GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

BOP/278
6 November 1987

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original: English

1987 CONSULTATION WITH THE REPUBLIC OF KOREA UNDER ARTICLE XVIII:12(b)

Basic Document for the Consultation[1]

[1]Material provided by the Korean authorities.

87-1778

Basic Document for the Consultation

I. Balance of Payments Position and Prospects

1. General Review of the Korean Economy

2. Recent Changes in the Balance of Payments

1) In 1985

2) In 1986

3) In 1987

3. Medium-term Prospects

II. Current System and Future Direction of Restrictions

1. Trade Policy

1) Enactment of the Foreign Trade Act

2) Simplification of Trade Procedure

3) Import Liberalization

4) Promotion of Fair Trade

5) Import Relief System

2. Tariff Policy

1) Tariff Reduction

2) Flexible Tariff System

3. Exchange Control System

1) Major Changes in Exchange Control System

2) Future Direction

I. Balance of Payments Position and Prospects

1. General Review of the Korean Economy

The Korean economy has been on an expansionary path since the beginning of 1986, after a period of relatively slow growth in 1985. Real GDP grew 11.9 per cent last year, up from 5.4 per cent in 1985. The pace of growth accelerated to 13.5 per cent in the first half of this year thanks to strong export and equipment investment activities.

The economy's upturn stemmed largely from the fall in the international price of crude oil, the appreciation of the major hard currencies and low international interest rates. The fall in the international oil price contributed to stable prices and wages. The appreciation of the major hard currencies improved the competitiveness of Korean exports and led to a recovery of export growth. The low interest rates eased the external debt service burden.

Commodity exports last year increased 28.3 per cent to U$ 33.9 billion and imports maintained a moderate growth rate of 12.3 per cent to U$ 29.7 billion. Thus, the trade balance recorded a surplus for the first time since the launch of Five Year Economic Development Plans, and the current account reversed to a surplus of U$ 4.6 billion. The trade balance and the current account have both continued to record a surplus this year. Exports have amounted to U$ 28.2 billion and imports U$ 24.2 billion during the first eight months of this year, making the trade balance a surplus of U$ 4.0 billion. Meanwhile, from the beginning of the year through the end of September, the value

of the won against the U.S dollar has risen 6.5 per cent, compared with 3.2 per cent in 1986.

Industrial production has remained strong since 1986 due to the brisk export growth. Manufacturing production led the overall growth. The manufacturing sector has registered high increase rates of 17.4 per cent in 1986 and 18.6 per cent in the first half of this year, rebounded from an increase of 3.8 per cent in 1985. Major increases were in machinery, electrical products and transportation equipment.

On the demand side of the economy, investment, particularly business equipment investment, and exports of goods and services grew rapidly in 1986 after a sluggish growth in 1985. [illegible] investment, which had been subdued since the latter ha[illegible] [illegible]84, resumed it vigor by recording a 15.0 per cent increase as machinery and equipment investment surged and construction investment rebounded. The high growth pace continued in the first half of this year. Business investment and exports of goods and services increased 18.2 per cent and 28.4 per cent, respectively, compared with the corresponding period a year ago, while consumption expenditures remained stable.

Prices and wages have remained stable since 1982 when the repercussions of the second oil shock subsided. The consumer price index rose only 13.4 per cent between December 1982 and this August, and the increase rate of wages in manufacturing industries has been sustained below 10 per cent annually between 1982 and 1986.

A number of developments, however, have clouded prospects for continued economic growth and stable prices. Domestically,

a wave of labor disputes erupted this summer, and although the labor unrest has subsided now, a process of restructuring labor- employment relationship has begun and the wage rise is expected to accelerate for many years to come. In 1987 alone, there was an average wage increase of 8 per cent during the first half of the year and the wage renegotiation during this summer added an increase of 10 per cent point or so. Unusually heavy rainfall this summer brought substantial flood damage to crops, particularly rice, which is Korea's staple foodgrain. Recent months saw a downturn in the leading indices of key economic indicators. Externally, trade friction is worsening as trade imbalances, especially trade surpluses with the U.S. and major European countries deepen. During the first nine months of 1987, the won appreciated 6.5 per cent. But the appreciation is likely to be accelerated in the future.

As a result, the pace of Korea's economic growth is expected to slow somewhat during the second half of 1987, and further beyond.

Moreover, the latter half of 1987 coincides with a period of political transition in Korea with the presidential election expected to be held in December. The uncertainty usually inherent in such a transitional period, the intensifying pressure to further open domestic markets and to appreciate the won, and the growing protectionist sentiments abroad against Korean products, pose a major challenge to the Korean economy.

