

# Trade Facilitation: The South Korean Experience

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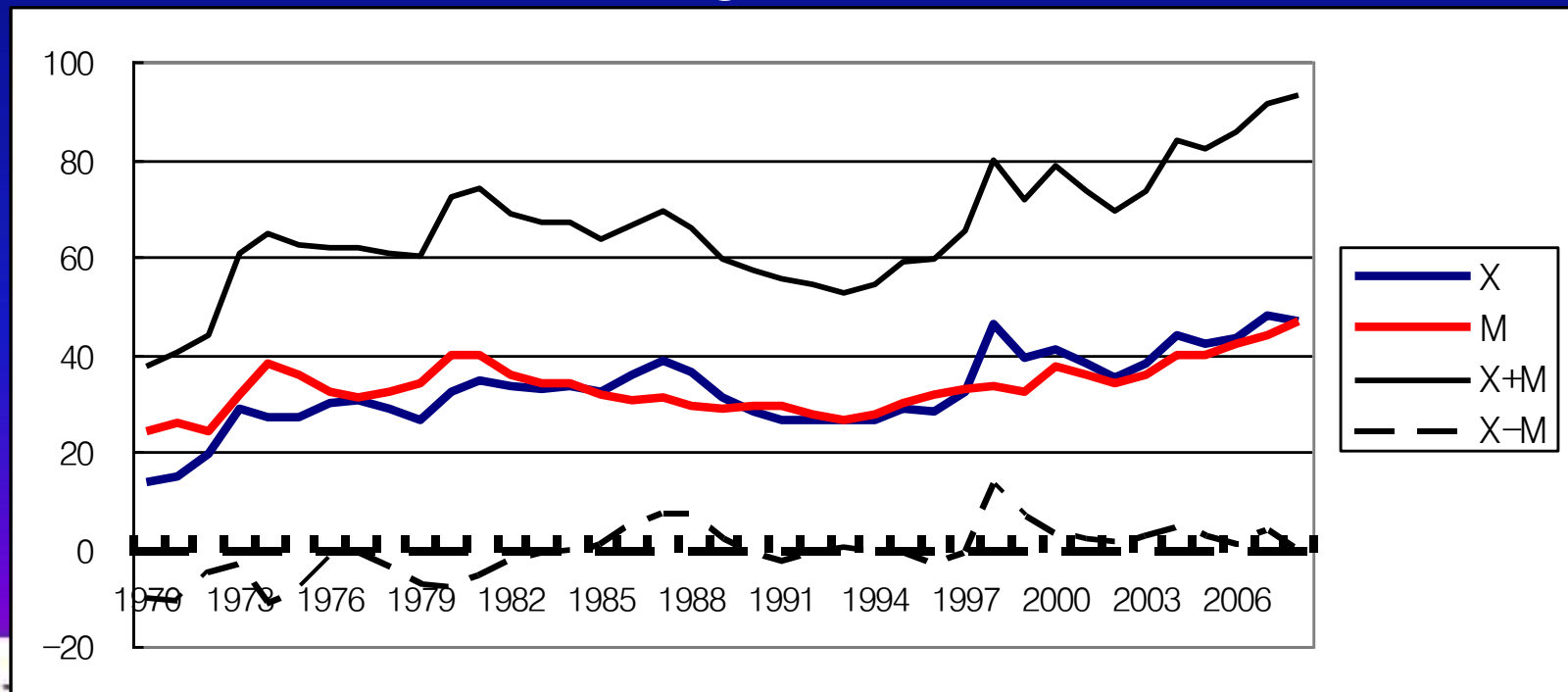
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# Trade Facilitation in Korea

- Why Trade Facilitation?
- How?
  - Regulatory Reform
  - “e-customs” and “e-trade”
- Political Economy of TF
- Overall Lessons

