

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/W/83

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## Committee on Balance-of-Payments Restrictions

### 1984 CONSULTATION WITH THE REPUBLIC OF KOREA

#### 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 adopted by the CONTRACTING PARTIES on 28 November 1979.

#### Korea's previous consultations in the Committee on Balance-of-Payments Restrictions

2. The Committee has held four full consultations with the Republic of Korea, in 1969, 1971, 1976 and 1979 (BOP/R/30, 56, 86 and 109). Consultations under simplified procedures were held in 1973, 1975, 1978, 1981 and 1983 (BOP/R/69, 83, 105, 117 and 133).

3. At the last full consultation, in October 1979, the Committee welcomed the substantial import liberalization measures undertaken by Korea and noted with satisfaction Korea's intention to continue on the path of planned liberalization. The Committee recognized that efforts had been made since the previous full consultation (1976) towards a simplification of the trade controls; however, it noted that many problems remained and further efforts were necessary if Korea were fully to benefit from its own trade liberalization. The Committee re-affirmed its view that complexity, lack of transparency and instability in a trade régime 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 gradually relax government controls in the economic sphere (BOP/R/109, paragraphs 21-22).

4. During the simplified consultations in May 1981, it was noted in the Committee that there had been progress in the liberalization of Korea's import régime. However, as reported to the GATT Council, members of the Committee had noted certain difficulties which they still had in this regard, e.g. with exports of agricultural products, restrictions on luxury items and increases in tariffs. In answer to questions, the representative of Korea had stated to the Committee that his Government was obliged to maintain some restrictive measures on imports of non-essential commodities for balance-of-payments reasons. However, his country's basic policy was continuously to pursue trade liberalization in accord with the spirit of GATT to the fullest possible extent (C/M/148). Subsequently, in simplified consultations held in October 1983, the Committee noted that, since the last full consultations in 1979, a number of changes in Korea's import

system had been instituted and further changes were anticipated. In view of the number of years that had elapsed since the last full consultation, the changes in the import system and the improvement in Korea's balance-of-payments situation in recent years, the Committee decided that full consultations should be held (BOP/R/133, C/M/173).

Import restrictions maintained by Korea for balance-of-payments reasons: changes since the last full consultation

(a) Import licensing

5. Import licensing practices pursued by Korea since 1979 follow the policy of liberalization initiated in 1978. Under this policy, all import items (classified, since 1981, at eight-digit CCCN level) are placed in one of two groups, namely "automatic approval" or "restricted". While import licences are required for all goods, such licences are issued automatically for "automatic approval" items, subject to the general limits set by the Foreign Exchange Demand and Supply Plan, which sets overall broad ceilings on the amount of foreign exchange which can be used. In practice this has meant that licences for automatic approval items have been freely available. Licences for import of "restricted" items are granted on the recommendation of designated government agencies or industrial associations. The list of restricted items for 1984/85, together with the names of the agencies responsible for approval of imports where applicable, has been notified to the Group on Non-Tariff Measures in NTM/W/6/Rev.2/Add.1. A copy of the Annual Export and Import Notice for 1984/85, which also contains details of the list, is available in the secretariat.

6. The list of "automatic approval" items has been steadily enlarged over the years since 1978. The following table shows the trend of liberalization, in terms of Korean import classification items, since 1979.

Year	Total import items	Restricted items	Automatic approval items	Proportion subject to automatic approval
1979	1,010	327	683	67.6%
1980	1,010	317	693	68.6
1981	7,465 <sup>1</sup>	1,886	5,579	74.7
1982	7,560	1,769	5,791	76.6
1983	7,560	1,482	6,078	80.4
1984	7,915	1,203	6,712	84.8

<sup>1</sup>Eight digit CCCN (four-digit in previous years).

7. The import liberalization programme for 1985-1988 envisages that a further 824 tariff headings are to be freed from import restrictions, bringing the proportion subject to automatic approval up to 91.6 per cent in 1986 and 95.2 per cent in 1988. The programme was announced to the GATT Council in the May 1984 special Council meeting on developments in the world trading system (C/M/177, page 7). Within this import liberalization schedule, it is envisaged that by 1986 98 per cent of chemical and steel products would be subject to automatic approval; and that over 88 per cent of machinery, electricals and electronics goods would be liberalized. A table showing the products to be liberalized in the years 1984-86 is attached as Annex I.

8. A certain number of liberalized products have, from time to time, been placed under import surveillance. Imports of such items remain liberalized until and unless the authorities consider it necessary to stop imports of any of them.

#### Tariffs

9. Prior to 1984, Korea's customs tariff comprised GATT-bound rates, temporary rates and general rates. Emergency temporary rates could be applied to luxury goods or to restrain demand for certain products including products in process of liberalization. On the other hand, tariff reductions of up to 40 per cent could be temporarily introduced under a tariff quota system in order to meet surges of demand or assist in the stabilization of domestic prices. Tariff levels have varied quite considerably over the period since 1979 in response to the economic situation. Following a general reduction in duties in January 1979 when the unweighted average of tariff rates fell from 36 to 25 per cent, tariffs on 77 luxury goods were increased in 1980 from an average of 53 per cent to an average of 71 per cent. Between January 1982 and July 1983, adjustments to tariff levels resulted in reductions of up to 80 per cent on 340 items, mainly raw materials and intermediate products, and increases up to 91 per cent on 104 items, principally consumer durables [BOP/W/47, BOP/W/70]. Tariff quotas at reduced rates were also introduced in 1980 on 64 items comprising some foodstuffs, chemicals, textiles, wood products, steel products, natural rubber and agricultural machinery as part of domestic price stabilization policy. The number of such tariff quota products was reduced to 30 in July 1983, as notified in BOP/234.

