

2013 Knowledge Sharing Program with Dominican Republic: Export Capability Building of the Dominican Industry



2013 Knowledge Sharing Program with
Dominican Republic

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MINISTRY OF STRATEGY
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F&G



Preface

The Knowledge Sharing Program (KSP) with the Dominican Republic stemmed from a 2006 state visit of Dominican Republic President Fernandez to Korea. During the visit, President Fernandez requested that the Korean government share Korea's development experience with the Dominican Republic. Upon this request, the Korean Ministry of Strategy and Finance (MOSF) selected the Dominican Republic as its first partner country for the KSP in Latin America.

During the 6th year of the KSP in 2013, studies were carried out to produce policy recommendations for three subjects: (a) Follow-Up Support in Launching DEXIM and (b) Establishment of Trade Center in DR under the main topic of "Export Capacity Building of the Dominican Industry".

To do this, a Demand Survey & Pilot Study, Interim Reporting and Policy Practitioners' Workshop and a Senior Policy Dialogue and the Final Reporting Workshop were held in Santo Domingo and Seoul.

I would like to take this opportunity to express my sincere gratitude to Project Manager Mr. Sunin Lee, as well as Dr. Jae Jun Han and Dr. Hong Shick Lee for their immense efforts in successfully completing the 2013 KSP with the Dominican Republic. I am also grateful to Mr. Taihee Lee, Director for KSP consultation, Center for International Development (CID), KDI and Ms. Eunji Choi, Senior Research Associate, Division of Development Research, CID for their hard work and dedication to this program. Lastly, I extend my warmest thanks to the Minister Jean Alain Rodriguez, Secretary of State and Executive Director of CEI-RD, local consultants, and other members of the Dominican organization for showing active cooperation and great support.

In your hands is the publication of the results of the 2013 KSP with the Dominican Republic. I sincerely hope these final research results, including policy recommendations on the selected areas, can be fully utilized to help the Dominican Republic in achieving economic development in priority areas in the near future.

Young-Kyo Oh
CEO
Future & the Global

2013 KSP with the Dominican Republic	10
Executive Summary	13

Chapter 1

Follow-Up Support in Launching of DEXIM for Export Credit Capacity Building of the Dominican Republic

Summary	18
1. Introduction.....	19
2. Korea Economic Development and the Role of Development Financial Institutions	21
2.1. Export Promotion Policy in the 1960s	22
2.2. Development Policy of HCI (Heavy and Chemical Industries) in the 1970s	24
2.3. Quasi-Internal Organization	28
2.4. The Role of KDB and KEXIM as Development Financing Vehicles	30
3. Necessity of ECA (Export Credit Agency)	34
3.1. Need for the Establishment of ECA.....	34
3.2. Current Situation of the Conversion of BNVP into DEXIM	35
3.3. Future Policy Task	37
References.....	43

Chapter 2

Establishment of the Trade Center in the Dominican Republic

Summary	46
1. Introduction.....	48
1.1. Purpose of the Study and the Necessity of Establishing the Trade Center	48
1.2. Content and Method of the Study	50
2. Current Economic Status and Characteristics of the Dominican Republic	50
2.1. Current Economic Status of the Dominican Republic and its Shortcomings	50
2.2. Tasks Ahead	53
3. Necessity of Constructing the Trade Center and Korea's Experience	54



Contents

3.1. Trade Center, Trade, and Economic Development	54
3.2. Korea's Experience	58
3.3. Suggestions for Successful Operation of the Trade Center.....	70
4. Financing for the Constructing the Trade Center.....	76
4.1. Estimate of Necessary Budget	76
4.2. Suggestions and Expected Effect	77
5. Conclusion	81
References.....	83

Contents | List of Tables

<Table 1>	Construction of the Study	11
-----------	---------------------------------	----

Chapter 1

<Table 1-1>	Mobilization of NIF by Source	25
<Table 1-2>	NIF Loans Funded by Bank	26
<Table 1-3>	NIF Loan Ratio Relative to Other Financial Institutions	26

Chapter 2

<Table 2-1>	Economic Indicators of the Dominican Republic	51
<Table 2-2>	FOB Exports	52
<Table 2-3>	Korea's Trade Trend (1960~2008).....	59
<Table 2-4>	Present Condition Comparison of Seoul Food Convention	61
<Table 2-5>	Record of Group Participation in International Exhibitions	62
<Table 2-6>	Training Expense Weight Trend	63
<Table 2-7>	Use of E-Trade and Its Contribution to Export Enlargement	64
<Table 2-8>	Export Status of Major Trading Goods	65
<Table 2-9>	Five Major Import Countries of the Dominican Republic (FOB based).....	65
<Table 2-10>	Contribution of Travel & Tourism to Economy	67
<Table 2-11>	Spending and Length of Stay of Exhibition & Convention Participants	73
<Table 2-12>	Total Costs.....	76
<Table 2-13>	Establishment of Goyang International Exhibition Center (KINTEX)	78
<Table 2-14>	Number of Exporting Companies Based on Their Scope.....	79

Contents | List of Figures

Chapter 1

[Figure 1-1] The Trend of Export and Import of Korea	27
[Figure 1-2] DEXIM Development Strategy	39

Chapter 2

[Figure 2-1] Export of Goods and Services–the Dominican Republic (FOB(Free on Board) based) ...	52
[Figure 2-2] Income Increase due to Opening of the Economy	55
[Figure 2-3] Ripple Effect of Exhibition Industry.....	56
[Figure 2-4] Domestic Food Manufacturing Industry Output	61
[Figure 2-5] Growth Trend of Korea’s Exhibition Industry	62
[Figure 2-6] Trend of Income Earned from Tourism	66
[Figure 2-7] Conceptual Diagram of Trade Academy.....	68
[Figure 2-8] CER-RD Organization	75



Abbreviations and Acronyms

CEI-RD	Center for Export and Investment of the Dominican Republic
DEXIM	Dominican Export-Import Bank
ECA	Export Credit Agency
KDB	Korea Development Bank
KEXIM	Korea Export-Import Bank
HCI	Heavy and Chemical Industries
IBK	Industrial Bank of Korea
MOSF	Ministry of Strategy and Finance
BNVP	Banco Nacional de la Vivienda y la Produccion
NIF	National Investment Fund
QIO	Quasi-Internal Organization
EDCF	Economic Development Cooperation Fund
NPL	Non-Performing Loan
GCMS	Gas Chromatography/Mass Spectrometer
LCMS	Liquid Chromatography/Mass Spectrometer
HACCP	Hazard Analysis Critical Control Point
GMP	Good Manufacturing Practices
CA	Current Account
EDCF	Economic Development Cooperation Fund
COEX	Convention & Exhibition Center
KINTEX	Korea International Exhibition
KOTRA	Korea Trade-Investment Promotion Agency
KITA	Korea International Trade Association
KOPS	KOTRA Online Payment Service
KTNET	Korea Trade Network
AILA	Las Américas International Airport
CPI	Corruption Perceptions Index
CDEOPEX	Dominican Republic Export Promotion Center
OPI-RD	Investment Promotion Administration
EDCF	Economic Development Cooperation Fund



2013 KSP with the Dominican Republic

Yeon Joo Kim (Program Officer, Future and the Global)

The Knowledge Sharing Program (KSP) with the Dominican Republic began in June 2006, on the occasion of the state visit of President Fernandez of the Dominican Republic to Korea. During this visit, President Fernandez requested that the Korean government share Korea's development experience with the Dominican Republic. The Korean Ministry of Strategy and Finance (MOSF) selected the Dominican Republic as the first partner country for KSP in Latin America.

The 2013 KSP with the Dominican Republic has reached its sixth year since 2008. In KSP I (2008), a comprehensive policy advisory service was conducted for export development policy of the Dominican Republic. For KSP II (2009), policy advisory services concentrated on construction of structural infrastructure in order to improve social overhead capital for export promotion and modernization of the power system. For KSP III (2010), policy advisory services on export financing were provided to support establishment of an Export Credit Agency in the Dominican Republic.

In order to support the establishment of DEXIM, KSP IV (2011) built up export credit capacity and shared Korea's experience in export industry promotion. The Dominican government tried to enact a special law for the establishment of the Dominican Export-Import Bank (DEXIM). For KSP V (2012), policy advisory service focused on Export Credit Capacity Building and Export Industry Promotion for the Dominican Republic in four areas: (a) Export Credit Capacity Building, (b) Establishment of the Agro-food Innovation Center, (c) Establishment of National Innovation University, and (d) Digital Contents Industry Promotion in the Dominican

Republic.

For KSP VI (2013), on the basis of the request of the Dominican government and discussions between the two countries, 2 subjects under the main topic of “Export Capacity Building of the Dominican Industry” were chosen.

〈Table 1〉 Construction of the Study

Consultation Subjects	Korean Researchers	Local Experts
(a) Follow-Up Support in Launching of DEXIM for Export Credit Capacity Building of the Dominican Republic	Dr. Jae Joon Han	Ms. Maricell Silverstre Rodriguez
(b) Establishment of the Trade Center in the Dominican Republic	Dr. Hong Shick Lee	Mr. Gustavo A. Díaz
Role	Name	
Senior Advisor	Mr. Young Kyo Oh	
Project Manager	Mr. Sunin Lee	
Program Officer	Ms. Yeon Joo Kim	

In order to survey more detailed high-level demands for the 2013 KSP and research the current situation of the Dominican Republic regarding the three subjects, a delegation headed by Mr. Sunin Lee (Vice Chairman of F&G) visited Santo Domingo from Aug. 11th to 17th.

The delegation visited Export and Investment Center of the Dominican Republic (CEI-RD), a counterpart organization, to discuss the details of the 2013 KSP, as well as the National Bank for Housing Development and Production (BNVP) and Universidad ISA (ISA).

The delegation communicated to the relevant officials at CEI-RD what KSP is and how KSP with the Dominican Republic has been implemented since 2008. Respective presentations of the subject were made by both countries to discuss the direction of study and to exchange information on the current situation, as well as providing insights based on Korea’s development experience related to the subjects.

As for the local experts, the delegation interviewed the candidates recommended by CEI-RD, and decided to employ three local experts as consultants for their respective subjects based on the interview. It was agreed that the local experts would be tasked with collecting relevant and requested local data and information, as well

as providing assistance in analyzing the current situation of the Dominican Republic.

For the Interim Reporting and Policy Practitioners Workshop, four members of the Dominican delegation, led by Hon. Jean Alain Rodriguez, the president of CEI-RD, were invited to Korea from Feb. 16th to 21th, 2014. During the Interim Reporting session which was held on Feb. 16th at Lotte Hotel, the interim report of the respective subjects were presented by Korean researchers for 20 minutes, and the presentation and comments were made by the Dominican representatives for 10 minutes on each topic. The Dominican delegation had an interview with Mr. Young-Kyo Oh, Senior Advisor, to fully comprehend the implications of the export promotion policies which the Korean government implemented in the 1970s and early 1980s when Korea had an economic development situation similar to that which the Dominican Republic is currently facing. The delegation also visited the Korea Packing Center (KPC) and signed an MOU to improve packing skills in the Dominican Republic with Jin Kie Shim who is the Director of the KPC for mutual cooperation. The Dominican delegation made field trips to Korea Eximbank, COEX and Lotte chocolate factory. They met the Vice Minister of Ministry of Trade, Industry and Energy to discuss ways to strengthen bilateral economic relationship between the two countries. Reciprocally, the Dominican delegation held an investment seminar to attract Korean investment into the Dominican Republic at KOTRA (Korea Trade-Investment Promotion Agency).

For the final Reporting Workshop and Policy Dialogues which were held from April 20th to 26th in Santo Domingo, a delegation of seven members led by Mr. Young Kyo Oh, Senior Advisor, visited the Dominican Republic. At the workshop, Korean researchers explained the final results of their study and policy recommendations on the respective subjects and the Dominican experts presented status situations for each topic separately. In addition to the workshop, the Korean delegation paid a courtesy call to Mr. Luis Ramón Rodríguez Peña, the Minister of Agriculture and Mr. Jose Manuel Del Castillo Savinon, the Minister of Industry and Commerce individually with whom sincere discussions on the ways to encourage bilateral economic and industrial relationships were carried out. The Korean delegation also visited BNVP for better understanding on the situation which Dominican organizations are undergoing. These understandings on the organizations and status situation presented by Dominican experts were reflected in this report and policy recommendations.

Executive Summary

Sunin Lee (Future and the Global)

The 2013 Knowledge Sharing Program (KSP) with the Dominican Republic focused on three subjects under the main topic of “Export Capacity Building of the Dominican Industry”.

Research findings and policy recommendations for the two subjects are presented below.

1. Follow-Up Support in Launching of DEXIM for Export Credit Capacity Building of the Dominican Republic

As a result of KSP’s consulting on export credit capacity building and the effort of Dominica government (Center for Export and Investment of the Dominican Republic, CEI-RD), the launch of DEXIM is expected to be fulfilled. To pass the last hurdle of congressional persuasion, CEI-RD requests Korea’s development experience, the government role in export promotion, and practices of KEXIM for a logical background of DEXIM establishment. It is well known that President Chung-Hee Park, having laid the foundation of current Korea economic development, pursued the 5-year plans of economic development four times during his presidency and especially selected several HCIs in his second 5-year plan (1967-71) of economic development and fully committed to the development of those HCIs, which are steel industry, various mechanical industries, petroleum chemical industry, and heavy chemical industry. This laid the foundation of current companies such as Samsung, Hyundai, and LG who own semiconductor, heavy, and shipbuilding industry, vehicles, and a

house appliances company. During this 1960-80 era, funding for Korea's economic development mainly came from the development financial institutions, which the state owned or at least governed. Particularly, KDB was in charge of funding of long-term facility investment in HCIs, and KEXIM was focused on the deferred payment based export industry in order to improve exporters' competitiveness against the world market. The two institutions successfully performed their own supporting roles. In this context, with the Dominican Republic pursuing economic development through export industry promotion, the establishment of DEXIM is undeniably necessary.

Meanwhile, the Export-Import Bank of Dominica (DEXIM), to be launched in 2014, has three short-term tasks that must be urgently addressed. Firstly, DEXIM needs to increase the amount of loans based on either letters of credit or past export record, rather than loans based on collateral. Secondly, DEXIM needs to increase loan volume per loan application and in order to do so, it has to secure its own funding in advance. Thirdly, DEXIM needs to determine loans by itself rather than via commercial bank branches. In addition, by carefully watching the increasing trend of export credit demand for the next 2~3 years, DEXIM needs to gradually pursue the following mid- and long- term tasks. Firstly, DEXIM needs to introduce various financial export- and import-credit services. Secondly, improvement process for credit and risk managements needs to begin. Thirdly, considering the current trends of increasing trade transactions without L/C and default possibility of counterparty, DR needs to prepare export insurance.

2. Establishment of the Trade Center in the Dominican Republic

As stated in the '2010-2030 National Development Plan of the Dominican Republic', economic development through export enhancement is one of the primary goals of the country. Accordingly, this paper aims to emphasize the necessity of constructing the Trade Center and demonstrate the theoretical basis for its appropriateness. Furthermore, the role of the Trade Center in promoting export, application of Korea's know-how on the operation of the Trade Center, and fund raising methods will be discussed.

Referring to Korea's experience, the trade center is expected to bring enlargement of export by holding exhibitions and expositions, installing trade academies, and establishing an integrated E-trade system. Since the Dominican Republic currently has an absence of permanent exhibition centers, limited exhibition space, and inefficient operation system, a Trade Center that can secure adequate exhibition space and systemically support exhibitions is in dire need of construction.

In effect, Korea's COEX aided Korean government-led conglomerate-centered

export policies and nurtured export of small and medium-sized companies to advance export industry. It has contributed to Korea and its products becoming acknowledged internationally and supported domestic firms to advance into international markets. In this regard, the Dominican Republic should also prepare measures that can contribute to its economic development: opening of exhibitions and expositions, establishment of a trade academy, and construction of an integrated E-trade system. In constructing the Trade Center, the Dominican Republic should put the followings into consideration:

First, the Trade Center's location should provide the greatest accessibility to potential foreign buyers to maximize short-term and long-term accomplishments. Since this is directly connected to the effectiveness of a self-finance strategy in constructing the Trade Center, current transportation infrastructure, nearby resort town, or industrial base should be taken into consideration before selecting the right venue. Santo Domingo, the capital city of the country, seems to satisfy all the required conditions.

Second, previously mentioned strategy to enhance accessibility for potential foreign buyers must be practiced synchronically with industrial policies of the Dominican Republic, that is, the Dominican Republic should develop a Trade Center establishment strategy that can be practiced along with its food commodities industry and tourism industry, both of which possess comparative advantage.

Lastly, for transparency in managing the Trade Center, management authority should reside in an independent organization (tentative name: Trade Promotion Agency), not in the Dominican government. Comprehensive roles of the Trade Center, which include trade academy, supply of E-trade, and trade information center, would be achieved through systematic approach of the Trade Promotion Agency. The Trade Promotion Agency would prevent possible corruption and opacity during the establishment and operation of the Trade Center.

2013 Knowledge Sharing Program with
Dominican Republic: Export Capability Building
of the Dominican Industry

Chapter 1

Follow-Up Support in Launching of DEXIM for Export Credit Capacity Building of the Dominican Republic

1. Introduction
2. Korea Economic Development and the Role of Development Financial Institutions
3. Necessity of ECA (Export Credit Agency)

Follow-Up Support in Launching of DEXIM for Export Credit Capacity Building of the Dominican Republic

Jae Joon Han (Inha University)

Summary

As a result of KSP's consulting on export credit capacity building and the effort of the Dominican government (Center for Export and Investment of the Dominican Republic, CEI-RD), the launch of DEXIM is expected to be fulfilled.

According to the Korean economic development experience, in order to lead stable economic growth of the Dominican Republic, it is necessary to promote its export growth, and the role of ECA in the arena of financial support is essential. Looking back on the Korea's development periods of 1960~80, the role of development financial institutions such as KDB (Korea Development Bank) and KEXIM (Korea Export-Import Bank) was very crucial to support the government's two key policies of export promotion and HCI development, and thus to achieve economic growth.

The former President Chung-Hee Park, well-known as laying the foundation of Korea's economic development, adopted the policies of finance guidance and import control in order to promote export. In particular, he reverted the ownership and authority over personnel of financial institutions to the state and used this as a tool to make entrepreneurs cooperate with the government policy. The government established specialized financial institutions such as KDB, KEXIM and IBK (Industrial Bank of Korea) and made the state-owned banks financially support export promotion.

