

A Comparative Study of Korean and Japanese General Trading Companies*

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I. Introduction

There has recently been an increasing attention drawn about the sogo shosha, Japanese general trading companies(GTC), both in Japan and elsewhere.¹⁾ Especially in the countries which experience trade deficits vis-a-vis Japan, there has been an increasing interest in this unique institution as a partial answer to a country's less than satisfactory export performance. These countries include not only less developed countries such as Thailand, Malaysia, Brazil and Korea but also the industrialized countries such as the U.S., Canada and some European countries.

This paper attempts to provide partial answers to the questions of whether it is possible to create an institution like a GTC and if so, what it takes to create a GTC. Answering these questions are, of course, not easy. In the first

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- (1) Two terms of sogo shosha and general trading company are used interchangeably in this paper.
- (2) The sogo shosha, in general, refer to nine companies of Mitsubishi, Mitsui, C. Itoh, Marubeni, Sumitomo, Nissho-Iwai, Kanematsu-Gosho, Tomen and Nichimen. Sometimes, however, six other smaller companies are included: Chori, Itoman, Kinsho-Mataichi, Nozaki, Okura and Toshoku.

place, the sogo shosha²⁾ itself is so diverse in terms of products, activities, resources and areas of operation that even the persons working in it cannot quite define it satisfactorily.³⁾ Secondly, researches done so far, including this one, on the topic only provide an incomplete answer as to the rationale for the existence of the sogo shosha.

There have been three approaches in the researches of the sogo shosha. The first approach, a historical one, usually goes back to the early Meiji period and attempts to explain how the GTC has been started in the beginning and evolved over time.⁴⁾ The second approach is to focus on the entrepreneurial role ("spirit") of the shosha man. And the third one is to analyze the functions performed by the GTC and find there the economic rationale for the existence of the GTC. Although each one may have some merits of its own, the last approach seems to provide the best avenue in answering the questions at hand. In the next section, it is explained in detail how the questions are approached in this paper.

II. Research Framework

Why do we need a GTC? One would create a new institutions only when existing institutions cannot perform a socially desirable and necessary function. In the case of a GTC, that function is usually foreign trade, especially exporting. Thus a relevant question is whether the creation of a GTC will improve a country's export performance. If there is a benefit of increased exports, this

(3) One can define a company's mission in such a way as "providing transportation means" (in case of General Motors) or "satisfying energy needs" (in case of Exxon). It is difficult to define the sogo shosha's mission. The main mission should have been historically that of "serving customers through minimizing distribution costs". Since the 1960s, however, the sogo shosha has been involved in such non-distribution areas as direct investment, resource development, and construction. One manager stated that the sogo shosha's mission is "not to say 'no' to any reasonable business proposal as long as it is legal and ethical", which is really saying that the sogo shosha does not have a well-defined mission.

(4) In the literature survey, I have benefited from Tom Roehl's paper, *General Trading Companies: A Survey of Japanese Language Sources* (a paper presented at the Lake Wilderness Workshop on the Japanese Economy Seattle, Washington, July 14-18, 1980).

benefit has to be compared with the cost of creating such an institution. The cost would include the cost of setting up foreign branches and subsidiaries and staffing those offices with capable and experienced employees.⁵⁾

Alternatively, one can review functions Japanese GTCs are currently performing and ascertain whether those functions can indeed be performed better by the GTC than by some other institutions. The following is a list of the functions that are often associated with the Japanese GTC.⁶⁾

- 1) exporting and importing
- 2) domestic trade
- 3) financing
- 4) information service
- 5) market research and development
- 6) transportation and other physical distribution
- 7) resource development
- 8) organizing big projects
- 9) investing
- 10) construction

Out of these ten, the former six functions may be termed "traditional functions," while the latter four are the functions more recently undertaken by the Japanese GTCs. In other countries where there is no GTC, who is performing all these functions? In most developed countries, these functions are performed by different institutions in a division-of-labor fashion. For example, foreign trade and domestic trade are usually conducted by different types of institutions. Financing, information and market research, and transportation are also separately handled by financial institutions, marketing research firms and freight forwarders respectively. More recent four functions are also done by various

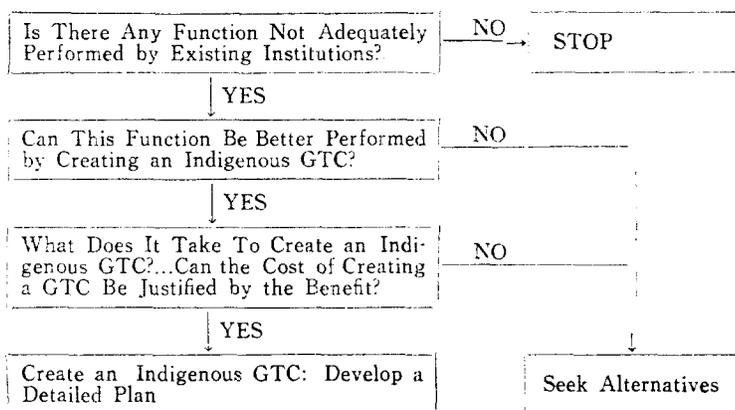
(5) For example, a medium-sized GTC has 80 branch offices and 40 subsidiaries in 80 countries. These overseas organizations are staffed by some 650 expatriate Japanese and 1,500 local employees.

(6) This list is taken from a pamphlet put out by the Japan Foreign Trade Council, titled "The Sogo Shosha: What They Are and How They Can Work for You. (pp. 4-5) The organization is made up of sogo shoshas and smaller trading companies.

different multinational corporations (MNCs).

