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The Role of Marketing Strategies
in Penetrating Southeast
and East Asian Markets

by

Friedrich von Kirchbach

Institut für Weltwirtschaft an der Universität Kiel

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1. Introduction*

Over the last two decades, Southeast and East Asian developing countries have evolved into an economic growth pole of increasingly global importance. The pronounced trade orientation of the eight major countries - i.e. the ASEAN countries, Hong Kong, the Republic of Korea and Taiwan - has rendered their combined import volume larger than that of the Middle East, Africa or Latin America. In 1984, 8.7 per cent of total OECD countries' exports (without intra-EEC trade) went to this region, up from 5.2 per cent in 1970. In relation to European standards, the imports of these eight countries are substantial. They were equivalent to 51.4 per cent of external EEC imports in 1984. Against this background, the declining role of European companies in this region deserves attention. The losing out of European companies in this region may be seen at different levels. Table 1 compares the eight countries' total imports with EEC exports to the region. EEC exports declined steadily from 12.0 per cent in 1975 to 8.9 per cent of the region's imports in 1984. Interestingly, the export share of the other two major OECD economies Japan and the

* This paper reports research undertaken by the author for a project on "Determinants of the Different Success of European, Japanese, and United States Companies in ASEAN Countries" carried out at the Kiel Institute with financial support by the VW Foundation. Comments by U. Hiemenz and R.J. Langhammer are gratefully acknowledged.

United States declined, as well. This was partly related to the second oil price shock in 1979 and partly to the growing importance of South-South trade for the region. European exports to the region, however, exhibited a significantly poorer performance in recent years than those from the United States and Japan. This is most obvious from a comparison of growth rates (see Table 2). Whereas European exports grew at an annual average of nearly one third in the first half of the 1970s, thereby surpassing both the region's import growth and the export growth of the United States and Japan, the growth momentum decreased notably in the second half of the 1970s and dwindled to 1.7 per cent per annum in the beginning of the 1980s. In sum, the recent European export performance in the countries under review was poor in comparison to earlier years, to Japanese or United States exports and to the region's import growth. Europe's declining importance in the region is confirmed by an analysis of OECD exports of advanced industrial goods to the ASEAN countries¹ as well as by an examination of the share of European companies in foreign investment flows to the region².

A declining share of imports from Europe is not a unique phenomenon of Southeast Asia. The EEC's share in total OECD exports (excluding intra-EEC trade), for instance, diminished from 34.9

¹ Rolf J. Langhammer, Ulrich Hiemenz, Declining Competitiveness of EC Suppliers in ASEAN Countries: Singular Case or Symptom, Journal of Common Market Studies, Vol. XXIV (forthcoming).

² See for instance F. von Kirchbach, 'Transnational corporations in the ASEAN region: a survey of major issues', in: Economic Bulletin for Asia and the Pacific, Vol. XXXIII, No. 1, June 1982, pp. 12-27.

Table 1 - Imports of Southeast and East Asian Developing Countries and Exports of Selected OECD Countries to this Region, 1975, 1980 and 1984 (US\$ billion)

	Total Imports (cif)			Exports (fob) from								
	1975	1980	1984	EEC			Japan			USA		
	1975	1980	1984	1975	1980	1984	1975	1980	1984	1975	1980	1984
Hong Kong	6.6	22.4	28.6	0.9	3.0	3.1	1.4	4.7	6.6	0.8	2.7	3.1
Indonesia	4.8	10.8	13.9	0.9	1.7	1.8	1.8	3.4	3.1	0.8	1.5	1.2
Rep. of Korea	7.2	22.3	30.6	0.6	1.3	1.7	2.2	5.4	7.2	1.6	4.7	6.0
Malaysia	3.6	10.8	14.1	0.6	1.4	1.5	0.6	2.1	2.9	0.4	1.3	1.9
Philippines	3.8	8.3	6.4	0.4	0.8	0.5	1.0	1.7	1.1	0.8	2.0	1.8
Singapore	8.1	24.0	28.7	0.8	2.4	2.6	1.5	3.9	4.6	1.0	3.0	3.7
Taiwan	6.0	19.7	22.0	0.5	1.2	1.5	1.8	5.1	6.0	1.5	4.3	5.0
Thailand	3.3	9.2	10.4	0.4	1.0	1.0	1.0	1.9	2.4	0.3	1.3	1.1
Total	43.4	127.5	154.6	5.2	12.9	13.8	11.4	28.3	33.7	7.3	20.9	23.7
Percentage shares	100.0	100.0	100.0	12.0	10.0	8.9	26.3	22.2	21.8	16.8	16.3	15.3

Sources: International Monetary Fund, International Financial Statistics, Yearbook 1985; OECD, Monthly Statistics of Foreign Trade, various issues; Council for Economic Planning and Development, Republic of China, Taiwan Statistical Data Book, various issues.

Table 2 - Annual Growth of Imports of Southeast and East Asian Developing Countries and Exports of Selected OECD Countries to this Region (per cent per annum)

	1970-1975	1975-1980	1980-1984
Imports of eight countries under review	25.8	24.1	4.9
Exports to the region from			
the EEC	32.9	19.9	1.7
Japan	23.1	19.9	4.5
the United States	25.9	23.4	3.2

Sources: as for Table 1.

per cent in 1980 to 30.3 per cent in 1984, compared to an increase in Japan's share from 14.6 to 18.5 per cent and a marginal decline for the United States from 24.9 to 23.9 per cent¹. Yet, developing Southeast and East Asian countries are in many ways an ideal testing ground for the competitive positions of EEC, Japanese and United States companies. First, the region's imports from industrialized countries were more evenly distributed among EEC, Japanese and United States companies than African and Latin American imports, where European and United States companies, respectively, continued to hold a dominant position. This bears witness to the comparatively open character of Southeast and East Asian economies in recent history. Second, this region is an interesting study ground for the success of Japanese companies. While the latter were late-comers in this region in comparison to European and United States companies, Southeast and East Asia was the region, in which Japan's overseas expansion began. The analysis of the competitive rivalries between Japanese and Western companies in Asia appears to be particularly relevant in view of the still small but rapidly growing presence of Japanese companies in Latin American and African countries.

Whereas the empirical indicators on Europe's declining role in Southeast and East Asia are rather unambiguous, the underlying determinants are less obvious. There are numerous possible explanations for this trend, and undoubtedly, it has been a combination of different factors that has led to the present situ-

¹ Same sources as for Table 1.

ation. Yet, historical and cultural factors can be largely discarded. First, historical links should have favoured European companies in at least five of the eight countries. While it is true, that the EEC share in Thai imports is lower than in total ASEAN imports, and significantly lower in the Republic of Korea and Taiwan than in all other countries of the region, the declining EEC share in imports holds true for all countries. Second, the geographical proximity of Japan should not be equated with cultural affinity. In fact, the normalization of relations between Japan and Southeast and East Asian countries after World-war II took a long time, not only at the political level, but also economically as the ethnic Chinese in Southeast Asia with their wide-spread control over the economies had been most seriously affected during the Japanese occupation.

If historical, cultural and other non-economic factors are excluded, the determinants of the different success of European, Japanese and United States companies in the region under review have to be associated with differences in competitive advantages in any of the following four areas:

- production
- marketing
- financing
- transportation.

With respect to the latter area transport costs were not found to be important disadvantages of European and US suppliers vis-à-vis Japanese suppliers¹. This paper takes a closer look at the mar-

¹ See Rolf J. Langhammer, On the Importance of Transport Costs in International Trade Flows - An Analysis of European, Japanese and US Exports to the Philippines, Kiel Working Papers, No. 247, November 1985.

keting side. Two prima-facie considerations render this approach particularly interesting:

First, export marketing and distribution strategies are likely to be an important determinant for the success of any exporter. This can be gathered, for instance, from the considerable value added in final distribution of exports in the target market. A questionnaire survey of foreign trading companies in four Asian countries suggested, for example, that marketing and distribution costs of imported products in the final market amounted to as much as 27 per cent of the final user's price for machinery and engineering equipment, 36 per cent for chemicals, 51 per cent for medical supply and 53 per cent for non-durable consumer goods¹. As a matter of fact, actual production costs are smaller than marketing and distribution costs for numerous products. It follows, that comparative advantages of exporters in marketing and distribution may be just as important as those in the sphere of production. This holds true in particular for industries which are vertically integrated down to the distribution level.

Second, there appear to be at least five characteristics common to the eight countries under review, which further augment the importance of marketing and distribution strategies as determinant for the success of exporters:

¹ See ESCAP/UNCTC Joint Unit on Transnational Corporations, United Nations Economic and Social Commission for Asia and the Pacific, Transnational Trading Corporations in Selected Asian and Pacific Countries, ST/ESCAP/327, Bangkok, 1985, Table 56.

- Governments intervene massively in practically all economies under review. Numerous policies and regulations affect the selection of export channels. This is most obvious for the choice of overseas manufacturers between direct exports and local assembly or production. As a result the success of corporate marketing strategies hinges upon their adaptation to the policy framework in the final market.
- Asian product markets are highly segmented owing to the unequal distribution of income of consumers as well as firms. The positioning of products within a particular market is therefore of utmost importance. Marketing and distribution channels have to be chosen accordingly in order to be effective.
- Long-term company and personal relations play an outstanding role. The importance of personal rather than functional relations requires long-term commitments for the establishment of distribution channels.
- Brand consciousness is pronounced not only for Westernized local elites, but also in low-price market segments, where consumers can hardly take the risk of switching to unknown brands. This underscores the importance of marketing.
- More generally, the markets of Southeast and East Asian developing countries are no longer open markets in the sense of sellers' markets. This holds true across the board for consumer, intermediate and capital goods imports. Competition is

stiff, as Japanese, United States, European and other Asian suppliers vie among each other and with local companies for future market shares. Marketing strategies figure in the forefront of this competition.

One may conclude, that marketing strategies in the broad sense are likely to influence the success of foreign companies in the eight Asian markets under review. In connection with the declining share of European companies in Asian imports, the two following central questions emerge:

- Are there any significant differences between the export and marketing strategies of European, United States, Japanese and other Asian manufacturers supplying the countries under review? If yes, what is the background to these differences?
- If there are any significant differences, to what extent do they lend themselves as explanation for the declining role of European companies in Southeast and East Asian markets?

This paper seeks to shed light on these questions. After reviewing the sources of data used in this study in the next section, it examines two major aspects of the marketing strategies of companies exporting to the countries under review. The first one relates to the institutional organisation of the export channel. The options available vary from sporadic exports upon request only to investment in assembly or production facilities in the final market. This choice requires primarily a decision of the exporter on the amount of resources he is prepared to invest in

the distribution channel. One may distinguish the following six alternatives for penetrating Asian markets:

1. sporadic exports to Asia without any representative or agent in the region;
2. appointment of a trading company from the home country or region of the exporter as agent in Asia;.
3. appointment of an Asian trading company as importer and distributor;
4. establishment of a marketing affiliate in Asia;
5. establishment of assembly or production facilities in Asia;
6. licensing of Asian manufacturing companies.

Channels 1. to 5. are put into an order of increasing costs required to set up export governance structures¹. Section 3 of this paper examines whether European, United States and Japanese exporters rely to varying degrees on these different channels and to what extent this could be related to their success in the Asian markets under review². Section 4 reviews a second major pa-

¹ See also T.W. Roehl, P.L. Chee and Kang Rae Cho, Patterns in Asia-Pacific trading structures: testing marketing and transactions cost approaches, in: Research in international business and finance, Vol. 4 (Part B), (JAI Press Inc., London) 1984, pp. 67-118.

² By taking a regional perspective, this paper focuses on the characteristics of European, Japanese and United States companies in the entire region rather than on the differences between various countries in the region or differences between companies from various European nations. While the author is aware of the differences in economic development throughout the region, the existing similarities do permit the proposed analytical clustering of countries. In fact, this approach comes closest to the corporate perspective of the region.

parameter of export marketing strategies, namely the positioning and pricing of products in the final market. The major results and conclusions are summarized in section 5.

2. Data Sources

There is hardly any readily available data to answer the above questions. This paper therefore employs a new approach towards analysing the institutional patterns of international trade, referred to as trade channel analysis¹. In addition, it draws on the results of a recent questionnaire survey of the author on foreign trading companies operating in Asia.

The trade channel analysis basically reclassifies foreign trade statistics by types of traders using the original customs declaration for all export and import transactions. This technique allows to calculate the involvement of different types of traders in exports and imports for each product. In addition, a number of trader-specific characteristics can be derived, such as average export and import prices, product and geographical specializations and average size of transactions. So far, full-fledged trade channel analyses have been undertaken for Thai foreign trade in 1980 and for Sri Lankan foreign trade in 1976, 1978 and

¹ The concept of the trade channel analysis was developed in connection with research on transnational trading corporations, which the author carried out for the ESCAP/UNCTC Joint Unit on Transnational Corporations, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok.

1981¹.

In the context of the present paper, the Thai case is particularly interesting. As Thailand has never been under colonial rule, European, American, Japanese and other Asian companies have competed on a more equal footing than in practically all other countries in the region. Moreover, government intervention has been fairly limited in Thailand. There are hardly any regulations distorting the choice of import channels, with the exception of tariff protection of the domestic market and the Alien Business Law of 1972, which bars majority-owned foreign companies from retailing and from commission trade. Foreign companies have swiftly reacted to the latter regulation by establishing affiliates with local capital majority but under their firm control². In sum, the structure of import and distribution channels in Thailand is likely to yield a fairly undistorted picture of the behaviour and preferences of foreign companies with respect to their marketing strategies.

For the purpose of this paper, importers were classified into the following six categories or trade channels

1. foreign-affiliated agency houses with 30 per cent or more foreign equity participation, excluding the Japanese trading companies (n = 23);

¹ Trade channel analyses are presently undertaken for several other countries within a research project of the International Trade Centre UNCTAD/GATT.

² In the analysis, these dummy firms have been considered as part of their parent companies.

2. Japanese trading companies and other Asian trading companies (n = 13);
3. marketing affiliates of foreign manufacturing companies, which have 30 per cent or more foreign equity (n = 49);
4. locally-owned trading companies with less than 30 per cent foreign equity (n = 57);
5. foreign-affiliated manufacturing companies with 30 per cent or more foreign equity (n = 132);
6. locally-owned manufacturing (and major service) companies with less than 30 per cent foreign equity (n = 80).

The actual classification was done in three steps. First, a list of the 1 000 largest importers in 1980 was prepared. Concentration was pronounced with the 10 largest importers handling 33.8 per cent of all imports, the top 100 importers 63.8 per cent and the top 1 000 slightly below 75 per cent¹. Second, it was attempted to classify each of the 300 largest importers². Third, all other foreign companies were selected from the group of the 1 000 largest importers and classified by trade channel. As a result, one can safely assume that all major foreign-affiliated companies involved in Thai imports are captured in channels 1, 2,

¹ Interestingly, exports of the top exporters were less concentrated up to the largest 200 exporters where the pattern reversed and exports were more concentrated than imports.

² Information required for the classification of companies was collected from Chamber of Commerce publications, lists of the Bank of Thailand and the Board of Investment, company directories, various talks with industry insiders and, finally, direct telephone contacts with the companies. All but 23 companies could be identified and classified.

3 and 5 and that practically all importers which were not classified were locally-owned trading or manufacturing companies¹.

Based on this classification, commodity tables were calculated for 144 import products primarily at the four-digit level of the CCCN-code². These 144 products accounted for 80.2 per cent of total Thai imports in 1980. The commodity tables specified for the imports of each of the 144 products and for each trade channel the amount and share of imports, the number of companies actively involved in each channel, the average import price for each channel and a break-down of value and average price of imports by four regions of origin, namely the EEC³, the United States, Japan and other Asian countries⁴ (see Annex table 2 for an example of a commodity table).

It should be noted, that customs data refer to the actual importers or own business, only, and does not indicate whether commission agents have been involved. For this reason, the activities of the Japanese trading companies, which are primarily involved in commission business, are not adequately captured by the trade channel analysis. This difficulty is, however, largely remedied

¹ Practically all companies, for which ownership and major line of business were difficult to establish turned out to be private locally-owned trading or manufacturing companies.

² See Annex table 1 for a list of products included. For a number of products, customs statistics gave different units such as weight or volume with the effect that there was a total of 190 print-outs for the 144 products.

³ Including Belgium, Denmark, the F.R.G., France, Ireland, Italy, Luxembourg, the Netherlands and the United Kingdom.

⁴ Including the four other ASEAN countries, the Republic of Korea, Taiwan, Hong Kong, Bangladesh, India, Pakistan, and Sri Lanka.

by the results of an interview survey of 132 foreign trading companies in the Republic of Korea, Malaysia, Sri Lanka and Thailand, which included the nine sogo shosha affiliates in Thailand. A list of companies interviewed is given in Annex table 3. Interviews based on a standard questionnaire took place in 1982.

3. Differences in distribution channels between European, Japanese and United States exports

This section examines the quantitative importance of the six above-mentioned marketing channels in imports of the countries under review and analyses, whether there are any differences in the distribution channels for imports from Europe, the United States, Japan and - as far as data permit - from other Asian countries.

3.1. Sporadic exports to Asia without any permanent representation

Entering or operating in Asian markets exclusively from an exporter's sales department without any permanent representative in the target market would appear to be the least costly approach from the point of view of the exporter. However, this approach has become increasingly difficult and rare. For most products, this is related to the initially low slope of the sales response function (relationship between marketing efforts over time and demand). This relationship implies that market entry initially requires a substantial amount of marketing efforts. Only beyond a certain threshold value does demand respond more elastically to

additional marketing efforts. This shape of the sales-response function is due to the above-mentioned reasons, which make marketing and distribution strategies a key factor for the success of exporters, i.e. government interventions, market segmentation, importance of long-term personal relations, brand consciousness and general competitiveness of markets. As a result, direct selling without any permanent representative plays a minor role for OECD exports to the region. Exceptions can be found only for purchases of raw materials and intermediate goods at early stages of processing¹.

Against this background, it would be particularly interesting to find out whether European exporters have been less inclined to establish themselves in the target markets than exporters from other OECD countries. While the review of the institutionally more complex export and distribution channels in the following sections suggests that this is the case, it is extremely difficult to prove this point directly. In the absence of more comprehensive data, the following exercise is worth mentioning. Table 3 gives a break-down by nationality of all foreign suppliers represented in the Republic of Korea. It shows that there were approximately the same number of suppliers from Europe, Japan and the United States, these companies accounting for 86.6 per cent of suppliers from all over the World. Relating the number of suppliers from a particular country to exports of this country to all developing countries and to the Republic of Korea yields two

¹ For details, see Appendix A.

Table 3 - Number of Overseas Suppliers Represented in the Republic of Korea by Countries of Origin, 1981

		Europe	Japan	United States	Total ^a
1	No. of overseas suppliers represented in the Republic of Korea	5 125	5 892	4 968	18 448
2	Imports of the Republic of Korea (US\$ million)	2 456	6,374	6,050	26 132
3	Total exports to developing countries (US\$ billion)	113.3	68.7	83.7	
4	2/1	0.479	1.082	1.218	1.417
5	1/3	45	86	59	

^aIncluding countries other than Japan, United States and European countries.

Source: Association of Foreign Trading Agents of Korea, 'How to export to Korea', undated; United Nations, UNCTAD, Handbook of International Trade and Development Statistics, Supplement 1984, New York 1984.

interesting points. If one considers total exports to developing countries as a general indicator for the exporting country's competitiveness in the Third World, the number of European suppliers represented in the Republic of Korea compared to total European exports to developing countries was significantly below the corresponding ratios for the United States and Japan (see line 5 in Table 3). Assuming that European exports to developing countries are not more concentrated in terms of the number of companies and on products which do not require overseas representation, this suggests that European suppliers catering to Third-World markets have been more reluctant to establish some kind of representation in the Korean market than their United States and Japanese competitors. On the other hand, Korean imports per overseas supplier were substantially lower for imports from Europe than for imports from Japan and the United States. This points to the overall competitive position of European suppliers on the Korean market.

3.2. Foreign trading companies

The role of foreign trading companies in exports to Asia deserves particular attention in the context of this paper. First, from the exporter's perspective the appointment of a trading company from his home country or region as distributor is the most simple and least costly way of establishing a permanent representation in Asia. Second, trading companies tend to function as general business intermediaries facilitating trade, investment and tech-

nology flows. In view of their involvement in various sectors and their experience with numerous products and companies, they tend to hold a key position in the economic relations between their home country and their host countries. Third, there are vast differences between European, Japanese, United States and other Asian trading companies. Fourth, the importance of the European trading houses in Asian economies has notably declined, as will be seen in the next section. It follows that a thorough analysis of foreign trading companies is called for when trying to explain the differences in success between European, Japanese and United States companies in the rapidly growing Asian economies.

3.2.1 European agency houses

European agency houses have historically evolved as the central economic link between the colonial powers and their colonies. Their core activity has been the import and distribution of final goods and services from non-affiliated principals. They typically administer a portfolio of distributorship contracts, which grant them exclusive marketing rights for the products of their principals. Many of them were established by individual merchants in the last century, and often the headquarters moved to Europe only after many years of successful operations in Asia.

The European agency houses have been most active in those countries of the region which were under European colonial rule. This is most obvious in Hong Kong, Malaysia and Singapore. In Hong

Kong, the major "hongs" Jardine Matheson, Swire Group and Hutchison Whampoa, all of which are affiliated with British interests and management, continue to wield considerable influence over the Hong Kong economy, particularly in view of the extremely diversified nature of their activities. In Malaysia, Singapore and Brunei, as well, British companies have played the lead role among the European agency houses. They include the numerous subsidiaries of the extended Inchcape groups, which is likely to be the world's largest independent agency house¹. In Indonesia, the most important agency houses used to be the Dutch trading companies Borneo Sumatra Trading, Internatio, Jacobsen v/d Berg, Lindeteves and Molucse Trading Co. While foreign companies are no longer permitted to engage in pure import and distribution activities, some of the Dutch trading houses have found niches in which they continue to be active in trade-related activities. In Thailand, the Swiss agency houses Diethelm and Züllig are in a strong position, in addition to a number of British and German agency houses. United States agency houses and traders used to play an important role in the Philippines but they no longer do, because of rapid, and partly Government-fostered indigenization of import and distribution activities. Throughout the ASEAN region, the large Danish trading and shipping house East Asiatic Co. has sizeable interests. European agency houses are clearly less active in the Republic of Korea and Taiwan. For one thing, there

¹ Inchcape subsidiaries market the products of some 2 500 principals in more than 60 countries. Its 1981 turnover exceeded US\$ 3 billion. See, for instance, Far Eastern Economic Review, 9 August 1984, pp. 50-56.

was no European colonial umbrella under which European companies could have moved in under preferential conditions and at an early stage. In addition, comparatively well-developed local entrepreneurship and rapid industrialization rendered these two countries less attractive and accessible to European agency houses. Only the leading companies such as East Asiatic, Jardine Matheson and some German agency houses specializing in machinery and plant exports developed fairly strong positions in these two countries¹.