Also, the former President Park, having pursued the 5-year plans of economic development four times, selected several HCIs in his second 5-year plan (1967-71) of economic development and fully committed to the development of the HCIs, which are the steel industry, various mechanical industries, petroleum chemical industry, and heavy chemical industry. This laid the foundation of such current companies as Samsung, Hyundai, and LG who own semiconductor, heavy and shipbuilding industry, vehicles, and house appliances companies.

During this 1960-80 era, funding Korea's economic development mainly came from development financial institutions, which are state owned or at least governed. Particularly KDB was in charge of funding long-term facility investment in HCIs and KEXIM was to the deferred payment based export industry in order to improve exporters' competitiveness against world market. The two institutions performed their own supporting roles successfully.

Especially in the second half of the 20th century, developing countries as well as South Korea in achieving economic development have used tax credit and support through financial institutions as a means of industrial policy toward external competitors. And ECA has been at the center of such financial support. In this context, for Dominica pursuing economic development through export industry promotion, the establishment of DEXIM is undeniably necessary.

Now, the 2014 launching Export-Import Bank of Dominica (DEXIM) has three short-term tasks to be addressed urgently. Firstly, DEXIM needs to increase the amount of loans based on either letters of credit or past export record, rather than loans based on collateral. Secondly, DEXIM needs to increase loan volume per loan application and, to do so, it has to secure its own funding in advance. Thirdly, DEXIM needs to determine the loan by itself rather than via a commercial bank branch. In addition, after carefully monitoring the increasing trend of export credit demand over 2~3 years, DEXIM needs to gradually pursue mid- and long- term tasks suggested at the end of this paper.

1. Introduction

The KSP for the Dominican Republic began in June 2006, on the occasion of the site visit of President Fernandez of the Dominican Republic to the Republic of Korea. During his visit, President Fernandez requested that the Korean government share Korea's development experience with the Dominican Republic. The Korean Ministry of Strategy and Finance (MOSF) selected the Dominican Republic as the first beneficiary country for the Knowledge Sharing Program (KSP) in Latin America. To the current time, the KSP for the Dominican Republic has been carried out six times

in the following programs.

For KSP I (2008), a comprehensive policy advisory service was carried out for the export development policy of the Dominican Republic. For KSP II (2009), policy advisory services concentrated on the construction of structural infrastructure in order to improve SOC for export promotion and modernization of the power system, among others. For KSP III (2010), efforts were concentrated on the export financing sector in order to support the establishment of an Export Credit Agency (ECA) in the Dominican Republic. The Dominican government began the process of enacting a special law for the establishment of the Dominican Export-Import Bank (DEXIM). As for KSP IV (2011) and V (2012), given that the DR government was found to desire to build its capacities and competitiveness of employees for export credit tasks and to learn Korea's experience and know-how in export industry promotion, both rounds were designed to focus on "Export Credit Capacity Building and Export Industry Promotion for the Dominican Republic".

This study began to provide theoretical support and justification of a DEXIM reform act submitted to the financial authorities (Monetary Policy Committee) and congress to expedite the launch of DEXIM.

At the first site visit of Korea's delegation team in August 2013, it was confirmed that the reform bill has made significant progress with the Monetary Policy Committee. Moreover, CEI-RD showed more interest in learning Korea's development experience, the government's role in export promotion, and practices of KEXIM for the future management plan for DEXIM.

According to the experience of Korean economic growth, it is necessary to promote exports and to launch DEXIM as an export credit institution solely dedicated to pursue stable economic growth. As the rationale, the 1960-1980 experience of Korea's economic development, the roles of Development Bank (KDB) and the Export-Import Bank (KEXIM) during the period are desirable to be illuminated.

Meanwhile, at the time of the Dominican delegation's site visit to Korea in February 2014, the current President Danilo Medina officially announced the establishment of DEXIM, and called a bill for DEXIM enactment to be processed in Congress during 2014. Thus, DEXIM is expected to be formally launched at that time.

This means that export promotion preparation from the Dominican government is almost finished. On the other hand, the problem is that BNVP (renamed to BANDEX in the future) which will be in charge of export credit facility seems to have a lack of operative ability. Considering the previous lending behavior of BNVP as well as the other financial institutions in the Dominican Republic, most loan provision was

collaterally-oriented and financial support of exporting firms was too weak. In fact, most of BNVP loans are secured and among BNVP's total loans, the ratio of export credit supplied based on a letter of credit is too small. Thus, in the future, switching the process of the current BNVP into effectively active export credit facility will be another challenge. Given the current status of the BNVP, the short-term and long-term tasks for improvement of export credit supply will be provided later in the report.

2. Korea Economic Development and the Role of Development Financial Institutions

To explain the sustained high growth of Korea since the late 1960s, we should examine how the Korean government intervened to lead economic growth rather than how a free market mechanism worked in the developing country. There are major controversies surrounding this government intervention. Krueger (1985) and other neoclassical economists have argued that the government actions in the early 1960s such as devaluing national currency and adopting export-oriented policy worked to help the market function. They argued that export-oriented policy, unlike import-substitution with infant industry protection, is inherently procompetitive and allows market-based incentive system such as performance-based support. On the other hand, interventionists such as Amsden (1989) and Wade (1990) argued that the Korean government's reform in 1960s was accomplished by ignoring market signals and intervening too frequently in the name of upgrading the market through subsidies, tariff, administrative guidance, public entity, and credit allocation. The truth would lie in between these two extreme views.

To understand the government role in the early 1960s, we should look back on the economic situation of Korea at that time. Less than ten years after the devastating Korean War, the situation in the late 1950s was very unfavorable in every aspect of growth except the presence of abundant labor and rapid population growth; actually Korea at that time had a high unemployment rate with large number of underemployed farmers. Furthermore, the so-called "import substitution strategy" with the Korean won being set overvalued, a trendy development strategy at that time, was pursued for growth of light industry. However, the result was severe macroeconomic instability.

After taking over the government in 1961, President Chung-Hee Park and his military regime gave a priority to economic growth. Export was the one and the only way to earn foreign exchange and to create jobs for Korea, which had minimal natural resources to sell. Thus, the government removed the anti-export bias and aligned its policy towards export promotion. Based upon that, the Korean won was

devalued in 1964-65, and was flexibly maintained. Along with trade policy reform, the Korean government institutionalized export subsidizing administrative tools and coordinated investment through allocation of scarce foreign exchange and financial credit distribution in order to promote corporate export. As a consequence, coupled with a coincidental global trade boom, Korean exporters could find competence in the trade market based on comparative advantage of labor-intensive products.

President Park's government laid the foundation for economic growth in Korea today. The economic development policies at the time are summarized into various support for exports and industrial policy for industry-specific development. To this end, the government adopted guidance policy of nationalizing financial institutions and controlling imports. Thus the government directly involved itself in distributing investment funds while maximizing the mobilization of funds.

In the 1960s, ownership and authority over personnel affairs of financial institutions were reverted to the government and specialized development financial institutions were established. In the 1970s, the industrial financial system and long-term facility finance were expanded. More than anything else, funds were concentrated on five major heavy and chemical industries including steel, machinery, electronics, shipbuilding and petro-chemistry as well as major export businesses.

In the following discussion, we will look at the typical policy of export promotion in the 1960s, development policies of the heavy and chemical industries in the 1970s, moderating QIOs (Quasi-Internal Organizations) between the government and major conglomerates for the realization of export promotion, and the Korea Development Bank (KDB) and the Export-Import Bank (KEXIM) to perform the leading roles of economic growth and export promotion respectively.

2.1. Export Promotion Policy in the 1960s

As a new president, Park proclaimed that economic development would be a key agenda of his administration as he well understood that economic success would be important in legitimizing his seizure of power. Thus his orientation at that time was far from a free market and he made several mistakes in his pursuit of economic development. However, he and his aides managed to adopt active export promotion and this later turned out to be the important reason for their success.

Initially when he took the presidency, he pursued export promotion policy in order to cope with the rapid depletion of foreign exchange reserves. The declining reserves were partially due to the large repayment of short-term commercial loans raised in 1962~1964 to finance the first five-year economic development plan (1962-1966). To cope with the depleted foreign exchange reserves problem, in January

1963, Park decided to introduce an export-import link system to give exporters the right to import foreign goods equal to the full value of exports. Also he allowed the right to import to be transferred to a third party in order to incentivize the exporting firm furthermore. Secondly, the government depreciated the Korean won value to half of its previous level to promote export further in 1964~1965. A new exchange regime announced in May 1964 consolidated previous multiple fixed rate into a single rate, and together the value of won was depreciated by roughly half from 130 to 255 won per dollar.

The government, meanwhile, established a comprehensive and consistent export incentive scheme phasing out various ad-hoc export subsidies and the temporary export import link system. Key measures were ① export credits that were automatically extended to exporters who brought letters of credit, ② tariff exemptions on imports of intermediate inputs, ③ domestic tax exemptions on intermediate input imports and exports, ④ accelerated depreciation of fixed assets in major export industries, and ⑤ importer registration conditional on export. Also, the government increased funding to exporting firm by enlarging the category of exporting firm and by expanding the support from the Bank of Korea. As a result, export credit share in total bank credit rose from 4.5% in 1961~1965 to 7.6% in 1966~1972 and then to 13.3% in 1973~1981. The export-credit interest rate was kept at a low level, and thus, the difference from the general interest rate was maintained 17% points lower in 1966~1972 during the high-interest period.

Meanwhile, the above export promotion incentives were arranged in tune alert by export target system and monthly export promotion meetings presided over by the President. The export target is a target the government sets in annually-expected outlook of total export volume by aggregating individual companies' reported estimates of their export volume. Based on these figures, the government then arranges export-related financing and expansion of social infrastructure facilities and mobilizes other supporting tools in order to achieve the target. On the other hand, the exporting firm could request its loan from a financial institution using the same figures aggregated by the government.

A monthly export promotion meeting is a meeting in which government officials and business representatives together tried to identify emerging bottlenecks and constraints that impeded export performance and devise solutions to these problems. Subsequent meetings monitored progress. Above all, this meeting plays a role of coordinating different ministries in the government toward export promotion as well as informing the nation of the president's main concern. In addition, the Korea Traders Association and the Korea Trade Promotion Agency (KOTRA) were launched. KOTRA took responsibility of establishing overseas networks, helped the marketing processes of domestic firms and gathered overseas market information.

2.2. Development policy of HCI (Heavy and Chemical Industries) in the 1970s

The former President Park fully committed to HCIs (steel industry, various mechanical industry, petroleum chemical industry, and heavy chemical industry) in order to develop them in his second five-year plan (1967-71) of economic development. This laid the foundations of current companies including Samsung, Hyundai, and LG who own semiconductor, heavy and shipbuilding industry, vehicles, and house-appliance companies. In his first attempt of the first five-year plan of economic development, the president pursued import-substitution-oriented industrialization. However, entering the second Five-year plan of economic development, the president started to change the direction of the development policy into a more long-term development strategy in order to secure Korea's own expertise in export industry. The promotion of HCIs had been pursued in earnest since 1973 when HCI promotion committee was established, which was the beginning of the third five-year plan.

2.2.1. Promotion Background

The following reasons have been suggested for the necessity of upgrading industrial structure; ① searching break-throughs of vulnerable foreign-dependent economic structure, ② strengthening the inter-linkage effect between light and heavy industries, and ③ development of high value-added export products. After considering all these points, the government at that time decided to promote HCIs

On the other hand, the Korean government also put substantial efforts into decreasing economic-infrastructure shortages. Particularly, the government set the priority on the construction of a petrochemical complex and an integrated iron and steel mill plant. Construction began in 1969 and 1970, respectively. As the supply of electric power came to exceed demand in the mid-1960s, the government started to expand electric power production. At the outset of the 1970s, road construction was spurred to ease transport difficulties. Thus major expressways, i.e., Seoul-Incheon, Seoul-Busan and Honam Expressways were opened in 1968, 1970 and 1973 respectively.

2.2.2. Supporting Policies of HCI

The Korean government took various measures to support HCI. In particular, it provided long-term credits and tax incentives to selected industries, established and expanded vocational schools and training centers to supply skilled manpower, and created government-funded research institution to carry out R&D activities. Among these measures, the key item was credit support. By controlling all financial sectors,

the government could supply a vast amount of direct credits with low interest rates and share investment risks with private corporations. In particular, the National Investment Fund (NIF), established in 1974, played an important role in allocating fund in HCLs. Banks, insurances and public funds were also required to provide a certain portion of their own funds to NIF. During the beginning period of the NIF establishment, banks were required to set aside 10~30% of the increase in deposits, insurance companies to deposit 40~50% of total premium collection, and public pension funds to deposit 90% of their spare cash. In 1974~1981, these sources accounted for 74%, 14%, and 12% of NIF funding, respectively.

The NIF released these funds in turn to financial institutions at the lowest interest rates (on average 5 percentage points below the rates of general bank credits before 1982) for very long periods (8-10 years depending upon cases). In 1974-1991, 80 percent of the lending was assigned to specialized banks (including development banks), 17 percent to commercial banks, and 3 percent to regional banks.

(Table 1-1) Mobilization of NIF by Source

(Unit: Billion won, %)

Year	Public Funds	DMB*	Insurance Companies	Total
1974	11.5 (16.5)	41.0 (58.7)	17.3 (24.8)	69.8
1975	28.3 (16.3)	99.8 (47.4)	45.8 (26.3)	173.9
1976	53.6 (15.6)	208.8 (60.6)	82.1 (23.8)	344.5
1977	99.0 (18.9)	317.2 (60.6)	107.0 (20.5)	523.2
1978	153.6(18.5)	528.8 (63.8)	145.8 (17.6)	828.3
1979	218.0 (18.1)	802.0 (66.5)	185.1 (15.4)	1,205.2
1980	309.4 (21.1)	922.5 (63.0)	233.1 (15.9)	1,465.0
1981	385.0 (20.7)	1,226.0 (65.8)	251.4 (13.5)	1,862.4
1982	422.4 (17.4)	1,739.7 (71.7)	263.4 (10.9)	2,425.5
1983	462.5 (16.7)	1,925.5 (69.5)	382.5 (13.8)	2,770.5
1984	273.0 (9.4)	2,159.5 (74.4)	469.2 (16.2)	2,901.7
1985	185.2 (6.4)	2,261.0 (77.8)	459.2 (15.8)	2,905.4
1986	116.4 (4.2)	2,321.3 (83.2)	352.0 (12.6)	2,789.7
1987	103.5 (3.9)	2,268.8 (86.4)	254.0 (9.7)	2,626.3
1988	109.6 (4.3)	2,297.3 (89.3)	165.8 (6.4)	2,572.7

Note: Outstanding at the end of each year. DMB represents KDB, KEXIM, and IBK

Source: Bank of Korea, Overview of the National Investment Fund (1989)

〈Table 1-2〉 NIF Loans Funded by Bank

(Unit: Billion won, %)			
Year	1974~1981	1982~1991	1974~1991
Specialized Banks	2,038(81.9)	3,958(79.3)	5,992(80.2)
KDB	1,535(61.8)	1,603(32.1)	3,138(42.0)
KEXIM	208(8.4)	805(16.1)	1,013(13.6)
Others	291(11.7)	1,552(31.1)	1,841(24.6)
Commercial Banks	4.5(16.3)	851(17.1)	1,256(16.8)
Local Banks	46(1.9)	182(3.6)	228(3.1)
Total	2,484(100.0)	4,991(100.0)	7,474(100.0)

Source: Bank of Korea, National Investment Fund Statistics (1974-91)

In 1974-1981, 62 percent of NIF loans were allocated to KDB and the NIF loans held 57 percent of total equipment loans. This share picked up to 70 percent in the late 1970s as big HCI complexes were being built.

Meanwhile after entering 1982, the KDB's portion in NIF loan dropped drastically while those of KEXIM and other specialized banks rose sharply. This is mainly because the supporting target of NIF's equipment funding changed from a particular and a small number of entrepreneurs into anonymous and wide SMEs.

〈Table 1-3〉 NIF Loan Ratio Relative to Other Financial Institutions

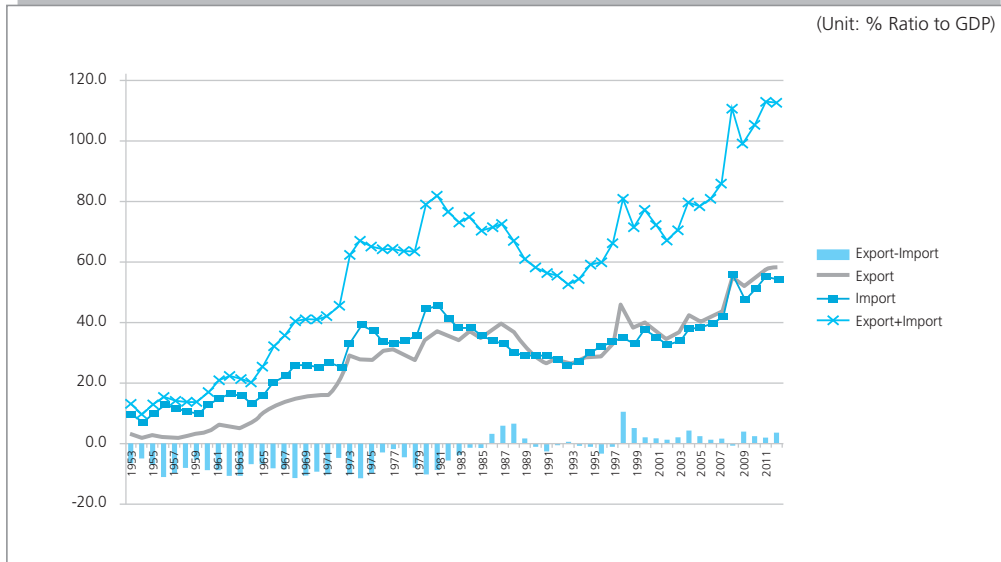
(Unit: %)		
Year	NIF total loan / Total financial institution's loan	NIF facility loan / Total financial institution's facility loan
1974~1981	18.4	56.8
1982~1991	14.4	37.0
1974~1991	16.2	45.8

Note: Outstanding at the end of each year. Financial institution includes depository institution and KDB.

Source: Kim Joon-kyung (1993)

Thanks to the above various government export support measures, rapid growth of world economy and subsequent increase in trade volume, and accumulated human capital in Korea, exports increased sharply. The ratio of export to GDP rose from 6% in 1960 into 11.9% in 1966 and then kept rising to 29.3% in 1973, and to 34.0% in 1980. Also trade dependency ratio, export plus import ratio to GDP, kept rising from 20% in 1960 into 32.3% in 1966, 62.3% in 1973 and then 78.9% in 1980.

[Figure 1-1] The Trend of Export and Import of Korea



Source: Bank of Korea ECOS (<http://ecos.bok.or.kr>)

The Korean government's export promotion policy was built through an open-door policy rather than import substitution and trade barriers with the exception of the first five-year plan. In conclusion, this is interpreted as bringing a virtuous cycle of economic development.

