Can the General Trading Company Be Transplanted?

——Comparison of General Trading Companies in 9 Countries——

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I. Introduction

During the 1970s the consistent growth of Japanese sogo-shoshas in the midst of the worldwide economic recession caught the eyes of policy makers in a number of countries. The governments of developing countries such as Korea, Taiwan, Thailand and Brazil recognized Japanese sogo-shoshas as a leading force in the Japanese export front and one of the major causes of her trade surplus.(1) These countries, therefore, started to develop their own GTC systems in order to survive under mounting pressure from the neo-protectionist moves adopted by major importing countries. Even the US, whose keynote economic principle has been free enterprise with minimum government intervention beyond the regulation of monopolistic activities, enacted the Export Trading Company Act in October 1982 in the hopes of improving its deteriorating balance of trade.

This paper examines the establishment and growth of export-oriented trading companies in nine different countries since the 1970s, and evaluates their performances. A key question is whether the GTC system that emerged in the distinctive Japanese environment can be successfully transplanted in another country. The development of GTCs in Korea provides a particularly useful test case. Similar developments in other countries, including Taiwan, Brazil and the US, are also examined in order to judge the feasibility of applying the GTC model to a different business environment.

II. Korea

1. Establishment of Korean GTCs

1) *Background*

The Korean economy has grown rapidly since the early 1960s with the implementation of a series of Five-Year Economic Plans. Behind the scene was a government which adopted the strategy of using exports as fuel for rapid economic growth. As a result, Korean exports, which amounted to a mere \$30 million in 1962, reached \$100 million in 1964, \$1 billion in 1971, and \$10 billion by 1977.

(1) For a more detailed discussion, see Dong Sung Cho, ***Directions of the Korean General Trading Company***, Institute of Management Research, Seoul National University, 1981, pp. 471-497.

This geometric expansion of exports was made possible by the government subsidies to exporters through financing, tax exemption, and manipulation of foreign exchange rates. As export growth continued, however, these support programs became too costly for the government to maintain. Furtheremore, they resulted in various undesirable effects such as proliferation of small-scale manufacturer-exporters, overcompetition between exporters in overseas markets, and the overdependence of exporters on the government. In addition, Korean exporters' aggressive penetration of new overseas markets emerged as an urgent issue, as trends of worldwide recession and protective trade policies among developed countries appeared after the oil crisis in 1973.

The political situation of the ruling party in Korea was also in a critical phase at the time. In 1972, President Park Chung-Hee initiated a constitutional amendment which allowed him an unlimited tenure. In order to justify his prolonged leadership, Park presented a blueprint for continued economic growth which was summed up in slogans such as "per capita GNP $ 1,000" and "my-car age" by 1978. The actual export volume in 1974, however, fell short of the target set earlier in the same year, and the government became desperate to find a way to bridge the gap between political goals and economic performance. It was at this time that the resilience of the Japanese economy, supported in part by sogo-shoshas, attracted policy-makers in Korea.

With a prospect of a slowdown in economic growth, the government suggested developing general trading companies, organizations large enough to attain economies of scale in the world market, specialized enough in exports as to gain international competitiveness, self-sufficient and independent from government support, and capable of systematic overseas marketing. The government also expected that a small number of GTCs, which together would handle about half of Korean exports, would be much easier to control than thousands of small exporters. In short, the GTC system had the effect of institutionalizing export activities in Korea.

2) *Requisites for Korean GTC Designation*

In April 1975, the Ministry of Commerce and Industry announced an ordinance specifying the minimum repuisites for receiving a GTC designation:(2)

1. Paid-in-capital of 1 billion Won (approximately $2.5 million)
2. Annual exports of $50 million
3. Seven products with an export value in excess of $500 thousand each
4. Ten overseas branch offices
5. Ten countries with an export value of over $1 milion each
6. Public offering of GTC stocks

These requisites reflected the policy-makers' conception of the GTC. First, although named GTC, it was not expected to be more than a general export company. Second, the minimum capital requirement of 1 billion Won and annual exports of $50 million destined the GTC to be a large-scale trader. Third, the minimum requirement of seven products mandated the GTC to diversify its exports. Fourth, the requirement for minimum number of brach offices and ten countries with an export value in excess of $1 million each demanded the GTC to diversify export markets. Fifth, public stock offering provided the GTC with a mechanism to generate additional capital from the market but at the same time put pressure on the managers to maintain satisfactory stock prices, which in turn compelled them to pay substantial dividends from the very outset of the company. Sixth, there was no requirement that would promote the GTC's functional diversification, such as in financing, insurance and transportation. This last point marks a sharp departure of Korean GTCs from the Japanese counterparts.

The ordinance governing the Korean GTC system underwent a series of amendments with changes in the economic environment and government policies during the past six years. While there was little change in the subsidy program, the requisites for GTC designation were revised six times. As shown in Exhibit 1, the export value requisites were periodically adjusted to accommodate the

(2) For further detail, see Dong Sung Cho, "Evaluation of the Korean Goverment Strategies to Develop General Trading Companies," *Conference Proceeding*, Asia-Pacific Conference of the Academy of International Business, Honolulu, Hawaii, December 1979.

Exhibit 1: Change of Requisites for Designating GTC

item \ year		1975	1976	1977	1978	1979	1980	1981
Requisites for designation (at the beginning of year)	minimum annual export	$ 50 mil.	$ 100 mil.	$ 150 mil.	2% of total export	2% of total export	2% of total export	2% of total export
	minimum capital	₩ 1 bil.	₩ 1.5 bil.	₩ 2 bil.				
	export items over $ 1 mil.	7(over $ 500 thousand)	10	10	5	5	5	
	export countries over $ 1 mil.	10	15	20				
	number of overseas branch offices	10	15	20	20	20	20	
	public offering of stocks			mandatory	mandatory	mandatory	mandatory	mandatory
	export to special areas exports			Middle East: 15% Latin America: 3% Africa: 3% branch offices: 2 in each region above				
discretionary power of gov't								explict reservation
number of KGTCs (at the end of year)		5	11	11	13	12	10	10
emphasis		export promotion	penetration into frontier regions	limit in the number of GTC to 10	drastic relaxation of requisites			deemphasizing GTC role
cause for change		crisis in export growth	diplomatic motive (vote at UN)	$ 10 bil. export achieved	GTC's bargaining power increased			

government's continuing emphasis on export expansion. The minimum export value was increased from $ 50 million in 1975 to $ 100 million in 1976, to $ 150 million in 1977, and to 2 percent of total Korean exports in 1978.

On the other hand, the policy-makers seem to have lost their inclination to see the GTCs further diversify their products and markets. Since 1978, the minimum requirement for number of export countries and export share to selected areas in the Middle East, Africa and Latin America have been dropped. Furthermore, the minimum number of export items was reduced from ten to five. In 1981, the requisites were further relaxed, with the deletion of all but the minimum export value and public offering of stocks. Given these drastic changes, it appears that the GTC system as a government institution no longer exists.