What is common to all agency houses is the primary orientation of each affiliate to the final market. Agency houses tend to be fairly independent of their headquarters, and geographical and product diversification has been less essential to survival than their country-specific experience. The agency houses' intimate

¹ Owing to the long history of European agency houses in Asia and their flexibility in responding to new opportunities and restrictions, different types of agency houses have emerged. One may discern at least three different lines of development. First, there are the large traditional agency houses of colonial origin which are well-integrated into a global or at least regional company network and which are truly general traders with interest in consumer goods, transportation equipment, machinery and services. In most cases, they have diversified into assembly or manufacturing activities, as well. Second, there are the agency houses specializing in machinery. Most of the Asian subsidiaries of the Hanseatic export houses from Hamburg and Bremen fall into this category. Their Asian subsidiaries are generally fairly small and keep a low profile. Yet, they are active in most countries under review. Not only are they less diversified in terms of products, but also in terms of functions: they hardly venture into production activities. Third, there are those numerous European agency houses which are European only by virtue of the nationality of their major shareholders and principals, but which are headquartered in Asia and do not command over an extended company network in Europe. Some of them have risen to considerable prominence in particular markets. Examples are Berli Jucker and Grimm in Bangkok.

knowledge of their final markets, in which many of them have been operating for several decades has been the major asset they have offered to their principals. Against this background, one would expect to find many European manufacturers with limited resources for export marketing appointing agency houses as their distributors in Asian markets.

A closer investigation shows, however, that the European agency houses handled in the early 1980's only a very small percentage of total imports of the countries under review and that this share was further eroding. In Thailand, the share of the 19 major agency houses (including three small American ones) was 2.6 per cent in 1980, according to the questionnaire survey (see table 4). The trade channel analysis confirmed this order of magnitude indicating that the 23 foreign-affiliated agency houses, figuring among Thailand's 1 000 top importers, handled 1.8 per cent of total Thai imports, excluding transactions on commission basis, which do not enter the customs statistics under the name of the commission agent (see Annex table 5). Considering that about 30 per cent of the turn-over of agency houses consists of commission business (see Annex table 4) the two approaches point to the same, small share of agency houses in Thai imports. In Malaysia, the share of 13 agency houses (out of which one was non-European) in total imports was 2.0 per cent in 1980, and in the Republic of Korea their share was even lower with 0.8 per cent of total Korean imports. Although no empirical data was available for Indonesia, the Philippines and Taiwan, factual evidence suggests that the share of the European agency houses in total imports was even

Table 4 - Imports of Major Foreign-affiliated Agency Houses^a in Selected Asian Countries by Industry 1980^b (million US\$)

	Republic of Korea (n = 9)	Malaysia (n = 13)	Thailand (n = 19)
Food and beverages	4.0	50.2	42.2
Primary goods	(4.0)	-	-
Processed goods	-	(50.2)	(42.2)
Other consumer goods	-	57.7	51.0
Non durables	-	(37.5)	(7.0)
Durables	-	(20.2)	(32.8)
Other/Not identified	-	-	(11.3)
Medical supply	-	4.4	24.1
Intermediate goods	42.9	55.9	31.4
Chemicals	(24.4)	(53.0)	(24.6)
Steel products	(0.5)	-	-
Other/Not identified	(18.0)	(2.9)	(6.8)
Machinery	131.6	35.4	75.2
Transport equipment	-	4.2	6.9
Other goods/Not identified	10.5	6.2	14.4
TOTAL	189.0	214.0	245.2
Share in total imports	0.8%	2.0%	2.6%
Approximate share in total imports from Europe	8%	6%	10%

^aExcluding the Japanese sogo shosha and other Asian trading companies. - ^bSee Annex table 3 for the list of companies included in the survey. While the samples in the Republic of Korea and Malaysia include the majority of the major agency houses, the sample in Thailand includes all major agency houses. Figures include commission business as well as business on own account.

Source: Interview survey.

smaller in these countries. Moreover, imports of the agency houses have been growing at rates clearly inferior to those of national import growth. The average annual growth rate of all agency houses included in the survey and weighted by the size of each company's imports amounted to 7.4 per cent over the years from 1975 to 1980, i.e. about one third of import growth at the national level.

The declining role of European agency houses is clearly not only the result of the decreasing share of Asian's imports from Europe. The questionnaire survey suggests that only between 6 and 10 per cent of total imports of the Republic of Korea, Malaysia and Thailand from Europe were handled by agency houses (see table 4).

A more detailed picture emerges from the trade channel analysis of Thai imports in 1980. Annex table 6 gives a break-down of Thai imports from Europe by type of trader. As far as the involvement of the 354 major importers in 144 major products was concerned, 16.3 per cent only of Thai imports from the EC were handled by the agency houses¹. Only for food and tobacco imports was this share significantly higher with 72.4 per cent, whereas in the quantitatively most important product groups chemicals, machinery

¹ Making allowance for the commodity sample of imports (accounting for 80.6 per cent of total Thai imports), the share of the 354 major importers in total imports from Europe (i.e. 35.7 per cent, see Annex table 7) and the average share of commission business in imports of agency houses (i.e. 30.5 percent, see Annex table 4), these 16.3 per cent correspond closely to the 10 per cent share, derived from the questionnaire survey.

and transportation equipment, the shares were 11.9 per cent, 15.2 per cent and 4.1 per cent respectively. It follows that the European agency houses no longer played the leading role as export channel for European exporters they used to do. Considering the growth differential between imports of agency houses in Asia and total Asian imports from Europe, the importance of the European agency houses as export channel for European manufacturers is likely to decline further in the future.

In the same line of argument, the questionnaire survey points to a high degree of competitive pressure for the agency houses. Company officials of agency houses were asked, which type of company they considered to be their major competitors. The results are shown in table 5, column 2. Agency houses were challenged from at least three different sides, namely local trading companies, marketing affiliates of foreign manufactures and the Japanese general trading companies, in addition to competition among the agency houses themselves.

It was not possible to confirm the observed trend in the home countries of the agency houses. While it is sometimes argued that the traditional agency houses face structural adjustment problems in their European home countries because of the increasing importance of direct trade, the only empirical indicators available do not support this view¹. A survey of Hanseatic export houses

¹ Erich Batzer, Rainer Ziegler, Die Außenhandelsunternehmen in der Europäischen Gemeinschaft: Funktionen, Strukturen, Wettbewerb, IFO Institut für Wirtschaftsforschung, München, November 1984.

Table 5 - Perceived Major Competitors of Foreign-affiliated Trading Companies in the Republic of Korea, Malaysia, Sri Lanka and Thailand by Type of Company^a
(Number of Company Responses, Weights in Brackets)

Type of competitor	Sogo shosha	Foreign affiliated-agency houses	Marketing affiliates of foreign producers
Sogo shosha	20 (2.8)	22 (2.3)	11 (2.2)
Marketing affiliates of foreign producers	11 (1.4)	23 (2.0)	26 (2.5)
Producing companies trading directly	7 (1.7)	5 (2.2)	5 (1.8)
Local private trading companies	9 (1.7)	33 (2.0)	14 (1.9)
Local state trading companies	1 (1.0)	7 (2.4)	7 (2.0)
Others (mainly foreign-affiliated agency houses)	10 (1.8)	26 (2.0)	11 (1.7)
Total no. of answers	58	116	74
Total no. of companies	20	44	29

^aCompanies were asked to indicate and rank their three most important types of competitors. The top number in each cell shows the frequency with which types of competitors were mentioned. The weight in brackets gives the average ranking. The most important type of competitor was given a value of three, the second most important a value of two and the third most important a value of one. Consequently, a weight of three in the table implies that all companies considered this type of competitor as the most important one. Conversely, a weight of one means that all companies regarded that type of competitor as the third most important one.

Source: Interview survey.

concluded that these companies handled approximately 10 per cent of German exports in 1974 and that this share has been of the same order of magnitude over the past decades. Significantly, this study estimates that as much as 45 per cent of all German exports to developing countries were channeled through the Hanseatic traders¹.

It is not clear how to reconcile these figures with the data on the export markets. The most plausible explanation appears to be the following factor. As trading companies have traditionally been most active in servicing marginal markets off the major commercial routes, their share in imports of the eight advanced Asian countries under review is likely to be smaller than for all developing countries. Other explanations could be the six years of time difference between the two observations and differences between German agency houses and those from other European countries. As the Asian data is quite unequivocal, one may conclude that European agency houses, many of which actually originated in Asia, faced more difficulties in Asian markets than in other parts of the Third World.

The reasons behind the declining importance of European agency houses in Asian imports appear to be manifold:

¹ H. Knoblich, 'Die Bedeutung des hanseatischen Ausfuhrhandels für die deutsche Exportwirtschaft' in Marktforschung No. 3, 1979, Vol. 23, p. 86.

First, there is the geographical diversification of Asian imports away from European sources, as non-European suppliers became increasingly competitive. Below-average growth of Asian imports from Europe clearly affected the agency houses for which Europe continued to be the most important source of imports. In Thailand, for instance, 52.5 per cent of the imports of agency sourced houses in 1980 came from Europe (see Annex table 8). The questionnaire survey indicated that the corresponding percentages were at approximately the same level in Malaysia and, with 87 per cent, even higher in the Republic of Korea. The negative correlation between the agency houses' share in national imports and the share of imports from Europe in their total imports is plausible. Shifting to more competitive import sources has been one strategy of many agency houses for participating in the above-average growth of Asian's imports from non-European sources. In Thailand, for example, agency houses procured one fifth of their total imports from countries other than the EC, Japan, the United States and other Asian developing countries. This included primarily imports from Australia and New Zealand as well as some imports from the Middle East. Imports from these countries grew at an above-average rate during the 1970s. Significantly, however, the agency houses have not been able to participate in the fastest growing import segment, namely the one from other developing Asian and Pacific countries. Only 5.6 per cent of the Agency houses' imports came from these countries, as compared to the latters' 22.8 per cent share in total Thai imports and a growth rate 50 per cent above national import growth (see Annex table

8)¹.

Second, import-substituting industrialization in the region has reduced the import demand for final consumer goods, which played a key role in the activities of agency houses. As may be gathered from table 4, food and beverages and other consumer goods continued to account each for approximately one fifth of total imports of the agency houses in Thailand and Malaysia. The share of consumer goods in national imports, however, has declined notably in all countries under review, amounting to less than 10 per cent of total imports in all countries except for Hong Kong. While the majority of the agency houses have been negatively affected by import substituting industrialization, some trading houses specializing in machinery and plant exports have greatly benefited from this development. Cases in point are companies such as Coutinho Caro and medium-size Hanseatic traders such as Siemssen, Rieckermann, and Illies. Overall, however, the specialization of European agency houses on the distribution of finished goods has handicapped their growth potential.

Third, agency houses have generally specialized on the top price segments of their markets (see section 4 of this paper). In view of the above average growth of demand for standardized goods in

¹ Several European agency houses held distributorship contracts from Japanese manufacturers. British-owned L.T. Leonowens distributed Hinomoto light agricultural tractors in Thailand and Dutch-affiliated Hagemeyer was marketing JVC and KDK electrical equipment and Olympus cameras in Malaysia. Yet, the share of the agency houses in total imports from Japan was less than 2 per cent and even smaller for imports from the United States and from other Asian countries.

the medium and lower-price segments of product markets, this specialization of the agency houses appears to have been another hampering factor on their growth.

A fourth, related factor is the below-average size of the agency houses' import transactions. The value of their annual imports by product was smaller than the average of the top 354 importer in Thailand for all product groups except for food and tobacco, and it was significantly smaller than that of private local trading companies, their major competitors (see Annex table 9). The relatively small size of import transactions is likely to have further undermined the competitiveness of the agency houses.

Fifth, there are signs that some agency houses had difficulties in competing with local trading companies and the sogo shosha in terms of operating costs and margins. According to the survey, the gross margin¹ of foreign affiliated agency houses in Asia averaged at 20.1 per cent, compared with 7.1 per cent for subsidiaries of the sogo shosha. While a major portion of this differential is due to differences in activities (e.g. product specialization, share of commission business), a comparison of import transactions by product does suggest that gross margins of the agency houses have been higher than those of the sogo shosha. Although there is no systematic evidence, gross margins of the agency houses are likely to have been higher than those of local trading companies in view of the more informal character of most Asian trading companies as well as the lower level of compensation given to their top executives.

¹ Sales minus costs of sales divided by sales.

Taken together, the three last-mentioned factors may also be interpreted in a different light. They suggest, that European agency houses in Asia have had a tendency to follow niche strategies by concentrating on their most lucrative agencies and substituting their own profitability for market expansion of their principals. There is evidence on each of these points. Not only the cost component but also the profit part of the gross margins of agency houses appeared to be higher than those of their competitors.

In Malaysia, for instance, foreign-controlled limited companies in the wholesale sector¹ accounted for an average share of 34 per cent of total equity in this sector between 1976 and 1978 but realized nearly two-thirds of all profits generated by all limited companies in the wholesale sector². Similarly, the 40 foreign-affiliated companies among the 289 largest wholesalers and retailers in the Philippines owned 16.4 per cent of the total assets and realized 16.4 per cent of total sales of all 289 companies and yet accounted for 46.8 per cent of all net income and for 50.1 per cent of total income tax provisions of the whole group³.

¹ This excludes the bulk of the transactions of the sogo shosha, which are done on commission basis.

² See: Department of Statistics, Government of Malaysia, Report on the Financial Survey of Limited Companies, various issues.

³ Mamoru Tsuda, Rigoberto D. Tiglao and Edith S. Atienza, "The impact of TNCs in the Philippines: a study of major foreign and foreign-affiliated corporations in the Philippines", University of the Philippines, Law Center, Quezon City, June 1978, pp. 20, 27, 28, 39, 40, 41.

The below-average growth of the agency houses was mentioned above. As far as the bargaining position of the agency houses in relation to their principals is concerned, the following factor worked to the advantage of the former. European principals frequently took a fairly passive stance towards the marketing activities of their distributors in Asia. The interviews indicated that representatives of European manufacturers visited their distributors in Asia far less frequently than Japanese manufacturers, for instance. Generally, the agency houses were quite free in their pricing, promotion and distribution strategies. The limited supervision of European principals over their distributors in Asia was also apparent from the very low turn-over rate of agencies. As a matter of fact, many agency houses have represented the same principals for several decades. Under these circumstances, it has been a perfectly rational strategy for any agency house to assemble a large portfolio of sole distributorship contracts and to sell whatever the market demands without pushing any particular product. To the extent that product markets were not very competitive, it was equally rational to exploit monopolistic advantages by selling at a higher price and a lower volume than those corresponding to the interest of the manufacturer. Obviously, this approach worked out better in the comparatively price-inelastic top-quality segments of demand.

Hence, the declining share of the agency houses in the region's imports apparently reflects also the business strategies of the agency houses and their relationship with their principals.

A final factor, which has accelerated the relative decline of the importance of agency houses, are host country policies. With the exception of the two city states Hong Kong and Singapore, all other countries under review have enacted laws and regulations which effectively curtail the activities of foreign trading companies and protect the growth of local traders. As the decline of the European trading houses is more pronounced than that of other foreign trading companies, government regulations applying to all foreign trading companies alike cannot be considered as the dominant factor behind the decreasing role of the agency houses. At least equally important have been the transition of the Asian economies in terms of import sources and industrialization patterns as well as company internal characteristics of the agency houses. As most of these factors are of a secular nature, the observed trend is unlikely to reverse in the future.

3.2.2. Japanese general trading companies

The term Japanese general trading companies or sogo shosha refers to Japan's nine largest trading companies Mitsubishi Corp., Mitsui & Co., C. Itoh & Co., Marubeni Corp., Sumitomo Corp., Niss-ho-Iwai Corp., Kanematsu-Gosho, Toyo Menky Kaisha and Nichimen¹. They are the world's largest trading companies, handling close to 50 per cent of Japanese foreign trade and approximately 4 per cent of world trade. They are truly general trading companies, with subsidiaries all over the world (see table 6), involvement

¹ Sometimes, seven more companies are included, namely Chori Company, Itoman & Co., Kawasho Corp., Kinsho-Mataichi Corp., Nazaki & Co., Okura & Co., and Toshoku.

Table 6 - Sales, Overseas Bases and Overseas Employment of Japanese General Trading Companies, Fiscal Year 1981/82

Company name	Total sales ^a (\$US mill.)	Domestic sales	Imports to Japan	Exports from Japan	Offshore sales ^b	No. of overseas bases		No. of employees in overseas bases	
		percentage share in total sales				worldwide	in Asia	Japanese	Local
Mitsubishi	59,580	38.9	33.3	18.8	9.0	157	30	964	4,408
Mitsui	53,651	42.5	24.1	19.4	14.0	150	32	981	2,452
C. Itoh	50,043	43.5	23.2	18.7	14.6	111	14	844	1,950
Marubeni	46,846	36.0	18.9	27.1	18.0	136	23	1,044	2,545
Sumitomo	44,480	50.0	15.3	25.9	8.0	125	23	642	1,474
Nissho-Iwai	30,151	37.4	27.4	18.1	17.1	128	25	668	1,621
Toyo Menka	15,072	37.9	25.3	24.3	12.5	85	23	422	1,079
Kanematsu-Gosho	13,258	50.1	23.6	13.8	12.5	71	13	328	976
Nichimen	11,918	29.9	22.7	24.6	22.8	77	21	314	806
Total	324,999	41.4	24.0	21.2	13.4	1,040	204	6,207	17,311

^a Exchange rate: ¥ 246.50 $\hat{=}$ \$US 1. - ^b Third-country trade between countries other than Japan.

Source: Japan Foreign Trade Council.

in some 20 000 different products and a high degree of functional diversification. After World war II, they re-emerged in the centre of Japan's huge industrial and financial conglomerates (Kigyo Keiretsu) in which they continue to play a lead role as suppliers of raw materials, marketing arms for final products and as sources of information and short-term credits¹. The particular strength of the sogo shosha lies in large, recurrent trade transactions of standardized goods, characterized by economies of scale in international trade. Raw materials and intermediate products are prime examples, whereas the sogo shosha have been less interested in distributing differentiated consumer goods and products requiring intensive after-sales services.

The rise of the Japanese economic presence in Southeast and East Asian developing countries is intimately linked to the operations of the sogo shosha. Not only do they handle a large share of Japan's foreign trade in general, but their overseas expansion actually began in Asia² and Asia continues to be the region with the largest number of sogo shosha affiliates in the world (see also table 6). Moreover, the involvement of the sogo shosha is the most striking difference when comparing export marketing strategies of Japanese manufacturers with those of Western ex-

¹ The coherence of these conglomerates is based on management co-ordination rather than on equity cross-holdings, which actually declined in recent years. Similarly, the share of intra-group transactions is rather small with about 15 per cent of total purchases and 5 per cent of total sales. See Fair Trade Commission of Japan, cited in a report of the Asian Wall Street Journal, 13 June 1983.

² See for example Kunio Yoshihara, Sogo Shosha: The vanguard of the Japanese economy (Tokyo, Oxford University Press), 1982.

porters. The following paragraphs therefore examine the trade and trade-related activities of the sogo shosha in the eight countries under review in greater detail.

In order to obtain a rough indication of sogo shosha involvement in the imports of the eight countries under review, the following estimation may be useful. Japan's share in the region's imports is approximately one quarter, of which sogo shosha are likely to handle about half. The interview survey suggested that third-country trade of sogo shosha affiliates in the region amounted to up to one-third of their turnover. This would point to a share of between 15 and 20 per cent of the sogo shosha in total imports of the countries under review. The results of the interview survey confirm this order of magnitude. In the Republic of Korea, 8 out of 19 Japanese trading companies operating in the country handled 12.5 per cent of total imports in 1980. In Thailand, the nine sogo shosha and Nomura Trading accounted for 15.1 per cent of all imports. In Malaysia, where the sogo shosha have been late-comers, the share of the five smaller sogo shosha on which there was data was at 2.9 per cent only¹. Estimations on the involvement of the sogo shosha in Indonesian and Taiwanese foreign trade, on the other hand, cite figures of substantially more than 20 per cent². As a matter of fact, Indonesia, Hong Kong and Taiwan ap-

¹ United Nations, ESCAP/UNCTC Joint Unit, 1985, loc.cit., section II D 3.

² See for instance Max Eli, Die Rolle der japanischen Genralhandels Häuser (sogo shosha) in Südostasien, in: H. Laumer (ed.), Growth Market Southeast Asia, Opportunities for and Risks of Business Cooperation, IFO Institut für Wirtschaftsforschung (Munich, Weltforumverlag) 1984, pp. 363-385.

parently accounted for close to 50 per cent of total imports handled by the sogo shosha in developing Asian and Pacific countries¹.

These large shares in the region's imports reflected the vast differences in size between the sogo shosha and the European agency houses. According to the survey, average annual imports of sogo shosha affiliates in Asia were with over US\$ 200 mill. more than ten times larger than those of European agency houses (see Annex table 4). Many sogo shosha were reportedly not interested in transactions below US\$ 1 million. This size of operation has permitted the realization of substantial economies of scale. In turn, operating margins of the sogo shosha have been low, as may be gathered from table 7.

In contrast to the European agency houses, final consumer goods were only of marginal importance in sogo shosha imports to the region, whereas intermediate goods (steel products and chemicals) and machinery accounted for the bulk of their imports (see table 8).

While the growth rates of sogo shosha imports, as well, appeared to be lower than those of national imports of the countries under

¹ Estimation based on country break-down of 3 sogo shosha, see United Nations, ESCAP/UNCTC Joint Unit, 1985, loc.cit., table 30.

Table 7 - Consolidated Profit and Loss Statement of the Six Largest Sogo Shosha^a and of their Trading Affiliates^b in Thailand, 1980/81
(Percentage of Total Trade Transactions)

	Thai affiliates	Headquarters (world wide activities)
Total trade transactions	\$US 2,296 million	\$US 281,088 million
Total trade transactions	100.00	100.00
Cost of goods sold	98.70	98.37
Gross margin	1.30	1.63
Selling expenses	0.66	1.11
Wages, bonuses	(n.a.)	(0.57)
Operating profit	0.65	0.52
Other income	0.29	1.13
Interests	(0.20)	(0.71)
Dividends	(0.04)	(0.18)
Miscellaneous	(0.03)	(0.24)
Other expenses	0.47	1.42
Interests	(0.46)	(1.39)
Miscellaneous	(0.0)	(0.03)
Net profit before tax	0.47	0.23
Income tax	0.19	0.14
Net profit after tax	0.28	0.09

^a Mitsubishi, Mitsui, C. Itoh, Marubeni, Sumitomo, Nissho-Iwai. - ^b Including their dummy companies handling commission trade.

Source: Company income statements.

Table 8 - Imports of 21 Affiliates of Japanese Trading Companies in the Republic of Korea, Malaysia and Thailand by Products, 1980

Products	\$ US Million	Percentage Distribution
Food and Beverages	<u>329.1</u>	<u>7.4</u>
Primary goods	282.0	6.4
Processed goods	21.6	0.5
Not identified	25.5	0.6
Other Consumer Goods	<u>34.7</u>	<u>0.8</u>
Fuels and Minerals	<u>129.1</u>	<u>2.9</u>
Coal	123.3	2.8
Other	5.8	0.1
Intermediate Goods	<u>1,962.2</u>	<u>44.3</u>
Chemicals	739.3	16.7
Steel products	1,161.2	26.2
Other	50.4	1.1
Machinery	<u>1,266.3</u>	<u>28.6</u>
Transport Equipment & Parts Thereof	<u>35.4</u>	<u>0.8</u>
Other Goods not Classified	<u>152.6</u>	<u>3.4</u>
Not identified	<u>523.9</u>	<u>11.8</u>
Total	4,433.2	100.0

Source: Survey

review¹, the sogo shosha have not come under the same competitive pressure as the European agency houses. Table 5, for instance, shows that the sogo shosha were competing primarily among each other rather than with other types of companies: all of the sogo shosha affiliates interviewed considered other sogo shosha to be among their most important competitors. On a distant second place came marketing affiliates of manufactures, which points to the growing concern of the sogo shosha over direct sales by manufacturers. Less than half of all sogo shosha affiliates considered private local trading companies as their competitors, whereas the latter turned out to be the most important competitors of the agency houses. As a matter of fact, there were numerous examples of complementary relations between sogo shosha affiliates and private local trading companies². Among the local trading companies, only the large Korean trading conglomerates were beginning to compete successfully with the sogo shosha.

