

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

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1984 CONSULTATION WITH KOREA

Basic document for the Consultation¹

I. BALANCE-OF-PAYMENTS POSITION AND PROSPECTS

1. General review of the Korean economy

After two decades of rapid growth, the Korean economy encountered serious difficulties during 1979-80, reflecting structural imbalances, excess demand pressures, increased oil prices, higher international interest rates, a poor harvest and a political crisis. Output declined in 1980 for the first time in recent history, inflation soared to its highest level in a decade (32 per cent), and the current account deficit rose to about 9 per cent of GNP, or twice the average during the seventies. The Government responded swiftly to these developments by implementing a wide-ranging adjustment program. By 1982, substantial adjustment had been achieved: real growth rebounded to 6 per cent, inflation declined to 5 per cent, and the current account deficit was reduced to 4 per cent of GNP.

Korea's adjustment efforts were strengthened in 1983 following the international debt crisis of 1982. The public sector deficit was reduced to 1.6 per cent of GNP from 4.3 per cent in 1982. Monetary policy was further tightened. Import liberalization, which the Government stepped up despite increased protectionism abroad, was facilitated by a flexible exchange rate policy aimed at reinforcing the revival of export demand.

Economic performance in 1983 was unmatched in Korea's history: rapid growth was achieved without high inflation or a large current account deficit. Output growth nearly doubled to over 9 per cent, inflation was virtually eliminated, and the current account deficit was halved to 2 per cent of GNP. The growth of external debt slowed substantially and its maturity structure improved.

¹Material supplied by the Korean authority.

The remarkable performance last year has encouraged the Government to persevere with its adjustment policies. The 1984 economic management plan was designed to consolidate the gains in the fiscal position and the external competitiveness and to further tighten monetary policy to preserve price stability.

During the first half of 1984, real GNP grew at an annual rate of 8.4 per cent. For 1984 as a whole, prospects are that growth will be about 8 per cent, with external demand accounting for about half, and the remainder split between investment and private consumption. Inflation has been held under 2 per cent, reflecting tight financial policies, plentiful food supplies, wage restraint, and moderate increases in prices of traded goods. The current account deficit for the first seven months was US\$ 1.3 billion, which was about the same amount during the comparable period in 1983. Import growth has been more rapid than anticipated, while interest payments have been larger on account of higher international interest rates. Despite these developments, the Government intends to limit the 1984 current account deficit to US\$ 1.4-US\$ 1.5 billion (under 2 per cent of GNP) with appropriate policy adjustments.

2. Balance-of-payments developments during 1980-83

a. Overview

A substantial adjustment in the current account was achieved during 1980-83. From a current account deficit of US\$ 5.3 billion (9 per cent of GNP) in 1980 (reflecting sharp increases in oil prices and foreign interest rates), the deficit steadily declined to US\$ 2.6 billion in 1982 and US\$ 1.6 billion in 1983 (2 per cent of GNP), as domestic adjustment policies were complemented by favorable external developments. Despite the improvement in the current account deficit in 1982,

the overall deficit increased because of a substantial fall in borrowing by the nonbank sector and higher outflows on errors and omissions. In 1983, the overall deficit narrowed sharply in line with the current account adjustment and a smaller outflow on errors and omissions.

b. Trade measures affecting exports

There has been an increase in protectionist measures against Korea's exports in recent years in the form of tariffs, quotas, special procedures, and orderly marketing arrangements. As of the end of 1983, 19 industrial countries were applying protectionist measures against 159 export items, up from 152 items at the end of 1982. Among the eight major export commodity groups, restricted items accounted for 42 per cent of such exports in 1983, up from 35 per cent in 1981. The effects of protectionism on the Korean economy are analyzed in a special report to be issued as BOP/246/Add.1.

c. Trade balance

The trade deficit fell steadily from US\$ 4.4 billion in 1980 to US\$ 1.7 billion in 1983. The improvement in the trade balance in 1981 was solely due to volume effects, as the terms of trade deteriorated in that year. The favorable terms of trade contributed to the improved trade balance in 1982 and were reinforced by volume effects in 1983. Export volume increase exceeded import volume increase by a substantial margin, while prices of petroleum and non-oil imports declined.

Korea's export volume depends importantly on changes in foreign demand and external competitiveness. The world recession and a decline in competitiveness resulted in slower export volume growth in 1982 (6 per cent, compared with average 14 per cent per year during 1980-81). Reflecting recovery in export markets and improved competitiveness, in 1983, export volume growth accelerated to 16 per cent. However, due to export unit values falling by 4 per cent per year during 1982-83, export earnings rose by only 1 per cent in 1982 and by 11 per cent in 1983.

During 1980-83, the composition of exports changed markedly; textiles and footwear gave way to heavy industrial products as the main contributor to export growth (accounting for more than two thirds of export growth). Electronic products and ships made significant inroads, aided by foreign technology, lower labor costs, and aggressive marketing. Textiles stagnated, reflecting weak foreign demand and protectionist measures, particularly the MFA with industrial countries. In 1982, the increase in shipbuilding (including repairs) exceeded the increase in total export earnings, which offset declines in all other categories except chemicals and electronics. In 1983, about three quarters of the increase in total export earnings was due to the increase in ships and electronic products.

