In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the initial full report by the Republic of Korea is herewith submitted.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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EXECUTIVE SUMMARY

Trade Policy Objectives

In the course of Korea’s economic development since the early 1960s, an outward-looking development strategy and the world free trade environment sustained by the GATT system were important factors behind Korea's rapid economic development. In this light, Korea's trade policy is rooted in the expansion of free trade, and is thus committed to this underlying objective.

Korea's trade policy centres around three principal objectives: (i) balanced expansion of external trade based on the free trade principle, (ii) internationalization of trade-related regulations and institutions, and (iii) continued contribution to the maintenance and strengthening of the multilateral trading system. Based on these objectives, Korea has been continuously implementing a wide range of market liberalization measures.

During its initial stage of economic development with relatively scarce natural resources and insufficient capital accumulation, Korea heavily depended on foreign natural resources and capital to fuel its economic growth. Accordingly, on account of Korea's chronic trade and current account deficits, Korea's trade policy was oriented toward promoting exports and restricting non-essential imports. Even under such circumstances, the Korean government had implemented a series of trade liberalization measures including tariff concessions in the process of joining GATT in 1967.

Entering the 1980s, Korea started to accelerate its trade liberalization through such measures as: virtually complete import liberalization of manufactured products, substantial tariff reduction through two consecutive 5-year tariff reduction programs begun in 1984, gradual liberalization of foreign exchange and capital markets, and market opening of major service industries such as insurance, banking, telecommunications and distribution. These measures were integral to Korea's efforts to internationalize its economy, thus enhancing its industrial competitiveness and shouldering its responsibilities as a member of the international trading community.

At the same time, since its accession to the GATT, Korea has continuously striven to ensure that its trade rules and practices conform with the GATT, which emphasizes non-discrimination, transparency, and predictability. As part of Korea's firm commitment to free trade, Korea has actively endeavoured to contribute to the successful conclusion of the Uruguay Round negotiations, thereby participating in the internationally concerted efforts to expand world trade and strengthen the multilateral trading system of GATT. In addition to actively taking part in the Round,
Korea has continued to voluntarily open its markets and reform its domestic regulations in conformity with international standards in such areas as protection of intellectual property rights, safeguards, government subsidies and countervailing duties.

**Trade-Related Laws and Regulations**

Korea's trade-related laws and regulations are founded on the principles laid down in the Economic Clause of the Korean Constitution, which guarantees a free market economy. The Foreign Trade Act prescribes the general provisions and procedures for external trading. Under the Act, the Korean government imposes restrictions on imports in accordance with the GATT and other international norms or agreements to which Korea is a party. Korea has virtually no restrictions on exports. However, exports may be restricted in a limited number of cases to abide by bilateral or multilateral agreements, to prevent the severe imbalance of domestic demand and supply of certain commodities, to prohibit the export of drugs such as narcotics, etc.

Korea's tariff system and customs clearance procedures are administered by the Customs Act. The tariff system is composed largely of the tariff reduction and exemption systems, customs drawback scheme, tariff instalment payment system, and the bonded system. In addition, Korea has a flexible tariff system in which the National Assembly entrusts the authority of flexible tariff imposition to the Administration to cope with external economic disruptions.

In November 1988, Korea discontinued its invocation of the IMF's Article XIV which conditionally permitted foreign exchange control to safeguard the balance of payments, and in doing so, accepted the obligations of the IMF's Article VIII. This measure represents Korea's fulfilment of the Article's requirements to eliminate restrictions on current account payments and to abolish multiple currency practices. Korea also reformed its foreign exchange control system from the positive list system to a negative list system, which is to be implemented on September 1, 1992.

**Process of Trade Policy Formulation**

Korea, as specified in its Constitution, has a tripartite political system where the legislative, administrative and judicial powers are separate. The Administration holds most of the responsibility for formulating and implementing trade policies, but recently, the National Assembly has gained significant influence over the consultation and legislation process of trade-related laws and regulations. Moreover, with the inauguration of local assemblies in 1991, the role of local governments in trade policies which affect the welfare of its relevant districts is expected to expand. Industrial associations, labour unions, consumer
organizations and other major interest groups are also playing an increasing role in trade policy formulation through channelling advice and opinion to the government.