In less developed countries (LDCs), not all of these functions are performed by their indigenous companies. In fact, many of the functions listed above are conducted for LDCs by foreign MNCs and Japanese GTCs. Therefore, the question for a developed country (DC) concerning the necessity of a GTC is different from the one for an LDC. For a DC it is a matter of replacing various current institutions with a GTC, while for an LDC it is a question of creating a new institution.

This line of reasoning can be shown as in the following flow chart. As was mentioned earlier, for the first question in the flow chart, the answer usually would be "yes", and that function is most likely to be exporting. Then the next question will be whether a country's export performance can be improved by the creation of the GTC. A country's export performance is certainly a function of many variables other than the existence of a trading company. The question is, given the other variables as constant, whether the creation of a GTC will improve one's export performance. Here the export performance means an increase in the volume of and/or profit from exports. If the creation of a GTC means the improvement of one's marketing and financing capabilities, it will certainly have a benefit of increased performance. Then the relevant question becomes: "what does it take to create an indigenous GTC." In other words, can the cost of creating an indigenous GTC be justified by the benefit of improved export performance?



A key characteristic of the Japanese GTC in terms of its organization is its diversity both in products and geographical areas of operations. One may justifiably ask whether the economy can be better served by many smaller independent trading companies than by a giant. The question really is what advantages and disadvantages the diversity and resulting bigness of the GTC have. The advantages are (i) risk diversification, (ii) the ability to provide a "bundle" of services to customers,⁷⁾ and (iii) the ability to support the huge world-wide organizational set-up. On the other hand, the diversity and bigness should have disadvantages: (i) a high cost of administering a huge organization, (ii) a possible reduced competition because of the oligopolistic structure, and (iii) a difficulty in maintaining an entrepreneurial spirit of the organization. We do not have a ready method to weigh these advantages and disadvantages. Nevertheless, this question seems to be the one that has to be borne in mind in discussing the creation of a GTC.

This paper started with the questions of the necessity and possibility of imitating a Japanese-type GTC by other countries. After some discussions, the question is boiled down to the one of what it really takes to create an indigenous GTC. Two pieces of analyses will be used in answering this question. The first one is to look at the operations of Japanese GTCs in specific products. By analyzing how a GTC performs its functions in a typical transaction, it is hoped that the foundation of the Japanese GTC can be detected. For this part of the research, in addition to searching the literature, I visited six *sogo shoshas* in Tokyo and interviewed area marketing managers as well as product managers.

The second piece of analysis is reviewing Korean experience with its own version of the GTC. For this part of research, I visited the headquarters of

(7) This bundle includes information service, financing, risk taking, balancing of supply and demand, supply of raw materials, market development, and technology procurement. This nature of the bundle makes it difficult to analyze each function separately. One has to take into consideration of the interactions of different functions.

eight Korean GTCs and their marketing subsidiaries and branches in the U.S. and Japan. The total of twenty-four visits were made with Korean companies, eight each in Seoul, the U.S. (New York and Los Angeles) and Tokyo. Again, questions were directed at marketing policies and practices in specific products and markets. These two analyses will be presented in the next two sections. A synthesis of these works will be attempted in the last section.

III. Foundations of the Sogo Shosha: Domestic Ties

A trading company is a middleman. It usually does not have a manufacturing base. Its income takes the form of a margin between buying and selling (in case of merchant middleman) or a commission (in case of agent middleman). It is essential in order for any middleman to survive to maintain a stable level of business volume. If his customers are not loyal to him and switched all the time, his life will be indeed unstable, being forced to looking for new customers constantly.

In this section, we will see how a sogo shosha does this job of maintaining a stable relationship with its customers. We will look at two products: iron and steel, and textiles. A sogo shosha is generally organized by product lines. It will have strategic business units (SBU) along major product lines such as machinery, metal, textiles, chemicals, energy, etc. Each SBU will again have its sub-divisions. For example, the Machinery SBU may be made up of the following departments: electrical and electronic machinery, transportation equipment, industrial machinery and plant construction. Each department is usually managed as a profit center, and a department manager (bucho) has a substantial authority in making decisions. By delegating authority to middle managers (department and section managers), a shosha can maintain a spirit of entrepreneurship. Since each product department is run like an independent company, it is best to look at the sogo shosha by its product lines.

1. Case Study I: Textile Division

Textile products are still an important line of business for sogo shoshas. For five sogo shoshas who originally started as textile traders in Osaka areas, the average weight of textiles out of total business is about 15.6 percent and for the rest four companies the ratio is 3.9 percent.⁸⁾ When we divide a sogo shosha's sales into four parts (domestic trade, export from Japan, import to Japan, and offshore trade), the domestic trade has the share of about 46 percent of the total sales based on FY 1980 sales figures.⁹⁾ In the case of textiles, the weight of domestic trade out of the total business is substantially higher than the overall average, almost 70 percent in 1975. However, if we realize that exports and imports are also based on the domestic connection, it can be said that more than 80 percent of the sogo shosha's textile business is based on the domestic ties. This is not to say that the GTCs are not important in the external trade. They are important, accounting for about two thirds of textile exports and imports.

