ANALYZING OF SOUTH KOREAN EXPERIENCE FOR THE IMPROVEMENT OF AZERBAIJAN AGRICULTURAL EXPORT PROMOTION POLICY

Elnur V. Aliyev[1]

Abstract

It should be noted that, one of the countries that have achieved a noticeable increase in foreign trade is the Republic of Korea in a short time. Indeed, the Korean exports, in particular the export of agricultural products increased several times in the years between 1960 and 2014 and the price of 1 kg conventional products raise up to $ 6.27. In this respect, the Korean agricultural exports promoting policy have been examined in detail, were examined its incentive mechanisms and tools and has been learned its effects on Korea's export of agricultural products in this article.

Key words: export promotion policies (EPP), duty drawback scheme, export insurances, export finances, Free Trade Zones (FTZs).

[1] PhD student of the Scientific Research Institute of Economic Reforms under the Ministry of Economy and Industry of the Republic of Azerbaijan,

1. Introduction

Korea's export promotion policies for agro-food products was established and actively implemented in the 1960s and 1970s. At that time, the share of agro-food export in total merchandise export was about 30% or more. However, the export promotion policy for agricultural products was pursued passively in the 1980s compared to other periods. Coming into the 1990s, a diverse range of export expansion policies were once again introduced to respond to the trends of globalization and liberalization in agriculture.

However, the government was unable to implement policies in the form of direct export subsidies due to the international regulations and enforcement by the WTO agreement on agriculture. Accordingly, the export promotion policies being implemented today are mainly indirect export expansion measures aimed at providing marketing support, international and trade information, and overseas market pioneering assistance.

In the 1960s and 1970s, the Korean government targeted export-oriented industrialization as a national goal and began implementing more aggressive outward-looking economic policies. In the agriculture sector, export complex development plans were pursued. The government also established and operated an agriculture price stabilization fund to mitigate the instability in agricultural exports caused by unstable domestic production and prices. A system of linking imports to exports (for example, importing bananas and pineapples in exchange for the export of apples, or importing wools for exporting tuna) greatly contributed to the increased trade in agricultural products. The government also implemented a policy for the controlling of export prices and shipment timing through a unified export channel.

According to the changes of policy environment, Korea's current export promotion policies are focused on overseas market penetration support and export information support system. In order to increase agro-food exports, Korea has recently reinforced and implemented comprehensive measures to expand production and distribution of exportoriented agricultural products and to develop new overseas markets for Korean agricultural exports. As agricultural market liberalization is being further accelerated through FTA agreements with major trading partners, the Korean government is strengthening its activities to pioneer overseas markets so as to overcome the limitations posed by the shrinking demand in the domestic market. As part of the activities, the government plans to focus on promoting 30 major agricultural products to increase the farm household income and to expand the Korean food culture through agro-food exports.

Overseas market penetration programs are mainly being implemented through the Korean Agro-Fishery & Food Trade Corporation (AT) focusing on the participation and marketing of international food fairs and expos, dispatch of market exploration teams and packaging design development project, et. al.. The Korean Agro-Fisheries & Food Trade Corporation (AT) which is sponsored by the Korean government was established in 1986 as a semi – governmental agency specializing in agro-food exports. It is operating Overseas Agro-Trade Center in Japan (Tokyo, Osaka), Netherlands (Rotterdam), U.S.A. (New York, LA), Singapore, China (Beijing, Shanghai) and Hongkong and playing various roles such as collection of agricultural & fishery trade information, promotion of sales, and public relations development in overseas markets.

The Korean Agro-Fisheries & Food Trade Corporation (AT) supports the exporting companies participating in food expos of major export target countries of Korean agricultural products including Japan, U.S., EU, China, Hong Kong, Russia, Brazil, Australia and Singapore. As part of its overseas marketing efforts aimed at advertising Korean agricultural products in international markets and attracting buyers, the government is also installing outdoor electric signboards in addition to the advertisements on buses and in magazines and leaflets. It further produces and distributes directories of promising export products and Korean exporting companies every year for buyers. The government also recently tries to encourage the use of national brand (Whimori) for exports of Korean agricultural products. Whimori as the national brand for Korean agricultural exports, producing mainly vegetables and flowers, is the symbol of the highest quality and safety.

Since 2008, the Korean government has tried to spread Korean food culture worldwide in the name of "Globalization Strategy of Korean Cuisine". For this goal, Korean government is developing and supporting various programs such as the construction of a database on Korean restaurants overseas and PR activities informing people overseas of the excellence of Korean food. It contributes eventually to the increase in Korean agro-food exports.

The government is also constructing export complexes for the continued supply of highquality agro-food products for exports. Export complexes are especially targeted at exportoriented production of vegetables, flowers, fruits and these processed goods which have high export value or potential. The government plans to expand the number of agricultural export complexes from 148 in 2006 to 180 in 2010 and 200 by 2013.