2. Recent Changes in the Balance of Payments

Until 1985, Korea had been suffering from a perennial current account deficit that left it with a huge volume of external debt, even though the size of deficit continued to decline after 1980 as the adverse effects of the second oil shock were being absorbed. In 1986, however, the current account reversed to a surplus of U$ 4.6 billion due to a strong increase in exports and a rapid improvement in invisible trade, coupled with a mild increase in imports amid stabilized raw material prices. For the first eight months of this year, the current account surplus has continued to expand.

1) In 1985

Despite sluggish exports, the trade balance came near to an equilibrium thanks to reduced imports, bringing the current account deficit down to its lowest level since 1978.

During the year, merchandise exports on a balance of payments basis stood at U$ 26.4 billion, almost the same amount as the year before. Export volume increased marginally due to sluggish growth of the world economy and growing protectionist actions taken by major industrial countries against several key Korean export items. Export unit values dropped by 3.7 per cent because of the weak demand from abroad, the mounting competition among exporting countries, and the continuous depreciation of the Korean won.

By commodity group, exports of textiles, iron and steel products, and electronic products, excluding VCRs, remained dull because of heightened trade barriers. Furthermore, exports

of newly constructed ships declined sharply reflecting the worldwide stagnation in the marine transportation industry. Exports of motor vehicles, general machinery and footwear, however, showed relatively strong gains.

By destination, exports to the United States and Japan remained sluggish and those to Middle East countries decreased reflecting a decline in oil export earnings of those countries. Exports to European countries and Canada, on the other hand, increased substantially due to the strong demand for such new Korean products as motor vehicles and color TVs. Exports to developing countries picked up to some degree in the second half of the year.

Merchandise imports on a balance of payments basis decreased 3.3 per cent to U$ 26.5 billion compared with the preceding year. This decline was attributable to a slackened demand for both export and domestic-use imports and a decrease in international raw material prices which drew Korean import unit values down by 4.2 per cent.

By commodity group, imports of consumer goods, industrial supplies, and fuels decreased, whereas capital goods, especially general machinery, increased moderately.

As a result, the trade balance improved by more than U$ 1 billion during the year, nearly approaching a balance, after a continuous improvement of about U$ 0.8 billion per annum during the period 1981~84.

However, the invisible trade balance deficit widened to U$ 1.4 billion from U$ 0.9 billion in 1984 because a sharp reduction in net receipts from overseas construction.

Taken together, the current account deficit, which peaked at U$ 5.3 billion or 8.8 per cent of GNP in 1980, shrank to U$ 0.9 billion or 1.1 per cent from U$ 1.4 billion or 1.7 per cent in 1984.

In the capital account, the overall net capital inflow narrowed by U$ 1.3 billion, reflecting a reduction in the financing requirement in line with the current account improvement. The net inflow of the long-term capital account halved compared with the preceding year, and the short-term capital remained at a net outflow led mainly by a sharp increase in settlements on short-term trade credits for raw material imports. The net capital inducement by monetary institutions also shrank from the previous year's level.

The total external debt increased to U$ 46.8 billion at the end of 1985, up from U$ 43.1 billion a year ago. The debt structure improved as the share of short-term debt, with a maturity of less than one year, declined to 23.1 per cent of the total.

2) In 1986

The current account reversed to a surplus of U$ 4.6 billion as a result of a continuous trade balance surplus since March and a remarkable improvement in the invisible trade balance.

Merchandise exports picked up sharply from the beginning of the year and amounted to U$ 33.9 billion, an increase of 28.3 per cent compared with the previous year. Export volume expanded substantially while the unit value of exports rose slightly.

By commodity group, exports of machinery, electronic

products and automobiles in the heavy industrial product category, and textiles, footwear and toys in the light industrial product category recorded high increase rates. By destination, exports to the U.S. and European countries jumped markedly, and exports to Japan witnessed significant gains in the second-half of the year. On the other hand, exports to the Middle East, Africa and Central and South America slowed.

Merchandise imports stood at U$ 29.7 billion, only 12.3 per cent higher than the previous year. This resulted from a sharp decrease in crude oil prices and reduced demands for parts and materials by domestic firms.

The trade balance recorded a surplus of U$ 4.2 billion as the growth of exports clearly outpaced that of imports. Meanwhile, bilateral trade imbalances worsened.

The invisible trade balance closed the year with a slight deficit of U$ 628 million, an improvement of U$ 818 million compared with the previous year. The shrinking deficit was attributable to the considerable increase in travel receipts, as well as to the continuous decline in international interest rates. Also, net receipts of unrequited transfers showed a U$ 1 billion surplus.

