

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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1971 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH THE REPUBLIC OF KOREA

Basic Document for the Consultation¹

I. Legal and administrative basis of import restrictions

The Trade Transaction Law promulgated on 16 January 1967 empowers the Minister of Commerce and Industry to prohibit or restrict imports or exports of goods or to impose other restrictions as to quantity or amount, specifications of goods and trading areas. As stated in Article 1 of the Law the objective of the legislation is to promote a sound development of foreign trade by encouraging exports and adjusting imports and to contribute towards developing the national economy by maintaining equilibrium in the balance of payments.

The administrative bases of import regulation are the Export-Import Periodic Notices and Public Notices of the Ministry of Commerce and Industry. The Ministry formulates and announces, on a semi-annual basis (January-June and July-December), a Periodic Notice for the forthcoming half-year period thirty (30) days prior to implementation, following deliberations in the Trade Committee which consists of twenty-one Government officials concerned, representatives of banks and universities. The Committee is established under Article 21 of the Trade Transaction Law within the Ministry of Commerce and Industry to deal with important matters relating to trade policy.

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

II. Methods used in restricting imports

The Government of Korea has continued to pursue a policy of trade liberalization to the fullest extent possible since the adoption of the Negative List System in July 1967. However, in view of the prevailing balance-of-payments situation and in view of the necessity of regulating domestic supply and demand and domestic price

¹Text supplied by the Government of Korea. Certain statistical material accompanying the document will be circulated separately.

stabilization, regulation of the import of some commodities is considered necessary. The two measures in force are:

A. Import prohibition

The import-prohibited items, the import of which is banned, comprised principally the following categories of products:

1. Some specific articles prohibited for reasons of public order or national health;
2. agricultural products produced in small-scale farming, and miscellaneous items for daily use produced by small-scale domestic industries;
3. goods of which there is surplus domestic production; and
4. goods considered to be non-essential or luxury in relation to the balance-of-payments situation and the low income level of the people.

B. Import restriction

The operation of the restrictions is aimed at adjusting imports to the prevailing balance-of-payments situation and regulating domestic supply and demand and prices. It should be noted that any basic items containing one or more prohibited or restricted SITC sub-items, except in case of totally prohibited sub-items, are classified as restricted basic items. The restricted basic items include a number of automatic approval SITC sub-items. Import-restricted items may be classified as follows:

1. Goods which require prior recommendation by the Ministries concerned: In making a recommendation, the competent Ministry takes into account the domestic supply and demand condition of the goods concerned.
2. End-user's goods: The right to import such goods is granted to 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 promote the quality of domestically manufactured goods. This type of control is also designed to restrict import of non-essential and non-urgent goods.
4. Quota items: Import quotas may be imposed when the situation of balance of payments deteriorates.
5. Imports requiring prior approval by the Minister of Commerce and Industry: Commodities imported from nations whose annual exports to Korea are more than twice their imports from Korea while the annual trade deficit is in excess of \$25 million.

C. Exceptions to import restrictions

Even in the case of import prohibited or restricted items, imports may be liberally permitted in the following cases:

1. Imports of raw materials and equipment for export, military supply and tourist industries, or for other foreign exchange earning purposes as authorized by the Minister of Commerce and Industry;
2. Imports of items of which the domestic sale price is substantially higher than that of the imported goods, and items in which the quality of domestic production is obviously inferior to imported goods.

Since the adoption of the Negative-List System in 1967, items not falling under the above-mentioned two categories can be freely imported. The importation of such items is automatically approved by foreign exchange banks, and requires no permission from the Ministry of Commerce and Industry. Only imports by "abnormal means of settlement" on the D/A or D/P basis are subject to prior approval of the Ministry.

The import of import-restricted items is, in a number of cases, subject to Advance Import Deposit Requirements as a supplementary means to prevent excessive increase of imports. Under this system, the importer is required to make advance deposit with a commercial bank at the time of import application.

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

As was pointed out during the 1969 consultation, the Government of Korea maintains no discriminatory restrictive measures on account of sources of supply, and does not participate in any regional arrangements or special trade ties involving preferential treatment for imports from particular countries. The lists of commodities annexed to bilateral agreements are only indicative and provide for no ceilings or import commitments.

However, imports under aid funds and loans may sometimes be regulated for certain sources of supply in accordance with regulations governing such funds and loans. The share of such procurements in total imports has greatly decreased from 51.7 per cent in 1962 to 4 per cent in 1970.

In recent years, Korea's balance-of-payments difficulties have compelled the Government to take restrictive measures against imports from a certain country with which Korea's trade shows a big deficit. The purpose of these measures is only to reduce the ever-growing trade deficit which is likely to cause a serious deterioration in the overall balance of payments.

As of the end of 1970, the Republic of Korea has concluded trade agreements with a number of countries and all these agreements comprise common provisions on mutual non-discriminatory treatment, method of payments, bilateral consultations for the implementation of the agreement.

Since the last consultation in 1969 the Government of Korea has entered into trade agreements with Niger (December 1969), Tunisia (May 1970), El Salvador (October 1970) and Indonesia (April 1971).