¹ The weighted annual growth rate 1975 to 1980 of sogo shosha imports was, according to the survey, at 8.2 per cent, which was slightly higher than that of the agency houses. In some countries, Japanese-trading companies have recently been forced to reduce their staff, mainly because of declining bilateral trade with Japan (Rep. of Korea, Indonesia). See for example Asian Wall Street Journal, 15 August 1983.

² In Thailand, for instance, Mitsubishi transferred some transactions to one of the newly established local trading companies which faced difficulties in meeting the minimum export volumes specified by the Thai Board of Investment. Mitsui advised the Malaysian Government on its programme to establish Malaysian "sogo shosha". In early 1983, Mitsui actually entered into a joint venture with private and public partners in Malaysia to form an international trading company after the model of the sogo shosha. See Business Day, 28 February 1983, p. 13.

The reason behind the complementarity of sogo shosha and local trading companies in the countries under review relates to the functional profile of the sogo shosha. Their major strength lies in the international allocation of buyers and sellers. Although this is a relatively low value-added activity compared to final distribution, for instance, it requires vast investments to establish a world-wide net-work of information and communication. The international network of the sogo shosha is practically unrivalled¹, and it is used to offset a particularly critical handicap of most Third-World based importers and exporters, namely limited knowledge of overseas markets. Not surprisingly, the sogo shosha included in the survey perceived their major advantage over local trading companies in the area of international market surveys (see table 9). This contrasted sharply with the agency houses which saw their major advantage over local importers in final marketing and distribution activities.

From the point of view of Japanese export manufacturers and overseas investors, the involvement of the sogo shosha has been invited as risk absorbers and in order to tap the sogo shosha's vast potential of information, experience and connections in the respective overseas markets as well as their access to financial

¹ Marubeni's 141 overseas offices in 87 countries are linked by 120 leased channels to its three independent switching centres in Tokyo, New York and Brussels, permitting the transmission of 480 characters per second between any two of its affiliates within 10 minutes. Competitive bids for large projects can be assembled in a matter of few hours. For Mitsui, telexing costs without salaries reportedly amount to 7 per cent of the gross trade profit. Marubeni, Annual Report, 1982, pp. 36n, company sources.

Table 9 - Perceived Advantages of Foreign Trading Companies over Local Trading Companies in the Republic of Korea, Malaysia, Sri Lanka and Thailand^a (Number of Responses, Weights in Brackets^b)

Advantage Types of companies	Survey of potential markets	Identification of buyers and sellers in foreign markets	Transportation	Insurance	Trade financing	Credits to sellers	Marketing in final market	Size of orders	Pricing	Quality controls	After sales service	Other	Total no. of answers
Sogo shosha	23 (2.7)	19 (2.1)	4 (1.5)	0 (0)	12 (1.6)	3 (1.7)	11 (1.6)	5 (2.0)	6 (2.3)	7 (1.4)	3 (1.7)	5 (1.8)	98
Independent agency houses	11 (2.0)	18 (2.3)	6 (1.7)	2 (2.0)	27 (1.9)	16 (1.6)	33 (2.1)	2 (2.0)	17 (1.9)	20 (2.2)	24 (1.7)	11 (2.8)	187
Marketing affiliates	9 (1.6)	3 (2.0)	0 (0)	2 (1.5)	4 (2.0)	7 (2.0)	16 (1.9)	3 (2.3)	10 (2.0)	28 (2.5)	20 (1.8)	5 (2.2)	107

^aCompany officials were asked to indicate and rank for their major products the three most important functional areas in which they felt they could perform significantly better than locally owned-trading companies. - ^bThe weights show the average ranking in each cell. The weights range from 1 to 3. A weight of 3 implies that all companies in the corresponding cell considered to have the most important advantage in this particular area. A weight of 1 implies that all companies perceived their third-most important advantage vis-à-vis local trading companies in this particular area.

Source: Survey.

resources (for details see Appendix B). This has been of prime importance for the small and medium size exporters, which could hardly have ventured abroad on their own. Significantly, Japanese medium size companies have been able to participate to a much larger extent in exports to and overseas investment in the eight countries under review than medium-size companies from the United States or Europe have done. The availability of the sogo shosha services as export marketing vehicle has undoubtedly been one of the major advantages of second-tier manufacturers from Japan over their Western competitors in Southeast Asian markets.

The same holds true for the other end of the spectrum: the sogo shosha have proved to be very successful in organizing consortia for projects too large or too risky for any individual company. Mention was made of the Asahan project, which created a new formula for the distribution of ownership and risk in mineral resource development between the private sector and host and home governments. Sumitomo has played a lead role in this project. In a number of cases, government institutions of the countries under review have turned to the sogo shosha when trying to implement ambitious projects. Malayawata Steel and Mitsubishi's involvement in the "Malaysian car" project are cases in point. More generally, the sogo shosha have been the most important organizers of Japanese plant exports. They handle the bulk of Japan's plant exports which amounted to approximately US\$ 10 billion per annum in the early 1980s and out of which about one third was exported

to developing Asia¹. Plant exports to the eight countries under review included power plants, refineries and petrochemical plants, steel plants and other metal processing facilities, fertilizer plants, cement plants and various processing facilities for agricultural commodities such as sugar, pulp and edible oils².

As a matter of fact, the sogo shosha are so well established in Asian developing countries and the OECD countries that they have been involved, to a growing extent, in exports from the United States, Europe and other developing countries to the eight countries under review. In Thailand, for instance, the sogo shosha handled 21.2 per cent of all imports from North America in 1980 as well as 6.0 per cent of imports from Australia and New Zealand. Their imports from Europe had reached 2.7 per cent of total imports from Europe and were equivalent to 27.1 per cent of the agency houses' imports from Europe. In the Republic of Korea, the sogo shosha imports from Europe amounted to 7.4 per cent of total imports from Europe and clearly exceeded the share of the agency houses (see table 10). In contrast to the general notion that trading companies have a comparative advantage in servicing marginal markets off the major trading routes, the sogo shosha played a much larger role in imports from OECD countries than in those from developing countries. Particularly as far as the

¹ See Ministry of Trade and Industry, Japan, White Paper on Trade and Commerce, 1982, and Alexander Young, The Sogo Shosha: Japan's multinational trading companies (Boulder, Col.: Westview Press), 1979, p. 203.

² See annual reports of the sogo shosha.

Table 10 - Imports of Japanese General Trading Companies in the Republic of Korea and Thailand by Countries of Origin, 1980

	Republic of Korea n=8		Thailand n=10	
	US\$ mill.	percentage share in to- tal Korean imports	US\$ mill.	percentage share in total Thai imports
Japan	1 248.9	21.3	878.1	45.0
North-America	379.4	7.0	366.3	21.2
Western Europe	140.0	7.4	42.1	2.7
Australia, New Zealand	66.0	8.7	12.7	6.0
Developing Asian countries	43.2	1.9	9.4	0.4
Other	22.8	0.3	117.5	6.3
Not identified	884.2			
Total	2 784.5	12.5	1 426.0	15.1

Source: Survey

thriving intra-Asian trade was concerned, the involvement of the sogo shosha was surprisingly low.

In sum, the sogo shosha have greatly facilitated the access to Southeast and East Asian markets for Japanese exporters. They have functioned as readily available export marketing channels to large and small manufactures, alike. Their powerful position within Japan's industrial conglomerates has put them into a unique position as two-way communicators and organizers, transmitting export opportunities in Asia to potential exporters in Japan and feeding back to them market acceptance in the final market and adaptation requirements. Due to their functional diversification, the sogo shosha have been able to enhance Japanese exports to developing Asia, irrespective of the specific organization of the export marketing channel. Not only have they handled approximately half of Japanese exports to the region, but they have also been active in linking up Japanese exporters and local distributors, and they were Japan's largest investors in the countries under review. Whatever the future role of the sogo shosha may be in view of the tendency towards direct exports of Japan's leading manufacturers, the sogo shosha can be credited with having provided the overseas institutional framework in which Japanese economic interests in developing Asia have risen, from an insignificant level after World war II to the present, leading position.

3.2.3. United States trading companies

In contrast to Japan and Europe, there are only comparatively few international trading companies in the United States, and they have never come to assume the same importance for the national economy as trading companies in other Western countries. This has been due to the following factors. Until recently, foreign trade played a marginal role for the United States economy. Exports have traditionally been concentrated in the hands of a small number of companies: Exports of food items, agricultural raw materials, fuels, ores and metals¹, which together accounted for about 30 per cent of United States exports over the 1970s, have been handled by the leading transnational corporations in the primary sector. Similarly, the top industrial companies have handled the major share of manufactured exports. In 1978, for instance, 53 per cent of all United States exports came from only 120 manufacturers².

In the eight Asian countries under review, American trading companies are hardly visible. This is in particular true for the Webb-Pomerene Associations which in any case handle only about 1.5 per cent of United States exports³. It applies also to the

¹ SITC groups 1 to 4 plus 67 and 68.

² D. Bello, N. Williamson, 'The structure of U.S. export channels: an evaluation and a proposal for improvement', in: M.A. Harvey, R.F. Lusch (eds.), Marketing channels, domestic and international perspectives, Centre for Economic and Management Research, School of Business Administration, The University of Oklahoma, 1982, p. 106 n.

³ The Webb-Pomerene Export Trade Act of 1918 encouraged the establishment of common foreign sales organizations in order to help small and medium size firms. In 1978, only 27 Webb-Pomerene Associations were active. ibid.

Export Management Companies, which somewhat resemble the European agency houses. Export Management Companies handle approximately 12 per cent of United States exports. They represent primarily smaller manufacturers. To the knowledge of the author, however, they were hardly involved in exports to the eight countries under review.

Up to the mid 1980s, the same held true for the companies established under the new Export Trading Company Act of 1982. Companies such as General Electric and Sears Roebuck have established their own separate trading companies with offices in Hong Kong and Singapore, and they have considerably broadened the scope of the products they handle¹. However, they have not yet emerged as a quantitatively important new export channel².

The most visible United States trading companies in developing Asia are the major commodity traders and a handful of agency houses³. Among the commodity traders, Phibro, Cargill and - to a lesser extent - Continental Grain and Grover Connell are active throughout the region. Phibro, the result of the 1981 merger of

¹ Richard Barovick, 'NFTC Conference Spotlights, Export Trading Companies', in: Business America, 18 October 1982, pp. 7-15.

² As a matter of fact, the sogo shosha continue to be the United States largest exporters if one disregards the oil companies. They reportedly handle an estimated 10 per cent of United States exports. T. Cappiello, 'The changing role of Japan's general trading companies', in: Journal of Japanese Trade and Industry, 4 November 1982, p. 28.

³ The handful of United States agency houses operating in the region includes companies such as Woodward and Dickerson, Wilbur-Ellis/Connell Bros. Co., Muller and Phipps or American Trading. They have been most active in the marketing of machinery, food, fertilizers and chemicals. Quantitatively, they account for only a fraction of the imports of European agency houses.

Philipp Brothers and Salomon Brothers, is primarily involved in the region's exports of metals (tin and copper) and molasses. Cargill and Continental, figuring among the world's leading grain traders, export United States grains to the region and have diversified into other areas of agri-business. Owing to the high degree of food self-sufficiency of the countries under review, however, the United States commodity traders are involved mainly in primary commodity exports rather than in imports.

In sum, United States exporters interested in developing Asia, have not been able to rely on United States trading companies as export vehicle. Japanese trading companies have handled some of these exports. The bulk of United States exports, however, has not been channeled through trading companies¹.

3.3. Appointment of Asian trading companies as importers and distributors

In line with the dynamic development of service industries in the countries under review, local import and distribution companies have multiplied over the last two decades. Asian trading companies today range from owner-operated back-yard shops to transnational conglomerates. Many of the leading local trading companies in Asia exhibit the same type of organizational patterns and public accountability and apply the same modern management techniques as Western trading companies. This rapid development has reduced the need for go-betweens linking overseas manufacturers

¹ See table 10 and Annex table 6.

and local distributors. As part of the tendency towards reducing the number of members in export trade channels, manufacturers from OECD countries have increasingly appointed local trading companies as their distributors.

One may distinguish three types of local trading companies, which differ not only in their typical genesis, but also as far as their relations with OECD-country exporters were concerned.

The largest group of local import and distribution companies in the countries under review are those of Overseas Chinese provenance. Most of them evolved from small shops specialising in imports from other Asian countries or in wholesaling of standardized products. Others began as rural-based middlemen handling agricultural (export) commodities. Notwithstanding the lead role of the Overseas Chinese in the wholesale and retail sectors of most of the countries under review, only the largest and most modern Chinese-owned trading companies have become importers and distributors for manufacturers of developed countries. The bulk of the Chinese traders continues to specialize in domestic distribution, primary commodity exports or intra-Asian trade¹. This is the major reason, why Japanese and European trading companies have had difficulties to break into the fast-growing intra-Asian trade². According to the trade channel analysis in Thailand, the

¹ As the bulk of the Chinese trading companies are small, they do not figure among the 354 importers included in the Thai trade channel analysis. In consequence, only 36.1 per cent of total imports from developing Asian and Pacific countries were handled by the 354 top importers compared to 56.7 per cent for total Thai imports. See Annex table 7.

² See also Annex table 8.

larger Chinese trading companies have been particularly strong in channeling imports of fertilizers to farmers owing to the strong position of Chinese middlemen in rural areas, and in supplying small and medium size Chinese-owned manufacturing units with inputs (base metals, wood, wood products and paper) and simple machinery¹.

A second category of local trading companies has emerged primarily as a result of government promotion and protection. This includes companies which have thrived on import quotas allocated to them². Others have been promoted under special programmes aimed at strengthening local trading companies, which have been adopted by all governments in the region with the exception of Hong Kong and Indonesia³. The limited commercial success of these companies, if one excludes the Republic of Korea, and their concentration on exports explains why these companies have not become a major import channel for products from OECD countries.

¹ See Annex table 6.

² This has played an important role in Indonesia, see Richard Robison, 'Towards a class analysis of the Indonesian military bureaucratic state', in: Connell Modern Indonesia Project, No. 25, 1978, pp. 17-39.

³ The Ministry of Commerce and Industry of the Republic of Korea announced a programme for promoting general trading companies in April 1975; since 1978, large local trading companies have been eligible to promotion by the Thai Board of Investment; Presidential Decree n° 1646 in the Philippines provides privileges to trading firms since 1979; the Government of Singapore established the International Trading Corporation (Intraco) to expand export/import business with Eastern Europe; the Government of Malaysia has been actively trying to establish trading companies along the lines of the Japanese sogo shosha; the Government of Taiwan promoted in 1978 and 1979 the establishment of five locally-owned general trading companies.

A third group of locally-owned import and distribution companies consists of indigenized former agency houses. Throughout the region, there were numerous companies of colonial origin which had been taken over by local partners or outside investors. In a few spectacular cases in Malaysia, host government institutions staged commercial take-overs. Notwithstanding their changing ownership patterns, these companies have generally retained or even increased their portfolio of distributorship contracts.

The share of local trading companies in the region's imports has reached a significant level. In Malaysia, locally-controlled limited companies in the wholesale and retail sector handled 13.5 per cent of total imports in 1980, excluding the import activities of the large number of partnerships and individual proprietorships¹. In the Republic of Korea, local trading companies² handled as much as 21.5 per cent of total imports in 1981, out of which 7.4 per cent were done by the Korean general trading companies³. In Thailand, the own-business imports of the 57 largest local trading companies amounted to 5.0 per cent of total imports in 1980⁴. If the several thousand smaller local trading companies were included, the share of local trading companies is likely to have been at least twice as high. In Indonesia and the Philippines, local trading companies played a major role in national imports because of restrictions on the activities of foreign-aff-

¹ See Annex table 10.

² General offer agents other than foreign offer agents and offer agents purchasing for own use.

³ See Annex table 11.

⁴ See Annex table 5.

filiated companies in wholesaling and retailing and because of the comparatively advanced development of local entrepreneurship in the Philippines.

There is reason to believe that the reliance on local importers and distributors differed significantly between manufacturers from Europe, Japan and the United States. Japanese companies appear to have been more prepared to co-operate with local trading companies in the countries under review than European and United States manufacturers, and European manufacturers have probably used local distributors slightly more than United States companies. There are three different factors which could explain this difference between Japanese and Western exporters:

- Japanese manufacturers have generally responded more intensively than United States and European firms to the demand in the large and fast growing transitional and traditional market segments. Motor cycles and electrical household appliances such as fans, radios, and TVs are prime examples among consumer goods. Penetrating these markets required much more of a grass-root level sales organisation than concentrating on the comparatively small urban demand for prestigious consumption goods and state-of-the-art technology.
- The presence of the sogo shosho greatly facilitated the identification of suitable Asian importers and distributors and the monitoring of their activities. To the extent that the sogo shosha were involved as commission agents, Japanese exporters had powerful agents at their disposal to monitor the performance of their Asian distributors.

- The emergence of modern Asian trading companies and the Japanese export offensive to the countries under review are relatively recent phenomena and came about after most European and United States manufacturers had already established their export marketing channels. Co-operation among the former two was therefore particularly attractive.

The only empirical evidence available on this latter point is not very significant. According to the trade channel analysis in Thailand, local trading companies handled 12.2 per cent of the imports from Japan, 11.6 per cent of those from the European Community and 9.2 per cent of imports from the United States¹. Yet, the preference of many Japanese exporters to invite local equity participation in their marketing affiliates in Asia (see section 3.4) matches with the above hypothesis, too. Examples of Japanese companies distributing their products through local companies include not only manufacturers of comparatively undifferentiated products but also companies such as Sony, Nissan and Fujitsu. European exporters may have been slightly more inclined to co-operative with local import and distribution companies than United States companies because of the considerable number of meanwhile indigenized agency houses of European origin. Again, however, there is no solid evidence.

In sum, there are a number of plausible reasons for the hypothesized differences between Japanese, European and United States manufacturers with respect to their reliance on local trading

¹ See Annex table 6.

companies in the countries under review. Owing to the absence of any more comprehensive evidence, however, the hypothesis cannot be substantiated beyond its present, rather impressionistic character.

3.4. Establishment of marketing affiliates

Downstream integration into international distribution has become an important element in the efforts of many major OECD-country manufacturers to implement global marketing strategies. It has been particularly important for market leaders in differentiated and marketing-intensive product markets. Obviously, manufacturers have moved primarily into fast-growing markets of above-average size.

The eight countries under review have been a prime example for this trend, in spite of the numerous restrictions on the establishment of foreign-owned marketing affiliates. This may be gathered from the substantial inflow of direct foreign investment into the trade sector of the region (see table 11). In Thailand, for instance, the cumulative net inflow of direct investment into the trade sector amounted to US\$ 205.4 million or one fifth of direct investment inflows into all sectors between 1970 and 1980. While downward integration into overseas marketing and distribution has been characteristic for multinational corporations in

Table 11 - Foreign Investment in the Trade Sector in Developing Southeast and East Asian Countries

	Year	Total foreign investment in trade			US direct investment position abroad in trade year end 81 (\$US million)	Japanese overseas direct investment notifications/approvals, March 81 (\$US million)
		Amount (\$US million)	Type of foreign investment	Source		
Hong Kong					697	
Indonesia	1967-1982	13.9	Approved inflows	BKPM	20	
Korea	1981	31.7	Stock of equity	Bank of Korea	55	
Malaysia	1980	154.3	Net fixed assets in Malaysia of foreign controlled companies	Department of Statistics	69	
Philippines	1970-1981	85.4	Central-Bank approved and implemented direct foreign investment	Central Bank of the Philippines	94	
Singapore					162	
Taiwan	1952-1981	2.4	Approved foreign investment	Ministry of Economic Affairs	67	
Thailand	1970-1980	205.4	Net inflow of direct investment	Bank of Thailand	72	
Total					1 236	
Developing Asia						401 (1368 ventures)

Sources: (a) US Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, August 1982, Vol. 62, No. 8, p. 22.
 (b) Research Institute of Overseas Investment, The Export-Import Bank of Japan, 'Exim-Review', Vol. 2, 1981, p. 34.
 (c) National sources.

general¹, there are some notable differences in this respect between United States, European and Japanese manufacturers supplying developing Asia.

In general, direct marketing through own sales affiliates has been particularly important for United States companies. This is mirrored by the considerable share of intra-firm trade of final products in United States total exports² and the substantial amount of United States direct investment into trade, which amounted to US\$ 1.2 billion in 1981 in the eight countries under review (see table 11). Typical examples of United States companies channeling their exports to Asia through overseas marketing affiliates were the oil companies, pharmaceutical firms and manufacturers of consumer goods such as Johnson and Johnson, Colgate, Kodak and Singer as well as companies such as General Electric, IBM, Du Pont, Otis and Union Carbide. The same held true for the leading United States companies in banking, shipping, advertising, insurance, auditing, etc., many of which have established their subsidiaries in the region. The preference of United States companies for direct marketing methods was exemplified by Amway and Avon, two major American producers of personal care and home

¹ As a matter of fact, the balance between manufacturing and marketing activities seems to shift for many leading multinational corporations into the direction of marketing, increasingly involving third-party products.

² In 1977, 43 per cent of all United States exports were intra-firm exports, and majority-owned affiliates abroad of United States companies sold 57 per cent of their imports from their parents without any further processing. United States Department of Commerce, '1977 benchmark survey of United States direct investment abroad', Survey of Current Business, April 1981.

care products. Both companies sold their products exclusively door-to-door through their own, mostly part-time distributors. Amway, for instance, has managed to organize approximately 50 000 distributors for its products in Malaysia, which was equivalent to nearly one per cent of Malaysia's adult population. This large number of distributors is likely to have been a captive market in itself. More generally, the preference of many United States manufacturers of consumer products for establishing marketing affiliates in developing countries has reflected their efforts to capitalize on the high regard of local consumers for the "American way of life".

For some of the United States major export products, however, distribution through marketing affiliates was not typical, at all. Arms and airplanes were normally sold directly by the American manufacturers, with intermediary services being effected by politically well-connected rather than purely commercial go-betweens. Grain exports and exports to United States affiliated off-shore production units were other obvious exceptions. It is probably due to these reasons that the trade channel analysis of Thai imports does not bear out the preference of United States manufacturers for exporting through marketing affiliates. The results in Annex table 6 are strongly influenced by the large size of air craft exports to the Thai national carrier and electrical component exports to the Thai manufacturing affiliate of National Semiconductors.

In comparison with European and Japanese marketing affiliates in Asia, United States manufacturers attached more importance to equity control. Conversely, they were less concerned about the nationality of management¹. Not only did United States marketing affiliates have a lower number of expatriates per company, but they were in fact frequently managed by non-Americans. Indigenization and adaption to local circumstances of United States marketing affiliates took place at the personnel rather than the ownership level, which was the precise opposite of the situation in Japanese marketing affiliates.

Exports through marketing affiliates have not been confined to United States manufacturers, but were also typical for some of the leading European companies, particularly in industries like chemicals and pharmaceuticals and others which were characterized by oligopolistic market structures at the global level². In general, it appears that the differences in export channels between European and United States manufacturers were primarily the result of size differences of exporters and of the non-availability of internationally well-established agency houses in the United States.

In contrast, Japanese manufacturers were traditionally more reluctant to establish fully-owned marketing affiliates. They exhibited a preference for joint-ventures with local partners in

¹ Survey results, see for instance Annex table 4 for a comparison between European and United States marketing affiliates.

