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001. briefing paper	President's Meeting with Korean President Kim. (7 pages)	07/26/1995	P1/b(1)

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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
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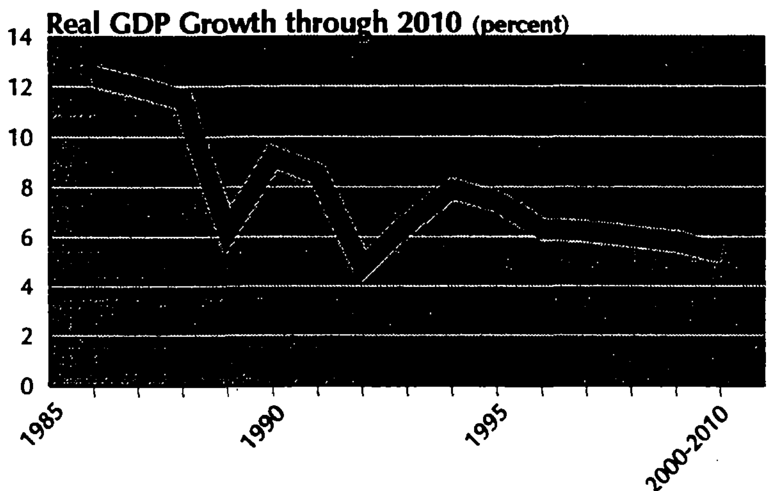
Wage levels have risen rapidly over the last decade, heightening international competition for South Korea's labor-intensive industries such as textiles and footwear. A number of factories in such sectors have migrated offshore to lower-wage countries in the region. In a major effort to redefine its economy for the future, the government is placing greater emphasis on high technology industries such as semiconductors and seeks to encourage the growth of innovative small and medium-sized businesses.



Source: Historic; IMF International Financial Statistics Yearbook, 1994. 1995-2010; DRI/McGraw-Hill.

President Kim Young-Sam sees attracting foreign investment and technology as an important means of achieving his goals. His five-year economic plan (1993-97) aims to reduce the government's role in the economy by eliminating "unnecessary" regulations and opening protected industries to foreign competition. The program also includes financial market reforms intended to make capital more affordable for small and medium-sized firms. And the South Korean government is encouraging increased research and development spending, which, at 1.5 percent of GNP, is far below the 4 percent average of most developed countries.

Parts of the government and media retain strong anti-import sentiments which can significantly impact U.S. exports.

Even so, South Korea's economy has averaged 8.7 percent growth per year over the past two decades. GDP growth was 8.4 percent in 1994, up from 5.8 percent in 1993. The current expansion is investment-led, as the large conglomerates implement ambitious plans to modernize and expand facilities. Consumption spending, which accounts for over half of total GDP, is growing along with optimism about the economy. Recovery in South Korea's export markets assisted as well: exports, aided by the strength of the yen, grew by 15 percent in 1994, ahead of the 7.7 percent rate of 1993. In 1994, South Korea's global trade expanded to $3.1 billion.

The Nature of U.S.-Korea Trade

U.S. exports to South Korea are primarily in the area of machinery and transportation equipment — 49 percent in 1994, compared to 36 percent in 1985. The largest items in this category were electronic components ($1.5 billion), aircraft ($1.0 billion), industrial machinery ($577 million), computers ($528 million) and telecommunications equipment ($469 million).

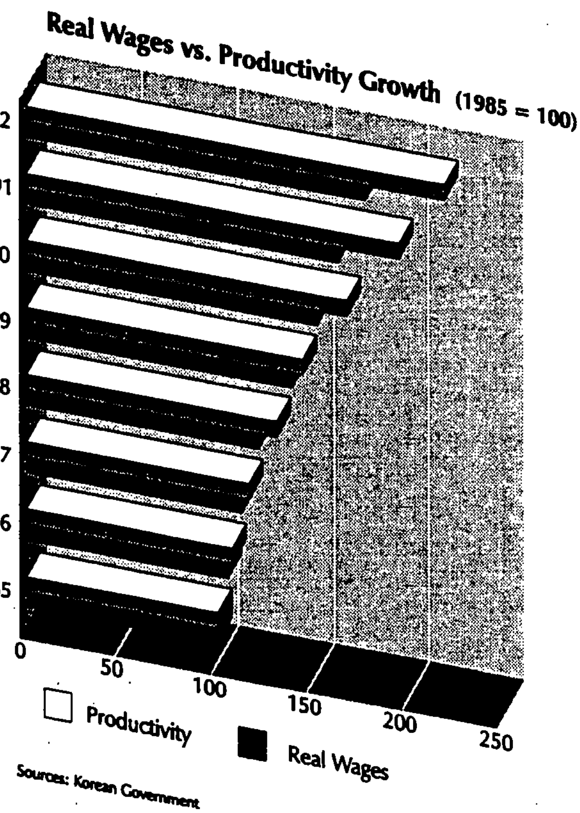
U.S. imports from South Korea are also dominated by the machinery and transport equipment secto — 60 percent in 1994, compared to only 29 percent in 1985. The largest import items include electronic components ($3.9 billion), computers and parts ($2.5 billion) and automobiles ($1.5 billion).

The U.S. share of both South Korea's imports and exports has lately been shrinking. Our share of South Korea's import market has fallen steadily from its 26 percent peak in 1989 to 22.4 percent in 1992 and 21.4 percent in 1993, with a slight rebound in 1994 to 22.3 percent. Similarly, the U.S. accounted for a third of South Korea's exports in 1989 with this figure steadily decreasing over the past three years from 23.6 percent in 1992, to 22.0 percent in 1993, to 21.9 percent in 1994, and a further decline is expected in 1995 to 21.4 percent.

BIG EMERGING SECTORS

In the summer of 1994, the National Assembly passed a major new act influencing the manner in which South Korea will in the future undertake its infrastructure development program (Social Overhead Capital or SOC). The new act outlines a structure for the introduction of private capital, from both domestic and foreign sources, for financing these huge projects. It also authorizes the development of public projects by private investors on a concession finance or build-operate-transfer (BOT) basis.

South Korean firms will be seeking strategic alliances with U.S. and other foreign engineering firms to bid on these projects. Total planned expenditures for the next 7-10 years exceeds $140 billion—one of the most ambitious plans in East Asia if implemented as planned.



Of these projects, the sectors holding the most promise for U.S. businesses include energy, telecommunications, environmental technology and transportation.

The South Korean government has traditionally used five-year development plans for guiding its economic expansion program. Under the current five-year plan, the government has identified major infrastructure needs in the following sectors: 1) electric power plants; 2) new international airports; 3) high-speed train; 4) regional airport upgrades; 5) express highway expansion; 6) seaport expansion; 7) information superhighway; and 8) light electric railway expansion.

Energy

South Korea is struggling to maintain its production of electricity at the levels needed to meet growing demand. Between 1995 and 2001, the South Korean government plans to construct 39 electric power plants ranging in capacity from one to 1,000 megawatts. These will include small hydroelectric and coal-burning power plants, nuclear power plants, solid waste incineration power plants, as well as oil and gas pipelines. This will effectively double South Korea's power generation capacity.

LEADING U.S. EXPORTS TO KOREA

($000)	1992	1993	1994
Total all commodities	14,630,113.0	14,776,170.0	18,028,362.0
8542--Electronic integrated circuits & microassembl, pts	897,356.0	1,122,961.0	1,511,299.0
8802--Aircraft, powered; spacecraft & launch vehicles	1,175,331.0	1,052,208.0	996,981.0
8803--Parts of balloons etc, aircraft, spacecraft etc	307,342.0	437,812.0	678,336.0
8479--Machines etc having individual functions nesoi, pt	243,733.0	344,114.0	576,530.0
4101--Raw hides & skins of bovine or equine animals	544,993.0	496,153.0	561,053.0
8471--Automatic data process machines; magn reader et	349,832.0	388,469.0	527,889.0
8525--Trans appar for radiotelephony etc; tv cameras	169,859.0	209,291.0	468,963.0
7204--Ferrous waste & scrap; remelt scr iron/steel ingot	241,759.0	451,673.0	356,918.0
2710--Oil (not crude) from petrol & bitum mineral etc.	493,584.0	418,558.0	337,527.0
5201--Cotton, not carded or combed	346,950.0	294,833.0	316,733.0
8708--Parts & access for motor vehicles (head 8701-870	191,398.0	233,187.0	311,607.0
4703--Chemical woodpulp, soda or sulfate, not dissolv gr	296,702.0	200,573.0	300,482.0
8517--Electric apparatus for line telephony etc, parts	80,814.0	125,648.0	262,150.0
1005--Corn (maize)	205,551.0	53,077.0	252,988.0
8473--Parts etc for typewriters & other office machines	175,032.0	184,952.0	240,966.0
1201--Soybeans, whether or not broken	246,726.0	246,669.0	228,443.0
1001--Wheat and meslin	235,559.0	227,603.0	227,732.0
8418--Refrigerators, freezers etc; heat pumps nesoi, pts	133,422.0	169,369.0	224,047.0
0202--Meat of bovine animals, frozen	186,725.0	140,504.0	207,019.0
9030--Oscilloscopes, spectrum analyzers etc, parts etc	123,108.0	133,736.0	203,591.0
8411--Turbojets, turbopropellers & oth gas turbines, pts	324,242.0	94,561.0	199,020.0
8414--Air or vac pumps, compr & fans; hoods & fans; pts	90,145.0	117,453.0	167,640.0
9880--Est. low value shp; canadian low value and nik	113,647.0	112,432.0	161,271.0
9018--Medical, surgical, dental or vet inst, no elec, pt	96,570.0	119,762.0	160,661.0
2701--Coal; briquettes, ovoids etc. mfr from coal	150,572.0	139,654.0	143,250.0
4403--Wood in the rough, stripped or not of sapwood etc	201,232.0	237,614.0	137,786.0
2926--Nitrile-function compounds	91,594.0	109,412.0	131,586.0
2902--Cyclic hydrocarbons	37,186.0	93,494.0	120,569.0
9504--Articles for arcade, table or parlor games, parts	91,364.0	120,813.0	120,321.0
4707--Waste and scrap of paper or paperboard	104,145.0	81,323.0	112,824.0
8456--Machine tools for material removal by laser etc	11,435.0	41,546.0	111,945.0
2402--Cigars, cigarettes etc., of tobacco or substitutes	84,894.0	97,871.0	110,789.0
8406--Steam turbines & other vapor turbines, parts	124,090.0	102,364.0	109,741.0
8524--Records, tapes & other recorded sound media etc	50,087.0	83,081.0	107,417.0
9027--Inst etc for physical etc anal etc; microtome; pts	78,455.0	100,268.0	106,715.0
8543--Electrical mach etc, with ind functions nesoi, pts	32,830.0	60,696.0	103,725.0
8421--Centrifuges; filter etc mach for liq or gases; pts	62,648.0	73,074.0	103,040.0
8413--Pumps for liquids; liquid elevators; parts thereof	76,559.0	75,110.0	97,885.0
8541--Semiconductor devices; light-emit diodes etc, pts	108,981.0	99,386.0	97,633.0
8529--Parts for television, radio and radar apparatus	68,617.0	67,353.0	96,233.0
8419--Machinery etc for temp chang treat mat; w heat, p	70,728.0	35,370.0	89,597.0
2903--Halogenated derivatives of hydrocarbons	46,126.0	96,926.0	83,000.0
2707--Oils etc from high temp coal tar; sim aromatic etc	44,133.0	55,537.0	79,732.0
9024--Machines etc for testing mech prop of material, pt	44,518.0	47,841.0	79,713.0
8548--Electrical parts of machinery nesoi	62,689.0	89,390.0	77,765.0
9801--Expts of repaired impts; impts of returned expts	96,467.0	87,828.0	77,621.0
9031--Machines, nesoi in chapter 90; profile project, pt	49,461.0	57,913.0	73,444.0
2915--Sat acyclic nonocarbox acid & anhyd, halogon etc	38,864.0	48,810.0	70,403.0
8431--Parts for machinery of headings 8425 to 8430	53,276.0	65,565.0	70,197.0
4407--Wood sawn or chipped length, sliced etc, ov6mm	36,690.0	48,953.0	70,081.0
Total of items shown	9,188,019.0	9,592,790.0	12,062,858.0
Total other	5,442,094.0	5,183,380.0	5,965,504.0

LEADING U.S. IMPORTS FROM KOREA

($000)

	1992	1993	1994
Total all commodities	16,690,776	17,123,106	19,657,552
8542--Electronic integrated circuits & microassembl, pts	1,894,366	2,433,794	3,870,273
8703--Motor cars & vehicles for transporting persons	743,524	740,219	1,471,591
8471--Automatic data process machines; magn reader etc	954,341	1,433,754	1,293,765
8473--Parts etc for typewriters & other office machines	402,309	747,784	1,201,643
8521--Video recrdng/reproduc appar wheth/nt video tuner	625,895	627,846	612,076
8516--Elec water, space & soil heaters; hair etc dry, pt	270,857	304,223	413,815
8527--Reception apparatus for radiotelephony etc	495,283	472,592	413,738
6110--Sweaters, pullovers, vests etc, knit or crocheted	404,080	385,400	411,880
8525--Trans appar for radiotelephony etc; tv cameras	224,176	287,069	402,975
6403--Footwear, outer sole rub, plast or lea & upper lea	1,002,123	567,211	381,768
4203--Articles of apparel & access, leath & comp leather	719,314	512,370	291,907
6204--Women's or girls' suits, ensemb etc, not knit etc	289,224	284,115	276,192
6201--Men's or boys' overcoats, cloaks etc, not knit etc	209,192	250,544	266,501
4202--Travel goods, handbags, wallets, jewelry cases etc	302,937	260,432	250,103
7208--Fl-rl iron & na steel nun600mm wd hot-rl, not clad	251,551	125,426	235,361
8523--Prepared unrecorded media (no film) for sound etc.	289,528	290,745	234,556
6205--Men's or boys' shirts, not knitted or crocheted	234,212	226,544	199,980
4011--New pneumatic tires, of rubber	200,353	175,464	197,137
8518--Microphones; loudspeakers; sound amplifier etc, pt	141,180	162,724	188,431
6404--Footwear, outer sole rub, plast or lea & upper tex	326,143	244,189	178,171
7117--Imitation jewelry	144,428	156,174	162,143
7306--Tubes, pipes & hollow profiles nesoi, iron & steel	123,378	143,180	160,760
5407--Woven fab of syn fil yn, incl monofil 67 dec etc	143,455	184,284	155,980
8517--Electric apparatus for line telephony etc, parts	118,556	101,737	144,666
8708--Parts & access for motor vehicles (head 8701-8705)	91,251	111,983	135,248
9801--Expts of repaired impts; impts of returned expts	114,545	133,529	125,298
2710--Oil (not crude) from petrol & bitum mineral etc.	95,628	83,848	124,746
6206--Women's or girls' blouses, shirts etc not knit etc	120,222	120,028	114,231
8541--Semiconductor devices; light-emit diodes etc, pts	109,698	104,297	109,306
3926--Articles of plastics (inc polymers & resins) nesoi	99,806	88,954	100,578
8429--Self-propelled bulldozers, graders, scrapers etc	25,425	52,884	96,229
6402--Footwear, outer sole & upper rubber or plast nesoi	168,800	216,577	92,952
8504--Electric transform, static converters & induct, pt	98,511	98,769	89,729
5503--Synthetic staple fibers, not carded, combed etc.	56,563	72,845	87,125
6202--Women's or girls' overcoats etc, not knit or croch	132,136	105,697	84,775
3920--Plates, sheets, film etc no ad, non-cel etc, plast	72,089	82,200	84,288
7317--Nails, tacks, drawing pins etc of iron or steel	70,087	83,015	79,373
6104--Women's or girls' suits, ensemb etc, knit or croch	57,112	61,758	75,150
6203--Men's or boys' suits, ensembles etc, not knit etc	119,241	98,760	74,390
8529--Parts for television, radio and radar apparatus	60,420	37,244	74,290
8427--Fork-lift trucks; oth works trucks with lifts etc.	152,074	87,722	72,867
8531--Electric sound or visual signaling apparatus, pts	53,754	55,617	71,747
7312--Stranded wire, ropes etc, no elec ins, ir or steel	78,572	70,013	69,327
9507--Fishing rods & tackle; nets; decoys etc; parts etc	97,378	66,082	69,002
6306--Tarpaulins, sails, awnings, tents, etc.	71,725	61,421	68,246
8415--Air conditioning machines (temp & hum change), pts	30,948	40,913	65,408
7323--Household art & pts, ir & st; ir or steel wool etc	61,182	57,294	64,670
8539--Electric filament or discharge lamps, parts	64,382	62,999	64,541
5007--Woven fabrics of silk or silk waste	51,616	64,593	64,512
9506--Artls & equip f genrl physcl exerc etc; pools; pts	56,048	44,278	62,266
Total of items shown	12,719,617	13,281,139	15,635,731
Total other	3,971,158	3,841,966	4,021,821

Jan-April 95

Exhibit 6. Exports, Imports and Trade Balance by Country and Area, Not Seasonally Adjusted: 1995

In millions of dollars. Details may not equal totals due to rounding. (X) Not applicable. (–) Represents zero. (Z) Less than one–half unit of value shown.