The details of formulated trade policies are announced to the public in the form of law, presidential decree, ordinance, public notice, etc., while the medium and long-term trade policy directions are featured in the 5-year economic and social development plans and the annual economic management plans. Trade policy proposals of a ministry go through extensive discussions among the ministries concerned, which must reach consensus. Then, depending on the issue, those proposals are submitted for deliberation to either some or all of the following groups: the State Council, Economic Ministers' Meeting, International Cooperation Committee (ICC) and Industrial Policy Committee (IPC). The issues requiring legislative actions or other important policy issues are scrutinized through Policy Coordination Meetings between the Administration and the ruling political party. Once a draft legislation is submitted to the National Assembly, the relevant standing committees, the Committee on Legal Actions and the Plenary Session of the Assembly deliberate the final determination of the draft.

Bilateral, Multilateral and Preferential Agreements

Since 1960, Korea has concluded bilateral trade agreements with 21 countries. Korea signed the multilateral trade negotiation (MTN) Codes on Anti-Dumping, Technical Barriers to Trade, Customs Valuation, and Subsidies & Countervailing Measures, and is now in the process of joining the Agreement on Government Procurement. In addition to being a signatory to the Arrangement regarding International Trade in Textiles (the so-called Multi-Fiber Arrangement), Korea also signed many other multilateral agreements such as the International Convention on the Harmonized Commodity Description and Coding System.

In order to promote trade with developing countries, Korea has participated in the Agreement on the Global System of Trade Preference Among Developing Countries (GSTP) negotiated under the aegis of the UNCTAD. This Agreement grants participating countries tariff rate concessions of 10 per cent below the basic tariff rates on 26 items such as sugar cane and plastic containers. Korea also participates in other preferential agreement such as ESCAP'S Bangkok Agreement.

Additionally, Korea reached arrangements on voluntary export restraints (VERs) with the EC, Japan and Taiwan, and has been participating in the OECD's multilateral shipbuilding negotiation with the U.S., Japan, the EC, and Nordic countries since October 1989, as well as the multilateral steel negotiation with 18 countries including the U.S. and the EC since October 1990.
Trade Policy Measures

Korea embraces the principle of free trade in conducting export and import activities, and any restrictions are limited to the necessary minimum. Korea's current customs policy places greater emphasis on the efficient allocation of resources, inducement of competition and balanced industrial development. In line with these efforts, the government is lowering the basic tariff rates through the advance notice system and reducing tariff rate discrepancies across commodities. International cooperation tariff rates take precedence over any other rates when the former are set lower than the latter (Article 43-8 of the Customs Act). No other charges on imported goods and services exist other than the tariff in Korea.

According to the Foreign Trade Act of 1986, quantitative restrictions are applied under the Export-Import Notice system. Apart from this Act, individual laws stipulate cases where import restrictions can be imposed for the sake of human, veterinary and phytosanitary safety, national security and environmental protection. Korea is in the process of gradually reducing the import restrictions.

Other trade policy measures such as safeguards, standards, customs valuation, anti-dumping and countervailing duties are all implemented in accordance with the relevant provisions of the GATT and respective MTN Codes. Thus far, Korea has not taken any safeguard and countervailing duty actions. Only five anti-dumping cases have been filed involving three items: three cases were settled through price-undertakings and the other two cases resulted in the actual imposition of duties.

Korea does not maintain any export financing systems that could be classified as export subsidy. However, for such purposes as food security, environmental conservation and development of infrastructure, the government gives assistance to the agricultural sector. In the manufacturing sector, the government offers assistance in promoting technological development, structural adjustment and environmental protection.

Korea became a signatory to the D1, D2 Annexes of the Kyoto Convention to harmonize and simplify its customs procedures regarding the rules of origin. Korea introduced an origin mark requirement system for 530 consumer product items (HS 4-digit level) on July 1, 1991.

