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EB/CGATT/84/4

Correction 1

October 17, 1984

To: Members of the Committee on Liaison with the
CONTRACTING PARTIES to the GATT

From: The Committee Secretary

Subject: Consultations with the CONTRACTING PARTIES to the GATT -
Bangladesh, Korea, Philippines, and Portugal

The following corrections have been made in EB/CGATT/84/4
(10/15/84):

Note of Transmittal, subject line: for "Consultations with the CONTRACTING
PARTIES to the GATT - Korea, Philippines,
and Portugal"
read "Consultations with the CONTRACTING
PARTIES to the GATT - Bangladesh, Korea,
Philippines, and Portugal"

Page 2, para. 2, line 8: for "freezing import prices"
read "freezing purchase prices"

Corrected pages are attached.

Att: (2)

Other Distribution:
Members of the Executive Board

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**IMMEDIATE
ATTENTION**

EB/CGATT/84/4
Corrected: 10/16/84

October 15, 1984

To: Members of the Committee on Liaison with the
CONTRACTING PARTIES to the GATT

From: The Committee Secretary

Subject: Consultations with the CONTRACTING PARTIES to the GATT -
Bangladesh, Korea, Philippines, and Portugal

The attached memorandum from the staff concerning preparation for forthcoming consultations with the CONTRACTING PARTIES on their consultations with Korea and Portugal is herewith submitted for consideration by the Committee. Consultations are also being held with Bangladesh and the Philippines, but for these countries no statement by the Fund is expected because these are consultations under the simplified procedures agreed by the CONTRACTING PARTIES.

In the absence of objection from a member of the Committee by noon on Monday, October 22, 1984, the memorandum will be deemed approved by the Committee for submission to the Executive Board for consideration on a lapse-of-time basis.

Att: (1)

Other Distribution:
Members of the Executive Board

October 12, 1984

To : The Acting Chairman of the Committee on Liaison
with the CONTRACTING PARTIES to the GATT

From : The Director
Exchange and Trade Relations Department

Subject: Consultations with the CONTRACTING PARTIES to the GATT

The Fund has been invited to consult with the CONTRACTING PARTIES in connection with their consultations with Bangladesh, Korea, the Philippines and Portugal, to be held in Geneva during October 29-November 2, 1984. The Managing Director has recommended that this invitation be accepted, and that Mr. Shailendra J. Anjaria, Chief, Trade and Payments Division, be designated to represent the Fund during the consultations. This recommendation was approved by the Executive Board on September 12, 1984 (EBD/84/238). In accordance with the procedures set out in EBD/56/102 (8/29/56), the latest Recent Economic Developments papers on the consulting countries have been transmitted to the CONTRACTING PARTIES.

It is expected that the CONTRACTING PARTIES will request the Fund's view with respect to Korea and Portugal. It is recommended that, in reply to such request, the Fund representative should be guided by the statements set forth below.

Korea

After two decades of rapid growth, the Korean economy encountered serious difficulties in the early 1980s. The adverse effects of structural imbalances and excess demand pressures were exacerbated in 1980 by several exogenous shocks, including higher international interest rates and the second oil price increase, and culminated in an acute deterioration in economic conditions. Output declined for the first time in Korea's recent history, inflation soared to 35 percent, and the current account deficit widened to 9 percent of GNP. In response to these developments, the Government implemented an adjustment program supported by two one-year stand-by arrangements from the Fund (March 1980-February 1982). By 1982, substantial adjustment had taken place: the economy grew by about 5 percent, inflation slowed to about 5 percent, and the current account deficit narrowed to \$2.6 billion, or 4 percent of GNP.

In late 1982, the repercussions of the international debt crisis placed new demands on economic management in Korea. The authorities sought to limit Korea's vulnerability to shifts in market sentiment by reducing reliance on foreign loans--especially short-term borrowing, which had accounted for 40 percent of total borrowing in 1981-82--while placing the economy on a noninflationary growth path. The policies adopted in support of these objectives formed the basis for a stand-by arrangement from the Fund (SDR 576 million) for the period July 1983 through March 1985.

Economic performance in 1983 was outstanding: output growth nearly doubled to over 9 percent, inflation fell to a historically low level of 2 percent, and the current account deficit was halved to about 2 percent of GNP. Increases in private consumption, exports, and domestic investment accounted, in almost equal proportions, for the rise in aggregate demand. The stimulus provided by domestic demand, which was the main expansionary force in 1982 and early 1983, gradually diminished as a result of tight financial policies, while foreign demand increased. Appropriate demand management, together with low imported inflation, plentiful food supplies, and moderate wage increases, contributed to the reduced domestic inflation.

Financial policies were tightened considerably during 1983. The public sector deficit declined from 4.3 percent of GNP in 1982 to 1.6 percent. While cyclical factors also contributed to the improvement in the fiscal position, the major portion of fiscal adjustment was associated with discretionary measures. Higher indirect taxes were supplemented by a newly imposed 5 percent tariff on imported oil. Central government expenditure growth was slowed, while the deficit of the Grain Management Fund was reduced by freezing purchase prices for grains. Monetary expansion, which had hovered around 27 percent throughout the previous three years, was reduced to 15 percent in 1983, while the rate of increase in domestic credit declined from about 34 percent to 18 percent in 1983.

The policies pursued by the authorities led to a decline in the current account deficit from \$2.6 billion in 1982 to \$1.6 billion in 1983. The volume of merchandise exports rose by 15 percent in 1983, led by a rapid growth in the exports of ships, electronic products, and footwear. Exports were buoyed by the recovery in industrial countries and a 7 percent depreciation of the currency in real effective terms. Import growth was also very high (13 percent in volume terms), reflecting the rapid expansion of economic activity, particularly exports. The trade balance improved by \$1.0 billion in 1983, recording a deficit of \$1.6 billion. Service receipts from overseas construction fell sharply, owing to a retrenchment of investment by Middle Eastern countries. However, this loss was offset by increases in other receipts and a large reduction in services payments (particularly interest payments). These developments, combined with a small net capital inflow, resulted in an overall deficit of \$1.3 billion. Outstanding external debt rose to \$40.2 billion at the end of 1983. Debt service payments, including interest on short-term debt, declined from 23 percent of exports of goods and services in 1982 to 22 percent in 1983. During the year, the authorities improved the maturity structure of Korea's external indebtedness.

Korea's external trade environment has been characterized by protectionism abroad and trade liberalization at home. Intensification of restrictive measures against Korean exports continued in 1983. According to official information, as of December 1983, industrial countries were applying protectionist measures against 165 export items (based on the four-digit classification of the Customs Cooperation Councils Nomenclature), up from 152 items at the end of 1982. These items accounted for 42 percent of exports in 1983, up from 36 percent in 1982. Korean exports to developing countries have also been subjected to protectionist measures, particularly counterpurchase agreements.