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1983 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH THE REPUBLIC OF KOREA

Statement submitted by the Republic of Korea,
under Simplified Procedures for Consultation

I. Balance of Payments Position

1. General review of Korean economy

Korean economy experienced some difficulties in coping with the aftermath of the second oil shock and other structural problems carried over from the past. The economy, however, started to recover slowly from the recession, made remarkable progress in curbing inflation and reducing the balance of payments deficit.

Reviewing the world economy in 1981, the industrial countries, including the United States, experienced a recession or slowdown in their recovery and a deteriorating employment situation. World trade increased little because of increased protectionism.

Notwithstanding this unfavorable external environment, Korean economy showed a more favorable trend in 1981 than in the previous year. The real gross national product increased by 6.4 per cent helped by unexpectedly high export performance, a gradual recovery of consumption expenditure and a good agricultural harvest; current account deficit became smaller and the inflation rate went down dramatically to set the pace of stable price movements in the second half of 1981.

While the major monetary policy efforts were directed at maintaining price stability, the monetary authorities lowered bank interest rates three times during the last quarter of 1981, and adopted a set of policy measures to promote exports, to support rationalization efforts on the part of business firms and to facilitate financial transactions between business firms.

The Korean economic situation improved substantially during 1982 : stable growth, unprecedentedly low price rises and a significantly reduced current account deficit.

Despite sluggish exports, the economy regained its growth momentum from the latter half of 1982. The real gross national product grew by 5.3 per cent during 1982, a fairly high rate compared with the developed and other developing countries. Several economic revitalization packages introduced by the government during the first half of the year, such as the lowering of bank lending rates and the tax rates on real estate transactions contributed considerably to this growth.

The most favorable aspect of the 1982 economic performance was the significant slow down in the inflation rate. During the year wholesale prices rose only 2.4 per cent, the lowest rise since 1958 and consumer prices 4.8 per cent.

The current account deficit fell markedly during the year to U.S. \$ 2.6 billion from U.S. \$4.6 billion in 1981, reflecting decreases in grain as well as oil imports due to a good harvest and energy savings and substitution efforts.

The total money growth rate and the market interest rate began to stabilize from the fourth quarter of last year as the monetary authorities effected liquidity absorption measures and non-bank financial institution activities started to recover.

2. Balance of payments position during 1981 and 1982

Though grain imports and external interest payments increased substantially the current account deficit in 1981 narrowed to U.S.\$4.6 billion from U.S.\$5.3 billion in the previous year due to export recovery and the moderate increase in raw material imports for domestic use.

The value of commodity export on a customs clearance basis increased 21.4 per cent over the preceding year to U.S.\$21.3 billion. By commodity group, heavy and chemical industry products witnessed a high increase rate of 24.7 per cent centering on ships, steel and machinery, and light industry products such as textiles and shoes increased 19.4 per cent during the year.

By destination, exports to the United States and Japan, which had shown a decrease or only a slight increase in the previous year, achieved higher increase rates, and those to Southeast Asia, South America, Africa and Oceania increased remarkably reflecting a successful effort to diversify the export market, but exports to European countries showed a weak advance as in the previous year.

The value of commodity imports, which had gone down sharply in the previous year, went up 17.2 per cent to U.S.\$26.1 billion. After adjustment for import price rises, the volume of imports reversed to an increase of 11.8 per cent from a 13.8 per cent decrease in the preceding year.

By use, raw material imports for domestic use including crude oil registered a low increase rate because of sluggish domestic demand and stable of falling prices in the international raw material market. On the other hand, the import of consumer goods, especially grain, rose sharply, and capital goods such as transport equipment and electronic appliances showed a relatively high increase rate. As a result, the trade balance deficit dropped by U.S.\$0.8 billion from that of the previous year to U.S.\$3.6 billion.

In the case of invisible trade, while a total of U.S. \$6.6 billion was received mainly from overseas construction, freight and insurance, such payments abroad as ship charter fees and interest payments on foreign borrowing increased further to U.S.\$8.1 billion so the invisible trade balance deficit slightly widened to U.S.\$1.5 billion from U.S.\$1.4 billion in the previous year.

Net long-term capital transaction receipts amounted to U.S.\$2.8 billion over the previous year, owing to increases in public and commercial borrowing and KDB's bank borrowing. Consequently, the basic balance deficit was reduced by half that of the previous year to U.S.\$ 1.7 billion. Short-term capital transactions, however, led to a net outflow of U.S.\$0.1 billion in 1981 contrast to a net inflow of U.S.\$1.9 billion in 1980. The main cause of this reversal was a reduction in net trade credit in the latter half of the year, resulting from high interest rates in major international financial markets and increasing exchange rate risk.