Government procurement in Korea follows three guidelines: quality, price and timeliness. Upon completion of the negotiations for the accession to the Government Procurement Code, Korea plans to further internationalize its procurement practices.
Korea restricts the export of a few products in order to observe bilateral or multilateral agreements with many countries such as the VERs and MFA and to preserve its export order. As of April 1992, Korea has several VER items such as footwear, silk fabric products, passenger cars, color picture tubes (CPT), microwave ovens (MWO), flatware and polyester fabrics.

Industrial Restructuring and Trade Liberalization

Korea's industrial restructuring efforts played a considerable role in its rapid economic growth and deepening of the industrial structure. In this process, however, the Korean economy faced many difficulties mainly because of the rapidly changing international economic environment and the slow adaptability of its domestic industries. In contrast to the government-led industrial restructuring of the 1970s, in the 1980s, the private sector carried out much of the industrial restructuring through its autonomous decisions. Accordingly, the government now only assists industrial structural adjustment indirectly through promoting investments in R & D, human capital and infrastructure. However, because the development of Korea's agricultural sector has fallen considerably behind those of other sectors, the Korean government takes some direct measures such as the purchase of major agricultural products to encourage balanced regional development and income distribution across sectors.

Korea's trade liberalization policy has the following objectives: domestically, economic stability and the promotion of industrial competitiveness, and externally, contribution to the expansion of world trade and maintenance of harmonious relationships with trading partners.

The 3-year advance notice plans for import liberalization, which started in 1984, have achieved nearly full-scale liberalization of all manufactured products. In addition, Korea's import liberalization ratio of agricultural products reached 87.1 per cent in 1992. When the fourth trade liberalization plan is to be completed in 1994, the import liberalization ratio of agricultural products is expected to reach 91.9 per cent. In fact, Korea ranks as one of the major importing countries of agricultural products due to its continued liberalization of the agricultural market. Upon the successful completion of the Uruguay Round negotiations, Korea plans to liberalize its imports according to the results of the Round.

Moreover, when the second 5-year tariff reduction plan comes to an end in 1994, Korea's average tariff rate will be lowered from 10.1 per cent in 1992 to 7.9 per cent, a level similar to that of OECD countries.
Primary Goals of Economic Development

Looking toward the 21st century, Korea established the Seventh 5-Year Economic and Social Development Plan in 1992, which states its prime objectives as advancement to the level of industrialized countries and the reunification of the Korean peninsula. According to these objectives, Korea will (i) strive to enhance industrial competitiveness, curb inflation and achieve external balance, (ii) spur balanced growth among various regions and economic sectors for sustained economic growth and improvement of the quality of life, (iii) pursue economic deregulation and further market-opening measures, and promote international economic cooperation.

International Macroeconomic Environment and the Korean Economy

In the mid-1980s, world oil prices, international interest rates and the value of the U.S. dollar against the major international currencies fell dramatically, promoting the economic recovery of major industrialized countries and worldwide economic growth. Largely as a result of these favourable factors, the Korean economy grew rapidly at an average annual rate of above 12 per cent for three consecutive years starting in 1986. Moreover, Korea's current account surplus reached a peak of US$14.2 billion in 1988, compared to the US$4.7 billion deficit of 1981.

From the second half of 1989, however, Korea's balance of payments started to drastically deteriorate. The rate of increase in Korea's exports fell sharply to 2.8 per cent in 1989 and 4.2 per cent in 1990 from the annual average growth rate of 26.1 per cent during the 1986-88 period. As a result, the trade balance shifted to a deficit of US$2.0 billion in 1990, which increased to US$7.1 billion in 1991. Although many factors can be attributed to this deterioration, the sluggish growth of the world economy and world trade volume since 1990 adversely affected Korea's economic situation. In particular, Korea's export to its major markets has declined substantially. Moreover, the worldwide tendency towards building regional economic blocs and increasing protectionist sentiments has further worsened Korea's trading environment. In this sense, Korea hopes that the successful conclusion of the Uruguay Round negotiations will lead to worldwide expanded market access.