3) *Designation of Korean GTCs*

The government designated Samsung Trading Company as the first Korean GTC on May 19, 1975, followed by Ssangyong, Daewoo, Kukje and Hanil during the same year. In 1976, six more companies were designated GTCs: Koryo, Hyosung, Bando, Sunkyung, Samwha and Kumho. In 1978, Yulsan and Hyundai were added to increase the total number of Korean GTCs to thirteen.

The Yulsan Group, which was once envied as 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. In 1980, Hanil and Samwha failed to retain the GTC status as their respective exports of $ 237 million and $ 195 million in 1979 fell short of the critical $ 301 million mark which represented 2 percent of Korean total for the year. The requisites did not apply to Koryo, which was established and managed by the government for the purpose of fostering export activities of small- and medium-sized manufacturers. Therefore, ten Korean GTCs remained at the end of 1982.

4) *Government Subsidies for Korean GTCs*

To promote the export performance of Korean GTCs, the Miristry of Commerce and Industry has been offering the following subsidies;[3]

a. Trade Administration:

1. Priority in international tenders of over $ 500 thousand offered by government agencies

(3) For a more detailed description of the subsidies, see Cho, *Directions of the Korean General Trading Company*, op. cit., pp. 39-45.

2. Relaxation of the requirements for joining various commodity export associations
3. Right to import major raw materials for Korean GTC's own use

b. Financing:

1. Export financing
2. Inventory financing for finished goods
3. Import financing for raw materials

c. Foreign Exchange Administration:

1. The use of revolving letters of credit
2. Special treatment in controlling overseas branches
3. Increase in the limit of foreign currency holdings by overseas branches

Most of these subsidies were subsequently made available to other large-scale exporters after their incessant complaints. As a result, Korean GTCs did not consider government subsidies to be a big help to their businesses. Korean businessmen, nevertheless, were eager to have their companies designated as GTCs: first, the GTC title could enhance a company's credibility, both in Korea and in foreign markets; second, by having a GTC, related group companies could increase their profits by obtaining concessions on various government initiated projects such as heavy and chemical plants; and third, owning a GTC could give the owner-manager a greater sense of accomplishment as an entrepreneur.

2. Performance of Korean GTCs

1) *Exports*

Exhibit 2 shows the historic performance of Korean GTCs in terms of export amount. Daewoo ranked first in 1981, with exports of $1,914 million or 21.0 precent of the total Korean GTCs' exports for the year. Hyundai and Samsung followed Daewoo, with $1,723 million and $1,620 million respectively, while the rest achieved exports between $84 million and $849 million. Altogether, the 10 GTCs exported $7,184 million in 1980 and $9,127 million in 1981, equivalent to 41.0 percent and 43.5 percent, respectively, of the total Korean

Exhibit 2: Exports of KGTCs (Unit: $1 million)

	1975	1976	1977	1978	1979	1980	1981
Samsung	223	335	507	493	769	1,237	1,620
Ssangyong	125	141	176	264	425	650	756
Daewoo	161	301	501	706	2,119	1,415	1,914
Kukje	64	197	328	472	564	745	849
Hyosung	34	113	199	338	585	761	787
Bando	31	134	212	330	471	493	619
Sunkyong	56	114	247	283	334	431	585
Kumho	32	99	204	256	305	357	190
Hyundai	—	—	320	260	615	1,028	1,723
Koryo	12	18	24	31	51	67	84
Korean Exports(B)	5,427	8,115	10,475	12,713	15,055	17,055	20,993
KGTC Exports(A)	739	1,476	2,884	3,548	5,238	7,183	9,127
(A)/(B) (%)	13.6	18.2	27.5	28.2	34.8	41.0	43.5

exports.

Among the export items of Korean GTCs, heavy industrial goods increased most rapidly, with their share of the total rising from 47.7 percent in 1977 to 60.9 percent in 1981. The 1981 figure compared favorably with the Korean average of 45.3 percent.

Korean GTCs dependence on the traditional export markets in North America, Western Europe, Japan, and Asia decreased, accounting for 66.4 percent of their total exports in 1981 compared to 79.3 percent in 1977. Relatively new markets in the Middle East, Latin America, Oceania and Africa accounted for 33.6 percent of exports by GTCs in 1981; this figure, again, compared favorably with the 23.6 percent share for Korean exports as a whole.

2) *Imports*

In 1981, Korean GTCs, as a group, imported $1,832 million, which constituted only 7.0 percent of the national total (see Exhibit 3). Compared with the 60 to 65 percent which Japanese sogo-shoshas traditionally contributed to the total Japanese imports, Korean GTCs' role in importation has been insignificant.

3) *Financial Status*

Exhibit 3: Financial Status of KGTCs (Unit: %)

KGTC	Return on sales					Equity/Asset Ratio				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
Samsung	0.5	0.3	0.1	0.3	0.4	12.0	14.8	9.4	14.1	13.8
Ssangyong	1.0	0.5	0.3	0.3	0.2	8.9	6.6	8.6	7.6	9.9
Daewoo	5.0	3.2	1.7	1.8	1.2	25.7	24.9	22.5	20.6	16.3
Kukje	2.4	1.5	0.7	0.4	0.2	26.2	20.7	14.8	11.1	18.0
Hyosung	0.9	1.2	0.4	0	0.7	13.9	8.9	5.5	5.9	2.6
Bando	0.4	0.4	0.5	0.1	0.2	12.5	10.8	10.7	13.2	17.3
Sunkyong	0.8	0.9	1.1	0.3	0.4	9.7	11.8	7.5	6.2	6.6
Kumho	1.3	1.2	0.6	0.4	0.4	14.2	13.0	9.7	7.1	1.8
Hyundai	0.3	0.9	1.2	0.3	0.4	48.4	33.8	28.3	5.4	2.6
Average	1.4	1.1	0.7	0.4	0.2	18.8	16.1	13.1	10.1	9.9

In spite of their contribution to the quantitative expansion of Korean exports, Korean GTCs' equity positions have deteriorated, and their profitabilities have nosedived over the years (see Exhibit 4). The major causes of this finincial erosion can be summarized as follows:

- Deterioration of Proftability
  - Structural causes
    - Operating
      - Large initial investment and long pay-back period
      - Government's emphasis on export amount
      - Heavy dependence on exports for revenue
      - Emphasis on export of heavy industry goods
    - Financial
      - Weak financial structure
      - High fixed costs
  - Manager-ali causes
    - Operating
      - Overcompetition among GTCs (predatory dumping, export account purchase)
      - Lack of expertise in international marketing
    - Financial
      - Increase in interest rates and foreign exchange losses from overseas financing
      - Weakened flancial sturcture due to GTCs' service center role within the affiliated group

Some of these factors need to be examined in more detail to better understand the causes of Korean GTCs' deteriorating financial perfornance.

a, Big Initial Investment and Long Pay-Back Period

A GTC has to operate a certain number of overseas offices which directly deal with local marketing, financing, and information gathering. Korean GTCs have been maintaining eighteen to sixty foreign offices, each of which would require annual expenditures from a few hundred thousand to several million dollars. Most of these expenditures are for positioning the offices firmly within local markets rather than for generating short-term profits, and therefore, should be treated as investments. However, neither accounting principles nor management attitudes accept such intangible expenditures as investment. As a result, they simply have been treated as expenses, laying a heavy burden on Korean GTCs' profit and loss statements.