Market opening with the introduction of international trade is known to produce the following multiple benefits. Firstly, the international trade enhances the division of labor while multiple countries find their own specialties in the process of comparative advantage. Secondly, expanded market size in trade helps producers and consumers to make the most benefits from economies of scale. Thirdly, severe competition pressure from internationally competing producers reduces inefficiency and prompts investment in productivity enhancing capital goods and innovation (OECD [2007]).

Furthermore, Korean exporters who should earn foreign exchange in the process of importing raw materials and then finding attractive export items discovered a comparative advantage product through economies of scale. A series of these processes becomes a driving force for survival against the world market. In this process, exporters also consequently gained knowledge of manufacturing, marketing and other several hands-on-background practices from advanced countries. This education was a very precious experience to Korea in early economic development stages.

Rodrik (1995) evaluates the government's industrial investment strategy as a key factor for Korea's rapid economic growth rather than export promotion policy strategy. However, this paper evaluates that both export and investment policies are crucial and inseparable to high economic growth rather than only one of two policies being crucial to economic growth.

2.3. Quasi-Internal Organization

In the case of Korea, until the mid-1980s, company's financing through equity or debt was not easy because the capital market system was neither equipped nor active. Thus, early in 1960, the governmental control on banking and subsidy system was a powerful means to induce South Korea's companies to move toward economic growth targets set by the government. Companies complying with the government policy were provided necessary funds through such credit allocation mechanism, while companies which did not comply with the government policy were imposed a penalty for their own investing activities. Such mechanism worked in decreasing privately-interested investment incentives. The implementation of these policies in a changing market environment at home and abroad was made through QIO (Quasi-Internal-Organization), such relationships were maintained through a channel of a discussion group (Korea International Trade Association) and facilitated a more direct exchange of information than was possible across markets.

In particular, the Korean government created a hierarchical-relationship of QIO between government and a few numbers of chaebols. QIO mimicked the internal capital market of a large multi-unit corporation in a developed country and was efficient in overcoming the capital market imperfections. The internal organization made of both government and chaebols in Korea is called a Quasi-Internal Organization (Lee 1992) in order to distinguish it from the private corporation.

QIO member firms had achieved their own growths rapidly in return for cooperating with the government goal. In short, QIO works as a nexus for a set of implicit contracts. An example of such a contract was the routine allocation of preferential credit to QIO member firms but not to other SMEs. In 1960~1970s, the Korean government took a dual approach towards a relatively small number of chaebols in QIO versus a relatively large number of SMEs (small and medium-sized enterprises). In 1975-78, the top 50 and 100 listed firms accounted for 52.9 percent and 73.9 percent of the total sales volumes of listed corporations, respectively.

In some cases, the relationship with chaebols was more direct relative to that with numerous SMEs. Thus, the relationship at that time was interpreted as a kind of partnership in which the government was a senior partner while the enterprises were junior partners (hierarchical organization, Jones and Sakong 1980). In particular,

the government used various measures including auditing the balance sheets of targeted enterprises, close monitoring of the use of government-allocated credit, governmental control of the banking system and access to subsidized credit by these enterprises especially in the absence or underdevelopment of bond and equity markets, and severe penalties were imposed in the case of chaebol infraction.

Williamson (1975) indicates two following characteristics as the advantages of the QIO. First, due to its hierarchical structure which allows the specialization of decision making and economization of communication costs, QIO is able to extend the boundaries of rationality. Second, QIO is able to reduce uncertainty by coordinating the decisions of each interdependent unit when unforeseen contingencies occur.

Chandler, Jr. (1977) diagnoses that there exist several structural similarities between QIO and the modern multi-unit corporation including that the activities of its subdivision units and transactions among them are internalized and that these units can be monitored and coordinated within their own boundary instead of going to a market mechanism. Given this similarity and the efficiency of organization, it follows that QIO can be as efficient in achieving its objectives of developing the Korean economy as General Electric, for example, in making profits.

Meanwhile, there is an obvious dilemma in that QIO member companies have incentives to take advantage of granted preferential credit in their own interests rather than to use it for Korean economy development. The Korean government overcame this weakness by not defining the boundary of this internal organization with a legal term, instead the government flexibly changed the membership, i.e., eligibility, from time to time according to the participating firm's previous performance. Also for QIO, the question might arise as to whether or not there is a mechanism that could correct an inefficient allocation. In the case of a private firm, the choice of a wrong product or technology may lead to its bankruptcy. In other words, market competition only allows the survival of those firms which choose the right products. In the case of Korea QIO, externally determined export product price, which is a consequence of an outward-oriented development strategy, ensures the survival of an efficient firm. This is so because export product prices were determined by markets abroad and the price determination was beyond the government's arbitrary control in cases in which it needed to cover losses consequent to its mistaken decisions. In fact, the Korean government introduced market competition mechanism into QIO to some extent.

In contrast, other small open countries with inward-oriented development strategies could have maneuvered prices to make up for the consequent loss from an inefficient credit allocation. Potential losses of certain chaebols could have been covered up by the price changes with little harmful effect on the government

budget. Then such QIO could avoid resulting losses from bad allocative decisions, and there would be little incentive to correct the incorrect credit allocation. However, that was not the case in Korea. To conclude, QIQ in Korea extended bounded rationality, reduced opportunism and uncertainty, provided better information, and created a target- and group-oriented environment, all of which contributed to reduce transaction costs for the internal organization.

Meanwhile, entering the 1980s, as South Korea's capital market enabled large corporations to self-finance in the capital markets their dependency on government special funding fell. Furthermore, as Korea's main industries became more diversified than in the 1990s, the control power of QIO by the bureaucracy became limited, and thus QIO ended its role. The major consequence of the change in corporate financing was the autonomy increase of chaebols from the state as they came to own their own financial institutions, and thus to be less dependent on the government-controlled financial institution. This autonomy was further bolstered as chaebols become the owners of NBFIs.

2.4. The Role of KDB and KEXIM as Development Financing Vehicles

In the first half of President Park's economic development plan (1962-1971) the government intensively supported exporters in a full-fledged way with a focus on real economic growth. However, in the second half of his economic development plan (1972-1979), the South Korean government put more focus on supporting steel, machinery, electronics, shipbuilding, petrochemical, heavy chemical industries and their exports. During the second half period, the main financial and development organizations such as KDB and KEXIM were utilized intensively. In the following section we will examine the role of KDB and KEMXIM, respectively in order. KDB will be examined first.

2.4.1. Korea Development Bank (KDB)

The function of the Korea Development Bank (KDB) as a development financial institution was sequentially strengthened in the first half (1962-1971) of the economic development period through the four rounds of the Korea Development Bank Act revision. In particular, three of four time amendments expanded its capital, and KDB constantly expanded debt financing tools through either the Bank of Korea or foreign capital. Accordingly, the fund supply function was greatly expanded by widened loan eligible target corporations together with obtained eligibility of investment in corporate stocks and bonds.

Based upon these KDB Act revisions, KDB supplied funds with a priority on

contribution to the national balance of payments and production of national life necessities. Along this line, KDB expanded its funding volume in areas such as export and import substitution industries, life necessities producers, and businesses with high dependence on domestic raw material, and thus areas with consequent high employment effects. In addition, KDI as an institution funded by government provided funds into the government's major strategic industries. At that time, those were power, coal and shipbuilding including the residential house building, rural telephone service business, water supply projects and railway construction.

In the second half period of economic development, the third five-year plan period (1972-1976) and the fourth five-year plan period (1977-1981), the primary goal of government's economic policy was to develop five representative heavy and petrochemical industries (HCIs). According to government policy, KDB concentrated its funding into the so-called 5 HCIs of steel, machinery, electronics, shipbuilding, petrochemical industry and export industries. In particular, KDB intensively funded steel industry from the early production stage to commercialization stage as it has greater forward and backward linkage effects and its product is used as intermediates of the heavy chemical industry; this funding was so that the steel industry could grow into an export industry in future.

The large-scale shipbuilding industry and electronics industry were supported on an ongoing basis in order to construct large shipbuilding yards and semiconductor plants based on economies of scale, so that both industries could develop into export industries. As for the machinery industry, funds were provided in specific machinery sectors and production of substitute items for localization according to the governmental policy focused on strengthening the machinery industry. In addition, petrochemical industrial complexes were constructed in Ulsan and Yeosu based on direct and indirect support by the Korea Development Bank, and technological development and product advancement were implemented in the textile industry. Support was provided for construction of large-scale smelting factories to substitute nonferrous imports, and modernization was implemented through construction of comprehensive machinery plants and expansion of automatic production capability and cement facilities. To fund in long-term facility, act of KDB's long-term facility funding needed to be enhanced and verified. In the early 1970s, this was accomplished through governmental stock investment. In the late 1970s, funding in heavy and chemical industries was given through debenture underwriting. In addition, general operating funds were supplied to repay principal and interest of heavy and chemical companies, and the special foreign currency loan system was introduced to reduce the burden of repayment of foreign loans on the part of companies.

2.4.2. Korea Export-Import Bank (KEXIM)

2.4.2.1. Before the Launch of KEXIM (Korea Eximbank)

Entering in the late 1960s, structural problems such as weakening balance of payments, increasing foreign debts, and growing corporate insolvencies were beginning to accumulate in Korea because the government pursued an export-oriented growth strategy focused on light industries without a sufficient foundation in the heavy chemical industry. In order to push continued rapid growth, the Korean economy needed to develop the heavy chemical industry and industrialize exports.

From its initial stage, Korea's heavy chemical industry was developed with the aim of overcoming domestic market conditions and realizing an economy of scale. As the global capital goods market changed from a supplier's market to a buyer's market during the late 1950s and 1960s, competition for contracts became fiercer. As a result, exports on a long-term deferred payment basis became more common and countries competed to propose favorable payment deferral conditions. The competition for export credits was mainly carried out by official Export Credit Agencies (ECA) of developed countries as developed countries had already established and operated official ECAs with the goal of supporting exports of capital goods by supplying facilities on a mid- to long-term deferred payment basis.

Against this backdrop, after President Park ordered support for exports of heavy chemical products on a deferred payment basis in 1968, there was much progress with respect to the establishment of the Export-Import Bank of Korea Act. The government started to realize that the establishment of a financial institution wholly entrusted to supply mid- to long-term facilities on a deferred payment basis was needed. Even before the KEXIM act was established, a role similar to KEXIM's had been played by Bank of Korea. However, in that institution there was a limitation in scope of role and size of support. After enactment of the Export-Import Bank of Korea Act in 1969, the KEXIM's role and function have continued to be performed by the existing Korea Exchange Bank on KEXIM's behalf until 1976.

When the first oil crisis occurred in 1973, the international trade environment deteriorated and economic activities slowed down. For the Korean government in the pursuit of the third 5-year economic development plan (1972-76) with a focus on promoting the heavy chemical industry, the necessity for changes in foreign economic policies became all too apparent. Because the Export-Import Bank of Korea Act could not accommodate all the changes, however, a revision of the Act was needed to supplement the functions of the KEXIM and meet the various negative changes in internal and external conditions. Consequently, the first revision was made in 1974. In the revised Export-Import Bank of Korea Act, the major resources

development fund was newly added to secure a stable supply of key resources and accelerate the development of overseas markets. Eligibility scopes for import credits, overseas investments, and overseas project credits were also expanded. In addition, the Economic Development Cooperation Fund (EDCF) and the Settlement Funds for Foreign Governments were established.

2.4.2.2. Establishment of KEXIM

Driven by the government's aggressive efforts to foster HCI, its exports increased remarkably during the third 5-year economic development plan (1972-76) period. As exports of heavy chemical products on a deferred payment basis increased, the delegation system with KEB faced limits in effectively supporting companies and the need for an additional separate and dedicated institution increased.

In response to increasing demand for export credits on a deferred payment basis, the government decided to launch KEXIM as a separate and independent financial institution. For the preparation of KEXIM's initial capital, the Bank of Korea injected 2 billion won and KEB additionally transferred 0.5 billion won which was originally government fund. Korea's Eximbank was formally launched in 1976 as dedicated financial institution on a deferred payment export. Although the bank started with only eighty executives and staff members in three departments and one office, its establishment was monumental to the development of the Korean economy. Out of the developing countries, Korea was first to establish a dedicated separate institution for mid- to long-term deferred payment financing. As a result, Korea paved the way to evolving from an economy dependent on foreign capital to one that actively exports capital goods, invests abroad, and expands foreign economic cooperation.

In 1976, KEXIM was launched with the stated capital of 3 billion won. Immediately after its launch, demand for export credits on a deferred payment basis and overseas investment credits increased more rapidly than previously expected. In addition, improvement of KEXIM's decision making procedure was also required. As a consequence, in 1977, the Korea Eximbank Act was again revised. With this revision, the stated capital increased from 150 billion to 500 billion won. With this second revision, the bank also arranged a support system for exports of capital goods and overseas investment and increased its scale of credits. Export finance, which had been limited to Export Credits and Overseas Investment Funds, was expanded to Direct Loans and Interbank Export Credit, while Export Guarantees and Documentary Credit services were also greatly expanded.

Particularly, by beginning to handle export insurance in 1977, Korea Eximbank made great strides in becoming a financial institution fully entrusted with export credits. During this period, loans approved by Korea Eximbank increased rapidly

from 187 million dollars in 1976 to 277 million dollars in 1977, 393 million dollars in 1980, 1.3 billion dollars in 1984, and 6.6 billion dollars in 1985. With the dedicated support of Korea Eximbank, Korea came to a head of the development of HCI as exports of ships and plants on deferred payment basis began in earnest. Also, Korea's overseas investments advanced from the establishment stage to the activation stage as investment on resource development such as lumber, oil fields, and soft coal increased from 1976 to the mid-1980s.

3. Necessity of ECA (Export Credit Agency)

3.1. Need for the Establishment of ECA

In the late 20th century, most of the developing countries successful in economic development have achieved their economic growth through export promotion strategy. And Korea was no exception. The ECA (Export Credit Agency), adopted as a means of financial support for a country's policy goal of export promotion, is an institution which provides financing to an area where commercial financial institution avoids funding in forms of loan, guarantee, and insurance. ECA has played the role of either last risk-taker or fund provider in foreign trade-related area where commercial financial institutions find it difficult to participate.

Need for the establishment of ECA is suggested as to complement a market failure, to support economic growth in developing countries and to cope with financial support on export in rival countries. Currently more than 70 countries around the world and 28 countries within OECD countries have been operating ECAs. At the early stage of economic development, the role of the ECA is to focus on direct short-term export financing, but as the economy develops into a developed state, its focus moved more into an indirect long-term comprehensive financial support scheme. In the case of developing countries, however, the ECA role is more toward the short-term export financing-oriented, while the countries without ECA are known to have relatively weak export competitiveness of domestic companies. This is so because, in developing countries, although state-run companies and their joint companies can easily obtain funds using their special relationship with state banks, individual enterprises face difficulties in securing financing from financial institutions or capital market. Therefore, it is necessary to introduce a trade financing system or export insurance which allows exporters to cope with their financing dilemma.

It is worth noting that before the WTO regime, there were many cases in which developing countries provided export subsidies to protect their domestic exporters. However, under the WTO regime, government subsidies such as export subsidies are prohibited. Therefore in the current environment, for developing countries, export

promotion policies can be implemented more directly and effectively through export financing.

3.2. Current Situation of the Conversion of BNVP into DEXIM

Banco Nacional de la Vivienda y la Produccion (BNVP, National Bank of Housing and Production), the matrix of DEXIM henceforth, is a mid-sized national development bank established in 1962. Currently BNVP has capital of US \$150 million and US\$ 480 million in assets. Its operation is focused on promoting housing and productions and exports. In detail, BNVP had been in charge of providing insurance for mortgage loans and activation of the mortgage-backed securities market, and oversight function of savings and loan associations. However, according to the amendment of 2002 the oversight function of savings and loan associations has transferred to the central bank. On the other hand government policy financing function was transferred to BNVP. Thus current BNVP's main operations are composed of mortgage and policy financing.

Meanwhile, the portion of public financing is very low relative to the portion of mortgage financing due to past business characteristics. After receiving policy advice from KSP, BNVP has gradually reduced the proportion of the housing finance business while increasing its export credit financing. The BNVP's export credit has provided on-lending through other commercial banks for the lack of its branch number.

In fall 2013, facing conversion into DEXIM, BNVP started a process of transferring out the mortgage business into a third party in order to become a solely dedicated institution in export credit. However, in the middle of the transition, BNVP was acknowledged to have had difficulty with employee's retirement, downsizing of the organization, and revenue decreases due to reduction in housing finance related operations.

In September 2013, the Dominican government led by CEI-RD drafted a bill for the transition of BNVP into DEXIM to Congress. Also in February 2014, the President of the Dominican Republic, Mr. Danilo Medina announced the launch of the Export Bank. This was certainly a very important step forward for the project of the bank. As of the end of March 2014, the bill that transforms the BNVP and creates the Export Bank of the Dominican Republic was filed at the National Congress of the Dominican Republic and it is to be studied by the Agriculture Commission. Thus DEXIM, the Dominica Export-Import Bank is expected to be launched in 2014.

According to the transition time table submitted by the representative of CEI-RD

and BNVP who visited Korea for the interim report in February 2014, we can see that personnel reductions, sale of properties, the transfer of mortgage insurance business, and capital injection from government are being pushed ahead. Furthermore, as of April 2014 when the Korean delegation teams last visited, BNVP reported once again in detail that the transition is in progress in two stages as follows:

Stage One:

1. Completion of the draft bill that will allow transforming the BNVP.
2. Adequacy of the organization and operational structure of the bank adjusted to the new operative scheme.
3. Placing the mortgage portfolio and non-export commercial portfolio with other financial institutions in the system.
4. Elimination of real state credit transactions, as well as personal and credits with non-export vocation, and issuance of an interim business plan.
5. Selling and placement in administrative trust of bank's fixed assets that does not fit for the new entity.
6. Auditing and monitoring of the transformation plan.
7. Discussion of law, interim business plan and strategic plan with monetary authorities.

Stage Two:

1. Development of a proposal to modify banking regulations for the DEXIM in order to allow it to support those niches without proper means of financing.
2. Introduction of the law and strategic plan to Monetary Board, and then to the Congress for approval.
3. Capitalization of the BNVP. DEXIM will be capitalized with three billion Dominican Pesos, one billion per year from 2014 to 2016.

According to the BNVP, stage one is almost complete and BNVP is about to move into stage two. Thus there is no doubt that the transition of BNVP into DEXIM is going forward and BNVP is switching its operation system from collateral-based credit to export or import letter of credit (L/C)-based one. However, considering the lending practices so-far implemented, there were small credit limits per loan, shown collateral-loan concentration, and performed though indirect on-lending practice owing to BNVP's lack of branches, the export credit capacity extension seems to have its own intrinsic limit to some extent.

