

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

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## 1969 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH KOREA

### Basic Document for the Consultation<sup>1</sup>

#### 1. Legal and administrative basis of import restrictions

The legal basis of present import regulations in the Republic of Korea is the Trade Transaction Law promulgated on 16 January 1967. Article 9 of this Law empowers the Minister of Commerce and Industry to prohibit or restrict imports or exports of any goods or to impose any other restrictions as to quantity or amount, specifications of goods and trading areas. Various previously existing laws on external trade and export promotion such as the Trade Law of 1957, as amended, and the Export Promotion Law were superseded and unified by the said Law.

The objective of this Law is prescribed in Article 1 as follows:

"To promote a sound development of foreign trade by encouraging exports and adjusting imports, so as to contribute towards development of the national economy and to maintain the equilibrium of balance of payments."

The Ministry of Commerce and Industry (hereafter referred to as MCI) formulates and announces, on a semi-annual basis (i.e. January-June, July-December), the Export-Import Periodic Notice, following deliberations by the Trade Committee which consists of Government officials, representatives of banks and university professors.

The MCI may amend the Notice, after consultation with the Trade Committee, in the course of its execution whenever the trade situation so requires.

This Notice sets out export- or import-prohibited goods and restricted goods, together with some general administrative provisions concerning the implementation of the Notice.

A person who intends to engage in export or import business is required to obtain a trader's licence from MCI. To promote financial capabilities and creditability of traders, a person thus licensed is required to export goods valued at a minimum US\$100,000 annually to maintain the licence.

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<sup>1</sup>Material prepared by the Government of Korea.

2. Methods used in restricting imports

The Export-Import Periodic Notice may be classified into two main categories: namely, export- or import-prohibited items and export- and import-restricted items.

(a) Import-prohibited items

Most items listed in this category fall under the following descriptions:

- (1) Agricultural products produced domestically on a small scale by the country's small farmers; miscellaneous items for daily use produced by small-scale industries at home.
- (2) Goods produced in surplus by domestic industries.
- (3) Commodities considered as extremely luxurious and non-essential in view of the existing balance-of-payments situation and income level of the general populace.

Besides above-mentioned goods, there are some specific import prohibitions maintained for reasons of public order or national health.

(b) Import-restricted items

The necessity of adjusting imports to the prevailing balance-of-payments situation and of regulating domestic supply and demand and prices guide the application of import restrictions.

It is to be noted that any basic items containing one or more prohibited or restricted sub-items, except in case of totally prohibited sub-items, are classified as restricted basic items. Accordingly, on the basis of SITC sub-items, there are included a number of automatic approval sub-items in restricted basic items.

Import-restricted items may be classified as follows:

- (1) Goods which require prior recommendation of the competent Ministries concerned: in issuing recommendations, the competent Ministry takes into account the domestic supply and demand conditions of the goods concerned.
- (2) End-user's goods: the right to import such goods is vested in end-users with a view to stabilizing domestic prices and promoting domestic production using such materials.

(3) Goods restricted by specifications: this restriction is designed to protect domestic industries and promote the quality of domestically manufactured goods. This type of control is also designed to restrict import of non-essential and non-urgent goods and is sometimes concurrently applied to the aforementioned two groups.

(4) Quota items: import quota may be invoked when the situation of balance of payments deteriorates. Currently, such quota items number 134 for which the total amount of US\$2.8 million is allocated.

All goods not enumerated in the two categories shown above fall under the automatic approval category, under which importation is automatically approved by foreign exchange banks. Only imports to be paid for by "abnormal means of settlement", that is, on D/A or D/P basis<sup>1</sup>, are subject to prior approval of the MCI. The number of such automatic approval items was increased considerably in 1967 when the Government adopted the "Negative List System".

The Periodic Notice also provides that the MCI may allow imports of certain goods irrespective of category when such goods are to be used for export industries, and also when prices of the like domestic products rise noticeably above those of importable goods or when the quality of domestic products is very low.

3. Treatment of imports from different sources including information on the use of bilateral agreements

Korea does not maintain any discriminatory measures on account of sources of supply. Up to the present Korea has not participated in any regional arrangements or special economic ties which would require her to accord preferential treatment to imports from certain countries. Only those imports under aid funds or loans may be sometimes limited to certain sources of supply. The share of procurement under aid funds in the total imports has decreased from 51.7 per cent in 1962 to 12 per cent in 1967 (see Annex IV).

Bilateral agreements

There is no significant development since the last report contained in GATT document L/2657, except that Korea has newly entered into agreements with Canada, New Zealand and Pakistan.

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<sup>1</sup>Payment against documents (D/P basis); payment within ninety days from acceptance of documents (D/A basis).

4. Commodities, or groups of commodities, affected by various forms of import restrictions

The Export-Import Notice for the first half of 1969 contains seventy-six basic items in the import-prohibited category and 506 basic items in the import-restricted category (on the basis of SITC, see Section 6).

It should be noted that a number of sub-items under the basic items classified in the restricted category have been specified as automatic approval items.