b. Government's Emphasis on Export Amount

The government's primary objective in establishing Korean GTCs was to promote exports, and thus used all sorts of means to compel Korean GTCs to increase their exports. As a stick, the government annually increased the minimum requisite export amount which a Korean GTC must reach to retain its GTC title. As a carrot, the government created a variety of prizes, citations, and medals. More important, low cost financing was provided for each dollar exported, which often more than compensated for losses incurred in export transactions. With these government measures, together with the competitive spirit of the management, Korean GTCs fiercely vied aganst each other to increase the export amount. In certain years, this overenthusiastic competition resulted in malpractices such as "export account purchasing," buying the title of export sales from Korean manufacturers at a price 2-4 cents per dollar above the export value which was consummated directly between Korean manufacturers and overseas buyers. Such behaviors resulted in further deterioration in the profitability of Korean GTCs.

c. Increase in Interest Rates and Foreign Exchange Losses

Starting in late 1978, the US prime rate moved up from less than 10 percent to more than 15 percent. Korean GTCs, which had relied on foreign financing as a source of their long-term capital, were hard hit by this increase. Furthermore, the Korean government changed its foreign exchange system from a fixed to a floating one in Junuary 1980, concurrently with a major devaluation from 485 to 580 Wons per US dollar. These changes, along with further depreciation of the Korean Won, resulted in a heavy burden as Korean GTCs tried to pay off their long-term loans to foreign lenders.

4) *Future of Korean GTCs*

In January 1981, the governmment deleted all but two requisites for Korean GTCs, which suggests that it continued to promote exports while freeing the GTCs from conforming to a specific mold prescribed by the government. In effect, the Korean GTC system has changed to no more than a Large Trading Company system. Given these changes, Korean GTCs apqear to be standing at a crossroad. In the past, they have simply pursued the path directed by the government, the only choice being to either move rapidly or slowly. Now there are several strategic choices, and it remains to be seen whether the managers can establish long-term objectives, and successfully implement policies for continued growth.

Ⅲ. Taiwan

1. Establishment of Tawanese LTCs

1) *Background*

The Taiwanese government made a relatively early effort to promote exports by setting up a company to engage specifically in trade-related businesses. In 1966, Taiwan established China Trade and Development Corportion, with 40 percent government ownership, to administer warehousing. freight, and trade. Subsquently, in 1972, Transworld Trading Company was established by a group of indepent Taiwanese businessmen to facilitate the exports of small- and medium-sized manufacturers. Howevrr, the lack of experience and expertise, and eventually the oil crisis, resulted in the liquidation of both companies in 1973.

The economic health of Taiwan, always heavily dependent of the strength of exports, began to suffer during the worldwide recession following the oil crisis. With their own exports relatively stagnant, polioy-makers in Taiwan began to notice the apparent success of Korean GTCs in promoting exports. The Taiwanese government, therefore, reexamined the concept of export-oriented trading companies and sought to establish their own GTC system in the late 1970s.

With their own GTG system, the government saw an opportunity to reduce Taiwan's dependence on foreign traders. In 1978, Japanese and American companies accounted for 65 percent of Taiwan's total trade volume, and 60 to 70 percent of exports by small-and medium-sized manufacturers. Furthermore, by delegating export responsibilities to local trading companies, the government hoped that local manufacturing firms would also benefit form increased productivity resulting from functional specialization.

2) *Requistites for Taiwanese LTC Designation*

In September 1978, the Taiwanese government announced the ordinance outlining the minimum requisites for establishing a Large Trading company:

1. Paid-in-capital of NT $ 200 million(approximatety $ 5. 6 million)
2. Incorporation for at least one year, with exports of $ 10 million during the year prior to LTC designation
3. Three overseas branch offices

In addition, the government demanded that 10 percent of outstanding shares of each LTC be held by a commercial bank.

After moving to Taiwan in 1949, Chiang Kai-Shek's Kuomintang government made equal income distribution a stated part of its economic goal. To mainain this basic tenet of economic policy, the government sought both to avoid concentration of wealth by creating LTCs independent from existing enterprise groups and to prevent overcompetition among Taiwanese exporters. The government, therefore, created Large Trading Companies out of mergers or joint ventres between commercial banks, existing small trading companies, and small-and medium-sized manufacturers.

LTCs operating strictly as exports agent for Taiwanese manufacturing firms had a minimum annual export requirement of $ 20 milion. Such LTCs, however, were not required to have overseas branch offices at the time of LTC designation, provided they set up three branches within one year.

3) *Designation of Taiwanese GTCs*

In September 1978, the government designated Pan Overseas Corpporation as the first Large Trading Company. Four other companies followed: Cllins Coompany, Nanlien International(or Taiwan United International Crp.), Great International, and E-Hsin International. Background information on these five LTCs are summarized in Exhibit 5.

4. *Government Subsidies for Taiwanese GTCs*

There have been relatively few government subsidies specific to LTCs; most of the support programs offered to LTCs had already been available to other

Exhibit 4: Organization of Taiwanese LTCs

	Date of Establisument or Desiguation	Capital* (in NT $ Million)	Total* Employees	Established by	Overseas Branch Offices**	Major Product Segments	Major Markets	Headquartered in
Pan Overseas Corp.	Designated on 9/12/78	215	101	14 overseas Chinese-owned Companies Based in heast Asia; 6 Local Trading Companies; 20 Local Manufacturers;	10		Southeast Asia	Taipei
Collins Co.		200	177	13 year-old Collins Trading Co. Designated as an LTC.		Clothing, Plastic Goods, Woodsn Products Other General Merchandise	North America, South Amerca, Middle East, Japan	Taipei
Nanlien International		240	114	Tainan Textile Group Companies; 40 Local Trading companies; China International Commerce Bank.		Food, Textile, iron and steel, Cement		Taipei
Great International		600	130	Wechuan Foods Group companies(35% of ownership); Chain Farmers Bank (15%); Wirterons oters		Frozen and Canned Food.		Taipei
E-Hsw International	Established on 6/30/80	400 (paid-in-Capital of 230)	67				Japan	Taipei

* 1982 Data.
** 1980 Data.

Source: 1. *Daily Economic Newspaper*, October 25, 1982.
2. *Business Asia*, November 17, 1978 and September 24, 1982.
3. Dong Sung Cho, *Directions of the Korean General Trading Conpany*, op. cit.

Exhibit 5: Exports and Imports of Taiwanese LTCs (in $ million)

	1979		1980		1981		1/82~6/82	
	Export	Import	Export	Import	Export	Import	Export	Import
Collins Co.	32.2	0.4	57.9	0.02	69.1	0.4	45.0	*
E-Hsin Inter'l**	—	—	35.8	12.1	67.6	17.1	50.0	*
Great Inter'l	0.7	6.3	15.1	8.8	23.7	7.9	11.0	*
Nanlien	1.5	5.4	15.6	17.0	32.2	17.0	14.0	*
Pan Overseas	19.1	10.6	37.3	15.3	41.7	9.4	20.0	*
Total	53.5	22.7	161.7	53.2	234.3	51.8	140.0	
Share of Taivan's Total(%)	—	—	0.82	0.27	1.04	0.23	—	—

* Data not Available.