The GTCs are involved in almost all phases of textile business. The following table summarizes how GTCs are involved in the textile industry, beginning with the procurement of raw materials for fibre manufacturers, moving through "upstream" and "downstream" manufacturing, and finally distributing through wholesalers and retailers. It is noted that, from a manufacturer's viewpoint, GTCs are involved in both supplying inputs (both domestic and foreign) and selling outputs (again domestic and foreign). This seems to be a key characteristic of the relationship between Japanese manufacturers and GTCs. The relationship between the two is not dependent upon one transaction

(8) Five companies include C.Itoh, Marubeni, Tomen, Nichimen and Kanematsu-Gosho. These ratios are based on the sales in FY 1980. It may be noted that the weight of textiles has been constantly decreasing ever since the early 1960s. In 1963, the ratios were 43.3 percent and 11.7 percent for the two groups respectively.

(9) This rate has decreased drastically in the last several years from the base of about 60 percent. This trend indicates the increasing internationalization of the sogo shosha.

Table 1. Functions of the Sogo Shosha in the Textile Industry

Toward Synthetic Fiber Makers and Large Spinners	Toward Knitting, Weaving and Apparel Manufacturing Companies	Toward Super Stores and Department Stores
*Supply raw materials from overseas	*Organize small companies along production process	*Importing
*Joint venturing overseas together	*Supply intermediate products	*Physical distribution
*Planning downstream operations together	*Sales promotion	*Joint investment in warehouses and stores
*Selling products in the domestic and foreign markets	*Management advice	*Help brand licensing from overseas
*Financing sales credit and risk taking	*Helping overseas investment and operations	*Joint product planning
	*Supplying technology from overseas	*Financing working capital
	*Long-term and short-term financing	
	*Physical distribution	
	*Information service	
	*Product Planning	

Source: Shōsha Kinō Kenkū kai, *Gendai Sogo Shōsharon* (A Theory of Modern General Trading Company), Tokyo: Tōyō Keizai Shimpōsha, 1975, p.163.

but a multitude of transactions. If these multi-channel relationships are maintained over a long period of time, then there will develop a state of "trust" between the two parties.

The GTCs themselves are also directly involved in the domestic wholesaling. The GTCs usually have many subsidiaries both in Japan and overseas. It is well known that Japanese GTCs invest in foreign manufacturing ventures together with Japanese manufacturers, acting as an organizer in many cases. In those overseas direct investment, the GTCs usually take a minority share and are not very interested in the managerial control. In domestic investment, however, GTCs invest in order to control the operations of subsidiaries.¹⁰⁾ Although a little outdated, financial statements for 1974 show that the domestic direct investment for 10 companies was 63 percent of the total foreign direct investment.¹¹⁾

(10) Motives for domestic investment are threefold: (i) to participate in the domestic distribution channel, (ii) to diversify into a new line of business, and (iii) to be forced to take over a company which defaults on its debts. Setting up a domestic subsidiary also gives an advantage of securing less expensive manpower.

(11) Shōsha Kinō Kenkyū kai *Gendai Sogo Shōsharon*, Tokyo: Tōyō Keizai Shimpōsha, 1975, p.83. Ten companies include Ataka which was later merged with C. Itoh.

Table 2. Number of Affiliated Companies of Six Sogo Shoshas

	DOMESTIC (1973)		FOREIGN (1977)	
	All Affiliates	Textile Affiliates	All Affiliates	Textile Affiliates
Mitsubishi	158	16	234	21
Mitsui	200	18	283	34
Marubeni	164	32	258	41
C. Itoh	131	21	219	40
Sumitomo	68	5	129	4
Nissho-Iwai	96	8	120	10

Note: The definition of an "affiliated" company varies with the companies. In general, an affiliated company is the one with which the mother company has a managerial and financial affiliation.

Source: DOMESTIC—Shōsha Kinō Kenkyūkai, *Gendai Sogō Shosharon*, Tokyo: Tōyō Keizai Shimposha, 1975, p. 93. FOREIGN—Toyo Keizai Shimposha, *Kaigai Shinshutsu Kigyo Soran* (Japanese Multinationals: Facts and Figures), Tokyo, 1978 (as compiled by Kobe University Research Institute for Economics and Business in 1979).

[Table 2] shows the number of affiliated companies of the top six GTCs. For example, Marubeni has thirty-two affiliates in the textile industry alone. These affiliates seem to include both manufacturing companies and sales and distribution companies. It is seen that, in the textile industry, GTCs maintain a stable source of trade flows mainly through two ways: (i) by providing a multitude of transactions and services to independent manufacturers and distributors, and (ii) by directly investing in and controlling affiliated companies. In a sense, GTCs act as an overall organizer of the whole textile industry of Japan.

2. Case Study II: Iron and Steel Division

Steel products are one of the most stable sources of transaction for the GTCs. Here again the GTCs are involved both in the procurement of raw materials and the sale of manufactured products. In order to produce 100 tons of pig iron, one needs 138 tons of iron ore, 58 tons of coal and other minerals. Japan imports 100 percent of its iron ore needs and 85 percent of its coal needs.¹²⁾ The GTCs have been involved in the procurement of these raw materials for steel companies from the very start of the iron and steel industry in Japan.

(12) Marubeni Corporation, *The Unique World of the Sogo Shosha*, 1978, p. 77.

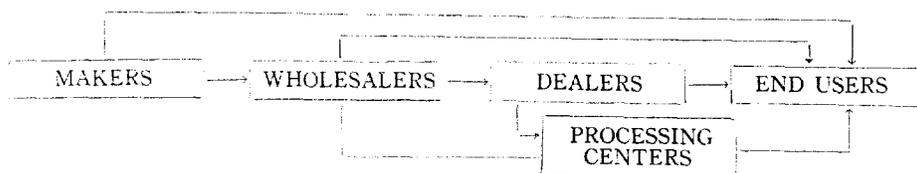


Fig. 1. Distribution Channel of Steel Products in Japan

There has been a division of labor between steel companies and GTCs, the former concentrating its resources in the production and the latter assuring a stable supply of raw materials and also a stable demand for products. It is no wonder then that the GTCs are heavily involved in resource development projects in Australia, Brazil and some other countries.

