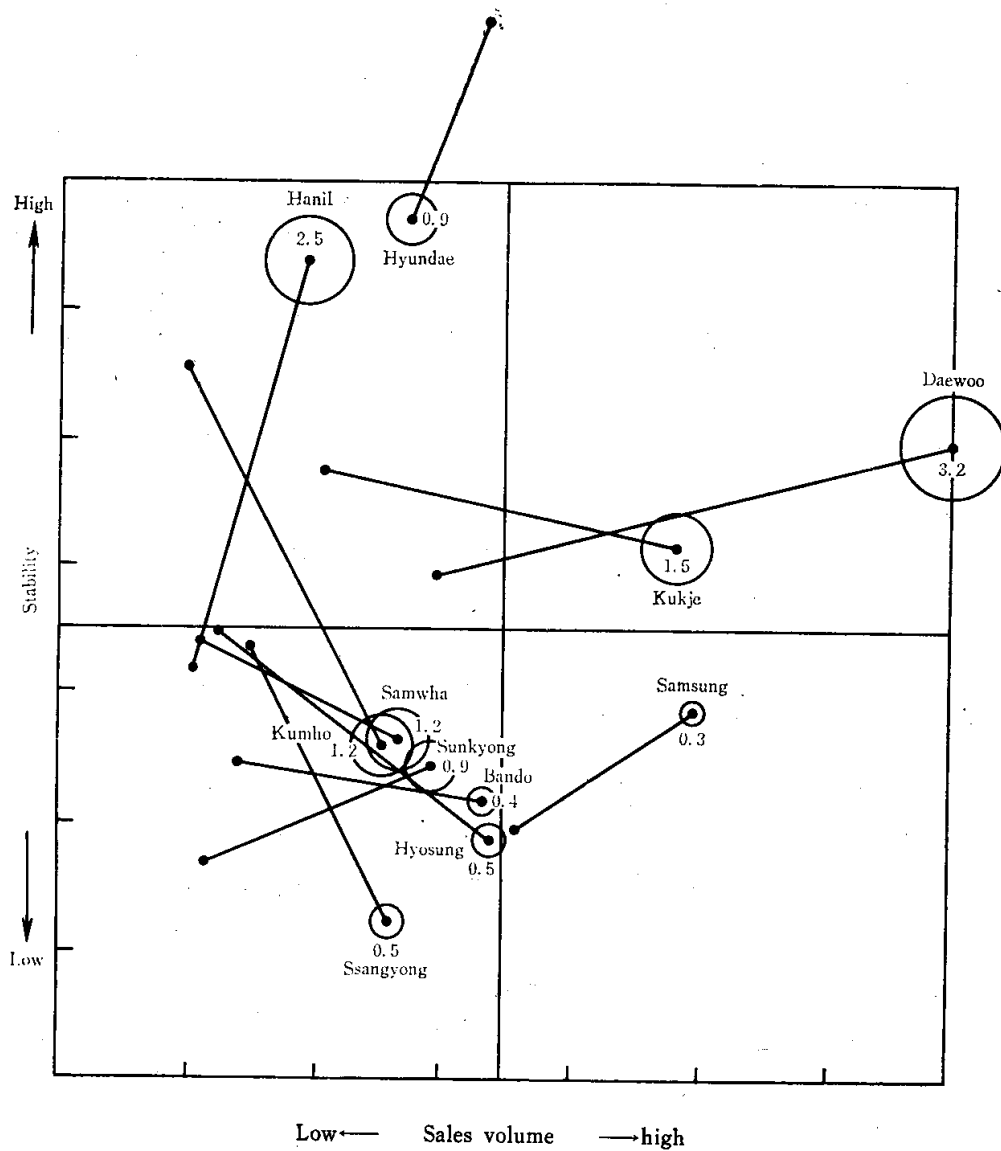


Exhibit 23. Comparison of KGTCs' Sales Volume and Stability



* The diameter of a circle represents the profitability of each KGTC.

stage, depending most of their exports on contracts with spot buyers. In 1980s, KGTCs are expected to establish more continuous marketing channels in overseas markets in order to increase their export volumes substantially above the current levels.