The Korean government plans to increase the exports of agro-food products from US$ 5.9 billion in 2010 to US$ 10 billion in 2012 to US$ 20 billion in 2017 through these various efforts to boost agro-food exports.

2. Empirical Evidence

Although it is a common sense that export expansion leads to economic growth, there have been empirical works testing it. The empirical literature started from regression analyses examining correlation. Beginning from the mid-1980s, the Granger causality tests were applied to the relationship between export growth and economic growth. Threshold effect has also been studied in the literature. According to it, export-led growth does not hold until certain level of economic development, while it holds after the threshold level. Conclusions of such empirical works have been mixed. That is, export-led growth has not been supported unanimously by empirical works. Hans Singer expressed the view that the positive effect of OO became not so evident since the mid-1970s even in the Newly Industrializing Countries (**Hans, 1988**).

Reflecting the popularity of non-stationarity and cointegration tests in empirical economic analysis, export-economic growth causality tests have been performed using cointegration tests and error-correction models since the 1990s. Awokuse uses Johansen cointegration test and Granger causality tests based on the error correction models applied to Argentina, Colombia and Peru. Awokuse shows that there is some empirical evidence supporting the export-led growth hypothesis (**Titus, 2008**). Iyer, Rambadi and Tang (2009) use a cointegrated vector autoregressive model, complemented by a Granger causality test and show that exports are shown to be not significant in explaining economic growth of Australia **(Iyer, Krishina, Alicia Rambaldi, and Kam Ki Tang, 2009)**. Thus, the empirical evidence appears to be mixed. Amin Guitierrez de Pineres and Cantavella-Jorda (2007) use data for sixteen Latin American countries and conclude that the results for the export-led growth hypothesis differ depending on the selection of data and test methodologies.

As an extension of the causality between export expansion and economic growth, a group of works has tested the hypothesis that changes in export product composition cause economic growth. The empirical evidence has shown support of the hypothesis in general. Ghatak *et. al.* used cointegration and causality tests to examine the export-led growth hypothesis for Malaysia and found that economic growth of Malaysia was driven by manufacturing exports rather than

exports of primary goods **(Ghatak, S., Milner, C. and Utkulu, 1997)**. Koh and Mah apply cointegration test and error correction models to Korea. Their results show that the increasing ratio of non-textile, i.e. heavy and chemical industries, exports to textile exports has led to higher economic growth and *vice versa*. Trade liberalization is shown to have a positive effect on economic growth of Korea **(Koh, Sae Ran and Jai S. Mah, 2011).**

Unlike the works examining the causality between export growth and economic growth, some authors have tested whether EP measures actually lead to export expansion significantly. Jung and Lee (1986) investigated the effects of various types of export promotion policies on the amount of manufactured export in Korea. They establish an aggregate export supply function where relative prices, subsidy and capacity utilization ratio as the domestic demand pressure variable are used as the explanatory variables. Subsidies comprise preferential export finance, tariff reduction and exchange rate changes. Using data for the period 1964 – 1980, they show that a 1 percent increase in subsidy would bring about 2 percent increase in export supply. Although it is the first empirical work on the effect of EP policy on export, the measure of export subsidy includes neither export insurance nor duty drawback. Mah‟ s (2007c) cointegration test result shows that duty drawback scheme was effective in promoting export supply of Korea during 1975-2001. Lederman *et al.* (2010) used data covering 103 developing and developed countries. Their cross section analysis shows that export promotion agencies have a statistically significant effect on export expansion; meanwhile, they do not consider export incentives such as export insurance and duty drawback.

3. Trends of Korean Agricultural Export

Korea's agricultural export increased from US$1.59 billion in 2000 to US$5.34 billion in 2012. Export to the largest market, Japan, increased from US$0.7 billion to US$1.59 billion during the same period. The largest increase in agricultural export was export to China, which has been the second largest export market for Korean agriculture since 2008, surging from US$118 million to US$785 million in the same period. Export to the United States has increased from US$145 million in 2000 to US$500 million in 2012, and agricultural exports to other major markets such as Hong Kong, Vietnam, Russia, the United Arab Emirates, and Taiwan have also increased significantly.

Traditionally, Korean agricultural export has been heavily dependent on the Japanese market. The dependency ratio for the Japanese market, however, has significantly lowered from 46.2 percent in 2000 to 29.8 percent in 2012. On the other hand, the ratio for the Chinese market has increased from 7.8 percent to 14.7 percent during the same period. The dependency ratio for the U.S. market has been slightly lowered from 9.7 percent to 9.4 percent during the same period. Korean agricultural exports to Southeast Asian and Middle Eastern countries including Vietnam, Indonesia, Singapore, Thailand, Malaysia, the United Arab Emirates, Afghanistan, and Iraq have increased by more than five times during the same period. These countries have become emerging markets for Korean agriculture.