Country	Trade balance (Customs imports)			Exports Domestic & Foreign, f.a.s. basis			Imports Customs basis			Imports C.i.f. basis		
	April	Cumulative to date	rank	April	Cumulative to date	rank	April	Cumulative to date	rank	April	Cumulative to date	rank
Falkland Islands	(Z)	–0.1	[illegible]	(Z)	0.3	204	(Z)	0.4	183	(Z)	0.4	184
Faroe Island	–0.4	–1.5	81	(Z)	0.1	212	0.4	1.6	164	0.4	1.7	164
Federated States of Micronesia	2.7	3.6	129	3.4	8.2	146	0.7	4.6	143	0.7	4.9	142
Fiji	–2.2	–12.7	60	2.4	9.6	139	4.6	22.3	109	5.2	24.4	108
Finland	–90.0	–339.1	23	101.7	339.0	54	191.7	678.1	38	202.0	720.9	38
Fr Southern Antarctica	(–)	(Z)	219	(–)	(Z)	219	(–)	(–)	(X)	(–)	(–)	(X)
France	–225.1	–705.2	17	1,235.0	4,945.1	9	1,460.1	5,650.3	9	1,506.1	5,862.6	9
French Guiana	1.3	4.9	138	1.4	5.0	160	0.1	0.1	201	0.1	0.1	199
French Polynesia	6.2	20.8	169	6.9	23.1	108	0.7	2.3	158	0.7	2.4	158
Gabon	–94.7	–391.4	22	2.7	16.5	118	97.4	407.9	51	104.6	438.1	51
Gaza Strip	0.1	0.1	94	0.1	0.1	214	(–)	(–)	(X)	(–)	(–)	(X)
Georgia	7.1	19.0	168	7.1	23.4	107	(Z)	4.4	144	(Z)	4.9	143
Germany	–1,291.4	–4,193.1	5	1,945.0	7,309.6	6	3,236.4	11,502.7	5	3,326.6	12,005.3	5
Ghana	1.1	–20.0	51	11.5	42.6	95	10.4	62.6	83	11.0	65.1	85
Gibraltar	1.4	5.7	143	1.7	6.9	151	0.3	1.2	171	0.3	1.3	172
Greece	93.9	339.1	203	127.5	460.2	46	33.6	121.1	64	37.3	136.0	64
Greenland	0.4	–0.4	89	0.4	1.0	191	(Z)	1.4	167	(Z)	1.5	167
Grenada	1.2	5.9	144	1.8	7.9	147	0.6	2.0	161	0.7	2.2	159
Guadeloupe	6.4	22.0	171	6.5	22.4	109	0.1	0.4	184	0.1	0.4	182
Guatemala	36.0	15.5	164	154.0	537.5	42	118.0	522.0	45	129.1	563.2	45
Guinea	0.1	–9.2	63	5.8	20.4	112	5.7	29.6	99	7.4	38.4	93
Guinea–Bissau	0.4	0.6	105	0.4	0.6	197	(–)	(Z)	212	(–)	(Z)	205
Guyana	0.3	5.3	141	10.2	36.3	100	9.9	31.0	96	11.3	36.6	96
Haiti	27.3	136.3	193	37.6	174.7	82	10.3	38.4	91	11.5	41.0	92
Heard and McDonald Isles	(Z)	(Z)	223	(Z)	(Z)	215	(Z)	(Z)	203	(Z)	(Z)	213
Honduras	13.8	–21.9	48	112.2	402.6	48	98.4	424.5	48	107.9	463.0	48
Hong Kong	464.1	1,540.3	213	1,133.2	4,431.6	11	669.1	2,891.3	15	698.2	3,027.6	16
Hungary	–21.1	–78.4	33	23.7	102.0	71	44.8	180.4	61	47.4	191.5	61
Iceland	–15.0	–36.3	43	14.0	41.0	98	29.0	77.3	76	30.7	82.8	74
India	–183.7	–974.5	14	248.8	917.0	33	432.5	1,891.5	24	460.3	2,010.5	24
Indonesia	–254.0	–1,156.4	13	240.6	1,039.5	28	494.6	2,195.9	19	530.6	2,352.8	19
Iran	27.5	160.8	195	27.5	161.0	63	(–)	0.2	191	(–)	0.2	192
Iraq	(–)	(–)	(X)	(–)	(–)	(X)	(–)	(–)	(X)	(–)	(–)	(X)
Ireland	24.6	264.8	200	338.4	1,379.0	27	313.8	1,114.2	30	318.9	1,136.9	31
Israel	14.8	11.4	157	403.8	1,873.7	22	389.0	1,862.3	25	398.3	1,906.2	25
Italy	–594.3	–2,438.5	7	732.8	2,854.3	16	1,327.1	5,292.8	10	1,399.5	5,573.3	10
Ivory Coast	1.7	–27.4	45	10.5	46.3	93	8.8	73.7	79	9.6	78.7	78
Jamaica	54.6	177.1	198	118.1	426.0	47	63.5	248.9	57	67.5	264.1	57
Japan	–5,873.6	–21,572.0	1	5,295.8	20,371.4	2	11,169.4	41,943.4	2	11,482.0	43,522.1	2
Jordan	18.6	106.5	190	21.8	115.0	68	3.2	8.5	128	3.3	9.0	126
Kazakhstan	1.4	–2.7	75	10.9	26.0	104	9.5	28.7	101	10.1	31.2	101
Kenya	1.3	3.9	132	6.6	39.5	97	5.3	35.6	93	5.8	37.9	94
Kiribati	(Z)	–0.3	90	0.1	0.3	205	0.1	0.6	181	0.1	0.7	181
Korea	294.8	1,214.9	212	2,042.5	8,152.1	5	1,747.7	6,937.2	8	1,801.4	7,183.7	8
Kuwait	–1.6	–17.3	55	86.8	400.8	49	88.4	418.1	49	98.5	460.4	49
Kyrgyzstan	2.0	1.2	114	2.4	4.1	167	0.4	2.9	154	0.4	3.0	155
Laos	–0.7	–2.7	76	(Z)	0.2	209	0.7	2.9	155	0.8	3.1	154
Latvia	–8.5	–10.9	62	7.3	25.6	105	15.8	36.5	92	16.9	42.9	91
Lebanon	47.4	199.1	197	49.5	211.6	57	2.1	12.5	118	2.2	13.0	118
Lesotho	–5.2	–19.2	53	(Z)	0.2	208	5.2	19.4	113	5.4	20.2	115
Liberia	4.6	12.4	158	5.2	14.5	124	0.6	2.1	160	0.6	2.1	162
Libya	(–)	(–)	(X)	(–)	(–)	(X)	(–)	(–)	(X)	(–)	(–)	(X)
Liechtenstein	–13.8	–37.8	42	1.0	4.7	163	14.8	42.5	90	15.3	45.3	90
Lithuania	1.2	–0.7	85	2.6	10.4	136	1.4	11.1	121	1.5	12.7	119
Luxembourg	–3.0	–16.9	54	14.3	60.0	85	17.3	78.9	72	18.4	83.9	73

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Korea [6]

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For LT at
WC request
7/27/95

U.S.-Korea Trade

Korea is our six largest export market and our eighth largest trading partner.

- U.S. exports are primarily in the area of machinery and transportation equipment. Largest items were electronic components ($1.5 billion) and aircraft ($1.0 billion). Industrial machinery and computers also strong sectors (over $500 million each).
- Korea is our fourth largest market for U.S. agriculture, importing $3.2 billion last year.
- U.S. imports from Korea are also dominated by machinery. Largest items include electronic components ($3.9 billion), computers and parts ($2.5 billion) and automobiles ($1.5 billion).

Since 1991, our bilateral trade with Korea has been in rough balance. Last year, the U.S. had a $2.4 billion trade deficit with Korea. In the first four months of 1995, the U.S. is running a small surplus (around $1.2 billion).

U.S. Exports to and Imports from Korea
$ million

	1990	1991	1992	1993	1994
Exports	14394	15496	14610	14772	18000
Imports	19287	17735	17362	17779	20374
Balance	-4893	-2239	-2752	-3007	-2374

International Bank for Reconstruction and Development

FOR OFFICIAL USE ONLY

FOR EXECUTIVE DIRECTORS' MEETING

For consideration on
Thursday, December 23, 1993

R93-205

FROM: Vice President and Secretary

December 2, 1993

KOREA: Financial Intermediation Project

1. Attached is the President's Memorandum and Recommendation (P-6142-KO) on a proposed loan to the Republic of Korea for a Financial Intermediation Project. Part I of the Memorandum contains a discussion of "Country Policies and Bank Group Assistance Strategy".

2. A report entitled "Korea: Country Economic Memorandum" (10733-KO) was distributed on October 9, 1990.

3. A detailed report entitled "Staff Appraisal Report: Korea - Financial Intermediation Project" (12266-KO) is being distributed separately.

4. A draft Loan Agreement between the Republic of Korea and the Bank, a draft IBK Project Agreement between the Bank and Industrial Bank of Korea, a draft CNB Project Agreement beween the Bank and Citizens National Bank, a draft KTBC Project Agreement between the Bank and Korea Technology Banking Corporation and a draft KBI Project Agreement between the Bank and Korea Banking Institute are available on request from the Secretary's Department Documents Office (X80213).

5. Questions on the country strategy should be referred to Mr. Shetty (X81939) and on the project to Mr. Dalla (X80484).

Distribution:

Executive Directors and Alternates
Office of the President
Executive Vice Presidents, IFC and MIGA
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads,
Bank, IFC and MIGA

FACSIMILE TRANSMITTAL

THE WORLD BANK
OFFICE OF THE U.S. EXECUTIVE DIRECTOR
1818 H Street, NW Room D-13-004
Washington, DC 20433

DATE: July 21st

TO: Helen Walsh

FAX NUMBER:

FROM: LIZA MORRIS, ASSISTANT TO THE U.S. EXECUTIVE DIRECTOR / Laura

TEL: (202) 458-0114
FAX: (202) 477-2967

COMMENTS: Please see attached
Also, I've attached Mike Marek's official statement made to the Board on Dec. 20th '94.; and I've spoken w/ Ms. Rachel McColgan-Mohamed from external affairs. The figures on Korea were based on the W. Bank Atlas '95, the economy which I have photocopied for you.

NUMBER OF PAGES INCLUDING COVER SHEET 11

International Bank for Reconstruction and Development

Doe-file? yes

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1-4-94

CC: NK

SecM94-29

FROM: Vice President and Secretary

January 4, 1994

EXECUTIVE DIRECTORS' MEETING - DECEMBER 23, 1993

Chairman's Concluding Remarks

Korea: Country Assistance Strategy

Attached is a copy of the Chairman's Concluding Remarks on the discussion of the Bank's Country Assistance Strategy for Korea at the meeting of the Executive Directors held on December 23, 1993.

Distribution:

Executive Directors and Alternates
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KOREA
CHAIRMAN'S CONCLUDING REMARKS ON COUNTRY ASSISTANCE STRATEGY

Meeting of Executive Directors
December 23, 1993

The Executive Directors commended the Korean authorities for the many development successes the country has achieved during the past three decades. Particular note was taken of Korea's unprecedented transition from being an IDA borrower in 1962 to its impending graduation from Bank lending in 1995.

The Directors were supportive of the main conclusions of the Country Assistance Strategy (CAS), which reflected the key features of the graduation agreement that had been discussed by the Board in 1991. It was generally felt that the graduation schedule was reasonable and consistent with the approach followed for countries that had graduated earlier. In terms of the composition of Bank assistance until graduation in FY95, several Directors noted that the proposed program would help Korea meet the challenges it faces in making the transition to industrial country status. At the same time, some Directors emphasized that, given Korea's economic strength, Bank lending in FY94-95 should continue to be targeted towards areas where it would add value beyond the financial transfers, as is noted in the CAS, and the proposed projects should be designed so that they do not crowd out private capital.

Directors generally agreed with the key development issues identified in the CAS. Given Korea's track record, they felt that there were strong grounds for confidence that these challenges would be met successfully by the authorities, and particular mention was made of the Government's strong actions recently in liberalizing financial sector policies and trade restrictions. However, concerns were expressed about the prospects in some areas to which the authorities should continue to give attention. These included: excessive government intervention in labor markets in efforts to maintain export competitiveness; the need to act decisively in addressing environmental challenges; and the impact of the recently-concluded Uruguay Round of GATT.

Several Directors welcomed the focus of the CAS on finding ways to continue the collaboration between the Bank and Korea after graduation. Specifically, the importance to other Bank Group borrowers of disseminating the lessons from Korea's development experience was noted. Also, the Korean authorities were commended for their readiness to expand development assistance, both financial and technical. In this context, the Directors welcomed the Bank's willingness to assist the Korean authorities in improving the effectiveness of these aid programs. In the view of some Directors, the approach taken in the CAS on the post-graduation collaboration provided a good framework for considering the Bank's future relationship with some middle-income countries where Bank assistance is not significant.

Korea File

Meeting of the IBRD Executive Board

KOREA: FINANCIAL INTERMEDIATION PROJECT AND
COUNTRY ASSISTANCE STRATEGY
December 23, 1993; R93-205

Talking Points

-- Thank you, Mr. Chairman.

-- Korea deserves great credit for the huge economic leap it has made over the past 30 years; the data are eloquent and speak for themselves. The Bank, too, deserves credit and our thanks for the instrumental role it has played in this remarkable development success.

-- We therefore appreciate the opportunity to comment on the Bank's assistance strategy for Korea and, more specifically, its lending focus during the graduation period. The size and focus of the graduation lending program is an important issue, and one in which we continue to have a keen interest.

-- Our views on the issue remain essentially where they were in 1991, when the Korean government formally announced its intention to graduate. At that time we expressed a strong preference for a shorter transition period characterized by a significantly lower new commitment level in respect of a relatively narrow range of operations.

-- One specific area where we felt transitional Bank involvement would be appropriate was, in fact, financial market liberalization. We therefore looked at this proposed operation with particular interest, and would offer a few specific observations.

  o First, we welcome the fact that the liberalization program being supported by the Bank is the product of a long and intensive dialogue between the Bank and the authorities. The all-important issue of ownership appears to have been well taken care of.

  o Second, while we would have preferred implementation on a substantially more accelerated basis, we nevertheless support both the general thrust and the specific content of the liberalization program.

  o Third, we would echo Mr. Fisher's question regarding the specificity of the projects' linkage between disbursements and policy reforms.

