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## THE EC AND THE REPUBLIC OF KOREA

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## THE EC AND THE REPUBLIC OF KOREA

### Introduction

The Korean economy grew at an average annual rate of 7 % between 1960 and 1979. By 1979 per capita Gross National Product had risen to \$ 1,610, a 10-fold increase in less than 20 years.

Despite the energy crisis, the economy has maintained a high growth rate. Between 1977 and 1979 per capita GNP rose by 67 %. The Republic of Korea is today a major producer of not only textiles and footwear but also consumer electronics, steel and ships.

It is among some developing countries classified by the OECD as Newly Industrializing Countries (NICs), along with Taiwan, Brazil, Greece, Portugal, Spain and Yugoslavia.

The Republic of Korea suffered its first major economic setback in 1980, when GNP actually declined by some 5 % and per capita GNP fell to \$ 1,532, with the devaluation of the national currency, the won. The rate of inflation, which averaged 19 % between 1970 and 1979, soared to 29 % in 1980.

The trade balance began to deteriorate progressively after 1977; by 1980 the Republic of Korea had a trade deficit of some \$ 4.8 billion.

The difficulties confronting the Republic of Korea during the last two years have not been purely economic in nature, the country has also had to grapple with social and political problems. The financial resources for dealing with the former might be greater but for the fact that the Republic of Korea devotes roughly 6 % of its GNP to national defense.

Even so, GNP is expected to grow by 8 % a year during the Fifth Economic Development Plan Period (1982-86). The industrial sector is forecast to grow at just over 10 % a year - i.e. at roughly the same rate as during the Fourth Plan Period (1977-81).

The Republic of Korea is located in a high growth area, the Asia-Pacific region. A number of its neighbours are among the NICs; others are resource rich. Most of its commercial and financial links inevitably are with countries in the Asia-Pacific region, notably Japan and the United States.

Even today, some 45 % of Korean exports are to the U.S. and Japan, which together account for nearly 50 % of Korean imports (as against 70 % a decade ago).

Although the Security Council played an important role in safeguarding the country's independence during the 1950-53 war, the Republic of Korea is not a member of the United Nations. It does belong, however, to its specialized agencies, including UNCTAD, GATT and the World Bank and International Monetary Fund.

### Relations with the EC

Given the Republic of Korea's dependence on the U.S. and Japan, a dependence which is due to reasons of history as well as geography, Seoul inevitably has been more concerned about its relations with them than with the EC. Although it established diplomatic relations with the Community in 1965, there was a tendency to discuss trade problems in the framework of GATT.

Faced with problems of trade imbalance, growing protectionism and the need to diversify both its markets and its sources of supply, the Republic of Korea has begun to pay greater attention to the EC in recent years. Now that nearly 15 % of Korean exports are to the Community, Seoul regards the latter as a major trading partner, alongside the U.S., Japan and the oil exporting countries of the Middle East.

With a view to encouraging closer contacts between economic operators, the Korean authorities, aided by the European Commission, took the initiative in organizing a symposium in Brussels on September 16 and 17, 1981. The aim was to give European and Korean industrialists, bankers and traders an opportunity to identify commercial and investment opportunities.

### Trade relations

The following Table shows the level of trade between the EC and the Republic of Korea since 1975:

The EC's trade with the Republic of Korea, 1975-80

(million ECUs)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Imports	619	1,014	1,268	1,428	1,688	1,972
Exports	474	532	659	1,001	1,245	941
Balance	-145	-482	-609	-427	-443	-1,031

The ECU is a "basket" unit, based on a certain quantity of each Community currency. For 1980 one ECU equalled \$ 1.39.

Source: EUROSTAT.

The EC represents a growing market for Korean products. Between 1975 and 1980 its imports from the Republic of Korea increased by 220 %. Since 1975 the Community accounts for around 15 % of total Korean imports.

The growth in Community exports to Korea has been less dramatic, however. Between 1975 and 1979 exports increased by 163 %, only to fall sharply in 1980, as the above Table shows.

Compared to the U.S. and Japan, the EC's share of the Korean market remains modest. In 1979 it had 10 % of the market, but this had fallen to 7 % in 1980 (as compared to 26 % for the U.S. and 22 % for Japan). 1980 also witnessed a sharp rise in the EC's trade deficit, which jumped to just over ECU 1 billion (or some \$ 1,4 billion).

