THE DEVELOPMENT OF GENERAL TRADING COMPANIES FOR EXPORT PROMOTION IN DEVELOPING COUNTRIES: THE CASES OF KOREA AND TAIWAN

Richard H. F. Kao, California State University, Los Angeles
Moonsong David Oh, California State University, Los Angeles

Abstract

This paper examines and compares the development and performance of general trading companies (GTCs) in Korea and Taiwan, and considers implications for other developing countries. General trading companies are the major force in Korean export drive while GTCs are not a significant element in promoting exports from Taiwan. Developing countries may follow the case example in the development of their own trading companies which best meet their needs.

The need for developing countries to promote export to reduce the balance of payments deficit is well recognized (Krueger 1978). Among the alternatives available for export promotion, the formation of general trading companies (GTCs) or better utilization of GTCs seems very attractive because of their superior performance in facilitating international trade, as evidenced by the successful track records of Japanese sogo shosha or general trading companies (Young 1974; Kajiwara 1982).

South Korea (Korea, hereafter) and Taiwan have achieved a remarkable economic development largely due to export-oriented economic policies. In the 1970s, the average annual growth rate of exports of these two countries exceeded 30 percent. Large trading companies in Korea and Taiwan have played an important role, though in varying degrees, in promoting exports from these two countries. The primary purpose of this paper is to examine and compare the development and performance of GTCs in Korea and Taiwan, and to consider implications for other developing countries with little or no natural resources and limited domestic market potential. This study is based on data gathered from selective personal interviews with executives and officials of Korean and Taiwanese GTCs and surveys of English, Chinese, and Korean literature.

Development of Korean GTCs

The Korean economy has reached its present stage of development primarily through the successful implementation of a series of export-oriented five-year development plans. Korean exports in 1962, the start of the first Five-Year Economic Development Plan (1962-1966), amounted to less than $55 million. By the end of the second Plan (1967-1971), however, they surpassed $1 billion. During the 1970s, Korean exports rose at an average growth rate of 37.9 percent, a remarkable record considering the slow down of world economy caused by the two oil crises of 1973 and 1979.

Convinced by the significant role of the Japanese GTCs in promoting Japanese exports, the Korean government decided to institutionalize its own GTCs which would act as the spearhead of Korean export drive to sustain continued expansion of exports in an increasingly competitive and uncertain international economic environment.

Requirements for Korean GTCs

In April, 1975, the Ministry of Commerce and Industry (MCI) proclaimed the ordinance specifying the minimum requirements for official designation of the jongnap sangsa, or the general trading company, as follows (Cho 1982):

- Paid-in capital of 1 billion won (approximately $2.5 million),
- Annual exports of $50 million,
- Seven products with an export value of over $500 thousand each,
- Ten overseas branch offices,
- Ten countries with an export value of over $1 million each, and
- Public offering of GTC stocks.

Thus, the ordinance envisioned a GTC to be a publicly-held trading company of substantial export value with product and geographic diversifications. The ordinance has been amended a number of times. Since 1981, however, there have been only two requirements, namely, (i) the minimum export value of more than two percent of total Korean exports and (ii) public-offering of GTC stocks.

Government Incentives to Korean GTCs

To foster the export performance at KGTCs, the MCI has been offering the following incentives to KGTCs (Cho 1982):

Trade administration
- Priority in international tenders of over $500 thousand, offered by the government agencies,
- Relaxation of the requirements for joining various commodity export associations, and the
- Right to import major raw materials for KGTC's own use.

Financing
- Export financing,
- Inventory financing for finished goods, and
- Import financing for raw materials.

Foreign exchange administration
- Use of revolving L/Cs,
- Special treatment in controlling KGTC's overseas branches, and
- Increase in the limit of foreign currency holdings by KGTC's overseas branches.

These incentives provided by the Government are generally perceived as neither substantial nor unique to GTCs, since most of the incentives cited above are also available to other large Korean exporters.

Designation of Korean GTCs

Samsung Co., Ltd., was the first Korean GTC designated by the Government in May, 1975. Four other companies, Ssangyong, Daewoo, Kukje, and
Hanil received the GTC designation in the same year. In 1976, Koryo, Hyosung, Bando, Sunkyong, Kumho, and Samwa were added to the list of GTCs. Hyundai and Yulsan joined the rank of GTCs in 1978.

Of these 13 GTCs, Yulsan went bankrupt in early 1979. Hanil and Samwa lost their GTC designation in 1979 for having failed to meet the minimum export requirement, i.e., two percent of the Korean exports. Lately, Kumho lost its GTC designation for the same reason. The same requirements were not applied to Koryo which was created and operated by the Government for the purpose of promoting exports of small and medium firms. Thus, nine GTCs remained as of early 1984 as shown in Table 1.