According to the 2008 KSP report, many exporting companies in the Dominican Republic complained about low credit limits as a major obstacle of the support. Also, as BNVP relies on commercial banks under the current on-lending arrangements, it has been pointed out that its current financial support is not likely to be favorable to exporting firms because of additional margins charged from the commercial bank,

strict loan contract conditions and slow speed of documentation.

So in order to launch DEXIM, the capacity building of credit assessment and risk management and the enhancement of lending volume will be substantially important. In looking at the structure of Dominican industry, the portion of manufacturing is quite low and exports goods are either mostly labor-intensive or agricultural products, such that their contribution to GDP growth is low. Because of this, there remains a concern such that future DEXIM's export credit service can be limited to a mere trade credit. If it turns out in this way under the current industrial structure of the Dominican Republic, then it is worth consideration that the DEXIM plays the development financing institution aggressively with focus on government strategic industry by benchmarking Korea's KDB in the 1970-1980s.

3.3. Future Policy Task

3.3.1. Short-term Task

The 2014 launch of the Export-Import Bank of Dominica (DEXIM) has three short-term tasks to be urgently addressed. Firstly, DEXIM needs to increase the amount of loan based on either letter of credit or past export records, rather than loans with collateral. Secondly, DEXIM needs to increase loan volume per loan application and in order to do so, it has to secure its own funding in advance. Thirdly, DEXIM needs to determine loans by itself rather than via commercial bank branches. To do so, it has to increase a number of its own operating branches and associate workers. Then the responsibility for tracking the export credit demand increasing pattern for 2~3 years, mid-term and long-term task subsequently need to be appointed. Now look at the short-term task one by one.

Firstly, in the future DEXIM needs to transfer operation from its current collateral-based loan screening system into an L/C based one for loan determination. In addition, the credit limit should be increased for exporters who have either good credit or L/C but who cannot provide enough collateral, or those who can demonstrate high export growth rates. For instance, for those exporters, the amount that is counted in the credit limit calculation may be reduced to fifty percent of the original loan amount. Moreover, if an exporter either has good credit or can demonstrate a potentially high export growth rate, its credit limit should be raised up to that extent or proportionally compared to the previous record.

Introduction of both L/C based loan screening and credit rating systems is a practical prerequisite to being able to move away from collateral-based loan system. However, most developing countries hesitate in adopting a credit rating system due to untrustworthy financial statements. Under current practices loans are mostly

secured by collateral and it will take much more time until the credit rating system can become established. However, it is still desirable as soon as possible in the short-term to introduce at least a quantity-based evaluation system which makes use of simple quality evaluation and estimates of financial statements.

In this process, the establishment of related bank-bylaws, the introduction of corporate evaluation techniques, and the introduction of both specific loan condition and differentiated mortgage ratio by industry and by entrepreneurs should be accomplished. In addition, in the long-term vision, data base establishment on both credit screening record and information of rating assessment should start at the same time. Also the creation of an industry analysis department needs to be seriously considered in order to have a close relationship with the government development policy. In the earliest stages of risk management, building-up bylaws for contract management, collateral management and business movement management are also necessary. Regarding trade credit loans analysis, credit assessment, risk management and the introduction of those systems, DEXIM should consider requesting the dispatch of experts from KEXIM via KSP for a to-be-determined time period.

Secondly, DEXIM needs to transfer current on-lending method (so-called “2nd floor banking” in the Dominican Republic) into direct operation to maintain competitiveness. BNVP has only two branches and it is too small to manage direct loans. Thus, BNVP has no other option except for operating via on-lending arrangements with commercial banks. However, starting immediately, beginning with large-scale export free trade zone, DEXIM should open new branches and directly provide funding to exporters.¹⁾ In this case, DEXIM will be able to cut back the margin (3-5% equivalent) paid to commercial banks under on-lending, and furthermore to provide a loan with a more flexible conditions and at a lower interest rate. As a matter of fact, the current lending rate of 18% does not seem to be helpful for export businesses.

Thirdly, it is immediately necessary for DEXIM to secure funds in order to expand financial support to exporting firms and strategically important industries. Considering insufficient financial resources of BNVP, securing capital of DEXIM is likely to be the most urgent task by taking advantage of international loan facilities or a dedicated credit fund.²⁾

1) At the last site visit of Korea delegation in April 2014, our team just learned that current division of work scope between financial institutions in Dominican Republic did not allow the direct lending operation of BNVP. However, for the efficiency of credit support to exporting entrepreneur, we recommend the revision of the current law regarding that matter so that the DEXIM could open new branches and directly provide funding to the potential exporters.

2) According to KDI's '2010 Modularization: Export Promotion', given the size of the Korea Exim bank's paid-in capital at the time of its establishment in 1976 (Korea's export volume was US\$ 10 billion then.), US\$ 30-50 million would be an appropriate size for DEXIM's capital. And then Annual working capital could be funded through capital subscription from the government (incorporated into government

Furthermore, to effectively revitalize export finance, the Dominican Republic government should raise export funds like the NIF (National Investment Fund) of Korea in 1970s, which focuses on key industries or commodities through government financial aid. The Dominican Republic has several times expressed its aim to expand its industrial structure from clothing to medical, bio, and IT industries. To support this aim, DEXIM needs to support such funding aid. Furthermore, to expand exports, it is essential to provide more favorable lending conditions to promising exporters with higher growth rates, firms with better credit ratings and exporters in strategic industries. Specifically lending conditions such as credit lines, terms and interests need to be adjusted in a favorable way to incentivize them.

These three short-term tasks need to be resolved according to the following four frames. Those frames are the capacities of credit screening, risk management, funding and human resource development. The first three capacities are uniquely the role of banks. Note that in the below table, we suggest a development strategy of DEXIM under the above four frames in short, medium and long terms.

[Figure 1-2] DEXIM Development Strategy

Establishment of founding Infra of DEXIM[Short-term]	Core Vehicle of export promotion	Taking-off as an advanced ECA in Caribbean
<ul style="list-style-type: none"> ① Establishment of export credit screening system <ul style="list-style-type: none"> · Conversion into direct screening, introduction of related bylaws, enterprise rating, loan condition and mortgage ratio by industry and firm · Launching DB for loan screening and rating, and establishment of industry analysis dept. ② Establishment of risk management system <ul style="list-style-type: none"> · Congract management, mortgage management and movement checks ③ Establishment of funding resources <ul style="list-style-type: none"> · Benchmarking Korean NIF, legalization ④ Establishment of HR development system <ul style="list-style-type: none"> · Outsourcing of expertise training of working group 	<ul style="list-style-type: none"> ① Capacity enhancement of credit screening <ul style="list-style-type: none"> · Management of loan concentration and NPL · Establishing DB for loan screening and rating ② Capacity enhancement of risk management <ul style="list-style-type: none"> · Introduction of Export insurance · Differential loan condition accord to credit rating · Introduction of total risk volume management system · Introduction of IT package and DB ③ Diversification of funding resource <ul style="list-style-type: none"> · Legal frame amendment ④ HR specialty improvement and introduction of performance payment 	<ul style="list-style-type: none"> ① Leading ECA in Caribbean ② Risk management on loan portfolio (ie.. credit, market, interest, liquidity system risk) ③ Advanced funding technique (ie.. offshore funding) ④ Establishment of performance payment

budget), local/global bond issuance, ODA program loan, and borrowing from multilateral development banks..

3.3.2. Midterm Task

In the future, DEXIM needs to introduce various financial export and import credit services and products to bolster Dominican Republic's export growth and to settle itself down properly. Developing countries coming out of the initial development stage inevitably face diverse demands for trade-related finance resulting from the increase in trade volumes. However, most developing countries tend to only concentrate on short-term export loans of 6-month period on average, thus they cannot meet the various financial demands from exporters. In addition, for the recommended exportation of goods with high dependency on imported raw materials, financial supports for their import also are critical to keep high export growth. Also, improvement of the process for credit and risk managements needs to be implemented. In addition, considering increasing trade transactions without L/C and default possibility of counterparts, the Dominican Republic needs to prepare an export insurance which allows exporters to cope with insolvency. In this line, we recommend the following three tasks in mid- or long-term.

Firstly, DEXIM should adopt various trade credit products. In particular, we recommend seriously considering the introduction of KEXIM's Comprehensive Export Loans and Special Credit Loans to SME. As developing countries come out of the initial development stage, they face diverse demands for trade-related finance resulting from the increase in trade volumes. However if DR cannot resolve this diverse demand, additional growth potential of export becomes restricted. Therefore, to satisfy these demands, DR needs to introduce new export financial products which do not limit the use of funds to specific export transactions, but which set extensive credit lines in consideration of past export records and future expected exports. Moreover, for recommended export goods which rely highly on imported raw materials, financial supports on the import are also essential for stable growth of the export. Specifically, DEXIM needs to consider the fact that KEXIM's operation of Comprehensive Export Loans is divided into short-term loan and long-term lone according to loan maturity.

Also, taking into account size of economy and industrial structure of the Dominican Republic, DEXIM would need to benchmark KEXIM's Special Credit Loans to SME to assist SMEs in the DR because, considering GDP level per capita and the industrial structure of primary exporting commodities (i.e., sugar cane, coffee beans, tobacco, cacao) in the Dominican Republic, a prospective majority of BNVP's customers will be likely to be similar to SMEs in Korea. Their business revenue and number of employees in a Dominican Republic firms cannot meet the level of large companies such as Korea's Samsung Electronics. Thus, to support exporting SMEs which have low credit or vulnerable collateral, DEXIM would need to provide loans to them after assessing the applicant's ability to implement export business or the

safety of their trade transaction.³⁾ In this line we recommend DEXIM to benchmark the KEXIM's SME support program and then to provide an appropriately modified version to assist SMEs in the Dominican Republic.⁴⁾

Secondly, the improvement process for credit and risk management needs to commence. BNVP is known to have received consulting on risk management in 2009 and started to establish its own risk management system at an initial level. However, considering the low level of L/C transaction record and etc., it seems that neither credit rating techniques nor related DB have been equipped yet. Technique and DB for the credit assessment system will take time to settle in because they require a follow-up time period to track the collection and status of loan principal and interest.

As of now, BNVP does not have a well-equipped credit assessment system. Thus, BNVP cannot offer interest rates and credit limits according to the credit rating of exporters. In short, even exporters of good credit standing are not likely to receive financing on preferential terms and conditions. This would demotivate exporters to improve their financial soundness to enhance their credit status. However, once BNVP is converted into DEXIM, the expansion of export financing operation is inevitable in order to make its business rise steadily. To do so, BNVP should establish a credit assessment task force and train in-house credit assessment personnel for mid- or long- term. Once the system is established, credit lines can be set differently according to each firm's credit rating: firms with higher ratings can use bank funds under more favorable conditions, and this induces export businesses to improve their financial structure in order to raise their rating.

Also, an establishment of a risk management system in the preparation of credit concentration and NPL (non-performing loan) in future should commence. The implementation of total risk management system also needs to be carried out and for that purpose, its IT package and DB must be built in parallel.

Thirdly, the Dominican Republic needs to adopt an export insurance which allows exporters to cope with insolvency in transactions without L/C in mid- or long-term. In

- 3) At the last site visit of Korea delegation in April 2014, our team just learned that DEXIM has an intention of supporting family-owned business with potential of growing into exporting firm but with low or no credit score by providing most of the fund to them because such family-owned business have no other way of access to the funding other than DEXIM. On the other hand, once the family-owned business can build a good track record of their repayment and business record through DEXIM, then those entrepreneurs will have a better chance to get a fund from commercial bank in future.
- 4) For reference, The Korea Eximbank's Special Credit Loan is available for export items selected as a potential driving force of industrial growth. It is provided solely based on the SME's stable and regular export transactions and its reliable delivery records but not on its credit rating. According to the KEXIM's SME support program, the repayment term is the period between the first loan disbursement and export account settlement, which cannot exceed 6 months. The loan amount is up to US\$ 100,000 and within 100% of SMEs capital, and can be increased up to US\$ 300,000 if the export transaction is under a letter of credit.

the near future, continuing export expansion while facing fierce global competition, the Dominican Republic needs to pursue export promotion boldly by diversifying either export payment methods, (i.e., not only focusing on safe L/C based payments but also utilizing D/A and D/P contracts on a deferred payment basis) or regions, (i.e., a shift in export markets toward developing countries in Latin America and Africa). Unavoidably, however, this bold export promotion policy brought an increased risk of non-payment of export proceeds. As a consequence, the Dominican Republic has to provide policy support at the government level to minimize the uncertainty faced by exporters and financial institutions. Thus, the role and functions of export insurance became more important as a system to support the Dominican Republic government's export promotion policy.

BNVP, which will be converted into the DEXIM, provides national exporters with operation and pre-shipment financing. However, it still has more possibilities to develop its own export credit services and products. In this line, the BNVP is able to adjust the KEXIM's export credit model to the Dominican economic situation and benchmark it.

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of the Dominican Industry

Chapter 2

Establishment of the Trade Center in the Dominican Republic

1. Introduction
2. Current Economic Status and Characteristics of the Dominican Republic
3. Necessity of Constructing the Trade Center and Korea's Experience
4. Financing for the Constructing the Trade Center
5. Conclusion

Establishment of the Trade Center in the Dominican Republic

Hong Shick Lee (Korea University)

Summary

As stated in the '2010-2030 National Development Plan of the Dominican Republic', economic development through export enhancement by founding internationally competitive main export industries is one of the biggest goals of the country. Accordingly, this paper aims to emphasize the necessity of constructing a Trade Center and offer the theoretical basis for its appropriateness. Furthermore, the role of the Trade Center in promoting export will be discussed. In particular, based on Korea's experience, this paper aims to apply Korea's know-how on the operation of a Trade Center and propose fund-raising methods to establish the center.

Referring to Korea's experience, a trade center is expected to bring enlargement of export through holding exhibitions and expositions, installing a trade academy, and establishing an integrated E-trade system. That is, through exhibitions, a trade center fosters an environment favorable for export goods to advance into international markets, and through trade-related education system and integrated E-trade system, it greatly increases the quantity of export. However, due to the Dominican Republic's absence of permanent exhibition centers, limited exhibition space, and inefficient operation system, only about 10 national/international exhibitions are held yearly. Consequently, a Trade Center that can secure adequate exhibition space and systemically support the exhibitions needs to be constructed.

In effect, Korea tried to maximize its support for its small and medium-sized

corporations by utilizing COEX to link the function of exploiting a new market and the function of exhibition. As a result, the number of exhibitions, which was only 11 in 1982, increased to 30 in 1985. At the same time, operation rate rose from 25.2% in 1982 to 41.8% in 1986. As proved statistically, COEX helped Korea escape government-led conglomerate-centered export policies and nurture export of small and medium-sized companies to advance the export industry. In such a manner, after the 1960s during which Korea experienced a trade deficit and lack of infrastructure, COEX contributed to relieving the current accounts deficit of the era and achieving improvement in export and in economy as a whole since the late 1970s. In sum, the Trade Center of Korea has contributed to making Korea and Korea's products acknowledged internationally and has supported domestic firms advancing into international markets by holding international expositions and exhibitions. Factually, Korea's export size grew proportionately to the size of exhibition space and usable area in its trade center.

Additionally, Korea currently operates a trade personnel training program as one measure to enhance export. The 'Youth Trade Personnel Training Program' is one of the representative works of the larger program. Also, Korea's Trade Center has put huge effort and investment into developing a trade automation system to lay the groundwork for introduction of E-trade. To illustrate, the integrated E-trade system 'u-Trade Hub' and E-trade payment service KOPS (KOTRA Online Payment Service) were established. 'u-Trade Hub' is a system that helps all domestic export enterprises to practice trade activities online. This system is very effective in that it enhances international competitiveness of domestic firms by reducing cost and difficulties that arise from time differences.

In this regard, it can be said that trade center's role in Korea's economic development via trade has been immense. Therefore, the Dominican Republic should also prepare measures that can contribute to its economic development: opening of exhibitions and expositions, establishment of a trade academy, and construction of an integrated E-trade system. In constructing the Trade Center, the Dominican Republic should consider the points that follow.

First, to maximize short-term and long-term accomplishments, the Trade Center should be built in a location providing the greatest accessibility for potential foreign buyers. Since this is directly connected to the effectiveness of self-finance strategy in constructing the Trade Center, current transportation infrastructure, nearby resort towns, or industrial base should be taken into consideration before selecting the right venue. Santo Domingo, the capital of the country, seems to satisfy all the required conditions.

Second, previously mentioned strategy to enhance accessibility for the potential

foreign buyers must be linked with industrial policies of the Dominican Republic. That is, the Dominican Republic should develop a Trade Center establishment strategy that can be practiced along with its food commodities industry and tourism industry, both of which possess comparative advantage. In other words, as the Dominican government considers the location for constructing of the Trade Center, it should not only take into account accessibility for potential foreign buyers, but also industrial development strategy. Considering tourism industry investment for development of a resort town and the plan for the Trade Center simultaneously should be examined thoroughly.

Lastly, in terms of the transparency in managing the Trade Center, the management authority should be from a private Trade Promotion Agency and not the Dominican government. The comprehensive roles of the Trade Center, which includes a trade academy, supply of E-trade, and trade information center, would be achieved through the systematic approach of a Trade Promotion Agency. Thus, a private organization that has expertise should be elected to perform trade promotion activities (Tentative name: Trade Promotion Agency) so that a governance system that prevents possible corruption and opacity during the establishment and operation of the Trade Center can be practiced. When this corruption-free institutional design is spread country-wise, it will be possible to improve efficiency of the Dominican government and the country's whole economy at the same time.

1. Introduction

1.1. Purpose of the Study and the Necessity of Establishing the Trade Center

The following study concerning the "Establishment of the Trade Center in the Dominican Republic" offers theoretical foundation for the need to construct the Trade Center for economic development of the Dominican Republic as suggested by the Korean government and for the Trade Center's role in export enhancement. This study will propose the know-how of the Trade Center management appropriate to the Dominican Republic's current status by referring to Korea's case. Furthermore, a method for fundraising needed in construction of the Trade Center will be suggested.

After the world's economic crisis, the Dominican Republic's annual average rate of economic development has been 4.88% since 2008 while its annual average of current account (CA) on behalf of GDP has remained -3.522 billion dollars (export

approximately 7.28 billion dollars and import 14.1 billion dollars).⁵⁾ This implies that the CA deficit has been accumulating as shown in [Figure 2-1]. Thus, policy to increase export by identifying main export industries should be arranged. The Trade Center will be effective in promoting export since it fosters ground for exporting goods to enter foreign market through exhibitions. It also provides a trade education system and integrated E-Trade system to exporters. Consequently, the Dominican Republic will be able to increase export and in the long term, achieve economic growth by establishing infrastructure such as trade exhibitions, a trade specialist education system, and an integrated E-Trade system.