The Republic of Korea's main trading partners in the EC are Germany, the U.K., France and Italy. In 1980 Germany alone accounted for 35 % of the EC's total imports from Korea and 40 % of its exports to that country. The corresponding figures for the U.K. were 22 % and 18 %.

The following Table shows the composition of the Community's trade with the Republic of Korea:

Make-up of the EC's trade with Korea in 1979

<u>Products (SITC classification)</u>	<u>Exports</u>	<u>Imports</u>
Food and live animals, chiefly for food	0.9 %	1.2 %
Beverages and tobacco	1.0	3.3
Crude materials, inedible, except fuels	1.7	1.5
Mineral fuels, lubricants and related materials	0.7	-
Animal and vegetable oils, fats, waxes	0.1	-
Chemicals and related products, nes	15.3	0.9
Manufactured goods, classified chiefly by material	11.1	22.5
Machinery and transport equipment	63.6	14.3
Miscellaneous manufactured articles	3.8	55.3
Commodities and transactions not classified elsewhere	1.8	1.0
TOTAL	100.0	100.0
	=====	=====

Source: EUROSTAT

The make-up of the Community's major imports from the Republic of Korea, the steady rise in these imports and a growing trade deficit have given rise inevitably to concern within the EC. The Korean Government is aware, however, of the problem which its rising trade surplus poses for the EC and has indicated its readiness to take steps aimed at reducing the present imbalance.

It should be pointed out that the make-up of Korean exports is changing. Light industry accounts for roughly half the country's total exports today, as against 75 % in 1972. At the same time the share of heavy industry and chemicals is rising: they currently represent 40 % of the total, as against 20 % in 1972.

Generalized system of preferences

The Republic of Korea is among the major beneficiaries of the Community's GSP scheme since its inception in 1971. A part at least of the steady rise in Korean exports to the EC may be attributed, therefore, to the GSP.

Consequently, Korea is one of the countries most markedly affected by the EC's policy of a much sharper differentiation in the allocation of benefits in the industrial sector.

Introduced this year to begin a new decade of operating the GSP scheme, this policy favours exporters in the least developed and poorer countries.

Nevertheless, in spite of widespread calls from the Community's economic and industrial interests, GSP benefits have not been withdrawn from Korean exporters for any item. This remains true of textiles and clothing also.

### Sectoral arrangements

The continuing energy crisis has had a strong, largely unfavourable effect on the economies of all industrialized countries and, consequently, the Common Market countries as well. This is reflected in very low - at times even negative - growth rates, high rates of inflation and record levels of employment.

Not surprisingly, some economic sectors have been more severely affected than others. Certain long-established industries, for example, have found themselves facing a highly critical situation, marked by factory closures and job losses. The fact that these industries are often concentrated in certain regions has made it more difficult to redeploy redundant workers.

As a result, the EC also has concluded sectoral agreements in specific areas with supplier countries, so as to enable its domestic industry to adjust to the changing economic situation.

The existing sectoral agreements with the Republic of Korea relate to textiles and steel.

### Textiles

Korean exports of textiles and clothing are governed by the provisions of the GATT Multifibres Arrangement (MFA) and the bilateral agreement concluded in 1977 with the Community. The Republic of Korea is one of the principal "low-cost" suppliers of textiles and clothing to the EC, with exports in 1979 of 80,000 tonnes.

Textiles are bound to feature prominently in EC/Republic of Korea relations in 1981 and 1982. This is because the MFA expires at the end of 1981 and the bilateral agreement at the end of 1982. The renewal of the MFA is the subject of intense negotiations in the GATT Textiles Committee this year, while 1982 should be marked by the renegotiation of the bilateral agreement.

### Steel

Faced with a highly critical situation in its own steel industry, the EC has, on the one hand, introduced a basic price system for iron and steel products and, on the other, concluded bilateral arrangements with a number of countries. The arrangement currently in force with the Republic of Korea is a balanced one.

Under this arrangement the Koreans have agreed to limit exports to 212,000 tonnes in 1981 and to respect traditional trade patterns, as regards the timing of exports, their destination and product mix. In return, the EC has agreed to apply delivered rather than basic prices to imports, to assure a certain penetration rebate and to forbid domestic producers to align their prices on South Korean prices.