Problems in External Market Access

Recent trends in the world trade environment towards unilateralism and regional economic blocs are posing serious threats to the multilateral trading system. These trends cause great concerns and difficulties particularly to developing countries, including Korea, whose economic growth largely depends on a favourable international trading environment. Lacking viable alternatives, developing countries have difficulty coping with unilateralism and regionalism.
Korea is facing not only quantitative restrictions such as import quotas, but also numerous indirect restrictive measures such as abuse of anti-dumping and countervailing actions, strict import inspection requirements, complicated certification procedures, and delays in customs clearance procedures. In 1991, 18 per cent or US$8 billion of Korean exports to the developed countries were subject to these non-tariff measures.
PART ONE: TRADE POLICIES AND PRACTICES

I. TRADE POLICY OBJECTIVES

1. Basic Directions of Trade Policy

During the six 5-year economic and social development plans from 1962 to 1991, Korea has undergone economic growth at an annual average rate of 9 per cent, advancing from an underdeveloped agricultural nation to a newly industrialized country. Korea's economic performance can basically be attributed to the combination of domestic strategy and favourable external factors. Domestically, the outward-looking development strategy, synthesized with an abundant and well-educated labour force and private investment activities, has been successful in realizing Korea's rapid economic growth. External factors such as the worldwide free trade regime sustained by the multilateral trading system of GATT and the relatively easy access to foreign capital and technology have also provided a favourable environment for Korea's economic development.

As a result of the outward-looking development strategy, the Korean economy has become increasingly dependent on its external trade. The rate of trade dependency of the Korean economy grew from 21.9 per cent in 1962 to 80.3 per cent in 1990, revealing the heavy reliance of Korea's economic development on the world economy. In view of the importance of the world economy for Korea's economic growth, the changes in the external economic environment have been major elements of consideration in formulating Korea's economic policy.

During its early stages of economic development with relatively scarce natural resources and insufficient capital accumulation, Korea heavily depended on foreign natural resources and capital in order to make the necessary investments for its economic growth. Consequently, at that time, Korea suffered from structural deficits in the balance of payments, which led to a policy that basically promoted exports while limiting non-essential imports. Even under such circumstances, the Korean government had implemented a series of trade liberalization measures including tariff reductions in the process of joining GATT in 1967.

As part of its efforts to reduce its dependency upon imported capital goods and intermediate materials, Korea launched ambitious investment programs in the heavy and chemical industries in the mid-1970s. Even though the programs could be justified in terms of deepening industrial

\[ \text{Rate of trade dependency} = \frac{\text{export of goods and services} + \text{import of goods and services}}{\text{GDP}}. \]
structure, it became evident in the late 1970s, that excessive and redundant investments in those industries were causing structural imbalance problems throughout the entire economy. It was at this time that the second oil shock struck the Korean economy. The world economy fell into a prolonged recession and international interest rates rose significantly. In light of Korea's outstanding foreign debt and dependency upon external trade, the deterioration of the world economic environment further aggravated Korea's economic difficulties. The nation's economy recorded negative growth in 1980 for the first time in over 20 years, inflation soared, and its balance of payments position deteriorated significantly.

Recognizing the seriousness of these structural difficulties, the government instituted wide-ranging reforms in the early 1980s to provide stable macroeconomic conditions, reinvigorate the market mechanism, promote competition in all sectors of the economy and liberalize the nation's policies on external trade and investment:

(i) tight fiscal policy to contain aggregate demand and provide stable macroeconomic conditions through measures such as standstill in government expenditure;
(ii) rescheduling of the investment programs in the heavy and chemical industries to restore structural balance in the economy and to enhance competition; and
(iii) trade liberalization policies to enhance industrial competitiveness by inducing foreign competition and removing excessive government intervention.

From the mid 1980s to the end of the decade, the Korean economy made strong gains due to the successful implementation of these reform policies and to the favourable external factors such as low oil prices, the depreciation of the U.S. dollar against the major international currencies and the reduced international interest rates. In 1986, Korea achieved its first significant current account surplus, which continued until 1989. These improvements in Korea's internal and external conditions made it possible to pursue the following market opening policies:

(i) Korea implemented an aggressive program of import liberalization. As a result, the import liberalization ratio increased from 68.8 per cent in 1980 to 97.2 per cent in 1991, and in 1994, the ratio will be further increased to 98.5 per cent;
(ii) Through the two 5-year tariff reduction plans, the average tariff rate decreased from 24.9 per cent in 1980 to 10.1 per cent in 1992, and in 1994, the rate will be further decreased to 7.9 per cent; and
(iii) Korea has significantly relaxed its foreign exchange control and pursued liberalization of foreign investment and capital movement, particularly since Korea became an IMF Article VIII country in 1988.

