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File Folder KOREA (09/10/1986) (2 OF 2)

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F95-033/6

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ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
83462 PAPER	RE. KOREA	1	ND	B1
83463 PAPER	RE. KOREA [ATTACHED TO DOC. 83462]	2	ND	B1
83464 PAPER	RE. KOREAN POLITICS [ATTACHED TO DOC. 83463]	4	ND	B1
83465 CABLE	SEOUL 08625 [W/NOTATIONS]	7	8/11/1986	B1
83466 CABLE	STATE 261545	6	8/20/1986	B1
83467 CABLE	SEOUL 08787	7	8/13/1986	B1
83468 CABLE	SEOUL 10089	12	9/17/1986	B1
83469 CABLE	SEOUL 09406	9	8/29/1986	B1
83470 PAPER	RE. KOREA	5	ND	B1

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83465	CABLE SEOUL 08625 [W/NOTATIONS]	7	8/11/1986	B1

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83467	CABLE SEOUL 08787	7	8/13/1986	B1

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83468	CABLE SEOUL 10089	12	9/17/1986	B1

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83469	CABLE SEOUL 09406	9	8/29/1986	B1

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83470	PAPER RE. KOREA	5	ND	B1

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CONSULAR ISSUES

Immigration. Immigration is an important factor in our bilateral relationship. Korea is our third largest donor of new Americans--only Mexico and the Philippines send more legal immigrants. The U.S. is the overwhelming choice for Korean emigrants; we accepted 30,799 last year. Anti-American themes voiced by student protesters have not reduced the tremendous numbers of Koreans wishing to live in or visit the United States.

Visitors. Korea is also one of our largest sources of visitors. Last year 80,226 Koreans were issued non-immigrant visas. Most of these (45,985) were visitors for business or pleasure, but many Koreans also come to the U.S. to study: we issued 10,769 student visas last year. A recently developed appointment system has eliminated the long lines of visa applicants which had been a minor irritant.

Fraud. A high incidence of visa fraud necessitates constant vigilance on the part of consular personnel and causes considerable inconvenience to legitimate travellers. The Korean police, notoriously indifferent to the problem, have recently stepped up their efforts, arresting over two dozen document fabricators, visa brokers, and would-be illegal immigrants during a two-month period. Last June the Embassy suspended one of the five authorized Korean emigration corporations for fraudulent practices, and cautioned the others to adhere to legal requirements.

Congressional interest. Immigrant visa cases often generate congressional inquiries because petitioning family members in the U.S. contact their congressional representative concerning delays or refusals. The Embassy and the Department have a solid record of responding quickly to these inquiries, explaining immigration laws, procedures, and specific factors which contribute to the consular officers' adjudications.

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Economic Fact Sheet - Korea
(US \$ millions, unless otherwise stated)

	1983	1984	1985	1986 Forecast
1. Socio-economic indicators				
Population (millions)	40.0	40.6	41.2	41.8
Pop. growth rate	1.6%	1.6%	1.6%	1.6%
Life expectancy (1980)	67	67	67	67
Adult literacy rate (1985)	98%	98%	98%	98%
2. Economic indicators				
Nominal GNP	75,318	81,118	81,435	91,750
Real GNP growth rate	9.5%	7.6%	5.0%	10.0%
Inflation rate (CPI)	3.4%	2.3%	3.2%	3.0%
Per capita GNP (U.S. \$)	1,885	1,999	1,976	2,200
Per capita real GNP growth	7.9%	6.0%	3.4%	8.4%
Official unemployment rate	4.1%	3.8%	4.0%	4.0%
Investment/GNP ratio	31.5%	31.9%	31.2%	32.0%
Gov. expenditure/GNP ratio	21.5%	21.4%	21.4%	20.7%
Gov. budget balance/GNP ratio	-1.6%	-1.4%	-1.5%	-1.5%
3. Balance of payments				
U.S. exports to Korea (fas)	5,710	5,839	5,720	5,800
U.S. imports from Korea (cif)	7,657	10,027	10,711	12,800
U.S./Korea trade balance	(1,947)	(4,188)	(4,991)	(7,000)
Total exports (fob)	23,204	26,335	26,400	33,000
Total imports (cif)	27,464	30,108	29,800	30,000
Trade balance	(4,260)	(3,773)	(3,400)	3,000
Current account balance	(1,606)	(1,373)	(882)	1,500
4. External finance				
Foreign exchange reserves	6,889	7,629	7,729	8,200
Average exchange rate (per US \$)	775.8	806.0	870.0	875.0
Gross external debt (MT + LT)	28,400	31,700	33,400	35,000
Annual debt service	6,173	7,175	7,300	8,100
Debt service/export ratio	18.8%	20.1%	22.1%	22.0%
5. Official foreign aid				
U.S. economic assistance (FY)	0.0	0.0	0.0	0.0
U.S. military assistance (FY)	186.7	231.8	231.9	164.5
Total foreign devel. assist.	8.8	N.A.	N.A.	N.A.