Table 1. Korean Agricultural Export by Country

Unit: US$ Million

	2000	2005	2008	2010	2011	2012
World Total	**1,509.1**	**2,221.5**	**3,048.2**	**4,114.6**	**5,077.4**	**5,341.1**
Japan	697.1	713.3	752.5	1,184.1	1,523.5	1,591.4
China	117.6	231.2	349.1	523.3	719.1	785.3
United States	145.8	280.3	335.4	410.5	451.3	500.0
Hong Kong	134	123.7	162.7	220.2	279.3	258.3
Vietnam	8.8	17.3	55.7	125.5	200.3	256.8
Russia	74.2	203.8	286.3	214.5	219.3	234.3
UAE	14.1	118	123	220.3	179.6	218.3
Taiwan	55.3	110.1	107	188.2	219.2	194.3
Indonesia	24.4	45.5	77	86.3	105.7	120.3
Philippines	29.7	27.8	48.7	89.8	90.0	101.2
Australia	15.9	40.1	72.1	79.0	86.6	96.8
Afghanistan	5.9	0.8	44.7	23.7	91.3	92.8
Singapore	18.2	21.8	33.3	81.8	71.4	87.6
Thailand	9.8	13.4	17.6	82.0	113.6	78.9
Malaysia	8.4	15.2	31.3	56.6	82.7	69.4
Canada	16.6	26.8	30.3	47.1	56.8	65.3
Mongolia	5.5	12.5	28	27.6	33.3	38.3
Iraq	-	1.2	106.5	114.9	73.7	34.5
Kazakhstan	4.3	8	27.4	25.5	34.6	32.5
Netherlands	7.6	6.6	62.5	16.1	23.7	25.7

Source: KITA

Until 2000, none of the exporting commodities exceeded US$100 million in Korea. The top export product was ramen (US$95 million), followed by soju (US$88 million) and chestnuts (US$ 84 million). The export value of bakery products and kimchi was US$78 million.

In 2012, the export value of filter cigarettes was US$606 million, followed by mixed prepared food (US$574 million). The export value of coffee products was US$310 million and that of processed sugar was US$262 million. The number of agricultural commodities exceeding the export value of US$100 million was 13 in total. The export value of ginseng and kimchi, in particular, which are representative fresh agricultural products in Korea, exceeded US$100 million, respectively.

Table 2. Korean Agricultural Export by Commodity

Unit: US$ Million

		2000	2005	2008	2010	2011	2012
Total		1,509.1	2,221.5	3,048.2	4,114.6	5,077.4	5,341.1
Processed food	Filter cigarettes	36.8	254.1	453.0	536.5	549.8	606.4
	Mixed prepared food	1.4	1.2	152.4*	412.1	930.0	573.6
	Coffee products	31.4	103.7	195.2	221.0	333.0	310.7
	Processed sugar	71.6	94.0	127.7	242.1	291.2	262.9
	Ramen	94.7	151.6	141.8	175.1	211.0	242.0
	Beverages	11.6	36.5	64.4	102.6	184.1	225.9
	Sauce	13.4	38.2	68.1	129.7	155.4	172.0
	Bakery	79.0	110.8	142.4	110.3	131.5	168.4
	Fermented beverages prepared from cereals	18.0	9.1	33.4	97.1	137.9	144.3
	Sugar, confectionery	76.6	82.1	94.6	100.2	134.2	130.7
	Soju	87.9	116.2	124.1	123.1	114.3	126.8
	Beer	19.0	38.1	43.3	46.8	65.4	67.8
	Prepared, dry milk	3.5	9.3	24.0	24.4	36.2	57.1
	Prepared grain food	14.0	31.7	25.0	45.3	58.6	43.4

	Citrus(prepared or preserved)	-	-	27.1	32.6	40.4	40.8
	Feed	0.7	10.6	18.9	37.3	41.7	38.9
	Pasta	11.5	21.0	28.4	29.0	13.8	35.2
	Soybean meal	-	0.1	21.9	22.2	32.4	29.9
	Gelatin	7.1	10.4	19.1	20.9	22.5	29.4
	Noodles	9.7	13.5	24.4	27.6	34.1	25.9
Fresh agricultural products	Ginseng root	60.3	62.0	75.9	96.8	155.5	108.4
	Kimchi	78.8	93.0	85.3	98.4	104.6	106.6
	Paprika	-	53.1	54.2	58.3	65.9	88.8
	Pear	17.1	56.1	47.3	54.1	47.3	50.0
	Lily	4.3	10.5	19.1	27.8	33.1	30.1
	Rose	10.3	10.4	11.8	34.2	25.7	27.1
	Winter mushrooms	0.1	0.3	11.3	26.3	22.6	16.8
	Apples	1.8	7.7	9.2	17.9	8.9	5.9
	Chestnuts	84.1	35.0	23.6	12.6	10.2	-

