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SOUTH KOREA: A COUNTRY PROFILE

Oilseeds Division
Grain Marketing Bureau
Department of External Affairs

Dept. of External Affairs
Min. des Affaires extérieures

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SOUTH KOREA



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SOUTH KOREA: A COUNTRY PROFILE

1. STATISTICAL SURVEY

Economic classification: middle income

Average annual growth: 7.4 per cent (1975-85)

Average inflation rate: 14.3 per cent (1975-85)
1.0 per cent (1986)

Gross National Product (GNP): Cdn. \$ 115.5 billion (1985 est.)

Annual per capita GNP: Cdn. \$ 2820.8 (1985)

Foreign Debt: about Cdn. \$ 45.5 billion (1986)

Debt Service as % of GNP: 8.5 per cent (1985)

Debt Service as % of Exports: 18.7 per cent (1985)

Annual per capita consumption (1985): 39.1 kg. flour
14.4 kg. meat
7.2 kg. vegetable oil

Population: 41.1 million (1985)

Rate of population growth: 1.3 per cent (1985 - 2000)

Education and Adult Literacy Rate: The South Korean education system has three levels: elementary, secondary and college or university. Kindergarden is optional for children aged five and six. Elementary school is six years in duration and begins at age seven. The elementary phase of the education system is free and compulsory for all children.

The secondary phase of the education system is further divided into two subsets; middle and high school. Each subset consists of three years of study. The secondary element of the education system also has two distinct disciplines. Students may follow a general education or a more vocational type of instruction. The government has recently been encouraging students to pursue a vocational education to satisfy the employment requirements of their expanding industries. As in Canada, secondary education is followed by college or university. Entrance to the secondary and post-secondary systems is established through an annual lottery.

As may be expected, because of the well-developed education system the literacy rate is very high, reported as 93 per cent.

Language: The national language is Korean. English is spoken by those having frequent contact with foreigners.

Currency: The Korean won (w) is the national currency. It is not an international currency and floats against a basket of other currencies. The Canadian dollar in February 1987 was worth about 856.3 won.

Religion: Four religions are followed in South Korea. Buddhism has the largest following with 37 per cent followed closely by Christianity with 30 per cent. Confusianism and Chondo-Oyo are also practiced, accounting for 18 per cent and 4 per cent respectively.

Weights and Measures: Korea utilizes the metric system

Visa: is required

Innoculations: none are required

2. GENERAL INFORMATION

2.1 Geography

Generally considered as part of East Asia, South Korea occupies the southern portion of the Korean peninsula. Established in 1948, South Korea encompasses an area of 98,824 square kilometers of which 22 per cent, or 21,741 square kilometers, is cultivated. South Korea is approximately twice the size of Nova Scotia in terms of land mass.

South Korea is bordered on the north by the Communist state of North Korea. To the west lies the Yellow Sea, to the east the Sea of Japan and to the south the Strait of Korea.

The major ports along the east coast are Mukho and Pohany. Mukho serves as a base for several major fisheries. Pohany's main industry is a large integrated iron and steel mill. Inchon and Kunsan are the port cities on the west coast. Inchon, which has been famous since it served as a staging area for the allied amphibious landing during the Korean War, is important as a gateway to Seoul. The major ports along the south coast are Ulsan, Pusan, Chinhae, Masan, Yosu and Mokpo. Ulsan is well known for its industrial complex. Pusan is the oldest and largest port city in Korea. It has the most modern port facilities in the country. Chinhae is important as a naval base. Masan, equipped with ideal conditions for a natural harbour, serves as a base for fisheries, as does Yosu.

The east coast is mountainous, with elevations of up to 2,000 metres. In contrast, the west coast has gently sloping hills and mountains. Unlike Canada, there are no vast plains in Korea. The plains that do exist are on the western side of the country.

At present there are a total of nine provinces and four special cities. The four special cities - Seoul, Pusan, Taegu and Inchon are given the same administrative status as a province. The provinces and their respective capital cities are as follows:

<u>Provinces</u>	<u>Capitals</u>
Cheju	Cheju
North Cholla	Chonju
South Cholla	Kwangju
North Ch ungch ong	Ch ongju
South Ch ungch ong	Paejon
Kangwon	Ch unchon
Kyonggi	Seoul
North Kyongsang	Paegu
South Kyongsang	Pusan

2.2 Climate and Rainfall

The climate of South Korea is varied. The average temperature throughout the year is 13°C along the southern coast and 10°C in the northern part of the country. The average maximum temperature throughout the country is generally over 40°C. The hottest period of the year lasts for about one month beginning in early August. The temperature then is close to that in the tropics.

In winter the average minimum temperatures along the south coast and in the interior are -5°C and -9°C respectively. The winter season lasts about three months but is made more bearable as three successive cold days are almost invariably followed by four consecutive warm days due to the high atmospheric pressure of the continent.

Precipitation is more varied than temperature and annually ranges between 500 mm to 1,500 mm. Korea's annual average precipitation is about 800 to 1,000 mm, which is twice that of neighbouring mainland China and half the amount usually registered in Japan. Between 55-65 per cent of the total rainfall occurs in the months of June, July and August. Often 30 per cent falls in July alone.

2.3 Population, Employment and Labour

Korea, with a 1985 population totalling 41.1 million, has one of the highest population densities in the world at 415 people per square km, compared to Canada's 2.6 people per square kilometer.

The population of South Korea increased at an average rate of 1.7 per cent between 1977 and 1984 but is expected to drop to 1.3 per cent between 1985-2000. Life expectancy in South Korea is 66 years as compared to nearby mainland China at 68 years and Canada at 76 years.

The country has a workforce of 14.4 million people. While employment in agriculture in 1986 dropped by 5.7 per cent from 1985, there has been a more than offsetting rise in employment in the manufacturing sector of 10.6 per cent.

The proportion of the population working in agriculture has been declining steadily, from about 59 per cent in 1965 to 24.9 per cent today. The overall pattern of employment is summarized in Table 1.

TABLE 1: LABOUR FORCE DISTRIBUTION

	<u>1965</u>	<u>1973</u>	<u>1980</u>	<u>1985</u>
Agriculture	58.7	50.0	34.0	24.9
Industry	13.2	19.6	28.7	30.5
Services	28.1	30.4	37.3	44.6

2.4 Natural Resources and Energy

Agriculture, forestry and fishing are the major components of the GDP, contributing 14.5 per cent in 1985.

South Korea is a mountainous country, in which only 22 per cent of the land is cultivated, while a further 66 per cent is designated forest land. South Korea's farming is concentrated mainly in the basin areas of the country's principle rivers, the Han, the Nakdong and the Kum, and in the surrounding plains in the western and southern regions. Owing to its less severe climate and longer growing seasons (varying from 170 to 226 days), South Korea is more suited for farming than North Korea, particularly in rice cultivation. Agriculture is dealt with more extensively in Section 6 of this profile.

South Korea is a peninsular country with a long coastline, and fishing is important for part of the national diet, livelihood and exports. With a population of about 750,000 dependent on fishing in 150,000 households, South Korea's total catch (excluding aquatic plants) increased from 1.4 million tonnes in 1973 to 2.2 million tonnes in 1983.

Although two-thirds of the territory is forest land, and the country's moist climate is conducive to forest development, indiscriminate felling before 1945 depleted most of the original trees. Nation-wide campaigns for afforestation and soil conservation have successfully reversed the trend. Lumbering, mainly of coniferous trees, is limited to the mountains of Kangwon and Kyongsang provinces, and contributes only a fraction of domestic timber needs. South Korea's rise to become the world's principal exporter of non-coniferous (hardwood)

plywood was achieved by means of modern plywood and veneer plants, based primarily on imported logs.

South Korea has about 50 different kinds of mineral resources but still needs to import iron ore, coal, copper and lead in substantial quantities. Conspicuous by its absence is petroleum. South Korea has ambitious plans for petroleum exploration in its offshore areas, and Gulf, Caltex and Shell have each contracted to explore and develop areas off the west or south coasts. Offshore boundary disputes with Japan and China prevent further leasing, however, but an agreement with Japan awaits ratification. A national oil company was set up in 1974 to oversee exploration activities.

Coal, mostly in the form of anthracite, is one of the leading mineral resources in South Korea. Geological surveys show that there are about 1.3 million tonnes of coal deposits, of which about one-quarter is exploitable. In 1982, however, it was reported that a new coalfield with reserves of 56.2 million tonnes had been discovered in Kangura province. In an effort to increase domestic output, under-sea deposits may be mined. At present, supplies are drawn from a variety of state and privately owned mines, mostly small in size.

Domestic consumption is currently rising by some 900,000 tonnes per year. As a result, domestic output has to be augmented by imports. Coking coal has been imported in substantial quantities since 1978 for the iron and steel industry.

Iron ore reserves are estimated to be about 108.8 million tonnes, mostly of magnetite. Copper ore reserves are put at 90,700 tonnes (copper content) and a similar amount of tungsten exists. The metal content of the lead-zinc deposit at Yeonwha approaches 113,375 tonnes. The tungsten mine at Sangdong is the second largest in the world; more tungsten and molybdenum ore bodies are known to exist nearby. Other mines work gold-silver ore deposits.

South Korea is one of the principal world sources of natural graphite, with estimated reserves of amorphous graphite of 27.2 million tonnes and reserves of crystalline graphite of 2.4 million tonnes. There are about 40 operating fluorite mines and it is estimated that there are 1.8 tonnes of fluorite deposits in 70 per cent concentrate. Limestone is abundant and cement is produced in large quantities; by 1984, the capacity of the cement industry had exceeded 18.1 million tonnes. Kaolin production is substantial. Several uranium ore bodies have been discovered.

Lacking hydroelectric potential, South Korea relies predominantly on oil and coal for electric power generation, supplying about six-tenths and one-third, respectively, of total energy needs in the early 1980's. Other energy sources are hydro power, firewood and, increasingly, atomic power.

2.5 Transportation and Communication

Owing to the expanding network of motorways and to the increasing domestic production and widespread distribution of motor vehicles, railway transport, formerly the principal mode of freight and passenger transport, has been overtaken in importance by road transport, which handled 62.4 per cent of total freight movements in 1984; rail transport followed with 23.3 per cent.