10. A five-year tariff reform and reduction programme has been introduced by Korea with effect from 1 January 1984. As with the programme for liberalization of import licensing, this plan was announced in advance for the full five year period in order to allow firms sufficient time to prepare for the proposed reductions in tariffs. The overall aim is to reduce the average tariff rate on manufactures from 22.6 per cent in 1983 (already reduced to 20.6 per cent in 1984) to 16.9 per cent by 1988, with duties of less than 20 per cent applied to 93.5 per cent of tariff headings (compared to 62 per cent in 1983). The range of duties on industrial raw materials is to fall from 10-30 per cent to 5-10 per cent; those on intermediate goods from some 30 per cent to some 20 per cent; and those on consumer goods from 40-50 per cent to 20-30 per cent. As a first

step, tariffs were lowered on 734 items and raised on 300 items in 1984, and adjustments made to reduce tariff differentials among industries. The products subject to tariff reductions in 1984 and 1985 include liquid natural and petroleum gas, methanol, ammonia, yarns, electric wire, resin, vegetable oils, plastic products, fabrics, medicaments, cosmetics, garments, grains, passenger cars and motorcycles, while tariffs would be increased on ores, certain machinery, dairy products, certain fruits and vegetables and raw cotton. The number of items subject to emergency duties was reduced to 10 on 1 July 1984; however, on 1 January 1984, new "adjustment tariffs" were introduced under which tariff rates could be increased to a maximum of 100 per cent for a maximum period of three years, to protect domestic industries from sharp increases in imports resulting from import liberalization. In July 1984, the number of items subject to "emergency" or "adjustment" tariffs stood at 24, as against 38 previously. Annex 2 lists the items affected. The number of reduced rate tariff quotas was also cut to 7 items on 1 July 1984.

#### Import deposit

11. An advance import deposit requirement introduced in 1978 was abolished in February 1982.

#### Other restrictions on imports

12. A number of "automatic approval" items are subject to particular approval procedures pursuant to Article XX or XXI of the General Agreement under special laws such as the Pharmaceuticals Law or laws dealing with quarantine requirements, national security, etc. In 1983, the number of items subject to such laws was reduced from 1,937 to 1,547. The Korean authorities have recently stated that resort to such special laws will be minimized and that laws introduced to ensure public health, safety or national security will not be utilized to restrict or regulate the inflow of specific commodities.

#### Measures affecting exports

13. Korea has notified its programme of subsidies, including export finance and agricultural price support programmes (including sericulture promotion and livestock price support) in document L/5603/Add.13. Korea has stated that in respect of export financing, the trend is towards the phasing out of financial supports and bringing terms for domestic loans and export - orientated loans into line with each other.

#### External factors affecting Korean trade

14. The Korean economy remains highly trade-oriented. Despite a downturn in real export growth in 1982, when domestic production, especially in the construction sector, provided the main source of economic growth, the increase and diversification of exports has, over the years, been the main

spur to the economy. The highly competitive nature of Korea's exports, and the fact that many of the goods exported fall within sensitive sectors for both developed and developing markets, mean that a number of Korean exports have been subject to safeguard or other protective measures in the period under review. A number of anti-dumping actions have also been taken against selected products exported by Korea. Korea's bilateral agreements with developed markets under the Arrangement Regarding International Trade in Textiles (the MFA) also reflect Korea's position as a major, highly competitive textile exporter. The general downturn in markets resulting from retrenchment following balance-of-payments problems in many developing countries, together with the fact that many of the same industries are priority sectors for economic development, is likely to have reduced Korea's trading prospects vis-à-vis these countries.

15. Korea has requested that particular attention be paid to external factors affecting its export trade, in order to assist the Committee in conducting the consultation in the light of the provisions of Paragraph 12 of the 1979 Declaration (26S/208). The following paragraphs contain a summary of trade measures known to the secretariat affecting sectors of export interest to Korea, or directly affecting Korean exports. Inclusion of a measure in these paragraphs is not intended to imply any judgement as to the status of the measures in question under GATT or MTN code provisions or those of the MFA: nor to the economic effects on Korea's trade of the measures.

(a) Safeguard measures under Article XIX

16. Since 1979 safeguard actions under Article XIX have been taken on the following products of interest to Korea:

- Australia: Hoop and strip of iron and steel (1982/1983) (L/5263 and Corr. 1 and Add. 1)
- Canada: Non-leather and leather footwear (1981/82-1986) (L/5263 and Add.1-16, L/5351 and Add.1-17) - replacing previous quota on footwear other than rubber or canvas (L/4611 and Add.31)
- EEC Cultivated mushrooms in brine (1980 - present) (L/4994 and ADD.7)
- EEC (France, U.K.): Domestic stoneware (1983-1986) (L/5447 and Add.1): subsequently replaced by bilateral export restraint agreement (see paragraph ... below).
- EEC (France): Quartz watches (1984-1986) (L/5645)
- Norway: Textile items (1979-1984) (L/4742 and Add.1-24), L/4815, L/4959)
- United States: Lag screws and bolts (1979-1982) (L/4742 and Add.1-24)

- United States: Preserved mushrooms (1980-1983) (L/5027, L/5088 and Add.1-13)
- United States: Speciality steel (1983-1987) (L/5524 and Add.1-30)

In addition, a number of safeguard measures taken before 1979 remained in force for some part of the period under review or are still in force. These include the Australian tariff quota system on apparel items, still in force since 1975/76; Australian global quota on sheets and plates of iron and steel (1978-1980) and a United States additional duty on high carbon ferro-chromium (1978-1982).

