Are International Trade Intermediaries Catalysts in Economic Development? A New Research Agenda*

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ABSTRACT

By making markets and introducing marketing technology into developing economies, international trade intermediaries can have a catalytic and productivity-enhancing effect on the organization of domestic distribution systems. In this paper, the various ways in which trade intermediaries can both help and hinder the development of host societies are reviewed, some propositions are derived, and a research agenda is proposed.

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INTRODUCTION

Dholakia and Sherry (1987) have observed that the emergence of the social sciences in the nineteenth century was motivated in part by the desire to improve society. In a fundamental sense, therefore, the study of what was once called “progress” and what is now called “development” may be considered “the project” of social science (1987:120). All of the disciplines within the humanities domain have waxed and waned in their embrace of this enterprising project and the discipline of marketing is no exception. In his state-of-the-art review of existing research, Savitt (1988:12) observed that “interest in marketing and economic development is on the ascendancy”. This situation was certainly different from the one that presented itself 25 years earlier to Moyer (1963:99), who noted that marketing had been “almost totally neglected” in studies of economic development. Indeed, the period between these two publications seems to have been a golden age of scholarly inquiry in this area, with work investigating the connection between development and retailing (Goldman 1975), channel power (Kale 1986), channel integration (Klein 1986), and improvements in distribution (Porter and Livesay 1971). Fieldwork conducted during this time revealed much about the evolution of marketing institutions and systems in developing societies such as Brazil (Cunningham, Moore and Cunningham 1974), Ghana (Garlick 1971), Turkey (Kumcu and Kumcu 1987), and post-War Japan (Yoshino 1971). At the same time, other studies searched for patterns in marketing practices across economies at different levels of development (e.g., Shapiro 1965), giving rise to the new field of comparative marketing. By the 1980s, however, signs of a conceptual stagnation had started to appear. The trailblazing studies of the 1960s and 1970s were replaced by review essays that did little more than summarize knowledge gaps or categorize scholars into one school or another (e.g., Dholakia and Sherry 1987; Savitt 1988). There were limited attempts at model-building (eg; Kaynack 1988; Malhotra 1986; Mentzer and Samli 1981), but these were done more with the aim of organizing disparate ideas than developing testable hypotheses. Even the nascent field of comparative marketing, which had promised much, was providing theoretical returns on empirical investments that were “frequently disappointing” (Boddewyn 1981: 64).

Despite ongoing work into the link between development and channel structure (Frazier, Gill and Kale 1989; Sharma and Dominguez 1992), the period since the publication of Savitt’s (1988) review has generally been marked by limited theory development. Ongoing exemplary fieldwork into specific marketing issues connected with development (eg: Fafchamps and Minten 1999; Hsing 1999) has generally not been matched by advances in our understanding, and many of the knowledge gaps originally identified by Dholakia and Sherry (1987) remain today. It is telling that since the publication of Drucker’s classic (1958) lecture, very few conceptual papers explicating the link between marketing and development have made it into top-tier marketing journals, and to a large extent the subject remains outside the mainstream of research in marketing. To extend the thought of Dholakia and Sherry (1987), one can only presume that this state of affairs indicates that the challenge to the marketing imagination presented by the dilemmas of development remains both awesome and largely unmet.

In this paper, one particular knowledge gap – the catalytic gap – is explored. This gap was identified by Dholakia and Sherry (1987:121), who recognized that while marketing has been viewed as a catalytic agent in economic development, little is known about the conditions that trigger that role. “The issue of how a ‘developmental ethos’ – which stimulates both marketing and production – comes into being in certain countries in particular periods is not
fully understood.” To address this gap requires that a certain stance on development is taken, but it is beyond the scope of this paper to review competing theories of development or even to define development beyond very general terms. It will be sufficient to adopt the view of Drucker (1974), who argued that what under-developed countries need most are “triggers” or external stimuli that will enable them to mobilize the resources they already possess. In Drucker’s case, this idea provided a justification for the multinational enterprise (MNEs). As agents of development, MNEs are valuable because they introduce foreign resources and marketing knowledge while integrating local productive facilities with the world market. However, in the landscape of international business, MNEs may be the largest but they are by no means the only species. More common is the smaller international trade intermediary, or ITI, whose role in the development process has seldom been considered. By way of rectifying this knowledge gap, this paper first offers a marketing-based interpretation of the term “development”. The ways and means by which ITIs can both promote and hinder development are then reviewed. Based on the available evidence, some propositions are derived and finally a new research agenda is proposed.