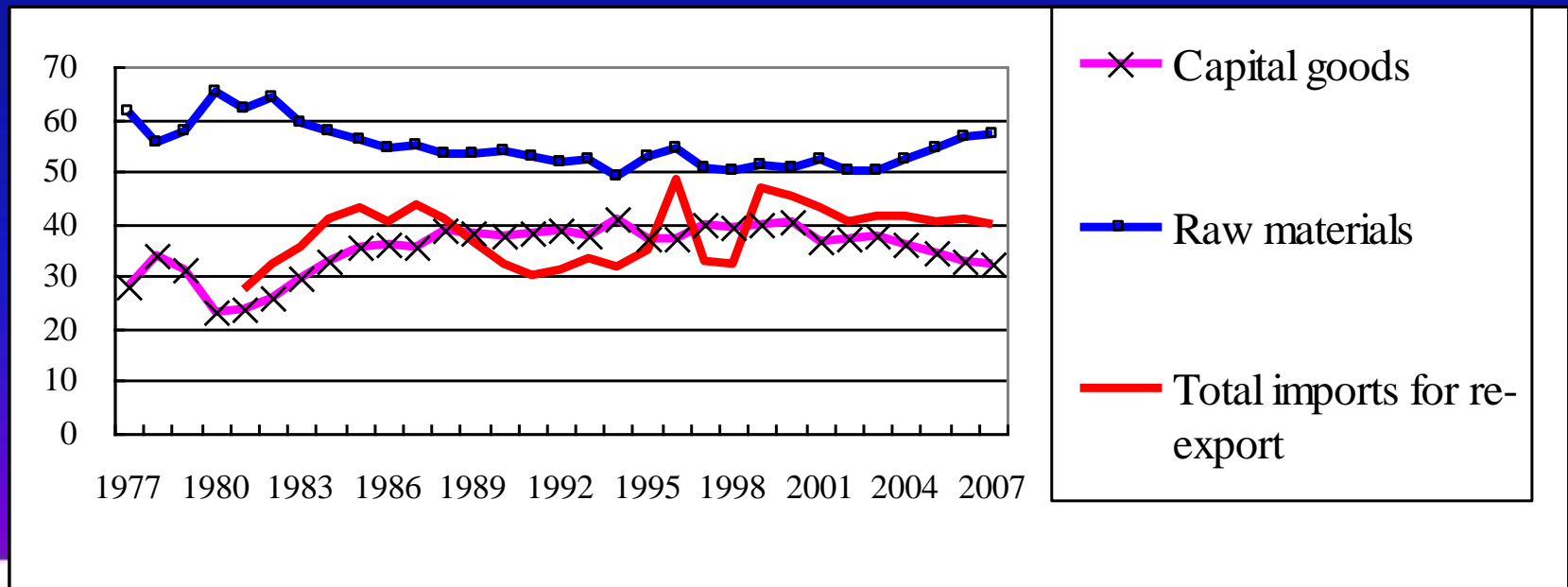
# Why Trade Facilitation?

- Long Term Factors
  - Korea is dependent on trade
    - Trade volume is greater than 80% of GDP



# Why Trade Facilitation?

- Long term reason
  - Export competitiveness requires timely and inexpensive imports