### Exporting to the Republic of Korea

The Korean Government's decision to achieve a better geographical distribution as regards imports was taken with a view to encouraging imports from the EC. The Government has encouraged Korean firms to buy more machinery from the EC and European firms to take part in tenders for industrial and construction projects in Korea. It has tried to set an example by placing orders for two nuclear power stations with a Common Market firm, for example.

Seoul has established Economic Cooperation Committees with virtually all Common Market countries. These Committees meet annually at an official level but with the participation of Korean and European firms, which are thus given every opportunity to meet each other.

The Korean authorities feel that their efforts to redirect a larger part of their trade towards the EC must be matched by a similar effort on the part of the latter. They point to the planned diversification of the Korean economy and the opportunities this provides for the supply of a wide range of industrial plants. Other areas of export opportunity for Common Market firms include communications equipment; urban transport and thermal power plants.

Construction projects, especially in the Middle East, offer considerable opportunities for collaboration between European and Korean firms (who had already concluded contracts worth \$ 7 billion in the first quarter of 1981). Korean experts believe that the nature of these projects is changing. There is a growing emphasis on high technology, which they feel offers greater scope for collaboration.

Despite recent efforts by the Korean authorities to open up their market to foreign goods, exporters continue to face difficulties. Tariffs especially are very high, even as regards products for which the Koreans are very competitive (e.g. textiles and footwear).

A further constraint on exports is to be found in the very structure of Korean imports. Thus raw materials and oil accounted for 65 % of total imports in 1980. The country's oil bill in fact rose from \$ 2,2 billion in 1977 to \$ 6,2 billion in 1980, an increase of 180 %. Industrial plant and machinery accounted for 23 % of total imports in 1980, while the balance was made up of foodstuffs (9 %) and various other products (3 %).

To conclude, if the Republic of Korea offers few prospects for the export of consumer goods, it obviously represents a growing market for advanced capital equipment.

### Conclusions

The emergence of the Newly Industrializing Countries as a distinct category within the developing countries has forced developed countries to re-examine their relations with them. The Community believes its main obligation towards the NICs is to keep its markets, including capital markets, open to them. But the latter have an obligation to reciprocate as far and fast as they can.

This is not proving easy, however. The emergence of the NICs has more or less coincided with extremely difficult economic conditions in the EC. The resulting tensions are reflected in the Community's relations with the Republic of Korea.

Both sides are aware of each others problems, however, and of the need to arrive at a mutually profitable relationship. This is clear from the efforts being made on both sides to eliminate the present imbalance in trade through policies of trade creation and economic cooperation.

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THE MAJOR ITEMS IN THE EC'S TRADE WITH THE REPUBLIC OF KOREA

(million ECUs)

I M P O R T S

	<u>1980</u>	<u>1979</u>	<u>1978</u>
TOTAL	1,972	1,686	1,428
of which, Tobacco	61	55	65
Travel goods, handbags, gloves	180	170	147
Cotton fabrics	26	25	25
Man-made textiles	45	39	35
Knitwear	177	145	126
Clothing	354	319	266
Household linen	22	19	28
Footwear	151	122	86
Crockery, other ceramic goods	45	30	23
Iron and steel	103	40	36
Cutlery	34	28	20
Electrical equipment	211	157	109
TV sets, radios, taperecorders	50	50	33
Toys and games	69	57	47

Source: NIMEXE, EUROSTAT



THE MAJOR ITEMS IN THE EC'S TRADE WITH THE REPUBLIC OF KOREA

(million ECUs)

EXPORTS

	<u>1980</u>	<u>1979</u>	<u>1978</u>
TOTAL	941	1,245	1,000
of which, Beverages	9	16	13
Organic chemicals	48	53	42
Dyes, paints and varnishes	21	22	21
Chemical products	17	13	10
Plastics	14	23	17
Furs	30	20	14
Ceramic products	8	13	6
Iron and steel	37	63	72
Machinery (mechanical)	289	517	400
Machinery (electrical)	187	111	111
Transport equipment	42	87	62
Aircraft	1	70	60
Measuring instruments	31	26	24

Source: NIMEXE, EUROSTAT

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