(b) Measures noted in the Sub-Committee on Protective Measures

17. Various measures applying to exports from Korea, either individually or along with other countries, have been noted in the Sub-Committee on Protective Measures of the Committee on Trade and Development. These include the following:

- Australia - Tariff increases on soft-sided travel goods, and on electric lamps (COM.TD/SCPM/5).
  - Tariff quotas on fabrics, apparel, household textiles and footwear, applied with effect from 1 January 1982 within the seven-year programme of assistance to the textiles, clothing and footwear industries (COM/TD/SCPM/W/14).
  - Tariff increases on certain measuring, drawing instruments falling within CCCN 90.16, with effect from 19 March 1982 (COM.TD/SCPM/W/14).
- EEC - Measures relating to steel: basic prices, export restraint agreements (COM.TD/SCPM/W/8,W/14).
- United States - Measures relating to steel; trigger price system (see also anti-dumping measures) (COM.TD/SCPM/W/8).

(c) Anti-dumping or countervailing measures

18. A number of anti-dumping actions taken against Korean products have been notified to the Committee on Anti-Dumping Practices (document series ADP/...). The status of such actions varies over time and enquiries initiated may not lead to final anti-dumping actions. As of 31 December 1983, twelve definitive anti-dumping orders against Korea were in force in Australia and two in the United States, as reported to the Committee, while fourteen outstanding cases of anti-dumping action (from enquiry to final determination) were notified by Canada (document series ADP/20). In April and September 1984 preliminary determinations of injury and of anti-dumping margins were made against colour television sets from Korea by the United States International Trade Commission under anti-dumping procedures. This case is still under review.

(d) Agreements concluded under the Arrangement regarding International Trade in Textiles.

19. Bilateral agreements under the MFA, as extended by the 1981 Protocol of Extension, between Korea and Austria, Canada, the EEC, Finland and the United States, and subsequent modifications have been notified to the Textiles Surveillance Body and circulated in documents COM.TEX/SB/812 (Austria), 891 (Canada), 963, 966 and 967 (EEC), 836 (Finland), 860, 889, 914, 941 and 969 (United States). The TSB's observations on all these bilateral agreements are summarized in its report to the Textiles Committee for the 1984 major review of the MFA (COM.TEX/SB/984). Information relating to new restraints on 31 categories or sub-categories introduced by the United States following calls made under consultation provisions in the period 1982-mid 1984, and by the EEC under "basket exit" consultation provisions on three categories at regional level for France, are given in Chapter 6 of the TSB's report.

(e) GSP treatment of imports from Korea

20. Korea is a beneficiary of GSP treatment in all countries except Hungary, Czechoslovakia and Poland. The operation of the individual schemes of GSP preference-giving countries has been reviewed in the Part IV consultations held within the Committee on Trade and Development. Consultations were held with Austria, the Nordic countries and Hungary in 1983 and are being held with the United States, the EEC and Japan in 1984.

21. The documentation made available for the Part IV consultations shows that general exceptions from the GSP schemes operated by Finland, Norway and Sweden cover a number of products of interest to Korea (particularly textiles, clothing and footwear). Norway also suspended GSP benefits to Korea for five products, pursuant to the "compelling reasons" provisions of Article XXXVII.1 of the General Agreement. In the United States, statutory exceptions to GSP coverage cover a number of products of interest to Korea (eg. textiles and clothing, certain electronics goods, watches, certain iron and steel products). Data supplied by the United States also shows that the estimated import value of products excluded year-by-year from GSP treatment for Korea (calculated on the preceding year's trade) has increased from US\$ 360 million in 1982 to US\$ 1.1 billion in 1984, principally as a result of the "competitive need limitation" clause (L/5153, Addenda 1 to 3). Nevertheless, Korea has remained, since 1976, generally in second or third place among United States' GSP beneficiaries with a total value of GSP-free trade of some US\$ 1.5 billion in 1983 (14 per cent of total GSP-free trade).

22. In the EEC, Korea is an important supplier of a number of "sensitive" products subject to individual supplier tariff quotas. Apart from textiles, where individual quotas are established for all countries under restraint within MFA agreements, such tariff quotas for Korea (generally determined in ECU) covered 29 items in 1984 including, inter alia, tyres, leather clothing, footwear, glazed tiles and stoneware, iron and steel coils, bars, sheets, cutlery, sewing machines, radios, tape recorders, some electronic parts, tops, games and motor vehicles. Under the Community scheme, MFN duties may be reintroduced at any time after tariff quotas are

reached, and this is announced in the Official Journal. The secretariat has, however, no quantified information on the items or value of trade from Korea affected in this way.

23. Japan's GSP scheme also excludes a number of products of interest to Korea, mainly textiles, leather and footwear. In the three last years for which data are available, Korea has been the largest supplier to Japan of industrial products under GSP, with 22.5 per cent of total GSP imports in 1982 (see COM.TD/W/410, Table 11). Korea has been among the countries to which product-specific suspension of GSP treatment has most frequently been applied by Japan.