Concerned about its CA deficit, the Dominican Republic commenced, since 2011, developing its own exhibition industry, an important sector of the Trade Center. However, according to CEI-RD (Centro de Exportación e Inversión de la República Dominicana) and the Board of Export and Investment of the Dominican Republic, current exhibition industry has been lagging due to the absence of exhibition centers, limited exhibition space, and ineffective operation system. Only about 10 national/international exhibitions are being held each year. In fact, the first floor lobby of CEI-RD's annex is utilized as an exhibition space due to the absence of permanent exhibition center for export support.⁶⁾ Moreover, the largest annual international trade exposition, "EXPO CIBAO" is held at a rented sport facility located on the outskirts of Santiago city where accessibility is limited.⁷⁾ Even worse, work experience focused training demanded by export industry is not executed effectively and IT infrastructure that offers marketing information for promoting export is nonexistent. Therefore, a Trade Center that can provide adequate exhibition space and systematic support needs to be constructed. At the same time, the Dominican Republic should prepare an industry promotion strategy to discover its main export industry, which would receive help from the Trade Center through exhibitions and other related activities.

Since an optimal location is necessary to establish the Trade Center, a location that maximizes accessibility, ripple effect to other industries, and cost efficiency must be selected. The construction venue should possess adequate transportation infrastructure to facilitate foreign buyers' access and have favorable conditions for fostering accommodation and tourism industry. The location should be chosen where additional infrastructure construction cost can be minimized in order to achieve cost efficiency.

5) Central Bank of the Dominican Republic

6) Chapter4, 2. Construction of the Trade Center, 2.1.4. Current Status of Export Commodities Exhibition Center

7) Chapter4, 2. Construction of the Trade Center, 2.1.3. Current Major Exhibitions

1.2. Content and Method of the Study

This study aims not only to emphasize the indispensability of establishing the Trade Center considering the Dominican Republic's current economic status, but also to offer theoretical background for the necessity of the Trade Center in the Dominican Republic. That is, theoretical reasoning concerning the relationship between infrastructure and export and between export and economic development will be analyzed to provide logical validity for constructing the Trade Center. The role of the government and industrial sector as principle agents of operation will be outlined in detail. In doing so, Korea's experience will be referred to and applied to the planning and operation of the Dominican Republic's Trade Center so that it will contribute to economic development of the Dominican Republic.

This study intends to thoroughly analyze the means to raise funds for construction of the Trade Center as well. Since a certain amount of the funds will be obtained through EDCF (Economic Development Cooperation Fund) loan from Korea, this study will focus on how to procure the rest. Government, municipalities and CEI-RD of Dominican Republic could cooperate to secure funding for the site and launch an effective operation system. Additional fundraising methods such as affiliate membership fee and rent of the Trade Center will be also discussed.

This study is constituted as follows: First, in part 2, the current economic status of the Dominican Republic will be analyzed to diagnose its challenges and provide future tasks. In part 3, the validity of building a Trade Center in the Dominican Republic will be processed using a theoretical background, and its positive effect on the economic development will be discussed based on Korea's experience. Also, ways to enhance efficiency and transparency for successful operation will be listed and analyzed. In part 4, a fund raising method for constructing Trade Center will be presented.

2. Current Economic Status and Characteristics of the Dominican Republic

2.1. Current Economic Status of the Dominican Republic and its Shortcomings

2.1.1. Current Economic Status

The Dominican Republic is still considered to have an economic structure vulnerable to impacts from international economy. Empirically, uncertainty of the

world economy in 2008 decreased foreign investment from and import demand of the U.S. which is the Dominican Republic's biggest export market, and chronic electric power shortage aggravated, Dominican Republic's rate of economic growth, which dwindled to 5% in 2008 and 3.5% in 2009. Eventually, former president Leonel Ferenandez searched for sturdier alternatives by proposing a "Economic Stability and Recovery" policy that aimed at stabilizing and enhancing its domestic market.

〈Table 2-1〉 Economic Indicators of the Dominican Republic

	(Unit: 100 Million dollars)				
	2008	2009	2010	2011	2012
GDP	457.1	467.1	516.5	556.6	589.5
GDP Per Capita	4,797	4,815	5,231	5,538	5,762
Rate of Growth (%)	5.0	3.5	7.8	4.5	3.9
Foreign Reserves	28.1	24.9	29.8	29.5	34.1
Total Foreign Loan	93	84	104	100	106
Debt Service Ratio	11.3	12	10.6	10.4	10.2

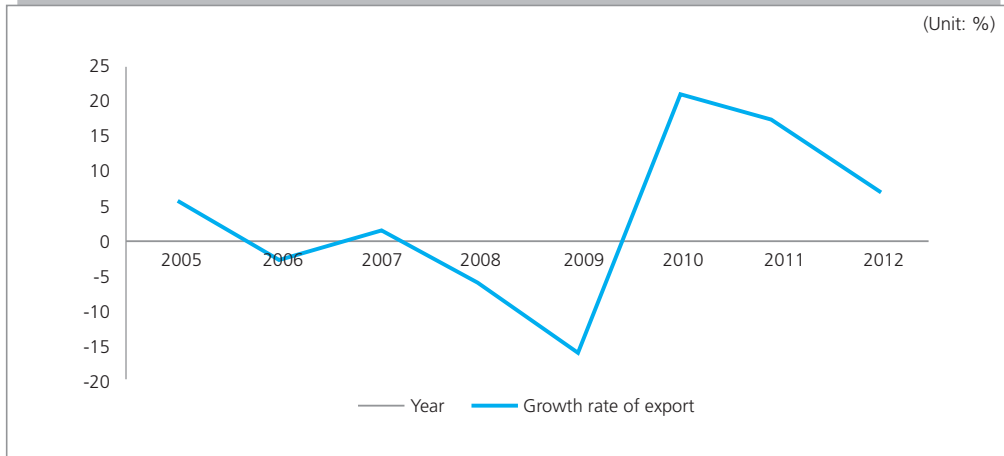
Source: Central Bank of the Dominican Republic, Derived from 2012 Data of EIU, IMF, KOTIS

2.1.2. Export and Industry Trend

As shown in [Figure 2-1], the export growth rate of the Dominican Republic experienced a sharp fall after 2010. The staggering of the Free Trade Zone, delay in selecting main export goods, and paralysis of the export financial system are considered to have caused this decrease. From the late 1990s to 2000, the clothing industry acted as the main export industry as the Dominican Republic was the major clothing country exporting to the U.S. However, there is currently no definite industry that can replace it. The country seemed to recover briefly in 2010 and 2011 as its export growth rate marked an average of 18.8%, this turned out to be the base effect from 2008 economic crisis. Thus, the Dominican Republic possesses a vulnerable export structure and is in dire need of driving force for new exports.

Some of main export goods of the Dominican Republic are sugar, sugar cane, coffee and other coffee manufactures, tobacco, cacao beans and ferronickel. Among these, food commodities such as coffee, cocoa beans and sugar cane are showing a tendency of increased export. Therefore, the Dominican Republic plans to promote them as leading industries for export.

[Figure 2-1] Export of Goods and Services—the Dominican Republic (FOB(Free on Board) based)



Source: Central Bank of the Dominican Republic

<Table 2-2> FOB Exports

(Unit: Million dollars)

Product	2006	2007	2008	2009	2010	2011
Sugar and other sugar cane manufactures	104.9	98.0	84.8	121.1	195.7	204.6
Coffee and other manufactures	8.79	6.37	8.3	19.7	10.4	26.4
Tobacco and other manufactures	6.2	14	11.1	11.9	11.2	14.9
Cocoa and other manufactures	57.9	81.0	92.6	164.0	187.3	183.7
Ferronickel	709.9	1,099	492	412.5	-	290.1
Free Trade Zone	4,507	4,525	4,544	3,973.5	4,217.6	4,884.5
Total	5,394.6	5,822.3	5,232.8	4,114.3	4,622.2	5,604.2

Source: Central Bank of the Dominican Republic

Along with food commodities, Dominican Republic is extensively promoting its tourism industry as can be seen from the 'National Tourism Competitiveness Plan' issued in 2008.⁸⁾ Besides Mexico, the Dominican Republic receives the most number of tourists in the Caribbean Basin. 4 million tourists visited in 2010. However, even though the number of visitors increased 3.3% in 2010, considering the average growth rate of 1% for the last decade, it can be said that the country's tourism industry

8) Estrategia de Competitividad Turística de la República Dominicana, Journal of Tourism Research, Vol.1, No.1, 2008

is growing at a slower pace compared to neighboring countries that achieved an average growth rate of 3 to 4%.⁹⁾ Since the Dominican Republic possesses diverse natural tourism resources and a strong transportation infrastructure including international airports and ports, its tourism industry has incredible potential. A Trade Center can promote high-end tour products and cruise tour products in its exhibition halls, and nurture related experts in the trade academy. This will contribute greatly to the Dominican Republic's economy.

2.2. Tasks Ahead

According to the Global Competitiveness Report published by WEF (World Economic Forum), the Dominican Republic's stage of economic development belongs to 'Efficiency Driven', the 2nd stage of development. The Dominican Republic particularly lacks overall infrastructure and a stable macroeconomic environment. To overcome these shortcomings, the country must revitalize the integration of domestic markets and establish infrastructure to make intra-regional activities feasible. Moreover, financial management of the government is essential to resolve the CA deficit and promote macroeconomic stability. To discuss the country's other drawbacks, national competitiveness of the Dominican Republic ranks mere middle-low among neighboring Central and South America. Even worse, its World Competitiveness ranking went down 15 levels in the last two years.

The clothing industry, which used to be the leading export industry, has been declining consistently since 1990s and the export of ferronickel which accounts for the largest portion of Dominican export has been staggering. In the same context, FOB decreased 14% from 2010 to 2012 and an alternative strategic industry still does not exist. Therefore, the Dominican Republic should follow the suggestions from WEF and strive to set a solid foundation to increase its export by establishing infrastructure and fostering a main export industry.

In the '2010-2030 National Development Plan of the Dominican Republic' (Estrategia Nacional de Desarrollo de la Republicana Dominicana 2010-2030) issued in 2009, former president Leonel Fernandez presented enhancement of competitiveness of the Dominican Republic in the international market through export expansion, increased competitiveness, and improved productivity of domestic firms as one of the 5 economic goals of the country.¹⁰⁾ In this context, the Dominican Republic should search for applicable alternatives or new systems based on government driven export promotion policies and projects. However, currently there is a lack of permanent exhibition spaces and IT foundation. Thus, construction and improvement of infrastructures that can realize the plans should be created in advance. At the same

9) Individual Country Statistics (2010, 2009, 2007, 2006, 2004), Caribbean Tourism Organization

10) Estrategia Nacional de Desarrollo de la Republicana Dominicana 2010-2030 Titulo1 Capitulo1

time, if food commodities and tourism products that are comparatively abundant are chosen as the main export industries, preparing the foundation for export vitalization will be possible. Consequently, the Trade Center should be constructed and exhibitions and conventions covering food commodities and tourism products should be carried out. In addition, a trade academy must nurture experts in related fields. This approach will provide the Dominican Republic a new engine to break through its economic difficulties.

As in the case of Korea's COEX (Convention & Exhibition Center) and KINTEX (Korea International Exhibition), the Trade Center will be able to train trade professionals through a methodical trade education system and trade information system. Also, a supply of precise information will minimize search cost. The center will bring enlargement of export and will undoubtedly lead to economic development at the national level.

3. Necessity of Constructing the Trade Center and Korea's Experience

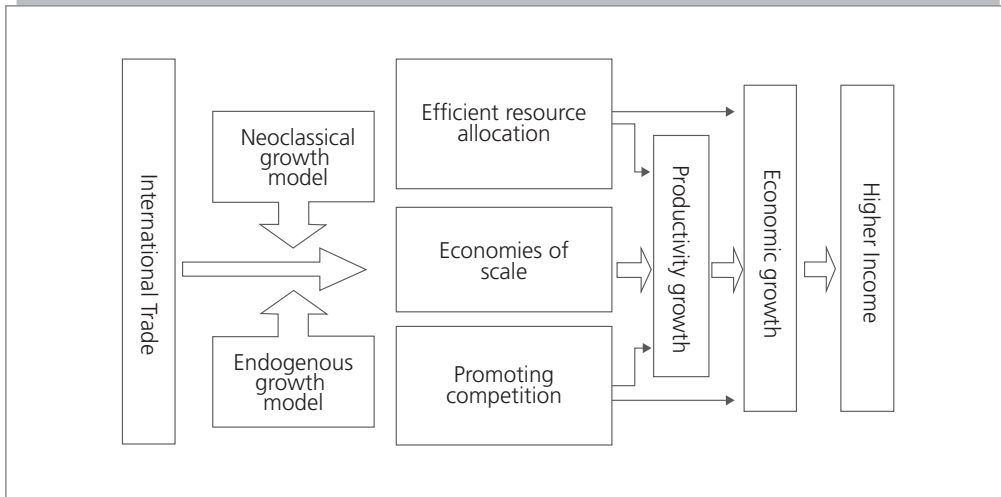
3.1. Trade Center, Trade, and Economic Development

3.1.1. Trade and Economic Development

3.1.1.1. Correlation between Trade and Economic Development

In analyzing trade and economic development (income), many of the existing researches utilize Solow's Neoclassical Growth Model and Endogenous Growth Model (1956). As shown in [Figure 2-2], in the Solow model, opening of the economy brings more efficient distribution of resources by moving low added value production line to foreign countries. Also, opening the economy results in economic development by increasing productivity in the long run. Furthermore, in the Endogenous Growth Model, when globalization through opening and trade occurs, enterprises practice technology research and development to improve their competitiveness. Then, greater technological advancement takes part in increasing firm's productivity and in the long run, in advancing the national economy.

[Figure 2-2] Income Increase due to Opening of the Economy



3.1.1.2. Economic Growth Path of the Trade

a. Increased Efficiency in Resource Distribution

On the basis of the Absolute Advantage theory of Adam Smith and the Comparative Advantage theory of David Ricardo, each country specializes in a product they can produce efficiently and exchange. This act improves the productivity of firms and induces economic growth which in turn elevates consumer's social welfare.

Adam Smith asserts that a country should specialize in a product that is in absolute advantage in terms of absolute cost of production, export that product and import products that are in absolute disadvantage so that trade benefits between countries can occur. On the contrary, David Ricardo argues that trade benefits occur when countries choose their export goods based on comparative advantage. When each country produces and trades a good for which they have comparative advantage, every country involved in the trade gains the benefits and worldwide efficiency expands.

b. Economies of Scale

Opening the economy can bring economies of scale. Trade liberalization makes free exit and entry possible for firms. This eliminates excess revenue (price – cost margin) and creates a 'rationalization effect' where due to a decreased number of operating firms, economies of scale appear. Moreover, after free trade, corporations

face a wider market and this enables them to lower unit production cost, resulting in increased productivity.

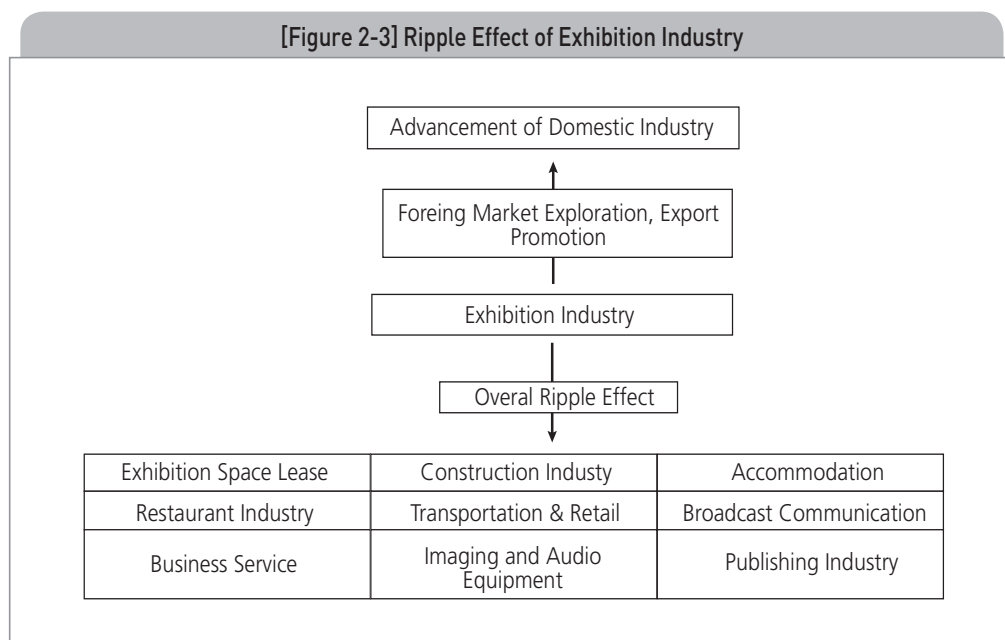
c. Promotion of Competition

Opening the economy not only provides greater opportunity to the producers with larger markets, but also introduces a risk factor called intensified competition. To survive in the market competition, firms strive to offer greater quality good for lowest price. This will in turn give birth to improved competitiveness.

3.1.2. Trade Center's Role in Promoting Competition

3.1.2.1. Increasing Trade through Trade Exhibition Industry

The trade exhibition industry is a marketing method that integrates product, technology, and information. It is a trade infrastructure that aids enlarging export volume through minimizing transaction and information cost and providing great opportunities for new product introduction and up-to-date information acquisition.¹¹⁾ Since people can access complete information about trading countries



Source: Private and Public Joint Cooperation in Exhibition Industry T / F

11) Private and Public Joint Cooperation in Exhibition Industry T / F, Chapter 1.1. Exhibition Industry Outline

and firms in a single location, it reduces transaction costs. Moreover, help from trade specialists can induce more fruitful contract conclusions, which in turn aid enterprises in pioneering foreign markets and enhancing exports. As [Figure 2-3] shows, trade exhibition with international competitiveness is regarded as knowledge service industry that results in high added-value. Consequently, trade exhibition contributes to the national economy since it brings positive ripple effects to front back industry and helps economic development of the region where the exhibition is held.

3.1.2.2. Trade Information and Consulting

Trade Centers not only practice exhibition work but also make the trade process smoother by providing information to increase export and consulting systems. To provide more professional service, a separate trade information center should be operated within the Trade Center. It should perform research and analysis of exportable goods and export industrialization measures. Particularly, the trade information center should provide trade related information such as statistics about foreign markets, taxes, customs formalities, trade regulations, and FTA provisions and be responsible for firms' foreign market entrance. This will reduce the opportunity cost of trade and will maximize export enhancement effect in short amount of time.