Source: KITA

4. Korean Agricultural Export Promotion Policies

Korean agricultural export promotion policies (EPP) can be categorized according to the branch of government that dictates the subject of the program: central government and local government. The central government usually implements agricultural EPPs through public organizations, such as the Korea Agro-Fisheries & Food Trade Corporation (AT). The types of agricultural EPPs executed by the central government have been changing over time, and can now be sorted into five supporting programs related to producers opening markets abroad, organization production, export distribution, safety control, and monetary and insurance. Local governments, however, directly implements some EPP projects of their own, with policies related to education and consulting exports business, construction and managing export complexes, supporting the opening of markets abroad, and payment for export distribution costs and quality certifications.

Agricultural EPP of the Central Government

1) Support for Organizing Production. Backed by the central government, the AT supports production organization projects to secure stable quantities of agricultural products for export. Most farmers cannot meet the orders from buyers abroad due to their small-scale operations,

thus, they need to coordinate with their peers in the industry before they can supply agricultural products for export. Increasing the output of numerous small and micro-scale farms can be possible only through a coordinated effort, and the following organizations have taken on the task: the Horticultural Production Complex, the Fostering Potential Export Products, the Human Resource Development Specialized in Export, the Export Leading Organization, and the Export Council Meeting. The government budget to support these projects has increased from KRW 117 million in 2000 to KRW1.7 billion in 2012.

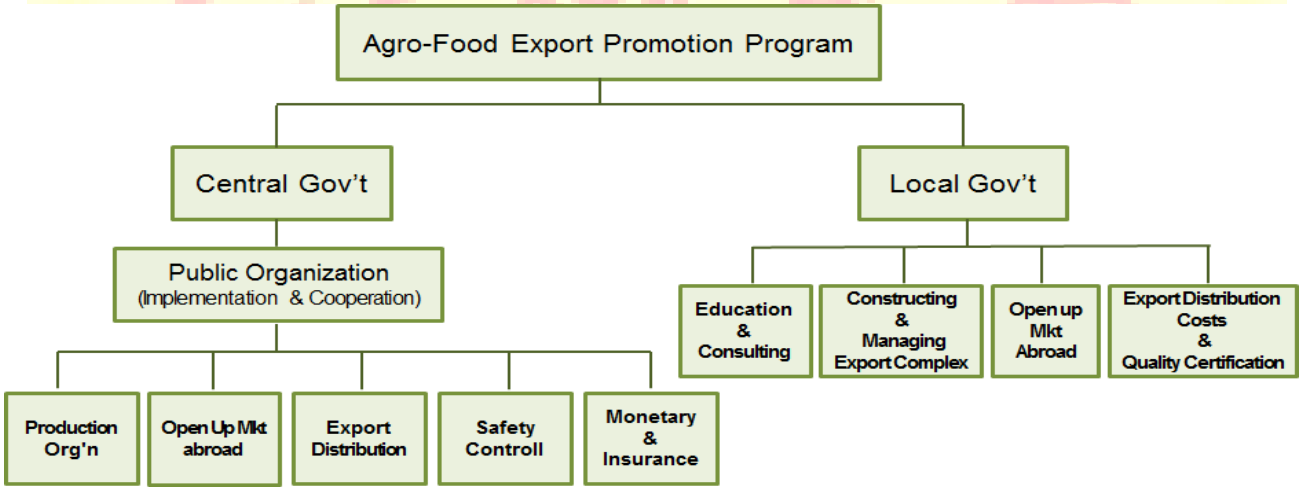
Table 3. Korean Agricultural EPP

Unit: US$ Million

	2000	2005	2008	2009	2010	2011	2012
Support for organizing production	0.11	0.55	1.63	4.18	3.56	2.81	1,57
Project for supporting opening up overseas markets	7,5	10,6	14,0	17,3	21,0	23,6	2,7
Supporting export distribution projects	17,6	24,3	29,1	36,7	36,4	32,7	28,7
Supporting safety control	-	0,11	0,12	0,11	0,14	0,13	-
Monetary and insurance supporting policy	23,4	25,9	298,2	316,7	332,6	337,2	337,2

Source: KITA

Figure 1. Korean Agro-food Export Supporting System



2) Project to Support Opening Up Overseas Markets. An overview of projects and tasks aimed at supporting the opening of overseas markets includes sales promotion events with foreign distribution enterprises, participation in international food exhibitions, arranging buyer introductions, registering export brands in foreign countries, registering certification system abroad, and management for the government's own agriculture brand "Whimori," among others.

