



# HOW EASY IS MAKING TRADE ACROSS BORDERS? A COMPARISON BETWEEN KOREA AND TURKEY

## SERÁ FÁCIL FAZER COMÉRCIO ATRAVÉS DAS FRONTEIRAS? UMA COMPARAÇÃO ENTRE A CORÉIA E A TURQUIA

**ABSTRACT** Each economy has its unique circumstances that require numerous variables to take into consideration for a sound comparative analysis. Comparing Korean and Turkish economies in particular demonstrate the importance of trade policy differentials. Both countries have followed restrictive trade policies during the 1950s and started the planning development strategy during early 1960s. However, they ended up with different trade openness and economic development levels by the 1990s. Korea shifted from import substitution to export promotion in the early 1960s, while Turkey continued the import substitution policy until 1980. This study is a snapshot comparison between Korean and Turkish economies in terms of how easily each one trades with the rest of the world today, taking into account trade regulation indicators such as number of documents, time and cost required to export and import. Using the World Bank's Trading Across Borders data, we find that procedures necessary to export and import seem in favor of Korea with respect to Turkey both in terms of duration and cost subcategories.

**RESUMO** Cada economia tem as suas circunstâncias únicas que requerem inúmeras variáveis a ter em consideração numa boa análise comparativa. Pretende-se comparar as economias coreanas e turcas, em particular demonstrar a importância das diferenças da política comercial. Ambos os países seguiram políticas comerciais restritivas durante os anos 1950 e começaram uma estratégia de planeamento do desenvolvimento durante os anos de 1960. No entanto, eles acabaram com a abertura comercial e níveis de desenvolvimento económico diferentes na década de 1990. A Coreia passou de substituição de importações para promoção de exportações nos princípios dos anos de 1960, enquanto a Turquia continuou a política de substituição de importações até 1980. Este estudo é uma comparação entre as economias coreanas e turcas, para perceber de que forma cada um destes países realiza negócios com o resto do mundo, tendo em conta indicadores de comércio de regulação, tais como número de documentos, o tempo e os custos necessários para exportar e importar. Utilizando os dados do World Bank Trading Across Borders, descobrimos que os procedimentos necessários para exportar e importar parecem a favor da Coreia no que diz respeito à Turquia, tanto em termos de duração e subcategorias de custos.