The capacity of South Korea's ports, including a completely new port at Pukpyong on the east coast, has been increasing rapidly, and in 1986 was approaching 90.7 million tonnes per year. Accompanying this, the country's fleet of merchant ships has also been expanding, and its total displacement exceeded 6.4 million tonnes in 1984.

With the assistance of foreign partners and as a result of the development of the electronics industry, South Korea's communication services have improved dramatically. The number of telephone subscribers reached nearly 2.8 million in 1980, more than four times the number in 1972. The country has a modern radio and television broadcasting system and a thriving publishing industry.

3. POLITICAL STRUCTURE AND GOVERNMENT

3.1 Historical Perspective & Recent Events

The last native dynasty (Yi) ruled from 1392 until 1910 when Japan formally annexed Korea. The country remained an integral part of the Japanese Empire until 1945, when it was occupied by troops of the US and the USSR. The 38th parallel was the boundary between the two zones of occupation. In 1947, the General Assembly of the U.N. resolved that elections should be held under the supervision of a temporary Commission. Dr. Syngman Rhee was elected as first president of South Korea.

After abortive attempts to unify the country by negotiation, the North Koreans attacked on June 25, 1950. The armistice of July 27, 1953 eventually left the boundary between the two zones more or less where it had been before hostilities - at the 38th parallel. The Republic of Korea has been officially recognized by the governments of most countries except the USSR and its satellites.

Almost 35 years after the Korean War, the demilitarized zone continues to symbolize the painful reality of a divided people in a tense part of the world. This division dominates all aspects of life in South Korea. Persistent efforts by the unpredictable North Korean Regime to undermine the Republic of Korea's stability, gained international notoriety following the attempted assassination of President Chun at Rangoon in October 1983. Indeed all political problems in the Republic of Korea are viewed by the government of President Chun from a security standpoint. This approach affects the administration's commitment to a more open and democratic government and to the protection of the human rights of the Republic of Korea's citizens.

If the government relaxes the tough security forces and police actions on university campuses and on the streets, some government sections, and probably the military, contend that North Korea will exploit the demonstrations; if a strong clampdown occurs, the Chun government is confronted with increased domestic opposition as well as with international criticism. This international criticism also focusses on alleged human rights abuses. In January 1987, the government admitted that police torture caused the death of a university student and the Minister of Home Affairs and the National Police Chief were removed from office. Within Canada, there is criticism of many Chun government actions, as well as arrest and trial procedures and results. Canadian concerns on the general human rights situation were raised with President Chun, then Prime Minister Lho, senior Korean businessmen and some opposition National Assembly members by Prime Minister Mulroney during his May 1986 visit.

3.2 The Political System

The Constitution of the Fifth Republic was approved by national referendum on October 22, 1980. It came into effect on October 27, 1980. The executive consists of the President, the State Council (composed of the President, the Prime Minister and no more than 30 and no less than 15 members appointed by the President) and the Board of Audit and Inspection. The President is elected by the Presidential Electoral College for one term of seven years. The National Assembly is composed of more than 200 members, two-thirds of whom are elected for four years by universal, equal, direct and secret ballot, the remaining third proportional to the parties. The courts are composed of the Supreme Court, which is the highest court of the State, and other courts at specified levels. The Supreme Court consists of no more than 13 Justices, including the Chief Justice. The Chief Justice is appointed by the President, with the consent of the National Assembly, for a term of five years.

3.3 Economic Planning

Before the first overall economic development plan was launched in 1962, Korea remained largely a traditional closed agricultural economy with about two-thirds of the working population still engaged in agriculture. Moreover, what little industrial base there was had been destroyed in the Korean War.

The industrial policy immediately following the war may be loosely characterized as a policy of import substitution of non-durable consumer and intermediate goods behind a protective wall of high tariffs and stringent quotas. However, the development strategy based on import substitution soon reached its natural limits, especially because of the small size of the domestic market and large capital requirements.

After many years of stagnation, in 1961 a new government committed to economic development came into power. Because of its poor natural resource endowment, and small domestic market, the government shifted economic policy to a program of growth maximization through export oriented industrialization. This economic growth strategy was the keystone of the first Five Year Plan, the first formal economic development plan ever adopted by the Korean government.

The development strategy of the 70's, as reflected in the third and fourth Five Year Plans, included modernization of rural areas, but more importantly, the development of heavy and chemical industries. These were seen as essential to balance the industrial development.

However, by the latter half of 1979, the Korean economy began to show signs of strain. For instance, commodity exports in real terms declined in 1979 for the first time since Korea began her

industrialization in the early 60's and the growth rate fell sharply to 6.5 per cent in that year, the smallest since 1972. In response, the government in mid-1979 announced a comprehensive fiscal and monetary policy. Nevertheless, in 1980, the Korean economy experienced, for the first time in more than two decades, a negative growth rate of -5.2 per cent.

The subsequent fifth Five Year Plan was launched on the basis of a balanced, solid, qualitative advance across a broad spectrum of Korean society. During the 1979-82 period as major structural changes were introduced, the Korean economy began to adjust to new internal and external economic environments.

By 1985, however, the Korean economy was again stagnating. To improve the continued slowdown and its negative impact on employment, the government took various policy measures to promote exports and investment. The exchange rate was constantly being adjusted upward. Unlimited export credit financing for investment in export oriented industries was allowed while export procedures were dramatically simplified. Various tax incentives were provided for investment in machinery and equipment. In spite of the various government measures the performance of the South Korean economy in 1985 was far less than satisfactory.

In 1986, the economy achieved a high growth performance with price stability, the GNP increasing by 15 per cent, with a first ever current account surplus of US \$4.7 billion.

3.4 Cabinet

The following is a list of those individuals forming the government of South Korea as of June 1987.

President	Chun Doo-Hwan
Prime Minister	Lee Han-ki
Deputy Prime Minister and Minister of Economic Planning Board	Chung Ju-Yong
Minister of Foreign Affairs	Choi Kwang-Soo
Minister of Home Affairs	Koh Kun
Minister of Finance	Sakong Il
Minister of Justice	Kim Sung-Ki
Minister of National Defence	Lee Ki-Baek
Minister of Education	Sohn Jae-Suk
Minister of Agriculture and Fisheries	Hwang In-Sung
Minister of Trade and Industry	Rha Woong-Bae

Minister of Energy and Resources	Choi Chang-Nak
Minister of Construction	Lee Kyu-Ho
Minister of Health and Social Affairs	Rhee Hai-Won
Minister of Labour	Lee Hun-Ki
Minister of Transportation	Cha Kyu-Hun
Minister of Communication	Lee Dai-Soon
Minister of Culture and Information	Lee Woong-Hee
Minister of Government Administration	Chung Kwan-Yong
Minister of Science and Technology	Lee Tae-Sup
Minister of National Unification Board	Huh Moon-Doh
Minister of Sports	Lee Sei-Kee
Minister of State for Political Affairs	Chung Jae-Chull

3.5 Foreign Relations

South Korean history has deep-rooted involvement with Japan, China, USSR, USA and of course, North Korea. Foreign relations with its close neighbours are not, and have not always been, good. Japan and China for hundreds of years battled over Korea, leaving the country ravaged by war and underdeveloped. More recently, the Korean War saw North Korea, China and the USSR oppose South Korea in bloody conflict. The United States, as the major power, along with several other countries including Canada under United Nations auspices joined forces with South Korea to suppress the communist aggression.

In December, 1965, a normalization treaty signed by Japan put relations between the two countries on friendly footing for the first time in about 80 years. South Korea has maintained close ties with the United States, which has about 40,000 servicemen stationed there, and a portion of the South Korean army is under U.S. command.

There were increasing efforts during 1972 to effect some sort of rapprochement with communist ruled North Korea. In October 1972, four months after the first political talks between the two Koreas since the war began, martial law was imposed in the South. A month later a new constitution was introduced giving the president enormous powers, replacing the former democratic system - supposedly to give Park the necessary authority to deal with the North. In 1973, talks with North Korea broke down. Relations between the two Koreas remained strained, but worsened dramatically following a bomb explosion in Rangoon in October 1983 that killed 17 South Koreans who were in Burma with Chun on a state visit. The bomb was later proved to have been set by North Korean commandos. The Rangoon affair immediately followed another national trauma: the downing of a South Korean airliner carrying 269 passengers and crew by Soviet fighters in September of 1983. The Soviet attack put a large hole into Seoul's present foreign policy of pushing

for better relations with almost all countries, irrespective of political leanings, in an effort to boost trade and isolate the North diplomatically.

Seoul's hosting of the Asian Games last year and its selection as the site for the 1988 Olympics should more than make-up for the loss and the government regards these events as opportunities to show the country in the best possible light to the rest of the world.

The years before Seoul holds the Olympic Games are likely to be decisive for the country's domestic political scene. Chun has pledged to step down in the spring of 1988 to be succeeded by the winner of an electoral college vote. The opposition is calling for direct elections. Following a prolonged period in mid-1987 of violent demonstrations against the government on this issue, Chun has promised open elections and bowed to a number of other opposition demands.

Canada's involvement in the Korean peninsula and with its people began in the late 19th century when Canadian missionaries played an important role in serving Koreans in the fields of education and health care. Official involvement commenced in 1947 when Canada was a member of the United Nations Commission supervising free elections in Korea. Formal recognition followed in 1948. Canada continued to support the political and territorial integrity of the Republic of Korea against the claim of the Democratic People's Republic of Korea to be the sole legitimate government on the peninsula. Thus, when North Korea attempted reunification by force in 1950, Canada contributed to the United Nations Command. By the time of the armistice in 1953, 26,791 troops had served in Korea with 516 fatalities.

Since that time, Canadian interests in South Korea have stemmed from a desire to ensure continued stability on the Korean peninsula, to foster security in the region and to develop and protect our growing commercial and other bilateral interests. The Canadian Embassy was established in Seoul in 1973.