The overall balance deficit, therefore, increased to U.S.\$2.3 billion in 1981 from U.S.\$1.9 billion in 1980, but foreign exchange holdings at the end of 1981, U.S.\$6.9 billion were up U.S.\$0.3 billion over the end of 1980, thanks to increases in funds raised through financial transactions such as IMF credit and bank borrowing.

During 1981 the Korean won was devalued by 6.2 per cent to 700.50 won per U.S. dollar at the end of 1981, much less than the 36.3 per cent depreciation during 1980.

Despite sluggish exports, the current account deficit in 1982 narrowed considerably compared with the previous year thanks to reduced imports.

The value of commodity exports on a customs clearance basis increased only 2.7 per cent over the preceding year to U.S.\$ 21.9 billion. By commodity group, light industry product exports decreased 6.1 per cent reflecting depressed exports of textiles and plywood, but heavy and chemical industry product exports increased 14.5 per cent as ship exports doubled and machinery and steel exports also performed well. By destination, exports to the United States, Southeast Asia and Europe increased somewhat, while those to Japan and South America shrank.

The value of commodity imports went down 7.1 per cent during the year to U.S.\$24.3 billion. By use, capital goods imports centering on machinery and electric and electronic products increased a little.

However, consumer goods imports showed a remarkable decline along with grain imports which decreased by half. Raw material imports also were slightly reduced because of poor export performance, drops in international raw material prices and such efforts as energy saving and substitution.

As a result, the trade balance deficit shrank U.S. \$ 1.0 billion during the year to U.S.\$ 2.6 billion. The invisible trade balance also improved considerably and stood at only a U.S.\$0.6 billion deficit. This was due to increased overseas construction receipts and reduced pressure of interest payments on external debts following the drop in international interest rates. Consequently, the current account deficit narrowed sharply during the year to U.S.\$2.6 billion from the U.S.\$4.6 billion of the preceding year.

Net capital inflow went down remarkably as the inducement of net long-term capital declined to U.S.\$1.2 billion, almost half that of the preceding year. This was affected by reduced commercial and development banks borrowing and increase in exports on a long-term credit basis. Short-term capital transactions resulted in a net inflow of U.S.\$44 million.

On the other hand, foreign exchange holdings at the end of 1982 were up by U.S.\$0.1 billion over the end of 1981 to U.S.\$7 billion thanks to increases in bank borrowing.

During 1982 the Korean won was devalued by 6.9 per cent to settle at 748.50 won per U.S. dollar at the end of the year.

II. System and Methods of Restriction

1. Developments in foreign exchange system

The government fully revised Korea's Foreign Exchange Regulations in 1981 and 1982. These are designed to minimize inconvenience in external transactions, reinforce support for foreign exchange earning activities, and improve the environment for foreign investment.

The major features were as follows.

A. The major contents of 1981 revisions

a. Emigrant's money

The head of foreign exchange bank approves emigrant's money up to US\$20,000 and the Bank of Korea permits amounts of more than US\$20,000 for each household. But the maximum of emigrant's money is US\$100,000.

b. Inducement of emigrant's account

Any person who has already emigrated or are going to emigrate may have emigrant's accounts opened with the approval of foreign exchange bank. Emigrant's account opener may dispose his accounts for such reasons as selling to a foreign exchange bank for domestic means of payment and in the cases where remittance can be permitted by the Bank of Korea.

c. Improvement of overseas investment system

To activate the overseas investment procedure for permission has been simplified such as abolition of prior approval by the Bank of Korea and the validity of permission has been extended from 6 months to one year. And in the cases where retaining part of profit for expansion of the investment project overseas doesn't exceed US\$ 10,000 , no permission is required.

- d. In paying to foreign countries some of approval or license system has been changed into confirmation system. And foreign exchange transactions without any approval or license has been extended.

B. The major contents of 1982 revisions

- a. Enlargement of the eligible items for import on deferred payment basis.

Eligible goods for import on deffered payment basis for 180 days had been limited to raw materials for export and some important raw materials. But on Feb. 1, the goods whose rates of customs tariffs were under 20% were added and then all goods were permitted for import on deffered payment basis on July 1, 1982.

