GENERAL AGREEMENT ON
TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

DRAFT REPORT ON THE CONSULTATION UNDER ARTICLE XVIII:12(b)
WITH THE REPUBLIC OF KOREA

1. In accordance with its terms of reference, the Committee has conducted a consultation with the Republic of Korea under Article XVIII:12(b). The Committee noted that the previous consultation with Korea under the same provisions had been held in March 1969 (BOP/R/30 and BOP/90). In conducting the present consultation the Committee had before it: (a) a basic document supplied by the Government of Korea (BOP/117) together with certain statistical material (Spec(71)4.0); and (b) a Decision taken by the IMF Executive Board on 13 January 1971 concerning Korea (Spec(71)44) and (c) a paper containing background material, dated 3 December 1970, supplied by the Fund.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (see L/3388). The consultation took place on 17 June 1971. The present report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with this consultation with Korea. In accordance with the agreed procedures, the representative of the Fund made a statement concerning the position of Korea, as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of January 13, 1971 taken at the conclusion of its most recent Article XIV consultation with Korea, and particularly to paragraphs 4 and 5 which read as follows:

'4. The growth of imports was substantially reduced in 1970 primarily as a result of the stabilization measures, and the trend of increasing trade deficits was reversed. However, the current deficit is still large, and some uncertainties have emerged for Korea's exports
of goods and services. The Fund urges that firm policies of containing domestic demand and external borrowing be continued in 1971 so as to accelerate improvement of the balance of payments and to establish a more manageable level of external debt servicing.

"The Fund notes that the Korean authorities intend to review the existing complex exchange and trade arrangements during 1971. The Fund welcomes the further progress made in liberalization of restrictions on current payments and urges that a more effective exchange rate policy be implemented."

"At the present time the general level of restrictions of Korea which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves."

Opening statement by the representative of Korea

4. In opening the consultation the representative of Korea made a statement as follows:

"I have the privilege of presenting the basic document prepared by the Government of the Republic of Korea for today's consultation in compliance with the provisions of the General Agreement. The basic document, BOP/117, which is before the Committee presents information on Korean exports and imports as well as the system of import controls under eight different headings. Although our basic document speaks for itself, I would like to briefly touch upon the balance-of-payments situation and other matters of concern in foreign trade of my country since the last GATT consultation in March 1969.

"During the years 1969-1970, Korea's exports have continued to expand rapidly as a result of vigorous export promotion efforts made by the Government and the people. Manufactured and semi-manufactured goods have become the major exports for Korea, representing 84 per cent of total exports in 1970, compared with 79 per cent in 1969. Korea trades with over 100 countries including both developed and developing countries in all parts of the world.

"On the other hand, however, imports have also increased owing to the continuing demand for capital goods and raw materials indispensable for the implementation of the current Economic Development Plan (1966-1971)."
Despite a high rate of export expansion, Korea has continued to experience a considerable trade imbalance as shown in section 7 of the basic document even though the trade deficit declined slightly in 1970 compared with that of the previous year. Such a trend of imbalance is likely to continue for some time as the country will be implementing the Third Five Year Economic Development Plan from 1972.

"In these circumstances, the Korean Government has been obliged to maintain some restrictive measures on imports of commodities considered to be non-essential in the light of its economic development plan, although it has continued to pursue a policy of trade liberalization as far as the balance-of-payments situation permits since the adoption of the negative list system in July 1967. Needless to say these restrictions have been motivated by the desire to safeguard the balance-of-payments position which is vital to the stability and healthy growth of the Korean national economy.

"In order to improve the balance-of-payments position, the Korean Government has continued to make every possible effort to expand its exports. As is well known to many people abroad who take a keen interest in the matter of trade expansion, the President of the Republic of Korea himself personally presides over the high level monthly meeting on export promotion which is attended not only by Government officials concerned, but also by many representatives of trade and industry; the purpose of these meetings is to explore ways and means of facilitating the expansion of exports in the light of the changing world market conditions. In this connexion, I would like to emphasize that the future expansion of Korea's exports depends very much on the good understanding and friendly co-operation of the developed importing countries. In reality, however, exports from Korea still encounter various obstacles - mostly non-tariff barriers - maintained by the developed countries. My country has advocated very strongly on numerous occasions an early solution of the problem of quantitative restrictions and other similar problems in the spirit of GATT, particularly in the light of Part IV of the Agreement. The results so far attained fall short of our expectations. With regard to expansion of Korean exports, my
country attaches much significance to the adoption at UNCTAD of the Generalized Scheme of Preferences and hopes that all the donor countries will implement their preferences under the scheme this year without undue delay.

