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THE EUROPEAN COMMUNITY AND THE REPUBLIC OF KOREA

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This information note is published on the occasion of the visit of the President of the Republic of Korea, Mr. Chun Doo Hwan, to the Commission of the European Communities on 17 April 1986.

It replaces the previous note No 74/84 on the same subject.

THE EUROPEAN COMMUNITY AND THE REPUBLIC OF KOREA

INTRODUCTION

South Korea is numbered among the newly-industrialized countries thanks to years of vigorous, largely export-led expansion which has given it some of the fastest growth rates in the whole Pacific region. In 1980 the country suffered a recession characterized by inflation, debt and a large external deficit resulting from shrinking export markets and worsening terms of trade, but it has since succeeded in achieving rapid growth once more. The economic adjustment process is still under way.

The friendly relations existing between Korea and a number of the Member States have been reinforced by the increase in EC-Korean trade in recent years.

For the last three years annual ministerial-level consultations have taken place between the Commission and the Korean authorities, held alternately in Brussels and Seoul, and the Korean Government has repeatedly expressed the hope that the Community will set up a delegation in Seoul, reflecting the importance of existing trade links.

The visit by President Chun Doo Hwan to the Commission on 17 April 1986, the first such visit by a President of the Republic of Korea, is a sign of the importance attached by Seoul to extending its relations with the Community.

THE REPUBLIC OF KOREA

The Republic of Korea has an area of 98,966 Km², a population of 40.6 million (1984) and a population density of 410 inhabitants per Km². The percentages of urban and rural population are approximately 60% and 40% respectively. Seoul, the capital, has a population of 8.50 million (1984).

Since the 1950-53 war, Korea has been divided into North and South Korea at the 38th parallel.

South Korea is a country which has no natural resources and has developed mainly thanks to its industrialization efforts. At the present time it is one of the main industrial producers, not only in the light industry sector (footwear, textiles, clothing, electronics, etc.) but also in heavy industry and chemicals (shipyards, iron and steel and chemical processing). Korea currently ranks second after Japan in the shipbuilding sector.

Agriculture has been declining steadily in relative terms and Korea is no longer self-sufficient, although there has been an increase in yields as a result of increasingly advanced techniques.

From the end of the fifties there has been spectacular growth in the Korean economy and between 1970 and 1979 economic growth was about 10% per year. This can be explained to a large extent by the expansion of exports of manufactures (30% per year on average over the last ten years). Between 1967 and 1984 the Korean economy had an average annual rate of growth of 8.3%

Between 1967 and 1984, the Korean economy grew at an average rate of 8.3% annually. This high growth rate is all the more remarkable for having been sustained during the last few years (with the exception of 1980), unlike many other industrialized or developing countries.

Despite the energy crisis, GNP more than doubled between 1977 and 1984, rising from \$37.4 to \$81.1 billion over this period.

The fifth "Economic and social development plan" (1982-1986) forecasts a GNP growth rate of 8% per year.

After a setback in 1980 when GNP declined by 5.2%, due amongst other things to the worldwide recession and the social unrest following the assassination of President Park, the Korean economy took off again with remarkable growth rates of 5.6% in 1982, 9.5% in 1983 and 7.6% in 1984. In 1985, growth rate will have been less than 4%. Some 6% of GNP goes towards defence expenditure. The Republic of Korea has also been successful in stabilizing prices and in reducing inflation and unemployment to 2.4% and 4.0% respectively in 1985. Per capita GNP has risen from a 1962 value of \$87 to \$1 999 in 1984.

The country still runs a trade deficit, but efforts are being made to improve the situation - from around \$4.8 billion in 1980 and 1981, the deficit was reduced to a figure in the region of \$1.4 billion in 1984, and an estimated \$1 billion in 1985.

Korea is among the developing countries or territories classed as Newly Industrialized Countries (NICs), along with Hong Kong, Taiwan, Singapore, Brazil and Argentina.

Korea's main economic objectives are to maintain high growth, keep prices stable and achieve a fairer distribution of wealth.

Most of Korea's commercial links are with countries in the Pacific region, mainly Japan and the United States, but it is also well-established in the Middle East market.

In 1984, 52% of Korean exports were to the USA and Japan (36% and 16% respectively), while imports from these two countries represent 47% of the total (22% and 25% respectively).

The total value of exports in 1984 was \$29 245 million, made up as follows: textiles and clothing 22.7% (\$6 626 million), shipbuilding 16% (\$4 684 million), steel 6.6% (\$1 942 million), footwear 4.6% (\$1 352 million), radio and TV 4.2% (\$1 251 million) and fisheries 2.2% (\$642 million).

The Republic of Korea is not a member of the United Nations or the OECD. It became a member of GATT on 14 April 1967, and also belongs to a number of other international organizations such as UNCTAD, the IMF and the World Bank. The last IMF World Bank conference was held in Seoul from 8 to 11 October 1985.