The destination of exports also showed some change during 1980-83. Reflecting the real depreciation of the won against the U.S. dollar and the strong recovery of the U.S. economy in 1983, the share of exports to the U.S. rose from 26 per cent in 1980 to 34 per cent in 1983. Conversely, stemming from the appreciation of the won vis-a-vis the currencies of Japan and the E.E.C. and the weaker economic recovery of these

regions, the shares of exports to Japan and the E.E.C. fell, respectively, from 17 per cent and 15 per cent, to 14 per cent and 12 per cent between 1981 and 1983. The share of exports to the Middle East declined slightly, while the share of exports to the non-oil developing world and other countries also decreased.

Following a 19 per cent per year increase in imports during 1979-81, import payments fell by 3 per cent in 1982, reflecting a 6 per cent decrease in prices and a slower volume growth. Oil imports declined by 4 per cent, due both to lower price and volume. Oil import volume decreased because of strong Government energy conservation program.

In 1983, despite a 13 per cent volume increase, import payments rose by only 6 per cent owing to a decline in prices. Although oil import volume rose because of vigorous economic activity and stockpiling, the oil bill continued to decrease because of lower price. Non-oil imports rose by only 9 per cent, despite a 13 per cent increase in volume, due to a decline in prices. Imports of consumer goods and raw materials grew in line with export growth and expansion of domestic activity, while imports of capital goods increased owing to an accelerated growth in equipment investment. The composition of imports in 1983 has changed little from the last few years: imports of raw materials (including petroleum) accounted for 60 per cent of total imports; capital goods, 30 per cent; and consumer goods (including grains), 10 per cent.

d. Invisible account

The deficit on the invisible account widened from US\$ 0.2 billion in 1979 to US\$ 1.5 billion in 1981, reflecting higher foreign interest rates and external debt, despite

substantial increase in receipts from overseas construction. In 1982 the deficit fell to US\$ 0.6 billion, with increases in receipts from transportation, overseas construction and miscellaneous services more than offsetting the increase in net investment income payments.

In 1983, the deficit on net invisibles was roughly unchanged at US\$ 0.5 billion, with both receipts and payments falling by the same amount. The decline in receipts reflected mainly a substantial retrenchment of construction activity in the Middle East, while the decrease in payments reflected a sharp drop in foreign interest rates. With net transfers from abroad roughly of the same magnitude, the combined net account on invisibles and transfers was virtually balanced during 1982-83.

e. Capital account and reserve movements

Reflecting the general tightening of the conditions in international capital markets, sharply higher amortization payments, and substantial outflows on export credits, net inflows of medium-and long-term capital dropped from an average of US\$ 2.5 billion during 1980-81 to an average of US\$ 1.3 billion in 1982-83.

Borrowings by the nonfinancial private sector fell from US\$ 1.2 billion in 1981 to an average of US\$ 0.9 billion in 1982-83. Borrowings by the public sector rose from US\$ 1.7 billion in 1981 to US\$ 1.9 billion in 1982, but dropped to US\$ 1.5 billion in 1983. Amortization payments by the nonfinancial private and public sectors expanded steadily from US\$ 1.3 billion in 1981 to US\$ 1.4 billion in 1982 and US\$ 1.6 billion in 1983. Loans to nonbank financial institutions declined from US\$ 1.1 billion in 1981 to an average of US\$ 0.6 billion in 1982-83. Trade credits and other flows recorded substantial outflows of US\$ 0.7 billion in 1982 and US\$ 0.4 billion in 1983 to finance exports of ships.

With the lengthening of the maximum maturity of trade credits, private short-term capital recorded substantial inflows in 1980; net inflows became negligible in 1981-82, but expanded to US\$ 0.9 billion in 1983, in line with import growth and greater reliance on foreign financing. The outflow on errors and omissions went up sharply from an average of US\$ 0.4 billion in 1979-81 to US\$ 1.3 billion in 1982, before declining to US\$ 1.0 billion in 1983.

Despite the steady narrowing of the current account deficit since 1980, the overall balance-of-payments deficit widened from US\$ 1.9 billion in 1980 to US\$ 2.3 billion in 1981 and US\$ 2.7 billion in 1982, reflecting a weakening in the capital account, particularly in private short-term capital in 1981 and, additionally, in medium- and long-term capital and sharp net outflows on errors and omissions in 1982. In 1983, owing to the substantial decline in the current account deficit and larger net inflows of private short-term capital, the overall deficit decreased to US\$ 0.4 billion. During 1979-82, gross international reserves rose in line with imports of goods and services, reaching a peak of US\$ 7.0 billion at end-1982. At end-1983, reserves dropped slightly to US\$ 6.9 billion; the ratio of reserves to imports of goods and services remained at nearly 2.5 months.

3. Balance-of-payments developments and prospects in 1984

During the first seven months of 1984, the current account deficit amounted to US\$ 1.3 billion, which was unchanged from the same period in 1983. The trade deficit was actually slightly lower than last year's. The increase in invisible payments was higher than that in receipts, reflecting higher

interest payments and sluggish receipts from overseas construction. Net transfers were also down slightly from a year ago. Net medium-and long-term capital inflows and outflows on errors and omissions were slightly higher than last year's, while private short-term capital flows swung from about US\$ 0.4 billion inflow last year to just under US\$ 0.2 billion outflow

owing to a substantial reduction in trade credits induced partly by a shortening of the maximum maturity that the Government earlier implemented. Thus, reflecting the weakening of private short-term capital account, the overall balance-of-payments deficit rose from US\$ 0.9 billion last year to US\$ 1.4 billion. End-July gross international reserves were virtually unchanged at US\$ 6.5 billion from a year ago, but fell below end-1983 level by 0.4 billion dollars. In months of imports of goods and services, reserves were equivalent to 2.2 months at end-July, down from 2.5 months at end-1983.