To manage the increasing flow of liquidity from the foreign sector caused by the sizable current account surplus, the government discouraged the inducement of foreign loans on the one hand and encouraged the early redemption of foreign loans on the other, particularly those with unfavorable terms. The long term capital account swung to a large net outflow due to a reduction in foreign borrowings by development institutions

as well as to an increase in repayments of loans borrowed abroad. The short-term capital account recorded a net outflow for the third consecutive year. In consequence, the total capital account balance reversed to a net outflow of U$ 2.4 billion. In response to this, the external debt outstanding reduced slightly to U$ 44.5 billion at the year end.

3) In 1987

For the first eight months of this year, the current account continued to show further improvement, marking a surplus of U$ 5.7 billion. This was due to a continued increase in commodity exports and travel and overseas construction receipts and to a reduction in interest payments on the external debt.

The trade balance recorded a surplus of U$ 4.0 billion. Exports maintained a high increase rate of 35.2 per cent over the same period of the previous year, led by a rapid increase in exports of machinery, electronic products, and automobiles. Meanwhile, imports grew 25.8 per cent, well above the 1986 growth rate of 12.3 per cent. The increase in imports this year was centered on machinery, electrical parts and components and oil.

The invisible trade balance changed to a surplus of U$ 1.0 billion, from a U$ 0.7 billion deficit for the same period last year, thanks in part to a sharp increase in travel receipts and to a decrease in interest payments on the external debt.

Reflecting the surplus in the current account, capital transactions recorded a net outflow of U$ 2.7 billion as repayments of foreign loans increased and short-term private borrowings decreased.

However, circumstances influencing the balance of payments abruptly deteriorated in August. Due to labor disturbances which started in late July and swept across the nation, both the production and the shipment of exports were severely curtailed.

Exports declined from U$ 4.2 billion in July to U$ 3.4 billion in August. On the other hand, imports jumped 32.1 per cent to U$ 3.2 billion from U$ 2.4 billion in August 1986. The trade balance narrowed to a meager surplus of U$ 0.2 billion in August, down from U$ 0.9 billion in July.

Taking into consideration the protracted effects of the recent labor disputes, exports are expected to grow at a much slower rate than projected previously. Exports for the whole year are forecast to stand at around U$ 44 billion. Imports, however, are expected to expand at a rapid rate due to increasing raw material prices, import liberalization measures that are already in place and domestic supply shortages caused by this summer's labor disputes and damaging floods. The forecast for imports this year is about U$ 38 billion, up more than 30 per cent over last year.

As a result, the trade balance is likely to record a surplus of U$ 6 billion, slightly larger than last year.

On the other hand, the invisible trade and transfer balance this year is expected to mark another surplus, around U$ 2 billion for this year.

Accordingly, the current account is projected to mark a surplus of around U$ 8 billion.

3. Medium-term prospects

Even though the Korean economy has been showing a surplus in the current account since 1986, its balance of payments remains relatively fragile. The country relies totally on imported oil and has a heavy debt-service burden which is estimated at around U$ 9 billion per year for the next five years. Most critically, rapid increases in wages appear to be inevitable.

Korea has to import more than 200 million barrels of crude oil every year. This means that a one-dollar increase in oil price per barrel will deteriorate the trade balance by more than 200 million dollars.

The sizable external debt, which stands at around U$ 40 billion, strains the economy if interest rates rise in the world financial markets. A one-percent increase in interest rates adds 400 million dollars to the annual interest payments. Therefore, an abrupt rise in oil price concurrent with high interest rates, as was experienced during the past two oil shocks, would wipe out a substantial part of the current account surplus.

Furthermore Korea has to deal with the rapidly rising expectations of the workers for improved income which were manifest in the recent labor disputes. Increasing labor costs will reduce the international competitiveness of Korean products in a significant way. Since a large part of exports are labor intensive goods, the growth of Korean exports could very well falter in the wake of wage hikes.

As an additional factor, we need to consider the growing impact of liberalization of imports and invisible transactions.

Imports of goods and services are expected to show a rapid growth while exports to grow relatively slower than in the past.

Taking these factors into account, the current account surplus next year is projected to be much less than this year's.

II. Current System and Future Direction of Restrictions

1. Trade Policy

1) Enactment of the Foreign Trade Act

A. Background

In December 1986, the Korean government enacted the Foreign Trade Act, a basic law on trade designed to aid adaptation to new international trade environment and to minimize government's interference with trade procedures; thus promoting free trade under private sector initiatives and expanding trade under principles of fair trade.

Foreign Trade Act was enacted after resolution in National Assembly and Presidential proclamation in December 1986. It has been in effect since July 1987.

B. Major Improvements

Several restrictions on trade were removed, trade procedures were simplified, and trade restriction criteria were made more transparent. In addition, Import Relief System to safeguard the domestic industry from a surge of imports and Design Protection System to promote development in design and to enhance the quality of goods were introduced.