During the 1980's the bilateral relationship has been strengthened by numerous high level visits, including the exchange of visits by former PM Trudeau (1981) and President Chun (1982). In 1985 Federal Ministers of International Trade, of Fitness and Amateur Sport, of Regional Industrial Expansion and of Finance visited the ROK. In April 1986, President Chun made a stop-over in Vancouver en route to European visits and, as mentioned, Prime Minister Mulroney visited Korea. These federal visits are also complemented by Cabinet-level visits from several provinces. These high level exchanges are reinforced by the presence in Canada of more than 40,000 residents of Korean origin, a constant influx of Korean immigrants, particularly in the entrepreneurial class, and travel by businessmen, families and, increasingly, tourists.

Trade relations between Canada and South Korea are governed by a bilateral trade agreement (1966) and by mutual membership in the GATT. As a result, Canada and South Korea extend to each other benefits of Most Favoured Nation (MFN) treatment. In addition, Korea is accorded General Preferential Tariff (GPT) treatment. South Korea is now Canada's second largest trading partner and third largest market (after Japan and China) in the Asia-Pacific region.

4. THE ECONOMY

4.1 General Overview

Korea has proved itself to be one of the most successful of developing countries. Twenty-five years ago it was among the poorest, heavily dependent on agriculture, with a weak balance of payments, financed almost entirely through foreign grants. But GNP growth averaging eight per cent annually since 1960 has raised Korea's per capita income from Cdn \$180 in 1960 to over Cdn \$2,274 in 1986 (both in current dollars), and has brought the country into the ranks of the semi-industrialized nations. Today Korea is the world's thirteenth largest trading nation and is making a name for itself in sophisticated industrial products.

Korea's outward orientation makes it unusually susceptible to external shocks. But the quality of its economic management enabled it to adjust rapidly to high growth in 1975-78. The second oil crisis in 1978-79, combined with sharp increases in international interest rates and the onset of a deep global recession, proved more difficult to manage, especially following the assassination of President Park. In 1980, Korea's economy contracted for the first time in its modern economic history - the GNP fell by five per cent in real terms, the balance of payments deficit reached nine per cent of GNP, and unemployment rose to 5.2 per cent.

The economy responded well to stabilization and adjustment programs implemented subsequent to 1980. Growth averaged 7.5 per cent in 1983-85, while inflation was held at an average of about four per cent. Unemployment was reduced to 3.8 per cent in 1985, while the current account deficit was cut to one per cent of GNP. The economy performed exceptionally well in 1986, responding to the triad of favourable circumstances - low oil prices, low world interest rates on Korea's external debt and the rapidly appreciating Japanese yen, which aided the competitiveness of exports. As a result, in 1986 GNP growth was 12 per cent and the current account swung into surplus, at a level of \$4.5 billion.

As has been the case in recent years, Korea's growth during the rest of the 1980's will be determined largely by the performance of exports. The guidelines for the Sixth Development Plan (1987-91) call for an average growth of 7.5 per cent to be achieved via an export growth rate of 10 per cent and a national savings rate of 33 per cent by 1991. This is to be accompanied by stable prices and sustained surpluses in the current account. The proposed targets are ambitious and the self-imposed constraints are tight. Hence, careful macroeconomic management will be required over the next few years.

In the medium-term, investments in domestic research and development and in skills-upgrading will help in diversifying away from those industries where Korea no longer has a labour-cost advantage. The appreciation of the yen may enable Korea to increase its exports and market share in such important geographic markets as the U.S. and Europe. In particular, this development is likely to help establish two major product lines for Korea, namely, automobiles and electronic products.

The particular combination of domestic policies and external developments that exists at present leads to considerable optimism regarding Korea's medium term prospects. The external environment presently features positive configurations of oil prices, interest rates and exchange rates. Should these continue through the medium run, they will assist Korea in expanding exports and sustaining a reasonable surplus on the current account, thereby raising the growth rate while simultaneously reducing reliance on external debt. The domestic policy environment features trade, financial and industrial policy initiatives that should reduce distortions and make the economy more productive, efficient and flexible. Should these incentives be sustained, the prospects for growth and stability will become all the brighter.

4.2 Monetary and Fiscal Policies

The government, through the central bank and by directly owning or controlling (through equity participation) nearly all the financial institutions, has exerted enormous influence in determining interest rates, underwriting private loans from abroad, and channelling resources to private activities and firms - South Korea's first step in export expansion was greatly encouraged by the government's new foreign exchange rate policy (adopted in 1964), whereby the currency was devalued by about 50 per cent (from 130 to 255 won per US dollar) and a unitary floating rate system was introduced.

Technically, the monetary policy resides in the Bank of Korea (BOK) as the country's central bank, but the real source of policy power has remained in the Ministry of Finance. The bank's monetary board, for instance, is chaired by the Minister of Finance. The board is empowered to set the maximum interest rate on each type of loan and deposit of banks, as well as the discount rate of the BOK. At present, the maximum interest rates of deposits are set by the board, but those for loans are determined freely by individual banks within BOK guidelines. Owing to the persistent excess demand for funds, however, the maximum interest rates have tended to be, in practice, considerably below the prevailing market rates, causing the actual rates on loans and deposits to be set at the maximum rates. A series of measures, aimed at decentralizing monetary control, have been introduced since the early 1980's, including the government divestiture of most of its holdings in banks. In 1982 direct credit control through the credit ceiling for individual banks

was replaced with an indirect control system through more traditional rediscount and reserve requirements policies. In January 1984, as a further step towards decontrol, a narrow band of rates, ranging from 10-10.5 per cent was introduced within which banks were free to set rates based on borrowers' credit worthiness. The band was widened to 10-11.5 per cent range in October of the same year, and the ceiling on inter-bank call rates was lifted. As evidence of further reliance on direct control, though limited in scope, the BOK has recently begun to resort more frequently to open market operations.

A unique feature of the country's financial market is its duality: an unorganized market and an organized one, known commonly as the "kerb" market. The latter acts as a conduit between investors having short term (typically less than three months) idle funds, and enterprises in need of short-term credit. Some estimates place the magnitude of the informal market at more than US \$5 billion a year (accounting for about 40 per cent of available loan funds).

A continuing series of tax reforms have been introduced to exert influence on the pattern of resource allocation and the course of economic development. Reforms between the Korean War and 1960 were designed to stimulate capital accumulation, curtail consumption and simplify the tax system. Sweeping reforms carried out mostly in the 1960's form the basis of the present system. The principle objectives of these reforms were to raise domestic savings, to replace economic aid and to hasten growth under the newly instituted economic plan. In addition to streamlining the tax machinery, these reforms, specifically included: raising tax rates and extending the tax base; a punitive new tax on speculative real estate transactions; replacing a per unit with an ad valorem tax; and extending the coverage of excise taxes, particularly on luxuries, monopoly products and imported goods. In addition, these reforms introduced measures to stimulate the growth of certain key industries, discourage imports and encourage exports; measures included: lowering of tax rates for the products of import-substitution industries; tax exemptions and accelerated depreciation of key industries; tax exemption for enterprises engaged in exports in proportion to their earning of foreign exchange; and exemption of customs duties on imports of raw materials destined for the production of exportable goods.

South Korea's tax burden rate (tax receipts as a share of GNP) is relatively low (18.8 per cent in the 1986 budget). It was expected to rise to 20.5 per cent by the end of the sixth Plan. This was to be achieved, not by raising tax rates or introducing new taxes, but through tax revisions, which include reduction in "unnecessary and excessive" tax incentives now granted to certain industries and individuals; reductions in the tax breaks for foreign businesses operating in the country; and favourable treatment of activities furthering technological progress; improving the productivity of small and medium sized enterprises, or raising the income of the low income group, particularly farmers,

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.

4.4 Activities of CIDA and EDC in South Korea

The Canadian International Development Agency (CIDA) and the Economic Development Corporation (EDC) have not been very active recently in South Korea primarily because of the promising economic picture of the country. There are however a number of small projects underway.

CIDA has been, and is currently involved in, two projects aimed at providing funds and technical support to the weak and insolvent credit unions in two provinces (Kang Won and Chon Nam) of Korea. It is anticipated that two field workers will be hired and that 20 credit unions will be established each with assets below 200 million won. It is further expected that the assets will grow by 15 per cent by June 1987. CIDA contributions to date total Cdn \$92,000. In addition, to the Credit Union project, CIDA is involved in three other Non-Governmental Organizations (NGO) projects.

St. Michael's Hostel serves young women from the countryside living in an urban area for the first time, working in factories in the Musan area. The hostel provides decent housing, education and community life for women. At night the women study at the middle and high school level. The aim of the hostel is to upgrade the women's skills to do less exploitive work. The specific project is to build a combined dining/study room extension. The total value of the project is Cdn \$7,883. It was approved in 1985 and CIDA's contribution of Cdn \$5,250. was paid in fiscal year 1985/86. The second Canadian contributor to this project was the Anglican Church of Canada.

A project aimed at water and rural irrigation was approved in December 1983. The objectives were to train farmers in the skill of detecting water resources, to purchase pumps and pipelines, to organize the structure and team to expand the work, to operate the irrigation supply team and to make funding requests for "seed money" for further projects. The project was valued at Cdn \$148,335 with CIDA's contribution being Cdn \$46,080. The final portion of Cdn \$2,380 was paid in fiscal year 1986/87.

Other contributors included the Presbyterian Church of Canada and the Alberta Government.

The St. Peter's School Vocational Equipment project was approved in February 1985. The main outlay of this Cdn \$20,145 project will go for a kiln. CIDA's total contribution will be Cdn \$3,566 with the final portion due for payment in FY 1987/88. St. Peter's school has developed a program of vocational training for the mentally retarded. The aim is to train students for employment, enhance their ability to look after themselves on a day-to-day basis and become economically productive by selling the goods they produce, so the program becomes self-supporting and ongoing.

The activities of EDC have been limited to insurance dealings on Canadian product destined to South Korea. In 1986 EDC insured Canadian exports valued at Cdn \$18.9 million.

4.5 Banking and Finance

As of February 28, 1987, Korea had received 85 bank loans and eight International Development Agency (IDA) credits, totalling Cdn \$6.1 billion in loans and Cdn \$115.6 million in credits (taking into account cancellations and the refinancing of one IDA credit in a subsequent bank loan). Progress on project implementation is generally satisfactory. Despite some recent delays, Korea's disbursement rate remains the highest among major bank borrowers in East Asia.