In addition, during that period, Korea accelerated deregulation and liberalization in the service sectors such as telecommunications, distribution, and financial services. Korea also enhanced the protection of intellectual property rights and streamlined its foreign direct investment policies. Furthermore, Korea made greater efforts to ensure conformity of its domestic regulatory measures to international standards.

Nevertheless, entering the 1990s, the Korean economy is again facing structural difficulties. Labor disputes and wages have increased significantly since the mid-1980s in the process of domestic democratization, and coupled with the high rate of inflation, the competitiveness of Korean industries has quickly deteriorated. Furthermore, the high economic growth rates in recent years far above the economy's capacity, which were fuelled mainly by excessive domestic demand increases particularly in construction and private consumption, inevitably led to a rapid surge in imports. Consequently, Korea's international payments position has reverted to deficit since 1990. In 1991, the current account deficit reached a record high of US$8.8 billion, and consumer prices rose by almost 10 per cent consecutively in 1990 and 1991.

In spite of these difficulties, Korea has executed and will continue to pursue liberalization policies based on the belief that liberalization is essential to internationalize and advance its economy as well as to shoulder its international responsibilities and obligations commensurate to the expansion of its trade. At the same time, since its accession to the GATT, Korea has continuously striven to ensure that its trade rules and practices conform with the GATT, which emphasizes non-discrimination, transparency, and predictability. The following objectives of Korea's trade policy demonstrate its firm commitment to liberalization:

(i) balanced expansion of external trade based on the principle of free trade;

(ii) internationalization of trade-related regulations and institutions; and

(iii) continued contribution to the maintenance and strengthening of the multilateral trading system.

As part of Korea's firm commitment to free trade, Korea has made its best endeavour to contribute to the successful conclusion of the Uruguay Round negotiations, thereby participating in the internationally concerted efforts to expand world trade and strengthen the multilateral
trading system of GATT. In addition to actively taking part in the Round, Korea has continued to voluntarily open its markets and reform its domestic regulations in conformity with international standards in such areas as protection of intellectual property rights, safeguards, government subsidies and countervailing duties.

2. Agricultural, Forestry and Fisheries Sectors

Korea's agricultural sector, as in its other neighbouring monsoon Asian countries, consists of small family farms which depend predominantly upon rice farming.

Amid rapid industrialization since the 1960s, Korea has sought to enhance the production and achieve self-sufficiency of major staple foods such as rice and barley. Despite these efforts, Korea still depends on imported agricultural products for 62.5 per cent of its domestic consumption due to its weak competitiveness. The production capacity of Korea's agricultural sector cannot meet the demand of the population whose density is as high as 430 people per square kilometre. Indeed, most major grains are imported: wheat (99.9 per cent), bean (81.0 per cent), and corn (97.9 per cent). Imports of agricultural, forestry and fisheries products amounted to US$9.8 billion, or 12.0 per cent of total national import in 1991, making Korea one of the major importing countries of agricultural products.

Despite such weaknesses in the agricultural sector, the Korean government has continued to open its agricultural market since the mid-1980s. Furthermore, Korea's advance notice system has promoted the liberalization of the agricultural sector since Korea decided to disinvoke GATT Article XVIII-Section B in October 1989. Korea has been implementing these previously announced liberalization commitments without delay. As a result, the number of agricultural products on the import restriction list dropped dramatically, and major import items such as beef and corn are allowed under the quota system.