2) Simplification of Trade Procedure

A. Simplification of Trade Business License

To obtain a trade business license, a company was required to have capital of 10 million won and to export goods totalling 200 thousand dollars or more. The new law cut the capital requirement to half a million won and the export requirement to 20 thousand dollars.

Foreign companies do not have to undergo consultation with the Trade Commission when applying for a trade business license.

Another change is that if 50% or less of a company's capital is held by a foreign investor, it is now regarded as a domestic company. No differential treatment shall be made to such a company.

B. Improvement in Export Inspection

Number of items under export inspection was reduced from 561 to 445.

Export inspection is exempted for goods which are contracted to be put to buyer's inspection, which have acquired such foreign quality standard marks as UL, CSA, VDE, BS, or which amount to less than 10 thousand dollars.

As a result of this improvement, the amount of exports of textiles, footwear, and miscellaneous goods exempted from export inspection rose from 59 per cent in 1984 to 80 per cent in 1987, in value terms.

3) Import Liberalization

A. Background

Korea has vigorously pursued an open-market policy since the beginning of the 1980s in line with its plan to open the entire manufactured goods market by 1988.

In the past, private sectors were guided by the government so as to optimize production with limited resources.

Following Korea's rapid economic expansion over the past two decades, however, private sector initiative can now serve as a more effective means of promoting development.

Moreover, drastic changes in the world trade environment have urged Korea to strengthen its competitiveness through increased exposure to foreign competition by opening and liberalizing its domestic market.

B. Import Liberalization Drive

Import Liberalization Schedule

In 1985, the Korean government announced its Import Liberalization Schedule for 1986-1988. The objectives of this announcement were to open its market to foreign competition gradually and to give domestic industries a preparatory period for market opening.

The following table illustrates the Import Liberalization Schedule. The Import Liberalization Ratio is expected to reach 95.2% by 1988.

Korea's Import Liberalization Schedule

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

Progress in Liberalization

In line with its alreadey announced schedule, Korea has taken additional market opening measures since 1985, to liberalize imports of most industrial products on a step-by-step basis. The progress of these liberalizing measures can be seen in the following two tables.

Liberalization of Imports by Number

	'84	'85	'86	'87	'88
Total number of items(A)	7,915	7,915	7,915	7,911	7,911
Number of liberalized items(B)	6,712	6,945	7,245	7,408	7,541
Number of restricted items	1,203	970	670	503	370
Liberalization Ratio(B/A)	84.8	87.7	91.5	93.6	95.3

* Figure in 8 digit CCCN

Liberalization of Imports by Industry

	'84	'85	'86	'87	'88
Total	**84.8**	**87.7**	**91.5**	**93.6**	**95.3**
Primary products, food and beverages	75.8	78.2	79.7	79.9	80.2
Chemical goods	95.0	95.7	97.9	99.0	99.6
Steel and metal products	92.8	95.6	99.2	99.5	100.0
Machinery	78.0	83.0	89.5	93.6	100.0
Electrical & electronic machinery	62.4	73.8	86.9	96.6	100.0
Textiles	90.3	93.1	96.1	97.5	97.9
Miscellaneous	82.1	82.8	85.3	88.3	88.3

* Figures show Import Liberalization Ratio

C. Future Liberalization Schedule

Items to be liberalized in 1988 are estimated at 133, and those to be liberalized in 1989 and thereafter at 370, most of which are agricultural and fishery products, and some luxury items.

Market opening of agricultural and fishery products should be made with full consideration of its effect on these industries.

Korea's agriculture has special problems. It employs as much as a quarter of the country's working population and accounts for more than 60 per cent of rural income. Furthermore, the rural income lags behind the urban income, raising the issue of a widening rural-urban income disparity. Thus, the economic, social and political impact of agricultural import liberalization can be very disruptive. Accordingly, Korea plans to open its agriculture markets gradually, augmenting this policy with other rural development policy measures.

D. Import Surveillance System

The Import Surveillance System was established for the purpose of preventing injury to those industries that may arise from an influx of imports of certain items after liberalization measures were implemented.

However, this system has been virtually inoperative since its inception. Items under surveillance have been monitored but no negative measures have been taken.

The number of items under the Import Surveillance System is decreased every year and the system itself will be abolished by the end of 1988 and to be substituted by the Industry Relief System, which was introduced by the newly enacted Foreign Trade Act.

	'84	'85	'86	'87
Number of items under surveillance	127	111	106	48

E. Restriction under Individual Laws

These restrictions are established for public order or public health and are common to every country in the world in conformity with GATT regulations.