In this section, we would like to draw attention more to the involvement of the GTCs in the domestic distribution of steel products. This will highlight a strong relationship GTCs maintain with steel makers. The distribution channel for steel products in the Japanese domestic market can be shown as in the following simple figure. Which particular channel is used by particular end users will depend primarily on the amount of purchase. For example, big end users such as automobile manufacturers and shipbuilders will buy directly from steel makers. Majority of steel products, around 80 percent, will go through the hands of wholesalers. And important wholesalers are none other than the GTCs themselves. Major steel producers have a group of "designated" wholesalers who exclusively handle products for the manufacturing companies. For example, Nippon Steel Corp. has twelve designated dealers and all except three are GTCs. In Nippon Kokan's case, six out of nine designated wholesalers are GTCs. It is about the same picture with Kawasaki Steel(seven out of ten), Sumitomo Metal(three out of eight), and Kobe Steel(nine out of fifteen). Although there are around 80 wholesalers specialized in steel products, nine GTCs as a whole handle around one half of the total domestic steel trade.¹³⁾ It is also noted that all the five GTCs who originally started as textile traders acquired existing specialized steel wholesalers in the process of diversifying into

(13) Shōsha Kinō Kenkyūkai, *op. cit.*, p.103.

the iron and steel industry. This shows that a GTC needs a strong domestic base in order to play a role in a certain industry.

The functions that GTCs perform are again multiple:

- (1) financing
- (2) physical distribution
- (3) setting up processing centers, both domestic and foreign
- (4) balancing demand and supply
- (5) jointly participating in establishing steel industry overseas
- (6) securing sources for raw materials.

Through this multitude of functions and services, there develops between manufacturers and GTCs a kind of "commercial sanctuary" where outsiders cannot easily invade. A similar pattern emerges in the steel industry just as in the textile industry. By providing a package of services to the customers and by getting directly involved in the distribution channel, GTCs have established a strong foundation on which continuous transactions flow through.

3. Factors Affecting the Relationship between a GTC and Its Customers

In the preceding two case studies, we tried to establish the fact that Japanese GTCs have a strong domestic foundation upon which their stability depends. Textiles and steel products are, of course, not the only products that GTCs handle, and the steel industry may be an extreme case where the tie between GTCs and manufacturers is unusually strong. There are some industries which do not rely very much on GTCs in domestic and international trade. Conspicuous examples would be the automobile and consumer electronics industries. Even in the industries which rely heavily on the GTCs for distribution, one can sometimes hear cases of switches and changes in the tie between a maker and a trading company. Here is a major question about the strength of a tie between a manufacturer and a trading company: namely, what are the factors which affect the relationship between a GTC and its cus-

tomers?

There seem to be four factors. The first is a product characteristic. GTCs are best in handling standardized products (commodities) in large quantity. Examples are metal products, industrial chemicals, energy products, wood and pulp, grains and feedstocks, and other raw materials. In these products, even when manufacturers are large, GTCs seem to have certain advantages in terms of the scale economies and the information network.

When a product is differentiated, either by high technology content or by marketing efforts, the size of a customer becomes a factor.¹⁴⁾ When a customer is large enough to handle his own marketing activities, domestic or foreign, he tends to bypass a GTC. Any manufacturer should have a strategic motive to control his market, but he can afford to do so only when he has sufficient resources. Large automobile and consumer electronics manufactures are again good examples. Even these companies rely upon GTCs when a particular foreign market is not big enough to warrant their own operations.

In the Japanese machinery industry, one can see how this size factor works. For example, in case of bulldozers, two manufacturers have between them 85 percent of the Japanese market. They have distribution channels of their own, and GTCs handle only 15 percent of the trade.¹⁵⁾ On the other hand, in the case of power shovel, the competition is rather keen among fifteen manufacturers, and 70 percent of the domestic trade is handled by trading companies. If one assumes that these manufacturers are relatively small compared with bulldozer makers, there is one evidence that a customer's size is a factor in the relationship between the two.

A similar case is also found in the distribution industry. There has been a significant change in the retail industry in Japan. A new type of institution called "superstore" has emerged and now accounts for a higher share of retail sales than department stores do. Some of these large chainstores have

(14) This variable, size, may be substituted with the degree of concentration in the industry.

(15) *Ibid.*, p. 147.

extended their sales arms overseas bypassing GTCs, setting up buying offices in foreign countries. Again, a large size of GTCs' customers seems to play a role.

Another factor which determines the stability of the tie between a GTC and a customer is, of course, the repetitiveness of the transactions. A "stable" relationship depicted in the two industries above can develop only when they have continuous, recurring business transactions. Whenever a new market or customer emerges, one can see a fierce competition developing among GTCs. It will take some time before a stable relationship settles in. Also, when a transaction is just one-shot deal, such as supplying steel products to the construction of a subway system or petroleum pipeline, there usually is a very fierce competition and no time for a stable relationship to develop.

There is another environmental factor which acts as a constraint for the relationship between a GTC and a customer. Industrial structure and international competitiveness change over time. When a country begins to lose comparative advantage in a certain product, GTCs are forced to adjust to the new reality. Or when a country develops a new industry, such as petrochemical complex, then the country would not need to import as much chemical products as before. GTCs again have to adjust to this new market situation. The name of the game in these situations is the "flexibility". GTCs have to adjust to changing industrial and market situations. To the extent that these changes take place, a seemingly strong tie between a GTC and a customer has to alter itself.