- b. Reduction of the rates of advance import deposit

The rates of advance import deposit which had been imposed on the deffered and installment payment import transactions were reduced from 5-20% to 0%.

C. Improvement of overseas investment system

To activate the overseas investment, procedure for permission has been simplified such as abolition of prior review by the concerned institutions. And the restriction on the investment ratio of 50% or more in case of an investment in securities was lifted.

d. Abolition of "Standard Interest Rates" system

" Standard interest rates " which had been the standards for application in conducting transaction such as foreign currency deposits, foreign currency funds financing and overseas investment, etc. was abolished.

2. Tariffs

The Korean Government revised tariff rates on a number of items over the period 1 June 1981 to 30 September 1982. This revision includes the amendment of the Customs Act, and the adjustment of tariff quotas with lower rates for certain raw materials and an increase in tariff rates on some liberalized goods.

A. The amendment of the Customs Act

Under the amendment of the Customs Act, which entered into force on January 1, 1982, tariff rates on import of 311 items were reduced and those of 29 items were raised, with a view to rationalizing the industrial structure, improving the allocation of resources and protecting consumers.

As a result, the simple average rate of tariffs was reduced to 23.7% from 24.9% and general tariff escalation was simplified from 14 steps to 11 steps.

Summary of the adjusted items

Category	Major items	No. of items
Reduction of general tariff rates	Prepared foodstuffs, textiles, footwears, glasswares, household articles of metals, etc.	218
Supporting the essential industries	Circuits board for semi-conductor devices, weaving machines, sewing machines, dye stuffs, raw materials for the contraceptives, film for x-ray, combine, electronic switching system, etc.	57
Adoption of the ad valorem duties	Bananas, peppers, sugar, etc.	5
Simplification of the tariff escalation	Cashew nut shell liquid, sorbitol, alkyds, insulation paper, palm oil, rough precious stones, sponge iron or steel etc.	45
Others	Raw sugar, phenols, ketones, cutting tools, valves, manganese batteries, etc.	15
Total		340

B. Tariff quotas

The Korean Government gradually reduced tariff quotas which had been introduced for the stabilization of domestic prices, in order to rationalize the tariff rate structure toward general rate.

As a result, the number of items was changed from 64 to 30 during the period 1981-1983.

Summary of the tariff quota items for 1983

Category	Major items	No. of items
Foodstuffs	Tapioca chips, wheat, maize, soya beans, raw sugar, palm oil, etc.	7
Chemicals	Naphtha, quinizarine, 8-amino-1-naphtol -3-disulphonic acid, etc.	11
Dyestuffs	Acid dyes, mordant dyes, disperse dyes, reactive dyes.	4
Steel Products	Waste and scrap metal of iron, coils for re-rolling of stainless steel, etc.	3
Others	Natural rubber, Wood grown in the tropic zone, raw cotton, cement copper, etc.	5
Total		30

C. Other tariff measures

The Korean Government had increased the tariff rates on 77 items considered as luxury good July 1, 1980 and extended every six month the time limit of this tariff measures in order to control excessive consumption and encourage a sound and reasonable spending pattern. And then, this tariff measure items had been reduced from 77 to 7 until June 30, 1983 on account of the provisional and temporary character of this measures.

3. Import liberalization

A. Outlines

The Korean Government has taken measures for import liberalization along with the lines dictated by the law of international competitive advantage. It has been gradually implemented and its ratio has been stepped up from 68.6% in 1980 to 74.7% in 1981 and to 76.6% in 1982.

B. Import liberalization ratio

Classification	Pre-vious	1978	1979	1980	1981	1982
Import prohibited items	50	-	-	-	-	-
Import restricted items	456	385	327	317	1,886	1,769
Automatic approval items (B)	591	712	683	693	5,579	5,791
Total (A)	1,097	1,097	1,010	1,010	7,465	7,560
Liberalization ratio (%) (B/A)	53.8	64.9	67.6	68.6	74.7	76.6

Note: Commodity classification has been changed from July 1981. (CCCN 4 digit → CCCN 8 digit)

(Table 1.) Principal Economic Indicators ^{1/}

	1980	1981	1982	1983 1st half
GNP Growth Rate (%)	-6.2	6.4	5.3	9.6
Rate of Inflation (%)				
Wholesale Price	38.9	20.4	4.7	-0.1
Consumer Price	28.7	21.3	7.3	3.1
Growth Rate of Money Supply (%)				
M ₁	16.2	4.6	45.6	35.1
M ₂	26.9	25.0	27.0	21.2
Unemployment Rate (%)	5.2	4.5	4.4	3.3
Current Account Balance (\$ bil.)	-5.3	-4.6	-2.6	-1.3
Exports ^{2/} (\$ bil.)	17.5	21.3	21.9	11.0
Imports ^{2/} (\$ bil.)	22.3	26.1	24.3	12.2
Exchange Rate of Won to Dollar	660	700.50	748.80	776.70

Note : 1/ Growth rates are all compared to the same period last year.