The current pipeline of projects in the lending program for Korea reflects an evolution in the bank's strategy from lending for individually distinct projects concerned with microinstitutional issues to making loans which are increasingly aimed at addressing more broadly based policy and institutional issues. This gradual change in the bank's lending approach, made possible by relatively sophisticated Korean institutions, is proceeding well. Sector loans have already been made for highways, education and industrial finance. The bank has also made two Structural Adjustment Loans (SAL's), which complement this approach by concentrating on issues that have a multisectoral impact.

In 1984, the bank undertook an agricultural sector survey in Korea, which recommended that government should stimulate non-farm employment in rural areas, reduce its overall intervention in the sector and adopt a broader and longer-term view of agricultural problems. A fourth credit project, which was approved in May 1985, will promote agricultural development through financing private sector investments covering a wide range of agricultural production and development issues of the National Agricultural Cooperative Federation (NACF), the main credit institution serving agriculture.

The bank group has been involved in helping to meet the requirements for skilled technical manpower, a precondition of industrial diversification. The bank's first sector loan for education, approved in 1980, aimed at improving engineering and management education and technician training. A second sector loan, approved in May 1984, supports measures designed to improve qualitative aspects of secondary and high-level science and technology education.

The bank has played a major role in assisting the government to modernize and expand the transport system through lending for railroad, highway construction and improvement and port expansion. The highway sector loan approved in 1984, as well as future operations, would address

sectoral and subsectoral issues such as improving the integration of investment planning, energy conservation and transport efficiency related to regulation and road user charges. Transport issues that involve macroeconomic policies affecting other sectors of the economy, such as relative fuel prices, are being handled within the context of the second SAL.

5. FOREIGN TRADE AND TRADE POLICY

5.1 Factors Influencing Trade

Despite Korean assurances that trade is conducted on the basis of competitiveness in price and quality, a number of government practices and policies act as barriers to Canadian exports. The main sectors affected by these barriers are the agricultural sector and manufactured products.

Major barriers are as follows:

1. Import prohibition on a wide range of agricultural products of export interest to Canada. All goods imported into Korea require a license. Currently 87.7 per cent of items imported into Korea are approved automatically. The remaining items, which consist predominantly of agricultural and consumer items, are prohibited. Banned agricultural items of export interest to Canada include dehydrated alfalfa, barley, cattle and beef. Table 2 summarizes the tariffs on a number of agricultural products.
2. Procurement decisions influenced by political considerations. A major preoccupation in recent years has been to shed Korea's traditional image of the "hermit kingdom". Efforts to rally political support vis-a-vis North Korea have reinforced this attitude together with economically driven policies aimed at expanding market access for Korean export products. Purchases guided by these considerations include potash from Jordan and anthracite from China. Canada is a competitive supplier of both these products.
3. Procurement policies discouraging purchase of foreign finished products. For most manufactured products, sales must be made through joint venture arrangements and, increasingly through transfers of technology to Korea. The reasons Canadian manufacturers do not like this arrangement are: i) the lack of intellectual property protection (new measures have been announced to protect copyrights and foreign patents in selected sectors effective in 1987); ii) the perception that the Koreans are not willing to pay a fair value for foreign technology; iii) the desire to "package" the technology with sales of equipment; and iv) the fear that Korea will use the technology to compete with Canada in established foreign markets.
4. Canada is still perceived as a supplier of raw materials.
5. Traditional links with the USA going back to the Korean war. Examples of such links include tendering procedures favouring US agricultural products and heavy procurement of US military equipment (defence budget procurement of US \$6 billion).

6. Red tape and tight government control over foreign investment. Only projects with less than 50 per cent foreign equity and less than U.S. \$1 million can be approved "automatically". All other proposals are subject to review both by the Minister of Finance and the relevant ministry.

Conversly, Korean investment abroad is subject to foreign exchange control.

7. Offset requirements for the sale of defence products. The basic guidelines of this offset program are as follows - i) offsets apply to all purchases of more than U.S. \$1 billion; ii) 20 per cent of the basic contract value must be direct offsets; and iii) offset proposals are evaluated on a competitive basis and are considered part of the basic contract.

TABLE 2: TARIFF BARRIERS FOR SELECTED AGRICULTURAL PRODUCTS

<u>Commodity</u>	<u>Tariff</u>	<u>Remarks</u>
Beans	30 %	subject to import license issued by MOAF
Wheat	5 %	subject to import license issued by Korean Flour Mills Industrial Association
Rye	7 %	subject to import license issued by Korea Feed Association or NLCF
Malting Barley	50 %	subject to import license issued by MOAF
Barley	5 %	subject to import license issued by MOAF
Corn	7 %	subject to import license issued by KFA and NLCF
Buckwheat	20 %	subject to import license issued by MOAF
Wheat flour	20 %	free to import except from Japan
Sunflowerseed	40 %	subject to import license issued by MOAF
Rapeseed	40 %	subject to import license issued by MOAF
Sesame seed	40 %	subject to import license issued by MOAF
Linseed	15 %	free to import

<u>Commodity</u>	<u>Tariff</u>	<u>Remarks</u>
Soybeans	10 %	with the exception of three soybean oil crushers (soybeans required for oil), NACF (soybeans required for process of other foods) and Agriculture and Fishery Development Corp. (soybeans required for bean sprout), soybeans are restricted import
Mustardseed	15 %	free to import
Soybean oil	30 %	subject to import license issued by MOAF
Rapeseed oil	40 %	subject to import license issued by MOAF
Sunflowerseed oil	40 %	subject to import license issued by MOAF

Source: Departmental Files

5.2 Exports

South Korea's exports grew from just \$40 million in 1953 to \$30 billion in 1985, registering an average 23 per cent per annum growth rate. Rapid expansion started in the 1960's, when the growth rate for the decade was 38.2 per cent a year. Growth continued in the 1970's, although at a lower rate.

In the 1980's export growth has been characterized by wide fluctuations. After a 21.4 per cent growth in 1981, exports grew at an all-time low rate of 2.8 per cent in 1982. After recovering in 1983 and 1984, with 11.9 per cent and 19.6 per cent growth respectively, growth in 1985 fell to 3.5 per cent. However, 1986 saw Korean exports grow by 14.6 per cent to US \$34.7 billion. Brisk exports, together with rising domestic investments, have boosted the economic outlook in general. The increase in exports came primarily from textiles, electronics, machinery and shipbuilding.

Table 3 summarizes the main destinations of Korean exports. The USA and Japan are, by far, the two biggest customers for South Korean exports. Although their share has been declining slowly in recent years, these two together imported about one-half of total South Korean exports in 1985 (USA 35.5 per cent and Japan 15 per cent). Hong Kong is a distant third, with 5.2 per cent. With sudden rapid growth from \$442.8 million in 1982 to \$1.2 billion in 1985, Canada has emerged as the fourth largest destination for South Korean products. The rest is widely distributed throughout the world. More than 90 per cent of exports are

manufactured goods, headed by textiles, footwear, ships, iron and steel, passenger cars, electric/electronic products and communications equipment, rubber tires and tubes, plywood and fishery products.

TABLE 3: MAIN DESTINATION OF KOREAN EXPORTS - 1985

	<u>% of Total</u>
USA	35.5
Japan	15.0
Hong Kong	5.2
Canada	4.1
Saudi Arabia	3.4

Source: The Economist Intelligence Unit

Overall Korean exports increased by U.S. \$1 billion in 1985 over 1984 figures, an increase that represents a growth of 3.5 per cent. While several commodities experienced negative growth some others showed significant gains. The largest in dollar value was experienced in the machinery and transportation equipment sector while the largest percentage growth was seen in the finished structural parts sector. Table 4 summarizes Korea's exports for 1984 and 1985 and indicates the percentage change. Complete 1986 export figures were not available at the time of writing.

TABLE 4: KOREAN EXPORTS

<u>Exports (FOB)</u>	<u>1984</u>	<u>1985</u>	<u>% Change</u>
Food	1,149.2	1,134.8	- 1.3
of which fish	642.0	621.5	- 3.2
Crude minerals - inedible	327.9	297.9	- 9.1
Mineral fuels	832.3	954.2	14.6
Chemicals	845.4	936.2	10.7
Rubber tires	470.1	440.5	- 6.3
Paper	127.4	134.8	5.8
Textile yarn & thread	618.8	610.7	- 1.3
Cotton fabrics	188.9	169.9	- 10.0
Other textile fabrics	1,318.7	1,327.1	.6
Cement	110.8	96.0	- 13.4

<u>Exports (FOB)</u>	<u>1984</u>	<u>1985</u>	<u>% Change</u>
Iron & steel sheets	640.6	529.6	- 17.3
Finished structural parts	557.5	711.6	27.6
Machinery & transport equipment	10,464.0	11,378.2	8.8
of which telecommunications equip.	1,857.1	1,965.2	5.8
electronic components	1,337.5	1,136.2	- 15.0
ships	4,683.6	5,031.5	7.4
Clothing	4,499.5	4,451.9	- 1.0
Footwear	1,351.6	1,534.8	13.5
TOTAL:	<u>29,244.9</u>	<u>30,283.1</u>	<u>3.5</u>

Source: The Economist Intelligence Unit

Korean exports to Canada specifically as outlined in Table 5 rose by Cdn \$142 million in 1986 over 1985, representing an 8.9 per cent increase over the previous year. Of interest is the relationship between 1985 and 1984. In 1985 there was an increase of Cdn \$454.9 million representing a growth of 39.5 per cent over 1984. This enhancement is largely due to an increase in passenger car sales to Canada. In 1984 the value of passenger car exports amounted to Cdn \$134 million. In 1985 the figure rose by 344 per cent to a remarkable Cdn \$596 million.^{1/}

TABLE 5: KOREAN EXPORTS TO CANADA

<u>Items</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Apparel & apparel accessories	315.4	298.2	331.4
Footwear	80.4	72.6	100.8
Televisions, radios & phonographs	137.0	104.6	92.8
Telecommunications & related equipment	30.1	35.6	77.0
Iron & steel products	41.7	60.2	67.7
Broad woven fabrics yarn & thread	39.6	100.6	139.9
Microwave ovens	3.9	14.1	43.5
Games, toys & childrens vehicles	25.0	32.6	42.0

^{1/} This is an estimated figure. A precise figure is not available due to Statistics Canada confidentiality regulations.

