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## THE EUROPEAN COMMUNITIES AND THE REPUBLIC OF KOREA

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## THE EC AND THE REPUBLIC OF KOREA

### Introduction

The Republic of Korea has an area of 98,966 km<sup>2</sup>, a population of 40.0 million (1983) and a population density of 404 inhabitants per km<sup>2</sup>. The percentages of urban and rural population are 60.1% and 39.9% respectively. Seoul, the capital, has a population of 8.37 million (1983).

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

The Republic of Korea is not a member of the United Nations. However it does belong to a number of international organizations such as GATT, UNCTAD, the IMF and the World Bank.

The Korean economy has enjoyed a spectacular growth rate since the end of the 1950's.

Between 1967 and 1983, 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 countries.

Despite the energy crisis, GNP more than doubled between 1977 and 1983, rising from 35.2 to 73.4 billion dollars 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 6.2%, 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 5.3% in 1982 and 8.8% in 1983. 6% percent of GNP goes towards defence expenditure. The Republic of Korea has also been successful in stabilizing prices and in reducing inflation and unemployment to 3.5% and 4.2% respectively in 1983. Per capita GNP has risen from a 1962 value of \$87 to \$1.835 in 1983.

The country still has a balance of trade deficit, but efforts are being made to improve the situation - from around 4.5 billion dollars in 1980 and 1981, the trade deficit was reduced to a figure in the region of 2 billion in 1983.

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

It is now one of the major industrial producers, not only in light industries such as footwear, textiles, clothing, electronics etc. but also in heavy industries such as shipbuilding, steel making, chemicals and chemical processing. Korea is now the world's second-largest shipbuilder after Japan.

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

Import restrictions are being eased - at present there are no restrictions on 80.4% of products, and this figure is planned to reach 90.8% in 1986. However, customs duties remain high, making it harder to export to Korea.

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

43% percent of Korean exports in 1982 were to the USA and Japan (28% and 15% respectively), while imports from these two countries represented 47% of the total (29% and 22% respectively).

The total value of exports in 1982 was \$ 21,853 million, made up as follows: textiles 17% (3,838 million dollars), shipbuilding 12.9% (2,831 million \$), steel 6.7% (1,474 million \$), footwear 5.3% (1,154 million \$) radio and TV 3.1% (676 million \$) and fisheries 1.9% (418 million \$).

The total value of imports in 1982 was \$ 24,251, made up as follows: petroleum products 27.8% (6,742 million \$), ships 4.6% (1,119 million \$), chemicals 4% (978 million \$), wood 2.6% (641 million \$), raw cotton 2% (529 million \$) and maize 1.6% (385 million \$).

### Relations with the EC

Given the Republic of Korea's dependence on the US 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 these countries than with the EC.

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

Faced with problems of trade imbalance, growing protectionism and the need to diversify both its markets and its sources of supply, Korea has begun to pay greater attention to the EC in recent years. In 1982, its imports from the EC amounted to 7.1% of the total; exports, however, accounted for 13.0% of the total (1).

Korea now regards the EC as one of its main trading partners, alongside the USA, Japan and the Middle East.

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(1) EC exports from and imports from Korea in 1982 were 0.5% and 0.7% respectively of the total extra-EC figures.

However, trade with the Community is still less than it might be.

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.

The two parties decided to hold "Annual consultations between the Commission and Korea," alternating between Seoul and Brussels, and these contacts have now become institutionalized. The first consultations, at ministerial level, were held in the Korean capital at the end of March 1983. The next round will take place in Brussels at the beginning of July, 1984.

<u>The EC's trade with the Republic of Korea</u>				<u>(million ECU)</u>			
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983 (9 months)</u>
Import	1,268	1,428	1,668	1,972	2,338	2,402	2,023
Exports	659	1,001	1,245	941	1,120	1,297	1,151
Balance	- 609	- 427	- 443	-1,031	-1,218	-1,105	- 872

(Source : Eurostat)

Community imports from the Republic of Korea doubled between 1977 and 1982, rising from 1,268 to 2,402 million ECU.

During the same period EC exports to Korea also doubled, rising from 659 to 1,297 million ECU. However, there was a large drop in exports in 1980 (941 million ECU), and it was not until 1982 that they returned to their 1979 level.

The EC's trading deficit also doubled between 1977 and 1981 (-609 and - 1,218 million ECU respectively), but has fallen slightly since then. However, it still amounts to more than one billion ECU.