MARKETING’S VIEW OF DEVELOPMENT

Seen from a marketing perspective, the failure of an economy to develop, that is, become more productive, can be cast as a failure of organization:

The essential aspect of an under-developed economy and the factor the absence of which keeps it under-developed, is the inability to organize economic efforts and energies, to bring together resources, wants, and capacities, and so to convert a self-limiting static system into creative, self-generating organic growth. And this is where marketing comes in. (Drucker 1958:255)

At base, marketing is concerned with the fit between an economic system and the needs of a society. Because a well-functioning marketing system can be highly effective in converting latent resources into actual resources, marketing is arguably the most important catalyst in the development process (Drucker 1958; Kaynack 1988; Moyer 1963; Sherbini 1965). This view can be contrasted with that espoused by international aid organizations, which, in the 1950s and 1960s, operated on the assumption that under-development reflected shortages in the factors of production. In other words, “the poor are just like the rich, except they are poorer – they have less human and nonhuman capital” (Stiglitz 1989: 197). The solution to poverty, therefore, was simply to increase the resources available to under-developed countries, either via transfers or by encouraging them to save more. When aid and lending programs based on this assumption failed, it became apparent that basic aspects of economic organization, such as the functioning of markets, were more salient than factor endowments in explaining productivity differences (Stiglitz 1989). In reality, very few countries are poor because they lack capital. Indeed, as Drucker (1974:124) put it, “developing countries have, almost by definition, more capital than they can productively employ. What developing countries lack is the full ability to mobilize their resources, whether human resources, capital or the physical resources”.

An economy’s lack of organization is perhaps most keenly felt in the matching of producers with consumers, that is, in its distribution system. Certainly, deficiencies in distribution are symptomatic of every under-developed economy, irrespective of the unique problems and opportunities that each must face (Mentzer and Samli 1981). An inadequate distribution infrastructure will act as a constraint on supply and give rise to persistent sellers’ markets (Kale 1986). Where distribution bottlenecks are present, increases in local production will not easily be absorbed into the economy and growth will be retarded (Varadarajan 1984).
There is no advantage, for example, if a less developed country can increase its rice or wheat output many times, if it cannot store and distribute the surplus (Mentzer and Samli 1981). For similar reasons, Porter and Livesay (1971) argued that improvements in distribution played an equally important role as changes in production in the economic history of the United States. However, their view is typically not shared by those living in poor countries, where distributors and middlemen may be regarded as “parasites” charging arbitrary profit margins (Hirsch 1961). Negative attitudes towards trading occupations, which may be dominated by ethnic minorities, translates into an underappreciation on the part of policymakers in less developed countries (LDCs) of the contribution of trade to the local economy (Kaynack 1988). For many LDC governments, the solution to an overwhelming shortage of goods is to increase production (Malhotra 1986). Consequently, development priorities often emphasize agriculture and industry at the expense of upgrading the nation’s distribution system (Varadarajan 1984). This is unfortunate given that improvements in distribution may generate productivity gains by (i) increasing the size of the market for locally-made goods, facilitating the pursuit of scale economies; (ii) increasing the variety of goods available in the market, which may stimulate individuals to work harder to earn them; (iii) disseminating new ideas and innovations, including the acceptance of money in subsistence economies; and (iv) by providing a training ground for potential entrepreneurs and managers (Hirsch 1961; Moyer 1963).

The distributive trades can be divided by locus of activity into two types: domestic trading activity, which encompasses wholesalers and retailers, and international trading activity. In development research, traders of the first group have been extensively studied (see, for example, the studies by Goldman (1975), Kumcu and Kumcu (1987), and Marcus (1959)). In contrast, the role of international traders in promoting development has received scant attention from scholars. Of the limited research which does exist, two core themes are evident. The first theme, which is largely sociological in nature, highlights the role played by various ethnic groups in cross-border trade in under-developed countries, such as van der Laan’s (1976) *Lebanese Traders in Sierra Leone* or the European traders active in Bauer’s (1954) *West African Trade*. The second theme considers those productivity-enhancing institutional arrangements adopted in response to the difficulties of managing long distance trade. Studies in this group have examined how the earliest traders ensured the enforceability of contracts across distance (Greif 1993), devised incentive and monitoring schemes to minimize the opportunistic tendencies of agents (Carlos 1992), and vertically integrated to facilitate a more effective appropriation of rents (Jones and Ville 1996). To date, little or no research has been done directly investigating the productivity-enhancing role of international trade intermediaries in developing societies. This is surprising for three reasons. First, in contrast with wholesalers and retailers, international traders, by definition, can play a significant role in integrating local economies into global markets. Second, it is widely accepted that in their reduction of transaction costs for others, ITIs can be a source of productivity gains in mature markets. Finally, evidence from developing countries highlights the critical role played by foreign intermediaries in the introduction of new marketing technology into local distribution systems. These ideas are expanded below.

### THE CONTRIBUTION OF TRADE INTERMEDIARIES

International trade intermediaries (ITIs) are characterized by their primary role as importer/exporters. ITIs may be engaged in other, related activities such as manufacturing, mining, wholesaling and retailing, and they may offer extensive trade-supporting services, such as the provision of finance, insurance, and shipping. An ITI’s main source of income, however, will stem from the intermediation of international trade, a function which may be fulfilled as either a commission-based broker or a merchant-reseller.
Despite their historical ubiquity in world markets, ITIs as unique organizational entities have been largely overlooked by international business scholars in preference for the modern MNE. This situation is slowly changing. Recently, several important contributions have been made that advance our understanding of the underlying economic rationale of the ITI (Casson 1997, ch.9) and its place and performance in the cross-border channel (Ellis 2001; Peng 1998). However, many question marks remain. One area of uncertainty concerns the relationship between the entrepreneurial and opportunistic ITI and the development needs of those economies in which it operates. While there has been considerable debate about the meritorious and deleterious effects of the investment strategies of MNEs, much less is known about the ways in which ITIs can both help and hinder development in their pursuit of trade.