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

Under trade programmes for the first half of 1971, the import-prohibited category contains seventy-three items, the import-restricted category 520 items and the automatic approval category 719 items.

For the following cases import deposit requirements are exempted:

- (a) Imports of raw materials for re-export and processing exports, military supply and goods necessary for foreigners;
- (b) imports under the "back-to-back" Letters of Credit;
- (c) imports financed with foreign currency loans from domestic foreign exchange banks or with loans from international financial institutions; and
- (d) other imports authorized by the Minister of Finance.

V. State trading or government monopolies as a means of restricting imports

As was explained at the last consultation, the Korean Government maintains no State-trading practice or government monopoly as a means of restricting imports.

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

The following import liberalization measures were put into effect since last consultation in 1969:

(A) Modification of the Export-Import Periodic Notice:

Since 1969, the Korean Government has steadily increased imports of items which are not produced domestically or in which domestic demand is not adequately met, as well as items in which Korean production has become significantly more competitive.

The following table shows the changes that have been made in the number of import items under the Export-Import Periodic Notice on the basis of 1,312 SITC basic items:

	1969	1970		1971
	2nd half (22 October)	1st half (4 May)	2nd half (30 May)	1st half (10 March)
Prohibited	74	73	73	73
Restricted	530	526	524	520
Automatic approval	708	713	715	719

(B) Readjustment in Advance Import Deposit Requirements:

On 28 January 1970, the Government readjusted the advance deposits to promote imports by the private sector. According to the amendments, deposit requirements in the case of imports payable on an "at sight" basis from specific areas were reduced by 50 per cent, while imports on non-L/C basis from non-specific areas were increased by 20 per cent on D/A imports and by 45 per cent on D/P and bonded warehouse transaction imports. In 1970, deposit requirements ranged from 30 per cent to 150 per cent of the import value, without differential rates as to areas, as shown in the following table:

	1968	1 January 1969		28 January 1970
		Specific areas ¹	Others	
At sight on L/C basis:				
Items whose basic tariff rates are 30-49 per cent	100%	150%	100%	100%
Items whose basic tariff rates are over 50 per cent or non-essential commodities and luxuries designated by ECAFE and IDA	150%	200%	150%	150%
Non-L/C basis:				
D/A imports	10%	30%	10%	30%
D/P and BWT imports	5%	50%	5%	50%

¹Countries within ten days standard shipping distance from Korea, whose annual exports to Korea are more than twice their imports from Korea and the trade deficit is in excess of \$25 million per annum.

(C) Modification of prior approval system:

In August and November 1970, the Korean Government modified the prior approval system for import by reducing substantially the number of items subject to prior approval.

About 1,300 items among 5,403 items on the basis of SITC sub-item were exempted from the prior approval requirements. In January 1971, additional forty-six items on the basis of SITC basic items were exempted from the requirements.

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

It is the basic policy of the Korean Government to continue to pursue trade liberalization as far as the balance-of-payments situation permits. It should be noted, however, that the average annual rate of increase in imports during the years 1966-1969 reached 41.3 per cent compared to the 39.9 per cent export growth rate and that the trade deficit increased from \$466 million in 1966 to \$1,148 million in 1970.

In order to implement the economic development plan priority has to be given to imports of goods essential for economic growth and price stability must be maintained in the domestic markets. For these purposes the Korean Government is obliged to maintain some restrictive measures on imports in view of the present balance-of-payments and external financial situation. During 1970, the trade deficit declined to \$1,149 million compared with \$1,201 million in 1969. The improvement in the balance-of-payments position was largely attributable to the effective measures of the Government to adjust import demand in accordance with the current economic development plans.

VIII. Barriers to export expansion

During the past decade the Republic of Korea has continued to move towards a viable economy through the successful completion of the First and the Second Five-Year Economic Development Plans, and rapid growth of export industry is one of the prominent features of the Korean economy.

Despite a high rate of export expansion Korea has continued to experience a large trade imbalance. In 1970, for example, imports increased to \$1.984 billion while exports amounted to \$835 million, recording \$1.149 billion in red on customs clearance basis.

Furthermore, as of 1970 foreign capital contracted stood at over \$2.6 billion and debt servicing absorbed nearly one sixth of the export earnings of 1970 during which export target of \$1 billion has been attained.

It is further expected that the Third Five-Year Economic Development Plan beginning in 1972 will continue to demand imports of raw materials as well as capital goods amounting to an estimate of \$15.7 billion and that trade deficit is likely to continue.

In these circumstances, Korea's choice of action "in order to safeguard its external financial position and to ensure a level of reserves adequate for the implementation of its programme of economic development" points to vigorous export expansion efforts to earn more foreign exchange to pay for the imports.

As shown in the GATT inventory of non-tariff barriers as well as document BOP/89/Add.1, some Korean export products still encounter various forms of trade barriers including quantitative restrictions in particular, thus jeopardizing Korea's effort to increase her export earnings. The Korean Government firmly believes that trade barriers maintained by developed countries which affect particularly the export interests of the developing countries including Korea, should be eliminated as soon as possible.