

fishermen and the urban working class. In 1985, the largest source of government revenue was the value-added tax, accounting for about one-fifth of the total tax receipts, followed by individual income tax and corporate income tax, in that order.

4.3 Foreign Debt and Foreign Exchange

Korea's external debt position has improved considerably since the early 1980's. During 1982-85, the rate of growth of outstanding debt was reduced (from 14 per cent to seven per cent), the share of short-term maturities in total debt was reduced (from 34 per cent to 24 per cent), and the debt service ratio was stabilized. During 1986 the pace of improvement accelerated sharply: for the first time ever there was a decline in the absolute level of the external debt (from Cdn \$48.6 billion in 1985 to Cdn \$45.0 billion by the end of 1986). While the size and term structure of Korea's debt are quite manageable in comparison to its exports and GNP, the continuing uncertainty of international financial markets has persuaded the government to continue to aim for a further reduction of its external debt, at the rate of about Cdn \$2 billion per year; over the course of the next five years. Korea is also seeking a greater proportion of its foreign capital needs in the form of direct and portfolio foreign investment and has undertaken some capital market liberalization measures to facilitate this objective.

Exchange rate management will also be a critical factor. On one hand, a competitive exchange rate is necessary for sustained export growth and consistent with a strategy of sound debt management. On the other hand, if the exchange rate is set too aggressively in favour of export competitiveness, there could be undesirable effects on internal macroeconomic balance and, more importantly, on relations with trading partners. Government must be sensitive to all these concerns in framing an appropriate exchange rate policy for the future.

Korea's 1985 trade deficit decreased by US \$853 million based on total exports of \$30.2 billion and imports of \$31.2 billion. Foreign exchange holdings at the end of 1985 amounted to \$7.7 billion and are expected to reach approximately \$7.9 billion by the end of 1986. As the results of low oil prices, lower interest rates and strong yen value, Korea's trade surplus is expected to reach between \$1.3 and \$1.5 billion with exports of about \$33.5 billion and imports of \$32 billion. The first ever current account surplus is also estimated at \$450 million in 1986. Outstanding foreign debt increased to \$46.7 billion in 1985 from \$43.1 billion in 1984. Priorities will be given to importing some cereals (wheat and corn) and some oilseeds (soybeans and sesame seed) for human and animal consumption, but quantities are strictly controlled by the government. Korea is no longer eligible for Canadian aid, but can receive International Bank for Reconstruction and Development (IBRD) and Asian Development Bank loans.