How do ITIs enhance the productivity of their host economies? At least three distinct contributions can be identified, with different weightings attached to each depending on the level of organization present within the host economy. First, ITIs, as with all intermediaries, improve the efficiency of distribution within an economy by minimizing those costs incurred in overcoming barriers to trade. This type of contribution, which may be labeled the “standard intermediary argument”, recognizes that intermediaries emerge to fill the gaps between producers and consumers “because they reduce the cost of maintaining the connections through which people make contacts with one another” (Cox 1965:98). This is clearly seen in many studies of international distribution channels, where the selection of external intermediaries is predicated on the assumption that firms choose exchange modes that minimize the costs of transacting (e.g., Anderson and Coughlan 1987; Aulakh and Kotabe 1997; Peng 1998). Yet it is important to note that all of these studies were conducted in high-productivity economies such as the United States, suggesting that the transaction cost minimizing role of ITIs is of greatest value in mature markets where many exchange modes are possible. Such concerns may be less relevant in under-developed economies where alternative modes of transacting across borders are not readily available. In low-productivity economies, ITIs may make a greater contribution to development in their secondary role as market-makers. In Taiwan, for instance, almost three-quarters of local shoe-makers export more than half their output through domestic ITIs (Hsing 1999).

In addition to enhancing the efficiency of cross-border distribution, ITIs may boost productivity by opening up new markets and discovering new sources of supply (Casson 1997, ch.9). In other words, ITIs may be instrumental in creating international exchanges where none previously existed. The immediate effect of this kind of trade will be a relaxation of supply constraints and the accrual of gains from trade. Thus, this innovation-type of contribution will be particularly potent in converting latent resources into economic resources in emerging markets. Prior to the early 20th century, trading companies were most closely associated with this type of value-added activity. Trading companies, and particularly British trading companies, existed primarily to create markets, which they did by “integrating new areas into the international economy” (Jones 1996:105). In this manner, ITIs such as Sweden’s Far East Trading Company and Britain’s Mackinnon, Mackenzie and Co. played a vital role in integrating low productivity economies such as Thailand and India into the world market.

So far, the productivity-enhancing role of ITIs has been defined two ways: (i) in terms of the finite efficiency gains brought to international channels of distribution via the minimization of transaction costs for others, and (ii) in terms of the open-ended Schumpetarian innovation that results from creating something (trade) out of nothing (missing markets). The first type of contribution is more relevant to mature markets, where information flows freely and competition is fiercest, while the latter type of contribution will be more appropriate in emerging markets, where information about new trade opportunities is not widely available. In addition, ITIs may make a third type of contribution to a developing economy by providing marketing technology, credit, distribution infrastructure, managerial training, and by importing
critical inputs needed for development. The special significance of these trade-promoting investments is that each may trigger a subsequent reaction culminating in a more efficient organization of activity within the channel. This idea is developed in view of the available evidence in the following section.

Catalytic Contribution

The inability to organize economic efforts is particularly evident in the persistence of highly fragmented channels of distribution populated by numerous small wholesalers and retailers. Although the penny traders of West Africa and the itinerant higglers of the Caribbean may operate on miniscule margins, by the time the single razor blade or cake of soap has reached the final consumer, its price may be some 200 to 300 times higher than the original cost (Marcus 1959). In developing economies, channels are generally longer and marketing costs are substantially higher (Sharma and Dominguez 1992). The potential savings in distribution arising from rationalization within the channel may therefore be considerable. However, the primary barrier to channel rationalization in under-developed economies is a lack of business credit available to indigenous intermediaries (Marcus 1959). Banks, where they exist, may be unable to assess risk or unwilling to make loans. The ITI can be a valuable source of credit in these lending environments, as has been observed in West Africa (Bauer 1954; Garlick 1971; Marcus 1959), Latin America (Ridings 1985), and post-War Japan (Shao and Herbig 1993). Whether the recipients are suppliers, customers, or other middlemen, the infusion of credit into the channel can be an important boost to overall productivity. The rapid development of the English colonies in the Americas, for example, owed much to the easy credit provided by British traders in the 17th and 18th centuries (Price 1989).

