Volume Title: Foreign Trade Regimes and Economic Development: South Korea

Volume Author/Editor: Charles R. Frank, Jr., Kwang Suk Kim and Larry E. Westphal

Volume Publisher: NBER

Volume ISBN: 0-87014-507-X

Volume URL: http://www.nber.org/books/fran75-1

Publication Date: 1975

Chapter Title: Two Liberalization Episodes and Their Short-Term Consequences, 1961 to 1966

Chapter Author: Charles R. Frank Jr., Kwang Suk Kim, Larry E. Westphal

Chapter URL: http://www.nber.org/chapters/c4065

Chapter pages in book: (p. 42 - 55)

Chapter 4

Two Liberalization Episodes and Their Short-Term Consequences, 1961 to 1966

Both the Chang Myon civilian government that came to power after the student revolution of April 1960 and the military government that supplanted it following the coup of May 1961 were basically reformist. On the domestic front, the military government reformed the budget process, the taxation machinery, and the currency system. Just prior to the coup, the civilian government had attempted to unify the exchange rate system and had devalued the won in January 1961 from 65 to 100 won to the dollar and again in February from 100 to 130. The military government continued the pursuit of exchange rate reform and achieved complete unification of the system by June 1961. Other innovations included the institution in 1961 of a system of special tariffs to help soak up margins on restricted imports, a currency reform in 1961, and an easing of import restrictions in 1962.

The reforms of 1961–62, however, were not successfully carried out. The currency reform was largely a mistaken attempt to sterilize what were thought to be currency hoards. Each family was permitted to exchange old currency for new up to a limited amount. The reform was expensive, caused massive confusion and did not accomplish the stated objectives. The multiple exchange rate was reinstituted in 1963 and import controls were strengthened. By 1963, the exchange rate system had reverted to a Bhagwati-Krueger Phase II regime.

After the general election in early 1964, the nominally elected civilian government instituted a substantial set of reforms in 1964 and 1965 that were to be accompanied by a phenomenal economic performance. In May 1964, the won was devalued by almost 50 percent from 130 to 257 won to the dollar. This move was a prelude to the adoption of the unitary fluctuating exchange rate system that was introduced in March 1965. The exchange rate gradually stabilized at about 270 won per dollar in August the same year that the Exchange Bank intervened in the market. Quantitative restrictions were also eased. Between late 1964 and early 1965, importable items were increased from about 500 to 1,500 and the number of prohibited items was reduced. Special tariffs were raised to help soak up margins on restricted imports and import predeposit requirements were strengthened.

A second major effort was devoted to interest rate reform. In September 1965, the ceiling on commercial bank lending rates was raised from 16 to 26 percent with the result that the domestic supply of loanable funds available through the banking system increased rapidly, and additional investment demand spilled over into demand for foreign loans. This led to a great increase in private capital imports.

A third element of the liberalization package was an effective stabilization program. Collection of direct taxes was improved, rates were adjusted upward, and expansion of the money supply was strictly limited. Beginning in 1964, the government eliminated all deficits from the general budget and constrained itself to limited, sporadic short-term borrowing.

A fourth element of the reform was an intensification of the degree and number of subsidization programs for exports. Subsidized credit for exports became particularly attractive in contrast to the new and higher interest rates which had been raised by the interest rate reform.

By 1966, South Korea had moved from Phase III into Phase IV. The continuation of this new phase is discussed in the next chapter. In this chapter we discuss in detail the foreign exchange and trade policies that accompanied the two liberalization episodes (1961–62, 1964–65) and their consequences.

DEVALUATION AND EXCHANGE RATE UNIFICATION

The Chang Myon government attempted to unify the exchange rate in 1961 by changing the foreign exchange deposit system, in use since 1950, to the foreign exchange buying system in which all foreign exchange earnings were sold to the central bank at the official exchange rate. Foreign exchange deposits by residents were not authorized except for international airlines and shipping companies. Those who surrendered foreign exchange earnings to the central bank were given nontransferable exchange certificates valid for 90 days. (Although not legally transferable, the certificates were sold on the curb market.) Holders of exchange certificates were entitled to buy from the central bank at the official rate an amount of foreign exchange equal to the certificates' value. Concomitant with the unification of rates, the official exchange rate was raised twice—from 65 won to the dollar to 100 won on January 1, 1961 and to 130 won on February 2, 1961.