RELATIONS WITH THE COMMUNITY

. Development

Although diplomatic relations with the Community were established in 1965, Korea preferred to deal with trade matters through multilateral rather than bilateral channels, in particular through GATT. In the last few years, however, there has been a shift away from this trend.

There are no general trade or cooperation agreements between the Community and South Korea. There are only two sector agreements, governing trade in textiles and steel.

In 1974, at the time of MFA I, a bilateral agreement on trade in textile products was concluded between the EC and South Korea based on Article 113 of the EC Treaty and Article 4 of the Multifibre Arrangement; it has since been renegotiated and renewed. The present agreement, which comes under MFA III, sets out voluntary restraint arrangements for exports of certain categories of products and contains "anti-surge" and "anti-fraud" clauses. It is valid until the end of 1986. Korea, along with Hong Kong, Taiwan and Macao, is one of the "dominant" countries in the textile sector.

The Community also concluded a bilateral arrangement with South Korea on certain steel products, through the exchange of letters of 18 September 1978, which has subsequently been amended and extended annually, the current arrangement expires at the end of 1986.

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. High-level consultations

The Community maintains very good relations with South Korea and contacts have become increasingly frequent. High-level consultations have been established between the Commission and South Korea, constituting a forum in which any questions of general or bilateral interest can be examined and discussed at an appropriate level.⁽¹⁾

The first round of these consultations took place in Seoul on 28 and 29 March 1983, with the Commission delegation being led by Mr. Haferkamp. The second took place in Brussels on 3 and 4 July 1984, when the Commission was represented by Mr. Davignon. The third took place in Seoul on 12 and 13 November 1984, with Mr. De Clercq representing the Commission. On each occasion the Korean Delegation was led by the Foreign Minister.

At the last round of these consultations the two sides reviewed the world economic situation, relations with other countries (especially the United States and Japan), and various multilateral issues of mutual concern including the new round of multilateral trade negotiations, the MFA, and other GATT-related topics. The emphasis, however, was on bilateral EC-Korean relations, and the parties looked at the trend of trade in traditional sectors - textiles and clothing, footwear and steel - as well as the prospects for future development. Specific issues on the agenda included shipbuilding, obstacles to Korean imports and liberalization of the Korean market, electronic goods (with particular reference to video recorders), GSP ⁽²⁾, counterfeiting, alcoholic beverages and the scope for scientific and technical cooperation.

The next round of high-level consultations is due to take place in Brussels at the end of 1986.

. Trade missions

In November 1985, to coincide with the last round of consultations, the Commission organized the first Community export promotion mission to Korea. Twenty-five European businessmen from nine of the Member States met officials of the Korean Federation of Industry and representatives of major firms in the three target sectors: agri-food, chemicals/petrochemicals and shipbuilding (subcontracting).

⁽¹⁾ Similar arrangements exist with Japan and China

⁽²⁾ Generalized System of Preferences. The system provides duty-free entry for developing countries' exports of industrial products up to certain quantitative limits and reductions on duty for various processed agricultural products.

. Official visits

In addition to visits to Korea by various members of the Commission and senior Commission officials, and visits to Brussels by Korean ministers for meetings or talks on various subjects, Mr. Gaston Thorn paid the first official visit to Korea by a President of the Commission from 2 to 9 May 1984. On that occasion the Korean foreign minister Mr. Wong Kyong Lee once again reiterated his government's desire that the Community should open a delegation in Seoul.

President Chun Doo Hwan is the first Korean Head of State to visit the Commission (17 April 1986).

EC-KOREAN TRADE

Trade between the Community and South Korea began to increase at the beginning of the 1970s. Although the Community ran a slight surplus on the trade balance at the beginning, it quickly turned into a deficit, which continued to increase until 1977. There was a slight improvement in 1978 and 1979, although the deficit persisted. The situation deteriorated again between 1980 and the end of 1983, but there was some improvement from 1984.

(million ECU)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
IMPORT.	1 424	1 688	1 972	2 338	2 402	2 853	2 891	3 261
EXPORT.	1 001	1 245	941	1 120	1 297	1 613	2 182	2 689
SOLDE	- 427	- 443	-1 031	-1 218	-1 105	-1 240	- 709	- 572

(SOURCE : EUROSTAT)

Community imports from the Republic of Korea doubled between 1978 and 1985, rising from 1 424 million EC to 3 261 million ECU.

During the same period Community exports to Korea also more than doubled, from 1 001 million ECU to 2 689 million ECU, and it was not until 1982 that they returned to their 1979 level.

Imports from South Korea account for 0.8% of total Community imports from non-Community sources and Community exports to South Korea constitute 0.6% of all Community exports to non-Community countries (1984 statistics).

The Korean government has been easing import restrictions. However, the effects of this liberalization policy in restoring the balance of trade with the Community would appear to be fairly limited, especially since the measures do more in some cases to encourage exports from Japan and the USA than from the EC. Opportunities for increasing exports continue to be limited by the high average level of Korean customs duties.

