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# **FACTORS AFFECTING IMPORTED DAIRY PRODUCT MARKETING MARGINS IN KOREA**

**A THESIS PRESENTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER OF  
BUSINESS STUDIES IN AGRIBUSINESS**

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## ABSTRACT

Over the past decade, the Korean dairy industry has been affected by considerable reductions in non-tariff barriers as a result of trade liberalisation. The dairy marketing system in particular has had many regulations and barriers removed. The question arises as to the effect of trade liberalisation and reductions in protection on imported dairy product marketing margins in Korea.

This study determined imported dairy product marketing margins in Korea and assessed how they had changed over the past 15 years. The most important factors responsible for the trends and fluctuations observed in those margins were identified and estimated. An attempt at a product-focused method was made on cheese and skim milk powder (SMP), which are generally representative of dairy products as a whole. Descriptive and econometric methods were both used to identify the most important determinants of the aggregate cost of processing and distributing imported dairy products.

A cheese (MMCHE) model and a SMP (MMSMP) model were developed and estimated. The two models estimated cheese and SMP marketing margins respectively as functions of exchange rates, trade liberalisation, wage rates and transportation costs. Both models were estimated using standard and stepwise regressions.

Results obtained from this analysis suggest that changes in earnings (wages) were the strongest influence on imported dairy product marketing margins during the past 15 years. However, these results cannot explain the fall in cheese and SMP marketing margins after 1995 as this coincided with a rise in wage rates. The increase in CIF (Cost of Insurance and Freight) prices for these products was largely responsible for the smaller margins. Because exchange rates are a large element of CIF price, it is believed that marketing margins were closely associated with the value of the exchange rate.

Conclusions are based on descriptive indicators and an econometric analysis that examined the relationships between economic factors and marketing margins. The impact of trade liberalisation on imported dairy product marketing margins was mixed with other economic factors. This study concludes that trade liberalisation has not in general been associated with lower imported dairy product marketing margins in Korea. Labour costs (wages) appear to have been the most important influence on those margins during the period 1985-98.

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## GLOSSARY AND ABBREVIATIONS

<i>Expression</i>	<i>Description</i>
ADB	Asian Development Bank
BOP	Balance of Payments
CIF	Cost of Insurance and Freight
CONOCHE	The Number of Cheese Importing Companies
CONOSMP	The Number of Skim Milk Powder Importing Companies
CPI	Consumer Price Index
ER	Exchange Rates
EU	European Union
FAO	Food and Agriculture Organisation of the UN
FOB	Free On Board
GATT	The General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
KDIA	The Korean Dairy Industries Association
KITA	Korea International Trade Association
KNSO	Korea National Statistical Office
KOTRA	Korea Trade Promotion Corporation
KREI	Korea Rural Economics Institute

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NLCF	The National Livestock Co-operative Federation
MAFF	Ministry of Agriculture Fisheries and Forestry
MMCHE	Marketing Margins for Cheese
MMSMP	Marketing Margins for Skim Milk Powder
M/T	Metric Ton
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
PETRO	Petroleum
SMP	Skim Milk Powder
SWOPSIM	Static World Policy Simulation Model
UHT Milk	Ultra Heat Tested Milk
UR	Uruguay Round
USA	United States of America
USDA	United States Department of Agriculture
VIF	Variance Inflation Factor
WMP	Whole Milk Powder
WTO	World Trade Organisation

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