The Government hopes to limit the 1984 current account deficit to US\$ 1.4-US\$ 1.5 billion with whatever policies necessary to reach that goal. There are bright signs. Import licenses declined in August, following a steady increase during the first half. Likewise, owing to tight financial policies constraining domestic demand, the growth of imports for domestic market use has been decelerating lately. These developments may indicate that stockpiling demand observed in the first half appears to have been largely met for this year.

4. Medium-term prospects

In view of recent changes in the international economic and financial environment and Korea's recent economic performance, the Government revised during the course of 1983 the Five-Year Economic Development Plan (1982-86). The major revisions centered on downward adjustments of the targets for exports, external debt, and inflation; the output target of 7.5 per cent growth per annum remained.

In line with this strategy, the Government plans to close the current account gap by 1986 and move to a moderate surplus averaging one per cent of GNP in subsequent years. Merchandise export volume growth is projected to average 10 per cent per annum during 1985-87, and taper off to 7.5 per cent in 1988, as the growth of Korea's export markets slows. Merchandise import volume growth is projected at 7.5 per cent per annum during 1985-88. Export and import unit values are assumed to increase by 5 per cent per annum during 1985-86, and by 4 per cent per annum during 1987-88. The international interest rate (LIBOR) is assumed to be 10 per cent per annum.

The above current account projections over the medium-term depend crucially on continued access to export markets and stable international interest rates. Intensification of protectionism and higher levels of foreign interest rates would inevitably cast a shadow over Korea's prospects for realizing its growth potential and external objectives.

II. CURRENT SYSTEM AND METHODS OF RESTRICTIONS

Korea's trade and exchange policies have been designed to preserve the external competitiveness of Korean producers and improve domestic resource allocation. These policies cover import liberalization and tariff reform, simplification of trade procedures, and improvement of the foreign exchange control system.

In line with the growth of external trade and the national economy, the Government has eased the restrictions on imports on a gradual, step-by-step basis.

However, in view of Korea's large current account deficit and foreign debt, the present level of tariffs and some remaining restrictions are necessary.

1. Revised tariff system

In 1983, the Korean Government revised the tariff system, through lowering tariff rates and changes of items subject to flexible tariffs.

a. Tariff reduction

(1) Goal of reform

As an integral element of industrial policy in the eighties, the Korean government reformed its tariff system on Dec. 29, 1983 in order to enhance Korea's international competitiveness.

(2) Basic directions

The reform was oriented toward four basic directions.

First, high tariff rates for industries that enjoy excessive protection were lowered to allow greater foreign competition.

Second, tariff differentials and tariff escalation among industries were reduced to promote fair competition.

Third, the number of tariff-free items was reduced and the tariff burden more evenly shared to gradually move to a more equitable tariff structure.

Fourth, tariffs on agricultural products were modified to strike a balance of interests between farmers and consumers.

(3) Major changes

Tariff rates for 734 items (31.8% of tariff items) were lowered, while those for 300 items were raised. As a result, the simple average tariff rate for manufactured goods was lowered from 22.6 % in 1983 to 20.6% in 1984.

(Table attached)

In addition, various tariff rates were also adjusted with the aim of reaching the target rate of 20%. The ratio of the number of items with a tariff rate of 20% or less increased from 61.9% in 1983 to 74.1% in 1984.

(Table attached)

Furthermore, in order to promote fair competition among industries, the tariff rate differential was lowered. Thus the tariff rates for industries were decreased from a range of 18.8%-48.5% to a range of 19.1%-38.9% in 1984.

(Table attached)

b. Flexible tariff system

The flexible tariff system is maintained to cope with short-term changes in the economic situation. However, the system is temporary and applied selectively and for a short period.

(1) Tariff quota

The tariff quota system allows a temporary reduction of tariff rates, up to 40%, on certain imported goods in order to meet a surge of demand and to stabilize domestic prices.

The number of items subject to this system was reduced to 7 on July 1, 1984, from 30 on July 1, 1983.

(2) Emergency duty

The emergency duty is temporarily applied to discourage unnecessary imports of certain luxury goods or to assist domestic industry when there is an unexpected surge of imported goods.

The number of items subject to this duty was 104 on July 1, 1983, but it was reduced to 38 on Jan. 1, 1984, and further to 10 on July 1, 1984.

(3) Adjustment duty

This system was introduced on Jan. 1, 1984 to adjust tariff rates, if necessary, on newly liberalized items, in order to provide temporary assistance to domestic producers during an initial period of adjustment and thus facilitate the implementation of import liberalization policy.

Adjustment duties were imposed on 14 items on July 1, 1984.

2. Annual Export-Import Notice

a. Legal basis

Under Article 9 of the Foreign Trade Transaction Act, the Minister of Trade and Industry has the authority to execute an annual export-import notice.

b. Coverage period

The Annual Notice must be published not later than 30 days prior to its execution to prevent inconvenience to the traders concerned, and is usually published at the end of May and applied from July 1 to June 30 of the following year.

c. Contents

The Annual Notice consists of (1) general provisions, and (2) restricted export and import items.

(1) General provisions

These provisions contain general information including the classification of items, the application of special laws, the detailed procedures of the Annual Notice, and exceptional treatment regarding restricted items, etc.

(2) Export/Import items under the restricted category

The Annual Notice contains a description of restricted export/import items and restrictive measures.