3) Supporting Export Distribution Project. Export distribution support policies are designed to help logistics and sales promotions. Detailed sub-projects of the export distribution supporting policy contained in the Distribution Costs payment program, which the WTO's agricultural agreements allow. In addition, Supporting Preservative Costs program and the Sharing Terminal Handling Charge program are also included in this area. The budget for supporting export distribution has increased from KRW 19.1 billion in 2000 to KRW 31.08 billion in 2012, which is the largest amount of subsidies in agricultural EPP projects. Their growth rate, however, is lower than that of any other project, which may imply that this kind of support is prohibited by the WTO and tends to be diminishing.

4) Supporting Safety Control. The objective of the safety control supporting policy is to strengthen food safety. The Supporting Good Agricultural Practices (GAP) Certification Fee project and the Sharing Pesticide Test Fee project are included in this policy. The budget for safety control is almost stagnant, having been valued at KRW 120 million and KRW 139million in 2000 and 2011, respectively.

5) Monetary and Insurance Supporting Policy. The purpose of the monetary and insurance supporting policy is to help farmers with poor access to finance and insurance participate in export insurance and operate capital loans. The Exchange Rate Insurance Fee and Export Insurance Premium projects are included in this area. Since this kind of support is a loan rather than a subsidy, the budget for this project is larger than that of other central government EPP projects in Korea, increasing from KRW 253 billion in 2000 to KRW 365.2 billion in 2012and accounting for 53.1 percent of the total agricultural EPP budget.

Agricultural EPP of the Local Government

The purpose of agricultural EPPs initiated by local governments is to encourage the export of locally produced agricultural commodities and to increase the income of farmers. There are various kinds of EPPs at the local government level, such as education and consulting for export businesses, construction and management support for export complexes, support for the opening

of overseas markets, support for the logistic costs for exporting, and support for quality certifications, etc. However, the budget is solely focused on supporting logistical costs for export distribution. The budget for this project increased from KRW 26.7 billion in 2007 to KRW 32.6 billion in 2009. Even though the share of the budget for this project was reduced from 76 percent to 68 percent during the same period, it still maintained over two-thirds of the budget for local government EPP.

5. The Export Promotion Measures of Korea

The EP measures of Korea have comprised tax incentives, financial incentives, establishment of free trade zones and the supporting organizations. The government provided huge amount of subsidy to promote export-related industries. The export subsidy ratio of Korea during the aggressive EP period, i.e. the mid-1960s to the early 1980s, differed depending on the calculation methods. Effective subsidy for exports reached the following: Korea: 31 percent; Taiwan: 12 percent; Colombia: 10 percent; Singapore: 0 percent. 26 Chong-Hyun Nam calculated implicit subsidies to export sales as of the year 1978 on the basis of interest-rate differentials between export loans and ordinary bank loans and reduction in direct taxes, under the assumption that other incentives were either not genuine subsidies or negligibly small in amount. For the manufacturing sector, the subsidy rate for export sales was 15.9 percent, whereas that for domestic sales was 3.5 percent. It implies that there were greater incentives to export than to sell in the domestic market.

Together with the EP policies, Korea practiced import protection policies. Protection measures targeting import substitution may have anti-export bias in the sense that the production resources are to be allocated among non-tradables, exportables and importables **(Milner, (1990a), 1990b)**. Import barriers such as tariffs or any other non-tariff barriers would tend to raise the price level of importables, thus directing production resources from exportables to importables. Therefore, the fact that the Korean government pursued export promotion as well as import protection policies during the 1960s and 1970s actually mean that some of the resources might have been directed to importables production, although the benefits to exports would have dominated the costs from high price level of importables.

A. Tax Incentives

a. tax incentives in general

In December 1961, the Tax Exemption and Reduction Control Law began to provide export firms with tax deduction measures. Since 1964, tax benefits such as 80 percent reduction of profit tax were provided to profits arising from exports. In 1967, export firms were allowed to depreciate their machinery investments 30 percent more rapidly than that normally allowed for additional tax benefits **(Cooper, 1994)**. Since 1973, as a measure of the HCI Drive, the strategic HCI such as steel, chemical, shipbuilding and machinery industries began to be exempt from domestic taxes such as profits tax during the first three years of establishment and exemption of half of the taxes for the next two years. The Tax Exemption and Reduction Control Law amended in 1975 granted investment tax credits and accelerated depreciation to designated key industries **(Lim J.-Y. , 1997**).