In addition to being an important source of credit to developing channels, ITIs may play a more proactive role in creating distribution infrastructure by building warehouses and investing directly in sources of supply. Historically, warehouses enhanced the bargaining power of traders by enabling them to negotiate trading terms when the demand for their goods was high, rather than when a shipment happened to arrive (Carlos and Nicholas 1988). Similarly, upstream investments in factories, farming, and extraction industries were warranted if local sources of supply were non-existent or were perceived to be unreliable or opportunistic. Straddling the boundaries between markets, ITIs are well-placed to assess the risks associated with such ventures. In the perennial pursuit for cheaper sources of supply, ITIs sometimes lay the foundations for entirely new industries. British trading houses, for example, were instrumental in establishing the tea and jute industries in India whereas Dutch traders were responsible for setting up plantations, paper mills, sugar refineries, and phosphate factories in the East Indies (Sluyterman 1998). Cacao farming was introduced into Ghana by the Swiss trader Union Trading Company, and by 1910 Ghana had become the world’s largest cacao producer (Guex 1998). In the early 1970s, Mitsubishi, a Japanese trading company, began manufacturing plastic sandals in Taiwan. Local firms were quick to follow suit, and within a decade Taiwan had become the world’s biggest exporter of shoes (Hsing 1999). As well as making upstream investments, ITIs were often compelled by the needs of host economies to invest in trade-supporting services such as shipping and insurance (Greenhill and Miller 1998).

In Latin America, Japan, and elsewhere, trading companies sowed the seeds of industrialization and then supplied the fuel, components, and raw materials that drove the machinery of industry (Greenhill and Miller 1998; Shao and Herbig 1983). But although much as been made of their role in promoting industry, ITIs arguably made greater contributions to productivity by harnessing the economic potential of the one resource nearly all under-developed countries have in abundance: labor. Indeed, the ability of trading companies to create employment was sometimes staggering. One British trading company, James Finlay, employed more than 150,000 in India and Africa immediately following World War Two (Jones 1996),
while another, Jardine Matheson, employed no less than a quarter of a million people in China prior to the 1949 revolution (Keswick 1982). Seldom did these indigenous workers possess the skills necessary for the operation of a trading enterprise, so again the ITI had to supply from abroad what was not available locally. Often indigenous employees would later move on to become traders in their own right. For instance, around one quarter of the Ghanaian traders interviewed by Garlick (1971) had previously been employed by foreign trading firms.

In many cases, ITIs also had to assume responsibility for training local suppliers and distributors. Virtually the entire Taiwanese shoe-making industry owes its existence to foreign technology introduced by ITIs. One local intermediary, for example, brought in a group of Brazilian technicians to teach local manufacturers how to bring out the natural grains and colors when polishing shoes. The introduction of this so-called “Brazilian technique” enabled Taiwanese shoe-makers to produce a product that could command a higher price in the attractive US market (Hsing 1999).

By transferring marketing technology to employees and distributors in the form of training, and to suppliers in the form of standards and specifications, ITIs create an environment conducive to the spawning of new business ventures. A classic demonstration of this effect is evident in the rapid emergence of a Muslim entrepreneurial class in Pakistan. As Papanek (1962) records, after gaining their independence in 1947, Muslims who had traditionally been peasants, landlords, artisans and government employees in prepartition India, suddenly found themselves faced with the vast commercial possibilities associated with nation-building. These opportunities were seized, not by those already active in small industry or handicrafts, but by traders. At the time of his writing, Papanek (1962) observed that fully half of Pakistan’s industrial entrepreneurs had been primarily occupied in trading prior to 1947. Moreover, this group of ex-traders controlled nearly 70 per cent of the nation’s capital, in contrast with the six per cent owned by the existing small industrialists. Why had traders been quicker to capitalize on opportunities in industry? Because traders, “unlike landlords, artisans, or employees, were accustomed to buying and selling, to employing others, and to contracts, though mostly on a small scale. In short, they were operating in a marketing economy and responding to economic incentives” (Papanek 1962:33). Pakistan is by no means unique. Alexander (1968) reports that former traders provided a large pool of entrepreneurial talent in the industrialization of Turkey, Greece, and the Philippines.

In summary, ITIs may contribute towards economic development in three distinct ways, as expressed in the following proposition:

P1: ITIs contribute towards the economic development of host societies by:

a. reducing transaction costs and thereby improving the efficiency of international exchange (an efficiency contribution),

b. opening up new markets and discovering new sources of supply (an innovation contribution), and

c. introducing marketing technology and credit into local distribution channels (a catalytic contribution).

Each of the three contributions identified in P1 will be relevant to a particular economic context. An ITI’s role as transaction cost minimizer will be of greatest value in mature markets, where competition is intense and manufacturers can choose from a number of modes of conducting cross-border exchange. ITIs as market-markers, on the other hand, will be of special relevance to environments characterized by exchange uncertainty and replete with entrepreneurial opportunity. Both the efficiency and innovation contributions will directly promote economic growth and have unspecified but positive indirect effects on development, but actions associated with the third type of contribution will be catalytic in nature, in the sense
that each innovation introduced by the ITI may precipitate a qualitative change in the underlying organization of the economy. Thus, in transferring marketing technology and credit from high- to low-productivity economies, it can be argued that ITIs make their greatest contribution to economic development. This catalytic contribution is expanded in the following proposition:

P2: ITIs make their strongest contribution towards the economic development of host societies when they:
   a. introduce marketing technology with the aim of improving the quality of local resources (e.g., via training indigenous employees), and
   b. make direct investments aimed at upgrading the local distribution system (e.g., via the provision of credit, the imposition of standards and specifications on channel members, and investments in infrastructure or sources of supply).