Sources: Key Indicators of Developing Member Countries of ADB; The Data Resources Asian Review; IMF's International Financial Statistics and Direction of Trade; U.S. embassy reports; Dept. of State (EAP/EP) forecasts.

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U.S.-KOREA ECONOMIC RELATIONS

A stagnant export market, during the first three quarters of last year, was a key factor in the Korean economy recording a disappointing (by Korean standards) 5% real GNP growth in 1985. The economy, however, picked up sharply in the fourth quarter of 1985 and has performed impressively through the first semester of 1986. Lower oil prices and falling interest rates have caused normally cautious ROKG economic planners to predict 10% real GNP growth in 1986 and Korea's first current account surplus since 1977.

Since Korea ceased being an AID recipient in 1975, its economic relationship with the United States has expanded to the point where Korea is now our seventh largest trading partner. The U.S. is Korea's primary export market. During the first half of 1986, the US took 39% of total Korean exports up 27% from the same period last year. The U.S. trade deficit with Korea in 1985 was approximately \$5 billion, but in the first half of 1986 the figure already has reached \$3.3 billion. In 1985, Korea purchased \$5.7 billion worth of goods from the United States, including approximately \$1 billion worth of agricultural commodities (grain and cotton).

Although overall bilateral relations are excellent, USG pressure on Korea to open its market and effectively protect intellectual property has created tensions in the economic relationship. The ROKG has taken steps to liberalize trade and investment, but Korea still prohibits or restricts imports of a wide range of manufactured and agricultural products and bars foreign firms from participating fully in the services sector.

In late 1985, the Koreans reacted emotionally to the President's decision to initiate Section 301 investigations of Korea's insurance industry and the ROKG's failure to protect intellectual property. Improved economic conditions in 1986 strengthened the credibility of the ROKG's economic planners with the Korean public and created a better atmosphere for addressing outstanding trade problems.

During July, an intense cooperative effort by the U.S. and Korean governments led to successful resolution of the two Section 301 cases. In announcing resolution of the 301s, the ROKG also released plans for a limited opening of Korea's cigarette market.

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In August, the USG and the ROKG successfully renegotiated the bilateral textile agreement. The new four-year pact limits annual growth of Korean exports to the US to less than 1% and expands coverage to ramie and other vegetable fibers excluded from previous bilaterals. Renegotiation of the Multi-fiber Arrangement and agreements with major Asian producers (such as Korea) was a critical factors in the Administration's effort to sustain the President's veto of protectionist textile legislation.

The ROKG earlier this year announced a new set of trade liberalization measures designed to open further the Korean market. While a step in the right direction, these actions failed to address a number of major USG concerns particularly in the agricultural area. During late 1985 and the first half of this year, efforts to resolve the two 301s generally focused attention away from other important USG market access concerns. The USG is attempting to address these issues through the GSP general review process and continuing consultations with ROKG officials.

Failure to resolve a number of longstanding operational difficulties experienced by U.S. carriers in Korea and due the USG under the current bilateral has caused tensions in the civil aviation relationship. These problems, together with the 3 to 1 advantage Korea enjoys in bilateral passenger and cargo revenues, preclude the USG from considering ROKG requests for additional landing rights (particularly Chicago) at this time.

Drafted: EAP/K: JGagnon
9/10/86, x77717 (Wang 4105k)

Cleared: EAP/K: JGosnell

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U.S. TRADE CONCERNS WITH HIGHEST PRIORITY

Upon conclusion of the GSP consultations in August, USTR informed the ROKG delegation that we could raise Korea's level of GSP benefits provided the following actions were taken.

1. Shift soda ash from the surveillance list to AA status.
2. Expand the informal arrangement for importation of US manufactured personal computers to include small single-use models (8 to 16 byte) of the type produced by Daewoo and Hyundai.
3. Liberalize importation of one agricultural product from the list below.

The above requests are currently the highest priority items in our market access effort. Below is the "short-list" of agricultural products (Item 3) USTR gave the ROKG delegation. Also listed are a number of other important USG market access concerns. Embassy Seoul plans to send a cable in September/October proposing an updated market access strategy with Korea.