Tax benefits began to be offered on the function-oriented support schemes, i.e. support of R&D activities, since 1982 **(Hyun, "Profit Tax", 2013)**. Special rates of depreciation targeting export industries were reduced in 1988 due to the continuing trade surpluses in the latter half of the 1980s **(Won, 2009)**. Meanwhile, tax benefits with respect to R&D of capital goods industries were introduced in 1995 to develop such industries **(Lim, 2006).** Currently, tax benefits are based on the function-oriented support principle and are provided mainly to FDI inflows and R&D activities. For instance, as of 2005, in the case of foreign investors" investment in areas designated as the FDI region, profits and income taxes are exempt for the first ten years from establishment. Tax deductions are provided to 50 percent (40 percent in case of large firms) of the new R&D expenditure **(Finance Forum, 2003)**. Tax benefits directly relating to EP are currently not available.

b. duty drawback scheme

Duty drawback scheme can be used as a measure of EP by reducing the cost of producing exported products. Meanwhile, since the procedure of drawback may be complicated under certain circumstances, the social cost born by the government, banks and exporting firms may be too high to promote exports. Therefore, its effect on EP would depend on the efficiency of the scheme that is actually practiced. Although most tax benefits targeting EP have been prohibited by the WTO Subsidies Code, duty drawback not exceeding the amount of duty actually levied on the imported product has been permitted.

The government began to use the duty drawback scheme to promote exports in 1975. As of the mid to late 1980s, Korea's duty drawback system has been set more generously than that of

Taiwan it's one of main competitors, so as to give more subsidies to exporters. According to the Special Act for Duty Drawback in Korea, the imported raw materials that were used to produce export products within thirteen months from import qualified for duty drawback, which was applied to Korea until 1997. Since 1997, the Act changed the period to two years. Although duty drawbacks recognized by specific items are more difficult to administer, such types share more than four-fifths of the entire duty drawback cases in Korea (**Chang, Keunho and Jinsoo Kim, 1997)**.

The drawback rate defined as the amount of duty drawback divided by export values increased from 0.3 percent in 1975 to 2.6 percent in 1990. Table 3 shows that the amount of duty drawback was as low as 0.1 trillion won, equivalent to U.S.$ 0.2 billion, in 1975, while it continued to increase to 3.2 trillion won in 2009, equivalent to US$ 2.7 billion. Due to continuing trade surpluses during the 2000s, it fell to 0.8 percent in 2009. The ratio of duty drawback/import tariff collection has been between 17 percent and 27 percent during 1990 – 2009. It reached 38.4 percent in 2001. In 2009, it was recorded as 21.6 percent.

Table 4. Duty Drawback/Export Values and Duty Drawback/Tariff Collection

Years	Amount of Duty drawback (trillion won)	Duty Drawback/Export Values	duty drawback/tariff collection
1975	0.1	0.3	n.a.
1990	1.2	2.6	24
2000	2.2	1	21
2009	3.2	0.8	21.6

Sources: IMF, *International Financial Statistics Yearbook 2005*; Korea Customs Office, *Customs Yearbook*, various issues; http://mosf.go.kr, *Performance of duty drawback*, accessed September 28, 2010

B. Financial Incentives

The Ministry of Finance strictly controlled the commercial banks of Korea up until the early 1980s. Policy loans, i.e. lending at preferential rates due to the policy direction, were provided to specific, mostly export-related, industries. Currently, export insurance is the main financial incentive relating to EP.

a. policy loans

The government had regulated most interest rates by the end of 1988. The government control of interest rates provided the strategic industries preferential access at subsidized interest rates. As a result of the HCI Drive in the 1970s, the HCI sector not only had better access to capital, but also faced significantly lower average borrowing costs. The export industries enjoyed preferential access to capital. The government-owned Korea Development Bank also supported certain industries. During the 1970s, policy loans at preferential interest rates increased from less than 40 percent of total bank lending in 1971 to over 55 percent during 1976-1977 and 70 percent in 1978. The interest rate differential between preferential and ordinary loans was abolished with the June 1982 interest-rate reform (**Haggard, 1990)**.

The HCI sector not only enjoyed preferential access to capital, but also faced significantly lower average borrowing costs. It was favored considerably in the second half of the 1970s. Although its average borrowing cost had been about the same as that of the LI until 1974, it began to fall sharply from 1975 until the late 1970s and the borrowing cost averaged 36 percent lower for the HCI than the LI **(Cho and Kim 1997).** Since *chaebols,* i.e. the large conglomerates in Korea, were mostly involved in the HCI, they were the main beneficiaries of policy loans. The share of the HCI in all manufacturing industries increased gradually from 23 percent in 1960 to 39 percent in 1970, and to 54 percent in 1980, respectively. Policy loans at preferential lending interest rate were mainly directed to *chaebols*, which were appropriate for HCI showing the economies of scale property. Therefore, *chaebols* began to grow rapidly in Korea in particular during the 1970s (**Chang, 1994)**.