Although exchange rate reform of 1961 made the multiple exchange rate system illegal, multiple rates remained in use for a while afterward through sales of certificates on the curb market. The fixed single official exchange rate of 130 won to the dollar was only slightly higher than the most frequently quoted rates on United States aid and KFX import dollars in late 1960 and was lower than the market exchange rate on export dollars. As Table 3–1 reveals, the free market rates on Japan and other export dollars were 156.3 won and 141.6 won to the dollar in January 1961. Beginning in February 1961, the export dollar certificates were traded on the curb market at declining rates but at rates higher than the official exchange rate. The free market for export dollar certificates ceased to function after June as a result of intensified control by the military government followed by the abolition of the certificate system on July 20, 1961.

CHANGES IN TRADE POLICY, 1961 TO 1963

With the adoption of a unitary fixed exchange rate in June 1961, the differential between the import price and the domestic price became greater for some items restricted by import quota. Thus in July 1961, a Temporary Special Customs Law was enacted to capture the windfall profits that would otherwise accrue to importers receiving import licenses for restricted items. Under the law, about 700 items subject to import quotas were classified into four categories, I to IV, in order based on the ratio between the domestic price and the c.i.f. import price and the estimated degree of nonessentiality. A temporary special tariff was imposed on these classified import items in addition to regular tariffs. The special rates were 100 percent of import value on category I, 50 percent on category II, 30 percent on category III, and 10 percent on category IV. Adjustments were made periodically in the classification of items.

Import controls were revised twice in 1961. In the first half of 1961, the commodities proposed for import were listed in four classes: (1) automatic approval (AA) items that could be financed by any foreign exchange source without prior approval of the Ministry of Commerce and Industry; (2) AA special items that could be financed only by export earnings without prior approval of the Ministry; (3) restricted import items linked to specific commodity exports that required approval for imports; and (4) prohibited imports. The total number of importable items listed was 1,581, including 35 restricted items as shown in Table 4–1. Commodities not listed could not be imported without MCI approval.

TABLE 4–1

Number of Importable Items in Semiannual Trade Programs, 1961 to 1967 (First Half)

	Automatic Approval	Restricted	Semi-restricted	Total Importable	Prohibited
First half 1961	1,546[a]	35[b]	—	1,581	305
Second half 1961	1,015	17	—	1,132	355
First half 1962	1,195	119	—	1,314	366
Second half 1962	1,377	121	—	1,498	433
First half 1963	776	713	—	1,489	442
Second half 1963	109	924	—	1,033	414
First half 1964	na	na	na	1,124	617
Second half 1964	na	na	na	496	631
First half 1965	1,447	92	19	1,558	624
Second half 1965	1,495	124	4	1,623	620
First half 1966	2,104	125	11	2,240	583
Second half 1966	2,307	127	12	2,446	386
First half 1967	2,950	132	—	3,082	362

NOTE: The numbers of importable and prohibited items for 1961 to 1963 and the first half of 1967 were based on the original semiannual trade programs while breakdowns for all other periods are based on final revised programs..

SOURCE: Bank of Korea, *Monthly Statistical Review*, June and December, 1961 to 1963; Bank of Korea, *Review of the Korean Economy*, 1964 to 1966; and Ministry of Commerce and Industry, *A Ten-Year History of Trade and Industrial Policy, 1960–1969*.

a. Includes 309 special items that could be imported only by export earnings.

b. Indicates import items linked to specific exports.

In the trade program for the second half of 1961, prepared for the first time by the military government, commodities were grouped in three categories: (1) AA items that could be imported without prior approval of the Ministry of Commerce and Industry; (2) restricted items that could be imported with official approval; and (3) prohibited items. The total number of importable items (restricted and AA items) was significantly reduced in the second half of 1961 compared with the first half, while the number of prohibited items increased.

In order to promote procurement from the United States, the trade program for the second half of 1961 differentiated aid-financed imports from KFX (foreign exchange held by the Bank of Korea) imports. The program stipulated that AID commodities could not be imported with KFX but only with AID funds. The differentiation continued, in principle, until 1970.

Throughout 1962, both the number of AA items and the total number of importable items were increased over the quotas of late 1961. In the first half of 1963, however, the number of AA items was sharply reduced, while the number of restricted items was increased. These stronger restrictions reflected the sharp decline in KFX holdings that year.