<u>Items</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Kitchen utensils, personal and household goods	59.1	54.4	46.0
Telephone & apparatus equipment & parts	10.0	13.5	19.7
All others including passenger cars	410.1	820.5	788.6
TOTAL:	<u>1,152.0</u>	<u>1,606.9</u>	<u>1,749.4</u>

Source: Statistics Canada

5.3 Imports

For every year from 1953 to 1985 the country's imports have exceeded exports. However, the trade deficit as a share of exports has been decreasing over the years (from 772.2 per cent in 1953 to 137.5 per cent in 1970, and to only 2.8 per cent in 1985), owing to faster growth in exports. For the first time ever, 1986 trade balance was positive, the result of a combination of export increases, and a drop in the cost of imported commodities, namely oil. Projecting the trend, the country foresees a trade surplus in the sixth Plan. As in exports, the country's source of imports is unbalanced, with the two major partners accounting for about 45 per cent of the total; however, the ranking between the USA and Japan is reversed (24.3 per cent for Japan and 20.8 per cent for the USA in 1985). Table 6 summarizes the major sources of Korean imports. The reversal occurred in the mid-1960's. Imports are much more widely dispersed than exports among the trade partners. The relative importance of the Middle East has declined recently, owing to reductions in the cost of petroleum; in 1985 the third and fourth largest sources of imports were Malaysia (four per cent) and Australia (3.5 per cent). Leading imports are crude petroleum, iron and steel scrap and ingots, wood, timber and pulp, chemical products, raw cotton, wheat and maize, raw sugar, and machinery and equipment. The country has become increasingly dependant on Japan for machinery and electronic products in recent years. Japan accounted for 24.1 per cent of total machinery imports in 1985, compared to 21.3 per cent in 1980. The share of Japan in total electronics imports also increased from 13.5 per cent in 1980 to 17.1 per cent in 1985.

TABLE 6: MAIN SOURCE OF KOREAN IMPORTS (1985)

Japan	24.3
USA	20.8
Malaysia	4.0
Australia	3.6
West Germany	3.1

Source: The Economists Intelligence Unit

Related to the protectionist sentiments in the advanced countries is their pressure on South Korea to open up her domestic markets. For instance, the USA is linking the extension of the generalized system of preference (GSP) benefits for South Korea to opening the markets for such American products as beef, tobacco and computers, and to the protection of intellectual property rights. Partly in response to external pressure, and partly to stimulate local competition and product quality, the government has introduced a series of import-liberalization measures. For instance, 302 items (including TV sets, coffee, nylon carpets, soda ash, tomato sauce and highway buses) were removed from the import embargo list in July 1986. By 1988, according to the government plan, virtually all trade barriers on industrial manufactured goods will be lifted.

Overall Korean imports increased by US \$504.3 million in 1985 over 1984, representing a growth of 1.6 per cent. As was the case with exports, several import commodities experienced negative growth while others enjoyed significant gains. The largest gain respective of dollar value was experienced in the machinery and transportation equipment sector while the largest percentage growth was seen in imports of coal. Table 7 summarizes Korea's imports for 1984 and 1985 and indicates the percentage change. Complete 1986 figures were not available at the time of writing.

TABLE 7: KOREAN IMPORTS

<u>Imports (CIF) (mns US \$)</u>	<u>1984</u>	<u>1985</u>	<u>% change</u>
Wheat, unmilled	424.2	442.2	4.2
Maize	491.2	422.9	-13.9
Sugar, raw	187.5	144.0	-23.2
Hides & skins, raw	288.6	311.2	7.3
Rubber, crude	254.2	218.4	-14.1
Wood, unmanufactured	571.0	490.6	-14.1
Pulp	246.5	238.0	- 3.4
Wool, raw	148.6	155.0	4.3
Cotton, raw	615.9	531.2	-13.7
Iron ore	283.0	318.9	12.7
Coal	726.1	1,042.6	43.6
Petroleum products	6,081.3	5,806.4	- 4.5
Chemicals	2,708.6	2,792.1	3.1
Textile yarn & fabrics	541.6	584.2	7.9
Iron & steel	1,205.5	1,082.4	-10.2
Machinery & transport equipment			
of which:			
telecommunications equip.	614.5	546.0	-11.1
electronic components, etc.	1,295.4	1,131.8	-12.6
aircraft	301.2	369.4	22.6
ships	2,709.0	3,230.9	19.3
Scientific instruments	522.8	583.6	11.6
TOTAL, including other items:	<u>30,631.4</u>	<u>31,135.7</u>	<u>1.6</u>

Source: The Economist Intelligence Unit

Korean imports specifically from Canada as outlined in Table 8 increased in 1986 by Cdn \$183.2 million over 1985 figures, representing a growth of 23.6 per cent. Positive growth was seen in wheat, wood pulp, raw hides and skins, radar equipment, copper and a consolidation of other items the identity of which is not available because of Statistics Canada confidentiality guidelines.

TABLE 8: KOREAN IMPORTS FROM CANADA
(Cdn \$ millions)

<u>Items</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Coal	211.8	252.2	-228.2
Wheat	1.6	10.0	+ 80.3
Sulphur	39.8	88.3	- 78.1
Organic chemicals	36.7	91.7	- 58.4
Wood pulp	41.7	50.1	+ 64.7
Fertilizers (potash)	49.0	42.2	- 33.9
Raw hides & skins	27.3	16.2	+ 33.4
Radar equipment & related devices	—	—	+ 26.6
Copper (ores, concentrates, scrap)	46.9	8.0	+ 20.2
Commercial telecommunications equip.	43.6	41.9	- 16.1
All others	221.6	174.9	+318.8
TOTAL:	720.0	775.5	958.7

Source: Statistics Canada

Import mechanisms for cereal grains are as follows while those for oilseeds are located in Section 7 of this profile.

A. Wheat

Korean Flour Mills Industrial Association (KOFMIA), individual flour millers and registered trading companies on behalf of millers are legally authorized to import wheat for human consumption. KOFMIA imports about 70 per cent of the total requirement through regular tenders and individual millers import the remaining 30 per cent through price negotiations. In the case of wheat for animal consumption, Korea Feed Association (KFA), National Livestock Cooperative Federation (NLCF) and individuals are authorized to import either through tenders (KFA and NLCF) or price negotiations (millers).

B. Barley

Two breweries are authorized to import malting barley through price negotiations if a requirement exists due to a poor domestic crop.

C. Corn

KFA and NLCF are authorized to import corn for animal consumption through tenders and Korea Corn Processors Industry Association (KCPIA) is authorized to import corn for food and industrial purposes either through tenders or price negotiations.

D. Rye

KFA, NLCF and individual millers are authorized to import rye for animal consumption either through tenders (KFA and NLCF) or price negotiation (millers). In the case of rye for feed purposes, NLC, Korea Dairy and Beef Farmers Association (KDBFA) and registered trading companies on behalf of cattle farmers are authorized to import either through tenders (NLCF and KDBFA) or private negotiations (trading companies).

5.4 Grain Industry Infrastructure

There are currently five grain handling facilities in Korea with the following unloading and storage capacities:

<u>Name of Firm</u>	<u>Port</u>	<u>Unload Capacity tonnes/hour</u>	<u>Storage Capacity tonnes</u>
Korean Silo Co. Ltd.	Inchon	800	300,000
Taihan Bulk Terminal Co. Ltd.	Inchon	1,500	138,000
Sun Kwang Co. Ltd.	Inchon	600	90,000
Woo Sung Enterprises Co. Ltd.	Pusan	800	80,000
Ulsan Silo Co. Ltd.	Ulsan	1,500	80,000
Han Jin Transportation	Inchon	900	100,000
Korea Express Co. Ltd.	Inchon	800	50,000
Total:		<u>6,900</u>	<u>838,000</u>

5.5 Trade and Investment Policy

Korea is engaged in a widely publicized program of trade liberalization. The stated objective of the program is to remove existing import prohibitions and scale down existing tariff rates in order to expose Korean industry to international competition thereby effectively opening the Korean market to foreign export.

The release, in October 1985, of a revised 1986 schedule showed that import liberalization in Korea was alive, but less robust than before. The country's then faltering economy and growing resentment of US - led pressure for market opening measures weakened the influence of technocrat reformers and Seoul's resolve to liberalize speedily. Effective July 1, 1986, 300 additional items were removed from the import restrictions list bringing authorized imports to 91.5 per cent of total import items.

More recently however the Korean government responded to US pressure by authorizing:

1. the import of foreign cigarettes, subject to a quota of 40 million packs;
2. three US insurance companies to sell fire and life insurance;
3. the protection of copyright patents, and foreign developed software technology, effective July 1, 1987.

All goods imported into Korea require a license. Imports are divided into two categories: goods paid for with Korean foreign exchange and those paid for with foreign loan funds. Purchases paid for by Korean foreign exchange are divided into automatically approved and restricted goods. Korea has operated an import liberalization program since 1978. Under this program, the percentage of automatically approved items has risen as stated above. Further plans announced last October will bring this ratio to 93.6 per cent in 1987 and 95.4 per cent in 1988.

A careful analysis of the items scheduled for liberalization reveals that most are industrial products in sectors where Korea has established its comparative advantage (steel products), where Korea plans no production capacity or where there exists minimal domestic demand (snow ploughs). In its October 1985 announcement, the Korean government made it clear that agro-fishery products were purposely omitted from the plan except for those that have little impact on the income of fishermen and farmers. The liberalization of imports of parts for automobiles, trucks and motorcycles is now taking place but their inclusion is related to Korea's expanded export of finished vehicles. This plan therefore is consistent with Korea's policy allowing only selective and controlled access to its market and with its policy to control domestic consumption in both the private and public sectors.

Provisions are in place to implement emergency tariffs when a particular industry is threatened. Korean practice is to remove the total restriction on imports in certain categories, place high tariffs on the newly "liberalized" categories, then, over a period of years, steadily and gradually decrease the tariff level. This application of discriminatory tariffs poses serious problems for exporters to Korea, for the tariffs serve to effectively restrict access to the Korean market.