In 1980, the government decided to reduce policy loans and restrictions on the managerial autonomy of the commercial banks, with the ultimate goal of privatizing them. Due to the continuing trade balance surpluses in the late 1980s and the pressure of economic liberalization from abroad, the government liberalized most interest rates officially in December 1988. Nowadays, policy loans can be found in the lending to small and medium-sized enterprises (SMEs) and are not directly related to EP (**Haggard, Stephan and Susan Collins, 1994**).

b. export finances

Export finances have been provided to exporters in various stages of export-related activities since 1961. Exporters received huge amount of interest rate subsidies during the 1960s – 1980s. Even if the applied lending interest rate was not preferential, such guarantees of lending *per se* can be considered as beneficial to the industries of a developing country facing the liquidity

constraint. The export finance system is one of the currently used export promotion measure in Korea. The Korea EXIM Bank has lent to the export firms **(Korea Export-Import Bank, 2004)**. Export finance covers mainly capital goods, such as industrial plant, machinery, and ships. As of 2009, lending of up to 100 percent of contract value is available provided that the minimum foreign exchange earnings ratio is not less than 25 percent. The average interest rate applicable to export finance was three percent during 1998-1999, which was lower than the market average lending rate of 8.5–20 percent in 1999 (**WTO**).The ratio of exports supported by the EXIM Bank divided by total exports reached 18.6 percent in 2007. Together with the Korea Export-Import Bank, commercial banks in Korea also provide export finance to exporters; meanwhile, they charge the prevailing lending interest rates **(The Korea Exchange Bank, 2009**). In 2009, the Korea Credit Guarantee Fund (KCGF) guarantees repayment of the amount of SMEs‟ borrowing from commercial banks, which is related to export. It guarantees up to ten billion won. The amount of guarantee provided to exporting enterprises by the KCGF reached 4.2 trillion won and 4.6 trillion won, respectively, in 2006 and 2007 (**The Korea Credit Guarantee Fund, 2007**).

c. export insurances

The export insurance scheme was introduced into Korea in 1969 under the Export Insurance Act to help exporters increase their exports by protecting them against losses. The Export Insurance Fund (EIF) was established to support it. The amount of the EIF totaled 1.5 trillion won, i.e. about US$1.2 billion, in 2008. During the period 1968-1972, the value of exports supported by export insurance, i.e. the utilization ratio of export insurance, had been lower than 1 percent and had remained at around 3 percent during the 1980s. The government began to emphasize the role of export incentives such as export insurances and established the KEIC in 1992 as one fully devoted to the export insurance scheme in Korea **(Mah, Jai S. and Yunah Song, 2001**).

With the establishment of the KEIC, as shown in Table 4, the utilization ratio of export insurance increased abruptly to 21.7 percent on annual average during 2003-2004. It rose to 37.8 percent in 2009 and Korea is currently the heaviest user of the export insurance system. The Export Insurance Act requires the Export Insurance Fund to finance the insurance programs, if the KEIC should run budget deficits. The loss ratio, defined as claims paid divided by premium received, remained less than 100 percent in general up to 1991, implying that the preferential effect of

government subsidization in the form of export insurance was not significant until the early 1990s.

The annual average loss ratio was as high as 325 percent in 2003-2004, showing that the preferential effect of the export insurance scheme was significant, although it fell to 122 percent in 2008-2009 due to increase in recoveries.

Table 4 shows that the total amount of claims and premium revenues amounted to US$ 0.7 billion and US$ 0.6 billion during 2008-2009, respectively; while recoveries increased to US$ 0.3 billion, equaling more than one third of claims payment. The number of underwriting contracts increased from 415,991 cases in 2006 to 535,864 cases in 2009. By types, the insured amount of the Foreign Investment Insurance began to increase remarkably in 2006 and 2007. For instance, although it had not been larger than 100 billion won until 2005, it increased to 132 billion won in 2006, 482 billion won in 2007, 982 billion won in 2008 and 638 billion won in 2009, which reflects the recent increase in Korea's foreign direct investment outflows; for instance, US$ 8.1 billion in 2006, US$ 15.6 billion in 2007, US$ 18.9 billion in 2008 and US$ 10.6 billion in 2009 due to the continuing current account surpluses and accumulating foreign exchange reserves. Since the duty drawback not exceeding the threshold level and export insurances complying with the OECD Arrangement on Export Credits are not prohibited, export insurance is expected to continue as an important measure of EP of Korea under the WTO system **(Korea Trade Insurance Corporation, 2010 (2010a)).**

Table 5.Export Insurance Scheme of Korea (units: US$ 100 million, %)

Years	export values (A)	insured amount (B)	premium received (C)	claims paid (D)	recoveries (E)	utilization ratio (B/A:%)	loss ratio (D/C:%)
1974-1976	182.5	1.5	0.01	0.01	0	0.8	41.4
1983-1985	1053.9	42.5	0.28	0.06	0.01	4	22.1
1989-1991	2115.2	49.6	0.14	1.55	0.02	2.31	1082.9
1992-1994	2705.8	118.2	0.77	1.45	0.11	4.4	187.9
2003-2004	4481.2	970.4	2.12	6.9	1.75	21.7	325.2
2008-2009	8065	2444.1	5.94	7.14	2.57	30.3	122.2

Notes: Export values (A) denote the aggregate income that results from commodity exports and from overseas construction. Claims paid (D) is based on the year paid, not the year underwritten.