As the negative list system has been applied in Korea since 1967, the items not included in the Annual Notice are automatically approved.

The Annual Notice also lists the competent authorities for export/import recommendation on restricted items. Detailed criteria for recommendation are determined by the authorities concerned in consultation with the Minister of Trade and Industry and are announced to the public prior to publication of the Annual Notice.

d. Dissemination of information concerning measures on export/imports

The Korea Traders Association and other relevant organizations publish the acts, regulations, Annual Notice, and guidelines for recommendation relating to the restrictive measures on exports/imports. For the convenience of foreign traders, these publications are made available in English.

e. Exceptions to the Annual Notice

Under some circumstances, and in accordance with Article 17 of the Foreign Trade Transaction Act, raw materials and capital goods can be imported under special permit or approval, notwithstanding restrictive provisions stipulated in the Annual Notice.

(1) In order to monitor the effects on domestic industry, the Minister of Trade and Industry may require a certificate of offer from the Association of Foreign Trading Agencies of Korea covering 127 items of the total 6,712 automatic-approval items.

The number of items in this category will be reviewed annually with the aim of reducing it over time.

(2) The Minister of Trade and Industry may change the Annual Notice, if necessary, to promote the stable supply of raw materials and the stability of domestic prices.

3. Import liberalization policy

a. Background

Since 1980, in line with an open-door economic policy, the Korean government has taken a series of major reforms. Liberalization of imports and foreign investments has been an integral part of the reforms. By 1986, Korea's import liberalization ratio will be near the level prevailing in the developed countries. By 1988, virtually all restrictive measures on manufactured goods are scheduled to be eliminated.

The objectives of import liberalization policy are:

- (1) to enhance economic stability and efficiency by encouraging greater reliance on market forces;
- (2) to strengthen the international competitiveness of Korean industry; and
- (3) to promote trade in accordance with GATT free trade principles and to discourage protectionist measures against Korean products.

b. Progress

In the five-year period from July, 1979 to July, 1984, the percentage of items subject to automatic approval has risen from 67.6% to 84.8%.

	July 1979	Jan. 1980	July 1980	July 1981	July 1982	July 1983	Jan. 1984	July 1984
Total (A)	1,010	1,010	1,010	7,465	7,560	7,560	7,560	7,915
Automatic Approval (B)	683	692	693	5,579	5,791	6,078	6,101	6,712
Ratio (B/A) (%)	67.6	68.5	68.6	74.7	76.6	80.4	80.7	84.8

- * Note : (1) 1979-1980, on the basis of COCN heading of 1,010 items.
(2) 1981-1984, on the basis of COCN 8 digit classification.

c. Constraints

There are some constraints on the implementation of an open-door policy.

(1) The Korean economy would be adversely affected if the import liberalization policy were to be implemented without due consideration of Korea's large foreign debt and the persistent balance of payments deficit.

(2) Korea's small-and medium-sized companies, which account for 97% of all Korean companies and lag behind in technological sophistication, will be most vulnerable to a drastic policy

implementation. Thus, many small-and medium-sized companies fear the potential disruptive impact of import liberalization and have put pressure on the government to reverse or at least decelerate the pace of implementation.

(3) In addition, some domestic industries would be adversely affected by excessively rapid implementation of the import liberalization policy in view of their relatively low level of development and weak competitive position.

d. Basic direction

(1) Pace of implementation

The import liberalization policy is being implemented on a gradual basis, taking into account Korea's balance of payments position and the competitiveness of domestic industry.

The items being considered for import liberalization are those items that are now fully competitive internationally or not expected to become competitive at all, and domestically monopolized items.

The items that may need further consideration are agricultural and fishery products, products of small-and medium-sized enterprises, products of infant industries, and luxury consumer goods.

(2) Interim measures

Import surveillance

Imports of sensitive items, which may have negative effects on the economy, will continue to

remain in this category for the time being.
However, the items will be reviewed annually.

Adjustment duty

Adjustment duties may be applied for a maximum of 3 years in order to prevent a surge of certain imports.

Advance notice schedule

The annual list of items to be liberalized will be announced two to three years in advance. This system is designed to provide domestic industries with sufficient time to adjust to changing circumstances.

4. Simplification of trade procedures

In order to carry out its objective of simplification of trade procedures, the Korean Government has made an effort to eliminate excessively complex procedures while promoting a trade regime that is stable and easily understood.

In 1981, the Government virtually abolished the end-user recognition system and the export-import link system. In addition, the requirement for advance import deposits, which was in the range of 5 per cent to 20 per cent for goods imported by the private sector on a deferred payment basis, was suspended in 1982.

Furthermore, the Government established the Committee on Simplification of Trade Procedures in 1983 in order to avoid inconveniences deriving from the complex trade system in the past.

5. Improvements in the foreign exchange control system

Since 1983, the government has made some revisions in the foreign exchange control system to meet the changing external environment, to restore equilibrium in the balance of payments, and to slow the growth and improve the maturity of external debt.