While the Korean government is making its liberalization timetable clear, liberalization could be put on hold in the event that unforeseen external economic shocks threaten the stability of Korea's domestic economy, particularly the viability of those industries the government is nurturing. In addition, there is the risk that protectionism in Korea's principal export markets and growing competition from developing countries could lead to the curtailment of Korea's import liberalization program.

The Korean government's concern to maintain the competitiveness of its economy has led to a marked reluctance to enter into certain multilateral commitments to which, from a Canadian standpoint, it is highly desirable that import trading nations such as Korea should be bound. In this connection, the absence of patent and copyright protection in Korea has been problematic. However, the introduction of a Copyright and Patent Law effective July 1, 1987 will contribute to reduce the reluctance to transfer technology to Korea. Also of interest is the fact that Korea is not a signatory of six of the 11 GATT codes (Geneva 1979 Protocol, government procurements, bovine meat, dairy, import license, civil aircraft, anti-dumping).

The Korean government takes the position that because it has an underdeveloped industrial infrastructure, an unusually high defence expenditure necessitated by the threat from North Korea, heavy dependence on foreign trade and a high foreign debt, access to its markets by its major trading partners should be restricted.

On its own front, the Korean government is proceeding with further liberalization despite considerable domestic opposition. The Korean government however has made it clear that Korea is proceeding with gradual liberalization despite foreign pressure to accelerate the process.

Canada recognizes the vulnerability of the Korean economy in the context of present global economic conditions. Nevertheless, with a per capita income that reached US \$2,000 for the first time in 1985, Korea is gradually moving to a fully developed status. As such it must begin to assume the responsibilities of a mature player on the international trade scene and must improve the effectiveness of the measures it has taken to liberalize access to its markets.

6. AGRICULTURE

6.1 General Overview

Compared to industry and services, agriculture has been the most sluggish sector of the economy. Most economists argue that the country's rural areas have gained more than they contributed in the course of the economy's industrialization. Still, the growth of agricultural output, which averaged 3.4 per cent per year between 1945 and 1974 and 6.8 per cent during the 1974-1979 period, was creditable. The gains were even more impressive because they added to a traditionally high level of productivity and benefited from only marginal increases in the amount of farmland.

The major problem facing agriculture in South Korea is the shortage of land. Most of the provinces have over two-thirds of their area covered with mountains. Plains and valleys are concentrated in the south-west, in South Ch'ungch'ong, North Cholla and South Cholla provinces. Because these areas have the best climate for growing paddy rice, they form the rice basket. In 1979 the total land area was 9.9 million hectares, of which 2.2 million hectares were cultivated. Over 59 per cent of the cultivated area was paddy land, 35 per cent was upland used for dry field farming and six per cent was planted with fruit and orchards or mulberry trees. These statistics have remained fairly constant to date.

The farm population in 1985 represented 24.9 per cent of the total population with an average of 4.7 persons per farm household. Most agricultural production took place on small farms which averaged 1.07 hectares. A massive land reform program carried out after 1948 reduced the rate of farm tenancy from 48.9 per cent of all farm households in 1945 to 5.2 per cent by 1964. The land reform was usually successful in equalizing rural incomes as owners of large holdings were compelled to sell all land in excess of about three hectares at prices substantially below market rate.

The redistribution program, however, did not significantly affect production. The size of the average farm area declined little from previous levels, and few losses were due to diminished economies of scale. Even in the 70's, when there was less government pressure to restructure land ownership, farms have generally averaged one hectare in size. The small size of farms has tended to be a function of the type of crops and techniques utilized rather than a government decree. In the 50's increases in farm productivity attributable to the incentive of owner cultivated production were also minimal. Whereas the former landlords were able to provide the capital to purchase seed and fertilizer inputs and to expand irrigation, the Rhee government was slow to provide these services to farmers. It remained for the Park administration to build rural institutions capable of supplying modern inputs, marketing services and technological guidance to farmers.

6.2 Major Agricultural Items

Crops

The total area planted to food crops in 1985 amounted to 1.8 million hectares representing a decrease of 7.2 per cent over the preceeding year. Despite 0.5 per cent increase in acreage, rice production in 1985 decreased to 5.6 million tonnes representing a decrease of one per cent from 1984 production. Rice production in 1986 was essentially equal to the 1985 figure. Barley and wheat production also decreased in 1985 from the previous year and experienced a further drop in 1986. In 1985, barley production only reached 387,000 tonnes compared with 1984's production of 672,000 tonnes, representing a decrease of 42 per cent. In 1986 barley production dropped by 18.3 per cent from the 1985 figure to 316,000 tonnes. Malting barley experienced similar reductions of 39 per cent in 1985 compared with 1984 and a further reduction of 25 per cent in 1986 from 1985 for a 1986 production figure totalling 137,000 tonnes. Wheat production in 1985 reached 11,000 tonnes, down 35 per cent from the 1984 production of 17,000 tonnes. In 1986 wheat production dropped further to 5,000 tonnes, a decrease of 54 per cent from 1985. Soybean production in recent years has also been on the decline. In 1985 South Korea produced 234,000 tonnes of soybeans, down by eight per cent from the production of 254,000 tonnes in 1984. The 1986 crop saw a further reduction of 15 per cent from 1985 for a total of 199,000 tonnes. Rapeseed production remained fairly low although there was a slight increase in production in 1986 over 1985 in terms of volume. The percentage increases and decreases are significant due to limited production volumes. Table 9 summarizes the production figures for the major crops produced in 1984, 1985 and 1986.

TABLE 9: CROP PRODUCTION
(000 Metric Tonnes)

	<u>1984</u>	<u>1985</u>	<u>1986 *</u>
Rice	6,686	5,626	5,607
Barley	672	387	316
Malting Barley	132	184	137
Potatoes	1,330	1,362	1,250
Corn	133	132	113
Wheat	17	11	5
Soybeans	254	234	199
Beans	42	41	53
Rapeseed	10	6	7

	<u>1984</u>	<u>1985</u>	<u>1986</u> *
Sesame	49	41	48
Peanuts	13	16	20
Perilla	19	21	25
Cottonseed	3	2	1

Source: Agriculture and Food Abroad Report/Seoul - Canadian Embassy
June 17, 1986

* These figures were received from the Canadian Embassy in Seoul by telex, May 14, 1987

Livestock

There were 2.5 million head of native cattle (including beef cattle), 390,000 head of dairy cattle, 2.8 million head of swine, 51 million chickens, 628,000 rabbits, 318,000 goats and 4,000 turkeys as of the end of 1985. The total consumption of livestock and milk products reached approximately 120,000 tonnes of beef (per capita 2.9 kg), 346,000 tonnes of pork (8.4 kg), 126,000 tonnes of poultry (3.1 kg), 981,000 tonnes of milk (23.3 kg) and 5.4 million eggs (131 eggs) in 1985. Although the increased livestock population contributed to a growth rate of 5.5 per cent in the agricultural sector in 1985, all farmers except swine farmers have suffered due to depressed prices of domestic livestock products caused by surplus production.

Processed Foods

The processed food industry in Korea had been in a primitive stage until the early 1970's. However, it has achieved remarkable progress and development during the last 15 years mainly due to the nation's rapid economic growth and increasing per capita income. A recent report prepared by the government through an industrial census indicates that as of the end of 1984, there were 4,532 food manufacturers in Korea.

6.3 Main Agricultural Policy Measures of the Government

Korea continued to maintain small increases for wholesale (0.9 per cent) and consumer (2.5 per cent) prices in 1985. Average consumer

prices for food products, however, increased by 3.7 per cent, including four per cent for cereals, 18.6 per cent for seasonings, 13.2 per cent for fruits, 3.4 per cent for beverages, 8.9 per cent for fish, -1.8 per cent for meat and minus eight per cent for vegetables. The marketing structure and the pricing of agricultural products in Korea are extremely complicated due to the small farm size and weak production basis. It has been one of the major obstacles for the government to overcome to improve Korean farm income. Therefore, the government has been taking various measures to improve the marketing structure and to prevent abnormal price fluctuations for agricultural products. These include:

- A. Voluntary acreage control through forecasting the price and demand.
- B. Stockpiling of essential agricultural products in cases of reduced supply or poor production.
- C. Control sales through NACF, AFDC and NLCF when prices are low and encourage consolidated sales.
- D. Imports of specific agricultural products to meet surplus domestic demand through tenders or price negotiations.

The government provides subsidies for various agricultural products including cereals, livestock and oilseeds; these subsidies take the form of cash, loans, fertilizer, price guarantees and purchases etc., depending on the product. In 1985 the government purchased a total of 1.1 million tonnes of rice (polished weight) from farmers at Cdn \$96.07 per 80 kg of No. 2 grade and 236,532 tonnes of barley (polished weight) at Cdn \$57.71 per 76.5 kg of No. 2 grade. The government, however, sold the rice at Cdn \$86.13 per 80 kg and the barley at Cdn \$52.62 per 76.5 kg of No. 2 grade through grain dealers. The following table illustrates the variation in buying and selling price for rice and barley since 1981.

TABLE 10: PURCHASE AND SELLING PRICE OF GOVERNMENT GRAINS
BASED ON NO.2 GRADE

	Unit Can. Dollars			
	<u>Rice (80 kg Polished)</u>		<u>Barley (76.5 kg Polished)</u>	
	<u>Purchase Price</u>	<u>Selling Price</u>	<u>Purchase Price</u>	<u>Selling Price</u>
1981	82.79	69.84	47.12	27.93
1982	88.84	82.98	53.62	30.72
1983	88.84	82.98	53.62	44.44

	Unit Can. Dollars			
	<u>Rice (80 kg Polished)</u>		<u>Barley (76.5 kg Polished)</u>	
	<u>Purchase Price</u>	<u>Selling Price</u>	<u>Purchase Price</u>	<u>Selling Price</u>
1984	91.37	86.13	54.70	49.87
1985	96.07	86.13	57.71	52.62

Exchange rate: 1 Cdn. \$ = W 630

Source: Ministry of Agriculture and Fisheries

As a result, the accumulated deficit in the government's grain account from 1972 amounted to approximately Cdn \$2.5 million as of the end of 1985, which constituted the largest single deficit in the national budget. The government also provides a subsidy to farmers by controlling the price of fertilizer (60-96 per cent of the selling cost by fertilizer manufacturers) that also resulted in an accumulated deficit in the government's fertilizer account, seeing it reach approximately Cdn \$1.2 billion as of the end of 1985. The government continued to provide subsidies under the school milk program for approximately two million primary school children who come from low income families. Total funds consumed by this program amounted to approximately Cdn \$3.4 million. In order to reduce the increasing milk surplus, milk companies exported 2,000 tonnes of milk powder to the Netherlands in 1985 at prices lower than the domestic milk price on the condition that the government would reimburse the loss which was estimated to run in the neighbourhood of Cdn \$8.5 million.