In Korea, agricultural problems are socio-political rather than economic issues. While the GNP share of the agricultural, forestry and fisheries sectors in 1991 was only 8.5 per cent, 16.7 per cent of the labour force was employed in these industries, and about 6.1 million people (14.0 per cent of the total population) live upon the income generated from a very small number of agricultural products. In addition, even though agricultural liberalization is being implemented gradually, Korean farmers have great concerns that such liberalization may lead to the disruption of

\footnote{For more details, refer to IV.B.2: "Korea's Import Liberalization and its Prospects".}
the agricultural production basis. In light of these extenuating circumstances, Korea is requesting exceptional consideration for country-specific concerns in the context of final results of the Uruguay Round negotiations.

3. Manufacturing and Mining Sectors

Imports of manufactured goods have been liberalized in accordance with the principle of free trade. Through such liberalization, Korea seeks to promote the efficient development of its manufacturing sectors. As of December 1991, the importation of all mining and manufactured products has been allowed with the exception of only 10 items including silk, salt, and coal. Tariff rates for manufactured products will also be further reduced by 1994 to 6.2 per cent on average in accordance with the current 5-year tariff reduction plan.

Additional procedures are required for importation of selected items for reasons of quality and safety standards, national security and environmental protection in line with international standards. Under the Multi-Fibre Arrangement (MFA), Korea restricts its exports of textiles and clothing. Korea also restricts some of its exports through measures such as the Voluntary Export Restraints (VERs) for footwear.

4. Services Sector

The Korean government recognizes that the services sector is indispensable for the development of the entire economy. Recently, Korea's services sector has expanded considerably. In 1990, the services sector accounted for 51.2 per cent of GNP and 54.4 per cent of the labour force. Despite this rapid growth trend, Korea's services sector still suffers from structural and qualitative weaknesses. For instance, the distribution and personal business service industries are run by numerous, small-scale, inefficient companies. In addition, managerial know-how and operational skills are insufficient in the financial and engineering services.

The Korean government is seeking to enhance the productivity of the service industries. To achieve this goal, Korea has been relaxing restrictions and accelerating liberalization. Moreover, Korea has actively participated in the Uruguay Round service negotiations, and offered a forward-looking liberalization schedule through the mid-1990s in such areas as telecommunications, construction and transportation.

3The services sector includes electricity, gas, water and construction; wholesale and retail trade, restaurants and hotels; transport storage and communication; finance, insurance, real estate and business services; community, social and personal services; import duties; (less) imputed bank service charges.
II. REGULATORY SYSTEM FOR EXPORTS AND IMPORTS

Korea embraces the principle of free trade in its export and import activities, and restrictions, if any, are limited to the necessary minimum.

1. Import and Export-Related System

The guiding principle of Korea's import and export system, embodied in the Foreign Trade Act, is to promote foreign trade and maintain orderly and fair trade based on the principle of free trade (Article 2 of the Foreign Trade Act). In accordance with this principle, most goods are freely traded.

1.1 Import and Export Approval System

Article 19 of the Foreign Trade Act stipulates the approval system of the importation and exportation of goods. Korea operates that approval system by the Export-Import Notice. Most goods, which are not restricted items on the Export-Import Notice, are automatically approved upon the submission of the required documents to the foreign exchange banks which hold the administrative authority entrusted by the Ministry of Trade and Industry.

1.2 Import System

The Korean government imposes restrictions on imports only in those cases where an import is restricted by international rules or agreements to which Korea is a party, or where such restrictions are required for the maintenance of fair trade. Korea's import restrictions are largely administered by the Export-Import Notice and Consolidated Public Notice (CPN) systems based on the Foreign Trade Act.

Korea operates an import diversification system, which has been developed in response to the unique industrial and foreign trade structure of Korea. This system encourages diversion of imports away from heavy dependence upon a country. The Korean government operates this system only in exceptional cases with great discretion.

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4 The CPN simply compiles the individual laws which affect export and import for transparency and the convenience of users.
1.3 Export System

Korea maintains virtually no restrictions on exports in accordance with the free trade principle. Exports, however, may be restricted in limited cases as required by international agreements and strategic concerns. Such exceptional cases can be categorized as follows:

(i) export quantity may be restricted in order to observe multilateral or bilateral agreements;

(ii) export quantity may be restricted to prevent a severe imbalance of domestic demand and supply;

(iii) export of drugs such as narcotics, etc. is controlled;

(iv) a quality and design inspection system for exports is operated; and

(v) export of strategic items may be controlled.