Korea does not operate these regulations for the purpose of import restriction. For example, imports may be put under examination of quarantine, model approval or specification as imposed by individual regulatory laws. Also, import regulations for public order are instituted under the Movie Act and the Music Disk Act; for human health and environment under the Pharmaceutical Act, the Quarantine Act and the Narcotics Act; for social security under the Atomic Act and the Weaponry Control Act. Still, it should be noted that some of these regulations may have an incidental effect of restricting imports and efforts are underway to improve the administration of these laws to minimize this effect. Thus, for example, the Industrial Products Quality Control Act, the Industrial Standardization Act, the Pharmaceutical Act and the Food Sanitation Act will be revised soon for this purpose.

Import restriction under individual laws will become more transparent with regard to application criteria and will continuously be diminished in number in compliance with international standards. Korea liberalized 358 items from restriction under individual laws in July of this year.

	'84	'85	'86	'87
Number of items under individual laws	1,857	1,944	2,071	1,713

4) Promotion of Fair Trade

The newly enacted Foreign Trade Act introduced a new system banning the infringement of patent, trade-mark, or other intellectual property rights in compliance with international practices.

In response to a report from any domestic or foreign trader, producer, or any other concerned person, the Minister of Trade and Industry may investigate an alleged infringement and advise correction, or for a grave offense resulting in an obstacle to trade, may suspend trade business license for a period of up to one year.

5) Import Relief System

With the passage of the Foreign Trade Act, the Import Relief System was established. In substitution of direct measures of import restriction to protect domestic industries from sharp increases of imports, the new Act introduced an indirect, ex-post facto measure in accordance with GATT's policy.

If injury arises or is expected to arise to a specific domestic industry through an import surge of a specific item, a producer, a labor union or any body of interest may request an investigation of the effect on the industry. With an affirmative result from the investigation, measures may be taken to lay restrictions on quantity or quality of goods imported or to support that domestic industry for a period of 5 years or less.

This restriction is applied equally to every country, not to any specific country which caused the injury concerned.

The restriction or support made out for import relief is reviewed every year to determine whether or not such measures should be continued.

2. Tariff Policy

1) Tariff reduction

Korea has been reducing tariffs according to a five-year schedule, adopted in 1983, that noticed tariff reductions through 1988 in advance. As a result, the simple average tariff rate for manufactured goods was lowered from 20.6% in 1984 to 18.7% in 1987, and to 16.9% in 1988. Various tariff rates were also restructured and by 1988 a standard 20% tariff will be applied to about two-thirds of all manufactured goods. This schedule is consistent with the government's import liberalization program.

In addition, the Korean government decided to further reduce tariffs this year. Tariff rates on 157 items, including grapes and nuts, were lowered by 5 to 30 percentage points on July 1, 1987, and rates on additional 132 items, including spearmint oil and ABS resins, will be reduced by 5 to 10 percentage points, effective January 1, 1988.

In the future, the Korean government will also share the opportunity with other Contracting Parties to GATT to reduce tariff rates by participating in tariff negotiations under the Uruguay Round for the purpose of stemming protectionism and liberalizing world trade.

However, it should be taken into account that Korea has some restrictive factors to an early and sharp reduction of tariff rates. Among them are the excessive external debt burden amounting to approximately U$ 40 billion and various uncertainties regarding Korea's balance of payments prospect.

With these in mind, the Korean government, therefore, will examine the possibility of further tariff reduction in the future.

2) Flexible tariff system

There are three types of flexible tariff systems designed to deal with short-term changes in the economic environment: Tariff Quota, Emergency Tariff, and Adjustment Tariff. These tariffs are temporary in nature and are applied with an effective period of 6 months on a restrictive basis.

The Tariff Quota System allows for a temporary cut on tariff rates of up to 40% on certain amounts of imports in order to meet a surge of import demand and to stabilize domestic prices. As our balance of payments position has been improving, the government has expanded operation of the Tariff Quota System as a tool to encourage the importation of goods through tariff reductions. The number of items subject to this system has increased from 8 in 1984 to 106 in 1987. In the future, the government, if it is thought necessary to liberalize imports, will judiciously operate this system.

Regarding the Emergency and the Adjustment Tariff Systems designed to tentatively increase tariff rates, the governmnet has remained self-restrained in operating these systems and, if possible, will continue to do so.

The number of items subject to these systems is as follows:

Tariff System	'84	'85	'86	'87
Emergency Tariff	48	13	7	5
Adjustment Tariff	14	17	7	5

Crude oil and petroleum products are excluded

3. Exchange Control System

1) Major Changes in Exchange Control System

As Korea's balance of payments position improves, the government gradually prepares to enact an open-door policy for its foreign exchange control system.

Since 1985, the government has revised the foreign exchange control system several times to meet the changing economic environment. These revisions are made to ensure the efficient activity of the private sector in international transactions.