### KEYWORDS

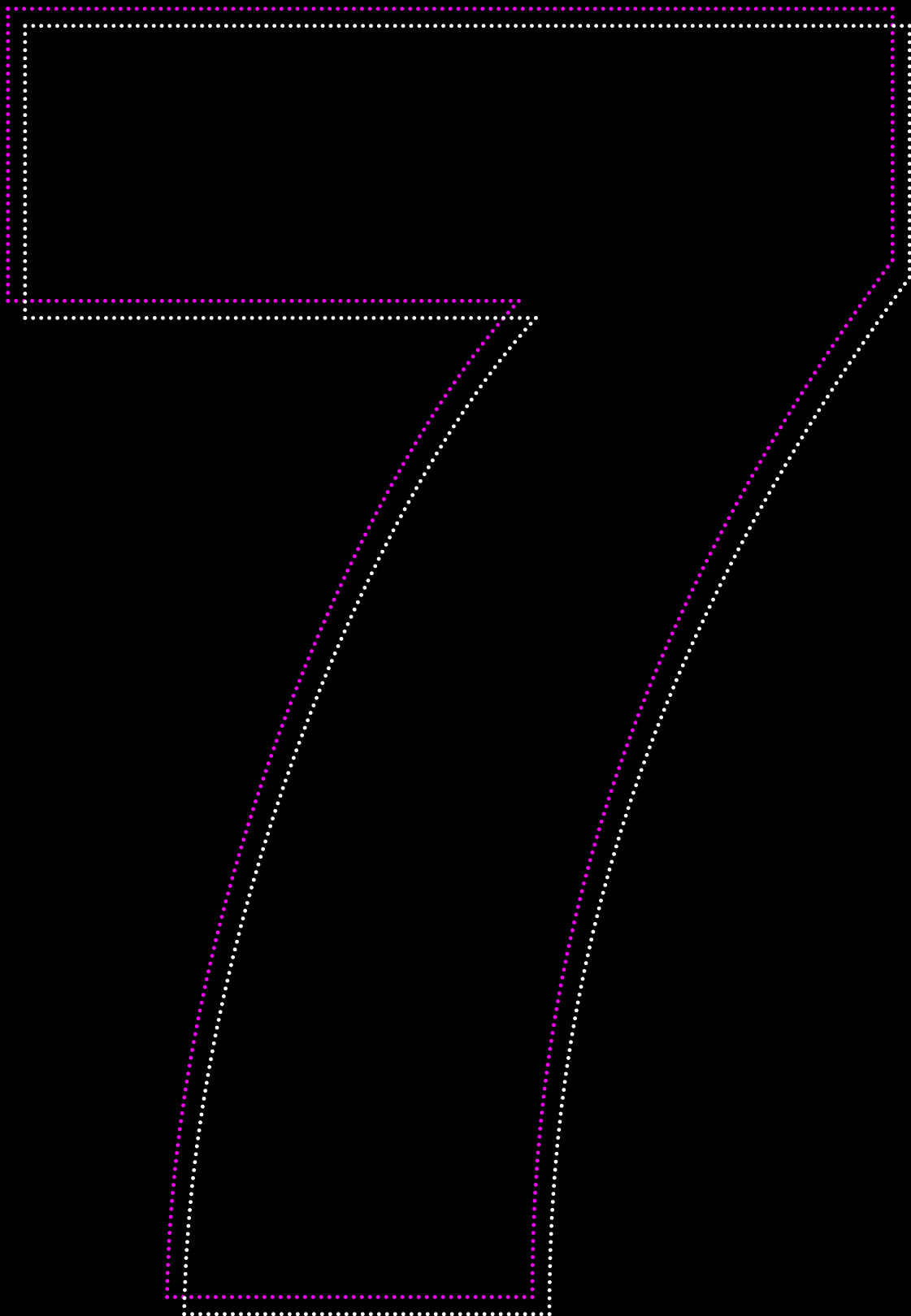
Export, Import, Korea, Turkey

### PALAVRAS-CHAVE:

Exportar, Importar, Coreia, Turquia.

**ASLI ŞEN-TAŞBAŞI** PhD Assistant Professor of Economics. Işık University, İstanbul.Turkey





# 1. INTRODUCTION

There is a number of studies that investigate the economic policies of Korea and Turkey in a comparative perspective. Krueger (1987) examines the variables that affect economic growth and shows the importance of the different policy choices in the two countries. Yilmaz (2002) demonstrates the importance of the different development strategies pursued by both countries in the same period and explains their effects on foreign trade and international competitiveness. Oh and Varcin (2002) compare the two countries in terms of their state-led development programs and market bypassing. Kalyoncu (2005) investigates the sustainability of the fiscal stances of Korea and Turkey and finds a long run relationship among variables for the two countries. Onaran (2009) analyzes in her study the effects of globalization (*i.e.* international trade and FDI intensity) on the wage share in the two countries.

Korea and Turkey have started the 1950s with macro-economic imbalances, followed protectionist trade policies during the period and started the planning development strategy during early 1960s (*i.e.* Korea in 1962 and Turkey in 1963). However, they ended up with different trade openness and economic development levels by the 1990s. This is the basic point where the motive for the existing literature on the comparative analyses of the two economies mostly rests on. At the beginning of the 1950s, the countries had almost the same population (around twenty million), while Turkish per capita income was three times than that of Korea. For both countries, agriculture had the largest share in the sectoral composition of the economy. Turkish exports were fifteen times those of Korean exports, and the Turkish savings rate was much higher than Korea (Yilmaz, 2002: 59). While Turkey maintained a restrictive

trade strategy until 1980, Korea shifted from import substitution to export promotion in the early 1960s. According to the OECD International Trade Statistics, Korean exports in value is more than four times than that of Turkey (48.22 and 11.14 billion dollars respectively) as of January 2011. Again, Korean per capita income is more than two times higher than that of Turkey by 2008. Differences in trade policy implementations alone cannot be considered as the main sources of diversities in economic development levels for the two countries without further empirical reasoning and it is not within the context of this study. This paper compares selected Korean and Turkish data in order to assess how easily each country trades with other economies. By doing so, the study aims to portray the trade environment of the two economies and contribute to the related literature in a way that may serve as a resource for the countries willing to encourage more efficient regulations towards international trade.