There are these factors, which are beyond the control of GTCs, that determine a relationship between the two parties. Nevertheless, under these limitations and boundaries, GTCs thrive to maintain as strong a tie as possible with a customer. And it is a contention of this paper that Japanese sogo shoshas have those strong ties with manufacturers and distributors in the domestic market.

If and when these ties are severed or become weaker, GTCs will be forced to venture into a riskier or less profitable business field. Before that happens

(if it is not already happening), however, there seems to be another line of defense for GTCs. There are indications that sogo shoshas may be developing similar kinds of strong ties with some foreign customers. The share of so-called third-country trade out of total sales has been steadily increasing in the last 10 years. The average share for ten shoshas was 5.9 percent in 1972; in 1981 it was 12.6 percent. The announced efforts by sogo shoshas to indigenize their branches and subsidiaries may be a sign that sogo shoshas are forced to find growth outside Japan in the future.¹⁶⁾ On this account, however, we do not have sufficient evidence whether sogo shoshas are indeed developing those strong ties with foreign customers.

IV. Korean Experiment: Success or Failure?

1. A Brief History

A Korean version of GTC was officially launched in 1975. In April of that year, Korean Government started a system of designating a GTC. By 1978, thirteen companies were designated as GTCs.¹⁷⁾ Most of these companies actually existed before 1975, and some of them had already more than twenty years' history behind them when they were designated as a GTC.

There were more than 2,000 "licensed" trading companies and many more smaller trading companies in Korea at the time when the government initiated the GTC designation system. What then were the motives for this new system? It is a well-known fact that the export has been the main engine of growth for the Korean economy. The GTC system was specifically aimed at increasing

(16) Mr. Yohei Mirura, President of Mitsubishi Corporation, recently made a statement to that effect: "... we begin to see the underlying elements of a long-term sogo shosha growth strategy. Geographically, more and more stress is coming to be placed on third country, or offshore, transactions..." (A speech delivered on Feb. 4, 1982)

(17) Now the number stands at ten. Three companies dropped out in the mean time. In the order of designated dates, ten Korean GTCs are Samsung, Ssangyong, Daewoo, Kukje, Hyosung, Bando, Sunkyung, Kumho, Hyundai and Koryo. Koryo Corporation is a semi-public corporation, specializing in exports of small and medium companies.

the export volume by consolidating export activities and resources in the hands of several companies. The government was especially concerned with the cut-throat competition among Korean companies vis-a-vis foreign buyers. Korean exports of the early 1970s was, and in consumer products still is, the nature of "sub-contracting", which means that foreign buyers came to Korea to find subcontracting manufacturers for their products. Most of marketing activities were done by foreign buyers; the task of Korean subcontractors was to make products according to the specifications. Buying activities of foreign buyers were not confined to Korea, but included Hong Kong, Taiwan and Singapore. Foreign buyers were constantly looking for the least inexpensive source of supply. Under these circumstances, exporting was not a very stable activity. The government wanted to make trading companies bigger and have these companies extend their marketing arms overseas.

There may have been other factors, too, which facilitated the initiation of the GTC system: (i) the apparent limitation of the government incentive program for exports, and (ii) the uncertain export market following the first oil crisis. And importantly, there was a clear model next door of the seemingly efficient and successful Japanese sogo shosha.

If we look at the requirements which the government initially set out for the designation, we can see that the sogo shosha was the model after which the Korean GTC system was tailored.¹⁸⁾ The conditions were:¹⁹⁾

- (1) the minimum ten overseas branches
- (2) the minimum ten countries with over \$ 1 million exports
- (3) the minimum 7 products, each with \$ 0.5 million exports
- (4) the minimum total exports of \$ 50 million
- (5) the minimum owner's equity of 1 billion Won
- (6) a publicly listed company (in the stock exchange)

(18) In fact, an executive of C. Itoh was involved in the initial formulation stage of the Korean system.

(19) Currently the requirements for the designation are very simple: (i) the minimum export volume of 2 percent of the nation's total export, and (ii) a publicly listed company.

It is clear that the government wanted a big corporation with diversified products and markets which can develop overseas markets on their own. The basic motive may be similar to what early Meiji leaders had in mind. However, the export was the primary concern in Korean case, whereas imports, especially securing raw materials for new industries without relying on foreign traders, were the primary concern in the early Meiji period.

Looking at the current operations and structure of Korean GTCs, initial targets of the government seem to have been achieved. There are several large corporations with diversified products and a world-wide branch network. They together accounted for over 40 percent of the nation's exports in 1980, compared with 16.4 percent in 1976. And there are evidences that the GTCs have contributed to the diversification of export products and markets.²⁰⁾ Specifically, heavy and chemical products accounted for 57 percent of the GTCs' exports compared with 43 percent for the nation as a whole in 1980. In 1979, the GTCs' share of total exports was 34 percent, while it is estimated that their share in exports to newly-developed markets was 49 percent of the total. Notwithstanding these accomplishments, there have been criticisms and problems. In the next section, we will look at these problems. It will give us some clues to our earlier question of what it really takes to create an indigenous GTC.