** E-Hsw International was not Designated as a LTC in 1979.

Source: 1. *Business Asia*, September 9, 1982.

2. Dong Sung Cho, *Directions the Korean General Trading Company*, op. cit., p. 485.

Taiwanese manufacturing firms.

2. Performance of Taiwanese GTCs

As shown in Exhibit 6, the aggregate exports of the five Taiwanese LTCs in 1981 was limited to $234 millinon, or just over 1 percent of the national total. In the list of major Taiwanese exporters for 1981, Collins ranked nineteenth, E-Hsin International twentieth, Pan Overseas twenty-eighth. Nanlien International fourty-eighth, and Great International fiftieth.

Taiwanese LTCs did not have the same immediate impact on exports as Korean GTCs In September 1982, over 50 percent of total Taiwanese exports were handled by Japanese sogo shoshas; American and European MNCs accounted for another 10 percent, leaving the remaining 40 per cent for indigenous companies. A few local trade associations accounted for 10 percent of the national total, while another 10 percent of the exports were handled directly by about 15,000 Taiwanese manufacturing firms. As a result, over 30,000 Taiwanese trading companies and traders were left to compete for 20 percent of total Taiwanese exports. Because of this overcompetition, only one LTC, Collins Company, was able to report profitable results for 1981.

A few other factors explain the relatively lackluster performance of the LTCs. With a minimum paid-in-capital requirement of only NT $200 million each, Taiwanese LTCs were insufficiently capitalized. Furthermore, Taiwanese LTCs did not have the implicit support of established enterprise groups, resulting in a limited debt capcity to finance working capital requirements, and an inability to establish an extensive overseas marketing network. Trade associations continued to monopolize exports of profitable goods such as canned pineapples, asparagus and metal products, while non-private, publicly-managed companies continued to engage in trade independently. Anxious to retain their export licenses by meeting the minimum export requirement of $ 2000 thousand, even small-and medium-sized manufacturers continued to export independently. As a result, LTCs found themselves exporting general merchandise with low profit margins.[(4)] In addition, due to the policy-makers' unwilingness to give the LTCs a more prominent place in Taiwan,s export efforts, there was a general lack of awareness on the role of the LTCs, and the LTCs suffered from the same inability as other Taiwanese companies in retaining trained staff, who often left for better pay or to set up their own trading companies.

In December 1982, the ordinance specifying the mimium requisites for receiving the LTC designtion was amended. This reflected the government's increasing emphasis on export amount. The LTC designation continued to be contingent upon the export volume during the previous year, but the change incorporated a progressive increase in the mimimum amount: a trading company which exported $ 20 million in 1982 would be eligible for the LTC title in 1983. The subsequent amounts were $ 30 million in 1983 for 1984 LTC title, $ 50 million in 1984 for 1985 title, and $ 100 million in 1985 for the LTC title for 1986, with subsequent export requirements to be announced at a later date. There were little or no changes in the requisites on establishment of overseas branch offices or paid-in-capital.

Because Taiwanese LTCs have yet to contribute significantly to the quantitative expansion of exports, any special treatment for the LTCs could result in public criticism. It is, therefore, not surprising that policy-makers chose not to

(4) See also *Business Asia*, September 24, 1982.

extend new subsidies in the recent amendment.[5] Without a more active government support program, it remains to be seen whether the LTCs will be able to reduce Taiwan's dependence on foreign companies in international trade, or whether they will simply continue to coexist with Japanese sogo-shoshas as another outlet for Taiwan exports.

Ⅳ. Brazil

Strong financial backing and governmental support have determined the success of trading companies in Brazil.[6] Concerned with a poor balance-of-payments position, Brazil established exporting as one of the top priorities of government policy, The government had a direct hand in setting up Cobec in 1971 and Interbras in 1976 as a part of Brazil's solution to a huge trade imbalance created by a high level of foreign debt and mounting oil bill. Financing for both GTCs came from Banco do Brasil, Brazil's central bank, as well as from Brazilian and foreign commercial banks.

Since the emergence of trading companies in the 1970s, there appears to be a distinct division of tasks in Brazil's export drive between indigenous trading firms such as Interbras and Cobec on the one hand, and foreign manufacturing and trading companies on the other. The former concentrates on commodities and standard manufactured goods such as shoes, pig iron, lumber, cocoa, soybeans, and furniture. The latter group mainly exports goods that require elaborate marketing efforts abroad.

By 1979, there were forty-nine trading companies in Brazil. To gain a better understanding of the role of Brazilian trading companies, this section examines the development of the two largest companies, Interbras and Cobec.

1. Interbras(Petrobras Comercio International S. A.)

(5) *Daily Economic Newspaper*, October 25, 1982.

(6) Much of the discussion en Brazilian trading companies is based on Yoshi Tsurumi, *Sogo Shosha-Engines of Export-Based Growth*, The Institute for Research on Public Policy, Montreal, 1980, pp. 59-67.

Petrobras, Brazil's state oil company, established Interbras in February 1976 as a wholly-owned subsidiary to carry out the government's program for expanding Brazil's exports Petrobras' second objective was to promote import substitution in industrial necessities such as petrochemicals and minerals.

Interbras was established with authorized capital of 300 million cruzeiros (approximatel $ 15 million), of which 240 million was subscribed and fully paid up by the end of 1977. Brazilian banks, such as Banco do Brazil, Banco do Estado do Sao Paulo, Banco Real, as well as two US banks, Chase Manhattan and Bankers Trust, financed the company.

In 1979, the company had about 700 employees divided between its main office in Sao Paulo and four regional offices. Personnel for Interbras operations came primarily from private companies, although some started out with Petrobras, and were usually individuals with trading experience in a particular product line.

Interbras still depends largely upon primary agricultural products, with staple products and foodstuffs accounting for 79 percent, or $ 539 million of its business delivered in 1979. Sales of manufactured goods amounted to $ 104 million in 1979. The largest export markets for are Europe, Iran, Iraq, Japan and the US. Since 1977, Interbras had relative sales increases in the Middle East and Africa.

With overseas representative offices in Caracas, Baghdad, Lagos, London, Mobile (Alabama), New York, Paris, Tehran, Tokyo, Cairo and Kuwait, and two foreign subsidiaries, Interbras Cayman and Interbras S.A.R.L., Interbras' total sales in 1978 were just over $ 1 billion compared with $ 835 million in 1977. Of total sales in 1977, $ 215 million came from exports to the US.

2. Cobec (Companhia Brasileiro do Entrepostos e Comercio)

In 1971, Delfin Neto, then Minister of Finance, concerned about Brazil's poor balance-of-payments position and its lack of participation in international markets, helped found Cobec as a means of increasing foreign trade, especially export of manufactured goods made in Brazil.