2/ Custom clearance basis.

(Table 2)

GNP Growth Rates

(At 1975 Constant market prices)

(Increase rate in per cent)

	1980	1981	1982	1983 P/ 1st half
Agriculture, Forestry and Fisheries	-22.0	22.0	3.8	5.3
Mining and Manufacturing	-1.1	7.2	3.7	10.0
SOC and Other Services	-3.4	0.6	7.2	9.9
Gross National Product	-6.2	6.4	5.3	9.6
Total Consumption	-1.0	3.7	3.7	7.7
(Private Consumption)	(-1.4)	(3.8)	(3.8)	(7.6)
Total Investment	-24.4	5.0	-0.6	20.5
(Fixed Capital Formation)	(-12.0)	(-6.1)	(11.6)	(17.2)
Exports of Goods and non-factor Services	9.9	17.2	4.4	5.7
Imports of Goods and non-factor Services	-7.7	6.5	0.5	11.2

(Table 3) Balance of Payments (1980 - 1983. 7)

(In million U.S. dollars)

	1980	1981	1982	1983 Jan. - July
I. Current Balance	-5,321	-4,615	-2,650	-1,201
Trade Balance	-4,384	-3,597	-2,594	-1,110
Exports	17,214	20,702	20,879	12,384
Imports	21,598	24,299	23,473	13,494
Invisible (net)	-1,386	-1,518	-554	-435
Transfers (net)	449	501	498	344
II. Long-term Capital	1,857	2,842	1,230	582
Loans & Investment	3,030	3,053	2,896	1,440
Amortization	-1,085	-1,315	-1,430	-837
Borrowings of Development Banks	292	1,138	479	384
Others 1/	-380	-34	-715	-405
III. Basic Balance	-3,464	-1,773	-1,420	-619
IV. Short-term Capital 2/	1,945	-82	44	371
V. Errors & Omissions	-371	-442	-1,295	-768
VI. Overall Balance	-1,890	-2,297	-2,711	-1,016
VII. Financial Account	1,890	2,297	2,711	1,016
Liabilities	2,861	2,703	3,295	285
IMF Credit	593	628	82	98
Bank Loans	130	842	675	461
Refinance	742	1,124	1,145	-88
Others 3/	1,396	109	1,393	-186
Assets	971	406	584	-731
Change of Holdings	863	320	93	-625
Others 4/	108	86	491	-106
VIII. Foreign Exchange Holdings	6,571	6,891	6,984	6,359

- 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 asset (if forei

(Table 4)

Imports by Commodity Group ¹

(In million U.S.\$)

Commodity Group	1 9 8 1		1 9 8 2		1983.Jan-July	
	Amount	Increase Rate	Amount	Increase Rate	Amount	Increase Rate
Food & direct consumer goods	2,931	47.4	1,738	-40.6	1,038	4.3
Grains	1,972	80.5	937	-52.5	586	9.7
Direct Consumer goods	959	6.9	801	-16.4	452	-1.8
Crude materials & fuels	16,214	11.9	15,516	-4.3	8,796	-1.5
Crude oil	6,376	13.0	6,103	-4.3	3,080	-9.2
Crude material	9,838	11.3	9,413	-4.3	5,716	3.2
Capital Equipment goods	6,158	20.1	6,233	1.2	3,880	15.3
(Non electric machinery)	(2,282)	(4.5)	(2,351)	(3.0)	(1,404)	(3.6)
(Electric & Electronic Machinery)	(1,866)	(22.2)	(2,075)	(11.2)	(1,377)	(23.1)
(Transportation Equipment)	(1,405)	(51.9)	(1,277)	(-9.3)	(719)	(21.1)
Consumer Goods	828	18.6	764	-7.6	513	17.1
Total	26,131	17.2	24,251	-7.1	14,227	3.6

¹ Custom clearance basis

(Table 5)