HOW TRADE INTERMEDIARIES HINDER DEVELOPMENT

It should be clear from the preceding discussion that ITIs can enhance the productivity of host economies in at least three distinct ways. However, it is important to also consider those actions taken by ITIs which constrain development. When the goals of the ITI are no longer in alignment with the needs of the host society, the potential for exploitation can be considerable, as illustrated by the checkered histories of the European trading houses in China and elsewhere in the 19th century. However, many of the charges made against ITIs are spurious. For example, one critic of foreign export-import merchants in 19th century Latin America has complained that such firms were rootless, had little sense of identification with the nations in which they operated, and usually returned home as soon as their fortunes were made. For as long as they stayed in a nation, though, their sheer size and influence, combined with their preference for hiring expatriates over natives, hindered autonomous development and stifled local entrepreneurship (Ridings 1985). This argument can be faulted on both logical and empirical grounds. Empirically, Ridings’ claim that domination of Latin America’s overseas trade by foreign trading companies was detrimental to the rise of native entrepreneurship has been challenged by Marichal (1986), who identifies the significant contribution made by native merchant houses in the development of Argentina and Mexico.

More broadly, Ridings and other critics of foreign trading companies seem to miss two points. First, the ITI’s function as market-completer can often become superfluous after a new market has been developed (Kelly and Lecraw 1985). The more important the new market, or the more specific the marketing requirements, the sooner the manufacturer will assume control of the exporting activities. This was certainly the case in Latin America towards the end of the 19th century when local wholesalers increasingly began to source directly from foreign manufacturers, bypassing the traditional importing houses (Greenhill and Miller 1998). If, on the other hand, local firms are handicapped by a lack of international experience, foreign market knowledge, or capital, the performance of ITIs may still stimulate the emergence of local rivals who then supplant the foreign firms involved in mediated exchange relationships. Thus, sugar merchants in 19th century Osaka, who balked at the idea of paying a five per cent commission to Chinese trading companies, founded a company of their own, the Sato Gōshi Kaisha, which charged only 1.2 per cent commission (Kawabe 1987). This was not an isolated case when one considers that in 1874, foreign trading houses handled 97 per cent of Japan’s total exports and 94 per cent of its total imports, but by the mid-1920s, these firms had almost disappeared completely from view (Shao and Herbig 1993). Second, even when foreign traders persist in a monopoly position, the alternative situation can often be worse. In many parts of Africa, for instance, the distribution of foreign goods has historically been controlled by
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Prosperous South Asian and Levantine middlemen, who are perceived to charge excessively high markups. “The other side of the story is, of course, that if the Indians did not distribute foreign merchandise in the area, nobody would” (Marcus 1959:199). In 1958, non-native Africans accounted for 94 per cent of Ghana’s imports (Garlick 1971). If foreign traders dominate channels, it is often because local traders, such as Marcus’s Africans, are “illiterate, lack capital and training, and have no access to borrowed funds”. In such impoverished settings, the problem is not the foreign middleman, but the lack of skilled, native intermediaries.

Other criticisms made against ITIs stem from poorly conceived government policies. For example, many governments have enacted legislation inspired by the apparent success of the Japanese sogo shosha. In 1975, the Korean government offered a number of incentives to any firm that could meet its designated definition of a general trading company (GTC). Among the prerequisites for earning GTC status was the generation of exports of at least $1m in at least ten foreign markets while maintaining ten or more overseas branch offices. By 1983, nine indigenous GTCs had been spawned, which together handled more than half of Korea’s total exports (Cho 1987). However, as Wortzel and Wortzel (1983) observed, many, if not all of the GTCs were operated by large Korean conglomerates which already had substantial export sales. In other words, the extraordinary performance of the GTCs merely reflected an accounting innovation motivated by the artificial inducements of the supporting legislation. On balance, these authors wondered whether GTCs were actually doing more harm than good because the manufacturing divisions of the Korean conglomerates were no longer responsible for maintaining their own customer contacts. This unnecessary impediment to direct market feedback led Wortzel and Wortzel to conclude that GTCs are, “at best, superfluous and, at worst, inhibiting to the export of anything but the most simple manufactured products” (1983:75). Similarly, some manufacturer-exporters in Turkey have switched to trading companies, primarily in response to the monetary incentives offered by a government keen to duplicate the success of the sogo shosha. Unfortunately, the attractiveness of these incentives has led some Turkish trading companies to submit misleading documentation, essentially reporting fictitious exports (Dicle and Dicle 1992).

In summary, many of the faults attributed to ITIs belie either legislative inadequacies or a lack of competition in cross-border channels. An ITI’s actions will only be harmful, therefore, when the firm’s objective is to contribute towards, or exploit, either one of these environmental variables.