# 2. DATA AND METHODOLOGY

While comparing the trade regulations of Korea and Turkey, this study uses the data derived from The World Bank's *Doing Business Project (DBP)* – Trading Across Borders rankings (The World Bank Doing Business Report 2011). DBP (launched in 2002) presents quantitative indicators on business regulations for 183 countries. The set of regulations measured in the rankings consists i. starting a business, ii. dealing with construction permits, iii. registering property, iv. getting credit, v. protecting investors, vi. paying taxes, vii. trading across borders, viii. enforcing contracts and ix. closing a business.

Among these, Trading Across Borders rankings are constituted as a percentile average of data on procedural requirements for exporting and importing a standardized cargo of goods by ocean transport. To make the data comparable across economies, the indicators are measured according to some basic assumptions referring to a specific type of business (See Table 1).

TABLE 1. MAIN ASSUMPTIONS OF THE CASE STUDY

### THE BUSINESS

Has at least 60 employees and is located in the economy's largest business city

Is a private, limited liability company, which exports more than 10% of its sales. It is fully domestically owned and does not operate in an export processing zone or an industrial estate with special export or import privileges

### THE TRADED PRODUCT

Is transported in a dry-cargo, 20-foot full container load; weighs 10 tons and is valued at \$20,000.

Is not hazardous or does not include military items; it does not require special phytosanitary or environmental safety standards, refrigeration or any other special environment.

Is one of the economy's leading export or import products.

Source: Trading Across Borders, The World Bank Doing Business Report 2011, p.54

In the measurement of the rankings, all documents associated with every official procedure are counted—from the contractual agreement between the 2 parties to the delivery of goods. For exporting goods, procedures range from packing the goods at the warehouse to their departure from the port of exit. For importing goods, procedures range from the vessel's arrival at the port of entry to the cargo's delivery at the warehouse. The time and cost for ocean transport are not included. Payment is made by letter of credit, and the time, cost and

documents required for the issuance or advising of a letter of credit are taken into account. Local freight forwarders, shipping lines, customs brokers, port officials and banks provide information on required documents and cost as well as the time to complete each procedure (The World Bank Doing Business Report 2011, p.54). Details of the subindicators can be seen in Table 2.

TABLE 2. SUBINDICATORS OF TRADING ACROSS BORDERS RANKINGS

### NUMBER OF DOCUMENTS REQUIRED TO EXPORT AND IMPORT

Bank documents

Customs clearance documents

Port and terminal handling documents

Terminal documents

### NUMBER OF DAYS REQUIRED TO EXPORT AND IMPORT

Obtaining all the documents

Inland transport and handling

Customs clearance and inspections

Port and terminal handling

Does not include ocean transport time

### COST REQUIRED TO EXPORT AND IMPORT (US\$ PER CONTAINER)

All documentation

Inland transport and handling

Customs clearance and inspections

Port and terminal handling

Official costs only, no bribes or tariffs included

Source: Trading Across Borders, The World Bank Doing Business Report 2011, p.54

### 3. THE EASE OF INTERNATIONAL TRADE COMPARED

While Turkey maintained a protectionist trade strategy until 1980, Korea shifted from import substitution to export promotion in the early 1960s. With this macroeconomic policy change, Korea promoted exports of manufacturing goods and encouraged investments in physical and human capital. On the contrary, Turkey followed the import-substitution policy until 1980 and opened its economy gradually since then.

