

ABSTRACT

ARE THE GENERAL TRADING COMPANIES NECESSARY TO PROMOTE EXPORTS FROM NEWLY INDUSTRIALIZING COUNTRIES? THE EXPERIENCES OF KOREA AND TAIWAN

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The need for newly industrializing countries (NICs) 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 shosa or general trading companies.

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.

DEVELOPMENT OF KOREAN GTCs

Convinced by the significant role of the Japanese GTCs in promoting Japanese exports, the Korean government decided to institutionalize its own GTCs in 1975 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. Initially, several minimum requirements were specified for official designation of Korean GTCs. 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. Nine KGTCs remained as of early 1984.

DEVELOPMENT OF TAIWANESE GTCs

Impressed by the significant role the Japanese GTCs and the Korean GTCs played in promoting their exports, the Government of Taiwan decided to create its own GTCs which would serve as a new driving force to maintain sustained export growth in highly competitive international markets.

On November 30, 1977, the Ministry of Economic Affairs (MOEA) proclaimed an ordinance which specified the minimum requirements for official designation of the da moyen sho, or the general trading companies, as follows:

- Paid-in capital of U.S. \$5 million,
- Annual exports of U.S. \$10 million, and
- Three overseas branch offices.

Thus, the ordinance specified an GTC to be a trading company of substantial capital and export, with geographic diversification as of early 1984, four TGTCs remained.

IMPLICATIONS AND CONCLUDING REMARKS

Both Korea and Taiwan have performed extremely well in promoting their exports. Taiwan's success in exporting seems to indicate that general trading companies are not indispensable to successful exporting. Since 1975, Korea has done relatively better than Taiwan. If the present growth is to continue, Korea exports could exceed those of Taiwan and the gap could increase in favor of Korea, unless the role of Taiwan's GTCs increases substantially.

We contend that general trading companies have a significant role to play in promoting exports from their home base, as proven by the impressive performance of Japanese and Korean GTCs. The decision by the Government of Taiwan to encourage the formation of GTCs in 1978 and lately, the Export Trading Act of 1982 in the United States allowing the creation of large trading companies are open recognition of the significant role that large trading companies can play in international marketing. Learning how general trading companies work in some NICs will help other NICs in the development of their own trading companies which best meet their needs.

Figure 1
 SUMMARY OF THE DIFFERENCES BETWEEN KGTCs AND TGTCs

	Unit: \$1 million	
	KGTCs	TGTCs
Number of GTCs (1984)	9	4
Total Exports by GTCs (1983)	\$11,280	\$287
Exports of the Country	\$24,223	\$19,117
Share of Total National Exports	50.7%	1.5%
Products Handled	Heavy industrial products accounted for 81% of total exports	Light industrial products accounted for 81% of total exports
Export Markets	Worldwide market	U.S.A. and South-East Asia
Organization	Trading arm of large conglomerates	Independent organizations
Services Provided	Product and market services, some financing	Product and market services
Average Capital	\$24.3	\$5.7