### Table 1

<table>
<thead>
<tr>
<th>KGTCs</th>
<th>Date of Designation</th>
<th>Capital (in U.S. $1,000)</th>
<th>Number of Overseas Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyundai</td>
<td>1/78</td>
<td>$11,429¹</td>
<td>34</td>
</tr>
<tr>
<td>Samsung</td>
<td>5/75</td>
<td>17,143</td>
<td>41</td>
</tr>
<tr>
<td>Daewoo</td>
<td>5/75</td>
<td>97,571</td>
<td>60</td>
</tr>
<tr>
<td>Bando</td>
<td>11/76</td>
<td>20,000</td>
<td>24</td>
</tr>
<tr>
<td>Ssangyong</td>
<td>5/75</td>
<td>10,000</td>
<td>23</td>
</tr>
<tr>
<td>Kukje</td>
<td>11/75</td>
<td>9,543</td>
<td>30</td>
</tr>
<tr>
<td>Sunkyong</td>
<td>11/76</td>
<td>21,429</td>
<td>28</td>
</tr>
<tr>
<td>Hyosung</td>
<td>8/76</td>
<td>7,142</td>
<td>26</td>
</tr>
<tr>
<td>Koryo</td>
<td>4/76</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

¹Converted at W700 to US $1.

Source: MCI, Korea.

Export Performance of Korean GTCs

Table 2 presents the export performance of Korean GTCs since 1975. Hyundai Corp., a trading arm of the Hyundai Group led GTCs with $3 billion in 1983, followed by Daewoo and Samsung. The combined exports of three GTCs alone accounted for almost one-third of the entire Korean exports in 1983. The share of the nine Korean GTCs rose sharply from 13.9 percent in 1975 to 50.7 percent in 1983.

### Table 2

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyundai</td>
<td>320</td>
<td>615</td>
<td>1,723</td>
<td>3,000</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Samsung</td>
<td>223</td>
<td>507</td>
<td>769</td>
<td>1,230</td>
<td>2,250</td>
<td></td>
</tr>
<tr>
<td>Daewoo</td>
<td>161</td>
<td>301</td>
<td>1,219</td>
<td>1,940</td>
<td>2,600</td>
<td></td>
</tr>
<tr>
<td>Bando</td>
<td>31</td>
<td>212</td>
<td>671</td>
<td>1,120</td>
<td>1,300</td>
<td></td>
</tr>
<tr>
<td>Ssangyong</td>
<td>115</td>
<td>176</td>
<td>425</td>
<td>756</td>
<td>1,050</td>
<td></td>
</tr>
<tr>
<td>Kukje</td>
<td>64</td>
<td>320</td>
<td>546</td>
<td>840</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Sunkyong</td>
<td>56</td>
<td>247</td>
<td>314</td>
<td>585</td>
<td>700</td>
<td></td>
</tr>
<tr>
<td>Hyosung</td>
<td>34</td>
<td>199</td>
<td>585</td>
<td>787</td>
<td>650</td>
<td></td>
</tr>
<tr>
<td>Koryo</td>
<td>22</td>
<td>14</td>
<td>51</td>
<td>84</td>
<td>89</td>
<td></td>
</tr>
</tbody>
</table>

¹¹²Figures for 1983 and 1984 are projections.

Source: MCI, Korea.

Judging by the export performance of these Korean GTCs, they have indeed lived up to the expectation of being the spearhead of Korean export drive.

Problems and Prospects

Korean GTCs have performed exceedingly well in terms of increasing exports. Their success has also caused, however, some problems.

1. Excessive Competition. In an effort to meet the minimum export requirement (two percent of total Korean exports), there has been an excessive competition among Korean GTCs at the cost of profit. In some instance, excessive competition led to malpractices such as "export account purchasing," i.e., buying the account of export sales from Korean manufacturers, resulting in further worsening the profitability of Korean GTCs (Cho 1982).

2. Conflict with Small and Medium Sized Firms. There are over 3,000 traders in Korea, but nine GTCs are handling more than one half of all Korean exports and are increasing their share of total exports. Small and medium sized traders contend that they are not getting their fair share and in fact their share of total exports has been declining due to the dominance of GTCs and the government policies that favor larger traders.

3. Insufficient Import Marketing Functions. Korean GTCs are predominantly oriented toward exports. The combined imports of Korean GTCs account for less than 10 percent of total Korean imports. At the present stage of their development, Korean GTCs are not truly general trading companies in that their primary focus is on exporting from Korea.

4. Lack of Trained Personnel. Due to the phenomenal expansion of their exports, there is a growing need for personnel trained in the field of international marketing. The lack of competent and experienced personnel is considered one of the constraints for continued export expansion (KOTRA 1982).

5. Marketing Information System. As the global operations of the Korean GTCs expand, the need for collecting marketing information also grows. A random, haphazard accumulation of bits and pieces of data is no longer satisfactory. Korean GTCs generally suffer from the lack of effective MIS system for planning and control purposes.

As shown in Table 2, Korean GTCs have played an unusually important role in facilitating Korean exports and they are beginning to play an increasingly significant role in import trade and in trade among countries other than Korea. Compared to the Japanese GTCs, however, Korean GTCs are not yet functionally diversified. If Korean GTCs are to remain competitive in international markets, they need to strengthen such functions as information gathering and dissemination, financing through trade credits, direct loans, and loan guarantees, and risk-reduction.