INTERNATIONAL TRADING COMPANIES FOR DEVELOPING COUNTRIES—LATIN AMERICA

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Abstract

The paper discusses the suitability of applying Brazilian and East Asian models of international trading companies (ITCs) to the Latin American environment. The adjustment process in developing countries is presently moving from the import-compression to the export-expansion phase - a fresh look at the ITC's international business activities. As for Latin America, one of the current solutions to improve the balance of payment may therefore constitute improved productivity in its foreign trade account, through genuine export promotion and import substitution. Searching the alternatives of improved export/import performance, we present a case for ITCs in Latin America through analysis and comparison of ITCs in Brazil and East Asia.

INTERNATIONAL TRADING COMPANIES (I.T.C.s) IN BRAZIL

The international trading company (ITC) as an international marketer is not unknown in Latin America. A number of the ITCs based in other parts of the world have been operating here. Also, the firms which, are not formally labeled as ITCs, actually perform similar functions - as exemplified by subsidiaries of U.S. multinationals. On the other hand, there exist genuinely Latin American, ITCs. In Brazil, the first ITCs were set up in 1972. Approximately 100 of them were licensed as of 1982 and altogether accounted for 30.3% of the total exports of that country (ABCE 1983). While the surveys of Brazilian customers who used the intermediary of Brazilian ITCs revealed a substantial dissatisfaction with the services rendered by the latter (Schmidt 1981, pp. 67-76; Castello 1981, de Carvalho 1982), it can still be argued that in general they are performing quite well. Their success is evidenced by the fact that in the period of 1976-82 exports of Brazilian trading companies grew at the rate of more than 20% a year, by far exceeding the rate of Brazilian exports as a whole (ABCE 1983).

Below we discuss some characteristics of Brazilian ITCs. At the outset, it is worth noting that public/state owned ITCs accounted for 13.9% of total turnover in 1979, whereas private ITCs accounted for 86.1% (Castello, 1981, p. 233). State owned ITCs dominate, however, as far as the individual volume of sales is concerned, especially companies such as Intebras and COBEC. A question suggested by this fact is whether state or private ITCs are more efficient/profitable? It appears that privately owned Brazilian ITCs are, on average, doing better. However, it should be stressed that those which are owned by the state are selling much more differentiated consumer and more processed, industrial types of goods and are facing more intense competition as well. It is interesting to note that some state-owned ITCs are evolving towards a semi-public status accepting private (even majority) stakes. The example of COBEC - one of the largest Brazilian ITCs - is quite instructive in this respect. The main shareholder - state owned Petrobras - has been gradually lost full control over the company, currently holding just 30.2% of the equity, while the majority of stock is being held privately.4

An important feature of the state-owned Brazilian ITCs is that the largest of them benefits directly from the privilege of being involved in government to government agreements, mainly, in crude oil resulting from its parent's - Petrobras' - purchases abroad. This gives the subsidiary - Intebras - an additional advantage in its dealings in various commodities and whenever Interbras negotiates with the state controlled economies in Communist and some 3rd world countries. It is not surprising then, which is by the way an interesting kind of specialization, that Intebras caters to oil-exporting countries.

Historically the base majority of Brazilian ITCs are clearly export oriented, probably reflecting the "export first - import last" approach adopted by the government. To the companies in question, this presents a risk of getting too dependent on just one type of business activity. Perhaps the export orientation of Brazilian ITCs may be partly explained, from a pure business standpoint, by the fact that, with very few exceptions, they are not involved in domestic trading as well. Hence paradoxically, their knowledge of the needs of Brazilian market can be limited. Moreover, importing is no doubt a more complex and more difficult activity in Brazilian circumstances because of the above mentioned austerity measures introduced by the government and the restrictions on foreign currency exchanges. Also, the structure of imports (apart from fuels) in which more sophisticated goods play a great role, suggests a need for more profound knowledge of products and technologies by the ITCs. This might still be lacking in the case of Brazil.

Another point worth stressing is the apparently intense competition between individual ITCs often carrying identical products (e.g. agricultural products such as coffee which still represent the most important single item from the export list of both Brazil as a whole and of the Brazilian ITCs', cocoa, orange juice and steel products) and offering them in the same foreign markets. It is hard to say whether the phenomenon in question is beneficial or not. What it implies for Brazilian ITCs is that occasionally winning a contract might be a tough game and require special concessions to the buyer.

While some Brazilian ITC's are strongly integrated into the production sectors of the economy (like agriculture, mining and manufacturing) almost an equally large number of them is linked to the banks. Notwithstanding this dichotomy, this implies that various interests are vested in these ITCs.