5. State trading or Government monopolies as a means of restricting imports

The Office of Supply is charged with purchase of certain goods or equipment strictly for governmental use to ensure most advantageous procurement in terms of both time and cost.

The Government does not maintain any State trading or Government monopoly as a means of restricting imports.

6. Measures taken in the last two years in relaxing or otherwise modifying import restrictions

(a) Since the application of a unitary floating exchange system from March 1965, the Government has steadily expanded the degree of trade liberalization. The import quota system which was formerly enforced to regulate the imports of virtually all goods was largely dismantled in early 1967.

(b) A particularly important change in policy for trade liberalization was made on 25 July 1967 when the Government adopted for the first time the negative list system in the formulation of Periodic Export-Import Notices. This new system was aimed at liberalizing a large number of goods from import restrictions.

(c) The Government has consciously adhered to an import liberalization policy. However, as the trade balance has seriously deteriorated with the inordinate increase in imports since the adoption of the negative list system, the Government has recently been obliged to take a short-term measure to restrain imports of non-essential and non-urgent goods in the light of balance-of-payments situation.

Following are more detailed descriptions of principal measures taken since 1967:

(1) Adoption of the negative list system

The negative list sets out only those goods the import of which is either prohibited or restricted. Goods not enumerated in the list are liberalized goods.

The following table shows the trend of the Periodic Notices since the second half of 1967.

Items	Second half 1967	First half 1968	Second half 1968	First half 1969
Import prohibited	108	77	77	76
Import restricted	441	462	512	508
Automatic approval	763	773	726	728

Note: Classified on the basis of the 1,312 SITC basic items.

(2) Readjustment in customs tariffs

Effective 1 January 1968, the Government readjusted tariff rates mainly to strengthen the indirect control function of customs tariffs on the imports of non-essential goods and rationally to afford reasonable protection to growing industries. This measure also reflected the Government's policy of relying more on customs tariffs rather than on quantitative control in regulating external trade and meeting various needs of the national economy as a whole. The main features of the readjustment are as follows:

- (i) Tariffs for raw materials for use by domestic industries have been lowered.
- (ii) Tariffs for luxuries and non-essential goods have been increased.
- (iii) Tariffs have been divided into higher and lower protective tariffs in accordance with the degree of protection needed.
- (iv) All import items are divided into the following four categories according to the purposes for which imposition of tariffs mainly serves.
  - (a) Items on which tariffs are levied mainly for protecting domestic industries.
  - (b) Items on which tariffs are imposed mainly for revenue purposes.
  - (c) Duty-free items.
  - (d) Goods the importation of which is to be restrained.

The existing tariffs for protective effect will be lowered gradually as the structure of domestic industries improves, as a result of the implementation of the economic development plan, and their international competitiveness increases.

(2) Other measures.

(i) Increase in import deposit margin

In July 1968, the Government raised the import deposit margin from the former rate of 100 per cent to 150 per cent for 202 items whose tariff rates are over 50 per cent and for forty-eight items defined by ECAFE and IDA as non-essential and luxurious. This measure was taken to restrain indirectly the notable increase in imports which resulted in a trade deficit of nearly US\$450 million during the first six months of the year.

Affected by this measure were such goods as milk, beverages, fruits, watches, television and radio sets, musical instruments, paper and paperboard.

In addition, margin requirements of 10 per cent or 5 per cent were newly introduced on D/A and D/P imports respectively in order to curb increase in imports on short-term deferred payments. However, the annexed figures show that these margin increases have not influenced the import trend as much as was desired.

In view of the still continuing serious imbalance of trade the Government recently increased, on a temporary basis, the rate of deposit margin against those countries which are ten days' shipping distance from Korea and with which Korea has a severe trade deficit.

(ii) In order to rectify the severe imbalance in trade and to encourage the optimum use of domestically produced machinery, imports of machinery were made subject to the prior approval of MCI. A considerable increase in imports of machinery was a major cause for the rapid expansion in overall imports.

7. Effects of the import restriction on trade and the general policy in the use of restrictions for balance-of-payments reasons

It is a basic policy of the Korean Government to pursue continuously trade liberalization as far as the balance-of-payments situation permits. Accordingly, the basic objective of import restriction is to safeguard the balance of payments, to expedite the implementation of the economic development plan by giving priority to imports of goods essential for the development of the economy and to maintain price stability in the domestic market.

The ever-growing trade deficit which amounted to US\$676 million in 1967 has increased to US\$681 million during the first nine months of 1968. Such a trend has been a serious concern to the Korean Government, which has endeavoured to maintain restrictive measures at a minimum level in pursuit of a trade liberalization policy.