-- I wanted to turn briefly to the assistance strategy and to elaborate somewhat on the general observation I made a moment ago.

-- The supporting tables in the President's report provide a whole array of data attesting to Korea's growing financial strength. To choose just a few: international reserves were estimated at $17 billion in 1992; gross domestic saving is extraordinarily high; and, of particular note, nonguaranteed private capital inflows last year were nearly as large as those that were officially guaranteed. On this last point, moreover, the staff appraisal report itself emphasizes that the primary limiting factor on foreign capital flows into Korea has been self-imposed restrictions and regulations.

-- The point here is simply that we are looking at a very strong economy and one that seems fully capable of financing itself on a sustainable basis through capital markets. Our view, therefore, remains that further Bank lending, to the extent it is justified at all, must be justified clearly and should support only projects that do not compete with -- or that could be financed by -- the private sector.

-- We therefore question whether these, and only these, operations will be produced under a lending strategy that envisions an annual new commitment level for the next few years that is possibly twice as high as in the years immediately preceeding the graduation period.

-- For example, the proposed lending program includes a Ports Development project that is intended to incorporate new site development and improved vessel traffic management. Both would seem attractive candidates for the private sector, and indeed we would have thought this would be seen by the Bank as the preferred route. The same could well be said for the proposed Pusan Waste Treatment project.

-- We will shortly be presented with two loans in the area of education and human resources, one of our identified priority sectors for graduation lending. Yet according to the latest MOS, both loans will mainly finance equipment. I must say that it is hard to find a unique role -- or any particular value-added -- for the Bank here. Institution-building and technical assistance is one thing; financing PCs and lab equipment is another.

-- Mr. Chairman, I don't wish to harp on points this chair has already made. But I do believe that there are some fundamental issues here, and I would encourage the staff to address them fully when these projects do come before the Board.

JBE:12/23/93

-- Thank you.

A

TRANSCRIPT OF PROCEEDINGS

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

DETERMINED TO BE AN ADMINISTRATIVE MARKING Per E.O. 12958 as amended, Sec. 3.3 (c)
Initials: VZ Date: 8/20/2012
VZ 2007-0528-F

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Pages 1 thru 119

Washington, D.C.
December 20, 1994

CONTENTS

MR. MAREK: Thank you, Mr. Chairman.

Despite the fact that we are requesting to be recorded in a normal manner in both of these loans to Korea, we want to express our strong congratulations to the work that the World Bank and the Korean Government have done in advancing economic development under extraordinarily difficult circumstances. This is a success story of enormous proportions. Maybe our difference is that some of us recognized the success earlier than others.

But, whatever our differences in timing, we stand together in applauding the success of this accomplishment and look forward to a long and productive partnership with Korea.

Thank you.

The economy

Economy	GNP /a (millions of US$) 1993	GNP per capita US$ /a 1992	GNP per capita US$ /a 1993	GNP per capita Real growth rate (%) 1985-93	PPP /b Intl. dollars 1993	Average inflation rate (%) 1985-93	Share of GDP Agriculture (%) 1993	Share of GDP Exports (%) 1993	Share of GDP Investment (%) 1993
Afghanistan	..	..	c	..	..	..	§	..	..
Albania	1,167	..	340	-7.0	..	15.0	*40*	*12*	*10*
Algeria	44,347	1,850	1,650	-2.2	4,390 d	20.0	15	23	28
American Samoa	..	..	e	..	..	..	..	..	..
Andorra	..	..	f	..	..	..	..	..	..
Angola	..	..	g	-0.9	..	5.9	§	§	§
Antigua and Barbuda	425	6,100	6,390	2.4	..	4.8	*4*	§	..
Argentina	244,013	6,170	7,290	1.4	9,130	398.0	6	6	18
Armenia /h	2,471	870	660	-11.7	2,080	71.3	48	..	14
Aruba	..	..	e	..	..	..	..	..	..
Australia	309,967	17,730	17,510	1.1	18,490	4.6	*3*	*18*	*19*
Austria	183,530	22,790	23,120	2.1	18,800	3.2	2	*40*	25
Azerbaijan /h	5,424	880	730	-9.4	2,230	75.5	*22*	..	*14*
Bahamas, The	3,059	11,670	11,500	-0.2	16,820 d	2.5	§	§	§
Bahrain	4,283	7,940	7,870	-1.0	13,480 d	0.3	1	107	28
Bangladesh	25,882	220	220	1.8	1,290	7.2	33	12	13
Barbados	1,620	6,210	6,240	-0.4	10,940 d	3.1	§	*66*	*20*
Belarus /h	29,290	3,210	2,840	-0.2	6,360	81.2	*21*	..	*31*
Belgium	213,435	21,360	21,210	2.4	18,490	3.1	*2*	69	*19*
Belize	499	2,380	2,440	5.7	..	3.5	19	57	32
Benin	2,189	410	420	-1.1	1,630	1.4	37	22	15
Bermuda	..	..	f	..	..	..	..	..	..
Bhutan	253	170	170	4.5	..	8.8	41	35	28
Bolivia	5,472	750	770	1.4	2,400	23.1	§	15	15
Bosnia and Herzegovina	..	..	c	..	..	..	..	..	..
Botswana	3,630	2,450	2,590	5.7	4,650	12.7	5	46	38
Brazil	471,978	2,810	3,020	-0.6	5,470	822.8	*11*	*10*	18
Brunei	..	..	f	..	..	..	*3*	..	..
Bulgaria	9,773	1,410	1,160	-2.8	3,730 d	35.5	13	50	20
Burkina Faso	2,928	310	300	0.0	800 d	1.7	§	12	22
Burundi	1,102	210	180	0.6	660 d	4.7	54	7	2
Cambodia	..	..	c	..	..	..	47	14	15
Cameroon	9,663	830	770	-7.3	2,060	-0.6	22	20	11
Canada	574,884	21,070	20,670	0.4	20,410	3.3	§	*27*	*19*
Cape Verde	347	840	870	2.1	1,830 d	8.1	*13*	*16*	*37*
Cayman Islands	..	..	f	..	..	..	..	..	..
Central African Republic	1,263	410	390	-3.0	1,060 d	1.4	50	15	9
Chad	1,248	220	200	0.5	710 d	-0.2	44	13	9
Channel Islands	..	..	f	..	..	..	..	..	..
Chile	42,454	2,780	3,070	6.1	8,380	18.9	§	28	26
China	581,109	480	490	6.5	2,120	8.1	21	22	43
Colombia	50,119	1,350	1,400	2.3	5,630	25.6	*16*	18	21
Comoros	272	530	520	-2.2	1,320 d	2.6	39	18	15
Congo	2,318	1,110	920	-1.9	2,430	-2.1	11	44	14
Costa Rica	7,041	2,010	2,160	2.6	5,580	18.4	15	40	30
Côte d'Ivoire	8,397	680	630	-5.2	1,420	-1.8	37	34	9
Croatia	..	..	g	..	..	..	..	..	..
Cuba	..	..	g	..	..	..	..	..	..
Cyprus	7,539	10,300	10,380	5.2	15,470 d	4.1	6	47	24
Czech Republic	28,192	2,590	2,730	-2.0	7,700	11.0	6	55	17
Denmark	137,610	26,310	26,510	1.1	18,940	3.2	*4*	*37*	*15*
Djibouti	448	..	780	..	..	4.4	3	71	13
Dominica	193	2,570	2,680	4.8	..	4.5	*26*	§	§
Dominican Republic	8,039	1,070	1,080	0.3	3,240	31.2	*18*	29	23
Ecuador	13,217	1,100	1,170	0.8	4,260	49.0	12	26	21
Egypt, Arab Rep.	36,679	650	660	0.7	3,530	16.9	16	24	20
El Salvador	7,233	1,200	1,320	1.2	2,360	16.9	9	14	16
Equatorial Guinea	161	340	360	1.5	..	-0.4	47	40	25
Eritrea /i	..	..	c	..	..	..	..	..	..
Estonia /h	4,703	3,170	3,040	-5.2	6,850	50.1	10	63	33
Ethiopia /i	..	110	100	-1.8	380	4.6	48	12	16
Faeroe Islands	..	..	f	..	..	..	..	..	..
Fiji	1,626	2,050	2,140	2.5	5,220 d	5.4	*18*	*55*	*13*
Finland	96,220	21,690	18,970	-0.3	15,230	4.4	5	27	17
France	1,289,235	22,630	22,360	1.8	19,440	3.0	*3*	*23*	*20*
French Guiana	..	..	e	..	..	..	..	..	..
French Polynesia	..	..	f	..	..	..	..	..	..
Gabon	5,004	4,220	4,050	-1.7	..	0.3	8	45	22
Gambia, The	372	370	360	1.0	1,280 d	11.2	*27*	*62*	*20*
Georgia /h	3,071	1,020	560	-16.4	1,410	116.4	70	25	§
Germany /j	1,902,995	21,360	23,560	1.9	20,980	3.2	*1*	*33*	*21*
Ghana	7,036	460	430	1.3	2,160 d	29.4	47	20	15
Gibraltar	..	..	e	..	..	..	..	..	..
Greece	76,698	7,390	7,390	1.3	8,360	16.0	*18*	*23*	20
Greenland	..	..	f	..	..	..	§	..	..
Grenada	219	2,350	2,410	4.1	..	4.1	14	54	32
Guadeloupe	..	..	e	..	..	..	..	..	..
Guam	..	..	e	..	..	..	..	..	..
Guatemala	11,092	1,000	1,110	0.8	3,350	20.1	25	17	19
Guinea	3,170	490	510	1.3	..	20.2	24	21	16
Guinea-Bissau	233	220	220	1.6	790 d	70.4	44	12	24
Guyana	285	320	350	0.6	1,710 d	51.5	*50*	122	54
Haiti	..	..	c	-3.4	..	7.7	..	§	§
Honduras	3,220	570	580	0.0	1,890	11.7	20	32	27
Hong Kong /k	104,731	15,710	17,860	5.3	21,670	9.1	*0*	143	27
Hungary	34,254	3,190	3,330	0.0	6,260	19.2	6	30	20
Iceland	6,236	24,300	23,620	0.1	17,160	14.7	*12*	*32*	*17*
India	262,810	310	290	3.0	1,250	9.7	31	11	25
Indonesia	136,991	680	730	4.8	3,140	8.6	*19*	28	31
Iran, Islamic Rep.	..	2,230	..	-0.7	..	21.9	*23*	31	*33*
Iraq	..	..	g	..	..	..	..	..	..
Ireland	44,906	12,850	12,580	4.8	11,850	2.0	*8*	*63*	*16*
Isle of Man	..	..	e	..	..	..	..	..	..
Israel	72,662	13,460	13,760	2.3	14,890	19.1	§	31	22
Italy	1,134,980	20,790	19,620	1.9	18,070	6.5	*3*	*20*	*19*
Jamaica	3,362	1,390	1,390	3.1	3,000	26.9	8	*62*	*19*
Japan	3,926,668	24,690	31,450	3.6	21,090	1.4	*2*	*10*	*31*
Jordan /l	4,893	1,130	1,190	-5.9	4,010 d	7.0	8	38	30
Kazakhstan /h	26,490	1,880	1,540	-4.6	3,770	91.9	*29*	*52*	*31*
Kenya	6,743	330	270	0.3	1,310	10.6	29	42	16
Kiribati	54	710	710	-1.3	..	5.1	*24*	..	..
Korea, Dem. Rep.	..	..	g	..	..	..	..	..	..
Korea, Rep.	338,062	7,220	7,670	8.1	9,810	6.9	7	29	34
Kuwait	34,120	13,380	23,350	0.8	..	..	0	53	23
Kyrgyz Republic /h	3,752	1,020	830	-2.1	2,420	71.2	*43*	*34*	*25*
Lao PDR	1,295	260	290	2.1	..	26.9	51	21	*13*

.. Not available. § See map for range estimate.

Note: Figures in italics are for years other than those specified; the number 0 or 0.0 means zero or less than half the unit shown and not known more precisely.