2. Korean GTCs: Factors Affecting Their Performance

A major criticism against the GTCs comes from small and large manufacturing companies who are competing with the GTCs. Large manufacturing companies complain that GTCs are so much volume-minded that they tend to drive down the export price. If this is true, it is against what government planners initially hoped for: namely, a reduction of competition among Korean makers in the export market. Small companies who are subcontractors of GTCs complain

(20) Korea Traders Association, *Hangug Jonghabsangsawi Jinlo* (The Future of Korean General Trading Companies), 1981, pp. 71-80.

about the lack of financing they receive from the GTCs. On the other hand, GTC managers say that it is very difficult to maintain a stable group of domestic suppliers. Bigger companies, who originally depended on GTCs for exports, very often develop a direct access to overseas markets when the volume becomes sufficiently large. It is difficult to find reliable subcontractors, GTC managers contend. Frequently, they complain that there are problem concerning the quality and delivery dates between the two parties. In short, the relationship between GTCs and their customers is rather fluid and unstable.

Despite this weak tie with their customers, GTCs have a fall-back position. All nine GTCs belong to a business group, or zaibatsu. Thus they have a captive source of trade flows. Most of them also have their own manufacturing facilities. It is estimated that, in 1979, 35 percent of GTCs' exports were manufactured by their group companies and 16 percent by the GTCs themselves. Together, around one half of total exports was from a captive source of supply.²¹⁾ One can go as far as to say that GTCs' survival itself may have been shaken without the affiliation with business groups. In a sense, some of the investments required for the initial setup of the GTC structure were financed by other companies in the group.

In order to better understand the factors which affected the performance of Korean GTCs, a diagram has been constructed as in Figure 2. The central interest is the performance, which can be measured in terms of the sales volume growth and profitability. The growth of sales volume for the GTCs has really been impressive. Nine companies, on the average, increased their sales (in won) by 8.6 times in four years from 1976 to 1980.²²⁾ However, the profitability has been worsening during the same period.²³⁾ This contrasting performance is seen to be affected by four variables in Figure 2. Two structural variables were explained above: namely, the unstable relationship with independent customers and being a member of the business group. Two strategic variables are also

(21) *Ibid.*, p. 176

(22) *Ibid.*, p. 148

(23) *Ibid.*, p. 207

shown: too much emphasis on the sales volume and one-sided dependence on exports. Because of the initial high cost of setup and the necessity to build up the minimum world-wide network of organization and communication, GTCs singlehandedly sought to increase the volume. This tendency has also been reinforced by the government's pressure to increase export volume. Too much emphasis on volume adversely affects the profitability. As one can see from a simple demand and supply diagram, one has to lower the price to sell more. Sometimes, companies were forced to deal with less than desirable buyers, resulting in bad debt. Now the undesirable effect of the excessive volume-orientation is well appreciated by Korean GTCs, and we see more emphasis placed on the profitability.

The one-sided dependence on exports of Korean GTCs can be seen in Table 3. Exports, on the average, account for 88 percent of the Korean GTCs' sales—a striking difference compared with Japanese GTCs' share of around 20

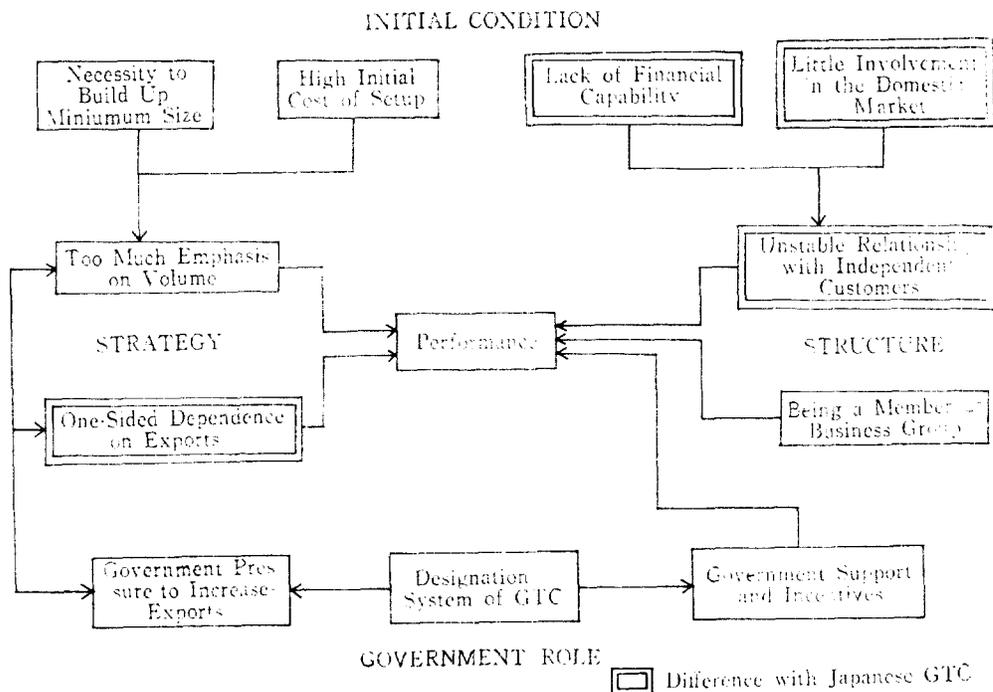


Fig. 2. Factors Affecting the Performance of Korean GTCs

Table 3. Sales Breakdown of GTCs: Korean and Japan (1980)

	EXPORT	IMPORT	DOMESTIC	OFFSHORE
Korean GTCs	88.2%	6.9%	4.6%	0.3%
Japanese GTCs	19.1%	24.3%	46.4%	10.2%

percent. It may not be always true that the dependence on exports is bad for a company. The export market could sometimes provide higher growth or better profitability. Especially in Korea, a relatively small domestic market forces companies to look overseas even when companies are very small.