(Gathering overseas market information)

To promote overseas marketing, an exporter must maintain intensive information networks in local markets. Therefore, the Korean Government has mandated each KGTC to have at least 20 overseas branch offices.

To meet this requirement, however, each KGTC has nominally increased the number of their overseas branches without sufficient manpower and supporting facilities to perform their activities effectively. Exhibit 24 shows the number and staffing of branch offices by each KGTC as of 1978.

Exhibit 24. Number and staffing of branch office of KGTCs

(1978)

	Number of overseas branches (A)	Number of employees at over- seas branches (B)	B/A	Number of countries
Samsung	33	108	3.3	26
Daewoo	39	193	4.9	31
Ssangyong	29	52	1.8	20
ICC	21	59	2.8	19
Hanil	20	26	1.3	18
Hyosung	27	53	2.0	22
Bando	25	44	1.8	22
Sunkyoung	22	65	3.0	20
Samwha	24	71	3.0	21
Kumho	32	60	1.9	21
Hyundai	22	85	3.9	23
Koryo	21	26	1.2	19
Total	312	842	2.7	

Source: The Ministry of Commerce and Industry.

Exhibit 24 indicates that some of the branch offices had only one or two staffs, as are commonly called "one-man branches." As a result, their activities were confined to gathering spot information only through the buyers whom

KGTCs relied on for their sales.

The nominal target the Government has set may have been achieved, but the real ability of each of these offices is questionable.

(Development of resources)

In countries with rare natural resources like Korea, it is critically important to secure necessary resources from overseas for their economic development and growth. Korean Government expected that KGTCs would take this responsibility utilizing their worldwide information networks and financing capabilities.

As mentioned in Chapter III, however, developing overseas resources, or even the importing function of raw materials was not performed sufficiently well by KGTCs due to their weaknesses in financing capabilities. Recently, a number of KGTCs began to reorganize their structures and accumulate experiences in overseas resource development. As an example, Samsung Co., Ltd. has created a "Resource Development Department" in 1979 which would take part in overseas resource development aggressively as well as domestic resource development. Samsung also established a "Central Importation Department" in 1978 which would take care of import activities by integrating the activities of each separate product sector.

Besides Samsung, a few KGTCs began to participate in various projects of overseas resource development, although the scales are small and mostly in Australia, USA, and the Philippines.

2. Domestic Activities

KGTCs have more opportunity in gathering domestic and overseas business information than other traditional trading firms in Korea. By applying the overseas market information to domestic business activities, they can also exploit domestic business opportunities and expand the scope of business activities.

One useful subfunction of KGTCs is their ability to develop suppliers who

are, in most cases, operating in small scales. Currently, each KGTC is maintaining contracts with hundreds of small enterprises through either equity participation, subcontract of production, extension of credits, or management and technical assistance. By achieving control over supply sources, and by virtually turning them into their captive suppliers, a KGTC can reap considerable benefits. To the subcontracted producers, however, the economic merits were not sufficient enough to justify their loss of independence. Also, contrary to the Korean Government's initial intention, KGTCs continue to play the role of service center to their affiliated group companies, thereby either severing the relations with the outside producers if not needed, or merging these outsiders completely to control their operations.

Besides these activities mentioned above, there are many other functions that KGTCs must perform in the future. Such functions include warehousing, transportation, and storage that support trading functions.

VI. MAJOR PROBLEMS OF KGTC

The creation of KGTC brought in considerable benefits to the Korean Economy by resolving the various problems that smaller traditional trading firms confronted, but it also generated many new problems in the process. Among these newly emerged problems, the discordance of expectations between the various interest groups surrounding KGTCs is most significant. Each of the three interest groups, namely the Korean Government, KGTCs themselves, and subcontractors, demands KGTCs' operations differently from one another. From this different demand the following problems emerged.