3.1.2.3. Trade Specialist Training

A trade specialist is a person who, based on their expertise on trade, provides domestic firms all information concerning imports and exports business including export consultation, trade contract/correspondence preparation, foreign currency, distribution, customs and exhibitions.¹²⁾ In doing so trade specialists are directly connected to exports of domestic corporations. The Trade Center should operate a trade academy where a trade specialist education program can be developed to foster professional manpower. A trade academy produces trade specialists using various education measures ranging from basic trade theory classes to job training. Trade specialists cultivated in the academy will act as practical intermediaries who improve the export competitiveness of small businesses.

3.1.2.4. Integrated E-Trade System

E-Trade is a comprehensive concept which includes cyber trade, online transaction, and trade automation. It means trade activity that is executed in an electronic, information compact way by utilizing IT methods in transactions of goods and services between countries.¹³⁾ This is an alteration of method from existing offline trade process to that of online. This change will result in simplification of trade

12) "History of Trade of Korea", <http://ebook.kita.net>

13) <http://www.utradehub.or.kr>

procedures and retrenchment of related cost. Particularly, reduction of transaction costs will provide opportunity to dramatically improve the high-cost structure of international trade. New business models and market types created from E-Trade will suggest new directions in which to boost export competitiveness. This construction of an integrated E-Trade system will be possible through the Trade Center.

3.2. Korea's Experience

3.2.1. Korea's Trade Promotion Policies & Growth¹⁴⁾

3.2.1.1. Export-led Growth Policies and Growth of Trade Volume

Until the 1960s, Korea suffered from a chronic trade balance deficit and needed to establish the infrastructure necessary for the development of secondary industry. To solve these issues, Korea established trade promotion policies targeting the promotion of export and improvement of international balance of payments, development and intensification of heavy chemical industry, advancement of science technology and expansion of educational facilities, and balanced development of fundamental social facilities. Specifically, through the 1st, the 2nd, and the 3rd 5-year economic development plan, Korea sought to achieve qualitative growth of the economy. As a result of these overseas-aimed policies, the Korean economy experienced a consistent increase in trade volume and a rapid growth of CAGR; 8.3% after the 1960s. Moreover, such overseas-aimed economic growth policies are thought to be more successful when compared to other nations that adopted domestic-aimed policies (or import substitution industrialization policies).

3.2.1.2. Growth of Trade Volume

During 1965~1980, Korea's GDP showed CAGR of 8.3%, and trade volume increased by 3.3 times. This phenomenon is thought of as a positive effect of trade expansion, and during this period the Korean economy showed a rapid quantitative and qualitative change in every aspect.

As shown in <Table 2-3>, from 1962 to 1977, when the third 5-year economic development plan was terminated, Korea's CAGR of export reached 41.5%, and export volume increased from 33 million dollars in 1962 to 10 billion dollars in 1977. There were some fluctuations in export volume affected by global economic conditions and domestic business fluctuations, but from 1962 to 2008, the nominal export volume increased more than 7,600 times, and CAGR was 21.5%, suggesting that export is still an important axis of the economic growth of Korea.

14) KOTRA, "50-Year History of KOTRA, Reaching out to the World", 1.9. Export-led Development Policy Founded, "60-Year History of Korean Economy"

〈Table 2-3〉 Korea's Trade Trend (1960~2008)

(Unit: Million dollars, %)

Year	Export		Import		Trade Balance
	Amount	Rate of Increase	Amount	Rate of Increase	Amount
1962	55	34.1	422	33.4	-367
1970	835	34.2	1,984	8.8	-1,149
1977	10,046	30.2	10,811	23.2	-764
1985	30,283	3.6	31,136	1.6	-853
1986	34,714	14.6	31,584	1.4	3,131
1987	47,281	36.2	41,020	29.9	6,261
1988	60,696	28.4	51,811	26.3	8,886
1989	62,377	2.8	61,465	18.6	912
1990	65,016	4.2	69,844	13.6	-4,828
2000	172,268	19.9	160,481	34	11,786
2005	284,419	12	261,238	16.4	23,180
2008	422,007	13.6	435,275	22	-13,267

Source: Ministry of Knowledge Economy, Korean Trade Association database

3.2.1.3. Introduction of General Trade Company System: Establishment of Trade Center

The introduction of a general trade company system played the biggest role in the 1970s' trade promotion policies. The initial objective was to overcome the difficulties of export companies, and to also deal with matters such as pioneering new export markets, focusing on the change of overseas market and substantial enhancement of export. When industry intensified and export increased immensely, export of small and mid-sized companies also became more active. KOTRA, the state-operated export promotion specializing agency, sought to meet the government policies to enhance export of small and mid-sized companies, and accordingly played a role in establishing domestic information organization, expansion of overseas market, development of new products and providing information, concentrating on supporting export of small and mid-sized companies.

With this background, KOTRA took over the Korea Convention & Exhibition Center (COEX), which was suffering from budget deficit since 1983, and applied KOTRA's know-how gained from the 20 years of exhibition industry experience. KOTRA essayed to maximize its support for small and medium sized corporations

by linking market exploration and exhibition functions. Consequently, the number of exhibitions increased from 11 in 1982 to 30 in 1985. The rate of operation of the exhibition center also increased from 25.2% in 1982 to 41.8% in 1986.¹⁵⁾ Growth of the operation rate helped COEX escape its deficit and build a foundation for operating in the black. KOTRA contributed to normalizing COEX's operations and revitalized the domestic exhibition industry. Moreover, it made contribution to the enlargement of export by discarding government-led conglomerate centered export policy and fostering export of small and medium sized companies.

Along with the government institution KOTRA, KITA, a private interest group, also operated various support projects to help increase export. KITA offered support through exploration of foreign markets, opening specialized exhibitions, providing NGO and business cooperation, and performing trade related research. Furthermore, as a middle man for import and export, KITA took part in improving Korea's trade policies and expanding trade infrastructure. Additional businesses conducted by KITA include developing trade specialists through trade academy, expanding E-Trade infrastructure, improving logistics, and advocating the right of shippers.

After recovering from the trade balance deficit and weak social infrastructure of the 60s, since the late 70's COEX has contributed in resolving the current balance deficit and increasing trade, leading to economic growth. Moreover, with the effort of government, civilian organizations, general trade companies and COEX, CAGR of GDP increased from -3.7% in 1980 to 7% in 1985, and CA balance increased immensely from -5.321 billion dollars to -887 million dollars in 1980, and 5.055 billion dollars in 1989.¹⁶⁾

3.2.2. The Role & Characteristics of Trade Center, Contributing to the Economic Growth of Korea

3.2.2.1. Enhancement of Trade and Trade Exhibition Industry

Since its first participation in the New York International Convention in April 1964, Korea has tried to broaden its knowledge by actively participating in a number of international conventions. Finally, in 1982, Korea was able to hold an international trade convention, the 'Seoul Food Convention'. This convention aided food-related firms to achieve business transactions with foreign buyers. Owing to these outcomes, the number of companies participating in the 'Seoul Food Convention' increased 17-fold in 30 years and the number of countries participating increased 6-fold as shown

15) KOTRA, "50-Year History of KOTRA, Reaching out to the World", 3.4. Imprinting 'Made in Korea' through Invigoration of Exhibition Industry

16) KOTRA, "50-Year History of KOTRA, Reaching out to the World", 3.3. Seeking for Breakthrough to Respond to Change in Commercial Environment

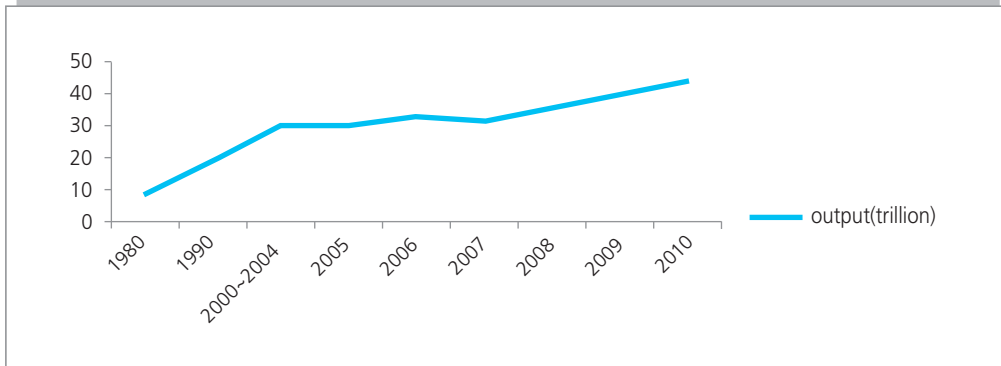
in <Table 2-4>. The 'Seoul Food Convention' has maintained its status and reputation as an international-scale specialized exhibition. In fact, as can be seen from [Figure 2-4], the volume of the food manufacturing industry, which was only 9 trillion dollars in 1980s, increased 4.7 times over the 30 years thanks to the international trade exhibition.

<Table 2-4> Present Condition Comparison of Seoul Food Convention

Category	1982	2012	Comparison
Exhibition Space(m ²)	4,896	108,049	103,153 (22 folds)
Participating Company	84	1,450	1,366 (17 folds)
Attendee	-	60,000	-
Participating Country	7	44	37(6 folds)

Source: KOTRA Seoul International Food Industry Exhibition Project Plan (2012)

[Figure 2-4] Domestic Food Manufacturing Industry Output



Source: KOTRA Seoul International Food Industry Exhibition Project Plan (2010)

Moreover, the trade center provides the opportunity to enter the overseas market by hosting exhibitions in foreign countries. As shown in <Table 2-5>, from 2003 to 2009, about 3,379 Korean companies participated in foreign exhibitions and achieved contract revenue of 23,658 million dollars annually through these exhibitions. This implies that many domestic companies are expanding into the overseas market and furthermore suggests an increase in trade.

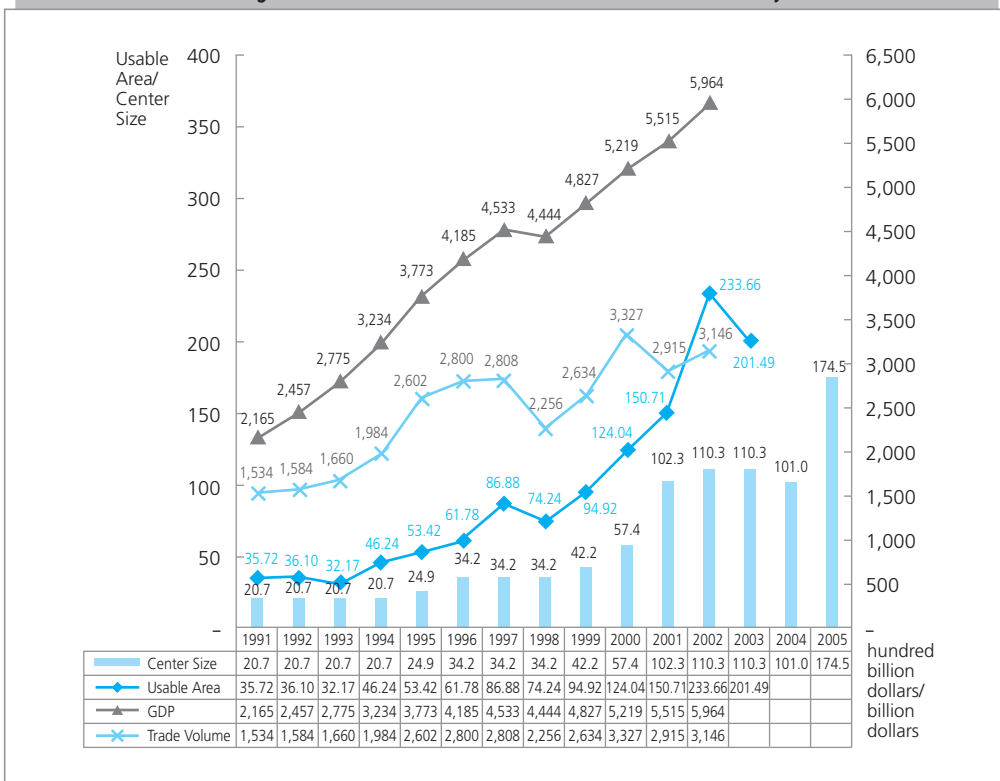
〈Table 2-5〉 Record of Group Participation in International Exhibitions

Category	2003	2004	2005	2006	2007	2008	2009
Frequency	171	182	189	182	119	117	150
Participating Company	3,650	3,805	3,500	3,799	3,447	2,263	2,645
Contract Amount (Million dollars)	2,370	3,343	3,682	2,534	2,257	1,900	1,300

Source: 2010 White Paper on Economics

Korea's trade center contributed in widely advertising Korea and Korean products through exhibition business including hosting international fairs & overseas exhibition business, as well as facilitating domestic companies to enter overseas market. As shown in [Figure 2-5], Korea's trade volume increased proportionately with the increase of exhibition hall size and usage area, and in 2002, GDP reached 596.4 billion dollars. As such, the exhibition business is essential in enhancing trade and promoting growth of national economy.

[Figure 2-5] Growth Trend of Korea's Exhibition Industry



Source: Demand Forecast of Domestic Exhibition Center and Efficient Management Measure (Institute of Convention & Exhibition Management)

3.2.2.2. Increasing Export through Youth Trade Personnel Training Program

Trade personnel are the middle men of the trade business who substantially contribute to increasing export. Currently, Korea is operating a Trade Personnel Training Program as one of its measures to enhance export. The 'Youth Trade Personnel Training Program' is one of the representative works of the overall program.

The 'Youth Trade Personnel Training Program', a program initiated in 2000, was established under the motto of developing trade business affairs personnel by recruiting adventurous and enterprising young men. The program helps domestic companies to smoothly conduct export business by providing educational programs of trade business affairs and job placement and sending men to overseas branches. Moreover, the development of CB-HRD (Competency Based Human Resource Development) in 2005 provided optimal service to domestic companies by specializing the work abilities of trade personnel. Accordingly, job training (MD, Ph.D courses, local training of overseas working force, investment education and online job education) was organized to enforce specialization capacity and the ratio of job training expenses in total labor cost is expanding each year as shown in <Table 2-6>.

<Table 2-6> Training Expense Weight Trend

(Unit: Million won, %)			
Year	Total Personnel Expense	Total Training Expense	Weight
2002	35,605	1,039	2.91
2003	38,182	1,280	3.35
2004	39,275	1,402	3.57
2005	40,831	1,719	4.32

Source: KOTRA Management Evaluation Report (2005)

3.2.2.3. Establishment of Integrated E-Trade System

Korea put substantial effort and investment into the creation of the foundation for adopting electronic trade by developing a trade automation system. For instance, Korea established a 'u-Trade Hub', an integrated E-Trade system, and KOPS (KOTRA Online Payment Service), an E-Trade payment service. First of all, 'u-Trade Hub' is a system that aids all trading companies to exercise trading business with export partner firm through internet. It is effective in enhancing global competitiveness of domestic companies through economic means including lowering cost and solving problems coming from different time zones. As a result, incidental trade charges

were reduced by 14.5 billion dollars and export volume increased by 7.9 billion dollars.¹⁷⁾

Moreover, KOPS was launched in 2007 to firmly support the foundations of E-Trade. It is an economic infrastructure that enables domestic companies to execute commerce with trading nations, enhances export of domestic companies, and provides convenience. As shown in <Table 2-7>, after adoption of KOPS in 2008, export consulting fees increased by 49.80 percent, indicating that KOPS played a positive role in encouraging export.

<Table 2-7> Use of E-Trade and Its Contribution to Export Enlargement

Category	2007	2008	Rate of Growth
Export Counseling (million dollars)	387	580	49.80%
Use of KOPS (frequency)	209	1,536	634%
Average Number of Settlement per Company using KOPS	2.9	5.9	103.4%
On Site Counseling	No Immediate Payment	Immediate Payment	

Source: KOTRA Management Evaluation Report (2008)

3.2.3. Korea's Implications and Proposing the Role of Dominican Republic's Trade Center

In this section, we will apply the roles and characteristics of the Trade Center that contributed to the economic growth of Korea to the realities of the Dominican Republic. Based on the management know-hows of the Korean Trade Center, the measures in which the Trade Center will contribute to the economic growth of the Dominican Republic will be proposed in three different areas – holding food/tourism-related exhibitions & fairs, setting up trade academy, and establishing integrated E-Trade systems.

3.2.3.1. Holding Food and Tourism Related Exhibitions & Fairs for Export Promotion

A Trade Center should implement export promotion policies through the exhibition industry, a tangible and practical means of market development. For the export promotion policies to be effectively implemented through the creation of

17) <http://www.utradehub.or.kr>

the Trade Center, there must be a prior establishment and implementation of export industry promotion policies that can contribute to the real expansion of export. Thus, it is suggested that the Dominican Republic choose the industry with a comparative advantage, the food/tourism industry, as its leading export industry and nurture it to derive the sophistication of industrial structure and economic growth.

First of all, improving trade performance between domestic firms and foreign firms can be expected by exhibition of major items such as sugar, sugar cane, coffee, cigarette, cacao, and processed foods from these items. By preparing production and transportation based near the Trade Center, transportation distance can be downsized to maximize efficiency. Furthermore, manufactured items' price competitiveness can be emphasized to foreign buyers by cooperating with Free Trade Zone. Attracting a large number of foreign buyers will build up a country's brand power to the international level. Food exhibitions at the Trade Center will contribute to the vitalization of the Dominican Republic's international trade with major countries and to the development of new foreign markets, resulting in the Dominican Republic becoming a major trading partner itself.