Economy	GNP /a (millions of US$) 1993	GNP per capita US$ /a 1992	GNP per capita US$ /a 1993	GNP per capita Real growth rate (%) 1985-93	GNP per capita PPP /b Intl. dollars 1993	Average inflation rate (%) 1985-93	Share of GDP Agriculture (%) 1993	Share of GDP Exports (%) 1993	Share of GDP Investment (%) 1993
Latvia /h	5,257	2,610	2,030	-4.5	5,170	60.5	15	67	11
Lebanon	..	..	g	..	..	..	..	20	24
Lesotho	1,254	610	660	0.8	1,800 d	14.6	10	15	76
Liberia	..	..	c	..	..	..	..	..	..
Libya	..	..	e	..	..	..	[illegible]	..	..
Lithuania /h	4,891	1,710	1,310	-6.4	3,160	84.6	21	60	17
Luxembourg	14,233	35,800	35,850	2.7	29,510	3.3	1	89	40
Macao	..	..	e	..	..	9.5	..	80	25
Macedonia, FYR /m	1,709	..	780	..	..	..	..	..	..
Madagascar	3,039	230	240	-1.7	700	15.1	34	14	12
Malawi	2,034	230	220	0.4	780	17.8	38	17	13
Malaysia	60,061	2,830	3,160	5.7	8,630	3.1	16	80	33
Maldives	194	700	820	..	..	..	20	..	..
Mali	2,744	310	300	-4.3	530	0.5	42	16	22
Malta	..	..	e	..	..	2.7	6	[illegible]	[illegible]
Marshall Islands	..	..	g	..	..	..	..	..	..
Martinique	..	..	e	..	..	..	..	..	..
Mauritania	1,087	540	510	-0.1	1,590 d	7.4	27	45	25
Mauritius	3,309	2,800	2,980	5.8	12,450	9.0	10	63	29
Mayotte	..	..	e	..	..	..	..	..	..
Mexico	324,951	3,510	3,750	0.9	7,100	45.1	8	13	22
Micronesia, Fed. Sts.	..	..	g	..	..	..	..	..	..
Moldova /h	5,160	1,450	1,180	-5.4	3,210	90.2	33	20	19
Mongolia	943	..	400	-0.3	..	34.4	28	62	19
Morocco	27,645	1,050	1,030	0.9	3,270	5.5	14	22	25
Mozambique	1,375	70	80	1.9	380 d	54.3	33	21	41
Myanmar	..	..	c	..	..	26.7	63	1	12
Namibia	2,594	1,670	1,660	2.3	3,930 d	10.0	11	55	11
Nepal	3,174	170	160	1.8	1,150 d	10.4	49	20	20
Netherlands	316,404	20,850	20,710	2.0	18,050	1.3	4	52	21
Netherlands Antilles	..	..	e	..	..	..	..	..	..
New Caledonia	..	..	e	..	..	..	..	..	..
New Zealand	44,674	12,660	12,900	0.2	15,390	5.9	[illegible]	31	19
Nicaragua	1,421	350	360	-6.2	2,070 d	1,836.2	30	20	17
Niger	2,313	290	270	-2.1	810 d	-1.3	39	13	6
Nigeria	32,988	330	310	3.2	1,480	29.3	36	39	18
Northern Mariana Is.	..	..	g	..	..	..	..	..	..
Norway	113,527	26,280	26,340	0.5	19,130	3.5	3	41	18
Oman	9,631	6,380	5,600	1.2	10,720 d	0.6	3	[illegible]	17
Pakistan	53,250	420	430	1.5	2,110	8.4	25	16	21
Panama	6,621	2,470	2,580	-0.7	5,940	1.3	10	29	22
Papua New Guinea	4,637	990	1,120	1.1	2,470 d	4.1	26	49	20
Paraguay	6,995	1,410	1,500	1.3	3,490	27.2	24	27	22
Peru	34,030	1,350	1,490	-3.5	3,130	615.6	[illegible]	9	19
Philippines	54,609	790	830	1.6	2,660	10.0	22	32	24
Poland	87,315	1,950	2,270	-1.8	5,010	112.8	7	19	19
Portugal	77,749	7,510	7,890	4.7	9,890	13.0	[illegible]	29	29
Puerto Rico	25,317	6,700	7,020	1.8	..	2.9	1	..	17
Qatar	7,871	15,760	15,140	-0.7	22,910 d	..	[illegible]	..	..
Reunion	..	..	e	..	..	..	..	..	..
Romania	25,427	1,170	1,120	-6.5	2,910	49.4	23	23	27
Russian Federation /h	348,413	2,820	2,350	-5.0	5,240	91.4	11	37	26
Rwanda	1,499	250	200	-3.5	640	2.4	41	6	16
San Marino	..	..	f	..	..	..	..	..	..
St. Kitts and Nevis	185	4,120	4,470	5.2	..	5.8	6	59	40
St. Lucia	480	2,900	3,040	4.3	..	3.5	11	66	25
St. Vincent	233	2,040	2,130	4.6	..	3.8	18	[illegible]	[illegible]
São Tomé and Principe	41	370	330	-1.8	..	32.8	[illegible]	22	..
Saudi Arabia	..	7,780	..	-0.9	..	2.5	6	43	24
Senegal	5,867	780	730	-0.3	1,640	1.7	19	22	14
Seychelles	444	5,750	6,370	4.0	..	4.1	4	63	23
Sierra Leone	647	160	140	-0.6	770	72.3	38	22	9
Singapore	55,372	16,930	19,310	6.1	20,470 d	3.5	0	169	44
Slovak Republic	10,145	2,040	1,900	-2.6	6,450	8.9	7	63	25
Slovenia	12,566	6,700	6,310	..	..	..	5	60	16
Solomon Islands	261	730	750	2.5	..	11.2	[illegible]	54	28
Somalia	..	..	c	-2.3	..	75.4	[illegible]	[illegible]	[illegible]
South Africa	118,057	2,830	2,900	-1.5	..	13.8	4	25	15
Spain	533,986	14,230	13,650	3.1	13,310	6.8	4	18	23
Sri Lanka	10,658	540	600	2.6	3,030	11.2	25	33	25
Sudan	..	..	c	-0.2	..	55.3	34	5	13
Suriname	488	1,280	1,210	2.2	3,670 d	20.5	14	26	15
Swaziland	933	1,080	1,050	3.8	1,690	11.3	13	80	20
Sweden	216,294	27,500	24,830	0.1	17,560	6.3	2	28	17
Switzerland	254,066	36,730	36,410	0.7	23,620	3.8	[illegible]	36	24
Syrian Arab Republic	..	..	g	-2.1	..	22.1	30	24	16
Tajikistan /h	2,686	600	470	-7.8	1,430	33.0	33	.	18
Tanzania /n	2,521	100	100	1.4	..	23.4	43	31	43
Thailand	120,235	1,840	2,040	8.4	6,390	5.1	12	37	39
Togo	1,325	400	330	-3.4	1,040 d	2.3	49	23	12
Tonga	150	1,510	1,610	1.5	..	10.4	..	.	..
Trinidad and Tobago	4,776	3,990	3,730	-2.7	8,850 d	5.9	2	40	14
Tunisia	15,332	1,760	1,780	2.2	5,070	6.6	16	40	25
Turkey	126,330	2,030	2,120	3.0	5,550	56.2	15	20	25
Turkmenistan /h	..	1,380	.	-1.6	..	46.0	32	.	46
Uganda	3,486	180	190	1.9	840 d	79.3	56	6	15
Ukraine /h	99,677	2,360	1,910	-3.9	4,030	103.0	31	..	..
United Arab Emirates	38,720	22,640	22,470	0.5	23,390 d	..	2	68	25
United Kingdom	1,042,700	18,110	17,970	1.3	17,750	5.7	2	24	15
United States	6,387,686	23,830	24,750	1.2	24,750	3.5	[illegible]	11	16
Uruguay	12,314	3,470	3,910	3.0	6,350	76.2	9	20	16
Uzbekistan /h	21,100	1,000	960	-1.6	2,580	65.0	36	.	30
Vanuatu	198	1,230	1,230	0.2	..	6.3	[illegible]	[illegible]	[illegible]
Venezuela	58,916	2,920	2,840	1.0	8,130	35.2	5	27	18
Viet Nam	11,997	..	170	4.8	1,040 d	118.7	29	28	21
Virgin Islands (U.S.)	..	..	f	..	..	..	..	..	..
West Bank and Gaza	..	..	g	..	..	..	..	..	..
Western Samoa	159	960	980	-0.1	..	10.6	40	47	42
Yemen, Rep.	..	..	c	..	..	..	21	15	20
Yugoslavia, Fed. Rep.	..	..	g	..	..	..	..	.	.
Zaire	..	..	c	-0.8	..	..	[illegible]	[illegible]	[illegible]
Zambia	3,152	370	370	1.8	1,170	89.0	29	40	11
Zimbabwe	5,756	540	540	-1.1	1,900	20.5	18	34	23

a. Atlas method; b. Purchasing power parity, see the introduction and the technical notes. c. Estimated to be low-income ($695 or less). d. Obtained from regression estimates. e. Estimated to be upper-middle-income ($2,786 to $8,625). f. Estimated to be high-income ($8,626 or more). g. Estimated to be lower-middle-income ($696 to $2,785). h. Estimates for the economies of the former Soviet Union are preliminary, and their classification will be kept under review.

i. Data for Eritrea are not yet disaggregated and are included in Ethiopia. j. PPP estimate of GNP per capita and data on shares in GDP refer to the former Federal Republic of Germany. k. References to GNP relate to GDP. l. Data cover the East Bank only. m. Former Yugoslav Republic of Macedonia. n. Data cover mainland Tanzania only.

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INFORMATION

August 16, 1994

To: Members of the Executive Board

From: The Secretary

Subject: Korea - Staff Report for the 1994 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1994 Article IV consultation with Korea, which is tentatively scheduled for discussion on Monday, September 12, 1994.

Mr. Horiguchi (ext. 38486) or Mr. Evans (ext. 37183) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the GATT Secretariat, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

KOREA

Staff Report for the 1994 Article IV Consultation

Prepared by the Staff Representatives for the
1994 Consultation with Korea

(In consultation with the Legal, Monetary and Exchange Affairs,
Policy Development and Review, and Treasurer's Departments)

Approved by Y. Horiguchi and Mark Allen

August 11, 1994

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I. Introduction

The 1994 Article IV consultation discussions with Korea were held in Seoul during June 13-23, 1994. The staff team 1/ met with the Minister of Finance, the Governor of the Bank of Korea, and senior officials of the Ministry of Finance, the Economic Planning Board, the Bank of Korea and other ministries and agencies. Mr. Lee, Advisor to the Executive Director for Korea, attended the meetings as observer. Korea accepted the obligations of Article VIII, Sections 2, 3, and 4 effective November 1, 1988. Korea maintains an exchange system which is free of restrictions on payments and transfers for current international transactions.

II. Background and Outlook

Over the past three decades, Korea has transformed itself from among the world's poorest countries (with per capita income below $150 in 1960) to one on the threshold of becoming an advanced industrial economy (with per capita income in excess of $7,000 by 1993)--the twelfth largest economy in the world, accounting for 2 1/4 percent of world trade. The key ingredients of this sustained success have been a high investment rate supported by a high saving rate, which has reflected the thrift of the private sector and a conservative fiscal policy; a strong emphasis on education and accumulation of human capital; and an increasingly outward orientation.

This impressive record has been punctuated by large cyclical fluctuations in activity and stop/go cycles in macroeconomic management. During 1986-91, for example, Korea experienced, in turn, an export-led boom (1986-88), a sharp slowdown (1989), and an expansion driven by domestic demand (1990-91). The boom in 1986-88, supported by a strong competitive position and a favorable external environment, ended abruptly in 1989 when exports declined in response to a rise in industrial disputes, large wage increases, and a marked appreciation of the won. Policies then shifted to stimulating domestic demand and the earlier appreciation of the currency was partly reversed. Activity recovered in late 1989 and gathered further momentum in 1990 and 1991. Reflecting the strength of domestic demand, inflation accelerated to nearly 10 percent in 1991 and the current account registered a large deficit, which contributed to a decline in foreign reserves to $13 billion by end-year, less than two months of import cover. 2/ Faced with overheating and widening imbalances, in mid-1991 the

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1/ The 1994 Article IV consultation is taking place only seven months after the Executive Board meeting for the 1993 Article consultation in order to accommodate the authorities' desire to resume the traditional midyear timing of the consultation. The mission comprised Mr. Horiguchi (Head), Mr. Evans, Mr. Barrionuevo, Ms. Schulze-Ghattas (all CTA), Mr. Milesi-Ferretti (RES), Mr. Schwartz (EP), and Mrs. Goodger (Administrative Assistant, CTA).

2/ Foreign reserves of the Bank of Korea relative to imports of goods and non-factor services.

Government introduced a series of measures to curb demand growth, which led to a slowdown in 1992.

Growth recovered in the course of 1993, supported by continued buoyancy of exports and a gradual strengthening of domestic demand. Investment activity began to revive, initially in construction with equipment investment gathering pace in late 1993. After declining to 4 1/2 percent during 1992 (December over December), consumer price inflation picked up to 6 percent during 1993, because of a surge in food prices late in the year as a result of a poor harvest. Excluding food prices, inflation during 1993 remained just below 5 percent.

The current account switched to a small surplus in 1993, as exports remained strong and imports of investment goods were subdued for much of the year. Large inflows of long-term capital--more than $7 billion in both 1992 and 1993--contributed to substantial overall balance-of-payments surpluses in both years. As a result, the Bank of Korea rebuilt its foreign reserves to some $20 billion (2 1/2 months of imports) by the end of 1993. Even with the strong balance of payments, the won depreciated by 6 percent in nominal effective terms from the end of 1992 through August 1993 (3 1/2 percent in real effective terms) and by 2 1/2 percent vis-à-vis the U.S. dollar. In the last three months of 1993, the currency appreciated by 2 percent in nominal effective terms while remaining stable relative to the dollar.

In 1993, monetary management was complicated by portfolio shifts associated with financial market reforms and by the liquidity impact of large external inflows. M2 growth was allowed to exceed the 13-17 percent target band 1/ for a time following the introduction of the "real name system" in August 2/ as market interest rates surged briefly above 15 percent from about 11 percent in the first half of the year. As calm in financial markets was restored, upward pressure on interest rates subsided in the final months of 1993, enabling the authorities to bring M2 growth back toward the target range. In the event, M2 growth came down to 17 1/4 percent in December (measured over the 12 months), just exceeding the top of the target band, while interest rates dropped back to around 12 percent by year end.

The consolidated central government position switched to a small surplus of 1/4 percent of GNP in 1993 compared with earlier estimates which envisaged a deficit of 1/2 percent of GNP. 3/ As a result, fiscal policy withdrew stimulus by some 1 1/4 percent of GNP during 1993, compared with the ex ante neutral stance. In the first half of the year, slower than expected output growth led to a scaling back of revenue projections,

---

1/ Set for December 1993 (average level) relative to December 1992.

2/ The "real name" system banned the use of false (or borrowed) names for financial transactions.

3/ The consolidated central government comprises the general account and the special accounts and funds of the central government as well as the special accounts and funds of public enterprises.

prompting the authorities to curtail expenditure to limit the size of the projected deficit. At the same time, net lending by special funds of the central government was falling short of projected amounts. In the event, with the strengthening of activity in the second half of 1993, revenue picked up, resulting in an unexpected surplus.

In concluding the 1993 Article IV consultation in February 1994, Executive Directors observed that the economy was likely to gain momentum in 1994 and recommended timely action to prevent a re-emergence of price pressure. In the context of continuing large net capital inflows, Directors noted that stabilization efforts would have to rely more on fiscal policy and took the view that a gradual appreciation of the currency would also help to forestall inflationary pressures. They stressed the importance of macroeconomic stability for a smooth implementation of the planned structural reforms in the financial sector.

The 1994 budget envisaged a deficit of the consolidated central government of 1/2 percent of GNP. While the available data remain sketchy, indications are that revenue may be running slightly ahead of budget projections, resulting in a nearly balanced position for the consolidated central government. Monetary policy in 1994 was to be conducted within a target band for M2 growth of 14-17 percent. There was a further deceleration in monetary expansion during the first half of 1994, and the 12-month rate of M2 growth registered 16 percent in June. Short-term interest rates have remained relatively stable, despite the slowing of monetary growth. On the wage front, the Government announced a 3 percent limit on wage increases in public enterprises in 1994, while the federations of trade unions and employers have agreed on a 5-8.7 percent guideline for this year's private sector wage negotiations, broadly unchanged from 1993. Through mid-June 1994, the average negotiated wage increase in the private sector amounted to 6 1/4 percent, compared with 5 1/4 percent in 1993.

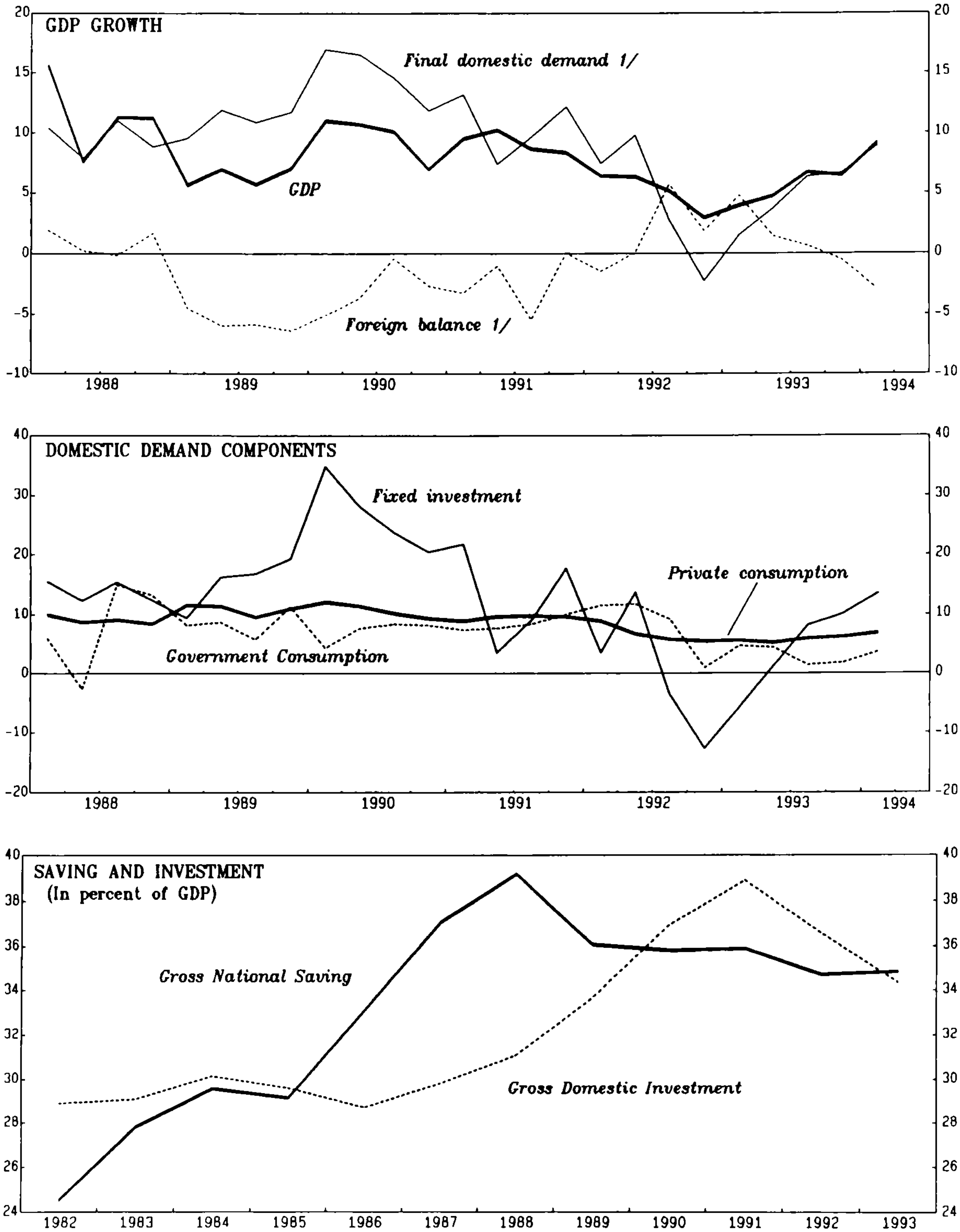
Against the background of these policies, activity gained further momentum in the first half of 1994. Real GNP growth accelerated to 8 3/4 percent (first quarter of 1994 over first quarter of 1993) reflecting especially strong equipment investment and a pickup in consumer spending (Chart 1). Industrial production increased by more than 10 percent over the same period, raising capacity utilization in industry above the peak reached in 1991. Reflecting the effects of the poor harvest in the second half of 1993, sharp increases in food prices continued, keeping the 12-month rate of increase in consumer prices in the 6 percent range; excluding food prices, however, inflation remained around 4 1/2 percent (Chart 2). The current account reverted to deficit in the first quarter of 1994, due to a surge in import growth combined with a normal seasonal decline in exports. The surplus in the overall balance (measured at an annual rate) was smaller than in 1992 and 1993, mainly because of current account developments.