Major changes include relaxation of controls on invisible trade payments and improvement of the overseas and foreign direct investment systems.

A. Relaxation of Control on Invisible Trade Payments

The government significantly relaxed controls on invisible trade payments during 1987.

Most service contracts, such as employing non-residents, introducing copyrights and publication rights, receiving services related to machine and equipment installments and repairs, etc. could be made without prior permission.

The limit on the overseas travel allowance for invited travellers and children was increased to U$ 2,000 per person from U$ 1,000, and additional expenses of no more than U$ 1,000 were allowed for persons travelling to countries of steeply appreciating currencies.

Meanwhile, authorization for invisible trade payments, such as remittances of foreign worker's salaries, advertisement expenses, retirement annuities, fines imposed by foreign courts, etc. and authorization for emigration expenses and other transfer actions were simplified.

Effective October 1 of this year, financial futures transactions were allowed to help Korean firms deal with the risks arising from rapid fluctuations in exchange rates and in interest rates in the international financial market. Considering the expanding business volumes of Korean firms and their exposure to foreign exchange risks, it is necessary to introduce various financial instruments to help firms hedge such risks effectively.

B. Foreign Investment

Since the Negative System was adopted in July of 1984, the areas approved have been gradually extended.

On April 6, 1987, twenty-six additional manufacturing industries were opened to foreign investors with their removal from the Korean government's "Negative List". With this revision, foreigners may now invest in 97.5 percent of Korea's manufacturing industries, thus making the manufacturing sector almost completely open. Likewise, the combined percentage for all industrial sectors has now increased to 78.9 percent.

Of the twenty-six newly opened industries, foreign investors can hold 100 percent of the equity share in eighteen of them and must form joint ventures with existing Korean companies in the other eight. In addition, one industry (dyeing processing industry) that had already been open to unrestricted foreign investment before the April 6 revision is now open to only joint venture investment with an existing Korean company.

C. Improvement of Overseas Investment System

The government has enacted various measures since 1985 to encourage overseas investment.

Overseas investments not exceeding U$ 500 thousand are now subject to automatic approval if basic requirements set by the governor of the Bank of Korea are met. Overseas investment projects of more than U$ 3 million, up from the previous level of U$ 0.5 million, require advance deliberation by the Overseas Investment Deliberation Committee.

The government also institutionalized new categories of overseas investment, including investment in joint projects concerned with resources exploitation and high technology development and portfolio investments with non-management purposes.

2) Future Direction

An open-door policy of internationalization in the exchange control system will be continued. The government will relax foreign exchange controls to the level of OECD countries if the current account continues to record a surplus as it has in the recent past. Liberalization in foreign investment into Korea and overseas investment will also be expanded.

Table 1

Key Economic Indicators in Korea

(%)

	84	85	86	87.1~6
Gross domestic product	8.6	5.4	11.9	13.5
Agriculture, forestry & Fishing	0.2	4.8	4.4	1.4
Mining & manufacturing	14.5	3.9	16.8	17.9
(Manufacturing)	14.8	3.8	17.4	18.6
Other industries	9.2	7.7	11.4	12.7
Gross national product	8.4	5.4	12.5	15.3
Total consumption	5.2	5.1	6.7	7.5
(Private consumption)	(6.0)	(4.9)	(6.3)	(6.7)
Total investment	18.6	1.6	10.5	18.2
(Fixed capital formation)	(10.7)	(4.4)	(15.0)	(14.7)
Exports of goods and non-factor services	10.0	2.1	26.6	28.4
Imports of goods and non-factor services	10.1	-1.7	18.6	20.6
Consumer prices	2.3	2.5	2.3	2.3
Wages in manufacturing Industries	8.1	9.9	9.2	4.2
Unemployment rate* (Non-farm)	4.9	4.9	4.7	4.5
Money supply(M2)**	7.7	15.6	18.4	18.2
Exchange rate(W/U$)**	827.4	890.2	861.4	808.9

* Period average
** End of period

Table 2

Debt Outstanding and Repayments

Billions of US dollar

	84	85	86	Jul.87
External debt	43.1	46.8	44.5	39.4
Medium & long term	31.7	36.0	35.3	30.6
Short term	11.4	10.7	9.3	8.8
Repayments*	3.0	3.4	5.9	7.4

* Includes principal repayments of medium and long term debt only.