The Republic of Korea's main trading partners within the Community are the Federal Republic of Germany, the UK, France and Italy, in that order. In 1984, Germany and the UK, between them accounted for 61% of the Community's imports from Korea, while exports from these countries made up 53% of the Community total.

STRUCTURE OF EC-KOREAN TRADE

<u>1984</u>	<u>in %</u>	
	<u>Export.</u>	<u>Import.</u>
- Food and live animals, chiefly for food	1.2	0.8
- Beverages and tobacco	0.9	2.8
- Crude materials, inedible, except fuels	3.2	0.8
- Mineral fuels, lubricants and related	0,5	-
- Animal and vegetable oils, fats, waxes	0.2	0.1
- Chemicals and related products	17.2	1.8
- Manufactured goods, classified chiefly by material	15.4	15.4
- Machinery and transport equipment	43.4	19.1
- Miscellaneous manufactured articles	6.2	56,4
- Commodities and transactions not classified elsewhere in the SITC (1)	11.8	2.8
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TOTAL	100 %	100 %
 TOTAL VALUE	 (million ECU)	 2 182 2 890
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(SOURCE : EUROSTAT)

In general terms it can be observed that the make up of Korean exports is steadily changing. Light industry now accounts for about 50% of exports, compared with 75% in 1972. Heavy industry and chemicals now represent 40% of exports, compared with 20% in 1972.

(1) SITC : Standard International Trade Classification

Generalized system of preferences (GSP)

The Republic of Korea is one of the main beneficiaries of the Community's scheme of generalized tariff preferences, which came into effect in 1971. It is one of a group of highly-competitive countries which also includes Brazil, Hong Kong and China, and whose exports of particularly sensitive products are subject to tariff quotas.

The updated GSP scheme for 1986-90 is designed to discriminate more markedly in favour of less-competitive exporters. In the 1986 GSP Regulation, for instance, in line with measures affecting Hong Kong and other "super competitors", quotas for Korean exports of ten sensitive products have been cut by 50%, and a number of new products have been added to the "sensitive" list. However, there are a number of quantitative and qualitative changes which will benefit Korea.

IMPORTANT ISSUES

. Liberalization

The Korean liberalization programme (from 1984 to 1988) lays down import arrangements and provides for reductions in customs tariff duties. The government expects that approval for 95% of licences for categories of imported products will be automatic in 1988. Despite liberalization moves, however, Community industries and exporters stress that the Korean market is still a protectionist one with its temporary "emergency measures", excessively high customs tariffs and above all various tariff barriers.

. Shipbuilding

Despite the world wide crisis in this sector which has forced the Community to cut production capacity and lay off workers, Korea, thanks in part to its extremely competitive prices, now ranks second in the international shipbuilding stakes after Japan.

Korea itself, however, is now beginning to feel the effects of the problems in the shipbuilding industry and its authorities have accepted the need for informal cooperation in the OECD context.

. Electronic goods

Korea is a new producer on the world video recorder market, and recently started exporting to the Community. The Community, already exposed to massive imports of video recorders from Japan (at a much lower production cost than that of the Community industries) has now raised the customs duty from 8% to 14% erga omnes. This measure initially constituted a source of concern for Korean video recorder manufacturers, but has been offset by means of advantages granted for other imports, particularly semiconductors.

Community manufacturers are also concerned about the trend of colour television imports from Korea.

Problems relating to electronic goods are monitored through bilateral contacts.

. Alcoholic beverages

At the last high-level consultations (November 1985), the Commission again drew the attention of the Korean authorities to the restrictions on imports of alcoholic beverages into Korea (without calling into question existing import opportunities) and the prohibitive customs duties and taxes on these products. The Korean authorities explained the problems of their domestic industry, which is starting out in this sector, but indicated that imports of alcoholic beverages would rise to meet the increase in demand resulting from special occasions such as the Asiatic Games in 1986 and the Olympic Games in 1988.

CONCLUSION

Despite its recent expansion, trade between the Community and Korea is still less than it might be. Korea's policy objective of increasing trade with the Community and moving away from its traditional concentration on trade with the USA and Japan is promising but has still not produced tangible results. The Community trading deficit with Korea remains high, despite a downward trend. It is necessary to try and achieve a more balanced pattern of trade. Korea's high import tariffs continue to hamper the possibilities of exporting to that country. The Community is hoping for adjustments to Korea's liberalization plan to give the country a much more open market by the end of the decade; this should prove a stimulus to the expansion of world trade.

At the high-level consultations in Seoul in November 1985 Mr. De Clercq called for a stronger Community presence in Korea. The Community, he pointed out, has considerable technological resources, with advanced aerospace, nuclear, telecommunications and urban transport industries, and exciting research programmes under way in new sectors. Korea, he said, could count on the Community in seeking to diversify its external relations - the potential for expansion in trade and economic relations between the two sides is considerable.

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