CHART 1

KOREA

GROSS DOMESTIC PRODUCT AT 1990 CONSTANT PRICES, 1988-94

(Percentage change from previous year)



Sources: Bank of Korea, Monthly Statistical Bulletin; and staff calculations.

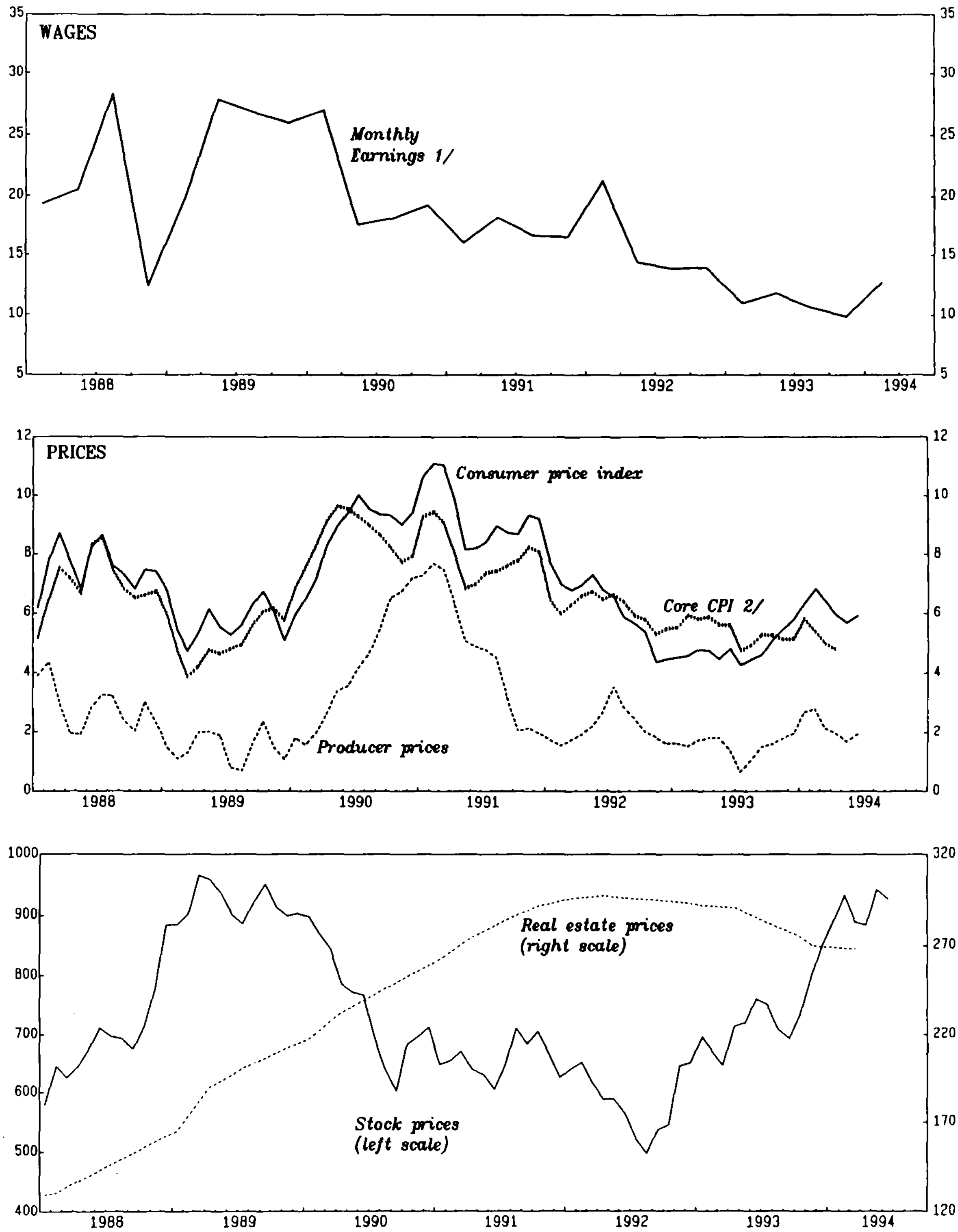
1/ Contribution to GDP growth.

CHART 2

KOREA

WAGES AND PRICES, 1988-94

(Percentage change from previous year)



Source: Data provided by the Korean authorities; and IMF, International Financial Statistics.

1/ Includes bonuses.
2/ CPI excluding perishable food, energy, and rent.

III. Policy Discussions 1/

1. Overview

The authorities and the staff were in broad agreement that output growth for 1994 as a whole was likely to be 7 1/2 - 8 percent, which would bring the economy close to full employment. The primary challenge for macroeconomic policy in the present environment is thus to sustain the expansion, and the key requirement to this end is to avoid a renewed bout of inflation. The authorities concurred that early steps to forestall inflationary pressure were desirable in order to avoid a more disruptive policy adjustment at a later stage. Given this broad similarity of views between the authorities and the staff, the discussions focussed on whether the current policy stance had gone far enough in the desired direction.

A feature of recent developments has been large external inflows, following the partial opening of the Korean stock market to foreign investors in 1992. An ingredient of the authorities' response has been purchases of foreign exchange, partly to replenish reserves and also to alleviate upward pressure on the currency. The monetary effect of these purchases has been broadly offset through issuance of monetary stabilization bonds. While net capital inflows were moderate in the first half of 1994, 2/ expectations are that they will pick up in the period ahead as further steps of financial and capital account liberalization are taken. A key concern of the authorities continues to be that such inflows could contribute to inflationary growth of the money supply or an appreciation of the won which would undermine export competitiveness.

The mission took the view that a set of policies featuring fiscal restraint and certain structural reforms--such as further liberalization of the regimes for imports and also capital outflows--could help to address the concern about domestic stability and competitiveness of the export sector. To the extent that upward pressure on the currency remained, the mission counselled in favor of nominal appreciation, and against a course which could lead to higher inflation. The authorities broadly agreed with this view of the appropriate policy mix. They recognized that--with increasing constraints on monetary policy due to external liberalization--the

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1/ At the time of the consultation discussions in June 1994, there were renewed political tensions in the region. There have been no major effects on financial and exchange markets and tensions may now be receding, although some uncertainty inevitably remains. The mission's policy assessment was based inter alia on the assumption of continued peace and political stability.

2/ This moderation may have reflected political tensions in the region, as well as the measure announced in February (intended to deal with emerging speculative behavior in the stock market) that raised the amount of cash (in relation to the value of transaction) that the buyers of shares have to deposit with brokers at the time of order. The measure has been applied to both domestic and foreign investors.

stabilization role of fiscal policy was increasing in prominence. Since official reserves remain below the authorities' medium-term target of three months of import cover, the approach of purchasing foreign exchange and offsetting the monetary effect by bond issue would continue to have a place. They also indicated that the exchange rate would be allowed to play a role.

2. Fiscal policy

Fiscal policy in Korea has generally followed a conservative approach, which has succeeded in keeping deficits and public debt low but has paid little attention to the cyclical effects of the budget. After a period of fiscal consolidation, the financial position of the consolidated central government weakened during 1989-91 but then improved as the deficit narrowed to 1/4 percent of GNP in 1992 (Appendix Table 2). In the original budget for 1993, the consolidated central government was projected to register a deficit of 1/2 percent of GNP. However, as discussed earlier, with expenditure well below the budget projection, the outcome was an unexpected surplus amounting to 1/4 percent of GNP, involving a substantial withdrawal of stimulus.

The budget for 1994, passed by the National Assembly in December 1993, was framed against the background of a recovery of economic growth that had just begun 1/ and was, ex ante, cyclically neutral. 2/ The budget projected a substantial increase in expenditure on social overhead capital--airports, railways, roads and water services--funded by expenditure restraint in other areas, notably general administration, and by new revenue measures, in particular a sharp rise in excises on petroleum products. In light of the unexpected surplus in 1993, the planned deficit of 1/2 percent of GNP in 1994 would imply an unintended fiscal stimulus of 1 percent of GNP, contrary to cyclical requirements. Although a somewhat smaller deficit now seems likely, the outcome would still be procyclical.

The mission asked about the scope for curtailing expenditures in the second half of 1994. The authorities noted that half of the year had already elapsed and that the time needed to formulate new fiscal measures and to mobilize the necessary consensus rendered the issue largely moot. The mission responded that, as a minimum, the Government should avoid spending the fiscal dividend accruing from faster-than-expected revenue growth. The authorities agreed and noted that the additional spending in the supplementary budget currently under preparation--which would provide income support for the agricultural sector to cushion the effects of the Uruguay Round trade liberalization--would be fully financed by recently introduced new revenue measures.

Regarding the budget for 1995, for which preparations had just begun, the staff indicated that the budget should aim for a substantial withdrawal

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1/ Available data at that time pertained to the third quarter of 1993.
2/ At the time of the deliberations on the 1994 budget, the 1993 fiscal outcome was still estimated to be a deficit.

of fiscal stimulus, an approach which, given the likely outturn for this year, could well mean a surplus on the consolidated central government account. While this could prove difficult to reconcile with planned increases in expenditure on social overhead capital, failure to ensure a significant tightening of the fiscal stance would mean that greater adjustment would be needed in the exchange rate. With rapid economic growth, a reduction in spending relative to GNP would still be consistent with significant expenditure increases in real terms. Moreover, some of the revenue raising measures envisaged in the medium-term tax reform plan (discussed below) could be brought forward. The Korean officials shared the mission's assessment of the cyclical requirements for the 1995 budget, while also noting that it would be difficult to obtain the National Assembly's approval for a budget that envisaged a substantial ex ante surplus. They also believed that fiscal policy would have to balance cyclical concerns against the need to upgrade infrastructure and, more generally, to ensure adequate supply of public goods.

3. Monetary policy

Monetary policy in Korea has traditionally focussed on the growth of broad money (M2) as the principal intermediate target. 1/ This approach has so far been maintained notwithstanding possible recent instability in demand for M2 arising from ongoing financial market reforms. In 1993, monetary targeting met major difficulties after financial reforms brought on a sharp rise in money demand and short-term interest rates. Moreover, a large increase in foreign reserves raised complications for monetary control, despite sales of large amounts of monetary stabilization bonds (MSBs). A flexible approach to monetary targeting was followed under these circumstances, but in the end the authorities were able to meet broadly the 13-17 percent range set for M2 while also restoring a degree of interest rate stability at levels prevailing prior to the introduction of the real name system.

The conduct of monetary policy in 1994 has continued to be based primarily on monetary targeting. The 14-17 percent range set for M2 assumed output growth of 7 percent, inflation of 6 percent (allowing for the effect of food price increases) and a decline in velocity in line with historical trends. The authorities saw the main task of monetary policy as pursuing a prudent course through gradual downward pressure on the growth of M2, and avoidance of an abrupt increase in newly liberalized interest rates. In the first half of 1994, with the growth of M2 at 16 percent 2/ and both interest rates and the exchange rate relatively stable, the authorities judged that monetary policy had been sufficiently restrained, in line with the desired outcome (Chart 3). Given these developments, together with the absence of signs of an acceleration of inflation--with the CPI net of food

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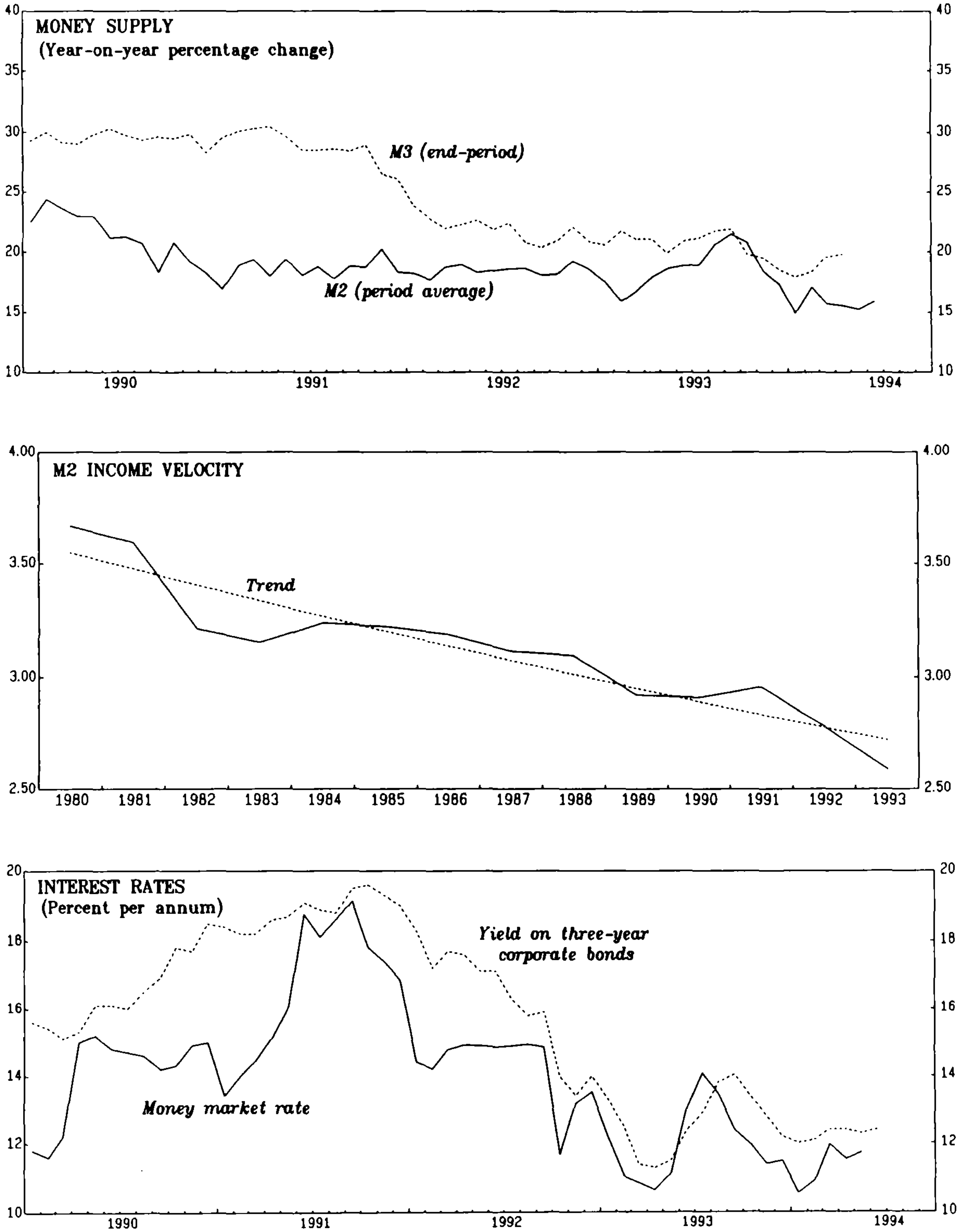
1/ An assessment of the record of monetary targeting in Korea and a discussion of monetary targeting in the context of financial reform will be presented in the forthcoming background paper.

