

## II TRADING HOUSE ACTIVITIES IN OTHER INDUSTRIALIZED COUNTRIES

The Japanese *sogo shoshas* have caught the public eye, not only in Canada and the United States but all over the world. Efforts have been made to emulate them, particularly in Asia and Latin America. Closer to home, the U.S. Export Trading Company Act of 1982 introduced measures aimed, in part, at inducing the creation of *sogo shosha*-styled American trading companies. In Canada, there have been repeated occasions since the early 1970s when the possibilities of a National Trading Corporation have been examined, including most recently the review of this subject by a Special Parliamentary Committee in 1981.

With all the awareness and interest surrounding the *sogo shosha* dream, very little attention has been given to the fact that there exists, in most industrialized countries, a "traditional" trading house sector contributing significantly to the international trade of their respective countries. This chapter will tackle the issue, within the limits of available data, and refer to measures taken abroad to enhance trading house activities. Special attention will be given to the United States Export Trading Company Act of 1982.

### Trading Houses in Western Europe

International trading is a long European tradition dating back to the Middle Ages and the Renaissance. The development of colonial empires and the industrial revolution gave it another boost. The new economic order introduced some changes in orientation and increased the scope of its operations. In the 1980s there is no E.E.C. country where the trading house sector accounts for less than 15 per cent of its country's international trade, and in some countries the share reaches 30 per cent. The Federal Republic of Germany, France, and the United Kingdom have thousands of trading houses. Some are world-class giants, many are medium-sized, and a large portion are small. Two country cases are interesting to study because their trading house sectors are quite important, and because they operate under different conditions. These are the Federal Republic of Germany and France.

#### The Federal Republic of Germany

It is estimated that about 30 per cent of German exports are handled by trading houses and their export share reaches 50 per cent for overseas markets. There are at least 3200 trading houses in Hamburg and 600 in Bremen. Some of them date back to the 18th or 19th century, although most were established over the last 70 years. Most of them are medium-sized (50 employees), family-owned, and fiercely independently minded. Specialization by type of products or by country appears to be their key characteristic and the basis for their efficiency. The overwhelming majority act as merchants providing the full range of services required both by their suppliers and by their clients including financing, insurance, freight forwarding, training, maintenance, and after-sales service. In addition, they are closely linked with industrial sectors and the banking community. Their standing relies more on their expertise and knowledge than on financial resources. There is little doubt that tradition and time have contributed to an overall understanding of their value which remains unmatched in North America.

The German example shows that large size is not a requisite for export performance. What is more important is the ability to provide necessary services to suppliers and clients. Another key ingredient of the success of German trading houses is their specialization by product and/or by market. The necessity to specialize is predicated

on the extensive financial and human resources required to market industrial goods and services.

#### France

There are at least 6,000 trading houses in France doing about 25 per cent of all exports. It is estimated that they account for 40 per cent to 60 per cent of all exports in the food commodity and end-product sectors, and 10 per cent to 15 per cent of French exports in raw and semi-fabricated materials.

The sector can be divided into three parts. First, a few large companies are involved in representation and distribution of French products overseas. They have reached a high level of product diversification but operate mostly in former French colonies. Second, a large number of companies are specialized in foodstuffs and operate worldwide. Third, a multitude of small firms act mostly as agents trading in consumer goods. There are few medium-sized trading houses in industrial goods and services.

In comparison to the German example, the French trading house sector exhibits certain structural weaknesses such as the lack of links with the manufacturing/engineering sector; insufficient specialization; and inadequate financial resources and support. To remedy these weaknesses, the French government has taken some specific measures.

The Industrial Development Institute (IDI), a government-owned entity, engaged in the late seventies in supporting dynamic and productive trading houses and provided them with equity funding to develop their overseas networks in North America, Latin America, and South-East Asia. IDI also promoted the regrouping of small trading companies to enhance their growth and specialization.

Banks have been encouraged to venture more vigorously into the trading field. In this context, they have taken equity positions in existing trading houses, created new ones, and entered into joint ventures with others. For example, SDG Export was created by Société Générale; COMPEX was the result of a joint venture between Banque Nationale de Paris and Inchange.

Examples of bank intervention in trading houses are numerous: Banque de l'Indochine et de Suez in SODEIX, in FRANCEIT, in OLIVIER, in SETILEX; in France, EXPA Paribas in SCOA and SATI; Banque de l'Union Européenne in SECOPA, with Crédit Lyonnais in COOPINTER (specialized in countertrade); Banques Populaires in PRAMEX, etc. . .

It is too early to evaluate the impact of such initiatives (a cursory look at the French trade balance suggests that they have not been a real answer) but it is interesting to see the orientation of the measures being taken in France. First, the government focused on existing small and medium-sized trading houses. Its policy was to promote product and market specialization rather than diversification or "globalization" of activities. Second, it recognized that inadequate financial resources were the major impediment to growth.

#### Japan

There is no point in belabouring the case of the *sogo shoshas* or general trading companies. Since so much has been said about them, it has been forgotten that . . . they are not trading companies. At least, not in the sense of the more typically Western trading house model still prevalent in most countries.