Exports by Commodity Group ^{1/}

(In million U.S.\$)

Commodity Group	1981		1982		83. Jan-July	
	Amount	Increase Rate	Amount	Increase Rate	Amount	Increase Rate
Foods & direct consumer goods	1,467	15.5	1,224	-16.5	684	-5.2
Crude materials & fuels	589	22.7	1,718	22.0	440	36.5
Light industry products	10,109	19.4	9,495	-6.1	5,347	-5.4
(Textile goods)	(6,029)	(22.0)	(5,758)	(-4.5)	(3,211)	(-6.3)
(Plywood)	(493)	(13.9)	(293)	(-40.5)	(117)	(-39.3)
(Footwear)	(1,022)	(17.3)	(1,152)	(12.8)	(715)	(6.3)
Heavy & chemical products	9,089	24.7	10,417	14.5	6,669	18.6
(Iron & steel)	(2,958)	(16.6)	(3,043)	(-1.6)	(1,663)	(-4.4)
(Machinery)	(608)	(26.3)	(647)	(6.5)	(405)	(14.7)
(Electronic Products)	(1,814)	(10.6)	(1,749)	(-3.5)	(1,245)	(27.8)
(Ships).	(1,411)	(128.5)	(2,832)	(100.6)	(2,181)	(59.8)
Total	21,254	21.4	21,853	2.7	13,140	6.6

^{1/} Custom clearance basis.

(Table 6) Imports by Country 1/

(In million U.S. \$)

	1 9 8 1		1 9 8 2		83. Jan-July	
	Amount	Increase rate	Amount	Increase rate	Amount	Increase rate
Japan	6,374	8.8	5,305	-16.8	3,425	11.9
U.S.A	6,050	23.7	5,956	-1.6	3,528	5.7
Saudi Arabia	3,561	8.3	3,213	-9.8	1,094	-40.8
Kuwait	1,573	-10.3	819	-47.9	342	-28.3
Australia	910	33.8	913	0.3	550	19.3
W. Germany	672	5.5	680	1.2	371	-15.1
Indonesia	385	-20.6	683	77.4	197	-50.5
Malaysia	643	36.4	610	-5.1	417	21.6
Canada	531	40.2	485	-8.7	243	-14.4
Taiwan	355	13.3	280	-21.1	177	-3.8
Others	5,077	39.3	5,307	4.5	3,883	33.6
Total	26,131	17.2	24,251	-7.1	14,227	3.6

1/ Custom clearance basis.

(Table 7)

Exports by Country 1/

(In million U.S. \$)

	1 9 8 1		1 9 8 2		83 . Jan-July	
	Amount	Increase rate	Amount	Increase rate	Amount	Increase rate
U.S.A	5,661	22.9	6,243	10.3	4,534	31.7
Japan	3,503	15.2	3,388	-3.3	1,704	-10.4
Saudi Arabia	1,136	20.1	1,125	-1.0	757	19.0
W. Germany	805	-8.1	758	-5.8	431	-5.3
Hong Kong	1,155	40.3	904	-21.7	426	-30.2
U. K.	705	23.1	1,103	56.5	533	-12.5
Indonesia	370	1.3	383	3.5	135	-35.7
Netherlands	328	-6.2	351	7.0	288	65.5
Canada	484	40.8	443	-8.5	367	36.4
France	403	38.4	264	-34.5	180	9.8
Others	6,704	26.7	6,891	2.8	3,785	0.7
Total	21,254	21.4	21,853	2.7	13,140	7.4

1/ Custom clearance basis.

(Table 8) Index of Foreign Trade and Terms of Trade 1/

	Quantum index		Unit Value index		Net Barter Terms of Trade	Income Terms of Trade
	Exports	Imports	Exports	Imports		
1974	81.4	96.9	107.9	97.2	111.1	90.3
1975	100.0	100.0	100.0	100.0	100.0	100.0
1976	135.9	123.1	111.7	98.0	114.0	154.9
1977	161.7	148.3	122.3	100.2	122.0	197.4
1978	184.7	194.5	135.4	105.8	128.0	236.4
1979	183.1	217.4	161.8	109.2	125.3	229.2
1980	202.5	187.5	170.3	163.9	103.9	210.4
1981	239.7	209.7	174.5	171.7	101.6	243.5
1982	257.4	210.8	167.1	158.4	105.5	271.5
1983 1st half	279.7	225.1	155.5	148.8	104.5	292.6

1/ Custom clearance basis.