2/ Average for June 1994 relative to June 1993.

CHART 3

KOREA

MONEY, VELOCITY AND INTEREST RATES, 1980-94



Sources: Bank of Korea, Monthly Statistical Bulletin, and staff calculations.

prices continuing to rise at a steady 4 1/2 percent--the authorities did not see a strong case for greater monetary restraint at this stage.

The mission cautioned that monetary policy might not be as tight as intended despite the deceleration of monetary growth that was taking place. In spite of an apparent monetary tightening in the face of rapid growth of the economy toward its potential, short-term interest rates had thus far been stable. Thus, the deceleration of M2 could be the result of a shift in money demand rather than policy-induced; given ongoing financial market reforms, there was particular reason to be careful in interpreting the monetary aggregates. The staff accordingly suggested that early steps to nudge up short-term interest rates would be desirable, especially if second quarter data provided further evidence of the strong forward momentum of the economy. It was important to act before the underlying inflation rate began to edge up. The staff added that, while such an approach could lead to M2 growth near, or even below, the bottom of the target band, this confirmed the need for flexibility in approaching monetary targeting with increased weight accorded to signals provided by other indicators of the monetary stance.

The authorities were not fully convinced by the staff's argument for higher interest rates at this time. To begin with, they did not accept that the recent stability of short-term interest rates meant the absence of a tightening of monetary policy. In their judgment, the stability of short-term interest rates in the face of slowing M2 growth and rapid economic expansion reflected increased confidence of borrowers that the steady handling of monetary policy since late 1993 had lessened the likelihood of an abrupt tightening in the near future. As a result, the pressures for borrowing in anticipation of higher future interest rates, which had pushed up short-term interest rates in the past, had been eliminated. While not ruling out this possibility, the staff noted the danger of placing undue emphasis on stable nominal interest rates, when cyclical conditions indicated the need for tightening.

4. Exchange rate policy

The value of the won was subject to pronounced swings from the mid-1980s through the early 1990s, as shown in Chart 4, but recently it has followed a more stable course. Some tendency toward depreciation was observed during 1992 and part of 1993, notwithstanding substantial capital inflows following the partial opening of the Korean stock market to foreign investors in early 1992. These developments were associated with large purchases of foreign exchange by the Bank of Korea, which facilitated an increase in foreign reserves from depleted levels in late 1991. The accumulation of reserves over the two years through end-1993 amounted to about $7 billion, to the equivalent of some 2 1/2 months of import cover (Chart 5).

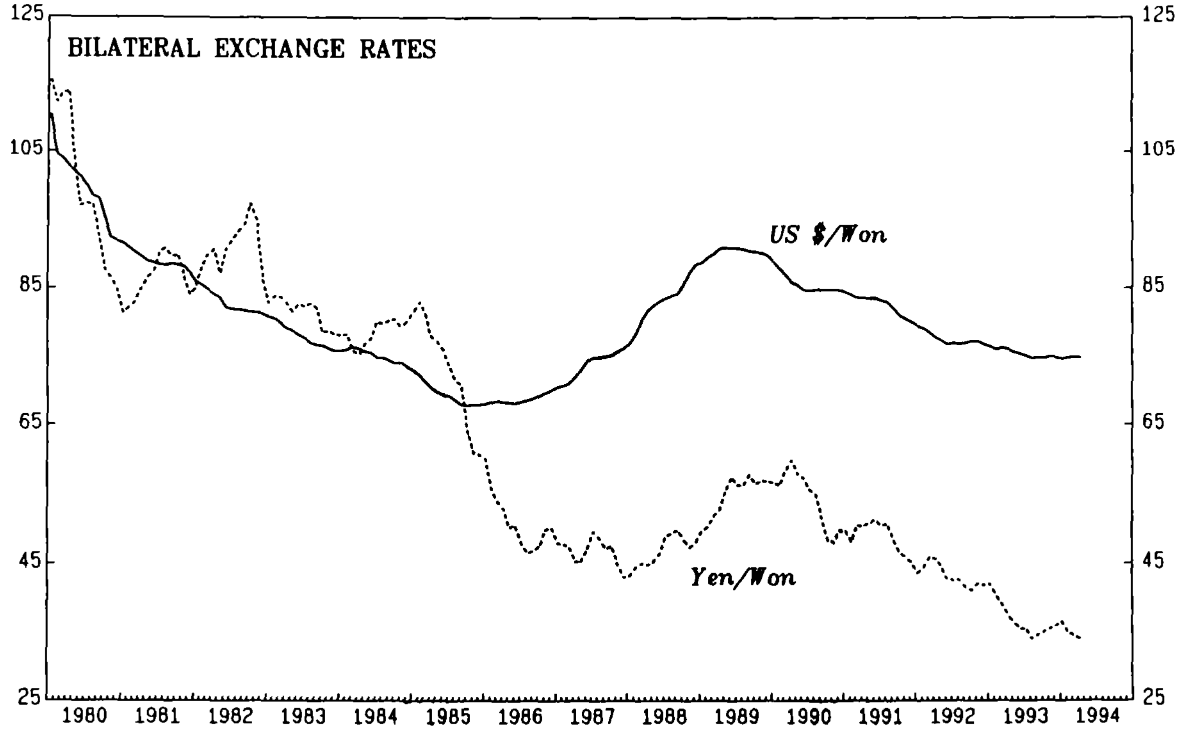
Since August 1993, the nominal effective exchange rate has shown a slight tendency to appreciate while the rate vis-à-vis the U.S. dollar has remained stable. The real effective value of the currency (based on

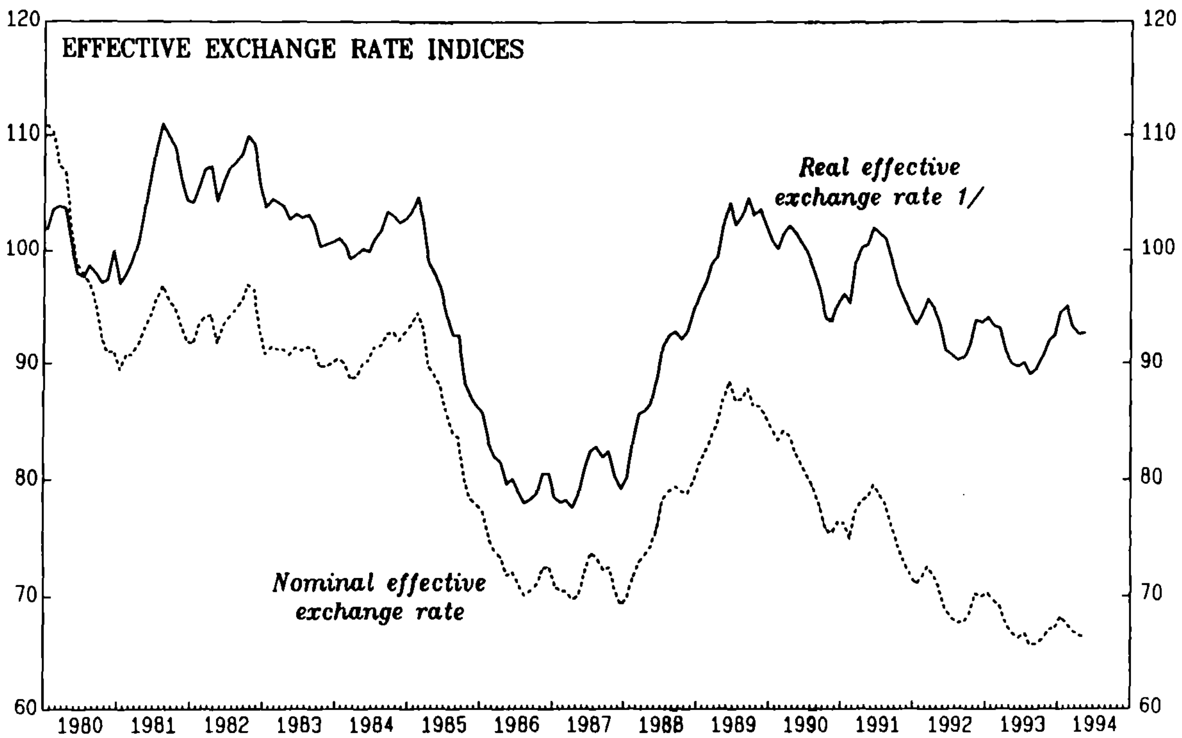
CHART 4

KOREA

EXCHANGE RATE DEVELOPMENTS, 1980-94

(Indices, 1980=100)





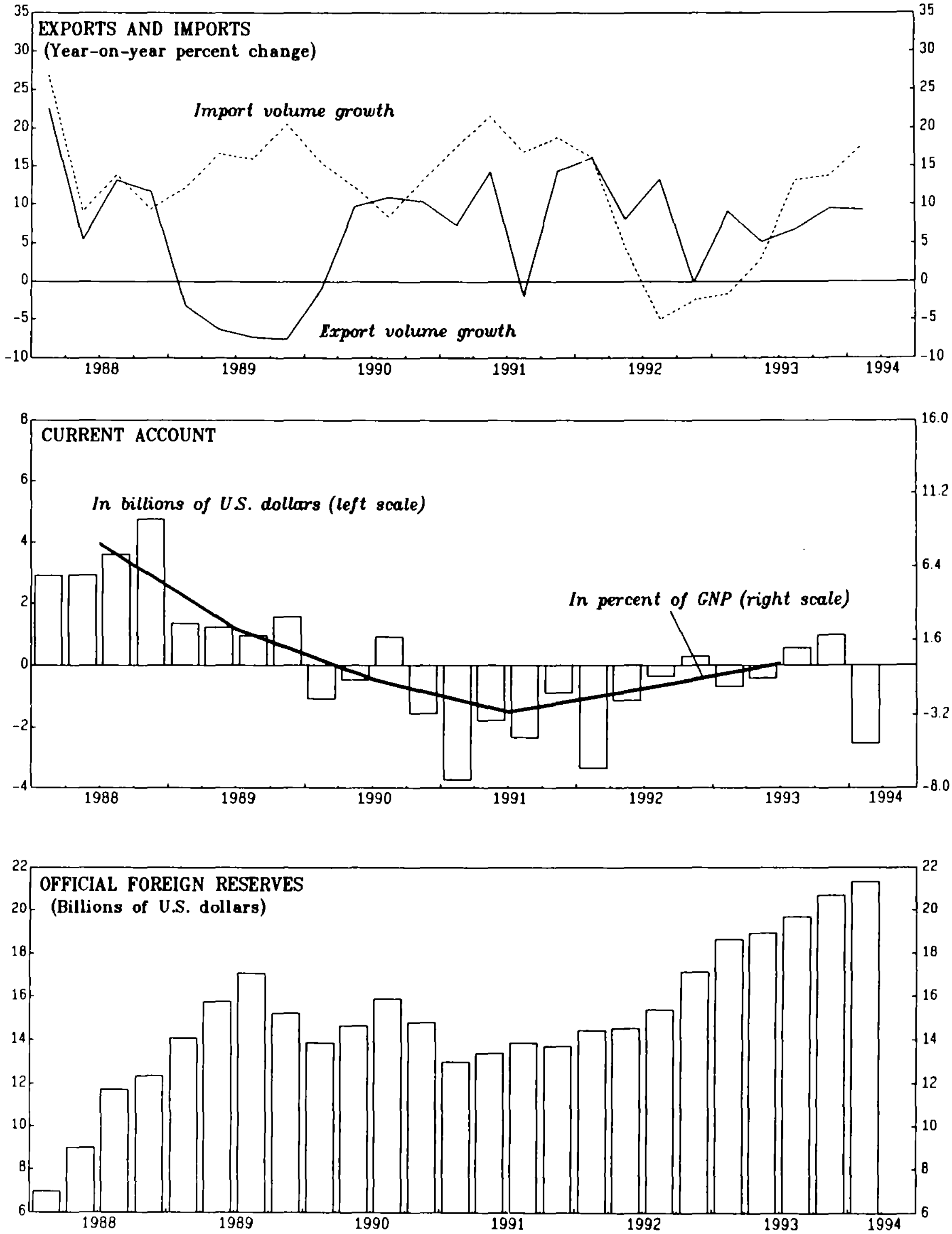
Sources: IMF, Information Notification System; and staff calculations.

1/ Based on consumer prices.

CHART 5

KOREA

EXTERNAL SECTOR DEVELOPMENTS, 1988-94



Source: Bank of Korea, Monthly Statistical Bulletin.

relative CPIs) rose by some 3 percent from August 1993 to April 1994, reflecting faster inflation in Korea than the average for partner countries. In the first half of 1994, the pace of reserve accumulation slowed as the current account reverted to deficit. Official reserves rose by a further $1 1/4 billion, to $21.4 billion at the end of May 1994, the same level in relation to imports as at the end of 1993.

The authorities and the staff shared the view that the current account was likely to be broadly in balance for the remainder of 1994 and that a return to more rapid capital inflows seemed likely following some sluggishness in the first half. Moreover, with further steps of capital account liberalization ahead, prospects were for continuing strong inflows over the medium term. Against this background, the staff suggested that, in addition to a tighter fiscal position and further steps to liberalize imports and capital outflows, exchange rate flexibility was called for, in particular, to help curb price pressures. It would also encourage movement of resources from less competitive low-value added industries to more competitive high technology industry, a process which is already well underway. The authorities noted that foreign reserves were still below their medium-term target of around three months of import cover and indicated that their approach would likely involve some further accumulation of reserves at a measured pace, while also allowing the exchange rate to play its role in the adjustment process.

The market average exchange rate system (MARS) introduced in March 1990 permits daily movements in the won/dollar rate within margins around the previous day's market average exchange rate, with the aim of limiting short-run fluctuations while allowing market forces to determine the exchange rate over time. The margins have been widened progressively from an initial plus/minus 0.4 percent to the present range of plus/minus 1 percent, with the latest change in October 1993. The authorities intend to further widen the margins over time, with a view to establishing a freely floating exchange rate system by 1996-97. The widening of the band would be accompanied by a progressive easing of foreign exchange documentation requirements and liberalization of restrictions on capital flows. The staff supported these planned steps, which should help create efficient spot and forward foreign exchange markets.

5. Structural reforms

a. Financial sector reform and capital account liberalization

Efforts to lift controls from the financial sector began in the early 1980s but were limited in scope and, at times, delayed or reversed. Features of a repressed financial system, such as interest rate regulation, directed credit, and reliance on instruments of direct monetary control remained significant into the early 1990s. Capital flows remained under tight control throughout the 1980s, notwithstanding a few selective measures to ease restrictions in line with the overall balance of payments situation. Financial sector reforms were stepped up in the early 1990s. In June 1993, the authorities presented a comprehensive five-year plan for financial liberalization and capital account opening. The plan incorporated earlier reform proposals and encompassed a wide range of measures such as interest rate liberalization, reform of policy loans, 1/ strengthening of indirect instruments of monetary control, as well as an easing of exchange regulations and capital controls. 2/ Implementation of the reform program is on track; in fact a number of measures concerning the exchange system have been introduced ahead of schedule.