Table 3

Balance of Payments

Millions of US dollar

	84	85	86	87.1~8
I. Current Balance	-1,373	-887	4,617	5,676
Trade Balance	-1,036	-19	4,206	4,001
Exports	26,335	26,442	33,913	28,228
(rate of change)	(13.5)	(0.4)	(28.3)	(35.2)
Imports	27,371	26,461	29,707	24,227
(rate of change)	(9.6)	(-3.3)	(12.1)	(25.8)
Invisible(net)	-878	-1,446	-628	1,005
Transfers(net)	541	578	1,039	669
II. Long-term Capital	2,067	1,101	-1,982	-2,323
Loans & Investments	2,454	2,221	2,978	1,857
Amortization	-1,768	-1,832	-2,532	-2,311
Borrowings of Development Banks	906	957	-749	-1,739
Others	477	-245	-1,679	-130
III. Basic Balance	695	213	2,635	3,352
IV. Short-term Capital	-756	-588	-392	-366
V. Errors & Omissions	-894	-880	-544	436
VI. Overall Balance	-958	-1,255	1,670	3,422
VII. Financial Account	958	1,255	-1,670	-3,422
Liabilities	1,791	1,266	-1,473	-3,224
IMF Credit	319	-235	-126	-196
Bank Loans	522	623	-569	-2,516
Refinance	-297	-540	-1,837	-1,426
Others	1,247	1,418	1,059	914
Assets	833	12	226	196
Change of Holdings	740	99	206	192
Others	93	-87	20	4
VIII. Foreign Exchange Holdings of Banking System	7,650	7,749	7,955	8,147

Note: 1) Includes exports by deferred payments and long-term trade credits, etc.
2) Includes short-term trade credits, exports on credit, and advance for exports, etc.
3) Includes inter-office a/c of foreign bank branches, non-resident deposits, overdraft, etc.
4) Includes assets of foreign bank branches, etc.

Table 4

Exports by Commodity Group*

Millions of US dollar

Commodity Group	85		86		87.1~8	
	Amount	Increase rate(%)	Amount	Increase rate(%)	Amount	Increase rate(%)
Foods & direct consumer goods	1,259	-1.9	1,684	33.8	1,334	35.0
Raw materials & fuels	1,374	6.8	1,199	-12.8	960	25.5
Light industrial products	11,174	0.5	14,451	29.3	12,378	35.7
(Textile goods)	6,627	-1.2	8,229	24.2	7,026	33.6
(Plywood)	145	-20.1	197	35.8	177	48.3
(footwear)	1,525	13.5	2,044	34.0	1,633	21.7
Heavy & chemical products	16,476	5.9	17,381	5.5	14,055	32.0
(Iron & steel)	3,328	-4.0	3,355	0.8	2,270	13.0
(Machinery)	1,378	28.8	1,935	40.1	1,801	53.3
(Electronic products)	2,907	-10.0	4,169	43.4	3,859	52.2
(Ships)	5,040	7.6	1,815	-64.0	672	-40.9
(Auto)	768	143.8	1,655	115.5	1,799	106.1
Total	30,283	3.6	34,715	14.6	28,727	33.5

* Customs clearance basis

Table 5

Imports by Commodity Group*

Millions of US dollar

Commodity Group	85		86		87.1~8	
	Amount	Increase rate(%)	Amount	Increase rate(%)	Amount	Increas rate(%)
Food & direct consumer goods	1,637	-13.0	1,670	2.1	1,178	6.2
Grains	964	-11.0	916	-4.9	636	2.4
Direct consumer goods	673	-23.3	754	12.1	542	11.1
Raw materials & fuels	17,402	-1.1	17,165	-1.4	14,095	25.6
Crude oil	5,572	-3.8	3,345	-40.0	2,284	-4.8
Raw materials	11,830	0.3	13,819	16.8	11,811	33.9
Capital equipment goods	11,081	9.6	11,326	2.2	9,121	23.6
(Non-electric machinery)	3,442	8.9	4,616	34.1	3,776	23.5
(Electric & electronic)	3,013	-5.6	4,351	44.4	3,578	28.3
(Transportation equipment)	3,895	26.2	1,157	-70.3	722	-0.5
Consumer goods	1,014	-0.4	1,422	40.2	1,299	43.7
Total	31,136	1.6	31,584	1.4	25,693	24.6

* Customs clearance basis

Table 6

Exports by Country*

Millions of US dollars

	85		86		87.1~8	
	Amount	Increase rate(%)	Amount	Increase rate(%)	Amount	Incease rate(%)
U.S.A.	10,754	2.6	13,880	29.1	11,353	27.2
Japan	4,543	-1.3	5,426	19.4	4,781	51.7
Saudi Arabia	969	-2.2	855	-11.7	699	17.1
W.Germany	979	6.0	1,242	26.8	1,249	63.9
Hong Kong	1,566	22.2	1,691	8.0	1,334	9.4
U.K.	913	-4.4	1,034	13.2	931	41.7
Indonesia	195	-23.2	179	-8.2	146	28.1
Netherlands	345	-7.5	503	45.8	480	37.9
Canada	1,229	39.9	1,247	1.5	928	11.4
France	316	9.7	543	71.9	502	25.5
Others	8,474	3.1	8,115	-4.2	6,324	40.3
Total	30,283	3.6	34,715	14.6	28,727	33.5