"In this connexion, my country hopes that the developed countries will give favourable consideration to the various suggestions that the developing countries have put forward on product coverage, depth of cut and rules of origin so as to ensure developing countries such as Korea enjoy easier access to the markets of developed countries.

"In concluding my statement, I should like to express the earnest belief that through an examination of the documents we have presented and in the light of further explanations which we may be called upon to furnish, the Committee will find that the general level of the import restrictions maintained by the Republic of Korea does not go beyond the extent necessary in terms of the relevant provisions of GATT.

"Finally, Mr. Chairman, I wish to express my thanks and those of my delegation to the GATT secretariat and IMF for their collaboration in the preparation for this consultation. Now, my delegation is ready to answer any questions that your Committee may wish to raise on any aspects of the subject."

**Balance-of-payments position and prospects**

5. Members of the Committee expressed satisfaction over the remarkable performance of the Korean economy in recent years. The GNP increased by 9.7 per cent in 1970; although this rate of growth was somewhat lower than the 13.3 per cent and 15.9 per cent of the two preceding years, it should be regarded as gratifying, since the slowing down seemed to have been the direct results of the Government's stabilization efforts which had reduced the rate of investment and limited gross domestic capital formation. Indeed, the Government of Korea should be commended for the effective action that it had taken to restrain domestic inflation and to counter the difficulties which had inevitably arisen in the implementation of an ambitious economic development plan aimed at a high rate of growth. The
results of this programme had permitted a rapid expansion of exports and helped substantially to improve the balance of trade. Particularly impressive had been the growth of exports which, at $835 million in 1970, represented an increase of more than 34 per cent over the 1969 level and was more than seven times the total in 1964. It might be noted that whereas in 1968 and 1969 the rate of growth of exports had been substantially below that of imports, the position had been reversed since 1968. It was also gratifying to see that close attention was being paid by the Korean authorities to the problem of debt accumulation. Quite apart from the deliberate measures taken to encourage the inflow of foreign capital, the sound economic policies pursued and the healthy economic climate had made Korea an attractive market for foreign investment. However, members of the Committee urged Korea to continue the firm management of domestic demand and stabilization policies.

6. In response to these commendatory expressions, the representative of Korea remarked that while undoubtedly these achievements and the progress were largely the results of the joint efforts of the Korean Government and people, they would not have been possible had it not been for the encouraging moral support and substantial material assistance that Korea had received from friendly foreign countries. He expressed the hope that such support and assistance would continue to be forthcoming, and that further improvements could be made by the developed countries in the access to their markets.

7. In discussing this question of trade barriers in developed countries affecting the exports of developing countries, a member of the Committee expressed the view that the Generalized Scheme of Preferences which had recently been agreed upon, when implemented by the developed countries, would surely make a considerable contribution in this regard, and would be of considerable benefit to a country such as Korea which had made enormous progress in industrial development and whose exports now consisted largely of manufactures and semi-manufactures. The European Communities pointed out that they would be introducing the preferences which they had agreed to grant under the Scheme on 1 July 1971. The hope was also expressed that the recommendations of the Group of Three, when implemented, would also serve to consolidate the progress that had been made by the contracting parties in the liberalization of trade in the interest of developing countries.
8. The Australian representative indicated that his Government intended shortly to increase certain quota allocations under the Australian preference scheme for developing countries. The Korean representative expressed gratitude for the initiative taken by Australia in introducing the first general preferential system in favour of developing countries, but suggested that consideration might be given by the Australia Government to the possibility of modifying certain aspects of the system so as to provide greater and more equitable benefits for developing countries such as Korea. He noted that the issues involved - the product coverage of the system and the size of the quotas provided - had been discussed bilaterally between the two countries.

Alternative measures to restore equilibrium

9. It was noted that at the conclusion of its 1970 consultation with Korea, the IMF Executive Board had urged, in January 1971, that "firm policies of containing domestic demand and external borrowing be continued in 1971 so as to accelerate improvement of the balance of payments and to establish a more manageable level of debt servicing". Invited to comment on any action taken in 1971 along these lines, the Korean representative replied that various measures had been taken by his Government to restrain the growth of external debt. The ratio of annual debt service obligations to foreign exchange earnings tended to rise until 1972 but would begin to decline after that year (the ratios being 8.9 per cent in 1969, 11.8 per cent in 1970, 14.2 per cent in 1971, 15 per cent in 1972 and 13.7 per cent in 1973). Total external debts amounted to $101.8 million at the end of 1969 and $159.7 million at the end of 1970 and were estimated to reach $230.6 million at the end of 1971.