² Companies such as Ericsson, Gestetner, Philips, Unilever, Nestlé, BASF, Bayer, Hoechst, ICI and Rhone Poulenc all have marketing affiliates throughout the region.

the target market. Collaborating with local partners - frequently wholesalers and distributors - did not primarily result from ownership restrictions but rather reflected the attempt of Japanese manufacturers to integrate their local partners' domestic market expertise into their sales affiliates¹. This was particularly important for manufacturers catering to the demand for standard goods. As a result, the average Japanese equity share in Japanese affiliates in commerce located in developing Asia was comparatively low with 75.2 per cent in 1982. This was clearly lower than in all other areas, and notably the OECD countries, with the only exception of Africa, where similar reasons as in Asia and foreign ownership restrictions may have determined the preference for joint-ventures². It was also lower than the corresponding survey figures for United States and European marketing affiliates³.

¹ In the Philippines, there were 169 Japanese-Filipino wholesale and retail joint-ventures as compared to only 33 wholly-owned Japanese trading companies. Japan Trade Center (JETRO), Manila, A directory of Japanese capital-affiliated domestic corporations and wholly-owned Japanese enterprises in the Philippines, Manila 1981. In Singapore, which does not impose any ownership restrictions, there were as many wholly-owned subsidiaries as joint-ventures among the 198 Japanese affiliated foreign trade and commerce companies. See JETRO, Survey of Japanese joint-ventures in ASEAN countries: Singapore, 1981, p. 184.

² Ministry of International Trade and Industry, Overseas Business Activities of Japanese Business, 10th and 11th Survey, Toyohoki-Shuppan, 1983, p. 127, cited from Takeshi Mori, A few notes on the policy issues relating to direct investment, Paper presented at the Tokyo Workshop on Direct Investment and Technology Transfer, June 25-26, 1983, p. 14.

³ See Annex table 4.

3.5. Exports via assembly or production affiliates

One of the most fundamental changes in foreign trade patterns in the region under review has been the increasing share of imports of intermediate goods. This process has been fostered by both import substitution and export expansion and reflects the industrialization process throughout the region. Against this background, exports of intermediate goods in combination with assembly or production in affiliated local companies have become one of the most important export marketing strategies for foreign exporters.

The surge of intermediate goods imports followed the reorientation of Asian economies towards import substitution and domestic-market oriented industrialization behind tariff walls. This pattern began in the late 1950s in the Philippines, Taiwan and the Republic of Korea and continued in the mid 1960s in Thailand, Malaysia and Indonesia. The region's demand for intermediate goods imports was further increased by the rise of export-oriented industrialization, which began, as well, in the East Asian developing countries in the early 1960s, followed by Singapore, Malaysia and the Philippines in the late 1960s and early 1970s, and started to affect Thailand and Indonesia in the late 1970s. These two superseding industrialization patterns had a profound impact on the foreign trade structure. Manufactured exports of the countries under review (without Taiwan) had reached 44.5 per cent of total exports in 1981¹, and the share of consumer goods

¹ United Nations UNCTAD, Handbook of International Trade and Development Statistics, 1984, Supplement, New York 1984.

imports had fallen below 10 per cent of total imports for all countries except Hong Kong. By contrast, intermediate goods imports of Asian manufacturers had become very important, as may be gathered from the international input-output tables of the countries under review¹. First, the manufacturing sector had become the major importing sector. By 1975, 45.6 per cent of all imports of the ASEAN countries and the Republic of Korea consisted of imports of Asian manufacturing companies from overseas manufacturing companies (see Annex tables 19 and 20). Second, exports of intermediate goods by overseas manufacturers amounted to 37.9 per cent of total exports to the region. They exceeded final goods exports from overseas manufacturers which accounted for 30.3 % of total exports to the six countries (see Annex table 19). Intermediate goods exports of foreign manufacturers to Asian manufacturers had reached 26.7 per cent for the region's total imports and as much as one third for the Republic of Korea.

For many products, intermediate goods exports to Asia to affiliated production units were, in fact, the only remaining opening to the domestic markets of the countries under review. Automobiles were a prime example considering the restrictions on imports of completely built-up cars throughout the region and the growing number of increasingly stringent local content requirements². More generally, high and partly prohibitive effective

¹ Institute for Developing Economies, International Input-Output Tables for ASEAN Countries, 1975, Tokyo 1982.

² See for instance: United Nations Economic and Social Commission for Asia and the Pacific, The scope for South-East Asian subregional co-operation in the automotive sector, Bangkok 1982.

protection rates have triggered off a large-scale export substitution process on the part of overseas manufacturers, as the various analyses of investment determinants of foreign companies in the countries under review confirm¹.

Other factors have further increased the importance of this export marketing strategy. Local production facilitated the adaptation of product design, product functions, packaging etc. to local requirements. This has become an increasingly important condition for successful launching and marketing of products. In a number of industries, local assembly or production has been associated with cost advantages. For products such as pharmaceuticals, toiletries and cosmetics, substantial transport costs could be saved if only the active ingredients were imported and the formulation and packaging was done locally. Many of the leading manufacturers of pharmaceuticals and personal care products have therefore established their own affiliates or have licensed local manufacturers.

Even more significant have, however, been labour cost advantages, as the export offensive of Asia's newly industrializing countries amply demonstrates. The region has become an export platform for trade with both developed and developing economies. This means in turn that import demand of Southeast and East Asian countries is increasingly determined by the input requirements of export-oriented industrialization. In the Republic of Korea in 1981, for

¹ See Friedrich von Kirchbach, Economic policies towards transnational corporations, the experience of the ASEAN countries, (Baden-Baden, Nomos, 1983), Chapters T IV, P IV, M IV, I IV and S IV.

instance, 43.3 per cent of all imports other than petroleum and capital goods were raw materials and intermediate goods used for export production¹.

Participating in the rapidly growing demand for intermediate imports by export-oriented manufacturing units required equity investment in Asia, just as import-substituting industrialization did before. During both phases, the creation of captive markets integrated into the overall industrialization patterns turned out to be the most successful way for participating in the region's growth. On the export side, this was related to two different arguments:

- The industrial export boom has been fuelled to a significant extent by foreign-affiliated companies, in particular in the ASEAN countries, although transnational corporations cannot be considered as having been the driving force behind the entire region's export success. The contributions of foreign affiliated companies to industrial exports varied from 37.3 per cent in 1980 in Thailand to 53.4 per cent in 1982 in Malaysia and 89.7 per cent in 1983 in Singapore². In East Asian developing countries, their order of magnitude was between 10 and 30 per cent³.

¹ Data from the Association of Foreign Trading Agents of Korea.

² See "Transnationale Konzerne und export-orientierte Industrialisierung in Südostasien-Überlegungen zum Paradebeispiel Singapur", in: H. Dürr, R. Hanisch (eds.), Südostasien - Großraum im Schnittfeld von Großmachtinteressen, Westermannverlag, Braunschweig, forthcoming.

³ See, for instance, United Nations, ESCAP/UNCTC Joint Unit on Transnational Corporations, Transnational Corporations and their Impact on Economic Development in Asia and the Pacific, ST/ESCAP/207, Bangkok 1982.

- Locally-owned export-oriented manufacturers in Asia tended to be less import dependent than their foreign-affiliated competitors¹. Overall, foreign companies have swiftly reacted to the new opportunities arising from the industrialization strategies of the countries under review, and the region experienced a substantial inflow of trade-related foreign investment into their manufacturing sectors. As may be seen from table 12, annual inflows of direct investment into the manufacturing sectors averaged between US\$ 30 and 60 million per country and were even significantly higher for Indonesia and Singapore. Yet, domestic-market oriented industries such as chemicals, textiles and food, beverage and tobacco accounted for the major share of investment inflows.

As a result of these developments, foreign-affiliated companies have become the leading type of importers in many of the countries under review. In Thailand, foreign-affiliated manufacturers handled 38 per cent of all imports in 1980 (see Annex table 5), notwithstanding the fact that Thailand attracted the smallest amount of foreign investment among the ASEAN countries in absolute as well as in per-capita terms. In Malaysia, foreign-controlled limited companies in the manufacturing sector handled 24.5 per cent of Malaysian imports in 1981 (see Annex table 10). In the Philippines, 35.8 per cent of all imports in 1970 were

¹ In Malaysia, for instance, locally-owned manufacturing companies imported in 1982 0.7 dollars for 1 dollar of export earnings, compared to 1.06 dollars for foreign-controlled limited companies in Malaysia. Department of Statistics, Report of the Financial Survey of Limited Companies, Malaysia, 1982, Kuala Lumpur 1984.

Table 12 - Inflows and Stocks of Foreign Investment in the Manufacturing Sector of Developing Southeast and East Asian Countries

	Indonesia		Malaysia		Philippines		Thailand	
	Total value of realized foreign investment (1967-1981)		Foreign paid-up capital in MIDA approved projects (1968-1979)		Central-Bank-approved and implemented direct foreign equity investment (1970 - June 1981)		Net inflow of direct investment, including loans from related companies (1970-1980)	
	\$US million	Per cent	\$US million	Per cent	\$US million	Per cent	\$US million	Per cent
Food, beverages and tobacco	197.2	5.8	199.1	22.3	104.7	15.1	32.3	10.4
Textiles and textile products	873.0	25.9	146.4	16.4	37.5	5.4	99.8	31.9
Leather and leather products			6.0	0.6	1.9	0.2	a	a
Wood and wood prod.	55.5	1.6	30.3	3.4	9.2	1.3	b	b
Paper printing and publishing	44.9	1.3	12.3	1.4	19.9	2.8	b	b
Chemical products	894.7 ^c	26.5 ^c	104.0	11.6	207.5	29.9	42.0 ^b	13.4 ^b
Petroleum and coal	n.a.	n.a.	42.7	4.8	29.7	4.3	10.6	3.4
Plastic products & rubber products	c	c	56.8	6.4	30.6	4.4	b	b
Non-metallic mineral products	498.5	14.8	58.7	6.6	16.5	2.4	14.4	4.6
Basic-metal indus.	119.4	3.5	34.6	3.9	74.0	10.7		
Fabricated metal	691.4	20.5	33.0	3.7	31.7	4.6	20.5 ^d	6.6 ^d
Machinery except electrical			16.8	1.8	10.5	1.5		
Electrical machinery			81.9	9.2	32.4	4.7	78.0	24.9
Transport	1.8	0.1	51.3	5.7	63.1	9.1	d	d
Other manufacturing			20.5	2.2	25.2	3.6	15.2 ^a	4.9 ^a
Total manufacturing	3 376.4	100.0	894.4	100.0	694.4	100.0	312.8	100.0

Table 12 - continued

	Singapore		Republic of Korea		Taiwan		Hong Kong	
	Foreign-owned gross fixed assets (1970-1981)		Foreign investment approved by the Ministry of Finance (end 1981)		Approved private foreign investment (1952-1981)		Direct overseas investment (end 1982)	
	\$US million	Per cent	\$US million	Per cent	\$US million	Per cent	\$US million	Per cent
Food, beverages and tobacco	129.7	3.4	32.2	3.5	35.3	1.9	59.4	5.1
Textiles and textile products	164.3	4.4	72.1	7.8	52.7	2.9	134.5	11.6
Leather and leather products	17.5	0.5	-	-	-	-	} incl. in other	
Wood and wood prod.	121.2	3.2	1.1	0.2	-	-		
Paper printing and publishing	55.0	1.4	-	-	4.7	0.3		
Chemical products	166.1	4.4	336.6	36.3	386.1	21.0	74.3	6.4
Petroleum and coal	1 553.9	41.2	} 31.5	3.4	-	-	-	-
Plastic products & rubber products	63.4	1.7			-	-	-	-
Non-metallic mineral products	57.3	1.5	14.3	1.5	52.0	2.8	incl. in other	
Basic-metal indus.	29.3	0.8	} 60.6	6.5	204.9	11.2	38.4	3.3
Fabricated metal	138.2	3.7						
Machinery except electrical	302.5	8.0	91.9	9.9	} 1 100.7	59.9	28.2	2.4
Electrical machinery	625.7	16.6	203.6	22.0			497.3	42.8
Transport	199.7	5.3	46.8	5.1			23.7	2.0
Other manufacturing	147.7	3.9	35.6	3.8	-	-	276.7	23.9
Total manufacturing	3 771.5	100.0	926.3	100.0	1 836.4	100.0	1 160.8	100.0

^a Leather and leather products, and wood and wood products included in other manufacturing. - ^b Paper printing and publishing, and publishing, and plastic products and rubber products included in chemical products. - ^c Plastic products and rubber products included in chemical products. - ^d Transport equipment included in machinery except electrical.

Sources: Indonesia, Badan Koordinasi, Penanaman Modal; Malaysia, Malaysian Industrial Development Authority; Philippines, Central Bank of the Philippines; Singapore, Economic Development Board; Bank of Thailand; Rep. of Korea, 'Investment guide to Korea 1982', Ministry of Finance; Taiwan, Ministry of Economic Affairs; Hongkong, Asian Finance Publication Ltd., Asia 1984, Measures and Magnitudes.

done by foreign-affiliated companies¹. In Singapore, this share is likely to have been much higher, considering that 90 per cent of total manufactured exports were handled by foreign-affiliated companies in 1983². For the Republic of Korea³ and Indonesia⁴, as well, the significant role of foreign-affiliated companies in exports and the latters' pronounced import dependence suggest that foreign affiliated manufacturers represented one of the major import channels in these two countries.

These figures leave no doubt about the importance of foreign assembly and manufacturing affiliates as export marketing channels. Again, this marketing strategy has been pursued in varying degrees by Japanese, United States and European manufacturers, respectively. The trade channel analysis in Thailand (see Annex table 6) brings out clearly, that Japanese exporters have channeled the largest share, namely 52.2 per cent, of their exports to Thailand through affiliated manufacturing companies, compared to 39.4 per cent for United States exporters and 25.4 per cent for European exporters.

¹ Friedrich von Kirchbach, 1983, loc.cit., p. 275.

² Department of Statistics, Singapore, Report on the Census of Industrial Production, 1983.

³ In the Republic of Korea, the share of foreign-affiliated companies in national exports amounted to 23 per cent in 1978. United Nations, ESCAP/UNCTC Joint Unit on Transnational Corporations, Economic and Social Commission for Asia and the Pacific, Costs and conditions of technology transfer through transnational corporations, ESCAP/UNCTC publications series B, no. 3, Bangkok 1984, p. 59.

⁴ The share of foreign-affiliated companies in Indonesian exports (including the petroleum sector) in the 1970s was put at roughly two thirds. Kilian Sihotang, Private ausländische Direktinvestitionen in Indonesien. 1870-1980. Rahmenbedingungen, Struktur und Entwicklungseffekte, Stuttgart: Edition Erdmann in K. Thienemanns Verlag, 1983, p. 324. Moreover foreign-affiliated companies play a lead role in Indonesia's modern, import-substituting manufacturing sector.

Significantly, the share of foreign-affiliated manufacturing companies in Thai imports from Japan was high across the board with the only exception of the quantitatively marginal imports of the food and tobacco industry, wood and wood products and miscellaneous products. By contrast, the corresponding values for the United States were highly influenced by the intra-firm imports of a few electronic-component manufacturers.

This pattern closely reflects the leading position of Japan as source country of foreign investment in Thailand's manufacturing sector. The argument is not, that Japanese-affiliated manufacturing units were more import-dependent than affiliates of Western manufacturers¹, but that Japanese manufacturers have been more willing to establish assembly and manufacturing subsidiaries than their Western competitors. A comparison of investment and trade statistics corroborates this point. In terms of book value, Japanese direct investment in the eight countries under review amounted to US\$ 9.6 billion in 1980, compared to US\$ 7.8 billion from the United States. By contrast, investment from the Federal Republic of Germany stood at US\$ 0.5 billion, only. In relative terms, 26.5 per cent of Japanese foreign investment had gone to the eight countries under review compared to 3.7 per cent of total United States investment and 1.3 per cent of German invest-

¹ As a matter of fact, the share of purchases of raw materials, machines etc. of Japanese manufacturing subsidiaries in Asia from Japan in total purchases declined from 50.8 per cent in 1975 to 43.2 per cent in 1982. Ministry of International Trade and Industry, Japan, Overseas Business Activities of Japanese Businesses, 5th, 10th and 11th survey, Toyohoki-Shuppan, 1983.

ment¹. As far as trade was concerned, Japanese exports to the ASEAN countries, Hong Kong and the Republic of Korea accounted for 17.8 per cent of global Japanese exports. The corresponding ratios for the United States and the Federal Republic of Germany were 7.3 per cent and 2.2 per cent respectively. Hence, Japanese companies have allocated a significantly larger share of their investment budget to the region under review than the one that would correspond to the size of Japanese exports to the region. Conversely, for United States and European companies, the share of the region in their overseas investment was substantially smaller than the region's share in their exports². The preference of Japanese manufacturers, as compared to United States manufacturers, for exports via overseas manufacturing affiliates may be derived, as well, from the sectoral distribution of direct investment statistics. In 1980 Japanese direct investment into the trade sector of developing Asian countries amounted to 8.8 per cent of Japanese direct investment in the manufacturing sectors of developing Asia. For the United States, the corresponding ratio was 49.0 per cent for the eight countries under review³. In

¹ Dietrich Kebschull, *Ausländische Direktinvestitionen in Südostasien, Ein internationaler Vergleich des Engagements*, in: H. Laumer (ed.), 1984, loc.cit., p. 461.

² The difference between Japan and the United States is actually even more pronounced owing to the large share of petroleum and mining investment in United States direct investment stocks in the region. In 1983, this share was 79.9 per cent for the eight countries under review. United States Department of Commerce, *Survey of Current Business*, cited from Business International, 23 November 1984, p. 372.

³ United States data relates to 1981, United States Department of Commerce, Survey of Current Business, Vol. 62, no. 8, August 1982, and Ministry of International Trade and Industry, Japan, News from MITI, 14 October 1981.

absolute term, Japanese investment in the manufacturing sectors of the eight countries under review was roughly twice as high as United States investment¹.

The importance Japanese companies attach to the marketing function of their overseas manufacturing affiliates is obvious, as well, from their personnel policy. An analysis of 200 foreign-affiliated manufacturing companies in Thailand showed, that 32.2 per cent of all Japanese expatriates worked in the marketing field as compared to only 16.7 per cent of the expatriates in United States companies and 20.4 per cent in European companies².

The relative importance of exporting intermediate goods to the region for European, Japanese and United States companies may also be derived from the 1975 international input-output tables of the ASEAN countries and the Republic of Korea. Considering the leading role of Japanese companies in exports to the region via affiliated manufacturing units in the final markets, one would expect a particularly high share of Japanese suppliers in the region's imports of intermediate goods. This holds true. In 1975,

¹ Notified and approved direct overseas investment from Japan in the manufacturing sectors of the eight countries under review amounted to approximately US\$ 4.5 billion in 1980, compared to US\$ 2.6 billion from the United States in 1983. See Ministry of International Trade and Industry, Japan, News from MITI, 14 October 1981, and Business International, 23 November 1984, p. 372.

² Ian MacGovern, Managerial aspects of technology transfer in Thailand, paper submitted to the seminar on 'Technology transfer, transformation and development', Bangkok 2-6 Sep. 1983, mimeo, p. 11.

Japanese manufacturers accounted for 46.9 per cent of intermediate goods imports of the region's manufacturing companies from overseas manufacturers, compared to the 26.9 per cent share of Japanese imports in total imports of the region. And while Japanese manufacturers exported 87.5 per cent more final goods to the six countries than United States manufacturers, the formers' exports of intermediate goods surpassed those of United States manufacturers by 200.3 per cent (see Annex tables 19 and 20). These results dovetail into the findings of the trade channel analysis in Thailand. More recent data on the procurement of raw materials, machines, etc. of Japanese manufacturing subsidiaries in Asia add additional support to this point. In 1982, 43.2 per cent of their suppliers came from Japan¹.

More generally, the input-output data pinpoint the differences in the economic function of the region for Japanese and for United States companies. For Japan, imports of intermediate goods, notably from the primary sectors of resource-rich countries of the region, accounted for the bulk, namely 87.5 per cent of Japan's total imports from the region. Conversely, Japanese imports of final goods were quite small; with 12.5 per cent for the ASEAN countries plus the Republic of Korea and 5.2 per cent for the five ASEAN countries, alone (see Annex table 19). The large amount of Japanese intermediate goods exports to the region was mentioned above. While a substantial share of these exports have been channeled to Japanese subsidiaries in the region, the latter

¹ Ministry of International Trade and Industry, Japan, Overseas Business Activities of Japanese Businesses, Nos. 5, 10 and 11.

have generally either produced for the local market or for third markets. The participation of sogo shosha in Japanese manufacturing subsidiaries in the region greatly facilitated the transition from a pure, domestic-market orientation to more outward-looking sales patterns. This was particularly obvious during the 1975 crisis of Thailand's textile sector, when the sogo shosha and their joint ventures made a notable contribution to the exporting and marketing of Thai textile products abroad. With the possible exception of the Republic of Korea and Taiwan, however, the region has hardly been used as a low-cost production base for re-exports to Japan. As a result, Japan's trade balance with the region has been balanced or even positive, notwithstanding the large imports of raw materials.

The role of the region in the international division of labour of United States companies was quite different. First, only half of United States intermediate goods exported to the region came from the manufacturing sector - as compared to 92.6 per cent for Japan -, bearing witness to the importance of primary sector exports in United States foreign trade. Intermediate goods exports and final goods exports of United States manufacturing companies had the same order of magnitude, which showed the relative specialization of United States manufacturers on final goods exports as compared to Japanese or total exports to the region. Second, United States final goods imports from the region were substantial, reflecting the importance of the region as an export platform of manufacturers to the United States. The ratio of United States imports of final goods from the region and exports of intermediate goods to

the region by the manufacturing sector may serve as an indicator. It stood at 134.9 per cent for the United States, compared to 21.2 per cent for Japan.

Since 1975, the export platform character of the region for the United States economy has markedly increased. While Hong Kong, the Republic of Korea, Taiwan and Singapore exported in 1975 26 per cent, 30 per cent, 36 per cent and 14 per cent, respectively, of their total exports to the United States, these shares had increased to 33 per cent, 35 per cent, 49 per cent and 20 per cent in 1984. Practically all of this expansion took place since 1981¹.

In sum, exports of intermediate goods via affiliated manufacturing units in Asia have proved to be a particularly successful if not the most important export marketing strategy for OECD-country manufacturers interested in the countries under review. It is in this field that Japanese companies have secured a clear edge over their Western competitors: Japanese direct investment in the manufacturing sectors of the countries under review has been significantly higher than United States and European investment. In addition, Japanese companies have channeled more investment to Asia than would correspond to the Asian share in Japanese exports, whereas they adopted the opposite strategy for OECD countries. United States and German companies, on the other hand, allocated less direct investment to the region than the share corresponding to the region's importance in exports. Finally, Ja-

¹ Far Eastern Economic Review, 26 September 1985, p. 99.

panese companies attached more priority to industrial investment over investment in trade than United States companies. In this sense, Kojima's differentiation between trade-oriented Japanese and anti-trade oriented United States investment is valid, indeed, for the countries under review¹.

3.6. Exports via licensing of local companies

Alternatively to the direct investment route, a growing number of OECD country firms has tried to establish captive markets for their exports by licensing and technology agreements with Asian manufacturers. This development has been fostered by both pull and push factors. With growing technological absorption capacity, many of the more advanced Asian manufacturers have given priority to technological co-operation over joint-ventures. OECD-country manufacturers, as well, have increasingly learned to employ this approach not only as a second-best solution. The growing number of these contracts speaks for itself. In four of the eight countries under review, alone, more than 1300 technology and licensing contracts had been registered by the early 1980s (see table 13). In 1981, annual payments for technology contracts ranged from US\$ 58 million for Thailand over US\$ 68 million for the Philippines to US\$ 107 million for the Republic of Korea². As a matter of fact, Thai payments for technology contracts from 1972-1981 amounted to 31 per cent of outflows of profits and dividends

¹ See Kiyoshi Kojima, Japan and a new world economic order, Tokyo, Charles E. Tuttle Company, 1977.