Brazilian ITCs are active in very diversified geographic markets. They are most visible in other Latin American countries, particularly if one
counts the number of their representative offices and branches.2 This might suggest that Brazilian ITCs prefer to operate in the Latin American region. However, when confronted with sluggish demand in the Latin American region, Brazilian ITCs demonstrated ability to switch to the new markets of Eastern Europe - a region which is similarly marked by juge foreign debt.3 At the same time, Western Europe continues to occupy first place as a single geographical outlet for exports of Brazilian ITCs.

The expansion of Brazilian ITCs into many markets results in part from the commodity-oriented structure of their exports. Such expansion indicates that the ITCs are willing to get involved in business deals, less profitable, for "regular" exporters. For example, one can quote the barter agreements made with Communist countries and point to several deals with African nations involving the sale of Brazilian products of multinationals like IBM, Xerox and African Bayer, by intermediaries of Brazilian ITCs. In this African case, it comes to mind that similar arrangements, if worked out directly by the above mentioned multinationals, would have been too troublesome for them. Typically, this was achieved by Brazilian ITCs buying locally and exporting by themselves to other markets.4

Brazilian ITCs are versatile in covering different markets since, their product list has something to offer to everybody (coffee, cocoa, sugar, fruits, metal ores, fertilizers, less sophisticated manufacturer, less known brands of medium quality footwear and clothing). Hypothetically, they also penetrated the areas similar to their own environment in terms of level of development, economic problems (e.g. state trading, state controlled economies) and import needs. Thus Brazilian ITCs are capable of not only to adjust their offerings but also to develop flexible organizational schemes and varying modes of agreements are concerned.

It is interesting to note that according to surveys quoted previously Brazilian ITCs were repeatedly graded as insufficiently aggressive in exploring export market opportunities and winning foreign contracts. They were accused of lacking the genuine entrepreneurial spirit and of doing their business in a haphazard way. It does not necessarily mean, however, that these accusations are objectively justified. Also, it is not all that unusual to see Brazilian ITCs catering mostly to the local "biggles" as A. Schmidt has put it (A. Schmidt, 1981, p. 67). After all, it is quite conceivable that while executing larger orders, they can substantially reduce their operating costs and act more promptly.

Many Brazilian ITCs imitate the Japanese sogo shosas although this behavior doesn't always result in a comparable scale of operations. Following that pattern, however, the larger trading firms tend to deal with sizeable commodity flows and have high cut-off limits for the minimum levels of transaction. Also, the lack of expertise in more advanced products makes it difficult for Brazilian ITCs to develop a deeper specialization. On the other hand, it is remarkable that in their respective areas some Brazilian ITCs, demonstrate substantial skills. Again Petrobras/Interbras, for example, acquired oil exploration concessions from China to Angola and found substantial deposits in Iraq just to sell off the exploitation rights before the outbreak of Iraq-Iran war.

ITCS IN EAST ASIA

Japanese and South Korean ITCs have proven themselves to be skillful "operators" involved in both exports from and imports to their home countries. Also, as an outgrowth of trade flows and business relations between the home country and abroad the more sophisticated and experienced ITCs, mainly Japanese, gradually began acting also as intermediaries between third countries, by means of what is called "off-shore" trading.

As an illustration the following distribution of business operations characterized 9 major Japanese trading companies in 1982:

- export activities 21.3% of the total
- imports 24.0%
- domestic trade 41.4%
- off-shore 13.4%

Source: Calculated by the authors from figures quoted in "Mitsui & Co., Ltd., Annual Report 1982", p. 11.

During the same time, for some Japanese ITCs, the percentage of turnover derived from imports was higher than the above quoted average (e.g., for Mitsubishi); similar observations can be made about off-shore trading (e.g. at Mitsui it represented 19.8% in 1982). One is not surprised, therefore, to note that Mitsui ranks among the top 4 U.S. exporters and is in fact the major individual trade partner of the United States.

As for South Korean ITCs, they are at present markedly export-oriented but are becoming more involved in import activities, e.g., one of the 9 largest South Korean ITCs - Samsung Co., Ltd. reported the following share for 1982-83:

- export activities 76% of the total
- imports 20%
- domestic sales 3%
- off-shore 1%


Two characteristics of successful Japanese ITCs deserve closer examination. The first is their positioning in the framework of the structure of their domestic economic activities. It is well known that, notwithstanding their formal independence, these ITCs are actually a part of giant conglomerates encompassing manufacturing and banking activities as well as domestic trading. The thrust of the Japanese ITCs is therefore one of "group effort", which can be referred to as a division of labor resulting into country-wide, macro-synergism. In practical terms it means that they enjoy strong support and cooperate closely with those sectors, which secure demand for imports, supply the mer-