2. Foreign Trade Business System

The Korean government basically does not restrict trade activities. However, in order to establish a fair trade order, those who wish to engage in foreign trade businesses or act as trade agencies of foreign trade firms must meet certain approval criteria for approval pursuant to the Foreign Trade Act. Foreign trade businesses and trade agencies are classified into Class-A and Class-B, depending upon the scope of authorized import and export activities.

\[\text{Law No. } 3895 \text{ of December 31, 1986, as last amended by Law No. 4198 of January 13, 1990.}\]
III. TRADE POLICY FRAMEWORK

A. TRADE-RELATED LAWS AND REGULATIONS

1. General Description

Korea's trade-related laws and regulations are based on the principle laid down in the Economic Clause of the Korean Constitution, which guarantees a free market system. The Foreign Trade Act contains the general provisions and procedures for trading. The Foreign Exchange Control Act contains provisions related to settlement of payments, foreign loans and debt. The Customs Act provides for the imposition of tariffs and customs clearance procedures. Apart from these laws on trade, there are individual laws governing import and export of particular goods such as the Pharmaceutical Law and the Food Sanitation Law.

2. Trade-Related Laws

2.1 Foreign Trade Act

(1) Main Features

The purpose of Korea's foreign trade regime, as stated in the Foreign Trade Act of 1986, is to contribute to the development of the national economy by promoting foreign trade through a fair trade order. The Act stipulates the basic principles of free, fair and orderly trade for all those engaged in trade in Korea. If the relevant administrative agency finds it necessary to enact laws and regulations restricting the export and import of goods other than those stipulated in this Act, it shall consult in advance with the Ministry of Trade and Industry.

The Act sets out the basic criteria for those who desire to engage in a trade business or act as a trade agency. The Act stipulates the public notice of trade restrictions and regulations related to export and import procedures, settlements of accounts, etc. The stipulated types of notice are as follows:

   (i) Export-Import Notice - mostly specify classification of automatic approval items, restricted approval items and restrictions on quantity or standards;

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(ii) The Consolidated Public Notice - compiles the regulations on export and import procedures other than those of the Foreign Trade Act;

The Act specifies the import procedures for raw materials and products (such as goods for ships and goods for the military and tourism) that are used for the purpose of acquiring foreign currency. There are also provisions regulating unfair trade practices such as infringement of intellectual property rights, false marks of origin, and obvious infringement of export and import contracts.

(2) Recent Modifications

Even before the start of the Uruguay Round negotiations, Korea had been steadily pursuing import liberalization, and has sought to simplify and improve its export/import procedures since the early 1980s, in light of its responsibilities and obligation as a member of the international community. These reforms are well demonstrated in the newly enacted Foreign Trade Act of 1986 which aims at balanced expansion of trade. The Act replaced the Trade Transaction Law of 1967. The Korean government plans to revise the Foreign Trade Act and reform its domestic trade-related system to ensure conformity with the new international trade norms resulting from the successful conclusion of the Uruguay Round.

2.2 Foreign Exchange Management Act

(1) Main Features

The Foreign Exchange Management Act had maintained a positive list system to effectively control and use the scarce foreign currency funds during the period of balance of payment deficits. In keeping with the trend towards financial liberalization, the Act adopted the negative list system in 1991.

The Act classifies parties concerned in foreign exchange transactions into residents and non-residents, and regulates credit and liabilities between the two parties. In view of the complex types of foreign exchange transactions, the Act only stipulates the basic principles and entrusts the details to the subordinate Presidential decree and Administrative regulations.

The Act also stipulates the settlement method, the determination of the foreign exchange rate and registration of foreign means of payment, in addition to the basic principles governing foreign exchange transactions such as current and capital transactions.
(2) Recent Modifications

In November 1988, Korea disinvoked the IMF's Article XIV which conditionally permitted foreign exchange controls to safeguard the balance of payments, and accepted the obligations of the IMF's Article VIII. This measure represents Korea's fulfilment of the Article's requirements for the elimination of restrictions on current payments and the abolition of multiple currency practices.