The Law Prohibiting Sales of Special Foreign Products, enacted by the military government in 1961, was represented as an attempt to restrict the import or smuggling of luxuries. The law banned domestic sales of a number of foreign items such as foreign-made cigarettes, coffee, cosmetics, and high-quality cloth.

Various efforts were made to increase export incentives during this period. A new system of subsidies, adopted in September 1961, classified export commodities into four categories for payment of subsidies; 25 won per dollar for special category exports (new commodity exports and net exports by bonded processing), 20 won for Category I, 15 won for Category II, and 10 won for Category III. Subsidy payments in 1961 totaled approximately 307 million won. In 1962 the number of exports supported by subsidies was expanded, and total payments reached 566 million won. Though the next year a higher rate was paid on manufactured exports, other rates were cut, and the list of items eligible for subsidy was shortened. The net result was a reduction in total subsidies paid to 354 million won. As a percent of the value of exports at the official exchange rate, subsidies came to about 6 percent in 1961, 8 percent in 1962, and 3 percent in 1963.

The preferential interest rate on export credits was gradually reduced from 13.87 percent per annum in 1960 to 8 percent in 1963, thus increasing the implicit export subsidy. This rate was well below the commercial bank loan rate of 16 to 17.5 percent.

Tax relief for exporters was instituted in 1961 by removing the domestic commodity tax from exports and by exempting exporters from the business activity tax. Income tax incentives included a 30 percent reduction of tax on income from exports and a 20 percent reduction on income from sales of goods and services to the United Nations Command and tourist services. The tax reductions on income from exports and other foreign exchange earning activities were raised to a uniform rate of 50 percent effective January 1, 1962.

Another facet of the military government's export strategy was the institution of full-scale export targets in 1962. Before the beginning of each year, the Ministry of Commerce and Industry was to set the new year's targets on the basis of past export performance and new export forecasts for separate commodities. Annual export targets were usually classified by commodity, region, and country of destination. Commodity targets were assigned to industrial associations and firms, and the regional and country targets to South Korean trade and diplomatic missions abroad. The Ministry maintained an "export situation room" to check actual performance during the year against the annual targets. In addition, an Expanded Export Conference, which was chaired by the President and attended by ministers, government officials, bankers, and exporters, usually met several times during the year to deliberate on the annual targets.

RETURN TO MULTIPLE EXCHANGE RATES, 1963

In 1961 and early 1962, the military government followed very expansionary fiscal and monetary policies which led to inflation in 1962 and 1963. The economic situation was exacerbated by a bad harvest in 1962 and a consequent upsurge in imports of grain. The resulting decline in foreign exchange holdings brought a return to a multiple exchange rate system in 1963 through the institution of a full-scale export-import link and the emergence of an import-rights premium market. The trade program for imports was made much more restrictive in the first half of 1963 when automatic approval items were cut 50 percent. In the second half of 1963 automatic approval items were nearly eliminated, restricted items increased eightfold, and total importable items reduced by almost one-third (Table 4–1).

Under the link system, exporters were given the right to use 100 percent of their export earnings for imports. In early 1963, raw materials for exports and for five-year plan projects, as well as scrap iron and cement, could be imported without import entitlement obtained through export. Once the import of these items increased sharply, however, the government removed all exceptions on July 31, 1963. The free market premium rate on import rights gradually rose from 32 won per dollar in January 1963 to 65 won in April 1964. The rise in this premium prompted the government to enact the Temporary Special Excess Profits Tax Law to levy 50 won per dollar on sales of dollars acquired by the government through U.S. supporting assistance and PL 480 aid after December 1963. The effective exchange rates on both exports and imports became, therefore, much higher than the official exchange rate.

EXCHANGE RATE REFORM, 1964 TO 1965

The exchange rate reform, announced on May 3, 1964, began with a large devaluation from 130 won to 257 won. For a while thereafter, foreign exchange certificates (which were earned by exports and carried an import entitlement) continued to sell at a premium above the official exchange rate of about 255 won to the dollar.