The major changes include reform of the foreign currency lending system, shortening of the period of deferred payment exports, revision of the regulation on swap transactions, improvement of the overseas investment system, and changes in the regulations governing external borrowing.

a. Reforms of the foreign currency lending system

The foreign currency lending system was broadened in 1983, while the lending for the payment of interest on foreign currency borrowing was curtailed. In addition, on two occasions, changes in the regulation shortened the period of foreign currency lending for the importation of oil and raw materials for export. The period was changed from 180 days to 150 days, and subsequently to 120 days.

b. Shortening of the period of deferred payment on imports

In parallel with the shortening of the foreign currency lending period, the length of time allowed for deferred payment on imports was shortened from 180 days to 120 days. Import items subject to actual tariff rates over 30%, and to specific duties except for the import of raw materials for export were excluded from the deferred payment basis.

c. Revision of swap transactions regulation

The Bank of Korea revised the regulation on swap transactions with foreign bank branches. The revised regulation abolished the restriction on the swap maturity which had been less than 1 year, and extended the maturity for the purpose of switching external debt to the medium-term category.

d. Improvement of the overseas investment system

Procedures for obtaining permission to invest overseas have been simplified. An obligatory requirement to maintain a certain amount of capital domestically has been removed in an effort to foster overseas investment by small- and medium-sized companies. In addition, some documents to be submitted to the authorities were simplified.

e. Major changes during 1984

The government again shortened periods of both foreign currency lending and deferred payment imports as part of an effort to improve the balance of payments and the external debt profile. The periods, which were as long as 180 days, were reduced to 90 days from 120 days.

Also, in order to secure timely borrowing without causing any disruptive effect on future borrowing and to slow down the increase in external debt, the government has tightened control over short and medium-term external borrowing by banking institutions. External borrowing over the amount of US\$ 10 million with the maturity between 1 and 3 years, which had not required permission, must now be reported to the Ministry of Finance in advance.

III. PROSPECTS FOR RELAXING RESTRICTIONS AND LIBERALIZATION

1. Future tariff policy

The Korean government has introduced the advance notice system of tariffs to help concerned industries adjust to future changes.

By 1988, the simple average tariff rate for manufactured goods is expected to go down to 16.9% and the number of items with tariff rates less than or equal to 20% to increase to 93.5%; in addition, the average tariff rates of industries will also be lowered to a range of 14.7%-20.0%.

2. Import liberalization schedule

The following table illustrates that the import liberalization ratio, which currently stands at 84.8%, will steadily increase over the next four years, and by 1988, is expected to reach 95.2%.

	Total	Restricted	Import liberalization schedule				
			'85	'86	'87	'88	to be determined
Number of items (CCCN 8 digit)	7,915	1,203	232	308	174	110	379
Import liberalization ratio (%)		84.8	87.7	91.6	93.8	95.2	

The following table summarizes the import liberalization schedule by industry.

	Total	Res- tricted	No. of items to be liberalized			
			1985	1986	1987	1988
Total	7,915	1,203 (84.8)	232 (87.7)	308 (91.6)	174 (93.8)	110 (95.2)
Primary products, food, and drinks	1,386	336 (75.8)	29 (77.8)	31 (80.1)	-	-
Chemical goods	2,182	109 (95.0)	15 (95.7)	45 (97.8)	35 (99.4)	-
Steel and metal products	802	58 (92.8)	17 (94.9)	31 (98.8)	6 (99.5)	-
Machinery	1,414	312 (77.9)	75 (83.2)	88 (89.5)	54 (93.3)	93 (99.9)
Electrical machinery, appliances, and electronics	495	185 (62.6)	56 (73.9)	64 (86.9)	48 (96.6)	17 (100)
Textiles	1,089	105 (90.4)	31 (93.2)	32 (96.1)	19 (97.9)	-
Others	547	98 (82.1)	9 (83.7)	17 (86.8)	12 (89.0)	-

* Figures in parentheses denote import liberalization ratio (%).

3. Further simplification of trade procedures

As was described above, the Korean Government has established the Committee on Simplification of Trade Procedures in 1983, and has made continuous efforts to improve trade procedures by restructuring the complexity of the current system, and by conducting a thorough review of trade procedures.

At present, the Government is considering modification of both the qualification requirements for general trading companies and the legal status of small-and medium-sized trading enterprises.

In the future, the Government will persevere in its efforts to further simplify trade procedures on a step-by step basis in order to achieve the goal of free trade.

4. Future improvement of the foreign exchange system

The government has maintained the foreign exchange control system as one of the policy instruments to correct the persistent disequilibrium in the balance of payments. This system will be eased as the balance of payments position improves.

In addition, the government has been successful in its liberalization efforts, especially on the importation of goods and the inflow of capital. In 1983, the government increased the number of items which can be imported and lowered tariffs substantially. In 1984, the Foreign Capital Inducement Act was revised to open a wider range of business sectors to foreign firms that wish to invest in Korea. In addition, the establishment of the Korea Fund will foster the free movement of foreign capital into Korea.

In the future, the easing of foreign exchange control and import restrictions will continue on a pragmatic basis to meet the development of the external sector and the challenges posed by the internationalization of the nation's economy.