(f) Other trade policy measures and/or agreements

24. A number of voluntary export restraints or orderly marketing arrangements concerning Korea have come to the attention of the secretariat. Some of these have been concluded on an industry to industry basis without direct government involvement, or taken unilaterally by Korean producer association. Examples of such actions are agreements between Korean and United Kingdom industrial interests concerning exports of footwear, cutlery and black and white televisions: similar agreements reported between Korean industries and those in Benelux and West Germany on cutlery. Bilateral agreements exist at a governmental level between France, the United Kingdom and Korea on stoneware, between Ireland and Korea on footwear, between Japan and Korea on silk fabrics and between Norway and Korea on leather garments. It is worth noting also that following the termination of orderly marketing arrangements in the United States in 1981, exports of footwear from Korea to the U.S. grew by 10 per cent in volume per annum. In 1983 the Korean footwear producers' association was reported to have again voluntarily limited exports to the United States' market.

IV. Main developments in the Korean economy

25. The discussion under the sub-headings in this section is generally divided into two periods: the first (1979-1982) covers the years leading up to and including the recent world recession, while the second (1983 to mid-1984) covers the recovery.

(a) Domestic Sector

Production and Employment

26. Having grown at an annual rate of about 11 per cent in the 1975-78 period, real GNP increased by only 6.3 per cent between 1979 and 1982. The slowdown in the rate of growth is attributable to the Korean recession of 1980, when real GNP fell by more than 5 per cent - the first decline in two decades - because of unfavourable external developments, a bad harvest, a political crisis and austere financial policies aimed at reducing the current account deficit.

27. The growth of GNP in this period was achieved mainly because of the strong performance of manufacturing output, which increased by 10.2 per cent in the 1979-1982 period, while agricultural, forestry and fishery production was quite weak rising only by about 1½ per cent.

28. As regards the major components of aggregate demand, private consumption rose at a faster rate than GNP (up 7.3 per cent), but the rate of growth of government consumption was even higher (up 11.5 per cent). On the other hand, fixed investment, the other component of aggregate demand, was sharply reduced in 1980 and 1981, and, despite a remarkable increase in 1982, was still 2.2 per cent below the level of 1979. The increase in exports of goods and non-factor services in the 1979-1982 period was nearly 37 per cent.

29. The unemployment rate, which stood at 3.8 per cent in 1979, felt the effects of the 1980 recession, reaching 5.2 per cent by the end of that year. Subsequently, a marked recovery in the employment situation took place and the unemployment rate was down to 4.4 per cent in 1982. Total employed population increased by 6 per cent in the 1979-1982 period. However, employment in the agriculture (including forestry and fishery) and manufacturing sectors decreased by 5.4 and 2½ per cent respectively, while employment in construction and services increased by 20 per cent.

30. In 1982, real wages in manufacturing (nominal wages deflated by the consumer price index) were only 1 per cent higher than in 1979, because the large reductions suffered in 1980 and 1981 was more than offset by a gain in 1982 (up 6.9 per cent). Productivity, however, displayed a substantial improvement over the same period.

31. Real GNP increased by 9.5 per cent during 1983, compared to 5.6 per cent in 1982. This marked a substantial acceleration in the rate of growth which had averaged around 6 per cent in the preceding two years. In the first half of 1984, real GNP rose by an estimated 8.4 per cent compared to the first half of 1983.

32. In 1983, the most dynamic elements in demand were fixed capital formation (up 16.6 per cent) and exports (up 13.8 per cent), while government and private consumption grew at a much slower rate (4.7 and 6.6 per cent, respectively). Total consumption increased by 6.3 per cent, in 1983, owing mainly to the growth of real disposable income. In the first half of 1984, fixed capital formation rose by 7.1 per cent, and exports of goods and non-factor services by 15.1 per cent. Among demand components, for the same period, private consumption grew by 6.7 per cent and exports by an impressive 19.9 per cent, while government consumption stood at the same level as in 1983, thus causing total consumption to rise only by 5.9 per cent.

33. In 1983, mining and manufacturing output expanded at an annual rate of 10.8 per cent. Heavy industry production rose by 14.3 per cent, while light industries output only grew by 7.2 per cent. The increase in manufacturing output, in 1983, was concentrated in only three branches (plastic products, electrical goods and other machinery) which accounted for over one third of it. Activity in more traditional sectors expanded at a lower rate reflecting the conditions prevailing in foreign markets; for example, the output of textiles, clothing, leather and footwear, rose by 5.9 per cent in 1983.

34. The strong performance of GNP in the first half of 1984 largely reflected a remarkable 13.6 per cent increase in mining and manufacturing output.

35. The unemployment rate was down to 4.1 per cent in 1983. This marked an improvement over 1982, when the rate stood at 4.4 per cent but it was still above the average for the late seventies.

36. Employment in agriculture, forestry and fishery continued to decrease in 1983 (down 6.7 per cent) so that employment in this sector is now only about 30 per cent of the total compared to 36 per cent in 1979. As for the mining and manufacturing sector, employment rose by 7.2 per cent in 1983 and accounted for about 23 per cent of the total. Employment in services and social capital continued to rise, though at a lower pace than in the past years (up to 2.6 per cent), and these sectors now comprise 47 per cent of the total working force.

37. The unemployment rate picked up somewhat in January and February 1984, but by end of June it was down to only 3.1 per cent: the lowest in years. Real wages in manufacturing (nominal wages deflated by the consumer price index) increased by 8.3 per cent during 1983.