Restricting Competition

In many developing countries, ITIs function as important gateways linking local suppliers with foreign buyers. However, the information asymmetries that exist between a particular buyer and seller and which the ITI is able to exploit generally diminish over time, undermining the trader’s position in the mediated exchange relationship. Competitive threats will inevitably emerge, either from other middlemen offering to provide a similar service at a lower cost, or from exchange parties keen to reap the benefits of more direct modes of transacting. In view of this built-in mortality of mediated exchanges, the ITI may act to preserve the underlying information asymmetry by disguising or preventing access to information identifying the exchange parties (Perry 1990). As one Swiss trader has said, “we don’t give any information, either important or insignificant” (Guex 1998: 151). One tactic is to remove products from their original packaging or simply refuse to tell the buyer the name of the manufacturer (Kelly and Lecraw 1985). Under such circumstances, rationalization of the channel will be forestalled and important signals necessary for the supplier to make product modifications and develop new products will be obscured or lost. Another tactic for self-preservation is for the ITI to divide large orders up among many local suppliers. This inefficient allocation of activity is intended
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primarily to reduce the incentive of any one supplier to take over the marketing function and eliminate the middleman (Wortzel and Wortzel 1983).

Exercising Political Power

The second way in which ITIs can hinder local development is by exercising their sometimes considerable economic clout to influence government policy. There are many precedents for this type of behavior. In April 1749, for example, the East India Company leased some of its military force to help an Indian prince recover his throne. The offering of military support to a local ruler, which followed a pattern established earlier by the French East India company, subsequently became the basis for maintaining British trading positions in the sub-continent (Buchan 1994). British military force was also brought to bear against another sovereign nation a century later, when China tried to shake itself free from the yoke of powerful foreign traders such as Jardine Matheson (which at the time controlled nearly half of China’s foreign trade (Jones 1998)).

While these examples are extreme, they are broadly indicative of an historical pattern of behavior whereby powerful ITIs have sought to subvert political mandates perceived to be obstacles to the pursuit of organizational goals. Foreign traders have a vested interest in promoting free trade. They can therefore be expected to use their influence to undermine policies promoting industrialization which are based on protective tariffs that would limit their trading freedom. In 19th century Latin America, for example, international traders exercised a “powerful, if quiet, governmental influence” through their involvement in business interest groups, through diplomatic pressure, and through sponsorship of newspapers (Ridings 1985:4). Modern ITIs may not be able to summon gun-ships or muster armies with the same ease as Jardines or the East India Company, but the basic desire to circumvent market imperfections of any sort endures nonetheless.

In the history of the trading company, no firm has preferred the developmental needs of a host society over organizational goals. Still, few scholars have distinguished between behavior which is sub-optimal from a societal perspective, and behavior which is undeniably harmful. Consider that in many countries foreign traders charging high margins are more likely to be considered pirates plundering the economy than risk-taking, channel-blazing pioneers. Yet in any under-developed market it is likely that an ITI will enjoy, for a time, a monopoly position in the channel and possibly exercise some influence over governmental decision-making. Profits earned on high margins may even be repatriated to a foreign country. But none of this can be considered damaging if the alternative situation – the absence of the ITI – would leave the country in a worse (i.e., lower productivity) position. Moreover, in the course of time, the ITI’s economic power and political influence will become restricted by the emergence of competition and legislative checks and balances. Consequently, an ITI’s actions can only be considered “harmful” when the intent is to hinder the development of direct international exchange between local firms and foreign partners, or to undermine political self-determination in the name of free trade. This can be expressed in the following proposition:

P3: ITIs hinder the economic development of host societies by:
   a. deliberately distorting or disguising information passed along the channel (thus impeding the efficiency of exchange),
   b. unnecessarily dividing supply contracts among many local manufacturers (thus impeding the efficiency of production), and
   c. using their economic influence to effect political outcomes, contrary to the long term needs of the society (thus impeding the proliferation of both indigenous exchange and production)
In their pursuit of trade, ITIs may enact decisions which hinder development. For much of the development process, however, the goals of the ITI and the needs of the host society will be in rough alignment. Only as the market matures and the ITI’s position in the cross-border channel comes under threat will incentives arise to pursue strategic but inefficient courses of action. Interestingly, at this point, the opportunity to do harm will have become constrained by competitive and regulatory safeguards. This complex interplay between opportunity and motive can be expressed in the following proposition:

P4a: ITIs will have the greatest opportunity to hinder the development of host societies in the earlier stages when competitive and legislative constraints are minimal or absent.

P4b: ITIs will have the greatest incentive to hinder the development of host societies in the later stages when pressures for their elimination are highest.