² United Nations, ESCAP/UNCTC Joint Unit on Transnational Corporations, 1984, loc.cit., p. 10.

Table 13 - Sources of Technology and Licensing Contracts in Selected Asian Countries

	Republic of Korea 1962-1981		Malaysia 1960-1981		Philippines 1978-1979		Thailand 1980-1981		All	
Japan	190	(45.6)	106	(30.5)	31	(20.6)	141	(36.3)	468	(35.9)
United States	158	(37.9)	51	(14.7)	69	(46.0)	73	(18.8)	351	(26.9)
Europe	29 ^a	(7.0) ^a	99 ^c	(28.4)	44	(29.4)	129	(33.3)	379 ^d	(29.1) ^d
Other devel- oped countries	40 ^b	(9.6) ^b	38 ^b	(10.9)						
Developing countries	-	-	54	(15.5)	6	(4.0)	45	(11.6)	105	(8.1)
Total	417	(100.0)	348	(100.0)	150	(100.0)	388	(100.0)	1303	(100.0)

^aIncludes F.R.G. and United Kingdom, only. - ^bMay include technology contracts from Europe. - ^cIncludes U.K., F.R.G., Sweden, France, Italy. - ^dOf which at least 41 contracts or 3.1 percent are from Australia.

Source: United Nations, ESCAP/UNCTC Joint Unit on Transnational Corporations, Economic and Social Commission for Asia and the Pacific, Cost and conditions of technology transfer through transnational corporations, ESCAP/UNCTC Publication Series B No. 3, ST/ESCAP/283, Bangkok 1984, pp. 14, 61, 115.

remitted by foreign-affiliated companies¹.

While Japan has been the most important source country of technology contracts, the edge over United States and European companies was less pronounced than in the case of direct investment in the manufacturing sector. Judging by data for the Republic of Korea, Malaysia, the Philippines and Thailand, 35.9 per cent of the licensors were Japanese, 26.9 per cent United States and about 26 per cent European companies (see table 13). Interestingly, technology imports from other developing countries have accelerated in recent years, parallel to the dynamic development of intra-Asian investment and trade.

The interests of licensors in technology contracts were generally broader than the creation of captive export markets. In fact, while tied-in purchase requirements for licensors were among the most frequent restrictions licensors tried to incorporate into technology contracts, they characterized only a small share of all contracts. In the United Nations study on technology contract in Asian countries, the shares of contracts containing tied-in purchase clauses ranged from a low of 7.5 per cent for Thailand over 12.6 per cent for the Philippines and 14.6 per cent for Malaysia to 16.5 per cent for the Republic of Korea².

Industries in which these clauses appeared frequently were electrical products and electronics, machinery, chemicals and food

¹ *ibid*, p. 195.

² *ibid*, p. 34.

products¹. The data did not suggest any significant differences between Japanese United States and European licensors, as far as the frequency of this clause or other restrictive clauses was concerned. Yet, the industrial distribution of contracts differed obviously for the major source countries. Whereas European and United States companies had concluded a considerable number of technology contracts with Asian manufacturers of chemicals, food and beverages², contracts with Japanese licensors concentrated more in electrical and electronic products, textiles and transport equipment.

A comparison of the European share in imports, direct investment and technology contracts of the countries under review suggests, that European companies have been relatively more successful as licensors than as direct exporters or investors. This is likely to be the result of two peculiarities of the European export sector, namely the participation of a large number of medium and even small firms (in contrast to the situation in the United States) and the absence of any equivalent to Japan's *sogo shosha* which could have functioned as catalysts for European investment in marketing and production affiliates in Asia. Under these circumstances, licensing has been an attractive option for European companies interested in Southeast and East Asian developing countries. In view of the increasing importance of this type of in-

¹ *ibid*, pp. 80, 220.

² Franchises of United States manufacturers of soft drinks are typical examples of licensing contracts aimed at promoting the licensor's exports (in this case the beverage concentrates).

ternational business cooperation, the experience of European companies in this respect may turn out as a key asset for their future activities in the region.

4. Determinants of the narrow range of distribution channels for European exports to Southeast and East Asian developing countries

The preceding sections show that the distribution and marketing channels for European exports to the countries under review have been narrow in scope and not fully adapted to the growth pattern of the region. This comparative disadvantage has been tightly intertwined with the limited role that has been allocated to this region in the international division of labour by European companies. In a nutshell, most European companies have seen the region as an export market for final products, which was too small and too distant to warrant major commitments for its development. In contrast, Japanese and United States companies have pursued a more comprehensive approach to benefit from the multiform economic potential of the region. A review by major economic sectors underlines this point (see Diagram 1). As far as the primary sector is concerned, European companies have generally stuck to the role of distant buyers of primary commodities, although the primary sectors continued to be the backbone of most Southeast Asian economies.

Diagram 1

The Role of Southeast Asian Economies in the International Division of Labour of European, Japanese and United States Companies: a Schematic Overview

major function of SEA economies	primary sector companies	manufacturers				service companies
	location for investment and production	market for final goods	location for investment and production for			market
			host market	home market	world market	
for companies from						
Europe	0	X	0	0	0	0
Japan	X	X	X	0	X	X
United States	X	X	0	X	0	X

Note: X = important
0 = not so important

Post colonial European investment in agro-business, mining and petroleum has been small in comparison to United States and Japanese investment in these sectors. There was no European equivalent to either the United States major oil companies and their massive investment in the region or the Japanese general trading companies and their key role in many of the region's top mining projects. This has not been without repercussions for the export potential of European companies catering to the demand of primary-sector companies for capital goods, equipment, engineering services etc.

The domestic markets of the countries under review have been coveted by Japanese, European and United States manufacturers, alike. The reliance of many European manufacturers on the tradi-

tional, foreign agency houses, however, has not worked to the formers' advantage, especially if compared to the Japanese approach of using the combination of sogo shosha and Asian distributors, or to the preference of United States companies for exporting through their own marketing affiliates. More importantly, European manufacturers have not attached much importance to Southeast Asia as a location for investment and production. This has deprived European companies of participating in the region's economic growth at two different levels. First, the phase of import substitution or rather domestic-market oriented industrialization behind tariff walls required overseas suppliers to switch from exports of final goods to exports of intermediate goods to affiliated production or assembly units located in the final markets. Japanese manufacturers were most successful in this area, as may be gathered from their substantial investment in domestic-market oriented manufacturing units in the region as well as from the large amount of their intermediate-goods exports. Second, the region became, in the latest 1960s and early 1970s, an increasingly attractive low-cost production base for labour-intensive production steps. United States companies in particular, have used the region's labour force for re-exports to the United States market. This was less typical for European manufacturers, partly because they have rather used countries in the European periphery as low-cost production bases. In the 1970s, the more advanced countries in the region evolved into full-fledged industrial export platforms for the world market. Although some European companies have participated in this development, Southeast and East Asian developing countries have not

become as important a low-cost production base for European companies, as it has for United States manufacturers (with the emphasis on exports to the United States) and for Japanese companies (with the emphasis on production for the world market). Finally, European involvement in the thriving service sectors in Asia has been more limited than that of United States and Japanese companies. This is particularly evident in banking, insurance and advertising.

Overall, Japanese companies have been far more skillful than their competitors in following the tides of economic development in Southeast and East Asia, including the often dissociated development patterns in different sectors of the same country. In practically none of the economies under review was there a smooth transition from import-substituting to export-oriented industrialization. Instead, the beginning of industrial export orientation has generally begun with the introduction of export incentives which co-existed with deeply entrenched disincentives for exports. Export processing zones in otherwise rather inward-looking economies exemplify this situation. While Japanese economic relations with the region have adopted these various developments, European companies have generally followed a highly selective approach in their marketing strategies as well as their economic interface with Southeast Asia in general. They have concentrated on a particular sector (i.e. manufacturing), on particular phases in economic development, on specific price segments in a given market (see below) and on a narrow range of distribution channels. As a result, the involvement of European

companies has frequently been below the critical mass, beyond which crossfertilization of different projects takes place and economies of scale amplify the impact of otherwise disconnected activities.

One may find a number of rational explanations for the limited differentiation of European export marketing channels in Asia as well as for the underlying, low-level participation in the region's growth potential. One can point to the increasing competitive pressure in Europe's traditional markets, including the EEC itself, to the fact that Europe is not part of the Pacific Basin, or to the historical development of the company structure in European economies, as compared to the patterns in Japan or the United States. From the preceding analysis, however, the impression emerges that many European companies have underestimated the potential of Southeast and East Asia, that they have lacked interest in these particular markets and that they have failed to update their marketing and distribution networks in the region. The analysis of distribution channels suggests that, as a result of the above, European exporters have suffered a comparative disadvantage in this field, which has undoubtedly affected the competitive position of European exports in the markets under review. This implies, that remedies to the declining participation of European companies in Southeast and East Asia are not only to be found in the sphere of production or financing, but also in the area of export marketing and distribution. And as the comparative disadvantage in this field appears to reflect at least partly a certain lack of interest in this particular region

rather than a general disadvantage of European companies in the marketing field, a halt or at least slowing-down of the present trend may be possible.

On the basis of these results, one would expect to find that European companies exhibited limited interest in adapting to specific Asian circumstances also as far as other marketing variables are concerned. The following section examines this question with respect to the positioning of products in terms of prices and the extent of product adaptation.

5. Differences in the positioning of products between European, Japanese and United States companies

The positioning of products within a specific market in terms of prices and quality is another key variable in marketing. In the context of the present study, this point gains particular weight because of the pronounced segmentation of markets in Asia. With the exception of a few Latin American countries, there is probably no other region in the world in which the sources of demand comprise the entire range from leading manufacturers employing state-of-the art technology and consumers rich by any standard down to backyard shops and rural households with very limited cash income.

In most product markets, one may distinguish at least three different layers¹ (see diagram 2):

¹ See Hellmut Schütte, "Drehscheibe aller Auslandsaktivitäten", in Absatzwirtschaft, No. 3, 1983, p. 236.

Diagram 2

Typified Market Segmentation in Southeast and East Asian Developing Economies

	consumer goods	intermediate and capital goods
modern segment	westernized elites	foreign-owned manufacturers, top local manufacturers, agri-business
transitional segment	urban, middle-class population; better-off farmers	medium-scale local manufacturers, better-off farmers
traditional segment	rural population, marginalized urban population	backyard shops, cottage industries, informal sector

Source: adapted from Hellmut Schütte, Drehscheibe aller Auslandsaktivitäten, in Absatzwirtschaft, No. 3, 1983, p. 236

1. the modern or elite market segment. This is the generally small, top-price segment. Products are highly differentiated and demand fairly price inelastic. For consumer goods it includes the big names in passenger cars, fashion, watches, alcoholic beverages, etc., the consumption of which is confined to westernized elites. For intermediate and capital goods, this segment encompasses primarily the demand of foreign-affiliated and some leading local companies for state-of-the-art machinery and high-quality intermediate goods;

2. the transitional market segment. Demand in this segment emanates from consumers in the middle-income bracket and companies producing for them. Income and price elasticity of demand tends to be high. Typical consumer goods in this market segment are household appliances such as electric fans, refrigerators, radios and TVs. In the two city states Hong Kong and Singapore the major share of the population belongs to this segment. In the other countries, the delimitation between the transitional and the traditional market segment would follow roughly the official poverty line. As far as intermediate and capital goods are concerned, the segment of economic transition includes the demand of primarily locally-owned, medium-scale manufacturing firms as well as the demand of medium and large cash-crop farms for agricultural inputs such as fertilizers, pesticides, agricultural machinery etc.;

3. the traditional market segment. This segments includes the rural majority of the population and the informal commercial sector such as cottage industries¹. Market integration is limited by low budgets which barely cover daily necessities as well as generally underdeveloped physical infrastructure in rural areas and a more sceptical outlook of consumers on Western consumption

¹ This segment is significantly smaller in the three East-Asian developing countries and Singapore than in the other four ASEAN countries. A recent class analysis of selected NIC-countries put the marginalized class at 15 per cent of the work force in the Republic of Korea, 5.6% in Taiwan and even less in Hong Kong. Independent and salaried middleclass on the other hand, accounted for 42.0%, 41.9% and 14.2% respectively, the remainder being primarily working class. See: Helmut Asche, *Industrialisierte Dritte Welt? Ein Vergleich von Gesellschaftsstrukturen in Taiwan, Hong Kong und Südkorea*, Hamburg 1984, p. 264.

patterns. Producing companies are characterized by an extremely low level of capitalization which prevents the employment of anything but the cheapest raw materials and intermediate inputs and the most basic implements.

Priority needs, decision making mechanisms, buying habits, price sensitiveness and attitudes towards product promotion vary vastly between different segments. Some characteristics of Indonesian consumers may be cited as an example (see Annex tables 12 and 13). The lack of electricity, for instance, excludes a considerable share even of the urban population from the demand for standard electric household appliances. The possession of TVs, electrical fans or motorcycles which is typical for the top quarter of urban households in Indonesia is an exception for low income groups. And while the bulk of low-income households will go "out of their way to find a cheaper price" and "always buy the cheapest brand" the more well-to-do households are far less price sensitive. Similarly, advertisement reaches and affects low-income households to a much lesser extent than high income households in Jakarta.

Moreover, each of the various market segments has its own growth and mobility pattern. This has further complicated the appropriate positioning of products as both the pronounced segmentation and the dynamic development of each segment have to be taken into account.

The following paragraphs seek to investigate, whether exporters from different home countries have concentrated on different market segments and whether this has played any significant role in their overall success in the region.

5.1. Pricing

In relation to the positioning of products in terms of pricing the differences between European, United States, Japanese and other Asian exporters appear to be very pronounced, indeed. In general, European companies have aimed at the top price segments, whereas Japanese and even more so other Asian companies have responded to the medium and bottom price segments of the demand curve. This has often confined the commercialization of European products to the comparatively small and price-inelastic demand of well-to-do, urban and westernized consumers and the most advanced manufacturing units. In contrast, Japanese exporters have been far more successful in penetrating the more price-sensitive, but large and rapidly-growing segment of economic transition and partly even entered the traditional market segment, to which many of the exporters from other Asian developing countries cater.

These differences in the positioning of products are partly borne out by the Thai trade channel analysis. Average import prices were clearly the highest for imports from the EEC, followed by those from the United States. Average import prices from Japan were much lower, on the average even below those of imports from other Asian countries (see Table 14). Although these indices do

Table 14 - Unweighted means of Thai average import price indices^a from Japan, the EEC, the United States and other Asian countries

	imports from Japan	imports from the EEC	imports from United States	imports from Asia
major 354 importers of Thailand	1.22	7.43	5.27	1.76

Note:

^amean for imports from Japan:
$$\frac{1}{n} \sum_{j=1}^n \frac{iP_{j, \text{Jap}}}{iP_j}$$

with: $iP_{j, \text{Jap}}$: annual import value of major 354 Thai importers of product j from Japan divided by annual import quantity from Japan
 iP_j : annual import value of major 354 Thai importers of product j divided by annual import quantity
j: 1,2,...,144 (see Annex table 1)

Source: as for Annex table 5.

not reveal to what extent price differences reflect the positioning of products in terms of quality (i.e. product heterogeneity) or cost advantages, the significant differences point to a competitive advantage of Japanese suppliers in the price-conscious Asian markets¹.

In addition, a regression was run for all major import products

¹ While the author gained the impression that lower prices for Japanese imports generally reflected both elements, an empirical quantification of these two factors would have been extremely difficult and has not been attempted.

to examine the influence of different countries of origin, trade channels and the size of annual transactions per firm on relative import prices (see Annex table 18 for the specification and the results of the regression).

On the basis of the above reasoning, it was expected that a high share of imports from Japan for a particular product and trade channel would have a negative coefficient in relation to average import prices, whereas the opposite would be true for imports from Europe or the United States. Import prices were expected to be higher for foreign-affiliated companies (trade channels 1,2,3, 5,11,12 and 13) than for Thai companies (channels 6,7,14 and 8 (local trading companies) which was chosen as point of reference), because foreign-affiliated companies were thought to compete in higher-price segments of the market and tend to have higher operating costs than local companies. The size of annual imports of a particular commodity per company was expected to have a lowering influence on average import prices because of economies of scale. While the regression was significant at the 5 per cent level, the above-mentioned factors explained only a very small share of the import price variations ($R^2 = 3.0$ per cent), as product heterogeneity and, hence, price differences could not be eliminated within each product category. Nevertheless, most of the results pointed into the direction expected from the above argument. The share of imports from Europe turned out to have a positive coefficient in relation to the Thai import price index followed by a smaller positive coefficient for imports from the United States, whereas imports from Japan and from other Asian

countries showed a negative coefficient in relation to Thai import price indices. Only the last factor, however, was significant at the 10 per cent level. None of the trade channel coefficients turned out to be statistically significant. Yet their signs pointed in general into the expected direction. The two most important types of locally-owned importers in Thailand (local trading companies and local manufacturing companies, trade channels 8 and 14) turned out to have lower coefficients than foreign-affiliated manufacturing companies (trade channels, 11, 12,13), agency houses and the very small own-business operations of the sogo shosha (trade channels 2 and 1). The coefficients for imports of the Thai Government and of the newly established and especially promoted local trading companies (trade channels 6 and 7), however, tend to confirm the difficulties which these two types of companies experienced in competing with long-established private Thai traders. The coefficient for marketing affiliates (trade channel 3) suggested that the latter were able to import at comparatively low prices. This shall be discussed below.

The correlation coefficients between the variables "share of imports from Japan in total imports of a particular trade channel and a particular product" with the corresponding shares of imports from the United States or Europe of the same trade channel and product showed an interesting pattern: While it was relatively common, that a particular type of company imported from both the United States and Europe (correlation coefficient of -0.14836), the coexistence of imports from Japan and the EEC was more unlikely (-0.42974). The corresponding value for simulta-

neous imports from the United States and Japan was with -0.28857 between the two above values. The implication is that European and Japanese exporters were using rather different marketing channels and that there appeared to be little head-on competition and little complementarity between imports from Europe and the United States, if compared to the relation between imports from the United States and Europe or even the United States and Japan. This tends to support the above-mentioned hypothesis of niche strategies pursued by many European companies.

The differences in pricing strategies become more obvious at a disaggregated product level. Annex tables 14 to 17 provide an overview of Thai average import prices by sectors, countries of origin and trade channels. In the field of food, beverage and tobacco imports, the reliance of European exporters on high-price and high-quality products distributed by agency houses was particularly evident. Three European agency houses, for instance, handled one third of Thai milk and cream imports, with average import prices of these imports from Europe being more than twice as high as the national average or as import prices of foreign-affiliated manufacturers in Thailand.

Import prices of foreign agency houses have often been high not only in comparison to local trading companies but also in relation to import prices of foreign-affiliated manufacturing companies on marketing affiliates. This reflected primarily the different approach of overseas manufacturers. European principals appointing distributors rather than establishing their own sales

affiliates often attached marginal importance to the market concerned. They tended to fix prices at a high level in order to cream off the top-price segment of demand. Principals establishing their own sales or manufacturing subsidiary have generally assessed the market more optimistically. They have been more likely to adopt a long-term market development strategy and to export at marginal prices. These differences are most pronounced for products such as pharmaceuticals or electronic consumer goods requiring little adaptation to local market conditions. There are a few examples of Asian manufacturing subsidiaries of European companies, which have successfully employed this latter strategy and have been able to establish themselves firmly in markets for standard nondurable consumer goods in urban as well as in rural areas. Nestlé's production and sales of Chinese noodles in Malaysia and Unilever's success with soap in Indonesia are cases in point.

Also as far as intermediate goods were concerned, marketing affiliates and foreign-affiliated manufacturing companies have frequently been able to import at low prices, even in comparison to local trading companies. In Thailand, for instance, foreign-affiliated producing companies¹ handled 60.6 per cent of total imports of fuels and minerals at prices well below those of the major local importers².

¹ Excluding those with equity participation by foreign-affiliated trading companies.

² These differences are unlikely to be the result of underinvoicing, as foreign-affiliated companies in Thailand have little incentive to underinvoice on imports.

In the area of Thai chemical imports, there was keen competition between European, Japanese and United States manufacturers with aggregated market shares being fairly equal, although Japanese exporters concentrated more on bulk chemicals whereas European companies were particularly strong in fine chemicals. At the product level, import prices from Japan were below average for products such as non-nitrogenous fertilizers, phosphates, cyclic hydrocarbons or pharmaceuticals whereas import prices for synthetic dyestuffs, paints, odoriferous substances, insecticides and fungicides from Europe were lower than those of competing products from Japan. Foreign-affiliated manufacturing units were the most important type of importer for chemicals from Europe, Japan and the USA, alike. Import prices for chemicals from Japan closely followed the hierarchical market segmentation as pictured in diagram 2. Imports of foreign-affiliated manufacturers showed the highest average prices, followed by major local manufacturers whereas local traders registered the lowest average prices for their chemical imports which they generally distributed to small, local final users. This pattern was somewhat reversed for chemical imports from Europe. Here, foreign agency-houses were on top of the range of average import prices followed by major local manufacturers and, only in the third place, by foreign-affiliated manufacturers and marketing affiliates. The success of European chemical exporters to the region can be attributed to both the competitive pricing and the differentiated distribution systems.

Photographic films have been another area in which pricing and positioning strategies differed markedly between the three pro-

tagonists Kodak, Agfa and Fuji¹. In the early 1970s, Agfa had a market share of reportedly one third of imported films in Thailand, second only to Kodak, which supplied more than half of the market. Within the last decade, Fuji increased its market share from a very small level to approximately one quarter, primarily at the expense of Agfa, which has fallen below 5 per cent in the early 1980s. The success of Fuji was based on three major variables. First, Fuji did a tremendous amount of market research throughout the country. Second, Fuji adopted the 'follow-the-leader principle' and chose a chemical development process which is compatible with the one for Kodak films and which was, in contrast to Agfa's process, adapted to tropical temperatures².

Third, Fuji priced its products at 15 to 20 per cent below the prices of Kodak.

These findings corroborated similar observations in other markets on the skilfulness of Japanese companies in positioning their products. A survey of marketing directors in fifteen equivalent Japanese and British firms operating in the United Kingdom, for instance, revealed that the Japanese companies practised market segmentation to a much larger extent than their British competitors. In Britain, however, they relied by no means on the lower price and quality segments of the market³. This suggests that the

¹ Information from company interviews.

² The Kodak process apparently requires the heating of a solution whereas the Agfa process requires the cooling down of the solution's temperature which is obviously more complicated and expensive. Only very recently, Agfa headquarters undertook the necessary product adaptation.

³ P. Doyle et al., "Why Japan Out-Markets Britain", in: Marketing Today (UK), May 1985, pp. 63-70.

positioning of Japanese products down market of competing Western products in Asia reflects a special marketing approach rather than an overall specialization of Japanese manufacturers on these market segments.

5.2. Market research and product adaptation

The skilful market segmentation and positioning of products of Japanese companies has generally been the result of extensive market research in combination with product adaptation. European businessmen in the region have often pointed to the tremendous amount of market research, which typically precedes the introduction of new Japanese products¹. The results of this market research are fed into an integrated marketing approach, which includes product adaptation, pricing, distribution and promotion. Product adaptation has been a key element in this approach and Japanese manufacturers have generally undertaken more efforts to adapt products to suit Asian demand patterns than European or United States competitors have.

Commercial vehicles are striking example. The Japanese companies Isuzu and Hino have carved out large market shares in most of the countries under review² because of their special product adapta-

¹ Information from interviews.

