

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

1981 CONSULTATION WITH REPUBLIC OF KOREA (SIMPLIFIED PROCEDURES)

Background Paper by the secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (L/4904) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration.

I. Korea's previous consultations

2. The last full consultation with the Republic of Korea took place on 31 October 1979. At this consultation the Committee welcomed the substantial import liberalization measures undertaken since the last full consultation and noted with satisfaction Korea's intention to continue on the path of planned import liberalization.

3. The Committee recognized that efforts had been made towards a simplification of the trade control system; it noted however that many problems remained and further efforts were necessary if Korea were to fully benefit from its own trade liberalization. The Committee reaffirmed its view that complexity, lack of transparency and instability in a trade regime acted as a general import barrier with particularly high costs to the economy and urged the Korean authorities to give high priority to the removal of this trade barrier when implementing their plan to further liberalize trade and to gradually relax government controls in the economic sphere. (BOP/R/109, paragraphs 21-22)

4. The last full consultation was preceded by a simplified consultation in the fall of 1978 and by a full consultation in the spring of 1976.

II. The main changes in Korea's trade policy since the last consultation

5. The Korean authorities continued during 1980 with the major import liberalization programme initiated in May 1978 under which the list of prohibited goods had been abolished and the list of imports with automatic approval expanded. As a result of the liberalization programme, between April 1978 and January 1980, the share of imports

on the automatic approval list out of all basic items in the CCCN classification, rose from 54.0 per cent to 68.5 per cent. The majority of the liberalized goods consisted of raw materials and capital goods.

6. As part of the import liberalization programme the system of advance import deposit requirements was further simplified and the rates substantially reduced in 1979. Deposit requirements for general imports, which had ranged between 5 and 200 per cent, were abolished, and deposits were confined to imports on a deferred payments basis. These rates were reduced from 10 - 40 per cent to 5 - 20 per cent.

7. On 1 July 1980, 33 commodity categories were transferred from the restricted to the automatic approval list while 20 others were removed from the latter. This net transfer of goods to the automatic approval list raised the share of liberalized imports to 68.6 per cent.

8. Following tariff reductions on most imports carried out in January 1979, as a result of which the unweighted average level of tariff rates fell from 36 to 25 per cent, changes in tariffs in 1980 were not substantial.

9. Import tariffs on 77 luxury items were raised from an average of 53 per cent to 71 per cent for the period up to 31 December 1980, while tariff quotas on a number of foodstuffs, chemicals, textiles, wood products, steel products, natural rubber, and agricultural machinery were introduced for the period up to 31 December 1980. The tariff rate for the quotas was reduced for 64 items from an average of 19.5 per cent to an average of 9.2 per cent. Both of these measures were extended in January 1981 for a period of six months until 30 June 1981.

10. Payments regulations applying to imports were also liberalized during 1980. In January the settlement period for imports with deferred payment was extended from 120 to 180 days. In March the advance import deposit for imports of copper on a deferred payments basis was reduced from 20 to 10 per cent.

III. The major trends in Korea's foreign trade since the last consultation

11. The deficit on Korea's balance of merchandise trade increased from \$1.8 billion in 1978 to \$4.8 billion in 1980. For the first time in the last 16 years, the volume of Korean imports declined in 1980 by 14 per cent. They were however valued at \$22.3 billion, or 10 per cent more than in 1979. Declines were particularly large in imports of manufactures, reflecting lower levels of domestic manufacturing production and a strong contraction of fixed investment in machinery and equipment. In contrast, petroleum imports increased in value

terms by 80 per cent, to \$5.6 billion; this amount represented 25 per cent of total imports in 1980, while in the previous year imports of petroleum had accounted for less than 17 per cent of the total. Food imports were also up by about one-fifth in 1980, partly because of higher import needs due to a bad agricultural season (in particular, for rice) but also to the steep rise in sugar prices.

12. The 17 per cent devaluation of the won (against the U.S. dollar) in January 1980 and its further 12 per cent depreciation scaled over the year worked as a disincentive to imports, while increasing the competitiveness of Korean products abroad. After a small decline in 1979, the volume of exports increased by some 10 per cent in 1980. In dollar terms, exports rose by 16 per cent to \$17.5 billion. According to preliminary estimates, gains were not evenly spread throughout the export sector. Among exports of textiles and clothing, which in 1979 accounted for about one third of the total, those of textile yarn registered a high growth rate, while earnings from clothing rose only marginally. Other rapidly increasing export items were iron and steel, fertilizers, tyres, TV receivers and some metal products.