#### Inflation

38. The inflation rate, measured by the consumer price index, was at about 18 per cent in 1979. In 1980, the yearly increase reached 28.7 per cent, while the increase of consumer prices was 21.3 per cent in 1981. The 7.3 inflation in 1982 was the lowest in two decades.

39. On a December to December basis, consumer prices increased by only 2 per cent during 1983. Considering the yearly average, consumer prices increased by 3.4 per cent. In the first half of 1984, the consumer price increased by only 2 per cent over the first half of 1983.

#### Monetary Policy

40. In 1980, the monetary authorities adopted a restrictive monetary policy in order to fight inflation. However, in the first half of 1981, as soon as it appeared that the rate of increase in prices was lower, monetary conditions were eased. In 1982, the money supply continued to expand at a nominal rate of 50 per cent on an annual basis during the January-September period. In October, however, the rate of increase was reduced to 12 per cent in order to protect the gains made in lowering inflation.

41. During 1983, the authorities continued the tighter monetary policy of the last months of 1982. The rate of growth of the money supply was sharply reduced in 1983 to 17 per cent on an annual basis, compared to 45.6 in 1982. At the end of June 1984, the rate of growth of money supply (narrowly defined) was down to 7.9 per cent, compared to 17 per cent at the end of 1983, while the corresponding decline for a broader definition was from 15.2 per cent to 9.2 per cent.

#### Fiscal Policy

42. In the periods under review, government spending increased rapidly up to 1982, and the public sector, financed largely by the banking system, exerted an expansionary effect on economic activity. The central government deficit rose from 1.7 per cent of GNP in 1979 to 3.5 per cent in 1981, and that of the public sector overall from 1.4 per cent to 4.6 per

cent, as expenditure rose by 82 per cent and revenues by 60 per cent. In 1982, although expenditure increased by a further 8 per cent, revenues grew by 9 per cent leading to a slightly reduced deficit ratio (4.3 per cent of GNP).

43. In 1983 and 1984, fiscal policy has remained contractionary as recovery in demand (particularly in the export sector) has been the main stimulus to growth. The public sector deficit was once again reduced to 1.6 per cent of GNP in 1983 and is budgeted to be 1.9 per cent of GNP in 1984.

(b) External sector

44. During 1979 and 1980, Korea's external position deteriorated sharply. This was mainly due to weak foreign demand, the considerable increase in oil prices, higher international interest rates and renewed pressure from domestic demand. In 1980, the current account deficit amounted to 8.7 per cent of GNP or 5.3 billion dollars.

45. In response to this acute imbalance, the Korean authorities adopted a wide ranging adjustment program during the period 1980-82. As a result, the current account deficit was reduced in 1981 to \$4.6 million, or 6.9 per cent of GNP and in 1982 to \$2.7 million, or 3.7 per cent of GNP, as imports were reduced and the level of domestic demand satisfied from the running down of inventories. The overall balance-of-payments deficit, however, kept rising throughout 1979-82, reaching \$2.7 billion in 1982.

46. The current account deficit continued to shrink in 1983, amounting to \$1.6 billion or about 2 per cent of GNP; as a result, the overall deficit was reduced to \$0.4 billion. The trade balance displayed a deficit of \$1.7 billion which marked a sizeable reduction with respect to 1982 when the imbalance was about \$2.6 billion.

47. The current account deficit amounted to \$1.1 billion in the first half of 1984. Although mid-year performance improved over last year's deficit of \$1.6 billion, the current account deficit was larger than anticipated by the government at the beginning of 1984.

Exchange rate

48. Until 12 January, 1980, the won was pegged to the dollar at a rate of W484 per United States dollar. On 12 January 1980, the won was depreciated by 16.6 per cent in order to offset a loss in external competitiveness. At the end of February 1980, a more flexible exchange rate regime was adopted, with the exchange rate of the won determined on the basis of a currency basket. As a result, the total real depreciation of the won during 1980 (from fourth quarter 1979 to fourth quarter 1980) was about 14 per cent against the basket (12 per cent against the dollar and 19 per cent against the Japanese yen). The real effective exchange rate of the Won appreciated by 6 per cent against the basket during 1981; it remained stable during 1982, but depreciated by 9 per cent in 1983. During the first seven months of 1984 the real effective exchange rate of the Won has remained stable. Since 1980, therefore, the Won depreciated only slightly in real effective terms.

49. The differential performance of the won against major partner currencies has had its effect on export performance in different markets and must at least partly explain the rapid growth of exports to the United States in 1983/84.

#### Exports

50. The improvement of Korea's competitive position and the rapid growth of foreign markets contributed to produce a large expansion in export volume in 1980 and 1981. In 1980, the value of exports was up by 16 per cent, while in volume terms, exports rose by about 11 per cent. In 1981, export volume was up by 17.5 per cent and export earnings by 21 per cent to \$21.3 billion. In 1982, the volume of exports continued to rise, though at the lower pace of 6 per cent, but still better than Korea's main competitors; in value terms, exports increased by 3 per cent.

51. The world economic recovery played a major rôle in pushing up the Republic of Korea's merchandise exports during 1983: in volume terms, exports were up 16.3 per cent, while their value reached \$24.4 billion (12 per cent more than in 1982).

#### Commodity composition

52. The commodity composition of Korean exports displayed a marked change between 1979 and 1982. The share of machinery and transport equipment over total exports rose to 27.6 per cent (20.6 in 1979), while the share of other manufactures in total exports dropped to 60.6 per cent (65.1 in 1979).