1. Problems Originating from the Government Policies

The Government specified the minimum number of branch offices as a premise for designating a KGTC. To meet this requirement, each KGTC has established

many overseas branches in a short period without much thought on their economic feasibility or competitiveness with other KGTCs. As a result, in certain areas such as USA, competition became acute among KGTCs. Also, foreign branch offices of each KGTC were overspread around the world, making it difficult to concentrate on one or two strategic markets. Thus, it was much argued that many overseas offices which were established simply to satisfy the Government mandate affected performances of the corresponding KGTC negatively with their organizational inefficiencies, resulting in the lower export growth rate than without. Indeed, a high negative correlation was found to exist between market diversity and profitability of KGTCs.

The Korean Government has also mandated the number of major export items that a KGTC should handle: at least 5 items with more than \$1 million each. This product diversity requirement imposed on KGTC may bring in a good result in the long run, but currently for the KGTCs which are based on one or two special products as their strategic items, it was not easy to diversify export items easily because of their lack of knowledge and experiences in other items. The statistic shows another high negative correlation between product diversity and profitability of these companies.

Lastly, to maintain its status as a KGTC, each KGTC must export at least 2% of Korean exports. The total Korean export increased at a high rate of about 30% during 1975~1979, so it was a heavy burden for some KGTCs to meet this requirement annually and in some cases they even had to purchase the record of exports from other small trading companies which were not bound by such conditions.

The factors mentioned above together worsened the financial structure of KGTCs and drove their operations to extraordinary situations. Under these circumstances, the Korean Government needs a realignment of its strategies for orderly development of KGTCs. In short, the Government's policy was an aggressive one but lacked interim steps in achieving its objectives

2. Problems Originating from KGTCs Themselves.

The most significant problem faced by KGTCs was export competition among themselves. Although Chapter III describes the characteristics of each KGTC, there is no clear difference between their activities: most of them are concentrating on exportation of light industry goods such as textiles, clothes, electronics, etc., and their activities do not go much beyond this simple exportation. This similarity in their operations caused an acute competition in the same foreign markets and with the same customers. Owing to their over-competition, buyers from overseas suspected the credibility of KGTCs because they offered sometimes commodity prices at extraordinarily low levels. Certainly, this resulted in bad profitability of KGTCs. Exhibit 25 shows the financial conditions of KGTCs as compared with those of the Korean manufacturing companies.

Exhibit 25. Financial conditions of KGTCs vis-a-vis Korean Manufacturing companies.

(1978)

	Ratio of debt to equity	Percentage of net profit to sales	Percentage of net profit to total assets
KGTCs	851.1	0.9	1.0
Korean Manufacturing Companies	366.8	3.9	4.2

Source: Bank of Korea, Financial Statements Analysis for 1978

Another problem the with KGTC comes from its closed system. Because each KGTC is affiliated with its group companies as a service center for the group, it is not inclined to serve actively as an organizer for the firms outside its group. This closure made it difficult to secure captive suppliers and to enhance the quality of their export items.

Thirdly, the weakness of the KGTCs' capital structure is a serious problem. The weakness of capital structure was caused partly from overcompetition and partly from the position of service center of its affiliated group companies, i.e., the position of service center to its group prohibits the KGTCs from dealing with the group companies on an arms-length basis. Sometimes the

KGTC functions even as a loss-absorber for its group companies. To illustrate this point, the profitability of KGTCs was below that of other Korean trading companies and also well below that of their affiliated group companies. Another reason for the weakness of capital structure is due to exceptionally high costs of debt in Korea.

The weakness of capital structure as well as its small scale of capital amount, overcompetition, and closure of operation were the serious bottlenecks for KGTCs in performing other functions to meet the expectations of related interest groups.

3. Problems Originating from Subcontractors

In most cases, subcontractors are small enterprises which are weak in both capital structures and management skills. Because of these weaknesses, they are producing coarse products, thus deteriorating the image of KGTCs. In order to improve their management, it becomes necessary for KGTCs to support them both with working capitals and management skills.

In addition, the contract between a KGTC and a small firm is not based on an arms-length basis but unfairly advantageous to the KGTC because of its scale and monopolistic power. For example, KGTCs are usually ordering products to subcontractors designating the quantity, shipping period, and prices determined onesidedly by KGTCs. As a result, these subcontractors tend to lose their independence, and typically end up being absorbed by their related KGTCs. These practices are often called "Octopus-style management(acquisition)" of KGTCs.