Sources: KEIC, *Annual Report* and *Monthly Export Insurance*, various issues; K-sure,

Annual Report 2009, 2010 (2010b).

C. The Other Policies and Organizations

a. Free Trade Zones (FTZs)

FTZs in Korea have been governed by the Law on the Free Trade Zones. FTZs are exclusive areas outside the national customs boundary, exempt from customs requirements, upon request from regional governments. Activities in the FTZs are subject to streamlined import procedures and exemption from import tariffs, and receive tax relief, e.g. value-added tax and reduced corporate tax. Foreign cargo may enter and leave freely from the FTZs. Since Korean goods entering the FTZs are treated as exports, they are entitled to duty drawback. The FTZs are located in several places. Currently, to be qualified to enter the FTZ, more than 50 percent of total sales amount should be exported. The amount of foreign investment should be over 50 million Korean won, i.e. about US$40 thousand, and the ratio of foreign investment should be over 10 percent.

b. Exchange Rate

The Korean won had been pegged to US$ until early 1980. It had been devalued from 190 won/US$ to 255 won/US$ in 1964, to 317 won/US$ in 1970 and then to 399 won/US$ in 1972. The exchange rate had been fixed at 484 won/US$ between 1974 and 1980. Although devaluation (or depreciation) *per se* can be regarded as beneficial to EP, the fact that the Korean economy continued to show trade deficits until the first half of the 1980s imply that exchange rate did not act basically as a measure of effective EP policy. The exchange rate system was changed into the managed flexible exchange rate system in February 1980. Since then the exchange rate was determined basically by the market forces in the foreign exchange market, while the government has intervened in it from time to time to counter volatile exchange rates.

c. Organizations

In Korea, Korea International Trade Association (KITA) and Korea Trade Promotion Corporation (KOTRA) have worked as the institutions helping firms overcoming the export barriers such as the motivational, informational, and operational/resource barriers. KOTRA was established in 1962 as a national trade promotion organization. Since then, it has facilitated Korea‟ s rapid export-led economic growth through various trade promotion activities such as

overseas market surveys and business matchmaking. In 1995, cross-border investment promotion and support for technological and industrial cooperation projects were added to KOTRA‟s mandate, and it was renamed the Korea Trade-Investment Promotion Agency. As of April 2009, there are some 100 Korea Trade Centers in 73 countries **(KOTRA, 2009).** In 2007, total such government promotional expenditure on export promotion amounted to 34 billion won; most of which financed participation in overseas trade missions and exhibitions **(WTO, Trade Policy Review – Korea, 2008).**

6. Outcomes of the Agricultural EPP and its Limitations

One of the previous studies showed that 10 percent increases in the government's support for export logistic costs increased exports by 2.3 percent. In addition, 10percent increases in the government's support infrastructure investments for export can raise export by 4.7 percent in the long run (**Moon 2011)**. This result can be utilized as a guide to agricultural EPP in Korea: progressively expanding support for export infrastructure while gradually reducing support for export logistics in the medium- and long-term.

Agricultural EPP appeared to have effects on increasing production and expanding employment in the national economy. National expenditure for agricultural EPP which was KRW 1.7 trillion during 2008–2010, resulted in net increments of national production of KRW 3.5 trillion of national production and employment of 8.8 thousand three years (**Korea Employment Information Service, 2011).**

Meanwhile, there are some limitations to Korea's agricultural EPP. First, even though the budget for supporting export logistical costs should be reduced due to the financial burdens of the government and negotiation trends concerning the WTO/DDA, there is no alternative measure. Since farmers and exporters want the government to continue to provide support in the future, it is inevitable that the disputes on this issue will persist.

Second, the performance of some projects, such as the Supporting Export Leading Organization, was negligible. This project aimed to support a farm from the production stage to the export stage, but the project was disorganized and other rival farms tended to be opposed to this project. Moreover, in some instances the farms supported by this project participated in dumping sales or low-cost export using subsidies.

Third, there is no alternative measure when a farm violates an export contract. Farmers often canceled contracts when domestic price of the commodity was higher than the contract-price, opting to sell the commodity in the domestic market. In these cases, however, there is no effective means to prevent farmers from violating their contracts.

Finally, as a part of the government's agricultural EPP, the effects of the overseas marketing projects are unsatisfactory since the projects haven't been implemented as accurately and elaborately as originally intended. Farms and exporters that participate in the overseas marketing program may have insufficient information such as that which regards to preferences and the income of local consumers as well, in addition to data on their own purchasing patterns.

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