Table 3 shows the historical trading across borders data for Korea and Turkey between the years 2008-2010 and provides information on the rankings of the two countries. In overall rankings among 183 countries, Korea is in the top ten, while Turkey ranks 72nd and 76th respectively for the years 2010 and 2011. For the number of documents to export and import, it can be seen that while Turkey has not decreased these documents in number, Korea has managed to do so. Particularly, documents required for importing have increased by half in number. Similarly, time needed to export and import is also decreased for Korea, while it is higher and remains high for Turkey. Costs as US\$ per container to export and import are again higher for Turkey compared to Korea.

**TABLE 3. HISTORICAL DATA FOR TRADING ACROSS BORDERS RANKINGS**

TRADING ACROSS BORDERS DATA	2008		2009		2010		2011	
	Korea	Turkey	Korea	Turkey	Korea	Turkey	Korea	Turkey
Rank	n.a.	n.a.	n.a.	n.a.	8	72	8	76
Documents to export (number)	4	7	4	7	3	7	3	7
Documents to import (number)	6	8	6	8	3	8	3	8
Time to export (days)	11	14	8	14	8	14	8	14
Time to import (days)	10	15	8	15	8	15	7	15
Cost to export (US\$ per container)	745	865	767	940	742	990	790	990
Cost to import (US\$ per container)	745	1013	747	1063	742	1063	790	10637

Source: Compiled from the Trading Across Borders historical data tables for Korea and Turkey, The World Bank Doing Business Report 2011, pages 58 and 57 respectively.

TABLE 4. PROCEDURES TO IMPORT AND EXPORT A STANDARDIZED CARGO OF GOODS

## NATURE OF EXPORT PROCEDURES (2010)

	DURATION (DAYS)		COST (US\$)	
	Korea	Turkey	Korea	Turkey
Documents preparation	2	6	60	220
Customs clearance and technical control	1	3	30	200
Ports and terminal handling	3	3	200	270
Inland transportation and handling	2	2	50	300
Totals	8	14	790	990

## NATURE OF IMPORT PROCEDURES (2010)

	DURATION (DAYS)		COST (US\$)	
	Korea	Turkey	Korea	Turkey
Documents preparation	2	8	60	280
Customs clearance and technical control	1	3	30	200
Ports and terminal handling	2	3	200	183
Inland transportation and handling	2	1	500	400
Totals	7	15	790	1063

## DOCUMENTS FOR EXPORT AND IMPORT

	Korea	Turkey
Export		
Bill of lading	YES	YES
Certificate of origin	NO	YES
Commercial invoice	YES	YES
Customs export declaration	YES	YES
Packing list	NO	YES
Preferential certificate	NO	YES
Technical standard/health certificate	NO	YES
Import		
Bill of lading	YES	YES
Cargo release order	NO	YES
Certificate of origin	NO	YES
Commercial invoice	NO	YES
Customs import declaration	YES	YES
Import license	NO	YES
Technical standard/health certificate	NO	YES
Terminal handling receipts	YES	YES

Source: Compiled from the Trading Across Borders historical data tables for Korea and Turkey, The World Bank Doing Business Report 2011, pages 59-60 and 60-61 respectively.

Liberalization of trade does not only mean reducing traditional barriers to trade but also simplification and harmonization of international import and export procedures (e.g. customs valuation, licensing procedures, transport formalities, payments, insurance, etc.). Although regulatory authority on trade is substantially being transferred to supranational institutions as a consequence of the integration to the global economy, each country individually may persist on following individual trade procedures.