Established with authorized capital of about $10 million[7] Cobec's capital increased to about $20 million by the early 1980. The company is 30 percent owned by Banco do Brasil, the central bank, and remaining shareholders include primariliy Brazilian commercial banks such as Banco do Estado do Sao Paulo, Banco Real, Banco Comercio e Industria de Sao Paulo, Banco do Estado do Rio de Janeiro; foreign banks, sach as Citibank, Bank of Tokyo, and Sumitomo; and some private companies. Although Cobec is considered regarded more a free enterprise institution than Interbras, it is not publicly traded.

Cobec's managers usually come from Banco do Brasil. The president of Cobec in Brazil is the president of all the foreign subsidiaries and he directs all salesmen and traders. At the same time, Cobec is organized on the basis of geographic diversification: Cobec-USA, for example, operates independently from Cobec-Brazil, exporting goods produced in the US. Since Cobec has no manufacturing operations of its own, it competes on an independent basis to procure manufactured products which it trades.

Although the original intention was to focus on the export of Brazilian manufactured goods, Cobec's major items remain agricultural goods. Soybean sales accounted for nearly 67 per cent of total agricultural product exports in 1977. Manufactured goods include leather products, especially shoes, automobiles, furniture, textiles, machinery, agricultural equipment, and food products. In 1977, exports of agricultural goods totalled $371.8 million compared to $21.6 million in manufactured goods. Cobec's market is primarily the US and Western Europe.

Cobec has offices in London, Paris, Madrid, New York, Hamburg, Rotterdam, Toronto, Caracas, Buenos Aires, Montevideo, Panama City, and Colon. Its total sales in 1978 were $800 million, of which $50 million to $60 million were in manufactured goods. This compares with $728.1 million in 1977 and $433.2 million 1976. Of the total exports recorded for the forty-nine trading companies

(7) According to Brazilian regulations, a trading company must have a minimum of $2 million in capital.

of Brazil in 1978, Cobec had a 12. 5 percent share.

To reduce high risks in commodity trading, the company is considering vertical integration into transportation, warehousing, and crushing plants. Cobec has not made a deliberate move away from its dependence on agricultural goods; its strength in primary products is viewed as an essential base for set profit margins. There has been recent discussion about making Cobec a private company or inviting some private trading companies into the operation. Several Brazilian banks are considering such possibilities. One of these, Banco Real, already operates its own trading company, Companhia Real do Comercio Exterior. Set up in 1975, the company has no specific product lines and sells whatever its clients have to offer. Headquartered in Sao Paulo, the company also has offices in Uruguay, Bolivia, Columbia, the UK and the US. The company's sales totalled $ 25 million in 1978.

V. Thailand

1. Establishment of Thai ITCs

1) *Background*

Although Thailand had a chronic imbalance in its trade account, the small deficit was not a cause of much concern until the oil crisis. The trade deficit started accelerating after 1974, and Japanese sogo-shoshas came to occupy an increasingly important place in Thailand's trade activities. Under these circumstances, General kriangsak's regime decided to provide government subsidies under the Investment Promotion Privileges program, which had previously been given only to manufacturing firms and to some of the local trading companies. The result was the emergence of International Trading Companies, which policy-makers conceived as a link between domestic manufacturers and foreign markets.

2) *Requisites for Thai ITC Designation*

In October 1978, the Board of Investment specified the minimum requisites for receiving the International Trading Company designation[8]

1. Annual exports of 300 million Bahts($ 15 million) during the first year, 400 million in the second, and 500 million in the third year
2. Initial paid-in-capital of 30 million Bahts, increasing to 50 million within three years
3. Export composition:
   a. Exports of primary exports not to exceed 100 million Bahts
   b. Exports of simple processed goods, such as frozen chicken and shrimp, canned pineapples, plywood, and cotton, not to exceed 250 million Bahts
   c. Minimum non-traditional exports, mostly manufactured goods, of 50 million Bahts during the first year, 100 million in the second, and 150 million in the third year
4. Public offering of stocks, or at least made available on a local stock exchange within five years, 75 percent of the outstanding shares to be owned by Thai citizens.

3) *Designation of Thai ITCs*

In late 1978, the Board of Investment designated four companies as ITCs: Siam Cement International Trading Company, SM International Trading Company, Texport International Corporation, and UMC International Corporation. In 1979, six more companies received the ITC designation: International Development Trading Corporation, Asoke International Trading Company, Premier Specialties company, CP Intertrade Company, Bangkok Universal Trading Company and BIS International Export Corporation. Three more companies became ITCs in 1980: MASCO International Trading Company, River Thai International Trading Company, and Rainbow International Trading Company[9]

ITCs were typically set up as the trading arm of the the local conglomerates. Saim Cement International Trading Company, for example, was established with

(8) R. Hirouo, ***National Government and Private-Sector Support to General Trading Companies in Asia and the Pacific Region***, Unpublished Paper at the Request of the United Nations Center on Transnational Corporation, January 1982.

(9) ibid.

70 percent ownership by Siam Cement Group, 10 per cent by Bangkok Bank, 10 percent by Thai Farmers Bank, and 10 percent by Siam Commercial Bank. Siam Cement Group is the largest enterprise group in Thailand, with eight operating companies: The Siam Cement co., Ltd., Siam Fiber-Cement Co., Ltd., The Concrete Products and Aggregate Co., Ltd., The Siam Iron and Steel Co., Ltd., The Siam Nowaloha Foundry Co., Ltd., The Siam Patana Estate Co., Ltd., The Thai Spare Part Co., Ltd., and The Siam International Thading Co., Ltd. In 1977, the Group had about 9,000 employees, with a net worth of 1.9 billion Bahts and sales of 4.6 billion Bahts. The average annual export amount during the five years between 1973 and 1977 was $120 million.

Exhibit 6: Corporate Affilation of Thai ITCs

ITC	Authorized Capital*	Paid-in-Capital*	Enterprise Group	Major Bysiness Segments
Texport International Corporation Ltd.	100	50	Saha Union Group	Textile, Clothing
UMC International Corporation Ltd.	350	50	Union Metro Group	Chemical Fertilizer, Wheat Trade, Construction Material, Agricultural Machinery and Tools.
International Development Trading Corpomation	400	50	Hong Yiah Seng Group	Grain Export
Asore Internotional Trading Co., Ltd.	100	50	Assakul Family	Insurance, Textile
BIS International Export Co., Ltd.	430	100	Somprakit Family	Nylon, Polyester Alanents, Steel Pipes, Construction Material
SM International Trading Co., Ltd.	120	50	Sian Motors Group	Automobile Parts and Assembly
CP Intertrade Co., Ltd.	50	50	Charoen Phokphand Group	Livestock, Animal Feed Grain

* In Million Bahts. As of 1979.