More importantly, the one-side dependence on export market by the GTCs reveals that their relationship with domestic customers is based on a much weaker foundation compared with the Japanese case. This is shown in the diagram: little involvement of the GTCs in domestic market contributes to the unstable relationship between the two parties. We have seen that, in case of Japan, the tie between a GTC and its customer is a multi-channel one encompassing export, import and domestic trade. It can be seen that the tie between Korean GTC and its customer is the one-channel one based on exporting only.

Another factor which contributes to a weak tie is a relatively weak financial position of Korean GTCs. That was one of initial conditions. Furthermore, the erratic profit performance so far of GTCs has not secured for themselves a sound financial position. Another factor is that, unlike in Japan, Korean business groups do not have banks as a group member. This relatively weak financial position prevents a GTC from extending a liberal credit to its customers, and thus the GTC cannot control its customers as much as it wants.

Going back again to Figure 2, we have shown four major factors which differentiate Korean GTCs from Japanese GTCs.

- (1) One-sided dependence on exports
- (2) Unstable relationship with independent customers
- (3) Little involvement in the domestic market
- (4) Lack of financial capability

It was also shown that these variables are closely related to each other. There are, of course, other differences between the two. There is a big gap in terms of the size, history, and internal resources. However, it is the contention of this paper that qualitative differences described in the preceding paragraphs are more important than quantitative differences. There are in Japan thousands of smaller trading companies which stand on their own. It seems that, in trading business, even small companies can find enough holes and niches to survive and prosper. The question is how strong a relationship one develops with one's customers.

V. Synthesis and Summary

Creating a GTC means establishing a large trading company with diversified product lines and diversified areas of operations. It will have a global network of information and organization, staffed with experienced area and product specialists. It can be seen that the creation of such an organization will make a country's trade activities more efficient. The problem is that the creation of such an organization is no easy task.

Establishing overseas branches is very costly. It is estimated that an average expense associated with stationing an expatriate manager in New York is around \$48,000 per year for a Korean company.²⁴⁾ Having a ten-man team overseas branch requires spending a half million dollars a year, and the branch needs to generate the minimum of \$20 million stable trade flows (assuming the average commission of 2.5 percent) just to cover its expenses. Staffing is another matter. It takes a minimum of six to ten years to develop a veteran trader. He will normally work about three years in the headquarters before being sent to overseas. He will be likely to stay in an overseas post three to five years. Only after he completes one round of duties, he can be consider

24) Korea Traders Association, *Haeoe Jisa Unyong Hyonhwang* (Operations of Overseas Branches), 1981, p. 18.

an independent trader. Recruiting, training and rotating managers take a lot of expense.

Having a global network with necessary staffs is a necessary condition to become a successful GTC, but not a sufficient one. A successful and stable GTC requires a stable flow of transactions, which can be generated only by building strong ties with manufacturers and distributors. Building strong ties with the customers requires a trading company to provide a multitude of services, not just one or two. Sometimes it is necessary to control manufacturers or distributors directly by acquiring managerial control over the customers. These strong ties have been the foundation of Japanese GTCs. Building strong ties will be easier in one's domestic market than in foreign market. Japanese GTCs have those ties in the domestic market. Korean GTCs have not yet developed such strong ties with independent businesses. Fortunately, however, they had the support of the affiliated business groups which supplied them with more than 50 percent of the total transactions.

Fulfilling these necessary and sufficient conditions seems to be a formidable task for any would-be GTC. Establishing a global structure alone requires a great sum of investment and at least a decade of intensive efforts. Even after that investment of money and time, there is no guarantee of success because one still has to fulfill a sufficient condition of establishing stable ties with the customers. A new starter also faces the competition of established GTCs. The experience of Korean GTCs in this respect shows that it is indeed no easy task. Although they have succeeded somewhat in diverting trade flows from Japanese GTCs in the export, such an inroad is still to come in the import business. Japanese GTCs are still breaking Korean GTCs in the Korean Government's open-bid purchasing deals due to their access to a cheaper source of supply. Korean GTCs also have not made a dent yet in Japanese domestic market. A hold of Japanese GTCs in the domestic market seems to be too strong.

Korean experiment with GTCs is still progressing, and it is too early to make

a verdict. Nevertheless, if the experiment were a success, it may be due to two major factors. The first factor was the GTC's affiliation with business groups. The second factor, which we failed to mention so far, is the calibre of people they acquired so far. A GTC is considered by college graduates to be a prestigious place to work for, although the life there is very demanding and requires a full devotion of a man's soul and body. This statement still seems to be true in Japan. It is very unscientific to say, but if one puts together a group of capable and confident people they will somehow manage to survive and prosper even in this turbulent time.

The Japanese GTC may be the most developed kind of the trading company. Being developed too far, they may be becoming to be something other than a trading company. This is what we have detected in the process of interviews. First, there is an indication that they are becoming a holding company. When a sogo shosha announces its sales and number of employees, that just includes numbers for the parent company (Honsha) proper. However, a sogo shosha controls much more than what it announces it has. At the same time, much of daily transactions seem to be delegated to subsidiaries. For example, a medium-sized sogo shosha has a subsidiary specialized in exporting of machinery. Most of exporting of the machinery is done by the subsidiary, which alone employs 360 people. The machinery department of the honsha just does the overall policy making and controls the subsidiaries.