The Korean government has been pursuing a policy of easing import restrictions. However the effects of this easing in possibly restoring the balance of the trade with the Community would appear to be fairly limited, especially since these measures do more to encourage exports from Japan and the USA than from the EC. Opportunities for increasing exports continue to be limited by the generally high 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 1982, the FRG and the UK between them accounted for 60% of the Community's imports from Korea, while exports from these countries accounted for 62% of the EC figure.

Make-up of the EC's trade with Korea in 1982

	<u>Exports</u>	<u>Imports</u>
- Food and live animals, chiefly for food	1.1 %	0.9 %
- Beverages and tobacco	1.0	3.0
- Crude materials, inedible, except fuels	3.0	0.6
- Mineral fuels, lubricants and related materials	0.5	0.1
- Animal and vegetable oils, fats, waxes	0.2	-
- Chemical and related products	15.8	1.0
- Manufactured goods, classified chiefly by material	12.5	18.9
- Machinery and transport equipment	50.3	15.3
- Miscellaneous manufactured articles	5.5	59.1
- Commodities and transactions not classified elsewhere	10.1	1.1
	<hr/>	<hr/>
TOTAL	100.0	100.0
	<hr/>	<hr/>
<u>TOTAL VALUE</u> (million-ECU)	<u>1,271</u>	<u>2,353</u>

(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.

Generalized system of preferences

The Republic of Korea is among the major beneficiaries of the Community's GSP scheme. Introduced in 1971, this scheme consists of total exemption from customs duties for all industrial products (within the limits of certain guarantees) and partial exemption for certain processed agricultural products.

The scheme, which was revamped for a new decade of operating in the 1980s, favours exporters in the least developed and poorer countries.

However, the tariff quotas have been drawn up so as to afford a certain amount of protection for sensitive products which face highly competitive exports from some countries such as Korea.

### Sectoral arrangements

There are no commercial or cooperation agreements between the Community and the Republic of Korea; as with various other partners, trade is regulated according to GATT rules and the "most favoured nation" clause.

Faced with economic stagnation or even recession, it has not always been easy for the Community to maintain its objective of free trade, particularly as regards its relations with rapidly-developing industrial nations, of which Korea is the typical example.

As a result, the Community has concluded agreements or sectoral arrangements for textiles and steel with Korea and various other countries, covering certain products which have been particularly hard hit by the recession.

#### - Textiles

Korea is the Community's second-biggest supplier, and a new bilateral agreement under the Multifibre Arrangement (AMF) has just been concluded between the two parties for the period 1983 - 1986. This governs imports of textile products (including clothing) by voluntary restrictions on exports of sensitive products. As with similar agreements concluded with other countries, it provides for consultation procedures and sufficient flexibility in terms of postponement, anticipation and transfer mechanisms.

#### - Steel

Faced with a highly critical situation in its own steel industry, the EC has introduced a basic price system for iron and steel products. Production quotas have been imposed on the Community's industry and bilateral arrangements have been concluded with a number of countries, including Korea.

Under these arrangements the Koreans have agreed to limit exports to the EC to 218,000 tonnes in 1984 and to respect traditional trade patterns as regards the timing of exports, their destination and product mix.

In return, the EC has agreed to allow Korean steel producers to sell their products at delivered prices (practically the same as those of Community producers) and to allow a certain penetration rebate in order to ensure the competitiveness of the imported products. Community producers will not be allowed to match these lower prices.

### Main areas of difficulty in trade

#### - Shipbuilding

Despite the crisis affecting the rest of the world, which has forced the Community to reduce its shipbuilding capacity and lay off workers, the Korean shipbuilding industry is extremely competitive by virtue of the extent to which it has managed to compress prices, and is now the second-largest in the world after Japan.

It will be necessary to establish a dialogue in order to identify ways of halting the rapid deterioration in the shipbuilding industry throughout the world in general and in Europe in particular.

#### - Footwear

Korea is very competitive in this industry also, and is the Community's second-largest supplier, exporting 45 million pairs of shoes per year to the EC.

Korea's stated intention of making allowances for the state of crisis in the footwear market, particularly in Europe, should reduce the risk of the situation in the EC market deteriorating still further.

### Conclusion

Despite its recent expansion, trade between the EC and Korea is still less than it might be. Korea's policy objective of increasing trade with the EC and moving away from its traditional concentration of trade with the USA and Japan has still not produced tangible results. The EC's 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.

Korea's industrial development has raised it to the status of "Newly Industrialized Country." It has now begun a process of liberalization of its trade which if pursued in a balanced way should benefit all its trading partners.



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