ACCESSION OF KOREA
Replies to Questionnaire

Addendum

The following are the replies of the Government of Korea to the second lot of questions addressed to it.

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

20. Question What criteria are employed in classifying import commodities into the five categories under the Trade Plan, and are such classifications subject to change?

Answer The criteria employed in classifying import commodities into the five categories under the Trade Plan are based on the characteristics of the import commodities. Import commodities are classified into "automatic approval", "semi-restricted", "restricted", or "prohibited" categories in accordance with the degree of essentiality or necessity of the import commodities contributing to the implementation of the programmes and policies of economic development and to public health and social order. "Non-specified items" are those which are not specified in the Trade Plan, because there is no import record on such items due to lack of import demand.

Such classifications of import commodities are subject to change depending on change of degree of essentiality or necessity mentioned above and also may be subject to change for price stabilization and quality improvement of domestic products.

21. Question According to information received imports are liberalized up to 80 per cent. Has this liberalization any concrete implication seen in the light of existing exchange restrictions?

Answer Though the exchange restrictions under the foreign exchange supply-and-demand programme limit the total import scale, the rate of import share under automatic approval system in the total imports is relevant to import liberalization,
because the import authorization for the automatic approval items is issued automatically by foreign exchange banks upon application without any limitation as to quantity or value. And the foreign exchange supply-and-demand programme may be subject to change according to increases of foreign exchange earning and import demand.

22. Question Is it possible to remove completely the licensing requirements for some of the imports under the category "automatic approval items"?

Answer The import authorization for the automatic approval items is approved automatically by foreign exchange banks upon application. Therefore, it is not considered at present to eliminate completely the licensing requirements of the items.

23. Question What is the trade régime for importation under the United States AID financing?

Answer For importation under United States AID financing, the trade régime for importation under KFX financing is equally applied except that the supply source is limited to the United States.

24. Question Specifying the use of United States AID funds for importation of certain commodities would have the effect of automatically limiting their supply source even if the commodities concerned are classified as "automatic approval items". What is the reason for designating such commodities as automatic approval items?

Answer As stated above in the answer to Question 20, all import commodities are classified, regardless of the sources of financing, into "automatic approval", "semi-restricted", "restricted", or "prohibited" categories in accordance with the characteristics of the import commodities.

25. Question In spite of formal free listing the imports of sulphate and sulphite pulp seem to consist only of imports financed by AID funds. Is it considered necessary to restrict all other imports of such pulp?

Answer The supply sources of sulphate and sulphite pulp is limited inevitably at present to the United States as long as the AID fund for importation of the item is available. However, when the AID fund for importation of the item is exhausted, and if there is further import demand for the item, the item can be imported under KFX financing without any discrimination as to the supply sources.
26. Question  For the "semi-restricted items" requiring prior recommendation of the competent Ministry, what, if any, are the criteria for the issuance of recommendations?

Answer  The criteria for the issuance of recommendation of the competent Ministry for importation of the "semi-restricted items" vary because they are decided by the competent Minister in accordance with the degree of essentiality or necessity of the import commodity as stated above in the Answer to Question 20.

27. Question  Of the "non-specified residual items", has there been any actual import applications or importation, and if so, what are the quantities, sources of supply and the years?

Answer  As a principle "non-specified items" can be imported when they are specified in the Trade Plan. Nevertheless, raw materials of goods for foreign exchange earning, and machinery and parts thereof can be imported without going through the procedures to be specified in the Trade Plan.

The "non-specified items" have been imported without any discrimination as to the supply sources as in the case of the specified items. However, the import record on such items is not available at present since it is not compiled separately.

28. Question  What is the purport of the standard, maximum and minimum prices stipulated under Article 13 of the Trade Law and the actual mode of their application?

Answer  The standard, maximum and minimum prices of certain export and import commodities under Article 13 of the Trade Law are provided for to promote sound international transactions through maintaining reasonable prices of the export and import commodities.

Such standard, maximum and minimum prices are set by the Minister of Commerce and Industry through deliberation of the Export-Import Price Research Committee, and announced publicly once a month. Export and import authorizations of those, for which the standard, maximum and minimum prices are set, are approved within the ranges of the prices set.

29. Question  According to information received only authorized firms (which are also engaged in exporting) are allowed to import. Which are the reasons for limiting the possibilities of other firms to import?

Answer  See the Answer to Question 9.
30. **Question**  Is it possible that the right to import can be extended to other firms than the authorized foreign trade enterprises, a.i. commercial agents and representatives of foreign enterprises?

**Answer**  The right to import can be exercised only by the registered foreign traders.

31. **Question**  Are there any restrictions in Korea regarding the right to store imported goods?

**Answer**  There is no restriction in Korea concerning the right to store imported goods.

### B. Export regulations (Section V of L/2657)

32. **Question**  Are there any other export subsidies than those indicated?

**Answer**  Besides those indicated in the trade memorandum, a measure to be regarded as an important export promotion measure is a preferential export loan of W 200 per US$1 of export letter of credit for sixty days at the interest rate of 6.5 per cent per annum.