ANNEX I

STATISTICAL DATA

Table 1 Korea: Principal Economic Indicators

	1980	1981	1982	1983	1984 1st half
GNP growth rate (%)	-5.2	6.2	5.6	9.5	8.4 ^D
Rate of inflation (%)					
Wholesale prices	38.9	20.4	4.7	0.2	-0.2
Consumer prices	28.7	21.3	7.3	3.4	2.0
Growth rate of money supply (%) ^{2/}					
M1	16.3	4.6	45.6	17.0	7.9
M2	26.9	25.0	27.0	15.2	9.2
Unemployment rate (%)	5.2	4.5	4.4	4.1	3.1
Current account balance (US\$ bil.)	-5.3	-4.6	-2.6	-1.6	-1.1
Exports ^{3/} (US\$ bil.)	17.5	21.3	21.9	24.4	13.9
Imports ^{3/} (US\$ bil.)	22.3	26.1	24.3	26.2	15.5
Exchange rate of won to U.S. dollar ^{2/}	659.90	700.50	748.80	795.50	803.40

^{1/} Growth rates are all compared to the same period last year

^{2/} End of period

^{3/} Customs clearance basis

Table 2 Korea: Changes in GNP Growth

(At 1980 Constant market prices)

(Increase rate in per cent)

	1980	1981	1982	1983	1984 1st half
Agriculture, forestry & fisheries	-21.7	24.5	4.1	6.3	2.3
Mining and manufacturing	-1.5	7.6	3.6	10.8	13.6
SOC and other services	-1.8	0.6	7.3	9.8	6.0
Gross National Product	-5.2	6.2	5.6	9.5	8.4
Total consumption	0.2	3.2	4.3	6.3	5.9
(Private consumption)	(-0.8)	(3.4)	(4.6)	(6.6)	(6.7)
Total investment	-23.7	2.2	5.0	13.7	10.4
(Fixed capital formation)	(-10.6)	(-3.3)	(13.1)	(16.6)	(7.1)
Exports of goods and non-factor services	9.7	17.3	6.2	13.8	15.1
Imports of goods and non-factor services	-7.3	5.3	2.3	11.1	9.7

Table 3 Korea: Balance-of-Payments (1980-1984 Jan.-June)

(In million U.S. dollars)

	1980	1981	1982	1983	1984 Jan-Ju
Current balance	-5,321	-4,646	-2,650	-1,607	-1,113
Trade balance	-4,384	-3,628	-2,594	-1,700	-1,034
Exports	17,214	20,671	20,879	23,204	12,469
Imports	21,598	24,299	23,474	24,904	13,503
Invisible (net)	-1,386	-1,518	-554	-499	-333
Transfers (net)	449	501	499	592	254
Long-term capital	1,857	2,842	1,230	1,304	549
Loans & investment	3,030	3,052	2,896	2,552	1,147
Amortization	-1,085	-1,315	-1,430	-1,622	-857
Borrowings of development banks	292	1,070	479	-	93
Others <u>1/</u>	-380	35	-715	404	166
Basic balance	-3,464	-1,804	-1,419	-303	-564
Short-term capital <u>2/</u>	1,945	-82	4	894	-254
Errors & omissions	-371	-411	-1,296	-975	-488
Overall balance	-1,890	-2,297	-2,711	-384	-1,307
Financial account	1,890	2,297	2,711	384	1,307
Liabilities	2,861	2,703	3,295	245	1,078
IMF Credit	593	628	82	160	310
Bank loans	130	842	675	480	346
Refinance	742	1,124	1,145	-298	-326
Others <u>3/</u>	1,396	109	1,393	-97	748
Assets	971	406	584	-140	229
Change of holdings	863	320	93	-74	167
Others <u>4/</u>	108	86	491	-66	62
Foreign exchange holdings	6,571	6,891	6,984	6,910	6,742

1/ Includes exports by deferred payments and long-term trade credits, etc.

2/ Includes short-term trade credits, exports on credit, and advance for exports, etc.

3/ Includes inter-office a/c of foreign bank branches non-resident deposits, overdraft, etc.

4/ Includes assets of foreign bank branches, etc.

Table 4 Korea: Imports by Commodity Group 1/
(In million U.S. dollars)

Commodity group	1982		1983		1984 Jan-June	
	Amount	Increase rate(%)	Amount	Increase rate(%)	Amount	Increase rate(%)
Food & direct consumer goods	1,738	-40.6	1,915	10.2	972	11.3
Grains	937	-52.5	1,104	17.9	570	15.6
Direct consumer goods	801	-16.4	811	1.2	403	6.1
Raw materials & fuels	15,516	-4.3	15,564	0.3	8,790	16.4
Crude oil	6,103	-4.3	5,577	-8.6	2,845	4.2
Raw materials	9,413	-4.3	9,987	6.1	5,945	23.4
Capital equipment goods	6,233	1.2	7,815	25.4	5,199	57.4
(Non-electric machinery)	(2,351)	(3.0)	(2,610)	(11.0)	(1,521)	(26.6)
(Electric & electronic machinery)	(2,075)	(11.2)	(2,569)	(23.8)	(1,495)	(27.7)
(Transportation equipment)	(1,277)	(-9.3)	(2,014)	(57.7)	(1,853)	(206.3)
Consumer goods	764	-7.6	898	17.5	526	20.4
Total	24,251	-7.1	26,192	8.0	15,488	27.3

1/ Customs clearance basis

Table 5 Korea: Exports by commodity group ^{1/}
(In million U.S. dollars)

Commodity group	1982		1983		1984 Jan-June	
	Amount	Increase rate(%)	Amount	Increase rate(%)	Amount	Increase rate(%)
Foods & direct consumer goods	1,224	-16.5	1,223	-0.1	589	1.2
Raw materials & fuels	718	22.0	1,023	42.5	593	59.8
Light industrial products	9,495	-6.1	9,655	1.7	5,526	23.0
(Textile goods)	(5,758)	(-4.5)	(5,838)	(1.4)	(3,309)	(23.0)
(Plywood)	(293)	(-40.5)	(224)	(-23.5)	(90)	(-7.2)
(Footwear)	(1,152)	(12.8)	(1,232)	(6.9)	(721)	(17.2)
Heavy & chemical products	10,417	14.5	12,544	20.4	7,188	29.0
(Iron & steel)	(3,043)	(-1.6)	(3,255)	(7.0)	(1,583)	(11.5)
(Machinery)	(647)	(6.5)	(865)	(33.7)	(459)	(41.2)
(Electronic products)	(1,749)	(-3.5)	(2,442)	(39.6)	(1,504)	(45.5)
(Ships)	(2,832)	(100.6)	(3,735)	(31.9)	(2,259)	(25.8)
Total	21,853	2.7	24,445	11.9	13,896	26.1