Agricultural Commodities

Edible Meat Offals	Automatic Approval (AA) status, July 1, 1987.
Frozen Potatoes	AA status, July 1, 1987.
Oranges (fresh) (Period 4/1 to 9/30)	AA status, July 1, 1987.
Fresh grapes (Period 9/15 to 3/1)	AA status, July 1, 1987.
Wine	AA status, July 1, 1987.
Alfalfa Feed Products	AA status, July 1, 1987.
Grapefruit Juice	AA status, July 1, 1987.

Another priority agricultural item not on the GSP list is:

High Quality Beef	Remove import ban instituted, December 1985. Grant AA status.
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Manufactured Products

Personal Computers ROKG plans to grant AA status in July 1987. USG has requested July 1986. In the interim, ROKG has agreed to informal arrangement which would permit imports of US-made computers. ROKG has not included in the arrangement single-use 16 and 32 byt computers and all 8 and 16 byt computers. Current arrangement would effectively ban imports of all Apple PCs until July 1987.

Cigarettes ROKG has announced limited opening of the domestic market effective September 1. Will limit sales of foreign cigarettes to 1% of the market. In response to USG liberalization requests, ROKG also plans to introduce legislation to dismantle the tobacco monopoly this fall.

Soda Ash ROKG previously announced plans to liberalize soda ash imports in July 1986. ROKG, however, has placed soda ash on the surveillance list. We have insisted that ROKG take soda ash off surveillance. During GSP general review, we also sought a tariff reduction from 20% to 10%.

Excavators ROKG originally scheduled AA status for excavators in July 1986. Automatic Approval now delayed until July 1987. In the interim, MTI reportedly has negotiated a direct deal with Caterpillar providing for the importation of 30 excavators.

Kraft Linerboard ROKG approved AA status in July 1986. ROKG claimed there was strong pressure to defer liberalization but has gone ahead and granted AA status.

Services

Advertising USG seeking removal of restrictions which prevent US firms from opening branch offices, participating in joint venture and undertaking direct investment. ROKG has refused to allow foreign investment in the advertising sector.

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Banking

Overall USG objective is national treatment. ROKG recently announced plans permitting foreign banks to issue CDs and to have access to BOK rediscount window for commercial paper. Reaction of US bankers mixed. If foreign banks choose to participate will be subject to many of the regulatory restrictions faced by Korean banks. eg. raising percentage of mandatory lending to small and medium Korean companies.

Insurance

Subject of 301 settlement. Two US firms to join fire pool by July 31; licensing one US firm to underwrite life insurance by the end of the year. Additional US firms will be permitted to apply to enter the Korean market.

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KOREAN TRADE LIBERALIZATION

While the trade liberalization packages announced by the ROKG in recent years are steps in the right direction, these actions have failed to address a number of priority USG requests. Of particular concern is the ROKG's unwillingness to establish a comprehensive liberalization schedule for agricultural imports. Agricultural commodities of priority interest to the USG include grapes, off-season oranges, alfalfa, high quality beef and citrus fruits.

Problems have emerged as well in the manufactures sector. ROKG decisions to delay scheduled liberalizations or to place products granted automatic import approval on surveillance lists (i.e. subject to high duties and/or non tariff restrictions in the event of import surges) have created friction. The products affected include personal computers, excavators, corrugated board and soda ash. The USG and ROKG have worked out an arrangement whereby U.S. manufacturers will be exempt from restrictions on imports of personal computers and excavators. But, in the case of the former, imports of small single-use machines of the type successfully exported by Daewoo and Hyundai will continue to be banned. Through the GSP general review process, the USG is seeking access for all personal computers including small single-use models.

Successful resolution of the Section 301 investigation of Korea's insurance industry will allow U.S. firms (only) to participate fully in Korea's life and non-life market. Despite a recent announcement of further investment liberalizations, many sectors of Korea's services industry (most notably advertising and freight forwarding) remain closed to foreign investors.

In July, the ROKG announced the next step in its phased liberalization of the banking sector. The plan permits foreign banks to issue CDs and to have access to the Bank of Korea's rediscount window provided they assume responsibilities and restrictions required of Korean banks (such as raising the level of mandatory incremental lending rate to small and medium Korean companies from the present 25% to 35%). U.S. banks operating in Korea have reacted cautiously to the ROKG's proposal and are uncertain whether the cost of added domestic restrictions are worth the benefits of greater participation in Korea's financial market.

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