53. The marked increase in machinery and transport equipment was mainly due to the dramatic increase in shipbuilding. In 1979 shipping exports were only 3.4 per cent of the total amounting to \$515 million. However, in 1982 exports of the same group of commodities were already an impressive 13 per cent of total exports, for a total value of \$2.8 billion. As for other non-traditional exports, such as television receivers, radio, telecommunication equipment and thermionic valves, though rising in value terms, their share over total exports declined from 9 per cent in 1979 to 7.4 per cent in 1982. Among other manufactures, the major decline was evident for textiles, clothing and footwear; in 1982 these three categories constituted only 26½ per cent of total exports, against 28.4 per cent in 1979.

54. The dramatic changes in commodity composition of exports which characterized the 1979-1982 period continued in 1983. The share of machinery and transport equipment reached 32.2 per cent (27.6 per cent in 1982) continuing its rapid growth, while other manufactures exports rose by only 3.7 per cent in value terms, their share of total exports falling further to 56.2 per cent.

55. Considering an alternative breakdown of commodities, it is evident that the share of heavy industrial products (electronics, iron and steel, machinery, ships and boats) continued to rise, exceeding 50 per cent of the total, while the share of light industrial exports (textiles, footwear etc.) dropped to under 40 per cent.

56. In the machinery and transport equipment sector the increase was mainly due to the good performance of electronic equipment and shipping exports. Sales abroad of television receivers and other telecommunication equipment reaching 10 per cent of total exports, were up by about 41 per cent in value terms, while exports of shipping rose by 31.9 per cent in dollar terms, to 15.3 per cent of total exports. Textiles, clothing and footwear exports continued to decline (2.3 per cent in value terms) so that in 1983 this sector accounted for only 24 per cent of the total compared to 26.5 per cent in 1982. On the other hand, in 1983, exports of iron and steel products picked up 7 per cent in dollar terms.

#### Geographical distribution

57. Exports to Japan, which in 1974 were about 31 per cent of the total, declined to 22.3 per cent in 1979 only to decrease further in 1982 to 15.5 per cent. On the other hand, exports to the United States remained fairly stable around 29 per cent of the total, as did those to the oil producing countries of the Middle East (mainly Kuwait and Saudi-Arabia) which remained at 6.3 per cent of the total. Purchases by the EC member states were down from 15.3 per cent of the total in 1979 to about 12.5 per cent in 1982, while the share of other countries rose to 37.1 per cent (27 per cent in 1979) reflecting an increased diversification in the geographical distribution of exports.

58. In 1983, over three quarters of the total increase in exports in 1983 was destined to the United States, which took some 34 per cent of the Republic of Korea's sales abroad, compared to 29 per cent in 1982. Though in 1983 exports to the United States rose by 32.1 per cent in value terms, the largest rate of increase was recorded by exports to the Middle East (Saudi Arabia and Kuwait only) which were up by 44.5 per cent (especially those to Kuwait). On the other hand, exports to Japan were almost stationary (up 0.5 per cent in value terms) so that their share over the total hit a new low (14 per cent). Also exports to the EC grew only 6.9 per cent so that they accounted for only 12.4 per cent of the total.

59. In the first half of 1984, merchandise exports expanded by 26 per cent, bringing the total for the first six months of 1984 to \$13.9 billion. The upsurge was led by electronic products and machinery which rose by 45.5 per cent and 41.2 per cent, respectively, while heavy and chemical products increased by 29 per cent. Much lower rates of increase were recorded for iron and steel products (up 11.5 per cent). Light industrial product exports grew at 23 per cent (much higher than the low growth rates of 1982 and 1983). Among light industrial products, the most dynamic sector was textile goods with a growth rate of 23 per cent, reversing the previous trend - principally because of strong demand in the United States. On the other hand, exports of plywood and wood products dropped by 8 per cent.

60. In the first half of 1984, the dollar value of exports to the United States and Canada continued to expand rapidly (by 34 and 38 per cent, respectively, over a year earlier). Exports to Japan, which had declined in 1982 and stagnated in 1983, rebounded by 41 per cent, while those to Hong Kong soared by 73.4 per cent. By contrast, export performance in European markets was patchy; while exports to West Germany grew to 32 per cent, sales to the United Kingdom, the Netherlands and France fell by 16, 27 and 33 per cent, respectively. Sales to Saudi Arabia and Kuwait also declined significantly.

### Imports

61. The value of imports increased by 9.6 per cent in 1980 and 17.2 per cent in 1981; however, in 1982, imports declined by 7.2 per cent in value as a consequence of the measures introduced earlier by the Korean authorities to check the current account deficit. Indeed, the decrease in imports was the main reason for the reduction in the trade deficit. However, in volume terms imports rose by 0.3 per cent in 1982 compared with a 11.1 per cent increase in 1981.

62. In 1983, the value of the Republic of Korea's imports rose again by 8 per cent in dollar value (13.3 per cent in volume terms), to \$26.2 billion. The main increase in the year came in the last quarter (23 per cent).

### Commodity composition

63. In 1979 oil imports accounted for about 17 per cent of merchandise imports; in 1980 this share was up to 27.6 per cent, which was also the share for 1982. As for other imports, purchases of machinery and transport equipment, which were about 30 per cent of total imports in 1979, were only 25 per cent of the total in 1982. Other manufactures imports fell to only 14 per cent of the total (compared to 17 per cent in 1979) with large reductions for imports of ingots of iron and steel.