〈Table 2-8〉 Export Status of Major Trading Goods

(Unit: Million dollars)				
Category	2009	2010	2011	2012
Sugar	121.1	195.7	204.6	200.9
Coffee	19.7	10.4	26.4	34.1
Cigarettes	11.9	11.2	14.9	11.6
Cacao	164.0	187.3	183.7	168.5
Ferronickel	4.1	-	290.1	457.3
Free Trade Zone	3,793.5	4,217.6	4,884.5	4,987.9
Total	4,114.3	4,622.2	5,604.2	9,078.9

Source: Central Bank of the Dominican Republic

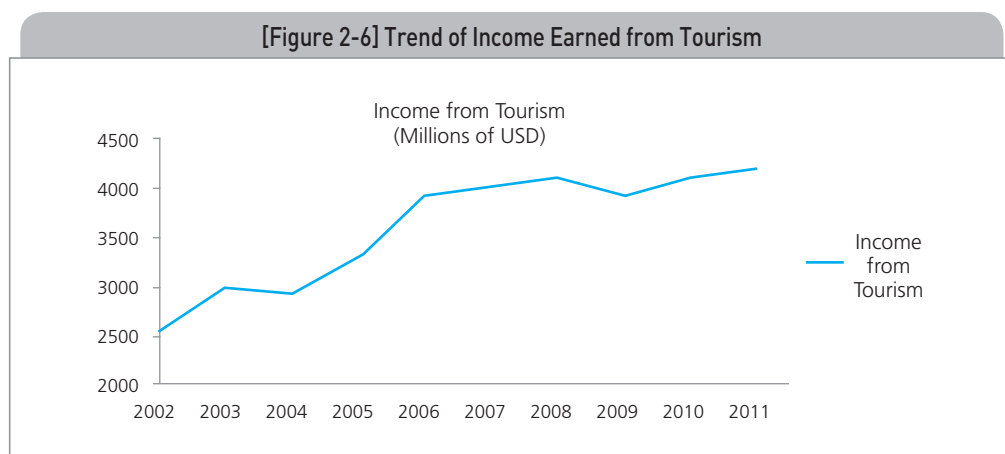
〈Table 2-9〉 Five Major Import Countries of the Dominican Republic (FOB based)

(Unit: Million dollars)				
Rank	2011		2012	
	Country	Export scope	Country	Export scope
1	USA	1,485.3	USA	3,501.25
2	Haiti	499.76	Haiti	1,134.71
3	Puerto Rico	178.76	Puerto Rico	481.94
4	Netherlands	82.81	China	342.47
5	China	69.43	Guatemala	130.29

Source: CEI-RD

Using the 'Seoul International Food Industry Exhibition' (the first specialized exhibition in South Korea) as a model, the Dominican Republic's food industry can integrate with its tourism industry and create its own food exhibition, the such major exhibition in the Central and South American regions. By using this exhibition as a place to interact with foreign firms and to advertise the excellence of the Dominican Republic's food products, the positive effects of the exhibition are expected to vitalize the domestic exhibition industry and increase export performance.¹⁸⁾

Together with the food exhibitions, holding specialized exhibitions and item-by-item exhibitions integrated with the tourism industry during national PR events will exert significant impact on the Dominican Republic's tourism industry, expand its market and create a firm foundation as a staple export industry. As can be seen from the [Figure 2-6] and <Table 2-10>, the tourism industry's contribution to the country's total output has been constantly increasing. Based on 2012 data, the tourism industry accounted for 15.2% of total output, 14.1% of total employment and 33.2% of total export (consumption of foreign tourists), showing greater importance compared to the manufacturing and agriculture industries. Thus, if a tourism industry that shows comparative advantage is strategically fostered along with the Trade Center, it will substantially help advance the country's economic growth.



Source: Dominican Republic Ministry of Tourism, "Tourism Investment Guide"

18) WTTC, "Travel and Tourism Economic Impact 2013 Dominican Republic"

〈Table 2-10〉 Contribution of Travel & Tourism to Economy

Category (DOPbn, Real 2012 Prices)	2009	2010	2011	2012	2013E
Direct Contribution of Travel & Tourism to GDP	99.4	103.7	103.8	107.9	111.7
Other Final Impacts (Indirect & Induced)	121.4	126.5	126.8	131.7	136.4
Total Contribution of Travel & Tourism to GDP	323.5	331.9	334.4	346.6	358.4
Total Contribution of Travel & Tourism to Employment	566.8	551.9	557.4	562.1	582.8

Source: WTTC, "Travel & Tourism Economic Impact 2013 Dominican Republic"

Meanwhile, in a long-term perspective, a variety of goods besides food items should be exhibited as well in order for the exhibition industry to successfully work. For such a diversification of exhibition items to take place, the export industry must concurrently be nurtured. Thus, the Dominican Republic should nurture labor-intensive industries like the food and tourism industry in the short term while searching for and developing higher value-added businesses through increasing the sophistication of the industrial structure in the long term. Currently, the Dominican Republic has set the transition from labor-intensive industry to IT industry as its priority goal and is promoting reform in industrial structure by attracting foreign investment, revising laws, and deregulation.¹⁹⁾ Development of industrial manpower and reasonable support from the government is needed for such efforts to bear fruit. As seen from Korea's experience, increasing the sophistication of industrial structure was only possible with the active support of the government, development of human capital, and export support through the vitalization of the exhibition industry. Thus, the government of the Dominican Republic should promote policies to create a virtuous cycle between industrial structure sophistication, export industry development, and exhibition industry vitalization.

3.2.3.2. Setting Up Trade Academies

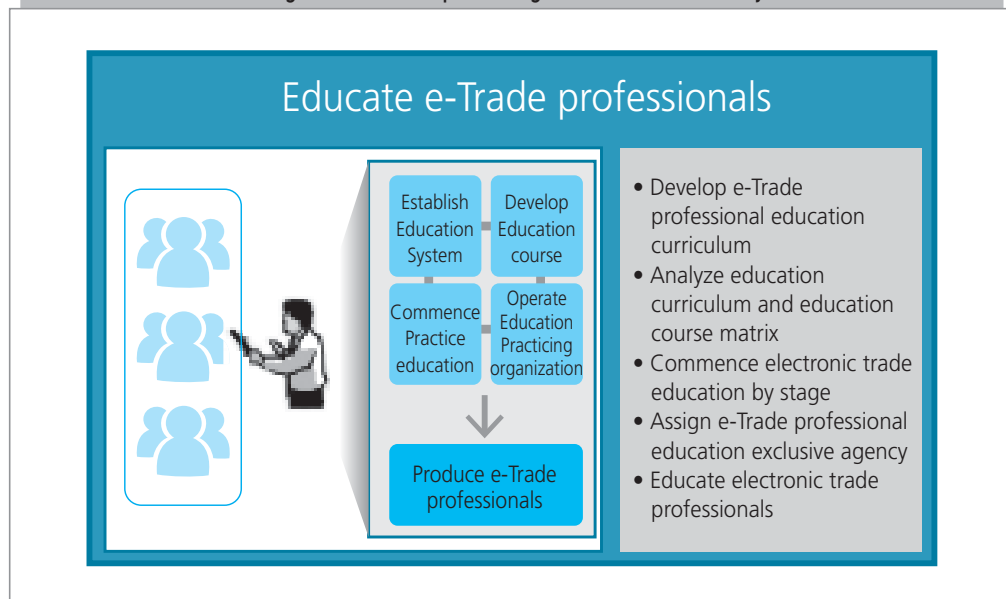
The goal of education surrounding trade in the Dominican Republic today is to offer a variety of courses on management, distribution, sales, development of new markets, innovation, and to provide exporting firms with the right tools to make decisions. However, the reality is that most of the education is offered in the form of seminars, as professional curriculums are currently not offered. Therefore, a Trade Academy must be established at the Trade Center in order to provide structured and continued professional education focused on trade. Through industry-university collaboration, both theoretical knowledge and work experience should be practiced to nurture professional exhibition personnel. To be more specific, subjects like

19) World Laws Information Center (<http://world.moleg.go.kr/World/SouthAmerica/DM>)

International Foreign Practice, Trade Management System, Foreign Currency System, Tariff System, Shipping, Marine Insurance, Foreign Market Analysis, and Trade Business Practice could be taught in the academy. Also, the academy must adopt high quality educational methods such as Foreign Language Practice for Trade and Field Training to enhance the students' practical work abilities.

There are three specific methods for manpower training. First is developing an E-Trade professional education curriculum. This curriculum should strengthen and build on original curriculums and international marketing education as well as provide extra compulsory lectures in the IT area. Second, this curriculum should provide a step-by-step E-Trade education. More systematic manpower training becomes possible by dividing the curriculum into executive apprenticeship training curriculum and E-Trade professional curriculum. Executive apprenticeship training curriculum should be provided to people with experience in trade or sales abroad, whereas the E-Trade professional curriculum should be provided to those in the field of trade already, providing a quality re-education system. Last one is cooperation with the Korean Trade Academy to develop high quality trade professional curriculums and to exchange information so as to enhance the quality of education on trade.

[Figure 2-7] Conceptual Diagram of Trade Academy



Source: Korea Export Import Bank

3.2.3.3. Establishing an Integrated E-Trade System

The Dominican Republic's Office of Customs Administration established the Universal Pass in November of 2009. The Universal Pass contains an import/export portal system, IT infrastructure, and computation center including a disaster restoration center. This establishment has contributed to the stability and efficiency of the customs procedures by reducing the 5-step procedure to a 2-step procedure. The customs processing period has decreased from 2~3 days to a mere 30~40 minutes. Nationally, the Universal Pass established transparency in customs administration, contributing to an increase in tax revenue. Internationally, it provided higher expectations for trade and investment vitalization. While the Universal Pass is established, however, a nationwide electronic system and E-Trade system are yet to be established.

Not just the Universal Pass, but also electronic systems in trade, distribution, banking, and marketing are needed as well as an E-Trade integration system that encompasses all sub-level systems. For this, KNET (Korea Trade Network), in the name of E-Trade consulting service, has done a feasibility study on the establishment of an immigration control system in 2010. In 2011, the Dominican Republic participated in an e-government training course hosted by Korea's Ministry Security and Public Administrations in Santo Domingo, Dominican Republic.

The E-Trade integration system provided by the Trade Center must feature a fast and convenient 'one-stop' service to all portals of individual firms and government institutions with a single log-in. The integration system portal must feature an integrated resource center for the users to be able to search within the entire system at once. Also, within the portal there must be an enhanced communication service connecting all users in trade, distribution, banking, customs and all other sub-level portals.

An E-Trade integration system, by providing an automated service for the entire import-export process, will bring innovation in reducing incidental expenses in trade and reform the current high-cost structure of international trade. In return, price increases in production cost of imported raw materials will be contained and price-competitiveness of exported goods will increase. In all, E-Trade integration system will, in the long term, enhance the Dominican Republic's competitiveness in export and this, in return, will lead to strengthening of national competitiveness and economic growth.

3.3. Suggestions for Successful Operation of the Trade Center

So far, the necessity for the Trade Center in the Dominican Republic has been analyzed, based on how Korea's trade center has contributed to Korea's economic development and the lessons learned in its development. In this section, three essential particulars that must be taken into account when establishing and operating the Trade Center will be discussed: conditions for optimal location, industrial policies that must be practiced simultaneously, and methods to improve efficiency and transparency in operating the Trade Center.

3.3.1. Location Choice of the Trade Center

To utilize the Trade Center more efficiently, the best location should first be determined to maximize both short term and long term profit. When choosing the location, one of the most significant factors to be considered is the accessibility of potential foreign buyers. The main purpose of the Trade Center is facilitating the amount of export by advertising Dominican products and attracting foreign buyers. In order to promote products, foreign buyers should be able to access the Trade Center easily. Therefore, if the Trade Center is located in a place foreign buyers have difficulty reaching, it will be useless. To have good accessibility, local transportation infrastructure should be intelligently designed. Also, provision of an international airport or harbor is a must so that foreign buyers can reach the Trade Center easily.

Secondly, the Trade Center should be located in the place where it can create a ripple effect by connecting with other industries. The Trade Center needs to be utilized not only to promote domestic products, but also to create additional profit by connecting with other industries. In the case of the Dominican Republic, tourism which targets foreign buyers will be able to create a huge ripple effect. Thus, if the location of Trade Center possesses more potential for greater tourism, the ripple effect of the Trade Center would be greater.

Thirdly, the Trade Center should be located where its construction cost can be minimized. To build the Trade Center, social infrastructure like electricity, water, communication, air-conditioning, and heating needs to be prepared prior to construction. If the Trade Center is established where there is not enough social infrastructure, additional cost to construct social infrastructure would occur. This would mean an inefficient utilization of the Trade Center. Thus, the existence of the social infrastructure is a significant factor in choosing the site for the Trade Center.

As the largest city of the Caribbean and the capital city of the Dominican Republic, Santo Domingo satisfies all the qualities mentioned previously.

Most importantly, Santo Domingo is the economic center of the Dominican Republic and thus possesses better infrastructure than any other city. As of 2013, the population of Santo Domingo is approximately 2.25 million which accounts for 25% of the nation's total population. Also, major universities like Universidad Autónoma de Santo Domingo and Universidad APEC are concentrated in Santo Domingo. This implies that the human capital of Santo Domingo is comparatively abundant. Abundance of infrastructure and human capital would minimize the cost of running the Trade Center. Moreover, most headquarters of foreign and domestic firms and government buildings are located in the city as well. Representatively, CEI-RD is located in Santo Domingo; thus operation of the Trade Center would be most effective if it is built in the same city. As of 2011, 110 companies are practicing business in the free trade zone of Santo Domingo and their accumulated investment accounts for 28.29% of the total amount.²⁰⁾ Also, the Herrera industrial complex and Haina industrial complex, main industrial complexes of the Dominican Republic, are situated on the outskirts of Santo Domingo. Santo Domingo is an economic hub of the country where social infrastructure like electricity, communication and water supply is well equipped. Thus, if the Trade Center is constructed in Santo Domingo, additional cost can be minimized and the ripple effect to other industries can be maximized, resulting in greater efficiency in operating the center.

Secondly, Santo Domingo possesses the greatest accessibility. Critically, there are already airports and ports that facilitate the incoming of foreign buyers and tourists. The main airport of Santo Domingo is Las Américas International Airport (AILA). In 2012, a total of 1,261,701 passengers and 11,649 flights went through AILA, making it one of the busiest airports in the Caribbean.²¹⁾ Also, Santo Domingo has five ports that are all located within ten minute distance from main tourist attractions.²²⁾ Furthermore, Santo Domingo provides the greatest public transportation among the Dominican cities. Since its first operation in 2009, the Metro operates two lines, one from south to north and one from east to west and the number of lines is expected to increase to 4 in the near future.²³⁾ Along with metro, various types of public transport including private taxis, buses, motorcycle taxis (Motoconcho), and helicopters are also available. This variety of transportation options will facilitate the movement of foreign buyers and tourists who visit the Trade Center. Thus, outstanding inter-city accessibility gives more evidence that Santo Domingo is the optimal location for the Trade Center construction.

Thirdly, Santo Domingo is located within two-hour distance from Punta Cana, a renowned resort town, and from Samaná, a city that has high potential for tourism

20) Oficina Nacional de Estadística, "Dominicana en cifras 2012"

21) Central Bank of the Dominican Republic, "Aeropuertos Internacional Las Americas-Vuelos Regulares"

22) Dominican Republic Ministry of Tourism, "Santo Domingo Guide"

23) "El Metro and the Impacts of Transportation System Integration in Santo Domingo, Dominican Republic", A Report for the United Nations Commission for Sustainable Development, May 2010

with its beach, national parks, and superb scenic beauty. Notably, Punta Cana is the biggest tourist site of the Dominican Republic and the world's 65th most popular tourist attraction where approximately 2.4 million people visit annually.²⁴⁾ Since Santo Domingo and the above two cities are closely connected through buses and flights, visitors to the Trade Center can easily travel to Punta Cana and Samaná. Therefore, construction of the Trade Center in Santo Domingo will have a great ripple effect in Punta Cana and Samaná through linkage between the Trade Center and tourism industry. Consequently, Santo Domingo satisfies all location qualities previously noted, and thus constructing the Trade Center in the region will result in efficient operation of the center and maximization of the ripple effect to other regions and industries.

3.3.2. Coordinating Trade Center with Industrial Policy

As mentioned previously, building the Trade Center should be coordinated with industrial policy to maximize its impact on economy. The main export items of the Dominican Republic are primarily food commodities such as sugarcane, coffee, tobacco, and cacao. Therefore, generating new export items is required so that they can be displayed in the Trade Center. In other words, to have its full impact, building the Trade Center should be incorporated with a policy of generating new sets of export items.

As previously explained, establishing the Trade Center should concur with an appropriate industrial policy in order to boost economic growth of the Dominican Republic. In the case of the Seoul International Food Industry Convention in 1982, Korea developed a food industry which was displayable at its Trade Center. The output of the food manufacture industry increased 4.7 times in the 30 years since then. Building up the Trade Center should coincide with a strategy to develop the food manufacturing business which is a core industry of the Dominican Republic.

Along with the food manufacture industry, the tourism industry is one of the comparative advantages that the Dominican Republic can harness. Strategic utilization of the Trade Center will be needed to promote tourism. Tourism has experienced steady growth and accounts for 33.4% of the Dominican Republic's total export. Thus, developing the tourism industry and its profit is essential for the future economy of the Dominican Republic. The fact that the Dominican Republic has the second most tourist visits among Caribbean countries, right after Mexico, shows its tourism industry's potential. In 2010, the numbers of tourists increased by 3.4%. However, the average rate of increase is only 0.83% during the last 5 years when factoring in the rate of increase of foreign tourists. According to 2013 data, tourists with business purposes are only 5.3 % of all tourists visiting the Dominican Republic.

24) Euromonitor International 2012

Consequently, if the Trade Center is constructed for conventions and exhibitions, it could generate more visitors with business purposes and expect economic growth from the activity at the same time.

As shown in <Table 2-11>, the spending and length of stay per convention participant are extremely high compared to regular tourists. Constructing the Trade Center will invigorate the exhibition business and generate more business-related visits. This will greatly contribute to the growth of the Dominican tourism industry. Although cruise tours and other high-end tours have exhibited stagnated growth until the present, interacting with Resort Town and exhibition business will create a synergy effect with the entire tourism industry as a whole, by improving hospitality facilities around the Trade Center.

<Table 2-11> Spending and Length of Stay of Exhibition & Convention Participants

Category	Exhibition & Convention Participant	General Tourist
Average Spending per Person	US\$ 2,683	US\$ 1,368
Average Days of Stay	6.4	4.9

Source: 2000 KTO Study on International Conference Participants

If the Trade Center is built in an area where it is accessible and a resort town is created nearby, it would possibly advance the tourism industry. Since a cruise tour, which is one of the most popular travel items during winter time, re-experiencing limited growth, constructing the Trade Center and the resort town will undoubtedly help the tourism industry's growth.

When the resort town is established adjacent to the Trade Center, not only would it allow foreign buyers an opportunity for sightseeing and relaxation, but also it would increase the time of their stay and spending as well. Moreover, it will make visitors aware of the Trade Center and its exhibition, which opens the door for future business opportunities. By facilitating hotels, shopping centers, and recreation facilities in the resort town, the Dominican Republic could form a tourism complex similar to COEX in Korea.

3.3.3. Measures to Improve Transparency and Efficiency in Trade Center Operation

For the Trade Center to successfully perform its role as mentioned above, enhancement of transparency and efficiency concerning its operation is a necessary precedent. First, if lack of transparency occurs, it can result in rent seeking activities

by the establishment, corruption of bureaucrats, and inconsistent policies that can obstruct the Trade Center from fulfilling its goals. According to the Transparency International, 2013 Corruption Perceptions Index (CPI) of the Dominican Republic is 29th out of 100, ranking 123rd among 177 countries.²⁵⁾ Therefore, for successful construction and operation of the Trade Center, a measure that can secure transparency of procedure should be devised.

