

GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1983 CONSULTATION WITH REPUBLIC OF KOREA (SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration. It updates the paper prepared for the 1981 consultation (BOP/W/47).

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

2. The Republic of Korea has so far held two simplified consultations (1978 and 1981) and two full consultations (1976 and 1979). At the last full consultation, which took place on 31 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 import liberalization.

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

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

4. In 1978 the Republic of Korea initiated a major import liberalization programme. As a result the list of prohibited imports was abolished and the list of restricted items gradually shortened. In order to avoid major disruptions in the domestic industry, the import restrictions were in some cases replaced by import tariffs and "import surveillance" procedures.

5. Import restrictions. On 1 July 1983, 305 items (on an 8-digit CCCN basis) were added to the automatic approval list and 18 items to the restricted list. The liberalized items include washing machines, refrigerators and trucks; among the newly restricted items are padlocks

and sewing machines. Of a total of 7,560 items, 6,078 or 80.4 per cent are now liberalized. The list of presently restricted items will shortly be notified to the Group of Quantitative Restrictions and Other Non-tariff Measures. The following table shows the import liberalization trend since the last full consultation:

Year	Total import items (A)	Restricted items	Automatic approval items (B)	Liberalization ratio (B/A)
1979	1,010	327	683	67.6%
1980	1,010	317	693	68.6
1981	7,465 ¹	1,886	5,579	74.7
1982	7,560	1,769	5,791	76.6
1983	7,560	1,482	6,078	80.4

Of the 305 items liberalized on 1 July 1983, 80 were put under "import surveillance". The imports of the latter items remain liberalized unless and until the government considers it necessary to stop imports of any of them. There are presently 164 items subject to import surveillance, down from 283 a year earlier.

6. Other restrictions affecting imports. Some of the items listed as automatic approval items are subject to procedures of approval under special laws, such as the Pharmaceutical Law, or laws dealing with quarantine requirements, national security, etc. Until 1 July 1983, there were 1,937 items which were restricted under 35 different laws. On 1 July 1983, 390 of these items were removed from the coverage of these laws.

7. Import tariffs. Between January 1982 and July 1983 the tariffs on 340 items were lowered by up to 80 per cent, while tariff rates for 104 items were raised by up to 91 per cent. The tariff cuts were mainly on raw materials or intermediate products (such as foodstuffs, chemicals, pulp, wheat, maize and natural rubber) while the tariff increases affected mainly manufactured products (such as refrigerators, washing machines and furniture).

8. Import deposit. The advance import deposit requirement introduced in 1978 was abolished in February 1982.

9. Limitations on imports on deferred-payment-basis. Prior to 1982 the only imports that could be financed with trade credits were certain raw materials. Since 1 July 1982, all goods can be imported on a deferred-payment-basis.

¹Since 1981 the commodity classification has been changed from a 4-digit to an 8-digit CCCN basis.

III. Recent trends in the Republic of Korea's economy and foreign trade

10. After a strong upturn in the last quarter of 1981, the Republic of Korea's real GDP growth slowed down, averaging $5\frac{1}{2}$ per cent in 1982 (against $6\frac{1}{2}$ per cent in the previous year). Economic expansion was mainly domestically induced in 1982, as export demand remained sluggish throughout the year. Brisk activity in housing and other construction, stemming initially from government and later from the private sector, was behind most of the 11 per cent rise in fixed investment in 1982. Investment in machinery and industrial equipment started to recover after two years of decline; although increasing by 8 per cent in real terms, its level still remained lower than in 1978. The overall slowdown was apparent in all sectors other than construction, especially in manufacturing. Manufacturing production was up only 5 per cent in 1982 ($13\frac{1}{2}$ per cent in 1981) with the output of key export industries such as textiles, clothing and electrical appliances virtually stagnating. There was an abrupt decline in domestic inflation: consumer prices rose by only 7 per cent in 1982, compared to 21 per cent in 1981 and nearly 30 per cent in 1980.

11. Due mainly to volume movements but also to a moderate improvement in the terms of trade, the trade deficit was halved in 1982, to \$2.4 billion (f.o.b./c.i.f., customs basis). Exports increased by about 3 per cent in value, to just below \$22 billion, while volume growth slowed to 7 per cent (against 18 per cent in 1981). After a two-year setback, output and exports of the shipbuilding industry revived in 1981. In 1982, export sales of ships and boats earned \$2.8 billion, twice the amount in 1981 and over four times more than in 1980. Export receipts from textiles, clothing and footwear, which together account for 27 per cent of total exports, stagnated in 1982, and exports of electrical appliances (such as TV and radio sets) dropped steeply in both volume and value. In contrast, exports of office machines, telecommunication equipment and power generating machinery generally showed a steady growth. If exports to the United States and the United Kingdom had not shown any increase in 1982, total exports would have dropped by about 2 per cent, as most other industrial countries (as well as a few developing ones) reduced their purchases. The decline in the value of imports in 1982 (by 7 per cent, to \$24.3 billion) resulted mainly from much lower imports from Japan (down 17 per cent), Kuwait (48 per cent) and Saudi Arabia (10 per cent). There was a sharp reduction in rice purchases (from \$1.1 billion in 1981 to \$100 million in 1982) and moderate value declines for imports of petroleum and some capital goods.

12. In January-May 1983, Korea's trade deficit amounted to \$1.2 billion, only slightly larger than in the corresponding period of last year. In volume, exports grew at about the same rate as in 1982, while there was a sharp rise in imports associated with the expansion in domestic economic activity.