4) *Government subsidies for Thai ITCs*

To encourage exports, the government has been offering both direct and indirect subsidies to Thai ITCs. Direct subsidies included both tax benefits and special financing. The ITCs also benfited from numerous government support programs which had been originally made available to manufacturing firms, especially for energy and raw material imports.

a, Direct Subsidies

The most overt government subsidies are in the form of tax benefits, including:

1. Import duty and sales tax exemptions on raw materials and components imported to manufacture export products
2. Sales tax exemption on raw materials and capital goods supplied by domestic producers
3. Sales tax exemption on products supplied by domestic producers
4. Sales tax exemption on commodities sold by domestic agents and wholesalers
5. Business tax exemption for contracted manufacturers producing export commodities
6. Income tax exemption on the earnings of overseas branch offices
7. Income tax deductions for an amount equal to twice the actual export promotion expenses, such as advertising, marketing, travel and overseas branch office operating expense, for five years

The extent of financial support from the government is less certain. However, ITCs appear to be receiving special consideration from the Bank of Thailand, the central bank. For example, it appears as if ITCs will be allowed to set up foreign currency accounts with commercial banks.

b. Indirect Subsidies

Until the early 1970s, Thailand's economic policy emphasized import substitution and regional development in an effort to take advantage of the country's large supply of natural and human resources. Since the enactment of the Investment Incentives Law in 1972, there has been a noticeable shift in the government's economic policy toward export expansion and the development of manufacturing sector. To encourage exportation, the Investment Incentives Law permitted import duty and sales tax exemptions on raw material and capital good imports to be used in the production of export commodities, and on component imports for reexport. The government, however, has not provided any support in financing or trade administration.

2. Performance of Thai ITCs

Eager to increase their credibility and receive government subsidies, a large number of companies applied for the ITC title. Altogether, twenty-one companies received the ITC designation from the Board of Investment by 1981. However, only seven ITCs remained in operation by August 1981, and only two, Texport International corporation and Siam Cement International Trading Company, had successfully achieved the minimum requisites for ITC designation during the first and second years of their operation.[(10)]

Despite government subsidies and close ties with large enterprise groups, export performance of Thai ITCs fell short of policy-makers' expectations. The ITCs could not meet the government's minimum requirement for export amount based solely on the commodities produced within their individual enterprise groups. The ITCs, therefore, sought to increase their product range by entering new businesses, and by turning to previously unknown manufacturers and suppliers. Such efforts, however, suffered from a lack of experience in new business arenas and inadequate credit mangement. Thailand's relatively unsophisticated finance industry also created difficulties for the ITCs in effectively competing in the international trade market; Thailand's rudimentary rediscounting capability, for example, slowed down the cash cycle of exporters. In addition, the country exports generally suffered from lack of quality control, and the government bureaucracy tended to hinder rather than expedite the export process.

Nevertheless, the ITCs can be expected to play a more prominent role in Thailand's economic process in the future; import substitution industries have already matured. Therefore, the government will have to increasingly emphasize export expansion as a vehicle for continued economic growth, and this effort will be aided by the country's vast supply of natural resources. Furthermore, with its more industrialized neighboring countries, such as Japan, Korea, Taiwan, Singapore, and Hong Kong, rapidly losing their competitive advantage in labor-intensive products and facing greater trade restrictions in major import markets,

(10) *Thai-American Business*, July-August, 1981.

Thailand should be able to take advantage of its large labor supply to increase exports of simple manufactured goods.

Ⅵ. The United States

Two institutional barriers have effectively hindered exports by US firms.[11] First, there has been a clear demarcation between banking and commerce since the Great Depression, which kept many commercial banks from playing more active roles in the international growth of their clients. The International Banking Act of 1975 gave the Federal Reserve Bank System firmer controls over non-traditional banking activities of both domestic and foreign banks in the US.

The second barrier was antitrust legislation, whose intent was to promote a desired level of competition within the US economy. Extraterritorial application of antitrust laws, however, often only lessened US exporters' competititiveness in the international trade arena, where successful penetration of foreign markets often requires exporters to handle even ostensibly competing line of goods.

The Webb-Pomerene Act of 1918 exempted export trade associations from some prohibitions of the Sherman and Clayton Acts, but statutory vagueness left an unacceptable threat of subsequent antitrust litigation against these associations. Furthermore, the Webb-Pomerene act did not extend its antitrust exemption to service exports, such as consulting, engineering, construction, insurance, finance, and other invisible trade, which has accelerated during the last few decades.

During the late 1970s, with the US beginning to face increased pressure from Japanese exporters, many concerned decision-makers in Washington became interested Japanese sogo-shoshas. This interest crystallized into the Export Trading Company Act, which was signed by President Reagan on October 8, 1982.

(11) Yoshi Tsurumi, "Export Trading Company Act of the U.S.: The Beginning of a New Industrial Policy," *Pacific Basin Quarterly*, Los Angeles, Fall 1982.

Prior to the ETC Act, US government's export assistance was very much limited to measures such as special tax benefits to Domestic International Sales Corporations, low cost Exim bank financing, insurance against such financial risks as expropriation and the inability to collect export bills, and the gathering of overseas marketing information for would-be exporters. In addition, some specialized support programs were provided to exporters of weapons and agricultural goods.

Government support previded in the ETC Act to would-be exporrters was not so much instituting of specific subsidies as removing impediments to the forming of export-oriented trading companies, particulary in the banking and antitrust areas. The act generally exempted ETCs from antitrust legislation as long as they did not unreasonably lessen or restrain commerce in the US. The act also allowed a bank to take ownership in ETCs, evne majority interest, as long as its total investment did not exceed 5 percent of its own consolidated capital and surplus. In addition, the ETC Act called on the Departmeent of Commerce to actively promote the formation and operation of ETCs. Trading financing through the Exim bank was increased to support the development of ETCs and a special fund was set up by Economic Development Administration and Small Business Administration to encourage exports from small- and medium-sized manufacturers by providing some initial financial support.

1. Export Trading Company Defined

The ETC Act defines an ETC as a company, whether operated for profit or as a nonprofit organization, which is organized and operated principally to export goods and services produced in the US and to facilitate exportation by providing trade services. Export goods refer to tangible property manufactured, produced, grown or extracted in the US, with the cost of imported raw materials and components not exceeding 50 percent of sales price. Service exports include accounting, amusement, architectural, automatic data processing, business, communications, construction franchising, and licensing, consulting, engineering, financial, insurance, legal, management, repair, training and transportation services. In the case of services, at least 50 percent of the sales or billings price must be provided by US citizens or otherwise attributable to the US. Finally, export trade services include consulting, marketing, insurance, product research and design, legal assistance, transportation, warehousing, foreign exchange, and financing.

2. The Concept of the ETC

The US Congress passed the ETC bill with the hope of improving the country's troubled balance of trade. Due to the large domestic market, there has been a general export-orientation in the US, particularly among small-to-medium sized manufacturers, who considered international trade to be too risky and cumbersome to be profitable. The primary driving force behind the ETC Act was the need for a trade entity which can provide the full range of necessary services required to link US suppliers with overseas consumers.

Unlike the small export management companies, which were too small to achieve economies of scale in international markets and offered only fragmented trade services, ETCs were conceived as UP-based trading entities which would handle multi-product links with a complete package of export services from market research to trade financing. Such an entity would enable smaller manufacturing firms to make only "one stop" to export their products, thereby greatly reducing expense and expertise required in international trade.