A RESEARCH AGENDA

It has been proposed that ITIs can act as both catalysts and constraints in the process of economic development. Research is clearly needed to isolate the unique contextual conditions leading to these conflicting outcomes. It is apparent that, for as long as the goals of the ITI are congruent with the needs of the host society, the former will act in a manner beneficial to the development of the latter. But can the degree of symbiosis be measured? And at what precise point does the relationship turn sour? Practical answers to these questions may prove elusive given the sensitivity and complexity of the issues. Much of the illustrative data used in the preceding discussion was drawn from historical case studies, and this methodology may be the only way of avoiding some of the ethical problems inherent in measuring how, for example, ITIs stifle competition or ensure that their clients remain weak and dependent (as per P3). The major limitation of this approach is that the generalizability of findings will be circumscribed by the selection of appropriate cases, and in a study of this nature sampling would prove problematic.

An alternative approach would be to conduct a comparative study of indigenous firms in a developing economy distinguishing between those firms that are ITI-clients and those that are not. In any low-productivity economy where there are formidable knowledge and economic barriers to international exchange, local firms can choose to do business with either their indigenous counterparts or with those foreign firms domiciled within the domestic market. The underlying premise of this paper is that there are significant micro and macro productivity implications inherent in these exchange alternatives. Firms with no international exposure will be at a disadvantage (as per P1). Some support for this idea is found in recent research conducted in Central Europe which showed that indigenous firms linked with foreign investors outperformed their domestic counterparts and exhibited higher market orientations than privatized former state-owned enterprises (Fahy, et al. 2000). Empirically, if the ITI is a critical catalyst in the early stages of development, and if that catalytic role can be defined in terms of the introduction of marketing technology, then it follows that client firms will evidence marketing behaviors qualitatively different from industry norms (P1b&c). Specifically, ITI-clients could be expected to exhibit above-average levels of market orientation, higher rates of adoption of marketing technology, and lower marketing costs (P2a&b). Specific predictions derived from P1 and P2 would depend on whether client firms were manufacturers looking for export markets and cheaper raw materials or distributors looking for cheaper imports.

A more fine-grained analysis into the contribution made by ITIs would require a distinction to be made between those intermediaries who are “traders” versus those who are “marketers” (Brasch 1978). Traders are deal-makers with short payback horizons who generally take on only those products that can be sold quickly to existing customers in established
distribution channels. Marketers, on the other hand, are more inclined to undertake major developmental efforts over a much longer period of time in the expectation of reaping long term benefits. Traders and marketers will therefore make different sorts of contributions to the emerging economy. Speculative traders will play an important arbitraging role valuable in the trade of commodities, while marketers will be more instrumental in transferring marketing technology and possibly investment funds to nascent manufacturing industries (Greenhill and Miller 1998; Hsing 1999). The research implication is that ITI-clients should be asked to classify the level and type of contribution made by their intermediary and these data could be compared with responses from other firms within the same industry. (See Castaldi et al. (1992) for a study with a similar aim done in a mature economy.) If the needs of an indigenous firm are well-matched by the service offering of its ITI, then the contribution to the host economy (as indicated in the benefits accrued to the local firm) will be maximized. Moderating variables in all these relationships will include competition (among both intermediaries and indigenous firms) and exercised channel power.

Finally, ITIs active in emerging economies could themselves be surveyed yielding information useful to regulators and entrepreneurs alike. For example, and with regard to P4 above, ITIs could be asked to provide information regarding both motives and opportunities to act opportunistically (being a common measure of “harmful” behavior in channel research; see for example, Stump and Heide (1996) and Williamson (1993)). The anonymity of the survey methodology would enhance the validity of the data collected while the interplay between these two sets of variables within specific industries would provide regulators with valuable signals regarding the judicious enactment of legislative constraints and safeguards. In terms of operationalizing constructs, key indicators of these two variables could be drawn from existing research. For example, the opportunity to act in an exploitative manner, could be described in terms of exchange uncertainty (see Celly & Frazier (1996) for a good measure) and the number of rivals who could replace the ITI in a given trading environment (Bello & Williamson 1985). The desire to act opportunistically would influenced by perceived pressures for the ITI’s elimination from the channel (Benito et al. 1999) but offset by switching costs and relationship-specific investments (Heide & John 1992). Pre-tests among a small sample of ITIs would determine the level of adaptation needed before using these well-known indicators in a developing country context.

In summary, a research agenda investigating some of the issues identified here may adopt one of two methodological approaches; (1) an historical, multiple-case study investigating the harmful and ethically-suspect actions of a small sample of ITIs in a variety of developing market settings (relevant to P3), and (2) a larger-scale survey of ITI clients (P1-2) and ITIs (P4) domiciled within diverse economic settings (Table). The former method should yield rich, qualitative insights into the symbiotic relationship between the ITI and host environments, while the latter approach will permit more rigorous hypothesis-testing.