Concerning the reform of the domestic financial system, a major step has been the partial liberalization of lending and deposit rates in November 1993. Also, the mandatory allocation of MSBs and repurchase agreements (RPs) has been largely replaced by an auction system, currently accounting for more than 80 percent of placements of MSBs and a somewhat smaller share of RPs. 3/ A global ceiling on Bank of Korea rediscounts has been introduced as a first step toward improving control of reserve money creation. In addition, issue limits on financial instruments such as CDs have been expanded, and credit controls concerning large conglomerates have been scaled back.

Regarding exchange and capital account regulations, several steps have been taken. Documentation requirements for foreign exchange transactions and restrictions on banks' foreign exchange positions have been eased. Procedures and regulations concerning foreign direct investment and overseas issuance of bonds have been simplified and relaxed. Limited overseas portfolio investments have been permitted. Finally, the scope for import financing through deferred payments has been enhanced.

The staff welcomed the comprehensive reform plan and recommended continued steady implementation, noting that delays or partial reversals, as in the 1980s, would create uncertainty and undermine the credibility of the plan. A remaining key area is the reform of the system of policy loans. The recent introduction of a ceiling on refinancing of such loans by the central bank is an important first step, to be followed by liberalization of interest rates on these loans. Also important are further improvements in the system of monetary instruments, including a market-driven allocation of MSBs and RPs, and a gradual reduction of the large gap between the central bank rediscount rate and market interest rates. On the external side, further simplification of exchange regulations would underpin the development of efficient foreign exchange markets.

1/ Loans extended by financial institutions to targeted sectors as a result of government regulations or incentives.

2/ The authorities have received technical assistance from the Fund and World Bank in preparation of the reform agenda. MAE technical assistance missions visited Seoul in October/November 1993 and May 1994.

3/ As a result, the average interest rate on MSBs is now much closer to the market rate than before, implying a reduction in the cost of sterilized intervention via MSBs.

b. Trade liberalization

The authorities have undertaken a comprehensive liberalization of the trade system since the early 1980s leading to a substantial reduction of quantitative restrictions, a relatively low level of tariffs, and a decline in the dispersion of tariff rates for industrial imports and raw materials. Barriers to agricultural imports have remained higher than for industrial imports. Implementation of the three-year import liberalization program for 1992-94 is essentially complete. 1/ In April 1994 the authorities announced their import liberalization program for 1995-97. Under the new program, the authorities will fulfill their GATT commitment to phase out, or bring into GATT conformity, all remaining restrictions on merchandise imports by 1997. The bulk of the affected items are agricultural products and the liberalization process will be completed by 1997, except for eight items (various beef products) for which liberalization will take place only in 2001. Regarding rice imports, under the Uruguay Round the Government gave limited permission for imports, providing minimum market access of 1 percent of base-period consumption in 1995, rising to 4 percent by 2004.

The authorities noted that the liberalization of agricultural imports would involve a difficult adjustment in domestic agriculture, particularly as the workers whose livelihood would be affected were relatively unskilled and advanced in age. Nevertheless, they were committed to implementing the reform program on schedule, as Korea's contribution to the process of multilateral trade liberalization. The authorities were planning substantial additional support measures--such as income support payments, tuition subsidies for retraining and subsidized medical insurance--to cushion the adjustment process without distorting production incentives. As regards the import diversification program, under which Korean importers are encouraged to change the source point of imports in order to reduce bilateral trade imbalances, the staff called for its phasing out as rapidly as possible. The authorities said that they have reduced the number of items covered by the program from 258 to 230 since the time of the last Article IV consultation and confirmed their intention to reduce it by half by 1998.

c. Tax reform

The authorities' five-year economic plan for 1993-97 envisages a major tax reform, whose principal goals are to raise the revenue/GNP ratio from about 19 percent in 1992 to 22-23 percent by 1997, and to enhance tax equity and improve income distribution. An increase in the revenue ratio is considered necessary to cover planned expenditure increases in infrastructure and social welfare, which are areas where Korea's spending (relative to GNP) is lower than in industrial countries and other countries in the region. Key measures of the tax reform plan include: gradual introduction of a global system of personal income taxation focusing on a

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1/ All 47 items (23 agricultural products, 23 marine items and one industrial item) scheduled for 1994 have been liberalized.

broadening of the tax base through inclusion of capital income; reduction of exemptions and lowering of marginal tax rates for personal and corporate income tax rates; expanded coverage of the value added tax; reform of the value added tax as it applies to small business, which is currently akin to a turnover tax; and changes in special excise taxes. 1/

IV. Economic Outlook

The staff and the authorities broadly concur regarding the short-term outlook. Output growth in 1994 is projected at 7 1/2 to 8 percent, reflecting continued strong domestic demand (notably investment), with output approaching potential. 2/ Inflation would moderate in the second half of the year, as the effects of one-time increases in food prices taper off, although the implementation of public utility price increases that were delayed from the first half of 1994 would boost measured inflation by 1 percentage point. Reflecting these factors, the staff projects inflation (in terms of the CPI) during 1994 (December over December) of 5 percent. On the external accounts, the growth of imports is expected to moderate in the second half of 1994 after its very rapid growth in the first half. Combined with a normal seasonal rebound in exports, this would result in a broadly balanced current account in the second half of 1994, implying a deficit for the year as a whole of some $3 billion (3/4 percent of GNP). 3/

In order to illustrate the implications of alternative policy responses in the present macroeconomic environment, the staff has prepared two medium-term scenarios, which are summarized in Appendix Table 5. The baseline scenario assumes an early and gradual tightening of fiscal and monetary policy as recommended in this report. This strategy would result in a gradual moderation of growth as output approaches potential, with real GNP growing broadly in line potential over the medium term. This path of output growth would avoid overheating and facilitate a gradual moderation of inflation to under 5 percent.

The alternative scenario assumes, for illustrative purposes, that further adjustment in macroeconomic policies will be delayed until underlying inflation actually begins to accelerate. Although a less marked pick up of inflation than in the previous expansion seems likely even in

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1/ A Korean delegation visited Washington in July 1994 for discussions with the Fiscal Affairs Department on the details of the tax reform plan.

2/ Both official and staff estimates indicate that the degree of slack in labor and product markets is small and that the growth of potential in the period ahead is likely to be close to 7 percent annually. Nevertheless, a degree of uncertainty remains about the size of the output gap at present and its prospective growth rate.

3/ The official forecast envisages a current account deficit of $1 1/2 billion, with the difference between the staff and official projections stemming from a more sanguine official projection of movements in import prices.

this case, given the generally more cautious approach the authorities have been following, an abrupt tightening of policies followed by a sharp slowdown, nevertheless, would be necessary in order to bring inflation under control. While this strategy would permit somewhat faster growth in the short run, over the medium term growth would be lower and inflation higher than with a timely and gradual tightening of policies.

Under both scenarios, the ratio of savings to GNP would revert to 35-36 percent, as observed in the early 1990s, while the investment rate would remain below the peak reached at the height of the 1990-91 investment boom. Nevertheless, domestic investment would continue to exceed national saving, and the current account would remain in deficit. Such deficits would be the counterpart of the expected net inflows of capital and, if moderate, should not be a cause for concern.

V. Staff Appraisal

Economic performance in Korea over the last three decades has been characterized by remarkable growth and development, and by 1993 per capita GNP in dollar terms was 50 times higher than in the early 1960s. This record has been facilitated by conservative fiscal policies and a high domestic saving rate; a high investment ratio; a strong emphasis on accumulation of human capital, and an increasingly outward oriented strategy. In the period ahead, the central objective of policy will be to complete Korea's transformation into an advanced industrial economy. This objective requires maintenance of macroeconomic stability and a sustained movement away from interventionist policies toward a fully market-based approach.

With the economy approaching full employment, the main challenge for macroeconomic policies now is to foster conditions conducive to sustained growth. The key requirement in this context is to avoid an acceleration of underlying inflation, and the staff sees a case for early steps toward somewhat greater demand restraint that would help obviate the need for stronger and more disruptive measures at a later stage. In the period ahead, the task of containing demand pressures is likely to continue to be complicated by large capital inflows, given the planned further opening of the capital account. The authorities' concern has been that such inflows will contribute to inflationary growth of the money supply or an appreciation of the won, which would undermine export competitiveness. A set of policies emphasizing fiscal restraint and certain structural measures (such as further liberalization of imports and capital outflows) would help to alleviate pressures on the exchange rate and inflation. Nevertheless, exchange rate flexibility would need to play its part.

Given the need for fiscal policy to assume a greater role in restraining aggregate demand and in view of the current cyclical situation, consideration should be given to delays in planned spending in the remainder of 1994. As a minimum, and as the authorities intend, supplementary budgets to spend the fiscal dividend should be avoided. Regarding the budget for

1995, the objective should be a substantial withdrawal of fiscal stimulus, which could result in a surplus. This may be difficult to reconcile with planned increases in infrastructure spending, but an easier fiscal stance would mean greater adjustment in other policy variables, including the exchange rate.

The authorities' intention has been to pursue a restrained monetary policy, and the growth of M2 has been brought down to the middle of the 14-17 percent target band. However, despite slower monetary growth and a strong pickup in economic activity, short-term interest rates have remained stable, raising the question whether the stance of monetary policy is as tight as intended. In the view of the staff, the current strength of activity and proximity to full resource utilization call for early steps to tighten monetary conditions, notwithstanding the absence of immediate inflationary pressures. Such steps could well result in monetary growth near or below the low end of the target band. Innovations in the financial sector are complicating the interpretation of monetary aggregates, and monetary targeting needs to be sufficiently flexible to permit adjustments in response to signals provided by other indicators.

Turning to external sector policies, the authorities would welcome a further accumulation of foreign reserves--since the present level of 2 1/2 months of imports is below the target of about three months of import cover--taking advantage of the expected strength of the overall balance of payments. In this connection, the staff supports the authorities' intention to achieve such an accumulation at a measured pace while also allowing the exchange rate to play its role in the adjustment process. The prospect of net capital inflows continuing for some time has implications for the current account. While the authorities have understandable concerns that date back to Korea's debt difficulties in the early 1980s, current account deficits under prevailing circumstances should not be a preoccupation for policy as long as they are within a reasonable bound and the resources so transferred are utilized efficiently to augment supply capacity.

The authorities' intention to pursue structural reforms steadily--in financial markets, the exchange and trade systems, and tax policy--is welcome. At the top of the agenda is financial reform coupled with liberalization of capital flows. These reforms have been progressing well, often ahead of the announced schedule. It is important that this reform momentum be maintained and any delays or reversals avoided. For domestic financial markets, a key remaining area is reform of the system of policy loans, in particular, the liberalization of interest rates on these loans. Many of the measures of capital account liberalization originally scheduled for 1994 and 1995 have already been taken, in particular concerning foreign direct investment. In addition, further liberalization of capital outflows could help to mitigate the macroeconomic complications associated with strong inflows. On trade policy, the staff remains concerned about Korea's import diversification program and calls for its elimination for as soon as possible. Meanwhile, the recently announced import liberalization program for 1995-97, which will eliminate or bring into GATT conformity all remaining import restrictions, is welcome.

The staff recommended that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Korea: Selected Economic Indicators, 1989-94

	1989	1990	1991	1992	1993	1994 Proj.
Growth (annual percent change)						
Real GNP	6.9	9.6	9.1	5.0	5.6	7.9
Final domestic demand	12.2	15.4	10.5	3.9	4.7	7.9
Consumption	10.4	10.1	9.3	6.8	5.3	6.4
Fixed investment	15.9	25.9	12.6	-0.8	3.6	10.6
Stockbuilding 1/	0.6	-1.9	0.8	-0.5	-1.1	1.1
Net foreign balance 1/	-5.7	-2.9	-2.3	1.7	1.4	-1.1
Saving-investment (percent of GNP)						
Gross national saving	36.6	36.3	36.3	35.0	34.9	35.9
Gross domestic investment	34.3	37.2	39.3	36.5	34.8	36.7
Prices (percent change)						
Consumer prices (annual average)	5.7	8.6	9.3	6.2	4.8	5.6
GNP deflator	5.1	10.4	10.5	5.9	4.7	5.8
Employment and wages						
Unemployment rate (percent)	2.6	2.4	2.3	2.4	2.8	2.6
Wages (annual percent change) 2/	25.2	20.1	16.9	15.6	10.8	...
Government budget (percent of GNP)						
Consolidated central government balance 3/	--	-0.9	-1.9	-0.7	-0.3	-0.6
Revenue	18.5	18.9	18.2	19.0	19.5	20.7 4/
Expenditure	18.5	19.8	20.1	19.8	19.2	21.3 4/
Money and credit (percent change)						
M2, December average	19.2	18.2	18.6	18.6	17.3	...
M2, annual average	18.4	21.2	18.6	18.4	18.6	15.9 5/
M3 (end of period)	27.8	28.6	23.3	20.9	18.5	18.9 6/
Domestic credit (end of period)	26.2	22.5	22.0	11.7	12.3	14.9 7/
Interest rates (percent)						
Yield on corporate bonds (period average)	15.2	16.5	18.9	16.2	12.6	12.4 5/
Central bank discount rate (end of period)	7.0	7.0	7.0	7.0	5.0	5.0 5/
External trade (percent change)						
Export volume	1.2	6.0	10.2	8.6	7.8	8.5
Import volume	14.7	13.4	18.4	3.1	6.6	11.8
Terms of trade	-1.8	-1.9	1.7	1.0	3.4	0.5
Balance of payments (US$ bn.)						
Exports	61.4	63.1	69.6	75.2	81.0	87.7
Imports	56.8	65.1	76.6	77.3	78.9	88.2
Current account balance	5.1	-2.2	-8.7	-4.5	0.5	-2.8
Overall balance	2.5	-0.3	-3.7	4.9	6.5	-2.5
Current account balance (percent of GNP)	2.3	-0.9	-3.0	-1.5	0.1	-0.8
Gross official reserves						
In billions of U.S. dollars (end of period)	15.2	14.8	13.7	17.1	20.7	21.0 6/
In months of imports of goods and services	2.6	2.2	1.8	2.1	2.5	...
External debt						
In billions of U.S. dollars	29.4	31.7	39.1	42.8	43.9	45.1 7/
In percent of GNP	14.1	13.2	14.5	14.0	13.3	...
Exchange rate						
Won per U.S. dollar (end of period)	679.6	716.4	760.8	788.4	808.1	805.5 5/
Nominal effective exchange rate 8/	85.4	76.3	71.9	69.9	67.1	66.9 9/
Real effective exchange rate 8/	102.3	95.3	94.9	94.0	92.8	95.0 9/

Sources: Bank of Korea, Monthly Statistical Bulletin; IMF, International Financial Statistics; data provided by the Korean authorities; and staff projections.

1/ Contribution to GDP growth.
2/ Monthly earnings in manufacturing.
3/ The fiscal year ends on December 31. The consolidated central government comprises the general account, special accounts and budgetary funds of the central government and public enterprises.
4/ Budget estimates.
5/ June.
6/ April.
7/ March.
8/ IMF Information Notice System indices. December averages (1985 = 100).
9/ Average for March 1994.