The concept of the ETC is already showing signs of acceptance. Even before the signing of the ETC Act, a small company in Palo Alto, California, Boles & Company, started to take steps toward becoming a diversified international trading company, a US-based sogo-shosha. In the spring of 1982, General Electric established a captive export trading company, and Sears Roebuck formed its own trading company in the fall of the same year. In addition, Crocker Bank in California and Bank of Boston, the Port Authorities of Philadelphia, New York, New Jersey, and Massachusetts, as well as a number of MNCs such as IBM are seriously considering their own ETCs(12)

(12) ibid,

3. Future of ETCs

The ETC Act has effectively removed legal impediments to formation of diversified trading companies in the US. It remains to be seen whether the cumulative effect of years of apathy toward exportation can also be overcome to give international outlook to managers who have been trained with domestic business orientation. Opinions on the implication of the ETC Act vary. Professor Phillip Grub of George Washington thinks that bank ownership of ETCs will prove successful in promoting exports[13] In contrast, Professor Gail Oxley of Stanford believes that a perception of almost limitless opportunity for growth and profits in the domestic market will continue to serve as a disincentive for exports[14] Professor Yoshi Tsurumi of Baruch University has gone so far as to suggest that the ETC Act was actually a disguised attempt to remove barriers to interstate commerce[15] Given the size and maturity of theUS economy, however, ever if successful, will not have an immediate impact on the US economy or the economic process.

VII. The Philippines

With the outlook for primary product exports chronically uncertain due to their volatile prices, President Ferdinand Marcos announced Presidential Decree 1646 in October 1979 as a part of his government's effort to increase the export share of manufactured goods to 40 percent by 1982. The decree outlined various government support programs for exporters, and permitted the establishment of International Trading Companies.[16]

Although most of the ITCs were established by large enterprise groups, the Philippine government envisioned the exportation of products from samll-and medium-sized manufacturers as their main function. In fact, the government

(13) From an interview with Phillip Grub, March 4, 1981.
(14) From an interview with Gail M. Oxley, March 11, 1981.
(15) From an interview with Yoshi Tsurumi, March 3, 1981.
(16) R. Hirouo, op. cit.

went so far as to provide a list of 142 new products for export. Since October 1979, thirteen companies have begun to operate as ITCs: Allied Transnational Export-Import Corporation(by Allied Banking Corp.), Ayala Corp., First Philippine Holdings Corp., Herdis International Trading Corp., Lepanto-Filsyn-Tondena Trading Corp., San Miguel Corp., Silcor International(by Silverio Group), Ultra International Trading Corp., (by Construction and Development Corporation of the Philippines), United Coconut Planters Bank, Universal Robina Corp., Marsteel Corp. and Trans-Philippines Investment Corp. With the sole exception of Trans-Philippines Investment Corp., each ITC has the support of an enterprise group with well-established domestic business base.

To encourage exports, the Philippine government has been offering a wide range of subsidies to exporters. Subsidies specific to ITCs included income tax reductions for amounts equal to expenses for the establishment and operation of overseas branch offices during the first five years, and special considerations for foreign currencies required for the operation of overseas branch offices. In addition, the ITCs also benefited from government subsidies generally made available to all Philippine exporters, such as tax exemption on 20 percent of export income, and for seven years, import duty exemption on capital goods imported for the production export commodities.

VIII. Malaysis

The Malaysian economy has long been dominated by foreigners. Even in the 1970s, much of the primary industry and domestic commerce were under the control of foreign, especially British and Japanese, firms. In the case of manufactured goods, 80 percent of the metal products market was captured by Japanese, Australian, and British firms, 70 percent of machinery by Japanese, the US, British and German firms, and over 50 percent of transportation equipment by the Japanese. Similarly, Taiwan, Hong Kong, and China accounted for much of the Malaysian texile and clothing markets, while a small number of Japanese and Western firms controlled the electrical and electronics industries.[17]

Concern over continued foreign domination has led to an increasing economic nationalism. The Malaysian government has adopted a more aggressive import substitution policy and sought to increase local participation in the country's trade. However, even in the trade area, national effort has been divided along ethnic lines. There are three major ethnic groups in Malaysia: the Bumiputras, or the native Malays, the Indians, and the Chinese. When the government proposed the establishment of local trading companies modelled after Japanese sogo-shoshas in the 1970s, Bumiputra and Chinese groups individually launched their own trading companies. The first trading company established by the native Malays was the Malaysian International Trading Company, which has since merged with large government-owned companies such as Malaysia Mining Corporation and Petronas and Pernas.

The Malaysian Chinese Association, for its part, launched the Multi-Purpose Holding Bhd. (MPH) in 1975. MPH is one of the most rapidly growing companies in Malaysia, with operations in real estate, trade, finance, and entertainment. The company has rapidly increased its trade capabilities by diversifying through acquisitions. In June 1981, MPH acquired Guthrie Bhd. for 1. 1 million Ringgits from Guthrie Corporation, and set up Multi-Purpose International Corp. with an authorized capital of 5 million Ringgits (approximately US$2. 2 million). Centered in Singapore, Guthrie Bhd. provided MPH an extensive trade network and retail franchises around Southeast Asia. In October 1981, MPH entered the plantation business by acquiring partnership in Dunlop Estates Bhd,[18] and became the largest stockholder in United Malaysian Banking Corp., the country's third largest commercial bank.

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(17) For further detail, see Moon Shin Hong, *Economic Cooperation betureen Koreas and ASEAN-Current Status*, Problems, and Expansion Plan, Korea Internatinal Economic Institution, Seoul, 1981. pp. 116-119.

(18) MPH acquired 51 per cent interest in Dunlop Estates Bhd., with its plantion of 54, 000 acres, for 2. 1 million Ringgits.

MPH's acquisition program was supported by a 335 percent increase in paid-in-capital to $380 million, and public offering of shares on Kuala Lumpur stock exchange since since January 1981. Despite its diversification, MPH's total revenues decreased by 4.8 percent in 6981. Similarly, net income fell 69 percent on 12.8 million Ringgits, and MPH failed to declare dividends. Economic gain, however, was not the only driving force behind MPH's diversification schem. With the national election imminent in April 1982, the Malaysian Chinese Association had a political purpose; by becoming a major enterprise group, MPH was to serve as a symbol of unity and economic power which supported Malaysian Chinese politicians. MPH hopes to return to higher profitability by consolidating and reorganizing its operations.

Ⅸ. China

Initially, China allowed foreigners to enter into local joint ventures only with national government-owned trading companies based in Peking,(19) but has subsequently permitted provincial governments the same privilege. By June 1981, there were six trading companies in China established as joint ventures between Japanese and Chinese government-owned companies. Two of them, New Asia Trading and Liaoning Co., have become large-scale trade intermediaries, each capable of handling a wide range of products.

New Asia Trading was established as a fifty-fifty joint venture between China's National Native Produce and Animal By-Products Import-Export Corporation and Shinritsuko-Eki, a Japanese import firm. New Liaoning Co. was the first joint venture trading company to be set up with the support of a Chinese provincial government, and is expected to be an active participant in trade and transfer of technology between Japan and Liaoning Province, which is the second most industrialized province in China. Liaoning Co. was established

(19) Much of this discussion of Chinese trading companies is based on *The Asian Wall Street Journal*, June 17, 1981.

with a capital of $225 thousand, 51 percent from Tokobutsan and 49 percent from Liaoning Trust and Investment Corp.