^{1/} Customs clearance basis

Table 6 Korea: Imports by Country 1/

(In million U.S. dollars)

	<u>1982</u>		<u>1983</u>		<u>1984 Jan-June</u>	
	Amount	Increase rate(%)	Amount	Increase rate(%)	Amount	Increase rate(%)
Japan	5,305	-16.8	6,238	17.6	3,796	32.0
U. S. A.	5,956	-1.6	6,274	5.3	3,581	18.7
Saudi Arabia	3,213	-9.8	2,016	-37.3	706	-26.2
Kuwait	819	-47.9	692	-15.5	90	-73.0
Australia	913	0.3	971	6.3	581	26.3
W. Germany	680	1.2	650	-4.5	417	31.1
Indonesia	683	77.4	387	-43.3	322	72.2
Malaysia	610	-5.1	777	27.5	471	38.1
Canada	485	-8.7	444	-8.4	327	62.7
Taiwan	280	-21.1	289	3.0	162	9.5
Others	5,307	4.5	7,454	40.5	5,035	51.3
Total	24,251	-7.1	26,192	8.0	15,488	27.3

Note: 1/ Customs clearance basis

Table 7 Korea: Exports by country 1/
(In million U.S. dollars)

	1982		1983		1984 Jan-June	
	Amount	Increase rate(%)	Amount	Increase rate(%)	Amount	Increase rate (%)
U. S. A.	6,243	10.3	8,245	32.1	5,167	34.0
Japan	3,388	-3.3	3,404	0.5	2,057	41.1
Saudi Arabia	1,125	-1.0	1,437	27.7	525	-15.5
W. Germany	758	-5.8	775	2.3	471	31.6
Hong Kong	904	-21.7	818	-9.5	633	73.4
U. K.	1,103	56.5	1,005	-8.8	401	-16.1
Indonesia	383	3.5	252	-34.1	134	9.8
Netherlands	351	7.0	414	18.0	146	-33.3
Canada	443	-8.5	629	42.1	441	38.7
France	264	-34.5	311	18.0	119	-26.5
Others	6,891	2.8	7,155	3.8	3,802	23.5
Total	21,853	2.7	24,445	11.9	13,896	26.1

Note: 1/ Customs clearance basis

Table 8 Korea: Index of Foreign Trade and Terms of Trade 1/

(1980=100)

	<u>Quantum index</u>		<u>Unit Value index</u>		Net Barter Terms of Trade	Income Terms of Trade
	Exports	Imports	Exports	Imports		
1974	40.0	49.1	63.8	62.5	102.1	40.8
1975	49.0	50.4	59.2	64.3	92.1	45.1
1976	66.5	62.4	66.2	63.0	105.1	69.9
1977	79.2	75.2	72.4	64.4	112.4	89.0
1978	90.6	98.4	80.1	68.0	117.8	106.7
1979	89.7	110.0	95.8	83.1	115.3	103.4
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	117.5	111.1	103.2	105.4	97.9	115.0
1982	125.1	111.4	99.7	97.6	102.2	127.9
1983	145.5	126.2	95.9	93.0	103.1	150.0
1984 1st half	164.5	149.4	99.7	94.6	105.4	173.4

Note : 1/Customs clearance basis

Table 9 Korea: Changes in Number of Items with Tariff Adjustment

	1984				1988			
	Increased	Reduced	Unchanged	Total	Increased	Reduced	Unchanged	Total
Total	300	734	1,267	2,301	302	982	1,017	2,301
Industrial	260	605	1,137	2,002	262	824	916	2,002
Agricultural products	40	129	130	299	40	154	101	299

Table 10 Korea: Trend of Average Tariff Rates

	'83	'84	'86	'88
Total	23.7	21.9	19.9	18.1
Industrial products	22.6	20.6	18.7	16.9
Agricultural products	31.4	29.6	27.1	25.2

Table 11 Korea: Trend of Tariff Rates Distribution

											specific duty
	0	5	10	15	20	25	30	40	50	100	↓
'83	(6.8%) (3.5%)		(10.8%)	(11.2%)	(29.6%)	(3.3%)	(14.1%)	(8.7%)	(10.6%)	(0.9%)	(0.5%)
	(61.9%)										
'84	(3.5%) (5.7%)		(14.3%)	(5.9%)	(44.7%)	(0.6%)	(10.6%)	(12.2%)		2.5%	
	(74.1%)										
'88	(3.5%) (5.5%)		(16.2%)	(3.8%)	(64.5%)				(3.9%)		(2.6%)
	(93.5%)										