- INSERT TABLE ABOUT HERE -

**CONCLUSIONS AND IMPLICATIONS**

If economic development is largely a matter of making markets, as some have argued, then marketing scholars should have much to contribute to development research. Yet despite a promising start in the late-1950s / early-1960s, research on the topic seems to have reached a point of diminishing returns as evidenced by the general lack of publications in leading marketing journals. What is needed most now, perhaps, is a research agenda promoting the articulation and “testing” of mid-range theories involving marketing entities and issues with
clear implications for economic development. This paper represents a tentative step in this direction. The key arguments can be summarized as follows: Distribution inefficiencies are characteristic of every low-productivity economy (Mentzer and Samli 1981). Any improvement in the basic organization of distribution, therefore, will enable a more productive mobilization of existing resources (Varadarajan 1984). Small incremental improvements may be triggered by information disseminated by ubiquitous traders. Information relating to foreign demand, pricing, packaging, product quality, and competition can help indigenous firms in these economies overcome market imperfections created by uncertainty. This serves to stimulate the level of exchange both within the economy and across its borders. Additionally, information introduced in the form of new marketing technology related to logistics and distribution can increase the efficiency of exchange within these economies. In short, information provided by ITIs regarding foreign market opportunities, marketing practices, or new manufacturing techniques may ultimately be catalytic in nature yielding far-ranging productivity-enhancing effects.

**Implications for Managers and Policymakers**
The marketing activities of intermediaries in developing economies offer implications not just for researchers but also for business practitioners and government policy-makers. For the emerging managerial class in any developing economy, several points can be noted. First, ITIs with extensive trading experience in a number of foreign environments represent a valuable conduit for market information and marketing technology for the international neophyte firm. Via the ITI an indigenous manufacturer can become linked to new foreign buyers, be exposed to new production and marketing techniques, and may even receive access to credit or funds for investment. However, as the indigenous firm acquires some experience of manufacturing for foreign markets, the intermediary’s role can become redundant. As direct market feedback will always be preferable to information filtered through the middleman, at some point the manufacturer should consider eliminating the ITI from the channel. Mindful of their limited “shelf-life”, ITIs can be expected to act in ways that are sub-optimal from the manufacturer’s point of view. For example, the ITI may engage in only minimal market-development efforts to reduce both their promotional costs and the manufacturer’s incentive for going direct to a proven and attractive market. Thus, an ITI-client can never be certain of whether their indirect exports to a market reflect either the true level of demand in that market or the ITI’s limited promotional efforts or the splitting up of large orders among several manufacturers. Furthermore, going direct to the foreign market may prove problematic if the ITI has taken care to conceal the identities of foreign buyers. With these concerns in mind, managers would do well to classify the contribution required of an ITI in terms of their specific marketing needs at different points in time. In an emerging economy, an ITI’s value-added contribution will primarily be defined in terms of the ability to create new exchanges for manufacturers with limited international experience. However, even after the local firm has mastered the art of dealing with foreign buyers directly, an ITI may still provide a valuable physical-fulfillment service in exchanges characterized by high uncertainty or offering little return to offset the manufacturer’s own marketing efforts.

ITIs can both help and hinder economic development. This apparent contradiction offers a double-edged warning to policymakers in developing economies. On the one hand, policymakers need to be aware of the dangers inherent in viewing ITIs as either parasites or economic saviours. The pessimistic or parasitic view generally fails to concede that middlemen exist to reduce, not increase, marketing costs and may result in policy goals that emphasize development in agriculture and industry at the expense of improving the nation’s distribution system. At the opposite extreme, governments may be inspired by the performance of the sogo shosha during Japan’s post-War reconstruction and enact legislation intended to spawn
indigenous trading enterprises. However, the evidence from Turkey, Korea and elsewhere suggests that artificial inducements of this kind may do more harm than good to the development process (Dicle and Dicle 1992; Wortzel and Wortzel 1983).

For governments in developing economies, the benefits and dangers of ITIs can be summarized in terms of three broad policy-goals; (1) attracting foreign ITIs in the first place, (2) encouraging technology transfer, and (3) curtailing abuses of market power. In the early stages of development, foreign ITIs should be welcomed, not with monopoly concessions, but with an investor-friendly tax regime administered by an efficient civil service which is accountable to an independent judiciary. The transfer of marketing technology from newly-arrived foreign ITIs to the local economy may then be encouraged by enacting localization employment policies. In this way foreign ITIs may play a valuable role in training future managers and entrepreneurs. Finally, governments would do well to promote competition in distribution channels as a way of safeguarding against potential abuses of market power by large foreign ITIs. Ideally competition within the channel, combined with the emergence of an indigenous entrepreneurial class, will ultimately result in some foreign ITIs being supplanted by either local ITIs or manufacturers going direct to foreign markets. More specific safeguards might include the monitoring of political campaign contributions and restrictions on the foreign ownership of news media. In short, by structuring a regulatory framework that both attracts foreign ITIs and promotes competition and technology transfer, LDC policy-makers should be able to reap the many benefits offered by such firms while minimizing their potential to hinder the process of development.
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<td>P2a</td>
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<td>adoption of marketing technology (new product designs &amp; production techniques, managerial training, imposition of world-class standards, etc.)</td>
<td>ITI-clients exhibit higher market orientation levels and more competitive product offerings</td>
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<td>P2b</td>
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<td>foreign ITIs in LDCs</td>
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<td></td>
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<td>P3b</td>
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<td>P3c</td>
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<td></td>
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<td>P4a</td>
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REFERENCES


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