² See for instance: United Nations, Economic and Social Commission for Asia and the Pacific, The scope of South-east Asian subregional co-operation in the automotive sector, Bangkok 1982.

tion and competitive pricing. The average unit price of Thai imports of chassis fitted with engines from Japan was at 15.8 per cent of that of imports from Europe. For work trucks it was at 63.2 per cent of the European level and at 36.3 per cent of the average import price from the United States and for special purpose motor carriers and vans the corresponding ratios were 22.1 per cent and 83.9 per cent, respectively¹. M.A.N., on the other hand, which did not adapt its commercial vehicles to meet specific Southeast Asian demand patterns, found itself restricted to the price-inelastic demand of government institutions such as the police or the army. As a result, regional turnover has been confined to a few hundred vehicles per year².

Very similar arguments apply for large-scale engineering and turnkey projects. Overseas manufacturers of key components had to tie up with local or other suppliers for those parts and services which they could not offer themselves at competitive prices. In the eight countries under review, only those firms which adapted their services and integrated the advantages of the international division of labour in their own organization and in each individual large-scale project have been able to remain price competitive. Frequently, European headquarters have not been sufficiently flexible or interested to follow this strategy. On the other hand, there was a number of success stories of European engineer-

¹ Thai trade channel analysis, product tables. Similar ratios characterized the imports of tractors and parts and motor vehicles.

² Information from an interview with MAN delegates in Manila.

ing companies and equipment suppliers which have followed this principle¹. This attested to the competitive potential of European suppliers in this field.

In sum, the positioning of products in terms of pricing and product adaptation appears to be a key element of Japanese marketing strategies in the countries under review.

In contrast, European companies have generally been far more reluctant to adapt products to specific local demand patterns and have tended to concentrate on the top-price segment. This confirms again, that a certain lack of interest in the region on the part of many European companies has been at the origin of their competitive disadvantage in the area of marketing. The success of a few European manufacturers which have followed marketing strategies similar to those of most Japanese companies adds additional weight to the view that the limited success of most European companies in the markets under review is not only a sign of a decline in general competitiveness of European companies, but also the result of a certain neglect of marketing strategies in this part of the world.

¹ In the eight years from 1975 to 1983, Lurgi, the wholly-owned subsidiary of Metallgesellschaft of the FRG, received 36 plant orders from Southeast Asia in the areas of edible oil refining, oil seed extraction and oil chemistry alone. In Malaysia, Lurgi reportedly installed 65 per cent of the total edible oil refining capacity. See Horst Hartmann, "The edible oil industry in South-east Asia", in Lurgi Information, 9, 1983, p. 37. In a number of cases, Lurgi worked together with Japanese sogo shosha. Coutinho Caro was another successful European company in the field of large engineering projects, plant exports etc. AEG and Klöckner adopted the same "local content" strategy for a number of contracts in Thailand. Information from interviews.

6. Summary and conclusions

Marketing strategies in the sense of institutional export channels and the positioning of products within the final market differ significantly between Japanese, European and United States companies and these differences appear to be directly related to the varying degrees of success of Japanese, European and United States companies in developing Southeast and East Asia. These are the two major results of the preceding analysis.

Judging on the basis of the available data, the export marketing strategies of European manufacturers in the region under review differed in four notable ways from those of their competitors. First, the absolute amount and the share of exports to affiliated manufacturing subsidiaries in total European exports to the region was significantly smaller than for Japanese or United States exports. This coincided with the low level of European direct investment in the region. Whereas Japanese and, to a lesser extent, United States manufacturers have established their own captive markets in Asia, European manufacturers have been less prepared to establish this type of export bridgeheads. This has been a clear handicap considering that at least one quarter of total imports and in many countries significantly more were handled by foreign-affiliated manufacturers.

Second, numerous European manufacturers continued to rely on European export and agency houses instead of up-dating their export and distribution network. European agency houses have lost most of their historical importance and are going through a pro-

found structural crisis in most countries under review. In addition the conflicts of interest between principals and distributors and the comparatively limited supervision of the agency houses by their European principals, have often worked to the latter's disadvantage. As a result, many European companies have not been able to break away from the circle of considering the markets under review as marginal, undertaking marginal marketing efforts and thereby remaining in a marginal position.

Third, the declining role of the European agency houses stood in sharp contrast to the key contributions of the Japanese sogo shosha to the success of Japanese manufacturers in the region. Japan's top nine general trading companies handled approximately half of the region's bilateral trade with Japan and between 15 and 20 per cent of total trade of the countries under review. They had accumulated substantial equity interests throughout the modern sectors in Southeast Asia. Their unrivaled product, market and functional diversification put them into a unique position as two-way communicators and low-margin organizers for the whole range of economic relations between Japan and the region under review.

This readily available pipeline for trade, investment and technological cooperation put Japanese manufacturers, and in particular small- and medium-size companies into an advantageous position over their western competitors. Whereas United States companies frequently benefited from the existence of a large and closely-knit American expatriate business community as well as from the

powerful political and military position of their home country, European companies did not have any comparable business infrastructure at their disposal.

Fourth, European manufacturers have primarily aimed at the top-price segment of demand in contrast to their Japanese competitors which have been far more skilful in positioning products in terms of prices, product adaptation and distribution systems in the large and fast growing transitional or even traditional market segments.

One may summarize that European companies in the countries under review have tended to opt for the easier alternatives: no representation in the region rather than cooperation with local companies, reliance on European agency houses rather than establishing marketing affiliates, licensing rather than investing, and positioning of products in the top-price top-quality market segment rather than adapting them in terms of product characteristics and pricing. This reluctance to commit resources to the development of the markets under review accounted for a major part of the competitive disadvantages of European companies vis-à-vis their Japanese and United States competitors in the field of marketing. One may argue that there must have been other, more lucrative markets including the EEC, itself, in which additional marketing efforts yielded higher returns. The limited amount of interest in Asia on the part of European companies, however, appears to reflect, as well, some less rational elements. Many European companies have underestimated the growth potential of

the region, and they have seen the region primarily as a market for final goods rather than participating on a broader basis in the increasingly diversified economic potential of the region.

It follows that the declining role of European companies in the region is related to their competitive disadvantages in the field of marketing strategies in the broad sense. These disadvantages have further aggravated the effects of the more generally-observed decline in international competitiveness of European companies.

Against this background, the further prospects for European companies in this region are not entirely bleak. Redressing marketing strategies in the sense of making greater marketing commitments in the region under review may be easier to achieve than reversing a general decline of competitiveness in the field of production and technical innovation. At the same time, however, regaining lost market shares will become more difficult in the future, as the peak of the region's economic growth lies in the past.

The limited competitiveness of European companies in Asia in terms of marketing leads to the question whether this is a unique phenomenon of this region or applies to other markets, as well. Although the data in the present study do not permit any comprehensive answer to this question, there are a few points worth mentioning with respect to the four above-mentioned differences in marketing strategies between European companies and their

competitors. Japan's lead position as investor in Southeast and East Asian developing countries is unique to this region. In fact, Japanese direct investment flows to all developing countries were lower than those from the EEC or the United States, in absolute terms as well as in relation to exports to developing countries¹. Hence, United States companies and, to a lesser extent, European companies tended to have a clear edge over their Japanese competitors in other parts of the developing world in terms of affiliated, captive markets. Japanese companies, however, appear to be catching up, particularly in Latin America. By 1981, they had invested over US\$ 3 billion in Latin America's manufacturing sector, which was equivalent to one fifth of Japan's total overseas industrial investment². Similar to their pronounced specialization on a fairly limited number of products³, Japanese companies appear to have been quite selective in their choice of overseas markets and investment locations.

¹ From 1977 to 1981, Japanese direct investment flows to developing countries averaged at US\$ 1.2 billion p.a., compared to 3.6 billion for the EEC (Belgium, Denmark, France, FRG, Italy, Netherlands, U.K.) and 5.7 billion for the United States. In relation to 1981 exports to developing countries, these investment flows amounted to 1.8 % for Japan, 2.9 % for the EEC and 6.8 % for the United States. United Nations Centre on Transnational Corporations, *Transnational Corporations in World Development, Third Survey*, ST/CTC/46, New York 1983, p. 297, and United Nations Conference on Trade and Development *Handbook of International Trade and Development Statistics*, 1984 Supplement, TD/STAT.12, New York 1984.

² News from MITI, June 23, 1983, p. 6.

³ See for instance, Lawrence G. Franko, The threat of Japanese multinationals - How the West can respond, John Wiley & Sons, Chichester, 1983.

Also the role of European agency houses seems to be under less pressure in other parts of the world than in Asia. According to recent estimates, trading houses handled between 20 and 30 per cent of exports in the FRG, France, Belgium, the Netherlands, the U.K. and Denmark². This was significantly more than the shares of European agency houses in Asian imports from Europe. In many African countries, for instance, European agency houses continued to play an important role in trade and other economic activities.

As far as Japan's general trading companies were concerned, their activities were by no means confined to Asian countries. With more than 1 000 overseas bases in 1981/82 the nine sogo shosha were present all over the world and had established bridgeheads for growing economic relations with Japan in practically all developing countries.

With respect to the positioning of products in third markets in terms of pricing and product adaptation, there was no data available on possible differences between European and Japanese companies. Yet, there is little reason for assuming that Japanese companies have abandoned a strategy in third markets, which has yielded favourable results in Asia. The above-mentioned evidence on the skilfulness of Japanese companies in the area of market segmentation in the U.K. as well as the success of Japanese manu-

¹ Erich Batzer, Rainer Ziegler, Die Außenhandelsunternehmen in der Europäischen Gemeinschaft: Funktionen, Strukturen, Wettbewerb, Studie für die Kommission der Europäischen Gemeinschaften, IFO-Institut für Wirtschaftsforschung, November 1984, p. 139 n.

facturers in specific product markets in Africa¹ and Latin America suggest in fact, that the successful positioning of products has been a general rather than a specifically Asian characteristic of the activities of Japanese companies.

One may conclude that European companies in other parts of the developing world are likely to have been in a stronger competitive position in the field of marketing vis-à-vis their Japanese competitors than they were in Southeast and East Asia. The lessons from this region, however, deserve nevertheless to be taken seriously.

¹ Marie-Claude Chapon, Stratégies des entreprises japonaises en Afrique - conséquences pour les entreprises françaises, Euro-Asia Centre, INSEAD, Fontainebleau, September 1983, mimeo.

A P P E N D I C E S

Appendix A: Marketing of OECD Exports of Raw Materials and Intermediate Goods

Imports of raw materials such as petroleum, fertilizers or grain are handled to a large extent by government institutions or public enterprises¹. Purchases are mostly done directly on the basis of public tenders and increasingly on f.o.b. terms. Some of the leading locally-owned manufacturers, as well, purchase raw materials and intermediate goods directly from abroad. These products, and in particular petroleum, account for a major share of total imports of the countries under review. In the Republic of Korea, for instance, 24.4 per cent of the total import bill in 1981 was paid for petroleum. As a result, the share of direct imports by final users in total imports accounted for an estimated 38.3 per cent in 1981². This was significantly higher than in the less resource-dependent countries of the region. In Malaysia, locally-controlled manufacturing companies imported 13.5 per cent of total imports in 1980 and in Thailand, the corresponding figure was 18.5 per cent for the 76 largest local manufacturing companies³.

Yet, exports of petroleum and other raw materials and intermediate products at early stages of processing play a minor role in OECD country exports to the region, if one excludes United States grain exports. In addition, these products compete primarily in terms of prices owing to their comparatively high homogeneity. The increased market transparency in these markets explains, why suppliers generally do not need to establish their own marketing network and why direct purchases by final users have become common. It follows that these products are less relevant for the questions addressed in this paper.

Imports of foreign-affiliated manufacturing companies from non-related sources have been another area, in which overseas suppliers have sometimes been able to export without representation in the target market. Traditional suppliers from the home countries have sometimes exported directly to these affiliates. Marketing efforts of such suppliers were directed to the headquarters rather than the Asian affiliates.

¹ Government-owned Pernas Trading Sdn Berhad, for example, handles reportedly half of Malaysia's urea and fertilizer imports. Indonesia's Bulog imported in 1980/81 grain for US\$ 1.1 billion. Other examples are the Office of Supply of the Republic of Korea (Osrok) or the Central Trust of China in Taiwan. Information from United Nations, International Trade Centre UNCTAD/GATT, file on state trading corporations.

² See United Nations, ESCAP/UNCTC Joint Unit on Transnational Corporations, 1985, loc.cit., chapter V.

³ ibid, chapters III and IV.

Manufacturers of highly specialized machinery and equipment have also been contacted directly by final users or through international trading companies, particularly in connection with projects financed by tied aid. In general, however, capital goods exporters require local agents or delegates in Asian markets in order to receive information on projects and tenders at an early stage, in order to blend imported and local components in their bids and in order to offer after-sales services.

One may conclude, that - with the exception of selected raw materials and intermediate goods at early stages of processing - exporters to the region require some kind of local representation in the final markets.

Appendix B: The Economics of Sogo Shosha

From the point of view of Japanese manufacturers, the attractiveness of the sogo shosha has been associated with the latter's ability to bridge bottlenecks in export marketing all along the dynamic process from market entry to overseas production or licensing. The textile industry is a prime example, partly because some of the sogo shosha evolved from Osaka-based textile merchants. After World War II, the sogo shosha were instrumental in developing export market outlets for Japanese textile products, as they had a near monopoly as far as knowledge of and contracts in foreign markets were concerned. As Japan lost its comparative advantage in the labour-intensive textile sector, largely due to labour shortages in Japan, the major Japanese textile companies, in close co-operation with the general trading companies of their industrial groupings, built up manufacturing units all over Southeast Asia. Toray Industries, the largest Japanese textile manufacturer and core member of the Mitsui Group, invested in each of the five ASEAN countries mostly together with Mitsui, but also with Marubeni (Malaysia), Toyomenka (Philippines) and C. Itoh (Singapore and Thailand). Toray's joint-ventures in Thailand (Luckytex), Malaysia (Pen Group) and Indonesia (Century Textiles) are among the largest textile units in the region. Similarly, the sogo shosha established joint-ventures in the eight countries under review with all the other major textile manufacturers such as Toyobo, Kanebo or Mitsubishi Rayon. During the start-up period of joint ventures, the sogo shosha contributed primarily through market and feasibility studies, the arrangement of financing schemes and their contacts and connections with governments and the business community at large. At a latter stage, their assistance was particularly crucial in times of transitions: a case in point was the 1975 crisis of the Thai textile sector, when companies had to shift from domestic market orientation to a more outward looking approach.

The textile industry is by no means the only sector in the countries under review, into which the sogo shosha channeled Japanese investment. Their joint-venture activities span the entire gamut from the primary to the tertiary sector, reflecting closely the structure of Japanese economic involvement in Southeast and East

Asian developing countries. As may be gathered from Annex table 21, there were at least 404 joint-ventures of the sogo shosha in the eight countries under review¹. Nearly two thirds of the joint ventures were in the manufacturing sector, and - apart from textiles - primarily in metals and metal products, chemicals and transportation equipment. Although the number of projects in the primary sector was small, it included some of the region's largest resource-based projects, which have been of tremendous importance to Japanese and non-Japanese suppliers of equipment, not to mention Japanese raw material importers². Prime examples are the US\$ 2 billion Asahan aluminum project in Northern Sumatra, Marubeni's involvement in copper mining in the Philippines, Mitsubishi's role in Brunei LNG Ltd. and numerous forestry projects in Indonesia.

Sogo shosha affiliates in the tertiary sector were concentrated in the two entrepôt trade centres Hong Kong and Singapore.

The total registered capital of sogo shosha affiliates amounted to US\$ 1.5 billion. Assuming a debt-equity ratio of 5 to 1³ the total investment of their joint-ventures in the eight countries under review would have been approximately US\$ 9 billion!

More than two-thirds of the 404 sogo shosha affiliates were tripartite joint-ventures between a Japanese manufacturer, a local partner in the host country and a sogo shosha. This, again, bears witness to the catalytic role of the sogo shosha in enhancing Japanese investment in developing Asia and in marching Japanese investors with local partners in the host countries. The equity share of the sogo shosha has normally been less than 30 per cent, in exchange for which they reserved for themselves the right to handle the imports and, to the extent available, exports of their affiliates.

¹ This is actually an underestimation, as the source of the table is the most comprehensive but nevertheless incomplete source on Japanese overseas investment. Host country data in Indonesia puts the number of sogo shosha affiliates to 113 in 1981 (JETRO Jakarta Centre), i.e. 50 per cent more companies.

² See for instance Terutomo Ozawa, 'A newer type of foreign investment in Third-World resource development', in: Revista Internazionale di Scienze Economiche e Commerciali, Vol. XXIX, No. 12, Dec. 1982, pp. 1133-1151.

³ Ministry of International Trade and Industry, Japan, News from MITI, 26 January 1981, p. 8, specifies this gearing for all Japanese overseas investment in 1978.

Annex table 1 - Classification of Thai Imports Included in Trade Channel Analysis

Code of Thai Department of Business Economics	Commodity	CCCN Code No.
1. FOOD AND TOBACCO		
0001	Fresh fish	0301
0002	Milk and cream	0401
0003	Butter, cheese and curd	0403,0404
0004	Cereal flours	100102
0005	Malt	1107
0007	Bean oils, palm oils and coconut oils	150731-150734
0008	Malt extract	1902
0009	Non-alcoholic essence for drinking	210725
0010	Spirits; liqueurs etc.	2209
0011	Oil-cake and other residues	2304
0012	Sweetened forage	2307
0013	Unmanufactured tobacco	2401
2. MATERIAL AND PETROLEUM PRODUCTS		
0014	Asbestos	2524
0015	Coal, lignite, peat, coke	2701-2704
0016	Petroleum oil (crude)	270900,271040
0017	Gasoline	271011-271019
0018	Kerosene	271021-271029
0019	Diesel oil	271031-271032
0020	Fuel oil	271033-271039
0021	Lubricant oils	271051-271059
0022	Petroleum gases and other gaseous hydrocarbons	2711
0023	Paraffin wax	2713
3. CHEMICAL PRODUCTS		
0024	Chlorides, oxychloride and hydroxy chlorides	2830
0025	Phosphites, hypophosphites and phosphates	2840
0026	Carbonates and percarbonates incl. ammonium carbonate	2842
0027	Cyclic hydrocarbons	290121-290129
0028	Iodoform and chloroform	2902
0029	Liquid acyclic alcohols	290411-290419
0030	Monoacid anhydrides	2914
0031	Polyacid anhydrides	2915
0032	Oxygen-function amino-compounds	2923
0033	Amide function compounds	2925
0034	Heterocyclic compounds	2935

Annex table 1 continued

Code of Thai Department of Business Economics	Commodity	CCCN Code No.
0035	Sultones and sultams	2937
0036	Antibiotics	2944
0037	Medicaments	300392-300398
0038	Mineral or chemical fertilizers, nitrogenous	3102
0039	Other fertilizers	3105
0040	Synthetic organic dyestuffs	3205
0041	Colouring matters	3204, 3207
0042	Paints	320902-320904
0043	Writing ink, printing ink and other ink	3213
0044	Mixtures of odoriferous substances	3304
0045	Organic surface-active agents	3402
0046	Film in rolls	3702
0047	Sensitised paper, paper board and cloth	3703
0048	Cinematograph film	3706, 3707
0049	Disinfectants, insecticides, fungicides etc.	3811
0050	Prepared chemicals	3812-3819
0051	Condensation polymerization	3901
0052	Polymerization and copolymerization products	3902
0053	Plastic products	3907
0054	Synthetic rubber latex	4002
0055	Clothing accessories etc. of unhardened vulcanized rubber	4013, 4014
4. WOOD PRODUCTS		
0057	Wood in the rough	440302-440349
0058	Wood sawn lengthwise	4405
0059	Pulp derived by mech. or chem. means from any fibrous vegetable material	4701
0060	Waste paper and paper board	4702
0061	Paper and paper board in rolls or sheets	4801
0062	Paper and paper board, impregnated, coated surface-colour	480721-480738
0063	Printed book etc.	4901
5. TEXTILES AND TEXTILE PRODUCTS		
0064	Silk yarn (not put up for retail sales)	5004
0065	Garments	5009, 5104, 5507, 5509, 5607

Annex table 1 continued

Code of Thai Department of Business Economics	Commodity	CCCN Code No.
0066	Man-made fibres	n.a.
0067	Cotton	5501-5504
0068	Man-made fibres for spinning	5601,5604
0069	Waste of man-made fibres	5602
0070	Knitted or crocheted fabric	600111-600120
6. BASE METALS		
0074	Waste and strap metal of iron or steel	7303
0075	Puddled bars and pilings or iron or steel	7306,7307, 7310,731511- 16
0076	Iron or steel coils for re-rolling	7308
0077	Angles, shapes and sections of iron or steel	7311
0078	Hoop and strip or iron or steel	7312
0079	Sheets and plates or iron or steel	7313
0081	Alloy steel	731574-731579
0082	Tubes and pipes of cast iron	7317
0083	Structures and parts of structures etc. of iron or steel	7321
0084	Stranded wire, cable cordage etc. of iron or steel	7325
0085	Chain and parts thereof, of iron or steel	7329
0086	Bolts and nuts etc. or iron or steel	733221
0087	Other articles of iron or steel	7340
0088	Copper	7401
0089	Wrought bars, rods, angles, shapes and sections, of copper	7403
0090	Plates, sheet, strip, of copper	7404
0091	Aluminum waste and scrap	7601
0092	Lead waste and scrap	7801
0093	Zinc waste and scrap	7901
		(excl.790102)
7. MACHINERY		
0094	Interchangeable tools etc.	8205
0095	Locks and padlocks	8301
0096	Internal combustion piston eng.	8406
0097	Mechanically propelled road rollers	8409
0098	Pumps for liquids	8410
0099	Industrial and laborators furnaces and ovens	8414,8511
0100	Absorption type refrigerators	841540

Annex table 1 continued

Code of Thai Department of Business Economics	Commodity	CCCN Code No.
0101	Centrifuges for liquids or gases	8418
0102	Machinery for cleaning or drying bottles or other containers	841901-841903 841905-841910
0103	Lifting, handling, loading or unloading machinery	8422
0104	Excavating, levelling, tamping, boring and extracting machinery	8423
0105	Machinery used in food and drink industries	8430
0106	Machinery for making or finishing cellulosic pulp, paper etc.	8431
0107	Printing machinery	843501-843503 843509-843510
0108	Machines for extruding man-made textiles	8436
0109	Machines for weaving, knitting etc.	8437-8438
0110	Machine-tools for working metal or metal carbides	8445, 8450
0111	Automatic data processing machines and units thereof	845504
0112	Office machines, parts and accessories	8454, 8455 (exc. 845504)
0113	Machinery for sorting, screen- ing, separating, washing etc.	8456
0114	Machines; having individual functions.	8450
0115	Moulding boxes for metal foundry	8460
0116	Taps, cocks, valves etc.	8461
0117	Ball, roller or needle roller bearings	8462
0118	Transmission shafts, cranks, bearing housings etc.	8463
0119	Generators, motors, convertors	8501
0120	Tools for working in the hard, with self contained electric motors	8505
0121	Electrical starting and ignition equipment for internal combustion engines	8508
0122	Electric instantaneous or storage water heaters etc.	8512
0123	Electrical lines, telephonic and telegraphic apparatus	8513
0124	Microphone, loudspeakers	8514
0125	TV, Radio	851521-28, 31, 32
0126	Electrical capacitors	8518
0127	Electrical apparatus for making and breaking electrical circuits	8519

Annex table 1 continued

Code of Thai Department of Business Economics	Commodity	CCCN Code No.
0128	Thermionic, cold cathode and photocathode valves etc.	8521
0129	Electrical appliances and apparatus	8522
0130	Insulated electrical wire & cable	8523
0131	Carbon brushes, arc-lamp carbon	8524
0132	Insulation	8525
0133	Electrical parts of machiners	8528
8. TRANSPORT EQUIPMENT		
0134	Rail locomotives	8601-8603
0135	Tractors and parts	870610
0136	Motor vehicles etc.	8702
0137	Special purpose motor carries and vans	8703,870620
0138	Chassis fitted with engines	870411-870419
0139	Works trucks etc.	8707
0140	Parts & accessories etc.	8712
0141	Flying machines	8802
0142	Ships, boats etc.	8901
9. OTHER		
0144	Medical instruments etc.	9017
0145	Electrical measuring instruments etc.	9028
0146	Parts or accessories etc.	9029
0147	Watches	9101
0148	Gramophones etc.	9211
0071	Cast, rolled, drawn or blown glass	7006
0072	Pearls, precious stones	7101-7103,7112
0073	Gold & platinum-plated gold	7107

Annex Table 2 - Example of Commodity Table of Thai Trade Channel Analysis

milk and cream

Imports 1980

Unit: Kilogramme

Trading Channel ^a	No. of Traders/ Channel	Total Value (Million)	% Distribution	Unit	Unit Price (Baht)	% of T.C. to Japan	Unit Price (Baht)	% of T.C. to EEC	Unit Price (Baht)	% of T.C. to USA	Unit Price (Baht)	% of T.C. to Asian	Unit Price (Baht)
02	3	367.089	33.0300	03	68	.0000	0	28.1015	68	.0000	0	.0000	0
03	1	30.704	2.7627	03	57	.0000	0	.0000	0	.0035	237	.0000	0
* 04	4	397.793	35.7927	03	67	.0000	0	28.1015	68	.0035	237	.0000	0
08	2	66.331	5.9684	03	25	.0000	0	.5180	23	.0000	0	.0000	0
* 09	2	66.331	5.9684	03	25	.0000	0	.5180	23	.0000	0	.0000	0
* 10	6	464.124	41.7611	03	54	.0000	0	28.6195	66	.0035	237	.0000	0
11	4	86.538	7.7866	03	22	.0000	0	2.3700	20	.1790	10	.0000	0
12	5	296.446	26.6737	03	19	.0000	0	5.7427	24	.0760	11	.0000	0
14	2	68.732	6.1844	03	60	6.1844	60	.0000	0	.0000	0	.0000	0
* 15	11	451.717	40.6447	03	22	6.1844	60	8.1127	23	.2550	10	.0000	0
**16	17	915.841	82.4057	03	31	6.1844	60	36.7322	46	.2585	10	.0000	0
Other		195.539	17.5943	03	28								
Total		1.111.381	100.0000	03	30								

^a See Annex table 5 for key for trade channels.