On March 22, 1965, the government announced the actual implementation of the unitary fluctuating exchange rate system. The government felt confident that the rate would not fluctuate widely since relative price stability had been attained by the second half of 1964. As an extra precaution, standby credits of $9.3 million were made available by the IMF for a foreign exchange stabilization fund. The unitary fluctuating exchange rate system worked in the following way:

(1) Residents who earned foreign exchange by exports or sales to the United Nations Command were required to surrender their exchange earnings for exchange certificates which were valid for a month from date of issue. They could be freely traded on the exchange market, but on expiration they had to be sold to exchange banks for won currency.

(2) Those who required foreign exchange had to present foreign exchange certificates when import licenses were issued by the Bank of Korea.

(3) The official exchange rate was announced every day by the Bank of Korea on the basis of exchange certificate prices quoted in the free exchange market.

(4) The foreign departments of commercial banks were authorized to act as brokers for transactions of certificates.

(5) The Bank of Korea had authority to intervene in the certificate market when the market price of certificates fluctuated sharply owing to seasonal or speculative factors.

Immediately after the announcement of the new foreign exchange rate system, the first market exchange rate on certificates was formed at 270 won to the dollar. The exchange rate on certificates, however, declined gradually to 256 won to the dollar at the end of April 1965. The rate began to rise again in May, and by the end of the month the market exchange rate was quoted at 280 won per dollar.

On June 22, 1965, the Bank of Korea first intervened in the market by increasing the supply of exchange certificates. In the beginning, intervention could not completely remove fluctuations in the market exchange rate since the Bank supplied only a limited amount of additional certificates from KFX holdings. But from August 22, 1965 through 1967, the exchange rate was completely pegged at around 271 won to the dollar by sales of certificates by the Bank.

LIBERALIZATION OF IMPORT RESTRICTIONS, 1964 TO 1966

After the May 1964 devaluation, the balance of payments situation improved markedly and trade restrictions were gradually liberalized. As shown in Table 4–1, between the last half of 1964 and the first half of 1965, the number of items eligible for importation increased substantially from about 500 to 1,500. Thereafter, the list continued to increase rapidly as did the number of automatic approval items. The number of prohibited items showed a marked decline from the second half of 1965 to the first half of 1967.

Also after the May 1964 devaluation, a new Temporary Special Tariff Law was enacted to soak up margins between c.i.f. import prices and domestic prices of restricted import items. About 2,200 import commodities, for which the "foreign exchange ratio"[1] exceeded 30 percent, were classified in categories I and II. The special tariff was imposed on the difference between the domestic wholesale price of an imported good and the landed price of that import plus regular tariff, commodity tax, incidental expenses, and normal profit. A tariff rate of 90 percent was applied to category I and 70 percent to category II.

To administer the special tariff, the Bank of Korea and the Ministry of Finance made a monthly survey of domestic wholesale prices of import commodities. On the basis of this price survey, the list of items for the special tariff was expanded from about 2,200 in 1964 to about 2,700 after 1965. Those items to which a regular tariff did not apply were, however, exempted from the special tariff.

In 1964 an import prepayment deposit requirement was introduced. The requirement was revised from 100 to 255 won per dollar, or to 100 percent of import value, with the exchange rate change in 1964. After March 1965 the import prepayment deposit system was transformed into a system under which all commercial importers were required to deposit foreign exchange certificates equivalent to the value of imports at the time of the opening of the L/C.

INTENSIFICATION OF EXPORT INCENTIVES

Along with the exchange reform and import liberalization, the period 1964–66 saw marked intensification of export incentives (Table 3–3). Direct export subsidies were abolished in 1964, but other incentives grew in number and importance. Particular emphasis was placed on an expansion of credit incentives. The preferential rate on export credits was reduced from 8 percent in 1963 to 6.5 percent in February 1965, and to 6.0 percent in June 1967, further increasing the implicit export subsidy. The Bank of Korea lowered the discount rate on export bills from 4.5 percent to 3.5 percent in 1966. This rediscount of bills was enormously profitable for commercial banks which financed nearly all export credits through rediscounting bills.

In 1964, the number of types and the volume of preferential loans for export increased substantially. In addition to export credits and operating loans from counterpart funds, the following preferential loan arrangements existed:

(1) loans for suppliers of U.S. offshore procurement (mainly for Viet Nam);

(2) credits for importers of raw materials and equipment for export industries;

(3) export usance (credits to exporters who ship without L/Cs but receive payment after shipment);

(4) export industry promotion loans;

(5) Medium Industry Bank equipment loans for conversion of factories to export production; and

(6) Medium Industry Bank equipment loans for specialized export industries.