64. In 1983, imports of petroleum and petroleum products were down 8.1 per cent in dollar terms, with their share in total imports declining to less than 24 per cent. The value of purchases of machinery and transport equipment was up by 26.1 per cent. The most rapid increase was recorded for parts of ships and boats and electronic components. As a result, in 1983, imports of machinery and transport equipment accounted for about 29 per cent of the total, compared to 25 per cent in 1982.

65. Imports of other manufactures increased by 16.3 per cent, with a rebound in imports of ingots of iron and steel (up 73.7 per cent) and a decline in textile yarn and thread (down 15.7 per cent).

66. In the first half of 1984, stimulated by rapid economic growth, merchandise imports rose by 27.3 per cent over the corresponding period of 1983, to reach \$15.5 billion.

67. Imports of capital goods in this period rose steeply by 57.4 per cent with about 2/3 of this increase attributable to the large rise in transportation equipment imports (up 206 per cent). Also machinery imports (up 26.6 per cent) and electric and electronic appliances imports (up 27.7 per cent) grew at a fairly rapid rate.

### Geographical distribution

68. Japan's share in Korea's imports shrank dramatically to about 22 per cent in 1982, compared to 33 per cent in 1979. Large increases were recorded by imports from the United States which in 1982 became the leading commercial partner of Korea, replacing Japan. Imports from Australia, Malaysia and Singapore rose considerably, while purchases from West Germany declined throughout the four years.

69. About one-half of the total increase in imports in 1983 came from Japan. Indeed the Republic of Korea's purchases from Japan rose by 17.6 per cent in dollar terms compared to a decline of 16.7 per cent in 1982. As a result, Japan's share in the Republic of Korea's imports was up to about 24 per cent. Imports from the United States were up by 5.3 per cent, with the share equalling that of Japan, so that almost 50 per cent of the Republic of Korea's purchases abroad are from these two countries.

#### Debt

70. The period, 1979-82 was characterised by a virtual doubling of total external debt from \$20.4 billion in 1979 to \$37.1 billion by end-1982, from 32.7 per cent of GNP in 1979 to 52.4 per cent of GNP in 1982. Moreover, the share of debt with maturity of less than one year in total external debt increased from 31.5 per cent at end-1981 to 33.5 per cent at end-1982.

#### Economic consequences of Korea's measures

71. Beyond the obvious point that the import licensing scheme and the use of tariffs would normally have caused the level of Korea's imports to be lower than they would otherwise be (and thus, ceteris paribus, cause the level of Korea's exports to be lower than they would otherwise be - see discussion in GATT's International Trade 1981/82, p.p. 15-18) it is not possible to be specific about the economic effects of Korea's import restrictions. Individual trading partners would have to compare the list of restricted items (see para. 5 above) and the list of items subject to tariff adjustments (paras. 9 and 10 above), with their own export interests to get a rough idea of the extent to which those restrictions may be affecting their exports to Korea.

72. The programme of import licensing liberalization and tariff reform now being undertaken appears on balance to be a major step in the direction sought by the Committee at its last consultation, and should, if carried through, lead to a considerable opening of the Korean market to imports.

TABLE 1

Share of exports by commodity  
(per cent)

	1979	1982	1983
<u>Food Beverages and Tobacco</u>	8.0	5.5	5.0
<u>Crude Materials, Fuels and Fats</u>	2.6	2.7	3.4
of which			
petroleum and petroleum products	0.1	1.3	2.2
<u>Chemicals</u>	3.5	3.4	3.1
<u>Manufactures (ex. machinery and transport)</u>	65.1	60.6	56.2
of which			
Textiles, clothing and footwear	28.4	26.5	24.0
of which			
-textile fabrics	6.8	6.2	5.9
-textile yarn and thread	2.9	2.3	2.2
-clothing of textile	10.0	9.1	7.5
-footwear	4.8	5.3	5.0
-outer garments knitted	3.0	2.8	2.5
Iron and steel products	11.7	14.0	13.3
<u>Machinery and Transportation Equipment</u>	20.6	27.6	32.2
of which			
-T.V. Receivers	2.0	1.7	2.3
-Radio	1.9	1.4	1.6
-Telecommunication equipment	1.8	1.3	1.9
-Thermionic valves	3.3	3.0	3.6
-Office machines	0.6	0.5	1.0
-Railway vehicles	1.2	1.5	0.9
-Passenger motor cars	0.4	0.2	0.4
-Lorries and trucks	0.3	0.1	-
-Boats and ships	3.4	13.0	15.3
<u>Others</u>	0.1	0.3	0.1
<u>Total</u>	100.0	100.0	100.0

Source: Bank of Korea, Monthly Statistical Bulletin and Economic Planning Board Monthly Statistics of Korea

TABLE 2  
Share of exports by country of destination  
(per cent)

	1979	1982	1983
U.S.	29.1	28.6	33.7
Japan	22.3	15.5	13.9
E.C.	15.3	12.5	12.4
of which F.R. Germany	5.6	3.5	3.2
U.K.	3.6	5.0	4.1
Middle East <sup>1</sup>	6.2	6.3	8.2
of which Saudi Arabia	4.7	5.1	5.9
Kuwait	1.5	1.2	2.3
Others	27.1	37.1	31.8
of which Hong Kong	3.5	4.1	3.3
Canada	2.6	2.0	2.6
Indonesia	1.3	1.8	1.0
Singapore	1.3	1.7	2.2
<u>Total</u>	100.0	100.0	100.0

<sup>1</sup> Saudi Arabia and Kuwait only.

