

CHAPTER 6

CONCLUSION

The Korean textile industry has been facing more hardships recently due to wage hikes, appreciation of the Korean currency, and pressures of severe international competition and protectionism. In order to overcome these difficulties, there has been a growing awareness of the need to do more activities, to change production patterns into high value added products and small-lot production of multi products. A more efficient quota allocation system can be one way to accomplish these ends.

For this purpose, Chapter 2 examined the evolution of MFA which has been in force since 1974. Investigating the changes in arrangements, it becomes clear that MFA has become more restrictive, especially, since 1987, when MFA IV came into effect, by including the natural fibers as restricted items. The amount of restrictions by bilateral agreements differed from country to country and from year to year. Especially, the U.S.A. which was rather liberal in the beginning of the 1980s has become very restrictive since 1987. A review of the literature showed that the quota profits accrue to exporters when VER is administered by the exporting country and quotas are allocated to exporters free of charge. Together with this, VER leads to stronger incentives for the monopolization of export licences, which may result in barriers to entry of new-comers and concentration of quotas on a small number of companies.

In Chapter 3, in order to obtain a perspective on the various types of possible quota allocation systems and their impact in various

economic and political environments, the allocation systems in Taiwan, Hong Kong, and other ASEAN countries were examined. We came to see that the allocation systems differed from country to country and from year to year. One thing that should be noted is the "reallocation" scheme adopted by Taiwan in 1986. This scheme was intended to reallocate basic quotas to the companies which were competitive, but which had small quantities of quotas.

Next, in-depth and inter-temporal investigations concerning Korean allocation regulations were conducted. In addition to these, interviews were conducted with concerned groups, such as government officials, export association members, five big companies, and five SMCs in order to see the real practice and effect of each regulation clause. The basic quotas have been distributed on the basis of past performance since the beginning of MFA. In the case of open quotas, three criteria, replacement investment, average price, and non quota export performance criteria, are enforced now. According to the result of the interviews, only the non-quota export performance criterion was seen to fulfill its objectives. Another special characteristic of the Korean allocation systems are the special clauses in favor of SMCs. It was shown that the quantities of open quotas were distributed to SMCs more than in the past before these clauses were promulgated.

Chapter 4 showed that medium companies are likely to be more efficient for textile industry. In order to support this claim, we look at the efficiency loss due to concentration caused by monopoly. More importantly, we showed that SMCs can play more crucial role in absorbing unskilled labor in the Korean textile industry. It also showed that

SMCs, specifically medium companies, are likely to be most efficient than big or small companies by calculating "total factor productivity" and using "survivor technique". In reality, however, the quotas were concentrated on a small number of big companies in Korea. Even though this situation has improved a little bit recently, it is still a obstacle to the development of medium companies as well as the textile industry. One serious obstacle is that there is not one best way to solve this problem which would please everyone. Besides this concentration, some problems concerning utilization rate and rent seeking activities were discussed.

In Chapter 5, the influence of quantity restriction on trade diversification was analysed by looking at trade performance to each exporting country. Together with this, the trend of textile companies' FDI was examined. It was shown that FDI companies were to some extent specialized or at least intensive in the particular products. In spite of this status, these specialized items' utilization rate and share of basic quota quantities in total quota quantities were high. In other words, they invested abroad to get more quotas as well as to evade quota restriction imposed by developed importing countries. These conclusion were supported by the results of the interviews.

To conclude, there have to be specific and realistic measures instituted to make quota allocation systems fair so that the efficient medium companies can have more access to quotas. Towards this end, the government needs to bear this basic point in mind and implement the necessary policy measures. Without resolute decision on the part of the government to shrug off the influence of the big companies, there would

not be a effective solution. In addition to this, there should be measures to increase the utilization rate at a higher export price and to reduce rent dissipation by rent-seeking activities. Also more measures should be taken for promoting trade diversification and FDI so that textile exports increase continuously.

In order to attain the above objectives, the following measures should be considered :

First, the open quotas should be increased considerably so that SMCs can have access to the quotas more easily. In order to attain this, measures to withdraw portions of the basic quotas which the big companies are currently holding, and to transform them to open quotas should be seriously considered.

Second, there is a guideline in the open quotas clauses, which prevents the entry of big companies. As is shown in Chapter 4, the definition of SMCs in the case of quota allocation regulations is not consistent with the general definition of them. Hence we could not see exactly how much quota allocations were concentrated. Here the definition of them in the quota allocation regulations should be redefined.

Third, in connection with transfer clauses, as was mentioned earlier, the transfer is not made to the SMCs in the real sense. The original quota holder, usually a big company, lends its name to the SMCs so that the original holder can keep the export performance, by which it applies for the open quotas. So the SMCs cannot have the opportunity to enter into the quota market or to get more quotas by using the open quota export performance. Therefore a measure for real transfer which is not just lending big companies, name should be devised.

Fourth, there has to be stimulation for the access of unpopular items by the government. This study showed that most companies are just interested in popular items, so that the quota-utilization rate of unpopular items is rather low. By giving more incentives to SMCs so that they can utilize unpopular items, both governmental support of SMCs and the increase of quota utilization rate can be accomplished.

Fifth, this study showed that rent-seeking activities occurred so that companies could get more quotas. So measures to reduce rent-seeking activities should be considered. These can be applied by decreasing the instability of quota regulation, the strict implementation of open quota criteria and opening the quota transfer market formally for easy access to needy quota quantities.

Sixth, this study showed that FDI could be one way to overcome quota shortage problem. So some measures are required to promote FDI. Since FDI is not prevalent in Korea, it is said that many barriers exist, such as the difficulty of collecting information, and the complication of administrative procedures in order to get the permission of FDI. By removing these difficulties as well as the foreign exchange regulations, FDI can be promoted.

Considering various limitations of this study, the following suggestions for future research can be made:

First of all, more perspectives and implications can be found by investigating the quota allocation system in other countries. It will be desirable to examine the effectiveness of widely used policies or systems in a variety of environments that are believed to be relevant. However, in this study, only the allocation systems in other exporting

countries are introduced. By collecting more information, which probably is written in their mother languages, and analysing their industrial structures and conducting interviews with relevant groups, more useful perspectives can be drawn.

Second, as was mentioned in the introductory chapter, more extensive studies are required to enhance the objectivity of this study. In this study, only five big companies and SMCs were respondents, in addition to government officials and export association members. Therefore, if the sizes of respondent groups were increased, the bias caused by the respondents' subjectivity could be reduced. In order to reduce that of the author, many studies should be conducted and the results should be released in public and be compared to find a optimal solution. For this, the government should release the relevant data which so far have not been made public.

Third, in order to evaluate the effectiveness of open-quota clauses, this study relied mainly on interview results. When investigating the quota allocation in more detail by using specific data, in addition to the interview results, these conclusions could be reevaluated more accurately.