In addition to the preferential loans listed in Table 4–2, a standby credit system was instituted in 1965 for supporting the overseas marketing activities of export firms. The standby credit, which was a type of L/C for service transactions, could be opened by the Bank of Korea for (1) guaranteeing the opening of an export L/C by an overseas branch to its domestic head firm and the settlement of the export L/C, (2) guarantee money for international bidding and contracts, and (3) other financial guarantees for foreign exchange earning activities of overseas branches. The domestic firms were required to submit foreign exchange certificates or a foreign exchange payment guarantee issued by a foreign exchange bank for opening the standby credit.

In 1964, government support for foreign market development was gradually intensified. The Korea Trade Promotion Corporation (KOTRA) was founded and quickly expanded its overseas branch network to increase the sales of Korean products in foreign markets. In addition, the government sent special trade missions to many foreign countries and concluded trade agreements with a number of them from 1964 to 1966, including India, Burma, Cambodia, Italy, Austria, West Germany, Japan, and Mexico. The government also authorized the Korean Trader's Association to collect 1 percent of the value of all c.i.f. imports from importers for use in export promotion.

In 1965, the long-established practice of giving preference to exporters in the granting of import licenses was expanded and formalized. Exporters were given automatic right to import raw materials duty free up to certain limits. The limits established for each export commodity were based on a technically determined ratio of required raw materials to output plus an additional factor called a wastage allowance. The wastage allowance is administratively determined and is varied from time to time. Since it applies to raw materials which are generally limited by import controls or subject to high duties, the markups between import price and domestic price are quite large. That portion of the wastage allowance not used in production could be sold locally (since, unlike in other countries, these imports could be sold legally), sometimes at great profit to export industries.

In order to increase the domestic value-added content of exports, export incentives were extended to producers of intermediate goods used in the production of exports through a system of local letters of credit (L/Cs). The local L/C system came into effect in the second quarter of 1965 as the result of a revision of the Foreign Exchange Control Regulation. The local L/C system enabled exporters to issue local L/Cs to domestic producers of export goods and intermediates for export products on the basis of export L/Cs received by the exporters. The local L/Cs issued by exporters could be settled in foreign exchange certificates when export shipment was made. Domestic producers with local L/Cs could get the same treatment as exporters in obtaining preferential bank loans, import licenses for necessary raw materials, and exemption from import duties and the business activity tax.

In the latter part of 1966, an export-import link system was reintroduced. The main purpose of the system was to increase exports with low profit margins and to develop new export markets by linking export performance with the import rights either for popular consumer items or for imports of inputs for exported commodities. For instance, the exporters of woolen yarn and fabrics, sweaters, and clothing were given the rights to import raw wool and mohair at a rate of 25.5 to 85 percent of their export earnings (depending on the export commodity). Exporters of radios and electronic products were given the import rights to television accessories, exporters of chinaware the import rights to porcelain, exporters of domestically assembled watches and exporters to Switzerland the import rights to Swiss watches.

Finally, an additional tax incentive granted to exporters in 1966 was a special method of accelerated depreciation.

EFFECTS OF THE LIBERALIZATION EFFORTS

The attempt to unify exchange rates in 1961 and to effect other reforms failed because the policies of the newly established military government, which were at first inflationary, became more restrictive and complex as a result of a very bad harvest in 1962. The reforms of 1964–65 were accompanied by very successful economic performance across the board. Consider the exceptional nature of the changes that took place between 1964 and 1966:

(1) an average annual growth rate of real GNP of 9.6 percent;

(2) a decline in the rate of inflation from 35 percent in 1964 to 10 percent in 1965 and 9 percent in 1966 (wholesale price index);

(3) the ratio of domestic saving increased from 5.7 to 11.7 percent of GNP;

(4) exports increased by more than 40 percent per year;

(5) mining and manufacturing output increased at about 14 percent per year;

TABLE 4–2

Preferential Bank Loans for Exports, 1964 to 1966

(millions of won)

	Outstanding Credit (December 31)			Annual Interest		
	1964	1965	1966	Rate	Term	Other Conditions
Export credit	1,857	3,866	3,628	6.5	90 days	150 won through Feb. '65 and 200 won thereafter per dollar to exporter or export goods producers on the basis of export L/Cs or supply contracts.
Loans for suppliers of U.S. offshore procurement	526	655	1,192	6.5	90 days	200 won per dollar to suppliers to Korean troops in Viet Nam and 150 won per dollar for other suppliers on the basis of supply contracts.
Credit for import of raw materials for exports	6,684	6,325	9,975			
(Payment guarantee)	(4,101)	(4,005)	(5,417)	3.0	60 days	Commercial bank guarantee at the time of L/C opening, up to ¼ of annual export earnings.
(Domestic usance-foreign exchange)	(2,588)	(2,320)	(4,558)	6.0	90–135 days	Export industries with export L/C or contracts.