10. A member of the Committee noted that since 1969 there had been a marked decline in the rate of growth of investment in Korea which appeared to have been deliberately brought about by the authorities in the interest of stabilization and which might reflect a retrenchment from the excesses - in investment as in other fields - of the preceding years. He wished to know whether the curtailment of investment, while it undoubtedly would contribute to lessening import demand in the short run, might not have a negative effect on export production and consequently be detrimental to the balance of payments in the long run. The
representative of Korea assured the Committee that care had been taken to avoid damage to export production. For example, foreign currency allocations for import requirements of export industries (capital equipment, raw materials, etc.) had been raised from $302 million in 1969 to $404 million in 1970 and to $490 million in 1971. In addition, foreign exchange credit was provided to exporters and producers of export goods, which amounted to $70 million in 1970 and $110 million in 1971.

11. A member of the Committee observed that the IMF background paper showed that whereas in 1968 and 1969 money supply in Korea had increased by 26 per cent and 68 per cent respectively, the expansion had been brought down to about 11 per cent in 1970, thanks to the effective implementation of the stabilization measures introduced since November 1969. The Committee noted that these measures consisted, inter alia, of adjustments in commercial bank reserve requirements, accelerated recall of overdue bank loans, planning of primary credit expansion of the Central Bank. The representative of Korea added that for the purpose of controlling credit expansion the Korean authorities had at their disposal such traditional means as discount policy, open market operations and deposit reserve requirement manipulation, which they would undoubtedly make use of when necessary and as appropriate.

12. Noting that, according to the background paper of the IMF, most of the projected increases in domestic savings in 1971 were expected to come from greater government savings, a member of the Committee wondered whether any measures had been taken or envisaged for encouraging private savings. The representative of Korea stated that a campaign to encourage savings had been launched and was in progress and that attempts were also being made to develop a securities market which would eventually be an effective means of facilitating capital formation.

13. A member of the Committee welcomed the steps that the Korean authorities had taken in the field of taxation with a view, inter alia, to orienting investment to certain industrial sectors which appeared to be particularly in need of capital input, and noted that the Korean Government intended to implement some overall tax reforms in 1971 with a view to increasing tax revenues, to
enhancing fair taxation and to encouraging private investments in a manner consistent with the Third Five-Year Development Plan. Invited to comment on the scope and details of the proposed reform the representative of Korea stated that a special Committee had been established at the beginning of 1971 to work out a major tax reform. However, it was premature at this stage to say exactly what the scope and content of the reform would be.

**Systems, methods and effects of the restrictions**

14. Members of the Committee noted the substantial volume of imports permitted by Korea's economic progress. In the course of discussing recent changes in the import control régime, however, a member of the Committee invited comments on the fact, described in the documents before the Committee, that the number of prohibited or restricted commodities had increased between 1967 and the second half of 1970. The representative of Korea informed the Committee that the number of prohibited commodities had been reduced from 74 in the second half of 1969 to 73 in the first half of 1971 and restricted commodities from 530 to 520. At the same time, the number of items subject to automatic approval had increased. This was clear evidence of Korea's continued efforts to liberalize its imports. Further progress would depend on Korean balance-of-payments developments.

15. Several members expressed concern over the complexity of the Korean import control system in so far as it affected the restricted items and over the frequent change of the regulations. In their view, this complexity was a barrier to imports because it caused uncertainty for traders. They expressed the hope that the regulations would be simplified. The representative of Korea undertook to convey these views to his authorities for consideration. He pointed out that since the last consultation the advance deposits requirement of imports from specific areas (BOP/117, page 5) had been eliminated and assured the Committee that his Government was continuing its efforts to further liberalize imports.

16. One member said that while he appreciated the need sometimes to prohibit the import of non-essentials he hoped the Government of Korea would take into consideration the fact that often the commodities at issue were on the borderline between essential and non-essential goods.
17. Members of the Committee welcomed the steps being taken by Korea to shift from SITC to the BTN nomenclature, in customs classification, but expressed the hope that care would be taken to avoid any increase in the tariff incidence in the process. The representative of Korea stated that a Comparative Table was relied upon to ensure equivalence; if an item was not listed in the table, it was within the competence of the Ministry of Commerce to decide which BTN item corresponded most closely to the SITC item.