Source: Economic Planning Board, Monthly Statistics of Korea

TABLE 3

Share of imports by commodity

(per cent)

	1979	1982	1983
<u>Food Beverages and Tobacco</u>	7.4	6.5	6.6
<u>Crude Materials</u>			
Oils (except fuels)	16.0	13.9	13.3
of which:			
- wood	4.8	2.6	2.4
- raw cotton	2.3	2.2	2.0
<u>Mineral Fuel, Lubricants and Related Material</u>	18.6	31.3	26.6
of which:			
- Petroleum and petroleum products	16.8	27.8	23.7
<u>Chemicals</u>	9.9	8.6	8.7
of which:			
- organic chemicals	4.7	4.0	3.9
- plastic materials	2.1	1.3	1.5
<u>Manufactures (ex. Machinery and transport)</u>	16.9	14.0	15.1
of which			
- Professional and scientific instruments	1.8	1.6	1.8
- Textile yarn, thread and fabrics woven	1.6	1.6	1.4
- Ingots of iron or steel	2.5	0.8	1.3
- Plates and sheets of iron and steel	1.0	0.8	0.8
<u>Machinery and Transport Equipment</u>	30.1	24.8	28.8
of which:			
- Power Generating Machinery	3.2	2.0	1.9
- Office Machines	0.7	1.0	1.3
- Metal Working Machinery	2.1	0.5	0.7
- Textile Machinery	1.7	0.9	0.7
- Heating and cooling equipment	1.5	0.7	0.5
- Mechanical Handling Equipment	0.9	0.9	0.7
- Electric Power Machinery	2.4	2.0	2.0
- Telecommunications Apparatus	1.3	2.1	2.2
- Thermionic Valves	2.3	2.6	3.5
- Aircraft	1.9	0.3	0.5
- Ships and boats	1.6	4.6	6.9
<u>Others</u>	1.1	0.9	0.9
<u>Total</u>	100.0	100.0	100.0

Source: Bank of Korea, Monthly Statistical Bulletin

TABLE 4

Share of Imports by Country of origin

(per cent)

	1979	1982	1983
U.S.	22.6	24.6	24.0
Japan	32.7	21.9	23.8
Saudi Arabia	7.8	13.3	7.7
Australia	2.9	3.8	3.7
Malaysia	1.9	2.5	3.0
Kuwait	5.7	3.4	2.6
F.R. Germany	4.1	2.8	2.5
Singapore	0.6	0.7	1.5

Source: Economic Planning Board, Monthly Statistics of Korea.

ANNEX I

Import Liberalization Products by Year

Year	Vehicles	Electrical Products	Chemicals	Non-ferrous metal	Textiles	Leather
1984	Dump trucks (10-20 ton), Mobile clinics, Spraying lorries for agriculture	Electronic calculating machines, vacuum cleaners, electronic heating apparatus, Facsimile equipment, Radio receivers, Color TVs (less than 9"), Air conditioners	Toluene, DDT, Nitrobenzene, Liquid soap	Wrought bars of copper	Knitted fabrics, Garments, Corsets, Travelling rugs	Raw furskins
1985	Dump trucks (8-10 ton)	Color TVs (more than 19") Electric irons	Copolymer of vinyl Chloride	Copper wire, Tubes & Pipes of Copper, Unwrought aluminum	Outer-garments	Articles of furskins, Artificial fur, Artificial leather
1986	Jeeps (less than 1000 cm <sup>3</sup> ) Buses for highway, Dump truck (4-8 ton), Motor cycle (more than 260 cm <sup>3</sup> ) Fire engines	Color TVs (10" - 18") Static converters, Switches	Carbon black, Caustic soda, Methanol, Acetaldehyde, Caprolactam	Unwrought Copper, Unwrought Zinc	Yarn of man-made fibers, Woollen fabrics	

ANNEX II

Items subject to "emergency" or  
"adjustment" tariffs as of July 1984

CCCN No.	Item	Basic Rate	Readjusted Rate
2901-0402	Toluene	10	20
4302-01	Furskins (except of rabbit, goat, sheep and lamb)	30	50
4302-0201	Pieces or cuttings of furskin	30	50
7403-0202	Brass wire	20	30
7404-0499	Wrought copper plates, sheets and strip	20	30
7405-0200	Copper foil	20	30
8414-03	Furnances and ovens for treatment of metal materials	20	30
8523-0301 (0302)	Electric Power cable	30	40
8523-0400	Communication cable	30	40
9026-0102	Integrating watt-hour meters	20	40
9111-0401	Watch movement sets and platform escapements	30	40
3401-0102	Cosmetic Soaps	30	50
5802	Machine-made carpets, mats and rugs, etc.	40	60
5804-04	Regenerated fibres, piles, and chenille fabrics	40	60
2904-0109	Isononyl alcohols	20	30
2915-0499	Diosodecyl phthalate	20	30
3906-0100	Alginate acid, its salt and esters	20	40
2710	Lubricating oil and products thereof	30	40
2902-0204	Chlorofluoro methanes	20	30
2904-0303	Sorbitol	30	40
4011-0200	Rubber tyres for motorcars	40	50
7013-01	Table and kitchen glassware	40	60
7401-0200	Copper waste and scrap	10	15
8505	Electric handtools	20	40