

Korea's reliance on exports and state intervention was eased somewhat after an unsuccessful attempt to promote heavy and chemical industries during the 1970s. In the mid 1980s, the government altered its previous course of promoting strategic industries, and introduced measures for trade and financial liberalization. The process of import liberalization was continued under the Sixth Five Year Plan (1987-91). The simple average of tariff rates declined from 31.7 per cent in 1982 to 10.1 per cent in 1992.

The structure of the Korean economy has undergone significant change. Agriculture as a share of total output has declined from over 40 per cent in the early 1960s to less than 10 per cent in 1991. Conversely, manufacturing has increased from about 15 per cent of GDP in the early 1960s to roughly 30 per cent in 1991. Trade has played an increasing role in the Korean economy as well. Between 1965 and 1991, exports increased from about nine per cent of GDP to almost 30 per cent, while imports doubled from 16 per cent to 32 per cent. The U.S. continues to be Korea's primary export market, taking 24 per cent of its exports in 1992,<sup>14</sup> while Japan, with 24 per cent of the market, is Korea's biggest supplier of imports. Korea registered an overall trade deficit of US \$6.7 billion in 1992, and a trade deficit of US \$2.9 billion with the North Asian economies.

Foreign direct investment has not played a major role in Korea's export industries. Most foreign investment in Korea has taken the form of commercial loans rather than direct investment. Inflows of foreign capital have been small when compared to flows into some other countries in North Asia such as China or Hong Kong.<sup>15</sup>

Recent economic problems experienced by Korea include declining industrial competitiveness, sluggish growth in its key export markets, sustained high inflation rates and a slowdown in GDP growth rates in recent years. Because of appreciation of the won since the mid 1980s,<sup>16</sup> and rising labour and land costs, Korea is

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<sup>14</sup> IMF, Direction of Trade Statistics Yearbook, Washington, 1993.

<sup>15</sup> Korea received an annual average US \$170 million in FDI in the first half of the 1980s. The annual flow increased to US \$812 million during the second half of the decade. This represented approximately 0.5 per cent of world flows. This compares to figures of US \$646 million and US \$2,037 for Hong Kong for the same periods. Sources: IMF, Balance of Payments Statistics; and UN/CTC, World Investment Report, 1994.

<sup>16</sup> The Korean won has appreciated from an annual average of 881 won/US \$1 in 1986 to 733 won/US \$1 in 1991, although it slid back to 781 won/US \$1 in 1992. Source: World Bank, "World Tables", Washington, 1994.