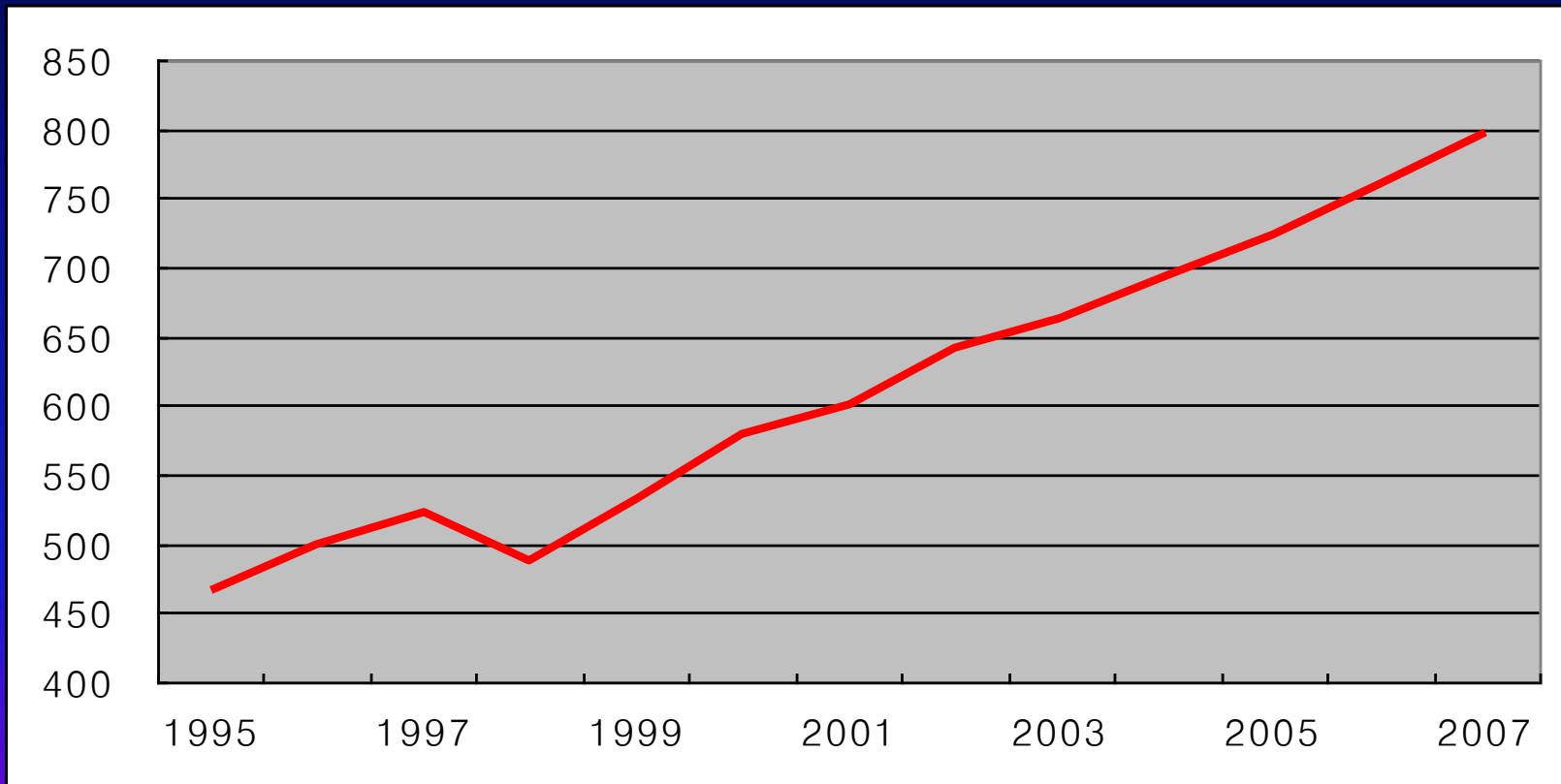
# Why Trade Facilitation?

- Long Term Reasons
  - Completion of UR
  - Bad reputation of Korea Customs Service

# Why Trade Facilitation?

- Short Term Reasons
  - Asian financial crisis
    - Need to make markets more market consistent and efficient
    - Need to increase export earnings (which require imports of raw and intermediate materials)
  - Regulatory Reform (1998–1999)
    - Cut half of all regulations
  - Make Korea a ‘logistics hub’ of North Asia
  - E–Government project
- Increased trade contributed significantly to post–crisis recovery

# Korean GDP (trillions real won)



# How?

- Regulatory Reform
- Use of IT
  - “e-customs” and “e-trade”
- Mutually complementary
  - In fact, both are necessary

# Regulatory Reform for Customs Clearance

- Reform of Import Clearance System (1996)
  - From permit to self-declaration system
  - KCS moved toward post-entry investigation
  - Post clearance payment of duty
- Regulatory Reform of 1998–1999
  - Cut existing regulation by one-half
  - Establishment of Regulatory Reform Commission and examination of new and existing regulations (including customs regulation)

# Regulatory Reform for Customs Clearance

- Additional regulatory reform from 2003 to make Korea a ‘logistics hub’
  - Task force of 172 people including KCS, government and private representatives
  - Examine existing laws and regulations from the “customer’s” point of view
    - Monthly payment of taxes for good firms
    - 3S program
    - Deadlines for clearance
    - One stop service centers for clearance delays
  - Savings of 2.2 trillion won

# E-customs and E-trade

- First Stage (1980s – 2003)
  - EDI / VAN established (1992–1997)
    - Preparation from 1980s
  - Paperless customs clearance system (1997–2001)
  - Establishment of infrastructure (2001–2003)
- Second Stage (2003– )
  - KCS: “e-customs”
  - Private and Public cooperation: “e-trade”

# First Stage

- EDI/VAN to Internet
  - 1996: EDI-based Cargo Selectivity System
  - 2001: 100% of procedures for export and import declaration were automated
    - Saved 81% of export related paperwork costs and 79% of import related paperwork costs
    - Limited use to 352 firms with good records – but system underutilized, so in 2000 raised the number of eligible firms to 2589.