Source: Thai customs declarations.

Annex Table 3 - Transnational Trading Corporations Included in the Survey

	Republic of Korea	Malaysia	Sri Lanka	Thailand	Total
1. European Agency Houses	6 Cosa Liebermann, Efak, Bwkor, German Engineering (Rieckermann), German-Korean Technical (CCC), Illies	12 Behn Meyer, Clouet, Diethelm, East Asiatic, Cold Storage (FIMA), Hagemeyer, Harper Trading, Lindeteves, Morrison Son & Jones, Paterson Simons, Rank O'Connor, Watson	3 Blackwood Hodge, E.B. Creasy, Morrison Sun & Jones	14 Anglo Thai, Berli Jucker, B. Grimm, Borneo, Carlowitz, Commercial Co. of Siam, Diethelm, East Asiatic, Hagemeyer, Jebbsen & Jessen, Leon-owens, Rieckermann, Siemssen, Zuellig	35
2. European Commodity Traders	0	2 Alcan Getah, Harrison & Crosfield	7 Brooke Bond, Ceylon Trading, Harrisons & Crosfield, James Finley, Lipton, Van Rees, Volanka	5 Alfred C. Toepfer, Cremer, Krohn, Mark Rich (E.H.O. Mantell), Meridian	14
3. European Buying Agents	6 AEG, Dodwell, Hertie, Miles, Otto Versand, Quelle	0	0	3 Dodwell, Florinex, Ruppenthal	9
4. European Marketing Subsidiaries	3 BASF, Hoechst, Siemens	3 Hoechst, Malaysian Thread (Coates), Roche	5 Ceylon Nutritional Foods (Nestlé), Chemical Industries (ICI), Glaxo, Hoechst, Gestetner	2 BASF, Bayer	13
5. American Marketing Subsidiaries	3 Du Pont, General Electric, Tele-dyne	5 Amway, Avon, Eloxon, Johnson & Johnson, Monsanto	2 Lankem (ESSO), Singer	2 Johnson & Johnson, Kodak	12
6. Japanese General Trading Companies	8 C. Itoh, Kinsho Ma-taichi, Marubeni, Mitsubishi, Mitsui, Nissho Iwai, Sumitomo, Toyomenka	3 Kanematsu, Mitsubishi, Nissho Iwai	0	10 C. Itoh, Kanematsu, Marubeni, Mitsubishi, Mitsui, Nichimen, Nissho Iwai, Nomura, Sumitomo, Toyomenka	21
7. Non-European Agency Houses	3 Connel Brothers, Woodward Dickerson, Jardines & Matheson	1 Woodward Dickerson	1 Muller & Phipps	4 American Trading, Connel Brothers, Jardines & Matheson, Muller & Phipps	9
8. United States Commodity Traders	1 Asoma	1 ACLI	0	3 Cargill, Continental, Philipp Brothers	5
9. American Buying Offices	6 Barclays, Conex, Huk, May, Waco, Whitby	0	0	1 May Department Store	7
10. Others	0	3 SMPT (Michelin), Toshiba, Sanyo	0	4 Siew National (Matsushita), Hitachi, Hoechst, Thai Daimaru	7
Total	36	30	18	48	132

Annex Table 4 - Principal Characteristics of Foreign-affiliated Trading Companies in the Republic of Korea, Malaysia, Sri Lanka and Thailand

	Typ of company ^a								
	1	2	3	4	5	6	7	8	9
Foreign equity share (%)	78.1 n=35	88.8 n=14	88.7 n=9	81.0 n=13	87.5 n=12	99.0 n=21	80.9 n=9	100.0 n=5	100.0 n=7
Employees (no.)	318 n=35	181 n=14	21 n=9	149 n=13	125 n=12	74 n=21	70 n=9	35 n=5	16 n=7
Expatriates (no.)	5 n=35	2 n=14	1 n=9	2 n=13	1 n=12	14 n=20	1 n=9	2 n=5	2 n=7
Equity capital (US\$ '000)	4159 n=27	792 n=14	98 n=3	489 n=12	2053 n=7	882 n=9	1355 n=6	475 n=5	30 n=1
Sales of affiliates (US\$ '000)	33 038 n=34	92 936 n=13	16 984 n=9	13 589 n=12	21 748 n=12	369 271 n=21	13 863 n=9	57 188 n=3	10 057 n=7
Exports of affiliates (US\$ '000)	5 260 n=35	58 415 n=14	16 981 n=9	277 n=13	1 329 n=12	135 124 n=21	649 n=9	53 217 n=5	9 857 n=7
Share of exports on commission basis (%)	68.8 n=13	31.4 n=14	57.2 n=9	50.0 n=2	50.0 n=4	97.6 n=21	100.0 n=4	75.0 n=4	71.4 n=7
Imports of affiliate (US\$ '000)	15 272 n=35	2 570 n=14	3 n=9	10 174 n=13	15 676 n=12	211 106 n=21	13 226 n=9	5 872 n=5	57 n=7
Share of imports on commission basis (%)	30.5 n=35	40.0 n=5	0.0 n=1	23.1 n=13	20.5 n=12	97.8 n=21	63.9 n=9	100.0 n=2	100.0 n=1
Domestic sales of affiliate (US\$ '000)	6 842 n=35	32 983 n=14	0 n=9	1 932 n=13	1 495 n=12	23 062 n=21	577 n=9	3 000 n=5	0 n=7

^aSee Annex table 3 for key.

Source: Survey

Annex table 5 - Thai Imports (144 Major Products) by Trading Channel in 1980 (Value of Imports on Own Account in Baht millions - Percentage Share of Each Trading Channel in All Imports of the 144 Major Products)

	1 Japanese Trading Companies	2 Agency Houses	3 Marketing Affilia- tes	4 Foreign Trading Comp. (1+2+3)	5 Tr.Comp. from De- veloping Asia	6 Local State Trading Comp.	7 Local Trd. Comp. Promoted by BOI ^a	8 Other Local Trading Comp.	9 Local Trading Comp. (6+7+8)	10 All Trading Comp. (4+5+9)	11 Foreign Manuf. Comp.with Equity FTCs ^b	12 Other Foreign from De- veloping Asia	13 Manuf. from De- veloping Asia	14 Local Manuf. Comp.	15 All Manuf. Comp. (11+12 13+14)	16 All Sample Comp. (10+ 15) ^c	17 All Im- ports (148 Major Products)
1. Food and Tobacco	22 (0.3)	858 (12.9)	123 (1.9)	1,003 (15.1)	- -	- -	- -	535 (8.1)	535 (8.1)	1,538 (23.2)	433 (6.5)	435 (6.6)	- -	2,031 (30.6)	2,899 (43.7)	4,437 (66.9)	6,632 (100.0)
2. Mineral Products & Fuels	- -	3 (0.0)	6,654 (11.2)	6,657 (11.2)	- -	- -	3 (0.0)	12 (0.0)	15 (0.0)	6,672 (11.2)	2 (0.0)	36,021 (60.6)	- -	11,644 (19.6)	47,667 (80.2)	54,339 (91.4)	59,466 (100.0)
3. Chemical Products	431 (2.2)	832 (4.3)	1,915 (9.9)	3,178 (16.5)	5 (0.0)	416 (2.2)	6 (0.0)	2,155 (11.2)	2,577 (13.3)	5,760 (29.8)	2,661 (13.8)	2,330 (12.1)	63 (0.3)	1,566 (8.1)	6,620 (34.3)	12,380 (64.1)	19,311 (100.0)
4. Wood, Wood Products and Paper	- -	1 (0.0)	12 (0.3)	13 (0.3)	- -	76 (1.8)	28 (0.7)	433 (10.2)	537 (12.6)	550 (13.0)	125 (2.9)	64 (1.5)	211 (5.0)	763 (18.0)	1,163 (27.4)	1,713 (40.3)	4,246 (100.0)
5. Textiles and Textiles Articles	- -	- -	3 (0.1)	3 (0.1)	217 (3.9)	- -	220 (3.9)	16 (0.3)	236 (4.2)	453 (8.1)	1,463 (26.2)	479 (8.6)	- -	724 (13.0)	2,666 (47.7)	3,119 (55.8)	5,589 (100.0)
6. Base Metals	154 (0.9)	92 (0.5)	48 (0.3)	294 (1.8)	2 (0.0)	- -	3 (0.0)	1,606 (9.6)	1,609 (9.6)	1,905 (11.4)	1,636 (9.8)	1,786 (10.7)	67 (0.4)	2,562 (15.3)	6,051 (36.1)	7,956 (47.5)	16,759 (100.0)
7. Machinery	34 (0.1)	558 (2.1)	810 (3.1)	1,402 (5.4)	164 (0.6)	29 (0.1)	5 (0.0)	1,043 (4.0)	1,077 (4.2)	2,643 (10.1)	1,411 (5.4)	6,777 (25.9)	6 (0.0)	2,867 (11.0)	11,061 (42.7)	13,704 (53.1)	26,132 (100.0)
8. Transportation Equipment	- -	351 (2.3)	1,106 (7.1)	1,457 (9.4)	2 (0.0)	- -	- -	1,072 (6.9)	1,072 (6.9)	2,531 (16.3)	1,479 (9.5)	1,459 (9.4)	- -	6,504 (41.8)	9,442 (60.7)	11,973 (77.0)	15,544 (100.0)
9. Others	- -	33 (1.9)	34 (2.0)	67 (3.9)	2 (0.1)	- -	- -	69 (4.1)	69 (4.1)	138 (8.1)	22 (1.3)	181 (10.7)	2 (0.1)	111 (6.5)	316 (18.6)	454 (24.5)	1,697 (100.0)
Total	641 (0.4)	2,728 (1.8)	10,705 (6.9)	14,074 (9.1)	392 (0.3)	521 (0.3)	265 (0.2)	6,941 (4.5)	7,727 (5.0)	22,190 (14.3)	9,232 (5.9)	49,532 (31.9)	349 (0.2)	28,772 (18.5)	82,885 (56.6)	110,075 (70.8)	155,376 (100.0)

^aBOI : Board of Investment of Thailand. - ^bFTC: Foreign Trading Companies. - ^cIncludes 354 of the largest importers in 1980.

^aBOI : Board of Investment of Thailand. - ^bFTC: Foreign Trading Companies. - ^cIncludes 354 of the largest importers in 1980.

(56.9) 193,618

Source: Department of Business Economics, Ministry of Commerce, own calculations.

Total Thai Imports

Annex table 6 - Selected Imports^a of Thailand by 354 Major Importers by Countries of Origin and Import Channel - 1980
(Per cent)

	European Community	Japan	United States	Other Asia	All ^b
Food & Tobacco in Baht Million	(934)	(122)	(1538)	(389)	(4437)
Share of for. affil. agency houses	72.4	0.2	0.0	26.1	19.3
marketing affiliates	1.6	0.0	1.1	8.5	2.8
local trading companies	1.1	-	-	4.8	12.1
for. affil. manuf. comp.	16.1	0.0	6.6	23.7	19.6
local manuf. companies	8.9	81.8	92.2	36.8	45.8
other ^c	-	18.1	-	-	0.5
Total	100.0	100.0	100.0	100.0	100.0
Mineral Products and Fuels in Baht Million	(990)	(31)	(332)	(12,436)	(54,339)
Share of for. affil. agency houses	0.1	-	0.2	0.0	0.0
marketing affiliates	15.1	35.4	1.7	44.7	12.2
local trading companies	0.0	10.8	0.2	0.0	0.0
for. affil. manuf. comp.	16.8	52.0	33.2	25.0	66.3
local manuf. companies	68.1	1.8	64.8	30.2	21.4
other ^c	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0
Chemical Products in Baht Million	(3,091)	(3,825)	(3,032)	(417)	(12,380)
Share of for. affil. agency houses	11.9	1.5	1.3	8.3	6.7
marketing affiliates	27.4	3.8	19.3	28.6	15.5
local trading companies	11.3	13.5	25.0	22.0	20.8
for. affil. manuf. comp.	31.2	64.3	38.5	21.9	40.8
local manuf. companies	15.6	10.3	14.0	9.4	12.6
other ^c	2.5	6.6	1.9	9.7	3.5
Total	100.0	100.0	100.0	100.0	100.0
Wood, Wood Products & Paper in Baht Million	(83)	(26)	(187)	(215)	(1,713)
Share of for. affil. agency houses	0.4	0.1	0.1	-	0.1
marketing affiliates	2.9	5.9	4.0	-	0.7
local trading companies	47.8	61.9	5.9	39.0	31.3
for. affil. manuf. comp.	44.6	13.9	51.0	2.9	23.4
local manuf. companies	4.2	18.1	38.9	58.1	44.5
other ^c	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0
Textile Products in Baht Million	(34)	(541)	(1,329)	(704)	(3,119)
Share of for. affil. agency houses	0.1	-	-	-	0.1
marketing affiliates	0.6	0.3	0.0	-	0.1
local trading companies	13.1	0.8	9.4	6.4	7.6
for. affil. manuf. comp.	84.4	70.0	59.6	71.7	62.3
local manuf. companies	0.6	9.2	31.0	12.6	23.2
other ^c	-	19.7	-	9.2	6.9
Total	100.0	100.0	100.0	100.0	100.0

Annex table 6 continued

(Per cent)

	European Community	Japan	United States	Other Asia	All ^b
Base Metals in Baht Million	(532)	(3,351)	(790)	(1,055)	(7,956)
Share of for. affil. agency houses	3.4	1.6	0.2	0.0	1.2
marketing affiliates	0.1	1.4	0.1	0.0	0.6
local trading companies	28.4	16.0	25.7	28.5	20.2
for. affil. manuf. comp.	13.1	56.7	45.4	32.6	43.9
local manuf. companies	52.3	23.9	26.7	38.9	32.2
other ^c	2.6	0.4	1.8	-	2.0
Total	100.0	100.0	100.0	100.0	100.0
Machinery ^d in Baht Million	(2,024)	(3,900)	(5,006)	(651)	(13,704)
Share of for. affil. agency houses	15.2	0.5	1.9	2.3	4.1
marketing affiliates	2.9	13.7	1.0	6.8	5.9
local trading companies	7.9	10.9	7.5	4.6	7.9
for. affil. manuf. comp.	19.0	48.3	84.1	68.3	59.7
local manuf. companies	54.9	23.7	3.9	17.4	20.9
other ^c	0	2.8	1.6	0.6	1.4
Total	100.0	100.0	100.0	100.0	100.0
Transportation Equipment in Baht Million	(1,060)	(5,578)	(5,200)	(13)	(11,973)
Share of for. affil. agency houses	4.1	3.5	2.2	0.5	2.9
marketing affiliates	0.2	19.6	0.0	0.1	9.2
local trading companies	28.3	10.9	2.5	0.3	9.0
for. affil. manuf. comp.	39.4	43.8	0.1	26.0	24.5
local manuf. companies	27.8	22.2	95.3	73.1	54.3
other ^c	0.2	0.0	0.0	-	0.0
Total	100.0	100.0	100.0	100.0	100.0
Other in Baht Million	(66)	(93)	(116)	(53)	(454)
Share of for. affil. agency houses	29.3	10.5	2.3	0.3	7.3
marketing affiliates	0.8	28.6	2.7	5.3	7.5
local trading companies	6.6	11.0	12.3	-	15.2
for. affil. manuf. comp.	37.6	27.9	69.9	93.7	45.2
local manuf. companies	25.4	19.9	11.4	0.8	24.4
other ^c	0.3	2.0	1.3	-	0.4
Total	100.0	100.0	100.0	100.0	100.0
All Imports ^a in Baht Million	(8,816)	(17,468)	(17,259)	(15,933)	(110,075)
Share of for. affil. agency houses	16.3	1.9	1.5	0.9	2.5
marketing affiliates	12.2	10.6	3.8	36.2	9.7
local trading companies	11.6	12.2	9.2	3.6	7.0
for. affil. manuf. comp.	25.4	52.2	39.4	29.2	53.7
local manuf. companies	33.4	20.2	45.1	29.4	26.1
other ^c	1.1	2.9	0.9	0.7	0.9
Total	100.0	100.0	100.0	100.0	100.0
Share in Total Thai Imports	12.7	20.7	16.6	22.8	100.0

^a Including 144 major import products. - ^b Including imports of 354 major importers from other destinations. - ^c Own business of the sogo shosha and other Asian trading companies. - ^d Excluding transport equipment.

Source: As for Annex table 5.

Annex table 7 - Thai Imports by Countries of Origin and Trade Channel, 1980
(Percentage Share in Imports of All Trade Channels)

Trade channel	Countries of origin					
	Japan	EEC	USA	Developing Asian and Pacific coun- tries	Others	Total
1. Sogo shosha affi- liates' own business	1.8	1.0	0.4	0.3	0.3	0.6
2. Independent agency houses	1.9	16.3	1.5	1.0	1.1	2.5
3. Marketing affiliates	10.7	12.2	3.8	36.1	2.6	9.7
4. All FTC ^a	14.4	29.5	5.7	37.4	4.0	12.8
5. Asian FTCs ^a	1.0	0.1	0.5	0.4	0.1	0.4
6. State trading	1.2	0.3	1.1	-	0.2	0.5
7. BOI promoted trading companies	0.1	0.1	0.7	0.3	0.1	0.2
8. Other local trading companies	10.9	11.2	7.5	3.3	4.4	6.3
9. Total local trading companies	12.2	11.6	9.3	3.6	4.7	7.0
10. All trading companies	27.6	41.2	15.5	41.4	8.8	20.2
11. TNCs with FTCs ^a particip.	30.0	11.1	6.0	3.4	2.8	8.4
12. Other TNCs	21.8	13.6	33.0	25.7	68.8	45.0
13. Asian TNCs	0.2	0.7	0.4	0.1	0.4	0.3
14. Local manufacturing companies	20.4	33.4	45.1	29.4	19.2	26.1
15. All manufacturing companies	72.4	58.8	84.5	58.6	91.2	79.8
16. Subtotal, all companies	100.0	100.0	100.0	100.0	100.0	100.0
(Baht million)	(17,504.5)	(8,816.0)	(17,550.4)	(15,932.6)	(50,282.2)	(110,085.5)
Total Thai imports (Baht million) ^b	39,977.3	24,663.3	32,130.9	44,103.3	52,705.3	193,580.1
Percentage of subtotal in total	43.9	35.7	54.6	36.1	95.4	56.7

^a FTCs: Foreign Trading Companies. - ^b Calculated on the basis of the following exchange rate: ฿ 20,476 = \$US 1.

Source: Department of Business Economics, Ministry of Commerce; own calculations.

Annex table 8 - Thai Imports by Countries of Origin and Trade Channel, 1980
(Percentage Share in Total Imports of Each Trade Channel)

Trade channel		Countries of origin					Total	
		Japan	EEC	USA	Developing Asian and Pacific countries	Others		
1.	Sogo shosha affiliates' own business	49.8	14.1	10.2	6.4	19.5	100.0	643.2
2.	Independent agency houses	12.3	52.5	9.4	5.6	20.2	100.0	2,728.3
3.	Marketing affiliates	17.6	10.0	6.3	53.8	12.3	100.0	10,705.9
4.	All FTC ^a	18.0	18.5	7.1	42.3	14.1	100.0	14,077
5.	Asian FTCs ^a	47.0	1.7	22.0	17.3	12.0	100.0	392.4
6.	State trading	39.9	5.5	37.2	0.4	17.0	100.0	520.9
7.	BOI promoted trading companies	4.0	3.1	49.5	17.6	25.8	100.0	265.2
8.	Other local trading companies	27.4	14.2	18.9	7.6	31.9	100.0	6,940.6
9.	Total local trading companies	27.5	13.2	21.1	7.4	30.8	100.0	7,726.7
10.	All trading companies	21.8	16.3	12.2	29.7	20.0	100.0	22,196.5
11.	TNCs with FTCs ^a participation	56.8	10.6	11.4	5.9	15.3	100.0	9,232.0
12.	Other TNCs	7.7	2.4	11.7	8.3	69.9	100.0	49,529.7
13.	Asian TNCs	7.5	18.0	19.7	2.6	52.2	100.0	355.9
14.	Local manufacturing companies	12.4	10.2	27.5	16.3	33.6	100.0	28,771.4
15.	All manufacturing companies	14.4	5.9	16.9	10.6	52.2	100.0	87,889.0
16.	All companies	15.9	8.0	15.9	14.5	45.7	100.0	110,085.5
	Total Thai imports	20.6	12.7	16.6	22.8	27.2	100.0	193,580.1
	Annual growth rate of Thai imports 1971-80	14.9	16.1	24.0	33.6	27.2	22.1	

^aFTCs: Foreign Trading Corporations.

^aFTCs: Foreign Trading Corporations.

Source: Department of Business Economics, Ministry of Commerce.