It remains to be seen whether these joint venture trading companies will be able to compete successfully with Japanese sogo-shoshas, which have long monopolized Sino-Japanese trade. Some observers believe that Japanese sogo-shoshas will attempt to drive the newcomers out of business. Others believe that the Chinese government, in its effort to augment its foreign currency, will force these joint venture trading companies to simply concentrate in compensation trade. Still others are of the opinion that other provincial governments, and even city administrations, will enter into joint ventures with foreign business firms to establish trading companies.

X. Finland

International trading companies comparable to Japanese sogo-shoshas, or even Korean CTCs, do not exist in Finland. There are, however specialized trading companies and large-scale domestic traders.(20)

1. Large Domestic Trading Companies

There are seven large domestic trading companies which operate through nationwide networks of retail stores in Finland. While their particaption in commerce and importation is extensive, export activities are very limited. These companies are organized as an association of retail stores, a cooperative, rather than a consolidated business entity, Although each participating store is set up indepependently, the management is quite centralized. Most of these chains are large enough to rank among Finland's ten largest companies in terms of annual sales. Kesco, which sepcializes in consumer products, for example, is the second largest company in Finland, only behind the state-owned oil company. The others are: OTK and both sepcializing in consumer products,

(20) Based on a report by the Helsinki office of the Korean Traders Association, December 21, 1982.

SOK, specializing in consumer products and leisure services such as hotel and restaurants, Hankkija, in agricultural produce and machinery; Valio, in dairy products; and Rautakontori, in metal products.

2. Specialized Trading Companies

Finland's specialized trading companies act primarily as trade agents, usually without an extensive overseas branch office network. Most notable among Finland's independent specialized trading companies are:

1. Kaukkomarkinat Oy, which operates primarily as an agent for small-and medium-sized manufacturers' exports to the Soviet Union. Textile accounts for the leargest share of the company's business. The company also runs wholesale outlets.
2. Starckjohann Oy acts primarily at an agent in the trade of steel, automobiles, electrical machinery and tools, and construction material. The company has ten overseas branch offices and is relatively active in trade with the Soviet Union and Asia.
3. Thomest Oy is engaged primarily in wooden products trade and energy importation.
4. Aspo Oy's major operations are stock sales and shipping, but it also acts as a trade agent. In addition, the company has manufactufring operation in steel, and electical and eledtronic machinery and tools.
5. Tallberg Oy trades various metal products and also has leasing and rental operations.

3. Trading Companies Compared

Exhibit 8 summarizes trading companies in various companies in various countries and indicates differences among the systems. The most notable differnce is in the organization: some countries have established trading companies as an arm of existing enterprise groups, while others have set up trading companies with banks or government as a major participant.

Exhibit 9 classifies these trading company systems according to the level of the country's economic development and the nature of organization. Korean and

Exhibit 7: Trading Companies Summarized

	Background	Objective	Government Subsidiary	Requisites for Designation
Korea (1975)	① Need for Companies Specializing in Trade. ② Inefficient Small Tradeas and Overcompetition ③ Inability to continue Heavy Government Subsidies ④ Need for New overseas Markets	① Increased Exports of Small-And Meduin Sized Manufacturers ② Large-Scale Exporter ③ Reduction of Governnent Subsidy Extense ④ Systematic overseas Marketing	① Trade Administration ② Financing ③ Foreign Exchange Administration	① 2% of Total National Exports ② Public offering of stocks
Taiwan (1978)	① Heavy Dependence on Foreign Traders ② Need to Facilitate Trade, and Expand Export Productsand Markets ③ Need for Improve Overseas Market Information Gathering and Sales	① Establishment of Large Trading Companies Independent from Large Enterprise Groups ② Prevent Overcompetition ③ Incresed Participation of Small-And Medium-Sieed Companies		① Plow-in-Capital of NT $ 200 Million ② Exports of $10 Million in the Past Year ③ 3 Overseas Branch Offices
Brazil (1971, 1976)	① Dctericrating Trade Balance ② Need to Expand Export Markets ③ Heavy Dependence an Foreign Traders	① Increased Exports Especially Locally Manufacthed Groups ② Large Scale Exporter. ③ Aggressive Overseas Marketing	*	① $ 2-Million in Capital
Thailand (1978)	① Deteriorating Trade Balance ② Heavg Dependence on Japanese sogo-Shoshas ③ From Iemport-Substitution to Export Expnsion	① aLink between Domestic Producers and Overseas Marketers ② Larsge-Scale Exporters	① Tax Benefits ② Financing	① Exports of 300 Million Bahts Increasing to 500 Million ② Paid-in-Capital of 30 Million Bahts Increasing To 50 Million ③ Manufactured Goods Exports of 50 Million Bahts Increasing to 150 Million ④ Public Offering of Stocks
The Philippines (1979)	① Poor Primary Product Export ② Need to Increase Exports of Small-And Medium-Sieed Manufacturers ③ Need for Export Expansion	① Export Asnt for Small-And Medium Sieed Manufacturers ② Large Scale Exporter ③ More Aggressive Narketing	① Tax Benefits ② Financing ③ Foreign Exchange Adminstation ④ Trade Administration	*
Malaysia (1981)	① Economic Dependence on Foreign Companies ② Economic Compectition Between Bumiputras and Chinese Ethnic Groups	*	*	*

The U.S. (1982)	① Deteriorating Trade Balance ② Inadequhte Trade Service ③ Need to Increase Exports of Small-to-Medium Sieed Manufacturers	① "One stop" Trade Service ② Use of Bank Organization and Experience Abroad	① Exemption From Antitruct Laws ② Bank Ownership Permitted ③ Initial financial Support Forsmall Business Firms ④ Increased Exim Bank Financing ⑤ Market Information Through Department of Commerce ⑥ Special tax Consideration	None
China (1981)	① Gradual Opening of-Me Economy to Foreigners ② Limited Foregin Exchange. ③ Need for Foreign Technology ④ Heavy Dependence an Japanese Trading Companies	① Participation in Trade Not only at National but also at Provincial and Municipal Levels ② Industrial Development	*	*

* Information not Available.

Exhibit 8: Trading Company Systems Compared

	Enterprise Groups	Banks	Government or State-owner company	Assocination or Cooperative
Developed Country	Japanese sogo-shoshas	US ETCs		
Less Develoded Country	Korean GTCs Philippine ITCs Thai ITCs	Taiwanese ITCs	Brazilian Trading Companies Chinese Trading Companies	Malaysian Trading Companies

the US appear at opposite extremes. In Korea, the government practically institutionalized export activities. In the US, the ETC Act simply removed traditional legal barriers to the formation of export-oriented trading companies.

Without question, fully diversified trading companies, such as Japanese sogo-shoshas, have yet to be developed in other countries. Although Korea has most closely emulated the Japanese CTC system, even present-day trading companies of Korea show limited diversification compared to Japanese sogo-shoshas. They are in fact little more than large trading companies, comparable only to Japanese trading companies of the early 1960s.