Despite the fact that the total value of imported agricultural products decreased to US \$3.4 billion in 1985 from US \$3.8 billion in 1984, the government continued to enforce protectionist policies for most agricultural products including processed food. The government strictly controls the importation of cereals and soybeans on an annual quota basis and other agricultural and processed food products by nominating the National Livestock Cooperative Federation, Agriculture and Fisheries Development Corporation, National Agricultural Cooperative Federation, Korea Tourist Hotel Supply Centre Inc., Korea National Tourism Corporation and the Office of Monopoly as exclusive importers when requirements exist.

The consumption of flour and compound feed showed 5.3 per cent and 7.9 per cent increases respectively in 1985 compared with the preceding year, but, the government did not allocate any additional quota in 1986 for wheat and feed grains in order to reduce surplus rice inventories and to utilize all available domestic resources for meeting the shortage of feed ingredients. Feed manufacturers and distillers were again forced to purchase 287,000 tonnes and 150,000 tonnes of domestic

barley in 1985 for the manufacture of compound feed and spirits in order to reduce government barley inventories. The utilization of domestic barley for feed and spirits, however, resulted in a 46 per cent increase in domestic barley prices during the first four month period in 1986. The government, however, will continue to purchase barley from farmers, but not force them, as they did in the past, to increase barley production.

The domestic cattle price dropped 22.7 per cent on average in 1985. To stimulate domestic cattle prices, the government decided to purchase 100,000 head of cows from December 1985 to June 1986. They also started to export cattle to Japan in February 1986 and suspended beef imports for tourist hotels in May 1985.

As a result of the strong demands by the US to liberalize imports of cigarettes, beef and wine, the Korean government passed a bill to establish a government corporation that is responsible for the production of tobacco and the manufacture, sales and importation of limited quantities of cigarettes in 1987. The government, however, is unlikely to allow the importation of wine or beef (unless domestic cattle prices reach a reasonable level) in the near future.

Rapeseed has been one of Canada's key trade issues with the Korean government for the last 10 years. The government has agreed to liberalize rapeseed on a ratio basis of two (import) to one (domestic production). This will provide opportunities for Canada to export approximately 12,000 tonnes of canola seed to Korea in 1986. More details of the liberalization of oilseed trade are included in Section 7 of this profile.

Tourist hotels and fast food chain outlets imported approximately US \$500,000 of frozen french fried potatoes per year until 1984. The government removed French fried potatoes from the free item list in July 1985 and placed them on the surveillance item list. Frozen French fries are now importable only by the Korean Tourist Hotel Supply Centre Inc. for tourist hotels only. The demand for French fried potatoes for the fast food chains is currently supplied by two local manufacturers.

The government is planning an ambitious rural development program as part of the sixth Five Year economic and social development program.

Official estimates indicate that rice contributed 60.6 per cent of total farm income (Cdn \$5,872) in 1984. Clearly, rice is the most important source of farm income and it remains the staple food of Koreans. Korea has had several bumper crops of rice since 1982, largely due to the development of new high yielding varieties. The consumer, however, prefers the traditional varieties and paid a premium of

approximately Cdn \$15.74 per 80 kg in 1985. The government of South Korea will continue to increase rice production but in the long run production policy will be focussed on increasing the production of traditional varieties.

Barley production in South Korea decreased by 33 per cent between 1972 and 1985. The government continues to purchase barley from farmers at higher prices than can be charged on re-sale. Nevertheless, the purchase price has been insufficient to encourage farmers to increase production. The government is studying a plan to apply a forward price system in 1987 on barley as well as other means of encouraging production increases. The success of the new policy, however, will largely depend on the rate of increase of barley prices.

Korea produces only about 21 per cent of its soybean requirement, 58 per cent of its small red bean requirements and 90 per cent of its small green bean requirement. The government plans to increase soybean production by 45 per cent, small red bean production by 66 per cent and small green bean production by 30 per cent in an attempt to achieve greater self-sufficiency.

Per capita beef consumption increased in 1985 to 2.9 kg from 2.6 kg in 1984. The corresponding cattle population also increased to 2.9 million head from 2.7 million head in 1984.

Korean economic growth for the last two decades was prodigious in the industrial sector, but there are still many difficult problems to solve in the agricultural sector including lagging farm income, mounting household debt, land constraints and an aging farm population. The government to date has been supporting farmers primarily with agricultural loans and commodity price subsidies on a selective basis, but it has decided to adopt more ambitious rural development programs during the sixth Five Year (1987-91) economic and social development plan. With the objective of increasing farm household income to Cdn \$13,317 by 1991, the government plans to invest a total of Cdn \$21.6 billion for various rural development projects including \$5.2 billion for farm land reformation, \$2.5 billion for agricultural mechanization, \$1 billion for livestock promotion, \$624 million for increasing feed grain production, \$341 million for development of agricultural techniques, \$331 million for improvement of the agricultural marketing system, \$1.4 billion for forestation and \$2 billion for fisheries. The plan includes a total of 172,000 hectares of farmland reformation, establishment of 5,000 mechanized agricultural communities, organization of 12,000 cooperative shipment teams of agricultural products in the major production areas, nomination of 100 manufacturing zones in the rural areas to create employment opportunities, development of 188 rural

sightseeing areas, training of 68,000 future farmers, pavement of 3,899 km of rural roads, improvement of transportation/ communication and medical facilities, establishment of 1,295 post offices, construction of welfare facilities and introduction of a crop insurance system for trial purpose during the period of the new development program.

7. OILSEEDS AND OILSEED PRODUCTS

7.1 Oilseeds

Soybeans, rapeseed, sesame, peanuts, perilla and cottonseeds are the major oilseed crops currently grown in Korea. With the exception of sesame, peanuts and perilla, all other oilseeds are of marginal economic value for Korean farmers. Despite continued government incentive programs to expand acreage, production of soybeans, rapeseed and cottonseed have continued to decrease over the years. In 1986, the total area planted in oilseed crops decreased to 274,000 hectares from 275,000 hectares and total production of oilseeds also decreased to approximately 300,000 tonnes from 320,000 tonnes harvested in 1985. In terms of both acreage and production, soybeans and sesame still represent the two largest oilseed crops grown in Korea, representing 48 per cent and 32 per cent of total oilseed acreage planted and 66 per cent and 16 per cent of total oilseeds produced in 1986.

TABLE 11: OILSEEDS
(tonnes)

Oilseed	1985		1986	
	Production	Imports	Production	Imports
Soybeans	233,863	867,765	198,537	985,681
Sesame	40,811	2,940	48,247	1,099
Rapeseed	6,205	--	6,571	10,891
Peanuts	16,340	6,594	20,174	5,670
Perilla	20,730	--	25,210	--
Cottonseed	1,896 A	900	1,108	--
TOTAL:	319,845		300,000	

A = includes fibre

Source: 1987 Oilseed Report - Canadian Embassy, Seoul Korea

7.2 Vegetable Oils

There are a total of 28 registered oilseed crushers and 29 crushing plants in South Korea including 23 member crushers of the Korea Vegetable Oil Industry Cooperative (KVOIC), three soybean oil crushers (Dongbang, Cheil and Samyang) and the two other individual crushers (Dongsan and Sinjung) that are capable of crushing approximately 6,225 tonnes of oilseeds per day on a 24 hour operation basis. In early 1987, Samyang Food Company Limited was expanding its crushing facilities from 300 tonnes to 700 tonnes and total crushing capacity was expected to reach 6,625 tonnes by the end of June, 1987. The government estimates that Korea has crushed a total of 1.3 million tonnes of oilseeds in 1986 including 135,000 tonnes of rice bran and 27,000 tonnes of miscellaneous raw materials such as red pepper seed. It also estimates that Korea consumed 392,000 tonnes of edible oils in 1986 including 48,000 tonnes of oils originated from animals representing approximately 12 per cent of total edible oil consumption.

TABLE 12: VEGETABLE OIL CONSUMPTION BY SOURCE
(tonnes)

	<u>1985</u>	<u>% of Total Consumption</u>
Soybean oil	151,800	44
Palm oil	117,300	34
Rice bran	17,250	5
Sesame	13,800	4
Copra	10,350	3
Rapeseed	3,500	1
Others	31,050	9
TOTAL:*	<u>345,000</u>	<u>100.0</u>

* Totals may not add due to rounding

Source: 1987 Oilseeds Report - Canadian Embassy, Seoul Korea

Korea imported for the first time from Canada 11,000 tonnes of canola seed for domestic consumption in 1986 and 696 tonnes of crude canola oil for re-export. The imported crude canola oil was refined in Korea by a private crusher and re-exported to Japan. The imported canola seeds are being currently crushed by three soybean processors at their sub-contractor's expeller type crushing plants.

But the crushers have faced a colour problem due to the lack of experience in crushing canola seed. The Korean government increased the canola seed import quota to 15,000 tonnes from 12,000 tonnes in 1986 but technical assistance has to be provided by Canada to eliminate Korean concern about the darker colour of Canadian canola. A three member Korean canola mission, led by a Korean government official, visited Canada in 1986 to familiarize itself with the Canadian oilseed industry. Other Korean canola missions are planned. As a result of the continued surge of the Japanese Yen, linseed imports from Canada increased to 9,000 tonnes from 3,000 tonnes in 1985. Canada is now the exclusive supplier of linseed and mustard seeds to Korea. Eighteen members of the Canadian Canola Growers Association visited Korea early in 1987 to familiarize themselves with the Korean rapeseed and crushing industry.