Annex I

BALANCE OF PAYMENTS

(US\$ million)

	1966		1967		1968	
	Credit	Debit	Credit	Debit	Credit	Debit
A. <u>Goods and services</u>	<u>454.7</u>	<u>777.7</u>	<u>642.9</u>	<u>1,060.0</u>	<u>862.4</u>	<u>1,383.1</u>
Merchandise	250.3	679.9	320.2	908.9	473.0	1,198.0
Non-monetary gold	0.1	-	-	-	0.1	-
Transportation and insurance	9.9	46.8	10.7	63.0	13.7	82.1
Other transportation	3.9	10.6	6.4	8.6	7.7	10.1
Travel	16.2	3.2	16.3	8.4	21.5	9.7
Investment income	5.6	5.0	10.1	11.9	13.8	16.2
Government	136.5	13.7	223.4	19.2	272.2	17.0
Military transactions	100.9	-	147.1	-	184.0	-
Non-military transactions	35.6	13.7	76.3	19.2	88.2	17.0
Other services	32.2	18.5	55.8	40.0	60.4	50.0
Net goods and services	-	323.0	-	417.1	-	520.7
B. <u>Transfer payments</u>	<u>227.3</u>	<u>7.7</u>	<u>238.4</u>	<u>13.2</u>	<u>232.3</u>	<u>16.3</u>
Private	103.3	5.7	101.9	11.2	110.4	14.3
Central Government	124.0	2.0	136.5	2.0	121.9	2.0
Net transfer payments	216.9	-	225.2	-	216.0	-
Net total (A and B)	-	103.4	-	191.9	-	304.7
Errors and omissions	4.4	-	10.7	-	-	-
C. <u>Capital and monetary gold</u>	<u>-107.1</u>	<u>206.1</u>	<u>-117.0</u>	<u>298.2</u>	<u>-5.8</u>	<u>310.5</u>
Net long-term capital	-	195.6	-	221.9	-	219.1
Foreign exchange holdings	-97.5	-	-111.4	-	-2.8	-
Others	9.6	18.0	5.6	80.9	-3.0	96.0
Open account	-	7.5	-	4.6	-	-4.6

Annex II

TREND OF EXPORTS AND IMPORTS

(US\$'000)

	Exports	Increase - %	Imports	Increase - %	Balance
1965	175,032	47.0	463,442	14.6	-288,360
1966	250,334	42.9	716,441	54.5	-466,107
1967	320,229	27.9	996,246	39.0	-676,017
1968 (Jan.-Sept.)	319,318	47.0	1,000,657	53.0	-681,339

Note: On customs clearance basis, exports are valued at f.o.b. and imports at c.i.f.

Percentage increase in January-September of 1968 is against the corresponding period of 1967.

Annex III

IMPORTS BY COMMODITY GROUP

(US\$'000)

	1965	1966	1967	1968 (Jan.-Sept.)
Food and live animals	63,505	72,365	94,115	123,964
Beverages and tobacco	186	266	783	1,097
Crude materials, inedible, except fuels	110,021	153,924	208,473	182,518
Mineral fuels, lubricants and related materials	31,269	42,447	61,607	16,788
Animal and vegetable oils and fats	3,764	5,491	6,945	6,026
Chemicals	103,425	134,547	113,043	97,107
Manufactured goods classified by materials	70,739	125,194	183,720	166,551
Machinery and transport equipment	73,489	171,720	310,195	381,761
Miscellaneous manufactured articles	6,768	10,457	17,221	24,622
Not classifiable	177	30	144	225
Total	463,442	716,441	996,246	1,000,657

Annex IV

IMPORTS BY FUND SOURCES

(In percentage shares)

Type of fund Year	Total	Commercial and loan	Official aid	Relief and others
1962	100	43.6	51.7	4.7
1963	100	51.2	41.5	7.6
1964	100	54.2	35.3	10.5
1965	100	60.3	29.3	10.4
1966	100	70.2	21.1	8.7
1967	100	84.4	12.0	3.6
1968 (Jan.- June)	100	85.3	10.8	3.9

Annex V

IMPORTS BY COUNTRY

(US\$ millions)

Country	Year	1965	1966	1967	1968 (January-August)
Japan		166.6	293.8	443.1	391.4
United States		182.3	253.7	305.2	291.4
Germany, F.R.		16.0	20.2	30.9	52.9
Philippines		11.1	20.9	21.9	21.4
France		11.7	10.9	16.7	12.7
China, Rep. of		10.4	10.8	27.2	10.1
Italy		6.2	16.1	6.4	11.4
Hong Kong		7.5	7.7	12.0	8.9
Australia		3.7	6.4	8.9	4.5
Others		47.9	75.9	123.9	86.7
Total		463.4	716.4	996.2	885.7

Annex VI

EXPORTS BY COUNTRY

(US\$ millions)

Year Country	1965	1966	1967	1968 (January-August)
United States	61.7	95.8	137.4	143.0
Japan	44.0	66.3	84.7	62.3
Hong Kong	10.8	9.5	15.2	9.7
Viet-Nam	14.8	13.8	7.4	2.7
Sweden	5.1	9.8	8.0	4.0
Canada	2.5	5.8	7.9	9.0
United Kingdom	3.6	5.1	7.9	4.3
Germany, F.R.	3.2	7.0	5.3	6.2
Thailand	4.3	4.7	5.6	3.3
Others	25.1	32.5	40.8	35.2
Total	175.1	250.3	320.2	279.7