Table 12 Korea: Trend of Tariff Rates of Industries

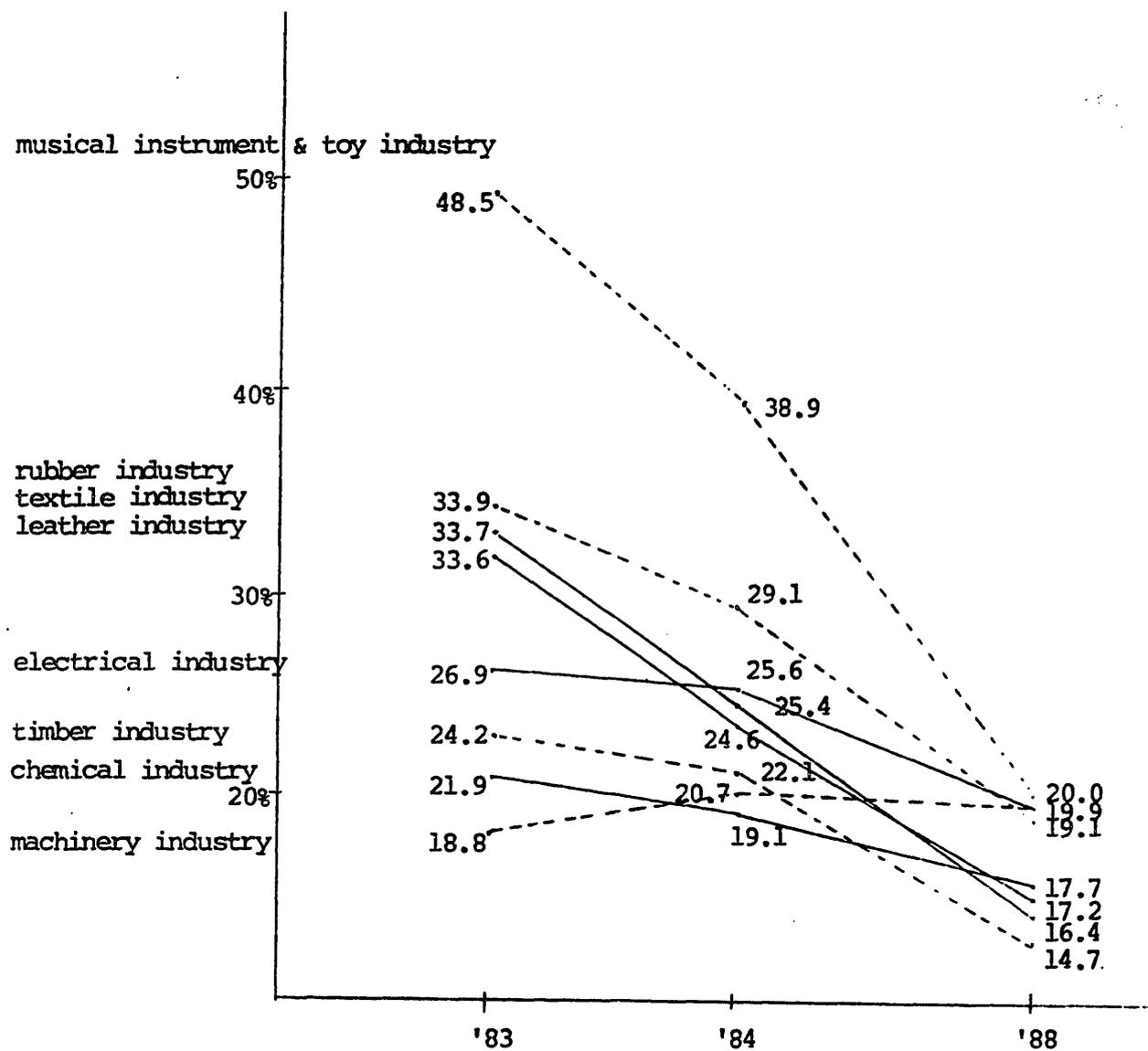


Table 13 Korea: Progress of Import Liberalization (1975-84)

Date	CCCN			Automatic Approval	Import liber- alization ratio (%)
	Total	Prohibited	Restricted		
Half part of 1975	1,097	57	520	520	47.4
1. Dec. , 1975	1,097	57	509	531	48.4
2. Mar. , 1976	1,097	57	503	537	49.0
3. June , 1976	1,097	55	504	538	49.0
4. Aug. , 1976	1,097	55	498	544	49.6
5. Nov. , 1976	1,097	54	499	544	49.6
6. Feb. , 1977	1,097	54	499	544	49.6
7. May , 1977	1,097	54	494	549	50.0
8. July , 1977	1,097	52	484	561	51.1
9. Dec. , 1977	1,097	50	456	591	53.9
10. May , 1978	1,097	-	431	666	60.7
11. June , 1978	1,097	-	424	673	61.3
12. Sep. , 1978	1,097	-	390	707	64.4
13. Dec. , 1978	1,097	-	335	675	61.5
14. June , 1979	1,010	-	328	682	67.5
15. July , 1979	1,010	-	327	683	67.6
16. Jan. , 1980	1,010	-	318	692	68.5
17. July , 1980	1,010	-	317	693	68.6
18. July , 1981	7,465	-	1,886	5,579	74.7
19. July , 1982	7,560	-	1,769	5,791	76.6
20. July , 1983	7,560	-	1,482	6,078	80.4
21. Jan. , 1984	7,560	-	1,459	6,101	80.7
22. July , 1984	7,915	-	1,203	6,712	84.8

- * Remarks : (1) 1975-1978, on the basis of CCCN heading 1,097 items
(2) 1979-1980, on the basis of CCCN heading 1,010 items
(3) 1981-1984, on the basis of CCCN 8 digit

* Note : For detailed information on the contents of currently restricted items, please refer to the 1984 Annual Notice.