33. **Question**  Does the whole export industry benefit from the indirect advantages referred to?

**Answer**  Except the discount on the public utility charges according to the export of mining products, the export promotion measures referred to are applied to the whole export industry.

34. **Question**  Is it the intention that this system be maintained even after an accession to GATT?

**Answer**  See the Answer to Question 12.

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

35. **Question**  Can it be understood that further measures for trade liberalization are to be taken with the advance of Korea's industrialization and economic development?

**Answer**  The existing tariff structure of Korea will be wholly readjusted and tariff rates will be maintained at rational level, when industrialization and improvement of the balance of payments as well as trade liberalization are achieved through the success of the economic development plan which is being carried out.
36. Question What is the tariff treatment accorded to goods and commodities imported under various aid or economic cooperation programmes extended to Korea on loans or grants basis?

Answer The tariff treatment accorded to goods and commodities imported under loans or grants basis are same as any other imports, and no preferential or discriminatory treatment is accorded.

37. Question What criteria are used in classifying commodities into the first and second categories under the Special Customs Act? A concrete and detailed description of the mechanism employed in levying and collecting the duties would be appreciated.

Answer 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 (the first category) and 70 per cent on the items with customs tariff rates of less than 40 per cent (the second category).

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 total amount which is composed of normal arrival price, customs duties, commodity tax, normal expenses, and normal profit (30 per cent of normal arrival price). Duty-free or duty-exempted goods, however, are not subject to the Provisional Special Customs Law.

38. Question What are the views of the Government of Korea on the restraining effects of the special duties on imports?

Answer The Provisional Special Customs Law was enacted as a tentative supplementary measure to stabilize the foreign exchange rate and to implement effectively the economic development plan by improving the balance of payments when the existing floating exchange rate system was adopted on 3 May 1964 in place of the fixed exchange rate system.

The restraining effects of import was not intended through enforcement of the Provisional Special Customs Law. Importers may import any commodity in demand so far as its import is approved under the Trade Plan.

The wholesale price of imported goods in Korea has been gradually stabilized at the level on which the special customs duties are not dutiable.
39. Question Are the special duties taken into account in computing the weighted average of tariff rates? If not, what would be the incidence of average tariff rates when the special duties are taken into account, and what actual application has been made to date of the special duties?

Answer The provisional special customs duties are not taken into account in computing the weighted average of tariff rates of 1965. The weighted average of tariff rates of 1965 would be 10.3 per cent, if the provisional special customs duties were taken into account.

The kind of commodities on which the provisional special customs duties are applicable is not fixed but dependent on the level of quotation. In general, therefore, non-essential items (perfumery, synthetic fibre, etc.) become subject to the special customs duties, while products which are imported in a large quantity as a single item to meet basic necessities of daily life (wheat, raw cotton, beef tallow, caustic potash, rayon yarn, raw sugar, etc.) are not.

The total amount of the special customs duties collected in 1964 (from July to December) was US$5,510,000 (₩ 1.5 billion), and US$14,700,000 (₩ 4 billion) in 1965.

40. Question Does the Korean Government intend to abolish the special duties in the near future?

Answer The Provisional Special Customs Law will be abolished when the balance of payments and the existing floating exchange rate system improves and becomes stabilized.

41. Question What is the relationship between the special duties and Korea's offer for tariff concessions? Would items bound in GATT be also subject to the special duties?

Answer The most-favoured-nation clause will apply as far as the offer items for tariff concessions are concerned, regardless of the special customs duties.

The special customs duties will be levied even on the items bound in GATT whenever an excess profit is realized. The revision of the Provisional Special Customs Law, however, is now under consideration to provide GATT contracting parties with the benefits of the tariff concession.
D. **Foreign exchange system (Section VII of L/2657)**

42. **Question** Since the adoption in March 1965 of the floating exchange rate system, the exchange rate has been stabilized at around W 270 per United States dollar, does the Government of Korea have any plans for introducing the fixed exchange rate system?

**Answer** Since the floating exchange rate system was adopted as a temporary measure to achieve stabilization of the exchange rate, a fixed exchange rate system will be re-adopted as soon as the exchange rate stabilizes. As yet the Korean Government, however, has no specific plan to re-adopt a fixed exchange rate system at present.

43. **Question** What are the measures taken for the stabilization of the exchange rate under the present system?

**Answer** The following measures are taken for the stabilization of the exchange rate:

(a) **Issuance of foreign exchange certificates**

Exchange certificates are issued against all foreign exchange earnings and gold in order to augment the supply of foreign exchange in the foreign exchange market except for sales of local currency to the United Nations forces stationed in Korea.

(b) **Import liberalization**

Imports have been gradually liberalized to stabilize the price of import goods.

(c) **Provisional special customs duty**

The provisional special customs duty has been imposed as a complementary measure for the stabilization of the price and foreign exchange rate.

(d) **Financial stabilization programme**

In order to prevent the depreciation of the local currency through inflation, a ceiling for the money supply is set each quarter, and the increase in the money supply is allowed within the ceiling.