

EXPORT CREDITS AND KOREA

*This article is authored by the
Permanent Delegation
of the Republic of Korea
to the OECD, Paris*

We offer our congratulations to the OECD on the celebration of its 50th anniversary and recognise its continuous efforts to lay the foundation for global economic order and growth. The OECD is committed to promoting the economic prosperity of its member countries, assisting developing countries and expanding multilateral cross-border trade.

Korea was one of the most impoverished countries in the world only some 60 years ago. Korea's export volume was less than 1/100 000 of the current volume at USD 3.5 million. In fact, China and Japan only became trade partners around 1946, the year after Korea gained independence from Japan.

Korea's rise, and a need for export credits

Even back in the early 1960s, no one expected or even imagined the possibility of this nation making any economic progress; its export volume was smaller than that of African countries such as Cameroon, Sudan, Tunisia and Uganda. In its October 1960 issue, "Foreign Affairs", an American magazine on international relations, described Korea as "hopeless", citing a 25% unemployment rate, a GNP *per capita* at less than USD 100, USD 20 million in exports and USD 200 million in imports. This is why, today, the international community often uses the term "miracle" to describe Korea's rise as an economic powerhouse, citing Korea as an important example in the history of global economic development.

But this growth did not come naturally; the Korean government and its people undertook many initiatives and endured painful efforts to live better lives. The major initiative designed to develop its economy was implemented in 1962 when the government adopted the first "five-year plan for economic development". These five-year plans continued through to the 1990s.

The need for export credits came about as the government expanded support for business under the national growth platform, i.e. export driven economic development. Currently, the Korean government operates the Export-Import Bank of Korea (KEXIM) to extend export finance and the Korea Trade Insurance Corporation (K-sure) for credit insurance and guarantees.

The ramifications of Korea joining the OECD export credit forums

Korea became the 29th member of the OECD in 1996 and it was also at that time that Korea became aware of a number of new issues being addressed in the OECD's two export credit committees, i.e. the Participants to the Arrangement on Officially Supported Export Credits and the Working Party on export Credits and Credit Guarantees (ECG).

One of the most important issues for Korea, in the context of the Arrangement, was the adoption of new premium rules in 1997 (the Knaepen Package), which included minimum premium benchmarks (MPBs) for sovereign and country credit risks. MPBs aimed to seek convergence on the pricing of officially supported export credits so as to ensure a level playing field and were to be incorporated in the Arrangement. The Participants to the Arrangement were expected to apply 100% of the MPBs to all officially supported export credits as from April 1999. But for Korea, a relative newcomer to the Organisation, it was difficult to comply with the MPBs due to lack of knowledge of the Arrangement and, in particular, the new premium rules. Fortunately, thanks to the understanding of OECD members and the secretariat, Korea was permitted to phase-in gradually its compliance with the MPBs.

The Participants to the Arrangement then agreed in 1998 to add more flexibility to repayment periods in an effort to support project finance transactions; this agreement (which was initially for a trial period but it is now cemented in the Arrangement) was welcomed by Korea as demand for project finance was increasing among its exporters.

The Participants to the Arrangement later began discussion on renewable energies and ultimately, in 2007, established a new sector agreement with favourable financing terms and conditions to encourage the use of such technologies. The agreement on renewable energy has had significant policy implications for Korea, a country with little natural resources and for which renewable energy development is a key policy agenda.

In the ECG, new issues such as environment and bribery were being addressed; these were welcomed by Korea. The ECG adopted a Statement to address environmental issues when providing export credits and which eventually evolved into an OECD Council Recommendation in 2003 (later revised in 2007). Similarly, the ECG agreed a set of measures to deter bribery in export credit transactions and this too evolved into an OECD Recommendation in 2006.

A better understanding of the Arrangement

Korea gained a deeper understanding of export credits and the Arrangement through the WTO Korea/EU shipbuilding subsidy dispute and a similar dispute between Canada and Brazil on regional aircraft. These two cases forced Korea to pay more attention to the interpretation of the so-called “safe haven” clauses in Annex I paragraphs (k) and (j) of the WTO Agreement on Subsidies and Countervailing Measures. These disputes also underlined the importance and complementarities of the OECD Arrangement and the WTO agreement in providing official export credits.

Regrettably, however, the Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry was not adopted by the OECD Council Working Party on Shipbuilding, despite having been concluded in December 1994. But, the Sector Understanding on Export Credits for Ships, annexed to the Arrangement, was revised and implemented as from April 2002.

The Arrangement, which applies to official export credits with a two-year or longer tenor, has proved to be an effective tool for Korea because of its capacity to create a level playing field among OECD members’ export credit policies. The Arrangement not only establishes a global platform for industrial development but also fosters an environment that enables Korea to compete with other advanced countries in major industries, including semi-conductors, automobiles and vessels, thus boosting its exports in these vital sectors.

Korea has, since becoming a member of the OECD, continued its unceasing efforts to gain a deeper knowledge of all the export credit agreements through attendance at meetings such as those of the Premium and the Country Risk Experts in the context of the Arrangement and of the Environmental Practitioners in relation to the OECD Recommendation on export credits and the environment, in order to share our experience with our partners around the world.

The global financial crisis and Korea

In April 2009 at the London Summit Meeting, leaders of the G20 countries agreed to establish the G20 Trade Finance Initiative, which entailed providing USD 250 billion in trade financing over the following two years to overcome the global financial crisis.

Subsequently, the United Kingdom and the United States, co-hosts of the G20 Trade Finance Experts Meeting, emphasised the importance of international co-operation for the successful resolution of the issues discussed during the G20 Summit Meeting. The OECD’s ECG, as well as some non-member economies, including Brazil and China, decided to adopt a Statement on the global financial crisis and export credits; in accordance with this Statement, Korea, as

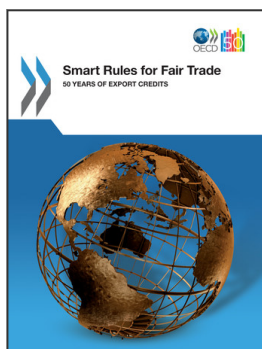
a responsible member of the international community, took the initiative to provide better support for trade finance. Indeed, the Korean government concluded currency rate swaps of USD 30 billion with the US Federal Reserve Board and USD 22 billion with the International Monetary Fund as a proactive measure and to ease concerns on insufficient foreign liquidity, despite strong economic fundamentals in the country.

Thanks to the knowledge and wisdom gained from accession to the OECD and a painful IMF bailout in 1998, Korea was able to recover from the global financial turmoil faster than other countries.

The future of the OECD

The future of the OECD would seem unquestionably promising, largely because of its openness to the outside world and its willingness to adapt according to the changing world around it. The OECD continues to welcome new members and observer countries on a regular basis and looks forward to integrating developing countries into the OECD family.

We would like to take this opportunity to express our deep appreciation to OECD member countries and to the OECD secretariat for their continued co-operation and assistance. To the OECD and its working parties, we wish you continued success!



From:
Smart Rules for Fair Trade
50 years of Export Credits

Access the complete publication at:
<https://doi.org/10.1787/9789264111745-en>

Please cite this chapter as:

OECD (2011), "Export credits and Korea", in *Smart Rules for Fair Trade: 50 years of Export Credits*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264111745-17-en>

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