18. Several members of the Committee requested information on the method of publication of regulations relevant to trade. The representative of Korea recalled that the semi-annual revision of the Periodic Notice was published thirty days prior to its entry into force, and translation into English was made available. In reply to queries as to whether it would be possible to have also other regulations pertaining to trade matters published in English and/or French and whether the Periodic Notice could be published in the second half of 1971 in a consolidated form, the representative of Korea assured the Committee that his delegation fully understood the problem and would be glad to convey the views expressed to Seoul for consideration.

19. Some members of the Committee asked about the legal justification and the method of application of the special customs duty. One member of the Committee recalled that the duty had been introduced in 1964 as a temporary measure. Was it therefore not possible to do away with this special import charge, now that the country's economic situation had substantially changed since that time and a customs law providing for the implementation of flexible tariffs had been implemented? The representative of Korea stated that the special customs duty had been introduced partly as a means of improving the balance-of-payments position. His Government was making efforts to reduce the number of items subjected to this special duty and it had, in fact, removed more than 200 items from the list of commodities on which the charge was levied since the last consultation. His Government was doing its utmost further to reduce the number of items subjected to this duty, taking into account, however, the balance-of-payments situation. In reply to a question the representative of Korea stated that the amount of imports subject to the special duty in 1970 was approximately $30 million.
20. With regard to the licensing of restricted commodities, members of the Committee asked what criteria governed the issue of licences, what priority system was being used and how long the processing of licence applications lasted. The representative of Korea replied that automatically approved items were licensed by the commercial banks without any delay. No priority system and no special licensing criteria existed for those commodities. When items were not subjected to a mere automatic approval licensing, but were restricted, licences were granted in the order of the receipt of the applications.

21. As to the system of registering traders, a member of the Committee asked for information as to the present number of such licensed traders and suggested a relaxation of the requirements for registration. The representative of Korea replied that there had been 887 registered traders at the end of 1970 and that their present number was probably around 900; there were only slight fluctuations. The purpose of the system of qualifying traders was to maintain a certain quality level. The semi-annual review ensured the maintenance of a high quality standard of traders. In reply to a question the representative of Korea stated that only registered traders were entitled to import.

22. One member of the Committee enquired about the purpose of the restrictions on imports by end users. The representative of Korea replied that this category formed an exception to the principle that only registered importers were entitled to import commodities. The registration did not apply to end users who were entitled to import on their own, according to their needs, subject to an appropriate recommendation from the Ministry of Commerce.

23. Information was sought on the legal basis of the provision requiring prior approval for the import of commodities from those "nations whose annual exports to Korea were more than twice their imports from Korea while the annual trade deficit was in excess of $25 million". It was asked what was to ensure that the Government of Korea would alter this provision once the trade balance had improved. The representative of Korea emphasized that his Government was undertaking considerable efforts to reduce the number of items requiring prior approval. Since the last consultation, 25 per cent of the prior approval items
had been liberalized. In 1969 approximately $745 million worth of imports had been subjected to prior approval; in 1970 this figure had been reduced to $242 million. The legal basis for the prior approval scheme was a Government Decree.

24. A question was asked by a member of the Committee with regard to restrictions on the imports of motor vehicle parts. He pointed out that the system of restrictions was extremely complicated and asked for a description as to how the restrictions operated. The representative of Korea stated that his country was in the process of establishing its own motor vehicle parts industry. The importation of parts which were already locally produced had to be imported under the system of prior approval for the protection of domestic industry. Once the Korean industry was fully competitive, it was his Government's intention to eliminate such restrictions on the import of motor vehicle parts.

25. In a discussion on the Korean flexible exchange rate system which had been in force since March 1965, the view was expressed that if the exchange rate varied with wholesale prices, there should be no need for quantitative restrictions on imports. The Committee noted, however, that the currency depreciation had lagged significantly behind the rise in prices. In the ensuing discussion the representative of Korea also described the system of the Korean exchange which involved the use of exchange certificates, issued against foreign exchange surrendered to the banking system.

Conclusions

26. The Committee congratulated the Korean authorities on the successful implementation of the stabilization measures which had contributed substantially to the improvement of the balance of trade and hoped that a continuation of such policies would further improve the balance of payments so as to enable further progress to be made in the liberalization of imports. The Committee urged the Korean authorities to give early consideration to the further simplification of the import control procedures.