Another trend is the sogo shosha's increasing involvement in the so-called "equity-holding, risk-taking" ventures. When a trading company starts to invest large sums of money (sometimes hundreds of millions of dollars) and hold a managerial control of manufacturing and resource-developing companies, it is becoming something more than a trading company. In this respect, the sogo shosha in its activities is becoming similar to the conventional concept of a multinational corporation.

〈國 文 要 約〉

綜合貿易商社에 대한 관심은 최근 수년간 세계 여러 나라에 의해서 표명되었다. 한국을 위시한 開途國뿐만 아니라 美國과 같은 나라도 輸出振興을 위한 하나의 政策手段으로 종합상사제도를 구상하고 있거나 실천하고 있다.

무역회사의 한 형태인 綜合商社는 日本에서 가장 발달되어 있다. 이 논문은 日本의 總合商社의 基盤을 살펴보고 韓國의 지금까지의 종합상사제도의 성과와 比較해서, 이러한 제도를 답습하려는 여러 다른 나라에 하나의 政策的 示唆를 던지려는 목적으로 쓰여졌다.

종합상사연구의 접근방법은 역사적인 것, 상사맨에 대한 것, 그리고 종합 상사의 기능에 대한 것 등이 있는데, 이 논문에서는 商社의 機能을 비교하는 것으로서 연구의 개념적 틀을 잡아 보았다. 다시 말해서, “종합상사가 없기 때문에 제대로 수행되지 않는 貿易機能은 무엇이며, 종합상사가 설립됨으로써 과연 그러한 기능이 더 잘 수행될 수 있을까?”, “그렇게 될 수 있다면 종합상사를 설립하는 데 소요되는 비용은 무엇인가?” 등의 질문이 본 연구의 관심사이다.

먼저 日本의 종합상사를 볼 때, 외국인에게는 가려서 잘 보이지 않는 면은 日本商社들의 國內基盤이다. 特定 産業의 事例로서 본 연구에서는 日本의 섬유산업과 철강산업에서의 일본상사들의 기능을 살펴보았다. 우선 섬유산업에서는 종합상사는 全産業의 組織者로서 기능하고 있음을 알 수 있다. 특히 원래 섬유회사로서 성장한 關西地方의 5대상사의 경우에는 아직도 섬유제품이 전체 매출액에서 차지하는 비중이 매우 크다. 종합상사들은 국내거래 및 무역거래에서 中間商으로 기능하는 동시에 직접 國內外의 섬유부문의 자회사를 소유하고 경영함으로써 전체산업을 조직하고 있다.

철강산업에서도 日本의 總合商社는 金融, 物的 流通, 加工施設에 대한 投資, 需給調節, 海外投資에의 共同參與, 原資材購買 등의 기능을 메이커들에게 제공함으로써 강력한 유대 관계를 유지하고 있다. 이들은 특히 철강제품의 국내유통에 깊이 개입하여 바로 국내도매상으로 행세하고 있다. 예를 들면 新日本製鐵의 國內 12個 指定都賣商 중에서 9個가 종합상사이다.

이렇게 볼 때 日本의 總合商社는 國內의 製造會社들에 대한 多角的인 서비스를 제공함으로써 상사와 제조회사간의 관계는 단순한 去來關係를 넘는 하나의 “商業的 聖域”을 형성하게 되고, 따라서 안정적인 관계가 오래 지속되게 된다. 일반적으로 상사와 제조회사의 관계를 결정짓는 변수로는 商品의 特徵, 去來의 反復性, 양쪽 기업의 규모 등이 작용하지만 이러한 일정한 制約內에서 日本의 종합상사들은 국내제조회사와 안정적인 거래관계를 형성하여 이것을 강력한 발판으로 하여 해외에 진출하였다.

한국의 종합상사 지정제도는 1975년에 정부에 의해서 수출진흥을 위한 하나의 수단으로 시작되었다. 제도의 도입 이후 종합상사의 成果에 영향을 준 변수를 보면, 우선 不利한 條件으로는 國內市場基盤의 취약점과 金融能力的 不足을 들 수 있다. 이들 두 변수는 상사와 제조회사의 관계가 정착되기 어렵게 만들었다. 이와 같은 여건 아래서 政府의 指定要件을 충족시키기 위해서 海外支社의 設置, 品目數의 擴大 및 人力과 組織의 팽창을 도모하게 되고, 그 결과로 收益性を 무시한 量的 成長爲主의 전략이 추구되어 왔다. 또한 정부가 輸出額 增大를 政治的 目標로 내걸고 상사들을 독려하게 됨으로써 상사의 사업구성은 거의 전적으로 수출에만 의존하는 기형적인 무역회사의 형태를 취하게 되었다.

이러한 어려운 여건 아래서 종합상사를 지탱하는 데 가장 크게 기여한 변수는 이들 종합상사들이 財閥그룹의 一員이었다는 점이었다. 그룹회사들이 상사수출실적의 높은 비율을 채워주면서 경우에 따라서는 좋은 다전을 제공해 주었기 때문에 상사들은 初期의 높은 創業費를 감당해왔다고 하겠다. 여기에 부수적으로 작용한 것이 정부의 지원책이었으나, 이는 前述한 변수에 비해서는 그 중요성이 적다.

한국의 경험으로 볼 때, 종합상사를 설립한다는 것은 자원투입과 시간이 매우 많이 소요되는 일이다. 상사의 중요기능인 情報과 金融機能을 확보하기 위해서는 상당한 투자가 필요하다. 더 나아가서 이러한 체제가 형성되더라도 다음에는 경험있는 상사맨의 확보와 國內外的 고객과의 안정적인 거래관계유지라는 두 가지 어려운 課題가 기다리고 있게 된다.