

RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

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ACCESSION OF KOREA

Replies to Questionnaire

By airgram dated 20 July 1966 (GATT/AIR/564) contracting parties wishing to put forward questions in connexion with the memorandum on Korea's foreign trade régime were invited to submit them to the secretariat.

The following are the replies of the Government of Korea to the first lot of questions. The replies to the remaining questions which were more recently submitted will be circulated shortly.

ANSWERS TO THE QUESTIONS CONCERNING THE FOREIGN TRADE REGIME OF KOREA

A. Import restrictions (Section IV of L/2657)

1. Question In what manner does the Government of Korea propose to reconcile its elaborate system of import restrictions with the provisions of the General Agreement? Are all these restrictions required for balance-of-payments purposes?

Answer Most of the import restrictions enforced by the Korean Government at present are intended to safeguard the balance of payments as required in implementing the programmes and policies of economic development designed to raise the standard of living. The remainder are for public health and social order. Nevertheless, the Korean Government intends to reconcile its import régime with the provisions of GATT by gradually lifting the import restrictions as the balance of payments improves.

2. Question Is each category of imports administered in a non-discriminatory manner?

Answer All commercial imports are administered in a non-discriminatory manner. However, sources of supply are often limited in case of grants-in-aid and tied-loan. Trade with certain countries is prohibited.

3. Question The Korean trade plan for the second half of 1966 issued by the Minister of Commerce and Industry stipulates in point 17 of the administrative policy section "in case Korea's trade with a specific country shows an unreasonably high deficit balance, the Ministry of Commerce and Industry may restrict importation from such a country". Will the Government of Korea eliminate this provision upon its accession to GATT, or will it specifically exempt all contracting parties from its applications?

Answer The provision in paragraph 17 of the Administrative Policy in the Trade Plan for the second half of 1966 is based on Article 6, Enforcement Decree of the Trade Law. It was added, though reluctantly, to improve the balance of payments. The provision, however, has never been exercised. This provision will be abolished when the balance of payments improves after the accession of Korea to GATT.

4. Question The section of document L/2657 pertaining to imports makes no reference to those reserved for shipments under aid grants from the United States. In general these reserved imports may only be obtained from the United States. However, in carefully defined circumstances, generally to the extent that they are not available from the United States, they may be imported from other sources. In document L/2657 such imports are apparently included among "automatic approval items" for which import authorization is automatically approved by banks, when in practice they are virtually prohibited imports from all sources but the United States. Among aid items, there are several of importance in international trade including synthetic rubber, chemical wood pulp, carbon black, zinc ingot, various fertilizers and synthetic resins. In the light of the steady and substantial improvements in Korea's production, exports and balance of payments, what time-table is proposed for the opening of Korea's markets for these goods on a most-favoured-nation basis?

Answer The United States aid regulations restrict the supply source of the United States AID procurements. Therefore, when the United States aid to Korea comes to an end, the category of the AID items will be abolished, and there will be no discrimination with regard to the supply sources in Korean import régime. At present, all imports under KFX (Korean Foreign Exchange owned by the Government) fund are effected without any discrimination as to the supply sources.

5. Question The reference to "semi-restricted items" appears to play down the severity of restrictions on these items which are implemented through prior recommendations of the competent Ministry. According to document L/2657, the 115 commodity items in this category, which in fact correspond to 4 per cent of all items, make up 15 per cent of all imports. Is it not likely that their share of total imports would be greater in the absence of restrictions since they include such important goods as breeding animals, powdered milk, malt, tobacco, railway sleepers, vegetable and pasture seeds, crude oil, fish and whale oils, fishing net twine, aircraft and parts?

Answer As stated in the answer to Question 1, the current import restrictions are imposed mainly to safeguard the balance of payments. Consequently, the policy of requiring prior recommendation of the competent Ministry will be gradually eliminated as the balance of payments improves.

6. Question Can the Government of Korea explain the inclusion of the 387 items shown in its prohibited category of imports?

Answer Except for a few items relevant to public health, such as narcotics for veterinary medicaments, and a few agricultural and fishery products such as green beans, horse beans, and sea cucumbers, most of the 387 items are designed to safeguard the balance of payments in the course of implementing the programmes and policies of economic development. It is worthwhile to mention that the 387 items are actually not more than 120 items when classified under four digits of Standard International Trade Classification (SITC) code.

7. Question In what ways has the number of items in the prohibited category undergone change during the last few years?

Answer Reflecting the trade liberalization policy of Korean Government, the number of the import prohibited items has been gradually decreased as follows:

The second half of 1964:	626
The first half of 1965:	624
The second half of 1965:	620
The first half of 1966:	589
The second half of 1966:	387

8. Question Is the operation of the Korean import régime, as it pertains to non-specified residual items, in full accord with the General Agreement?

Answer "Non-specified items" are those which are not specified in the Trade Plan, because there is no import record on such items for lack of import demand. When an importer requests the Government for the import of a certain non-specified item, the Government immediately specifies the item in the Trade Plan under one of the following categories, "automatic approval", "semi-restricted", "restricted", or "prohibited", according to the characteristics of the item without any discrimination among the supply sources.

9. Question Can the Government of Korea show that its system of registration and licensing of foreign traders does not, in effect, constitute a barrier to imports? Does the system operate in full accordance with the provisions of Articles I, III, X and XIII?

Answer It is considered that the registration system of foreign traders does not, in effect, constitute a barrier to imports. Anyone who wants to be registered can be registered whenever he meets the registration requirements of the Trade Law. The main registration requirements are:

- (a) A foreign trader should have a minimum capital of W 5 million.
- (b) A foreign trader should receive an export letter of credit of US\$10,000 or more at the time of registration (in case of small and medium enterprises, US\$5,000).