Annex Table 9 - Index of the Average Size of Annual Import Transactions per Importer by Product Groups and Trade Channels, Thailand 1980 (Average Transaction Size of Channel 16 (All 354 Traders under Review) = 100)

Product group	Trade channel											
	1	2	3	5	6	7	8	11	12	13	14	16
Food and tobacco	103.1 n=1	120.1 n=7	41.6 n=6	n=0	n=0	n=0	133.7 n=4	36.9 n=8	61.1 n=7	n=0	129.8 n=11	100.0 n=12
Mineral and Petroleum products	9.7 n=0	9.7 n=4	133.0 n=9	0 n=1	n=0	4.5 n=1	94.6 n=3	19.1 n=4	76.5 n=11	n=0	168.5 n=9	100.0 n=11
Chemical products	95.7 n=21	76.3 n=30	122.5 n=34	14.3 n=7	70.3 n=6	21.8 n=6	125.4 n=33	109.1 n=32	95.9 n=33	33.8 n=10	88.4 n=29	100.0 n=36
Wood products	12.4 n=1	12.4 n=3	91.2 n=3	8.7 n=1	245.8 n=2	33.4 n=3	96.3 n=7	30.0 n=5	44.8 n=4	172.9 n=2	166.0 n=6	100.0 n=8
Textiles and textile articles	0.2 n=3	5.2 n=2	29.3 n=3	205.4 n=4	n=0	130.1 n=4	33.6 n=3	155.1 n=6	47.7 n=7	1.8 n=1	98.4 n=5	100.0 n=9
Base metals	170.7 n=10	86.6 n=14	20.1 n=16	29.0 n=4	n=0	30.5 n=5	176.1 n=20	79.4 n=17	105.3 n=19	28.8 n=10	101.7 n=21	100.0 n=21
Machinery	26.9 n=33	62.8 n=59	94.5 n=58	104.9 n=29	27.8 n=17	11.2 n=21	80.0 n=63	79.8 n=59	97.1 n=67	27.0 n=27	143.0 n=65	100.0 n=69
Transport equipment	0.3 n=2	73.3 n=8	116.0 n=9	31.1 n=2	2.0 n=2	n=0	76.3 n=10	91.9 n=9	80.6 n=9	n=0	98.8 n=12	100.0 n=12
Other	60.7 n=1	64.6 n=9	67.9 n=8	33.0 n=2	10.7 n=1	41.0 n=2	200.4 n=9	36.5 n=4	74.0 n=11	52.8 n=3	158.0 n=7	100.0 n=12

Source: Customs statistics, own calculations.

Annex table 10 - Malaysian Imports by Sectors and Ownership of Importing Companies, 1969, 1976 and 1980^a
(\$M Million)

	Agricultural companies	Mining companies	Manufacturing companies	Wholesale traders	Retail traders	Other companies	All industries
All limited companies							
1969	25	30	1,013	1,005	191	16	2,280
1976	22	382	3,868	2,438	479	389	7,578
1980	36	318	8,951	5,612	778	260	15,956
Locally-controlled companies							
1969	6	-	260	332	104	4	707
1976	13	2	1,128	877	416	338	2,774
1980	24	11	3,174	2,458	714	230	6,612
Foreign-controlled companies							
1969	19	29	753	673	86	12	1,573
1976	9	380	2,741	1,561	63	52	4,804
1980	12	308	5,777	3,154	64	30	9,343
Total Malaysian imports							
1969							3,605
1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9,772
1980							23,539

^aThe 1969 data refers to all limited companies irrespective of their size. In 1976, only those companies were included with revenue of M\$ 1 million or more. In 1980, the survey covers only companies having M\$ 5 million revenue or more. The different sample sizes, however, hardly disturb the picture, as the small companies excluded in 1976 and 1980 account for a very small share of total imports. - ^bExchange rates of the Malaysian Ringgit per US \$ were 3.0612 by the end of 1969, 2.535 by the end of 1976 and 2.2224 by the end of 1980.

Source: Department of Statistics, Malaysia, Report on the Financial Survey of Limited Companies, Kuala Lumpur, various issues.

Annex table 11 - Import Channels in the Republic of Korea, 1981

		Estimated amount (\$US billion)	Estimated Per- centage share in total import
LC ^a -based imports	Sales by offer agents	9.1	34.8
	- General offer agents	5.6	(21.5)
	- Offer agents for own use	0.9	(3.4)
	- Foreign offer agents	2.6	(9.9)
	- Direct imports	6.9	26.4
	Sub total	16.0	61.2
	GTCs' share ^b	1.2	(4.5)
Non-LC ^a based and government imports	Petroleum imports	6.3	24.1
	Other commodities	3.7	14.2
	Sub total	10.0	38.3
	GTC's share for own use ^b	2.0	(7.8)
Total		26.1	100.0
^a LC: letter of credit. - ^b The imports of the general trading companies could only be dis- aggregated into LC-based and non-LC based imports.			

Source: Calculation based on information from Korea Traders Association, Association of Foreign Trading Agents of Korea and the Ministry of Commerce and Industry by Doo-Soon Ahn, Department of Economics, City College, Seoul.

Annex table 12 - Household Possession by Average Monthly Household Expenditure, Indonesia 1980 (per cent)

	Monthly household expenditure, Rp ^a				
	A	B	C	D	E
	more than 75 000	50 000 - 75 000	30 000 - 50 000	20 000 - 30 000	less than 20 000
Share in urban population	26	20	26	19	10
Electricity	86	71	57	37	26
Television B & W	86	85	59	25	11
Motorcycle	63	39	23	11	5
Electric Iron	69	53	30	13	7
Electric Fan	61	31	17	7	3
Camera	37	11	7	3	1
Private Car	29	8	3	2	-

^a 626.99 Rp = 1 US\$ in 1980.

Source: SRI, The Indonesian consumer cited from Marc Cunningham, Marketing and distribution for multinational companies in Indonesia: an overview, Euro-Asia Centre, INSEAD, Fontainebleau, Research Paper No. 14, 1983, p. 23.

Annex table 13 - Consumer Attitudes in Jakarta, 1980 (per cent)

	Monthly household expenditure (Rp '000)					
	A	B	C	D	E	
	Total	over 50-75	30-50	20-30	less than 20	
I will go out of my way to find a cheaper price.	71	60	65	75	80	91
I prefer to buy in a shop I like even though the price may be a little more expensive.	28	40	34	25	20	9
I buy brands I like even though their prices may be a little more expensive.	56	79	67	51	39	14
I always buy the cheapest brands.	44	21	33	49	61	86
I prefer to buy products that are advertised.	34	46	32	35	26	14
It doesn't matter to me if a product is advertised or not.	66	54	67	64	74	86
I like to read the ads in newspapers and magazines.	27	55	32	13	16	5
I seldom read ads.	73	45	68	87	84	95

Source: SRI, The Indonesian consumer cited from Marc Cunningham, Marketing and distribution for multinational companies in Indonesia: an overview, Euro-Asia Centre, INSEAD, Fontainebleau, Research Paper No. 14, 1983, pp. 24, 56.

Annex table 14 - Import Unit Price Indices^a of Selected Thai Imports^b from the FEC by Product Group and Trade Channel, 1980

	Trading companies							Producing companies			
	1	2	3	5	6	7	8	11	12	13	14
	Japa- nese Trd. comp.	Foreign agency houses	Market- keting subsidi- aries	Asian trad- ing comp.	Local state trd. comp.	BOI prom. trd. comp. ^a	Local Trd. comp.	TNCs with equi. from foreign trd. comp.	Other TNCs	Asian TNCs	Major Local Mfg. comp.
1. Food and tobacco	-	1.13 (n=6)	2.08 (n=2)	-	-	-	0.73 (n=2)	0.77 (n=4)	1.72 (n=5)	-	1.22 (n=2)
2. Mineral and pe- troleum products	-	8.06 (n=3)	1.92 (n=6)	7.78 (n=1)	-	-	2.9 (n=1)	6.23 (n=2)	1.22 (n=5)	-	4.19 (n=3)
3. Chemical products	1.27 (n=6)	4.90 (n=28)	1.97 (n=31)	5.45 (n=4)	1.38 (n=3)	1.41 (n=4)	1.00 (n=27)	1.93 (n=23)	1.83 (n=28)	1.91 (n=8)	2.89 (n=26)
4. Wood, wood prod- ucts and paper	-	1.45 (n=3)	2.17 (n=3)	-	1.2 (n=1)	1.68 (n=1)	1.11 (n=4)	1.14 (n=1)	1.61 (n=2)	1.40 (n=1)	1.12 (n=3)
5. Textiles and Tex- tile articles	-	5.41 (n=1)	0.68 (n=1)	-	-	0.87 (n=1)	-	1.06 (n=2)	0.97 (n=5)	-	1.52 (n=2)
6. Base metal	1.0 (n=1)	3.04 (n=10)	6.12 (n=6)	14.38 (n=2)	-	3.84 (n=1)	1.68 (n=8)	7.93 (n=5)	2.93 (n=9)	2.88 (n=6)	1.46 (n=13)
7. Transportation equipment	-	1.48 (n=6)	0.88 (n=1)	0.66 (n=2)	-	-	1.15 (n=7)	1.82 (n=3)	0.82 (n=4)	-	2.55 (n=7)

$$^a \text{ index: } \frac{1}{n} \sum_{j=1}^n \frac{\text{average import price } i, i, k}{\text{average import price } j}$$

i : trade channel

j : major import products (see note b)

k : countries of origin (EEC, Japan, United States or other Asian countries)

average import price j : value of annual imports of products j divided by quantity of annual imports of product j.

^b Including the 104 major import products listed in Annex 1 (machinery was excluded because of high product heterogeneity within product categories).

Source: As for Annex table 5.

Annex table 15 - Import Unit Price Indices^a of Selected Thai Imports^b from Japan by Product Group and Trade Channel, 1980

	Trading companies							Producing companies			
	1	2	3	5	6	7	8	11	12	13	14
	Japa- nese Trd. comp.	Foreign eign agency houses	Market- keting subsidi- aries	Asian trad- ing comp.	Local state trd. comp.	BOI prom. trd. comp.	Local Trd. comp.	TNCs with equi. from foreign trd. comp.	Other TNCs	Asian TNCs	Major Local Mfg. comp.
1. Food and tobacco	-	0.97 (n=2)	1.46 (n=1)	-	-	-	-	2.37 (n=1)	-	-	1.38 (n=5)
2. Mineral and petroleum products	-	-	1.00 (n=1)	-	-	-	0.90 (n=1)	3.21 (n=3)	1.01 (n=3)	-	2.53 (n=2)
3. Chemical products	1.65 (n=19)	1.38 (n=16)	1.21 (n=22)	-	8.45 (n=4)	4.85 (n=4)	1.04 (n=25)	2.10 (n=27)	4.18 (n=30)	2.74 (n=5)	1.96 (n=21)
4. Wood, wood products and paper	0.90 (n=1)	0.64 (n=1)	2.66 (n=2)	-	-	-	0.87 (n=3)	2.76 (n=2)	4.41 (n=3)	-	1.20 (n=3)
5. Textiles and Textile articles	1.26 (n=3)	-	1.64 (n=1)	0.97 (n=4)	-	0.97 (n=2)	-	2.22 (n=5)	1.33 (n=6)	-	1.32 (n=2)
6. Base metal	7.08 (n=8)	1.19 (n=7)	2.44 (n=13)	0.63 (n=3)	-	2.36 (n=3)	1.06 (n=16)	2.77 (n=16)	1.13 (n=16)	2.53 (n=5)	1.47 (n=17)
7. Transportation equipment	3.78 (n=2)	0.98 (n=5)	1.31 (n=1)	-	0.55 (n=2)	-	1.38 (n=8)	1.68 (n=8)	1.10 (n=7)	-	2.17 (n=9)

For notes and sources see Annex table 14.

Annex table 16 - Import Unit Price Indices^a of Selected Thai Imports^b from the United States by Product Group and Trade Channel, 1980

	Trading companies						Producing companies				
	1	2	3	5	6	7	8	11	12	13	14
	Japa- nese Trd. comp.	Foreign eign agency houses	Market- keting subsi- diaries	Asian trad- ing comp.	Local state trd. comp.	BOI prom. trd. comp.	Local Trd. comp.	TNCs with equi. from foreign trd. comp.	Other TNCs	Asian TNCs	Major Local Mfg. comp.
1. Food and tobacco	-	0.77 (n=1)	6.83 (n=4)	-	-	-	-	1.53 (n=1)	0.56 (n=4)	-	1.02 (n=6)
2. Mineral and pe- troleum products	-	1.52 (n=2)	3.13 (n=3)	-	-	-	1.4 (n=2)	4.06 (n=2)	2.62 (n=4)	-	1.0 (n=3)
3. Chemical products	1.02 (n=6)	2.13 (n=16)	1.83 (n=26)	1.73 (n=5)	2.35 (n=2)	4.47 (n=3)	2.33 (n=27)	2.09 (n=23)	4.04 (n=28)	2.75 (n=5)	4.44 (n=19)
4. Wood, wood prod- ucts and paper	-	1.92 (n=1)	1.30 (n=2)	0.65 (n=1)	-	0.8 (n=1)	0.99 (n=9)	1.16 (n=2)	1.47 (n=3)	1.0 (n=1)	19.66 (n=5)
5. Textiles and Tex- tile articles	-	-	4.65 (n=1)	-	-	0.95 (n=2)	1.10 (n=1)	1.25 (n=2)	0.97 (n=3)	-	1.36 (n=3)
6. Base metal	1.02 (n=1)	1.00 (n=6)	6.43 (n=4)	0.99 (n=3)	-	0.32 (n=2)	2.08 (n=10)	0.75 (n=5)	4.13 (n=10)	0.09 (n=1)	1.87 (n=13)
7. Transportation equipment	-	0.97 (n=5)	2.69 (n=1)	0.80 (n=1)	-	-	0.75 (n=4)	1.56 (n=2)	0.77 (n=4)	-	1.47 (n=7)

For notes and sources see Annex table 14.

Annex table 17 - Import Unit Price Indices^a of Selected Thai Imports^b from Other Asian Developing Countries by Product Group and Trade Channel, 1980

	Trading companies							Producing companies			
	1	2	3	5	6	7	8	11	12	13	14
	Japa- nese Trd. comp.	Foreign eign agency houses	Market- keting subsidi- aries	Asian trad- ing comp.	Local state trd. comp.	BOI prom. trd. comp.	Local Trd. comp.	TNCs with equi. from foreign trd. comp.	Other TNCs	Asian TNCs	Major Local Mfg. comp.
1. Food and tobacco	-	0.83 (n=2)	1.95 (n=2)	-	-	-	1.0 (n=1)	0.96 (n=2)	0.66 (n=2)	-	1.31 (n=6)
2. Mineral and petroleum products	-	2.0 (n=1)	0.99 (n=7)	-	-	-	1.0 (n=1)	-	0.97 (n=7)	-	1.03 (n=6)
3. Chemical products	1.66 (n=5)	2.22 (n=11)	0.92 (n=12)	-	3.16 (n=1)	3.09 (n=3)	1.01 (n=15)	1.38 (n=12)	1.39 (n=17)	2.43 (n=3)	1.56 (n=11)
4. Wood, wood products and paper	-	-	-	-	0.72 (n=2)	-	1.35 (n=4)	1.5 (n=2)	-	-	1.0 (n=3)
5. Textiles and Textile articles	-	-	-	0.61 (n=1)	-	1.09 (n=4)	0.95 (n=2)	1.28 (n=6)	1.09 (n=4)	2.15 (n=1)	1.61 (n=5)
6. Base metal	-	2.29 (n=4)	1.17 (n=4)	-	-	1.0 (n=1)	1.54 (n=12)	0.87 (n=3)	4.63 (n=9)	0.69 (n=2)	2.38 (n=13)
7. Transportation equipment	-	0.70 (n=1)	20.53 (n=1)	-	-	-	3.67 (n=1)	0.72 (n=2)	4.84 (n=3)	-	2.01 (n=5)

For notes and sources see Annex table 14.

Annex Table 18 - Results of Multiple Regression Analysis of Thai Import Prices

Specification:

$$\frac{IP_{ij}}{IP_{oj}} = a_0 + a_1 TC_1 + a_2 TC_2 + a_3 TC_3 + a_5 TC_5 + a_6 TC_6 + a_7 TC_7 + a_{11} TC_{11} + a_{12} TC_{12} + a_{13} TC_{13} + a_{14} TC_{14} + a_{15} AIV_{ij} + a_{16} JAP_{ij} + a_{17} EEC_{ij} + a_{18} USA_{ij} + a_{19} ASIA_{ij}$$

with IP_{ij} : average annual Import Price of trade channel i for product j ;

$i = 1, 2, 3, 5, 6, 7, 8, 11, 12, 13, 14, 15$
(for key, see Annex table 5, 14, 15, 16 or 17)

$k = 1, 2, \dots, 144$ except for products for which

$$\frac{IP_{ij}}{IP_{oj}} \geq 10 \text{ which were excluded because of too high heterogeneity}$$

$IP_{0,j}$: national average annual Import Price for product j

TC_i : dummy variables for Trade Channel i ($TC_1 = 1$ for $i = 1$, $TC_1 = 0$ for $i \neq 1$; etc.)

AIV_{ij} : average Annual Import Value per company for trade channel i and product j in 1000 Baht

JAP_{ij} : share of imports from JAPAN for trade channel i and product j

EEC_{ij} : share of imports from the EEC for trade channel i and product j

USA_{ij} : share of imports from the USA for trade channel i and product j

$ASIA_{ij}$: share of imports from other ASIAN countries for trade channel i and product j

There were 1017 observations.

Results:

multiple R : 0.17454

R^2 : 0.03046

standard error: 1.81093

F : 2.09689** significant at 5 per cent level

	coefficients	R^2 change	standard error of coefficients	F-values
(a_0)	(1.739820)			
a_1	0.2717288	0.00002	0.29666	0.839
a_2	0.2503863	0.00212	0.23594	1.126
a_3	-0.4810673D-01	0.00205	0.22284	0.047
a_5	0.5237967	0.00229	0.31443	2.775
a_6	0.1519186	0.00000	0.46606	0.106
a_7	0.5268928	0.00137	0.35467	2.207
a_{11}	0.3753575	0.00200	0.22361	2.818
a_{12}	0.1370277	0.00007	0.21064	0.423
a_{13}	0.4927581	0.00342	0.32900	2.243
a_{14}	-0.2401990D-01	0.00002	0.21345	0.013
a_{15}	-0.1651986D-06	0.00139	0.00000	1.352
a_{16}	-0.8284965D-01	0.00322	0.19959	0.172
a_{17}	0.4582552	0.00295	0.23886	3.681
a_{18}	0.1260164	0.00062	0.15769	0.639
a_{19}	-0.6210567	0.00894	0.28983	4.952*

Annex table 19 - Bilateral Trade of Intermediate Goods and Final Goods of the ASEAN Countries and the Republic of Korea with Japan, the USA, and the Rest of the World, 1975 (in brackets exports of manufacturing companies from Japan, the USA and the rest of the world) US\$ million

to/from	Trade with Japan				Trade with USA				Trade with the rest of the world			world's exports		world's imports
	Japanese exports		Japanese imports		US exports		US imports		r.o.world exports	r.o.world exports	r.o.world imports			
	intermed.	final	intermed.	final	intermed.	final	intermed.	final	intermed.	final		intermed.	final	
Indonesia	1 149.9 (1 083.5)	566.1 (535.8)	3,251.1	45.8	361.0 (196.4)	353.8 (236.8)	1,777.0	494.2	1 142.2 (809.4)	912.1 (737.1)	1 828.9	2 653.1 (2 089.3)	1 832.0 (1 509.7)	7 397.0
Malaysia	263.1 (258.6)	235.9 (231.2)	208.4	37.8	108.3 (86.8)	154.9 (130.3)	454.1	221.0	898.5 (438.2)	753.2 (639.7)	1 778.1	1 269.9 (783.6)	1 144.0 (1 001.2)	2 699.4
Philippines	416.6 (411.6)	473.7 (470.6)	918.8	32.3	335.6 (220.3)	404.4 (346.8)	341.6	193.7	1 133.3 (387.9)	555.6 (541.5)	691.0	1 885.5 (1 019.8)	1 433.7 (1 358.9)	2 177.4
Singapore	552.6 (546.1)	269.3 (263.9)	377.2	89.3	378.0 (329.7)	405.8 (357.0)	343.1	252.1	2 579.5 (1 090.6)	864.2 (793.3)	1 626.0	3 510.1 (1 966.4)	1 539.3 (1 414.2)	2 687.7
Thailand	546.2 (500.7)	439.6 (412.8)	596.6	73.4	109.4 (62.4)	82.6 (66.9)	147.6	55.7	1 217.5 (545.0)	837.5 (654.4)	1 370.1	1 873.1 (1 108.1)	1 359.7 (1 134.1)	2 243.4
Korea	1 608.3 (1 402.7)	783.4 (692.6)	903.0	614.0	1 441.1 (504.3)	435.0 (252.5)	761.0	671.7	2 279.5 (809.8)	490.5 (375.4)	2 098.2	5 328.9 (2 716.8)	708.9 (1 329.5)	5 047.9
All	4 536.7 (4 203.2)	2 768.0 (2 606.9)	6 255.1	892.6	2 733.4 (1 399.9)	1 836.5 (1 390.3)	3 824.4	1 888.4	9 250.5 (4 980.9)	4 413.1 (3 741.4)	9 392.3	16 520.6 (9 864.0)	9 017.6 (7 738.6)	22,252.8

Source: Institute of Developing Economies, International Input-Output Table for ASEAN Countries, 1975, Tokyo 1982.

Annex table 20 - Exports of Manufacturing Companies from Japan, the United States and the Rest of the World to the Manufacturing Sectors of the ASEAN Countries and the Republic of Korea, 1975
US\$ millions

to:	Intermediate goods				Final goods			
	Japanese exports	US exports	rest of the world's exports	total exports	Japanese exports	US exports	rest of the world's exports	total exports
Indonesia	708.3	101.5	414.3	1 224.1	411.8	193.9	350.2	955.9
Malaysia	175.7	66.0	280.1	512.8	147.6	94.5	305.5	547.6
Philippines	344.6	158.6	263.3	766.5	283.7	241.8	292.9	818.4
Singapore	390.8	228.9	625.3	1 245.0	172.6	278.4	308.0	759.0
Thailand	395.6	38.4	334.0	768.0	258.5	28.9	352.2	639.6
Korea	1 183.2	436.7	672.4	2 292.3	609.5	205.0	295.2	1 109.7
All	3 198.2	1 030.1	2 589.4	6 817.7	1 883.7	1 042.5	1 904.0	4 830.2

Annex table 21 - Joint Ventures of the Sogo Shosha in Southeast and East Asian Developing Countries by Type of Joint Venture and by Host Country, 1981

	Total No.	No. of joint ventures in			No. of joint ventures by types				Registered capital (\$US thousands)	Total employment	Japanese employment	Share of Japanese in total employment
		Primary sector	Manuf. sector	Other	Fully owned by sogo shosha	With Jap. partner	With local partner	With Jap. and local partner				
Hong Kong	43	-	9	34	16	1	10	16	179 796	18 856	225	1.2
Indonesia	75	13	50	12	-	-	12	63	118 977	26 474	448	1.7
Rep. of Korea	40	-	37	3	-	2	8	30	161 241	18 889	53	0.3
Malaysia	45	8	28	9	1	7	7	30	280 426	11 050	116	1.0
Philippines	42	10	26	6	-	2	14	26	231 508	27 637	49	0.2
Singapore	47	1	32	14	1	10	6	30	249 492	10 295	136	1.1
Taiwan	30	2	28	-	-	-	5	25	155 470	16 253	66	0.4
Thailand	82	3	52	27	6	1	19	56	125 694	24 675	300	1.2
Total	404	37	262	105	24	23	81	276	1 502 604	154 132	1 393	0.9

Source: Compiled from Toyo Keizai Weekly, Special Edition, Japanese Multinationals, Facts & Figures, 1982.