Table 2. Korea: Operations of the Central Government and Consolidated Central Government, 1989-94 1/

	1989	1990	1991	1992	1993 Budget	1993 Actual	1994 Budget
				(In billions of won)			
Central government							
Revenue	25,962	32,089	36,818	43,806	51,367	50,751	58,824
Of which:							
General Account	(22,021)	(27,787)	(29,314)	(33,530)	(37,972)	(37,419)	(43,150)
Expenditure and net lending	25,677	33,296	40,312	44,993	51,814	49,047	60,425
Of which:							
General Account	(18,852)	(22,822)	(26,098)	(28,742)	(32,593)	(31,782)	(35,944)
Overall balance	284	-1,207	-3,494	-1,187	-447	1,704	-1,601
Of which:							
General Account	(3,169)	(4,965)	(3,216)	(4,788)	(5,378)	(5,637)	(7,206)
Consolidated central government							
Revenue	26,187	32,457	37,486	43,767	51,825	51,548	59,759
Expenditure and net lending	26,206	34,035	41,508	45,470	53,430	50,735	61,528
Overall balance	-19	-1,578	-4,022	-1,703	-1,605	813	-1,769
Financing	19	1,578	4,022	1,703	1,605	-813	1,769
Domestic	623	1,906	4,305	2,014	2,006	-366	2,100
Bank	(98)	(940)	(3,261)	(1,225)	(1,590)	(-1,512)	(971)
Nonbank	(525)	(966)	(1,044)	(789)	(416)	(1,146)	(1,129)
Foreign	-604	-328	-283	-311	-401	-447	-331
				(In percent of GNP)			
Central government							
Revenue	18.3	18.7	17.9	19.1	19.5	19.2	20.3
Expenditure and net lending	18.1	19.4	19.6	19.6	19.6	18.6	20.9
Overall balance	0.2	-0.7	-1.7	-0.5	-0.2	0.6	-0.6
Of which:							
General Account	(2.2)	(2.9)	(1.6)	(2.1)	(2.0)	(2.1)	(2.5)
Consolidated central government							
Revenue	18.5	18.9	18.2	19.0	19.6	19.5	20.6
Expenditure and net lending	18.5	19.8	20.1	19.8	20.2	19.2	21.3
Overall balance	--	-0.9	-1.9	-0.7	-0.6	0.3	-0.6
Financing	--	0.9	1.9	0.7	0.6	-0.3	0.6
Domestic	0.4	1.1	2.1	0.9	0.8	-0.1	0.7
Bank	(0.1)	(0.5)	(1.6)	(0.5)	(0.6)	(-0.5)	(0.3)
Nonbank	(0.4)	(0.6)	(0.5)	(0.3)	(0.2)	(0.4)	(0.4)
Foreign	-0.4	-0.2	-0.1	-0.1	-0.2	-0.2	-0.1
				(Percentage change)			
Consolidated central government							
Revenue	13.4	23.9	15.5	16.8	18.4	17.8	15.9
Of which:							
General Account	(...)	(26.2)	(5.5)	(14.4)	(13.2)	(11.6)	(15.3)
Expenditure and net lending	22.1	29.9	22.0	9.5	17.5	16.6	21.3
Of which:							
General Account	(...)	(21.1)	(14.4)	(10.1)	(13.4)	(10.6)	(13.1)
Memorandum item:							
Fiscal impulse (in percent of GNP)	1.3	1.2	1.2	-1.5	...	-1.3	1.0

Source: Data provided by the Ministry of Finance.

1/ The consolidated central government comprises the central government and Public Enterprise Special Accounts and Funds and Special Budgetary Funds.

Table 3. Korea: Monetary Survey, 1989-94

	1989	1990	1991	1992	1993	1994 March
			(In trillions of won)			
Net foreign assets	9.1	10.1	8.1	12.1	17.5	18.3
Domestic credit	79.1	96.9	118.2	132.0	148.2	151.3
Of which:						
Government	-4.2	-5.7	-4.9	-5.2	-7.1	-10.4
Private sector	70.2	86.7	106.3	119.2	133.5	141.3
Other items, net	-29.6	-38.3	-42.5	-47.9	-53.5	-57.4
Of which:						
Monetary stabilization bonds 1/	-14.8	-13.8	-11.6	-13.7	-15.6	-17.2
Exchange equalization bonds 2/	-1.2	-1.9	-2.0	-2.9	-2.7	-2.9
Broad money (M2) 3/	58.6	68.7	83.7	96.3	112.2	112.2
			(Contribution to M2 growth; in percent)			
Net foreign assets	3.8	1.8	-3.0	4.9	5.6	5.9
Domestic credit	30.6	29.4	31.0	16.5	16.9	20.1
Of which:						
Government	-4.1	-2.5	1.1	-0.3	-2.0	-2.6
Private sector	29.7	28.2	28.6	15.3	14.9	20.7
Other items, net	-14.6	-14.0	-6.1	-6.4	-5.9	-10.9
Broad money (M2) 3/	19.8	17.2	21.9	14.9	16.6	15.1
			(Twelve-month percentage change)			
Domestic credit	23.4	22.5	22.0	11.7	12.3	14.9
Private sector	23.9	23.5	22.6	12.1	12.0	16.7
M2 (December average)	19.2	18.2	18.3	18.6	17.3	...
M2 (period average)	18.4	21.2	18.6	18.4	18.6	15.8
CDs (end of period)	19.3	24.4	23.6	15.1	18.6	17.5
M3 (end-of-period) 4/	25.3	28.3	26.1	20.9	18.5	19.6
Memorandum items:						
Interest rates (in percent)						
One-year time deposits	10.0	10.0	10.0	10.0	9.0	8.5
Yield on corporate bonds	15.2	16.5	18.9	16.2	12.6	12.4
Money market rate	13.7	15.0	19.2	13.5	11.6	12.0

Sources: Bank of Korea, Monthly Statistical Bulletin; and data provided by the Korean authorities.

1/ Issued by the Bank of Korea.
2/ Issued by the Government.
3/ Currency in circulation, plus demand, time and savings deposits, and residents' foreign currency deposits with monetary institutions.
4/ M2 plus CDs, commercial bills, repurchase agreements of deposit money banks, deposits of nonbank financial institutions, and debentures.

Table 4. Korea: Balance of Payments, 1989-94

(In millions of U.S. dollars)

	1989	1990	1991	1992	1993	1994 Jan.-April
Current account	5,055	-2,179	-8,728	-4,529	385	-2,766
Trade balance	4,597	-2,004	-6,980	-2,146	1,860	-1,706
Exports, f.o.b.	61,409	63,123	69,581	75,169	80,950	27,168
Imports, f.o.b.	-56,812	-65,127	-76,561	-77,316	-79,090	-28,874
Services, net	211	-450	-1,596	-2,614	-1,967	-1,233
Receipts	12,642	14,269	15,529	16,010	18,253	6,168
Payments	-12,431	-14,719	-17,125	-18,625	-20,220	-7,401
Transfers (net)	247	275	-152	232	491	173
Capital, (net)	-3,303	3,882	4,227	8,343	6,879	2,980
Direct investment (net)	453	-105	-241	-497	-540	-294
Direct investment abroad	-305	-820	-1,357	-1,048	-1,056	-536
Direct investment in Korea	758	715	1,116	551	516	243
Portfolio investment	-29	811	3,116	5,742	10,725	1,737
Other long-term capital (net)	-3,787	-158	1,311	1,988	-1,285	604
Assets	-1,041	145	-128	1,644	676	306
Liabilities	-2,745	-304	1,438	344	-1,961	298
Drawings on loans received	2,115	1,569	2,309	1,875	1,098	324
Repayment of loans	-4,038	-2,532	-1,856	-2,726	-4,467	-800
Other liabilities	-822	660	986	1,194	1,407	774
Short-term capital (net)	60	3,334	41	1,110	-2,021	932
Errors and omissions	701	-1,976	760	1,084	-721	121
Overall balance	2,453	-274	-3,741	4,898	6,542	334
Financing	-2,453	274	3,741	-4,898	-6,542	-334
Monetary authorities	-3,120	1,208	1,148	-3,701	-2,993	-267
Assets (- = increase)	-3,120	1,208	1,148	-3,708	-3,008	-255
Liabilities	--	--	--	7	15	-12
Deposit money banks	667	-934	2,593	-1,196	-3,549	-68
Assets (- = increase)	-290	-2,399	-5,835	-3,137	-4,208	-1,472
Liabilities	957	1,465	8,428	1,941	659	1,404
Memorandum items:						
Gross reserves (in dollars)	15,245	14,822	13,733	17,154	20,262	21,014
Current account (percent of GNP)	2.4	-0.9	-3.2	-1.6	...	...

Sources: Bank of Korea, Monthly Balance of Payments; and data provided by the Bank of Korea.

Table 5. Korea: Medium-Term Projections, 1993-98

(In percent)

	1993 Act.	1994	1995	1996	1997	1998
Baseline scenario 1/						
Real GNP growth	5.6	7.9	7.5	7.0	6.9	6.9
Inflation (CPI) 2/	4.8	5.6	5.5	5.0	4.5	4.5
Gross savings/GDP	34.5	35.4	35.6	35.6	35.6	35.7
Gross investment/GDP	34.3	36.2	36.3	36.3	36.3	36.4
Current account/GDP	0.1	-0.8	-0.7	-0.7	-0.7	-0.6
Alternative scenario 3/						
Real GNP growth	5.6	7.9	8.4	8.6	5.0	5.4
Inflation (CPI) 2/	4.8	5.6	7.0	8.0	6.5	5.5
Gross savings/GDP	34.7	35.4	35.9	35.8	35.0	35.5
Gross investment/GDP	34.3	36.2	36.8	36.8	35.4	34.6
Current account/GDP	0.1	-0.8	-0.9	-1.1	-0.4	-0.1

Source: Staff estimates and projections.

1/ The baseline scenario assumes a timely and gradual tightening of fiscal and monetary policy to prevent a reacceleration of inflation.

2/ Annual average.

3/ The alternative scenario assumes that the tightening of macroeconomic policies will be delayed until there are clear signs of overheating.

Korea--Fund Relations
(As of June 30, 1994)

I. Membership Status: Joined 8/26/55; Article VIII

II. General Resources Account:

	SDR Million	Percent of Quota
Quota	799.60	100.0
Fund holdings of currency	456.98	57.2
Reserve position in Fund	342.62	42.9
Operational budget transfers (net)	7.00	

III. SDR Department

	SDR Million	Percentage Allocation
Net cumulative allocation	72.91	100.0
Holdings	47.09	64.6

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR mn.)	Amount Drawn (SDR mn.)
Stand-by	7/12/85	3/10/87	280.00	160.00
Stand-by	7/08/83	3/31/85	575.78	575.78
Stand-by	2/13/81	2/12/82	576.00	576.00

VI. Projected Obligations to Fund: (SDR million; based on existing use of resources and present holdings of SDRs): None

VII. Exchange Rate Arrangement

Effective March 2, 1990 the exchange rate against the U.S. dollar is allowed to float within specified margins around the previous day's weighted average exchange rate in the interbank market. The margins were widened three times since March 1990, most recently to plus/minus 1 percent in October 1993. On August 11, 1994, the exchange rate was W 804.6 = US$1.

VIII. Last Article IV Consultation

Staff discussions for the 1993 Article IV consultation with Korea were held during November 1-11, 1993. The staff report (SM/94/19) was discussed by the Executive Board on February 15, 1994. Korea is on the standard 12-month consultation cycle.

IX. Technical Assistance

1. MAE: A mission to discuss financial sector reform visited Seoul during October/November 1992. A mission to discuss foreign exchange liberalization visited Seoul in May 1994.

2. BCS: A mission to provide assistance in establishing a data base at the Bank of Korea visited Seoul in November 1992.

3. FAD: Possible provision of technical assistance in support of Korea's tax reform is being considered.

Korea: Relations with the World Bank 1/
(As of June 30, 1994)

	IBRD	IDA	Total	Percent	Undisbursed
	(In millions of U.S. dollars)				
Commitments					
Agriculture	624.84	32.77	657.61	8.1	--
Finance	1,610.01	--	1,610.01	19.9	88.11
Education	867.73	35.00	902.73	11.2	451.34
Energy	220.00	--	220.00	2.7	108.52
Industry	313.05	--	313.05	3.9	93.41
Population/health/nutrition	120.00	--	120.00	1.5	36.88
Power	288.67	--	288.67	3.6	--
Program lending/SAL/ multi-sector	754.74	--	754.74	9.3	--
Tourism	27.53	--	27.53	0.3	--
Transportation	1,864.37	47.80	1,912.17	23.7	--
Urbanization	728.47	--	728.47	9.0	--
Water supply and sewerage	538.92	--	538.92	6.7	116.99
Total	7,958.33 2/	115.57 2/	8,073.90 2/	100.0	981.04
Repayments	4,999.87	28.40	5,028.27		
Total outstanding:	2,752.71	87.18	2,839.89		
Commitments for FY 1994	380.00	--	380.00		

Structural adjustment loans: A loan of $250 million, approved in December 1981, was fully disbursed by January 1983. A second loan of $300 million, approved in November 1983, was fully disbursed by September 1984.

Financial sector loans: A first industrial finance project loan of $255 million to support financial sector liberalization was approved in June 1983. A second loan of $222 million was approved in June 1985. An investment loan of $100 million in support of financial sector reform was approved in December 1993.

Recent economic work: Six reports have been completed since 1984: "Recent Economic Developments" (July 1986); "Conduct of Industrial Policy" (July 1986); "External Liability Management" (November 1986); "Managing an External Surplus" (June 1988); "Country Economic Memorandum" (October 1989); and "Country Economic Memorandum" (September 1992); "Financial Sector Study" (July 1993).

1/ Prepared by World Bank staff.
2/ Adjusted for cancellation.

IFC activity:	As of June 30, 1994, total loan and equity commitments amounted to $261.5 million, of which $84.5 million is held by IFC. $2.2 million remains undisbursed.
Technical assistance:	The IBRD provides technical assistance to Korea through its standard lending operations for projects. In addition, the IBRD provided technical assistance for financial sector deregulation and market opening in 1992.
Aid consultative group:	The final meeting of the Consultative Group for Korea was held under the chairmanship of the IBRD on July 16, 1984.

Korea passed the per capita income guidelines for graduation in 1990 when income per capita, according to the Atlas methodology, was $4,400 (in 1989 dollars), compared with a graduation level of $4,080. This level did not require immediate graduation but, together with other indicators of a country's development (such as access to financial markets and maturity of institutions), acts as a "trigger" setting off the graduation process, which can take 3-5 years to complete. Following a dialogue on graduation, the Government and the Bank agreed on a plan to phase out Bank lending, with the last year of Bank lending being FY 1995, and priority areas for Bank operations being the social sectors, social infrastructure, and environmental protection, i.e., areas in which the Bank can provide value apart from the resource transfer.

As of June 30, 1994, Korea had received 120 Bank loans (including one Third Window Loan) and nine IDA credits, totaling $7,958.3 million in loans and $115.6 million in credits. Progress on project implementation is generally good. (Korea's disbursement factor in FY 1993 was 36 percent.) As of June 30, 1993, Korea had prepaid Bank loans totaling $1,818 million. As of June 30, 1994, IFC had made gross commitments totaling $261.5 million. IFC investments have been primarily in electronic products, development financing, and capital markets.

Korea--Social and Demographic Indicators

Area	Population	Density
99,274 sq. km.	44.2 million (1993) Rate of growth: 1.1 percent	445 persons per sq. km. 1,888 persons per sq. km. of farmland

GDP per capita (1993)	$7,502

Population characteristics (1992)

Life expectancy at birth (yrs.)	
Male	67
Female	74
Infant mortality rate (per '000)	12.8
Child death rate (per '000)	15.7

Health (1991)

Population per physician	951
Population per hospital bed	300

Income distribution (1988)

Percent of income received by	
Highest 10 percent of households	27.6
Highest 20 percent of households	42.2
Lowest 20 percent of households	7.4
Lowest 40 percent of households	19.7
Gini coefficient	0.336

Education (1992)

School enrollment ratio (percent of school-age population)	
Primary school	105
Secondary	90

Access to safe water (1990)

Percent of population	78
Urban	91
Rural	49

Nutrition (1990)

Calorie intake (per day)	2,826
Protein intake (grams per day)	89.4

Sources: Economic Planning Board, Social Indicators in Korea, 1991; IMF, International Financial Statistics; National Statistical Office, Monthly Statistics of Korea, 1994.3; IBRD, Social Indicators of Development, 1993 and World Development Report, 1993; and UNDP, Human Development Report, 1993.