# Second Stage

- Customs “e-customs” and “u-customs”
  - Invisible and ubiquitous customs
  - Internet based single window (from 2004)
    - Currently 14 agencies are connected
  - Customs network expanded to include traders and related industries (e.g. transportation and logistics)
    - ERP networks established

# E-Customs

- KCS initiative
- “E-customs, U-Customs, World Best Customs 2012+”
  - Internet portal site and UNI-PASS (2005)
    - Customs clearance
  - Internet based single-window
    - 14 agencies linked through the window
  - Continuous cooperative projects and innovation
    - IATA e-freight project
    - RFID technology for real-time tracking
    - Enterprise Resource Planning with larger firms

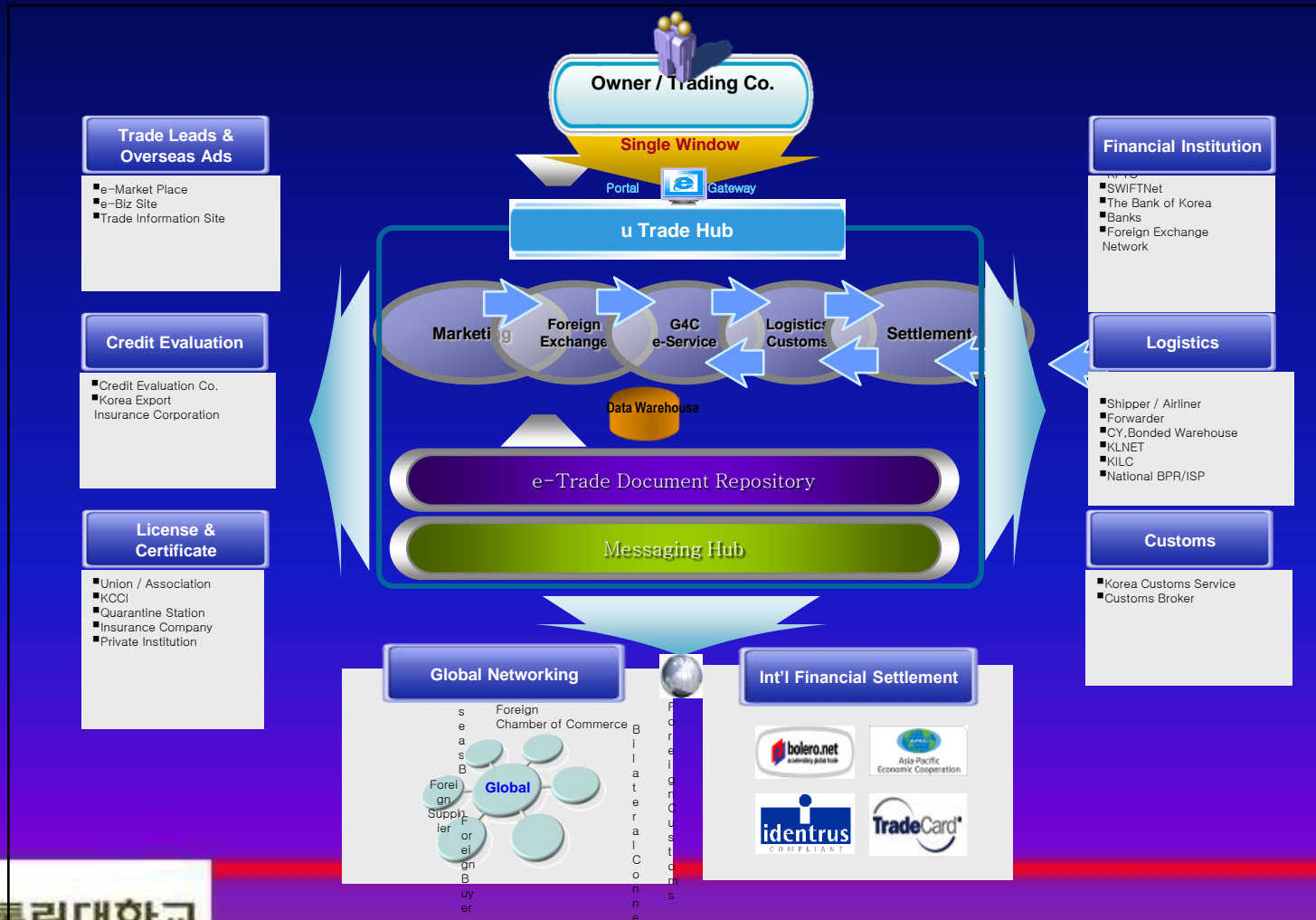
# Second Stage

- Ministry of Knowledge Economy and KITA: e-trade
  - “e-trade” is “trade whose transactions take place wholly or partially through information processing equipment ... and electronic information network.”
    - Encompasses customs clearance, financial payments, transportation and insurance
    - Encompasses traders, government, transportation firms, financial institutions

# E-Trade

- KITA and KTNET Private Initiative: UTradeHub
  - With backing from Ministry of Knowledge Economy
    - 2003: National e-Trade Committee (Public – Private Initiative)
    - Legal infrastructure in place
      - Electronic documents and security
    - CTradeWorld Portal Site on line in 2004
    - UTradeHub on line in 2008
    - Linking B2G and B2B
  - Expected savings: 2582 billion won

# UTradeHub



# Korean SMEs and Trade

- 3 million SMEs in Korea
  - 99.9% of total number of firms
  - 87.5% of total employment
- But SMEs account for only 32% of total exports...
  - And the percentage has been falling
- SMEs tend to export less processed goods than larger firms and have less manpower and expertise to deal with customs clearance
- Latest initiatives aim to reduce burdens to SMEs

# Political Economy of Trade Facilitation

- What made Korea favorable to TF?
  - Importance of trade (perceived and actual)
  - Korea's desire to open and advance Korea's economy
    - OECD accession, UR
  - Bad perception of KCS
  - Desire for reform
  - Environment favorable to regulatory reform
  - IT 'wiring' of Korea
  - Logistics hub of north Asia as a policy goal
  - Increasing use of benchmarks
- Strong political and bureaucratic support for these initiatives

# Results of TF

- Number of regulations by customs
  - 156 (1998) to 51 (2008)