TABLE 13: VEGETABLE OIL IMPORTS
(tonnes)

	<u>1985</u>	<u>1986</u>
Rapeseed	--	696
Cottonseed	2,233	6,645
Olive	41	42
Linseed	1,492	212
Palm	108,083	153,420
Copra	12,663	15,878
Castor	391	102
Sesame	4	3
Tung	685	1,835
TOTAL:	<u>125,592</u>	<u>178,883</u>

Source: 1987 Oilseed Report - Canadian Embassy, Seoul Korea

7.3 Import Mechanism and Trade Policy

With the exception of 11,000 tonnes of canola seed which Korea imported from Canada in 1986 on a quota basis and at a reduced tariff of 10 per cent, the government continued to enforce a restrictive import policy and to apply 40 per cent tariff rates on imported oilseeds and

vegetable oils. The government also continued forward pricing systems for sesame and peanut producers in 1986. The government plans to adopt another forward pricing system for soybean producers in 1987 through the National Agricultural Cooperative Federation (NACF) to increase production of this major oilseed crop. In addition to the forward pricing system, the government last year also loaned W10 million (Cdn \$16 million) to sesame producers and W3.4 million (Cdn \$5 million) to peanut producers who participated in the contract production system managed by NACF. In 1987, the government planned to loan W11.9 million (Cdn \$19 million) to sesame producers and W3.9 million (Cdn \$6 million) to peanut producers for the same purpose. As mentioned above, NACF imported 11,000 tonnes of canola seed from Canada in 1986 through a public tender and distributed them to the three soybean crushers (Dongbang - 5,346 tonnes; Cheil - 4,202 tonnes and Samyang - 1,452 tonnes) at W319 (Cdn \$0.49) for domestic consumption. The government has increased its 1987 import quota from Canada to 15,000 tonnes of canola seed at a tariff rate of 10 per cent.

Except for the 10 per cent tariff on the quota for Canadian canola seed, the basic tariff rates on oilseeds and vegetable oils remain as follows:

<u>Product</u>	<u>Seed</u>		<u>Oil</u>	
	<u>1986</u>	<u>1987</u>	<u>1986</u>	<u>1987</u>
Rapeseed	40 (1)	40 (2)	40	40
Peanuts	40	40	40	40
Sunflower	40	40	40	40
Perilla	40	40	40	40
Sesame	40	40	40	40
Palm	10	10	10	10
Copra	10	10	20	20
Linseed	10	10	25	25
Cotton	10	10	25	25
Castor	10	10	25	25
Tung	10	10	25	25
Soybean	10	10	25	25

(1) Ten per cent tariff applies to 11,000 tonnes of canola seed from Canada

(2) Ten per cent tariff will be applied for up to 15,000 tonnes of canola seed from Canada.

Source: 1987 Oilseed Report - Canadian Embassy, Seoul Korea

The government controls the importation of foreign commodities, including oilseeds and vegetable oils, through the annual trade plan which covers the period July 1 to June 30 each year. Under the current trade plan, certain seeds, such as copra, palm, linseed, cotton, castor, mustard, and oils, including olive, mustard, linseed, copra, palm, cotton, castor and tung, are unrestricted imports. All other oilseeds and oil are restricted imports except for re-export purpose. For domestic price stabilization purposes, the government has designated the Agriculture and Fishery Development Corporation (AFDC) the exclusive importer of peanuts, sesame and small soybeans (for bean sprout) through tenders. NACF is another exclusive agency authorized to import through tenders canola seed from Canada and soybeans required for food products such as tofu, vegetable milk, soy sauce and soybean paste. Only three oil crushers (Dongbang, Cheil and Samyang) are permitted to import soybeans required for crushing through direct price negotiations on a quota basis. However, they are forced to purchase domestic rapeseed and imported Canadian canola seed at prices set by the Korean government.

The government has already adopted forward pricing systems for sesame and peanut producers and is also planning to adopt the same system for soybean producers. The government also supports rapeseed producers. The subsidies are as follows:

(1) Sesame:

The government purchased sesame in 1986 through NACF at W213,200 (Cdn \$333.13) per 50 kg of NO.1 grade and W194,800 (Cdn \$304.38) per 50 kg of NO.2 grade through the forward pricing system. The government was expected to increase the price of sesame by five per cent for the 1987 crop and to provide sesame producers with loans of W100,000 (Cdn \$156.25) per hectare.

(2) Peanuts:

The government purchased peanuts in 1986 through NACF at W40,100 (Cdn \$62.66) per 30 kg of No.1 grade, and W37,000 (Cdn \$57.81) per 30 kg of No.2 grade and W33,900 (Cdn \$52.97) per 30 kg of No.3 grade also through the forward price system. The government was expected to increase the price of peanuts by five per cent for the 1987 crop and to provide peanut producers with loans of W120,000 (Cdn \$187.50) per hectare.

(3) Soybeans:

For soybeans purchased in 1986 through NACF, the government paid W900 (Cdn \$1.41) per kg of No.1 grade, W856 (Cdn \$1.34) per kg of No.2 grade and W755 (Cdn \$1.18) per kg of No.3 grade soybeans. For the 1987 crop, NACF recommended that the government increase the purchase price by 18 per cent. The Ministry of Agriculture, Forestry and Fisheries provides 50 per cent of seed cost and 30 per cent of fertilizer

cost to soybean producers who are willing to participate in the soybean production program managed by NACF. It also pays an additional W50 (Cdn \$0.08) per kg to encourage soybean sales through NACF.

(4) Rapeseed:

Until 1986, there were no direct subsidies provided to rapeseed growers by the central government except that the government guaranteed to purchase all the output for a price to be determined at the end of the growing season. In addition, 50 per cent of the seed cost is paid by the provincial government on Cheju Island and another 30 per cent is paid by NLCF. The government is currently considering whether to pay W1,920 (Cdn \$3) per 60 kg as incentive money to growers who sell rapeseed through NACF. The government increased the price of rapeseed in 1986 to W456 (Cdn \$0.71) per kg of No.1 grade from W430 (Cdn \$0.67) and to W446 (Cdn \$0.70) per kg of No.2 grade from W421 (Cdn \$0.67).

7.4 The Korean Market and U.S. Competition

Canadian rapeseed has never enjoyed the same access to the Korean market as U.S. soybeans.

At the time of the Prime Minister's visit to Korea in May 1986, the Korean government agreed to reduce the tariff on Canadian canola from the existing 40 per cent to that of soybeans (10 per cent) for a quota level of 12,000 tonnes, effective 1986. The size of the quota was determined by a ratio of two to one relative to domestic production of rapeseed. In addition the Korean government agreed to rescind the re-export clause on oil produced from canola imported under the quota. However, beyond the tariff quota the following discriminatory restrictions relative to soybeans will continue to apply:

1. Unlike soybeans, canola oil produced from imported rapeseed must be re-exported. This results in Korean oil competing with Canadian-produced canola oil in world markets.
2. A 30 per cent tariff discrepancy exists between rapeseed (40 per cent tariff) and soybeans (10 per cent tariff).
3. Soybeans used for food enjoy a nine per cent rebate on processing that does not apply to rapeseed. Added to the tariff differential, this results in a 39 per cent disadvantage.
4. Imports of canola oil are prohibited despite open access for competitive oils such as palm oil and olive oil.

The major stumbling block to liberalizing access for rapeseed is Korean reluctance to expose a small number of high cost domestic producers of rapeseed to international competition. In addition, Korea's large soybean crushers, who have access to relatively inexpensive imported soybeans, are reluctant to allow potential rapeseed crushing competitors to gain similar access to inexpensive imported rapeseed.

Although the Korean government agreed to a quota of 12,000 tonnes of canola seed from Canada in 1986 and has increased the quota to 15,000 tonnes in 1987, the 4.7 per cent VAT exemption privilege on imported soybeans still represents a discrimination against Canada. Therefore, the post will continue to press the government to ease discriminatory taxes against Canada and to liberalize entirely the importation of Canadian canola seed and canola oil.

7.5 Oilseed Meal Market

The government has estimated that meal production from the crushing operations amounts to approximately 595,000 tonnes of soybean meal and 4,000 tonnes of rapeseed meal. The South Korean government has clearly signalled a willingness to increase red meat (beef) production and a corresponding willingness to liberalize and diversify feed ingredient purchases. To this end, imports of rapeseed meal were authorized effective July 1, 1985. Moreover, the tariff rate for rapeseed meal was reduced from 15 per cent to 10 per cent effective January 1, 1986.

Canola meal enjoys identical tariff and non-tariff treatment as soybean meal. Canadian canola meal sales to Korea reached Cdn \$12 million in 1984 but dropped significantly to Cdn \$3 million in 1985.

TABLE 8: KOREAN IMPORTS FROM CANADA
(Cdn \$ millions)

<u>Items</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Coal	211.8	252.2	-228.2
Wheat	1.6	10.0	+ 80.3
Sulphur	39.8	88.3	- 78.1
Organic chemicals	36.7	91.7	- 58.4
Wood pulp	41.7	50.1	+ 64.7
Fertilizers (potash)	49.0	42.2	- 33.9
Raw hides & skins	27.3	16.2	+ 33.4
Radar equipment & related devices	--	--	+ 26.6
Copper (ores, concentrates, scrap)	46.9	8.0	+ 20.2
Commercial telecommunications equip.	43.6	41.9	- 16.1
All others	221.6	174.9	+318.8
TOTAL:	720.0	775.5	958.7

Source: Statistics Canada

Import mechanisms for cereal grains are as follows while those for oilseeds are located in Section 7 of this profile.

A. Wheat

Korean Flour Mills Industrial Association (KOFMIA), individual flour millers and registered trading companies on behalf of millers are legally authorized to import wheat for human consumption. KOFMIA imports about 70 per cent of the total requirement through regular tenders and individual millers import the remaining 30 per cent through price negotiations. In the case of wheat for animal consumption, Korea Feed Association (KFA), National Livestock Cooperative Federation (NLCF) and individuals are authorized to import either through tenders (KFA and NLCF) or price negotiations (millers).

B. Barley

Two breweries are authorized to import malting barley through price negotiations if a requirement exists due to a poor domestic crop.

C. Corn

KFA and NLCF are authorized to import corn for animal consumption through tenders and Korea Corn Processors Industry Association (KCPIA) is authorized to import corn for food and industrial purposes either through tenders or price negotiations.