As can be seen from Table 4, procedures necessary to export and import seem in favor of Korea with respect to Turkey both in terms of duration and cost. Preparation of the export documents takes two days in Korea with a cost of USD60, while it takes six days and USD220 in Turkey. Customs clearance and technical control takes only one day in Korea and it is worth USD30, while it takes 3 days and is worth USD200 in Turkey. Although ports and terminal handling takes three days both in Korea and in Turkey, the cost is USD200 and USD270 respectively. A similar case holds for inland transportation and handling; although it takes 2 days in both countries, the cost is USD50 and USD300 for Korea and Turkey respectively. As of year 2010, the documents needed for import procedures take 7 days in total with a cost of USD790 in Korea, while the duration is 15 days in Turkey with a total cost of USD1063. In the category of documents necessary for export and import, Table 4 shows that Turkish regulations include bill of lading, certificate of origin, commercial invoice, customs export declaration, packing list, preferential certificate and technical standard/health certificate. Among these, Korean regulations only require bill of lading, commercial invoice and customs export declaration. Import regulations in Turkey contain bill of lading, cargo release order, certificate of origin, commercial invoice, customs import declaration, import license, technical standard/health certificate and terminal handling receipts. On the other hand, bill of lading, customs import declaration and terminal han-

dling receipts are the only three documentation required for importing in Korea.

## 4. CONCLUSION

Following the import substitution policies of the 1950s to 1970s, many developing countries started the trade liberalization process in early 1980s and intensified in the 1990s. Although the content of this trade reform varied in different countries, the common idea behind the programs was to minimize the role of government on resource allocation and to follow an export promotion path instead of import substitution. Private sector was believed to better handle achieving economic growth and diversification of exports which would be attained through the expansion of investment and better allocation of resources and investment outlays to productive sectors. The results were expected to be, in addition to growth and diversification, the upgrading of the production structure, facilitated by imported technology and improved skills enhanced by trade.

To what extent the objectives of this trade reform have been achieved is the topic of another study. However, there has indeed been a tremendous increase in international trade over the past decades. Between 1951 and 2010, world GDP has increased about nine times, and the volume of merchandise trade has increased 33 times. From 1995 till today, the average annual growth in trade volume has been roughly double that of total output which shows the higher and increasing share of international trade and growing trade inter-linkages among countries. This in turn requires that monitoring and transparency should play an increasingly important role for the international trading system.

Today, countries involved in trade have to know as much as possible about the conditions of trade, therefore related regulations and policies should be transparent. This study aims at contributing to the existing literature on comparative analysis of Korean and Turkish economies by investigating a variety of trade regulation measures for the two countries. By doing so, the paper may serve to encourage countries to compete towards more efficient regulation and offer measura-

ble benchmarks for reform towards liberalized trade. Examining the World Bank's Trading Across Borders rankings for Korea and Turkey, the paper shows that all procedures necessary to export and import seem in favor of Korea with respect to Turkey both in terms of duration and cost. As an implication for a more comprehensive further research, the reasons behind and the trade (volume) impacts of this finding can be examined.

---

## BIBLIOGRAPHY

- DJANKOV, S., FREUND, C. and PHAM C. S., Trading on Time, Review of Economics and Statistics, Nov 2008.
- JOHNSON, T.E. and BADE, D.L., Export/Import Procedures and Documentation, Amacom, March 26, 2010.
- KALYONCU, H. Fiscal Policy Sustainability: Test of Intertemporal Borrowing Constraints, Applied Economics Letters, Volume 12, Issue 15, 2005.
- KRUEGER, A.O., The Importance of Economic Policy in Development: Contrasts between Korea and Turkey, NBER Working Paper No. 2195, Cambridge, MA., 1987.
- OH, I. and VARCIN, R. The Mafioso State: State-Led Market Bypassing in South Korea and Turkey, Third World Quarterly, Vol. 23, No. 4, pp. 711-723, Aug. 2002.
- ONARAN, Ö. Wage Share, Globalization and Crisis: The Case of the Manufacturing Industry in Korea, Mexico and Turkey, International Review of Applied Economics Volume 23, Issue 2, 2009.
- SEYOUN, B., Export-Import Theory, Practices, and Procedures, Routledge, 2nd edition, August 8, 2008.
- THE WORLD BANK, Doing Business Report 2011.
- WALKER, A., International Trade Procedures and Management, Butterworth-Heinemann, 4th edition, November 16, 1995.
- YILMAZ, B., The Role of Trade Strategies for Economic Development A Comparison of Foreign Trade Between Turkey and South Korea, Russian and East European Finance and Trade, vol. 38, no. 2, pp. 59-78. March-April 2002.