- Cost and time savings
  - KCS Uni-Pass e-clearance system: 3878.5 billion won
    - Import clearance time: 2 days (1990s) to 1.5 hours
    - Export clearance time 1 day to 1.5 minutes
  - KITA e-trade system: 2582.3 billion won
- Doing Business Indicator
  - 12<sup>th</sup> of 181 countries

# Observations

- Tying customs clearance network to firms' internal network for interconnection and synergy
  - Enterprise Resource Planning;
  - UTradeHub “user solutions”
- Not only form submission, but real-time tracking of forms and cargo
  - Drastic cuts in time required for documentation
- Process often slows to wait for paper forms from other countries
- Firms still feel need for customs brokers
  - Some technical details are still difficult for SMEs
  - Still some need for physical visits
  - Form of “outsourcing”

# Lessons for Other Countries: General TF

- Trust must be built between customs and the private sector
- Reforms require close cooperation between regulatory agencies and the private sector
- Adoption of IT must be a part of comprehensive customs procedure reform
- Usefulness of e-trade will increase exponentially when more countries join, and more countries use international standards

# Lessons for Other Countries: E-Customs and E-Trade

1. Adopting IT to cargo clearance must be a part of a comprehensive customs procedure reform
2. Legal framework must accompany the adoption of IT and e-trade
3. Single network and single standard may be more useful than variety
4. Keep it simple
5. The e-trade system and paperless trade system is meant to be used by the widest number of people
6. Trust must be built between SMEs and government agencies
7. Usefulness of e-trade will increase exponentially when more countries join

# TF and the Current Economic Crisis

- Trade can contribute to recovery from crisis
  - But increased competition in international markets mean firms must lower costs – including customs clearance costs
- IT can lower costs
  - Including costs due to corruption

Thank you

# Notes

- For further information, please refer to the following papers:
  - "Case Studies on Regulation Reform in APEC Countries: Study on Korean Customs and Border-Related Trade Reforms" (in process) World Bank and APEC
  - Small and Medium Enterprises (SME) Adjustments to Information Technology (IT) in Trade Facilitation: The South Korean Experience by Junsok Yang, ARTNeT Working Paper Series, No. 61, January 2009  
Available at:  
<http://www.unescap.org/tid/artnet/pub/wp6109.pdf>