These requirements are provided for in order to discourage unsound business firms and to promote exports. There are 932 registered foreign traders as of the end of August 1966.

The operation of this system is, therefore, in accordance with the provisions of Articles I, III, X and XIII of the GATT.

10. Question Can details be given on Korea's import policies relating to wheat and other grains? In the light of Korea's policy regarding further import liberalization to which reference is made in document L/2657, what specific plans has the Government of Korea regarding items in this category?

Answer An import permit is required to import wheat and other grains with a prior recommendation of the Minister of Agriculture and Forestry in accordance with the provisions of the Grain Administration Law.

At present, further import liberalization of wheat and other grains is not considered by the Government since it has to protect the farmers who represent more than 60 per cent of the population, most of whom are engaged in extremely small-scale farming.

B. Export regulation (Section V of L/2657)

11. Question Which goods are subject to export controls?

Answer Most of the export restricted items are those in short supply for the domestic industry such as arrowroot fibre, human hair, pig iron, raw cotton, bamboo and others. The rest are those for conserving the exhaustible natural resources such as gold and silver ore, gypsum, anthracite, and the like and those for securing compliance with the provisions of laws and regulations such as medical instruments and equipments, ginseng preparations, etc.

12. Question Can each of the indirect export promotion devices shown in document L/2657 be reconciled with Article XVI?

Answer The indirect export promotion measures such as tax reduction or exemption and discount on public utility charges, adopted by the Korean Government as a means of promoting exports to improve the balance of payments, will be gradually eliminated when the international payments balance is achieved.

13. Question What plans does Korea have for abolishing "export promotion measures", i.e. income and corporation tax benefits and the discount on public utility charges?

Answer See the answer to Question 12.

C. Tariff system (Section VI of L/2657)

14. Question Can detailed information be given on the application of "provisional special customs duties"? Are these surcharges applied to items other than those in the restricted category?

Answer The provisional special customs law was a temporary measure enacted to stabilize the foreign exchange rate and to implement effectively the economic development plan by improving the balance of payments.

The provisional special customs duties are levied on the commodities which realize excess profits. The dutiable excess profit is the difference between the domestic wholesale price and the amount composed of normal arrival price, customs duties, commodity tax, normal expenses, and normal profit (50 per cent of normal arrival price). Duty-free or duty-exempted goods, however, are not subject to the provisional special customs law.

In principle, the rates of the provisional special customs duties are 90 per cent on the items with customs tariff rates of 40 per cent or more and 70 per cent on the items with customs tariff rates of less than 40 per cent.

These duties are levied not only on the restricted items but also on the automatic approval items whenever an excess profit is realized.

15. Question How does Korea justify the import surcharges under its system of provisional special customs duties?

Answer The frequent changes of the foreign exchange rate caused by chronic inflation and the unfavourable balance of payments had impeded the progress of the implementation of the economic development plan. The provisional special customs law was enacted as a tentative supplementary

measure to stabilize the foreign exchange rate when the existing floating exchange rate system was adopted on 3 May 1964 in place of the fixed exchange rate system. Accordingly, the law will be abolished when the balance of payments improves.

16. Question Which steps is the Korean Government taking or intending to take following its accession to GATT, to prevent discrimination among its GATT partners in the application of the provisional special customs duties?

Answer The provisional special customs law has never been and will never be applied discriminatively with regard to the origin of goods.

D. Foreign exchange system (Section VII of L/2657)

17. Question Do the exchange controls fully comply with Article XV? Do they, in fact, lead to discriminatory trading?

Answer The Korean Government has adopted a system of exchange controls to safeguard the balance of payments in accordance with Article XIV of the Agreement of the International Monetary Fund. The present control system, therefore, fully complies with Article XV of the GATT.

It does not lead to discriminatory trading. The non-discrimination of the present controls has been confirmed by the annual consultations with the International Monetary Fund.

E. Trade agreements (Section VIII of L/2657)

18. Question Regarding trade agreements, the statement is made in document L/2657 that the lists of commodities attached to agreements are purely estimates of commodities concerned, and they consequently do not lay down any obligation to import a certain amount of commodities catalogued in the lists. Which purpose do these lists serve? How are the estimates arrived at, having in mind difficulties in predicting market conditions and the competitiveness of suppliers from various sources, and whether the existence of these lists does not open the way to pressures from Korea's partners in these agreements?

Answer With regard to the list of commodities annexed to trade agreements, the contracting parties have no obligation to import any of them. However, if a request to import any of those commodities is made by a trader the contracting party agrees in principle to issue a licence on the commodity in question. The list of commodities also serves to provide the interested traders with trade information as to the commodities which are most likely to be traded between the

contracting parties. This last point is particularly relevant to the contracting parties between which the insignificant amount of trade is being done.

The list of commodities annexed to a trade agreement is prepared on the basis of the commodities which have in the past been traded between the contracting parties and those commodities which are desired to be traded in the future. The list of commodities, being illustrative and not exhaustive in its character, could be revised from time to time by mutual agreement between the contracting parties concerned.

As mentioned above, the contracting parties to a trade agreement agree in principle only to issue import licences with regard to commodities specified in the commodity list. Accordingly, the contracting parties could not use the commodity list as the instrument of pressure for other purposes than obtaining import licences.

19. Question Is each bilateral trade agreement operated in strict accordance with the most-favoured-nation principle?

Answer The trade agreements which Korea has concluded with her trading partners are operated in conformity with the principle of the most-favoured-nation treatment as provided for in the GATT. A preferential rate of custom duties was in the past applied to the imports by foreign grants-in-aid. At present such preferential treatment with regard to customs duties does not exist.

