

## ABSTRACT

The Korean textile industry has been facing more hardship recently than before due to a recent wage hike, an appreciation of the Korean currency, pressures of severe international competition, and a more restrictive quota imposition. In order to overcome these difficulties, there has been a growing awareness of the need to take more measures to shift the production pattern towards high value-added products and small-lot production of multi-products. An efficient quota allocation system can be one way to achieve this given the existence of voluntary export restraints.

This thesis relies on a qualitative analysis as a way of finding efficient allocation systems. As a theoretical basis, it shows that voluntary export restraints lead to incentives for the monopolization of export licences, which may result in barriers to entry to newcomers and the concentration of quotas on a few companies. In order to obtain an international perspective, this paper examines the allocation systems in Taiwan, Hong Kong, and other ASEAN countries. In-depth and inter-temporal investigations concerning Korean allocation regulations are done. Based on these and interviews with concerned groups, evaluations of each clause are made. Among the three existing open quota clauses, the replacement investment, average price, and non-quota export performance clauses, only the non quota export performance criterion has fulfilled its objective.

In addition, this study shows that small and medium companies, specifically medium companies, are likely to be more efficient than big

companies. In order to show this, this study compares the technical efficiency between big companies and small and medium companies by calculating capital productivity, total factor productivity and by using the "survivor technique". However, in reality, the quotas are concentrated on a small number of big companies. Even though this situation has improved recently, there is still room for further improvement. Together with the concentration problem, problems of utilization rates and rent-seeking activities are discussed.

The trade diversification and foreign direct investment which are caused by quantity restrictions and quota allocations are examined. Korean textile companies which conducted foreign direct investment abroad were to some extent specialized or at least "intensive" in the particular products. The motivation of foreign direct investment is shown to be lack of quota quantities by showing characteristics of invested items as well as through interview results.

The conclusions suggest the following policies: there should be specific and realistic measures in favor of small and medium companies, and other measures such as the increase of utilization rates at a high export price and the reduction of rent-seeking activities should be taken.