Moreover, according to 2012 World Governance Indicator, reported by the World Bank, the Dominican Republic ranks 136th among 214 countries for its efficiency index.²⁶⁾ Thus, improvement of efficiency is a prerequisite for successful operation of the Trade Center. To improve efficiency, the Trade Center, trade academy, and integrated E-Trade system should each form a concrete operation organization chart and prepare objective assessment measures so that opacity and inefficiency of operation could be prevented.

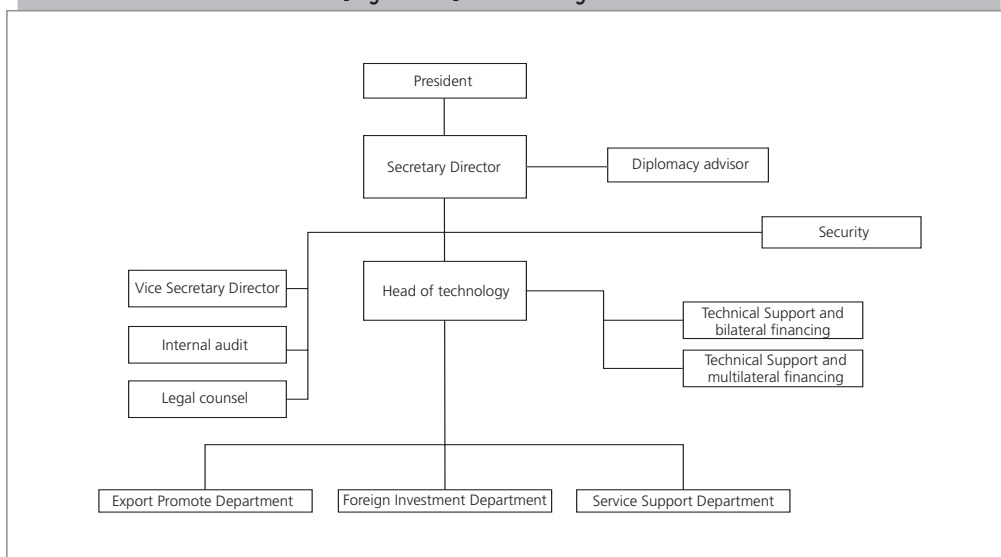
To achieve this, the three constituting parties must establish an internal monitoring system and systematic organization chart. Tasks that require great level of transparency such as order and shipping, licensing, affiliate member management, and service management, must be characterized by thorough examination and fair screening processes must be practiced. Furthermore, management based on global guidelines should be practiced to prevent possible corruption or opacity that can occur in the midst of the Trade Center's construction and operation. In addition, an external audit should be instituted based on international audit standards to rectify any corrupt operation that might be encountered.

The new trade center will not only play the role as an exhibition center but also as a trade promoting organization through its trade academy and establishment of the E-trade system. Currently, the governmental organization in charge of international trade for the Dominican Republic is the Dominican Republic Export and Investment Center (CEI-RD), which integrated the roles of the Dominican Republic Export Promotion Center (CDEOPEX) and the Investment Promotion Administration (OPI-RD). As shown in [Figure 2-9], CEI-RD, a president affiliated organization, is under the control of the secretary director who is appointed by the president and CEI-RD consists of an export promotion department, foreign investment department and service support department.

25) Transparency International (<http://www.transparency.org/cpi2013/results>)

26) World Bank, "World Governance Indicator"

[Figure 2-8] CER-RD Organization



Source: CEI-RD

As the Dominican Republic is governed by a presidential system, the president has the authority to appoint and organize the cabinet as well as the right to appoint public officials and the right to decide issues of national diplomacy. This gives the administration the core of the republic's power. Consequently, the trade policy of the Dominican Republic has been heavily influenced by the change of the president when such changes have occurred. Thus, if there is a transfer of leadership, there is a chance of changing trade center business including its scope and roles. This will result in additional costs in operation of the center which will cause inefficiency. Therefore, in order to maintain consistency with respect to the tasks of the trade center regardless of the change of the regime, the trade center should be run outside of the CEI-RD and a private trade promotion agency should be chosen as the main agent to perform management duties of the trade center.

Along with internal monitoring, to improve transparency and efficiency the Dominican Republic should consider the creation of a private Trade Promotion Agency to manage the Trade Center instead of the Dominican government. Comprehensive roles of the Trade Center, trade academy, supply of E-trade, and trade information center, would be achieved through a systematic approach of the Trade Promotion Agency. In case of Korea's KINTEX, even though it was owned by Goyang city, it was operated by KOTRA, a private enterprise, which allowed KINTEX to operate in the black while improving its expertise. KOTRA practically took charge of KINTEX for 10 years with the purpose of successfully settling the institution.

Likewise, by transferring operational authority to the private sector, the possibility

of government-related corruption will be significantly lowered and efficiency in running the Trade Center will be increased. Specifically, a Trade Promotion Agency could outsource personnel from authorized external organizations to enhance its professionalism and transparency. When transparency and efficiency are secured in the construction process and policy establishment of the Trade Center, they will spread to other administrative procedures of the Dominican Republic, resulting in more efficacious founding and execution of economic development policies.

4. Financing for the Constructing the Trade Center

4.1. Estimate of Necessary Budget

As shown in <Table 2-12> below, the total cost of 62.43 million dollars is constituted of largely two parts: direct working expenses and indirect working expenses. Direct working expenses include Trade Center construction cost (direct construction cost), trade system construction cost, trade academy establishment, consultation, consulting services, and education and training. Indirect working expenses include taxes, the public utilities' charge, reserve fund, business management fee, and loan commission fees. Of these, 30 million dollars, 48.06% of the total cost, will be procured from an EDCF loan and 32.42 million dollars will be the cost that the Dominican Republic government will bear.

<Table 2-12> Total Costs

(Unit: Thousand dollars)

Category	Foreign Currency Portion		Local Currency Portion	EDCF Total	Gov. of Dominican Republic	Total
	Korea	3 rd Countries				
1. Trade Center Construction	8,755	1,481	8,764	19,000	25,474	44,474
1) Land Acquisition & Infrastructure	-	-	-	-	25,474	25,474
2) Architecture	6,165	186	7,253	13,604	-	13,604
3) Mechanical	1,222	611	713	2,546	-	2,546
4) Electric	1,368	684	798	2,850	-	3,850
2. Integrated Trade Data System	4,432	431	725	5,587	-	5,587

<Table 2-12> Total Costs (continued)

(Unit: Thousand dollars)

Category	Foreign Currency Portion		Local Currency Portion	EDCF Total	Gov. of Dominican Republic	Total
	Korea	3 rd Countries				
3. Trade Academy	88	-	-	88	-	88
4. Consulting Services	1,822	-	147	1,969	-	1,969
5. Training	346	-	-	346	-	346
Base Cost	15,442	1,912	9,635	26,990	25,474	52,464
6. Taxes & Duties	-	-	-	-	1,350	1,349
7. Contingencies	1,708	202	1,037	2,950	4,555	7,506
8. PMO (2% of base cost)	-	-	-	-	1,049	1,049
9. Service Charge (0.1% of EDF)	30	-	-	60	-	60
Total	17,214	2,113	10,672	30,000	32,428	62,428
Of EDCF (%)	57%	7%	36%	100%		
Of Total cost (%)	28%	3%	17%	48.06%	51.94%	100%

Source: Export Import Bank of Korea

4.2. Suggestions and Expected Effect

4.2.1. Rent Fund Acquisition

As noted previously, among the total cost needed for the construction of the planned Trade Center, the amount that the Dominican Republic should bear is 32.42 million dollars. Particularly, 18.70 million dollars, 17.5% of the total cost, is to acquire the construction site and this is the largest single amount which the Dominican Republic should bear. However, looking at the recent financial status of the Dominican Republic, it seems unlikely that the government will be able to fully fund this amount. Thus, with the government as the main party, regional governments and CEI-RD could cooperate to seek joint investment and joint operation. In comparison, KINTEX, the Goyang International Exhibition Center, was constructed with the collaboration of three parties: Gyeonggi-do, Goyang city, and KOTRA.

As can be seen from <Table 2-13>, Gyeonggi-do, in the role of the government, worked as the principal agent in building KINTEX. It formed and operated the 'exhibition center construction committee' side by side with Goyang city and

KOTRA. Moreover, a year and a half after the completion of KINTEX, Gyeonggi-do made KINTEX into a corporation and covered construction cost through revenues from investors. Goyang city, as a regional government, offered the location of the exhibition center for no cost under the condition that it acquires the possession of the exhibition center and operation revenues. Goyang city yielded its right of management to KOTRA and it took charge of the exhibition center for 10 years so that the Trade Center would have successful initiation. KOTRA took the high possibility of deficit into consideration in the initiation stage of the Trade Center and applied its expertise of trade center operation pursuing a successful initial operation of KINTEX.

<Table 2-13> Establishment of Goyang International Exhibition Center (KINTEX)

Size		Project Promotion Method		Reference
Site	330,580m ²	Main Agent	Gyeonggido	<ul style="list-style-type: none"> - 99.4: Confirmation of Exhibition Center Site - 99.9: Conclusion of Construction Contract - 2000.2: Establishment of Construction Committee - 2003.5: Initiation of Construction - 2005.4: Open
Construction Size	Construction Site: 274,380 m ² Exhibition Center Site: 178,512 m ² Additional Facilities: 95,868 m ²	Operation Agent	KOTRA	
Of these, the 1 st level project's size is 56,198 m ² of the Exhibition Center		Construction Method	Design-build Bidding	
		Site Acquirement	Offered by Goyang city	

Source: "Convention Management"

Taking its cue from Korea's case, the Dominican Republic should support and operate the planned Trade Center under its government's lead. In particular, if the selected city and CEI-RD arrive at a business agreement to secure the site for the Trade Center, cost for site acquirement could be reduced. In return for handing over the ownership of the Trade Center to the selected city, the site could be prepared without any cost. Also, by outsourcing the operation of the Trade Center to CEI-RD, the possibility of a deficit in the initial stage would be lowered. After the initial stage, CEI-RD could transfer its expertise and operational means to a private enterprise so that government and private sector could work hand in hand.

4.2.2. Membership Fee of Small and Medium Corporation Affiliate Members

As shown in <Table 2-14> below, the number of exporting firms in the Dominican Republic is approximately 3,000 as of 2009. Among these 3,000 companies, 98% are

small and medium sized corporations that have annual sales under 1 million dollars. Thus, for overall enlargement of export, a support plan for promoting export for small and medium sized companies is needed.

〈Table 2-14〉 Number of Exporting Companies Based on Their Scope

Scope	Number of Companies				
	2005	2006	2007	2008	2009
More than 100 million dollars	7	9	7	8	8
More than 10 million dollars	70	72	81	77	78
More than 1 million dollars	255	246	257	293	249
More than 100 thousand dollars	542	481	699	666	563
Less than 100 thousand dollars	1,994	1,675	2,133	2,041	2,043
Total	2,868	2,483	3,177	3,085	2,941

Source: CEI-RD

Integrated support service for small and medium sized corporations of the Dominican Republic would offer consolidated information about negotiation cost, export goods, foreign market, and foreign buyers. Benefits that can be earned by using the service should be well publicized and the necessity for joining the membership and using the service should be emphasized. When small and medium sized companies join as affiliate members, user fee, commission, and dues could cover the fund required for construction of the Trade Center.

In the example of Korea, this service is offered for 360,000 KRW in the name of a trade information fee. Considering the exchange rate and inflation rate of Korea (average 4.65% for last decade), the service's potential value is estimated to be 384.07 dollars in the Dominican Republic (74.27% of that of Korea). As to the number of affiliate members, 20% of a total of 11,726 import export companies of the Dominican Republic (2,688 exporting companies and 9,038 importing companies) are expected to be initial members and the number is assumed to increase 5.9% annually. According to the result of analysis, profit from the integrated E-Trade system is expected to be 11,898,223 dollars in future value and 6,858,708 dollars in current value.

Another alternative to gain profit is a membership fee from affiliate members. In the case of Korea, to sign up for a membership for the Korea International Trade Association (KITA), a new member pays 200,000 KRW for the membership fee and 150,000 KRW for annual dues. Current members pay only 150,000 KRW annual dues.

KITA's income from membership fees from 2007 to 2008 amounts to almost 7 billion KRW. Membership fees account for about 3% of total profit of the association. The Dominican Republic could also operate under a membership system that would involve small and medium sized corporations that account for 98% of the total number of firms. If various services mentioned above and additional services limited to members (such as discount benefits, free services, or recruitment) are offered, the number of members will gradually increase and in consequence, income from membership fee will mount.²⁷⁾

4.2.3. Lease Profit

Construction of the Trade Center has a production inducement effect since it brings added value, employment and net indirect taxes. Besides induced benefits, it also gives direct benefits like lease profit from offices, lecture spaces, exhibition halls and conference rooms, and management profit from exhibition and conference spaces. Specifically, lease profit from exhibition halls and conference rooms accounts for the greatest portion of operation revenue of the Trade Center.

The planned Trade Center includes office area of 2,650 m² in total. This area includes 600 m² business center, 900 m² IDC and office area inside convention and 1,150 m² lecture rooms. Office rent for the Dominican Republic is 12.6 dollars per m² (2008) and estimating an increase rate of rent to 10% and discount rate to 12%, expected lease profit of all offices/lecture rooms from 2013 to 2052 is to be 285,497,049 dollars in future value and 14,710,277 in today's value.

In this case, lease profit from exhibition halls and conference rooms was calculated using 74.27% of COEX's exhibition tariff rate 1.59 dollars (per day, per m²) considering the relative difference between rent of commercial areas near COEX and that of the Dominican Republic's industrial area. Applying the Dominican Republic's exhibition tariff rate and assuming rate of operation will increase 2% annually from 30% in 2013 until it reaches 40% in 2018 after which no further change is assumed, total expected revenue (2013~2052) from 13,000 m² of available lease space is expected to be 1,318,167,305 dollars in future value and 66,400,694 dollars in today's value.

Generally, maintenance fees of exhibition halls and conference rooms account for 20% of the lease revenue. Thus, revenue from maintenance fees is expected to be 13,230,565 dollars in today's value and 263,571,275 in future value. Consequently, if the Dominican Republic establishes the Trade Center, total lease revenue, that encompasses rent from office area, lecture rooms, exhibition halls, and conference rooms and maintenance fee from exhibition halls and conference rooms, is expected

27) KITA (www.kita.net)

to be 1,867,235,629 dollars in future value and 94,341,536 dollars in today's value.

5. Conclusion

This study analyzed the advantages of constructing a Trade Center. The analysis showed that the Trade Center is higher value-added knowledge service business that has a substantial overall ripple effect. Construction of the Trade Center will promote trade by contributing to the improvement of trade infrastructure, cultivation of experts, and establishment of an operations system. Since trade's effect on economic growth is considered to be positive in existing research (R. Solow 1963, AO Krueger, A. Berg 2003), enlargement of export due to the Trade Center will aid economic growth in the long term. Referring to Korea's experience, this study proposed the necessity of Trade Center establishment in the Dominican Republic, fund raising methods, and an operation system that is efficient and transparent.

First, Trade Center's location must be selected considering accessibility, ripple effect to other industries, and cost efficiency. Currently practiced exhibitions and trade academy do not fully perform their roles due to poor location choices and lack of infrastructure. To solve this, the planned Trade Center should be constructed where adequate transportation infrastructure exists so that foreign buyers' access is easy and other industries like the accommodation and tourism industry can be nurtured simultaneously. Furthermore, a location that does not lack overall infrastructure should be selected. Santo Domingo, capital of the Dominican Republic, seems to satisfy all the required conditions.

In addition, the Trade Center should assist the Dominican Republic to strategically foster its food commodities and tourism industries. Recently, the clothing industry, which has been the Dominican Republic's leading export industry, is dwindling and the export of ferronickel, which accounts for the largest portion of export, is stagnant. Thus, it is vital to choose industries that should be nurtured through exhibitions and promotions so that they can work as catalysts for export expansion. The Trade Center will let foreign buyers observe various products in a single place and facilitate contracts at the same time, thus minimizing costs. This will eventually improve the price competitiveness of domestic products. Moreover, expansion of exhibition at the Trade Center will increase the number of visitors with business purposes, a visitor number that is currently insufficient in the Dominican Republic and will aid in establishing accommodations and infrastructure. By building resort town along with the Trade Center, where accessibility is high, increased number of business purpose visitors, prolonged days of tourist stays, and expanded opportunity to promote export goods can all be achieved. Consequently, the construction of the Trade Center will attribute to the economic development of the Dominican Republic

along with fostering the main export industries of the country.

The Trade Center also plays the role of nurturing trade personnel through a trade academy and improving trade procedures through an integrated E-trade system. First, a trade academy will be conducive to proper decisions being made by export firms in that the academy will offer a wide range of education system for trade employees and customized education program that is practically helpful. Also, the academy will foster the next generation of trade experts, which will contribute to trade advancement. In addition, the Trade Center will reduce the cost for infrastructure through innovating trade processes using an integrated E-trade system, which in turn will enhance the country's international competitiveness.

To realize the Trade Center's roles, a transparent and efficient operation system must be established. Currently, the transparency and efficiency index of the Dominican Republic both rank middle-low. Thus, the Trade Center, trade academy, and integrated E-trade system should systematically comprise individual operation system and organizational chart for uplifting transparency and efficiency. Moreover, fair management of finance and system operation should be prepared through establishment of an independent Trade Promotion Agency so that opacity and inefficiency can be prevented in advance. Then, the Dominican Republic will be able to achieve a more successful economic development.

This study also discusses possible means to raise funds for construction of the Trade Center. Particularly, it discusses measures to procure funds needed after eliminating the 30 million dollars that will be obtained through Korea's EDCF loan from the total needed fund of 32.43 million dollars. Since the cost for acquiring space accounts for a great portion of the remaining funding, the Dominican Republic, Regional Government, and CEI-RD could make an agreement to construct and run the Trade Center jointly. Furthermore, other additional fund raising methods including affiliate membership fees, commissions, dues, and leases have been put forth.

In summary, this study on "Development and Establishment of a Trade Center" argues for the appropriateness of establishing a Trade Center hoping to provide logical arguments that persuade the parliament and powerful stakeholders of the Dominican Republic to initiate the project. The fund raising measures discussed in this study expects the government and related organizations of the Dominican Republic to come to agreement in finding solutions for costs including the land rent not covered by the EDCF offered by Korea.

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