Export usance	690	456	431	6.5	90–120 days	120 won per dollar to exporters on D/P and D/A basis and exporters with consignment sales arrangement.
Export industry promotion loans	77	63	41	26	90 days	120 won per dollar to export goods producers (Net export earning should exceed 30%).
Export industry operating loans (counterpart funds)	190	170	186	18[a]	1 year	A maximum of 10 million won to each exporter or export goods producer.
Equipment loans for conversion into export industry	—	603	1,014	13	5 years	A maximum of 10 million won to each small and medium industrialist specified by Ministry of Commerce and Industry
Loans for export specializing industry	—	—	93	13	5 years	
Total	10,024	12,138	16,560			

SOURCE: Bank of Korea.
a. Includes 2 percent credit guarantee charges.

(6) bank time and savings deposits increased about 4 times in 1965 constant prices; and

(7) government revenue increased from 7.3 percent of GNP to 10.8 percent.

It would be a mistake to attribute all of these achievements directly to liberalization. Industrial growth was actually very rapid in 1962 and 1963, before the successful liberalization began. In 1964, in fact, growth of manufacturing and mining slowed to 6.9 percent, down from 15.7 percent the year before. Social overheads and services grew at 3.0 percent in 1964 compared with 7.4 percent in 1963 and 8.9 percent in 1962. GNP growth in 1964 was a healthy 8.3 percent, only because of a particularly good harvest; value added in agriculture grew by 15.5 percent.

The liberalization episode was impressive because it was accompanied by such a rapid decline in the rate of inflation. The May 1964 devaluation of about 50 percent (from 130 won to 257 won to the dollar) was not inflationary largely because of the monetary and fiscal stabilization program. Another fact is important here also: the devaluation was more de jure than de facto, at least with respect to exports. The multiple exchange rate system and the various taxes and subsidies on exports resulted in an effective exchange rate for exports which was little changed after the 1964–65 devaluation. Consolidation of exchange rates since the 1964–65 liberalization eliminated the multiple exchange rate premia and was accompanied by suspension of payments of direct export subsidies (for statistical details, see the next chapter). Since the devaluation was not really de facto, there was relatively little upward pressure on prices of export goods.

The sharp rise in the bank deposit rate in 1965 also helped to curb inflationary pressures. The great rise in savings and bank deposits substantially reduced the velocity of circulation of the money supply.

The rapid growth of exports certainly cannot be attributed entirely to liberalization, since the trend dates from 1959. In 1960 exports increased from $20 to $33 million and have not ceased to grow to the present time. Various export incentives were intensified and the effective exchange rate on exports increased by about 11 percent, but this did not spur a noticeable increase in the rate of growth of exports. The most that can be said is that liberalization probably laid the groundwork for continued rapid growth of exports over the following decade and that without those efforts, such phenomenally rapid export growth could not have continued. Likewise, the exchange liberalization, the interest rate reform, and the fiscal reforms probably laid the basis for a decade of rapid growth in GNP which would not have been possible otherwise.

These hypotheses are reexamined at the end of this book after a discussion of other statistical evidence. Unfortunately, no clear answers emerge; the evidence is more suggestive than definitive. Nevertheless, much of the evidence, however imperfect, seems to indicate that the trade and exchange rate policies of the Korean government throughout the decade following the first attempts at liberalization, rather than the liberalization package by itself, were important contributors to the rapid growth of the South Korean economy.

NOTES

1. Foreign exchange ratio = (domestic wholesale price of imported goods) minus (regular tariff + commodity tax + normal expenses) divided by (normal foreign exchange price of the import on c.i.f basis). This formula was basically an estimate of the premium which could be obtained by an importer licensed to import a restricted item.