Korea to Call for Tariff, Non-tariff Cuts at APEC Forum in Davao, Philippines

Korea will strongly call for lowering various tariff and non-tariff trade barriers in some member countries of the Asia-Pacific Economic Cooperation (APEC) at its working-group meeting on August 23rd. This will be the APEC SOM/CTI(Senior Officials Meeting/Committee on Trade and Investment) session in Davao, the Philippines, which opens for a five-day run.

During the conference, the participants will discuss the individual action plans (IAP) of the member countries submitted to the APEC to help liberalize and facilitate trade and investments among them. Korea has submitted as its IAP the Government's five-year plan to liberalize the domestic market for foreign direct investment and relax business regulations, as well as its faithful implementation of the Uruguay Round of the free trade agreement.

Besides these multilateral issues, the Korean delegates have delivered to foreign participants the difficulties Korean firms experience in conducting trade and investment activities in their countries, the officials said. Korea will call for Japan to abolish its import quotas on processed leather and leather shoes, for China to rectify its import restraints on videocassette recorders, and for Indonesia and the Philippines to improve their preshipment inspection procedures.

APEC will finalize the IAPs of each member country and will submit them for endorsement at the eighth ministerial conference and fourth APEC summit meeting meeting in November for implementation.

Korea Expected to Attain 7-7.25% Economic Growth in 1996

Korea is expected to attain its desired economic growth goal this year, a delegation of the International Monetary Fund (IMF) forecast. The IMF forecast does not deviate far from the Korean government's growth projection of 7 percent to 7.5 percent for this year. However, the current account deficit will far exceed the government target range of $11 billion to 12 billion this year. According to the IMF forecast, the current account deficit will soar up to $14 billion to $15 billion this year, due to slowing exports.

Wrapping up its annual consultations with Korean economic officials on August 14, the delegation forecast that the Korean economy will grow 7 percent to 7.25 percent this year, down from 9 percent a year ago. Korea's economic growth will slow down in the second half because of a surge in business inventories, but the economy could achieve its growth target for the whole year, the delegation projected. Business activities may remain sluggish until the first half of 1997, but the economy will grow from the second half, helped by improvements in external economic conditions. In addition, the IMF estimated Korea's consumer inflation to reach 5.25 percent this year, well in excess of the government target of 4.5 percent.

Based on its assessment of the Korean economy, the IMF delegation recommended that Korean economic officials focus their policy priority on engineering an economic soft landing and controlling inflation rather than cutting the current account deficit. In the first six months of the year alone, Korea's current account deficit surged to $9.28 billion, higher than last year's $8.8 billion and up from an original government target of $7 billion.

Korea Takes 11th Spot in World Trade

Korea has emerged as the world's 11th largest trading nation in the first half of this year, bumping China, which held the position as of the end of last year. In the first half, Korea's trade volume totaled $137.8 billion ($65.1 billion export, $72.7 billion import), outperforming China's $127.1 billion, according to data released by the Korea Trade-Investment Promotion Agency on August 23.

For the whole of this year, the agency projected, Korea will be able to maintain its status as the 11th biggest trading country, given the current pace of China's trade increase. China's trade volume is expected to grow at a slower pace than that of Korea in the coming months because of its austerity program and import-restraint policies.

Japanese Yen Weakens Korean Products' International Competitiveness

The prolonged depreciation of the Japanese yen is sharply eroding the competitiveness of Korea's export goods relative to their Japanese counterparts in international markets, a recent survey has shown. Basing the overall price level of Korean goods at 100, that of Japanese goods was 120.4 as of April 1995, but fell to 112 last December and to 105.5 in July, it said.

The industrial poll, aimed at learning the relationship between foreign exchange rates and export competitiveness, was conducted by the Federation of Korean Industries (FKI) on the 200 largest manufacturing firms. Over the cited period, the Japanese currency depreciated 26.9 percent by falling from 84.2 yen to 106.8 yen against the U.S. dollar, while the Korean won fell only 6.8 percent from 761.8 won to 813.3 won per dollar.

The report said that the price gap of a mere 5.5 percent could not ensure the competitive edge of Korean products over Japanese goods, considering the non-price factors Japanese goods enjoy in overseas markets such as better technology, after-sales service and overall consumer trust.

In order to cope with the continued weakness of the Japanese yen which will make Korea's export goods more expensive in international markets, 28.1 percent of the pollees said that they would nationalize management, and 14.5 percent of them answered that they would develop new markets.

Domestic Financial Market Likely to Worsen in Second Half of This Year

The domestic financial market environment in the second half of this year is expected to worsen from the first half, the Federation of Korean Industries (FKI) said, based on its survey of financial officials at member companies. The slow growth of the money supply will likely fall short of meeting increasing corporate fund demand and strain the money market situation.

Sluggish sales both at home and abroad will dry up the businesses' operation funds, while raising funds will become more difficult for both domestic and international reasons. The FKI report said that reasons hampering corporate fund raising are restrictions on domestic credit supply to offset the impact of the foreign exchange influx on domestic inflation and the bearish stock market, which limits opportunities to obtain funds by issuing corporate bonds.

As a conclusion, the report called for the government to focus its financial policy on stabilizing domestic interest rates at lower level, and suggested that it base monetary policy on interest rates instead of on controlling the money supply, increase money supply flexibility, and deregulate various financial restrictions, including businesses' offshore borrowing in keeping with the demand for funds. VIP