* Customs clearance basis

Table 7

Imports by Country*

Millions of US dollars

	85		86		87.1~8	
	Amount	Increase rate(%)	Amount	Increase rate(%)	Amount	Increase rate(%)
Japan	7,560	-1.0	10,869	43.8	8,812	25.8
U.S.A.	6,489	-5.6	6,545	0.9	5,475	23.0
Saudi Arabia	640	-53.7	634	-0.8	651	34.8
Kuwait	523	8.3	216	-58.7	115	-28.1
Australia	1,116	1.9	1,080	-3.3	784	7.7
W.Germany	979	23.1	1,216	24.2	1,148	41.2
Indonesia	669	2.4	428	-35.9	542	83.1
Malaysia	1,234	22.8	902	-26.9	657	9.3
Canada	630	-1.1	709	12.6	564	23.4
Taiwan	333	-1.8	431	29.4	481	58.2
Others	10,963	12.7	8,554	-22.0	6,464	1.6
Total	31,136	1.6	31,584	1.4	25,693	18.6

* Customs clearance basis

Table 8

Index of Foreign Trade and Terms of Trade*

1980=100

	Quantum Index		Unit Value Index		Net Barter Terms of Trade	Income Terms of Trade
	Exports	Imports	Exports	Imports		
1974	40.0	49.1	63.8	62.5	102.1	40.8
1975	49.0	50.4	59.2	64.3	92.1	45.1
1976	66.5	62.4	66.2	63.0	105.1	69.9
1977	79.2	75.2	72.4	64.4	112.4	89.0
1978	90.6	98.4	80.1	68.0	117.8	106.7
1979	89.7	110.0	95.8	83.1	115.3	103.4
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	117.5	111.1	103.2	105.4	97.9	115.0
1982	125.1	111.4	99.7	97.6	102.2	127.9
1983	145.5	126.2	95.9	93.0	103.1	150.0
1984	168.2	145.9	99.2	94.2	105.3	177.1
1985	181.0	154.8	95.5	90.2	105.9	191.7
1986	204.6	167.6	96.9	84.5	114.7	234.7
1987 1st half	232.2	191.5	103.1	87.3	118.1	274.2

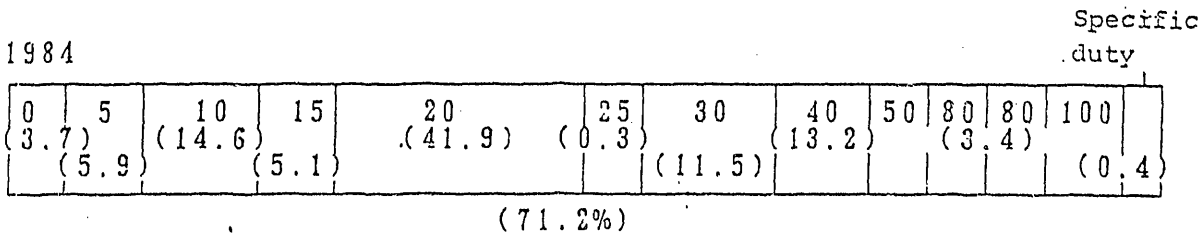
* Customs clearance basis

Table 9 Trend of average tariff rates

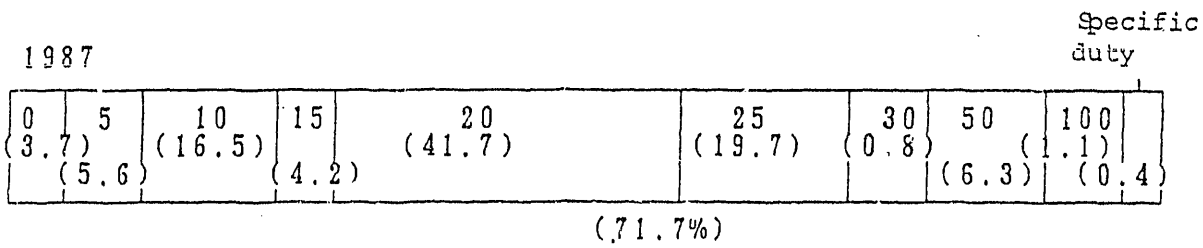
	'84	'87	'88
Total	21.9	19.3	18.1
Industrial Products	20.6	18.2	16.9
Agricultural Products	29.6	26.4	25.2

Table 10 Trend of tariff rates distribution

1984



1987



1988