Furthermore, plans for liberalizing current transactions and for medium and long-term liberalization, which function as important step towards internationalizing the Korean won, were formulated and implemented. Accordingly, these plans are easing limits on overseas travel expense allowances (including the simplification of processes), the foreign exchange concentration system, restrictions on trade-related account settlements, and restrictions on payments for invisibles, etc.

Reflecting such a policy direction, the Korean government completely revised the positive list system of the Foreign Exchange Control Act to a negative one, effective on September 1, 1992. In sum, whereas the previous system of foreign exchange control was geared towards the effective management of foreign exchange, the revised system now emphasizes smooth and unrestricted external transactions of individuals, corporations, and financial institutions.

2.3 Customs Act

(1) Main Features

The objective of the Customs Act is to levy and collect customs duties as well as to properly administer the customs clearance procedures for imports and exports, thereby contributing to the development of the national economy and securing revenues from the customs duties. This Act basically honors the principle of "no taxation without legislation" set forth in the Constitution. Thus, the National Assembly basically has the right to determine the computation and regulation of tariff rates.

The Customs Act stipulates the procedures related to customs duties and customs clearance, formalities for vessels' entry and exit as well as penalties, investigations and dispositions for infringement of laws. The Act adopts customs systems such as reduction and exemption of customs duties, customs drawback system, instalment payment and the bonded system.

The tariff schedule, an annex to the Customs Act, lists tariff rates on all import commodities. Commodities in the tariff schedule are classified in accordance with the International Convention on the Harmonized Commodity Description and the Coding System of the Customs Cooperation Council. While the HS Convention is based on the six-digit
codes, the subheadings are further divided into ten-digit codes, to total 10,321 products as of January 1992.

The list of simplified duty rates, which is annexed to the Presidential Decree of the Customs Act, provides the "simplified rates" applicable to accompanied and unaccompanied baggage of travellers, postal materials, etc.

In order to cope promptly with sudden changes in industrial and economic conditions, the National Assembly entrusts to the Administration the limited authority to operate a flexible tariff system as provided in the Customs Act. The flexible tariff system includes the application of an anti-dumping duty, retaliatory duty, emergency duty, adjustment duty, countervailing duty, beneficial duty, price stabilization duty, and tariff quota system.

(3) Plans for Revisions

Upon the successful conclusion of the Uruguay Round negotiations, revisions of the Customs Act such as the tariff schedule and the flexible tariff system will be considered, reflecting the results of the Round.

B. TRADE POLICY FORMULATION AND RELATED GOVERNMENT AGENCIES

1. Process of Trade Policy Formulation

1.1 Overview

Korea, as specified in its Constitution, has a tripartite government system under which the legislative, administrative, and judicial powers are separate. To formulate national trade policies, the National Assembly deliberates and enacts trade-related laws drafted by either the National Assembly itself or the Administration. Moreover, through the other functions of the National Assembly such as the audit of the administrative body, the National Assembly has great influence on the formulation of trade policies. The Administration makes most of the principal non-legislative decisions on trade policies. The Judiciary has the authority to make the final decision on whether the policies and their related procedures are constitutional and legal.

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8The National Assembly holds the power to impeach government officials, scrutinize general trade policies, investigate specific cases, and request rectifications, if necessary.
Moreover, political parties and other interest groups can influence the process of establishing trade policies through various channels. The government and the ruling political party consult each other about major national policies through the Party-Administration Policy Coordination Meeting, the Working Commission on Party-Administration Cooperation, the Policy Coordination Committee, and the like. Apart from political parties, economic organizations, labour unions, consumer organizations, and other major interest groups play an important role in formulating and implementing policies.

In addition, since the inauguration of the local assembly in 1991, the local government’s role in the establishment of policies is expected to grow in the future. As a consequence, even though the central government, in principle, manages national trade policies and their administration, the local self-governing body has substantial influence on the establishment and implementation of policies affecting the welfare of its relevant district.

The Administration’s specific trade policy decisions are announced to the public in the form of law, Presidential decree, public notice, etc. Medium and long term trade policies are drawn up as part of the five-year economic and social development plan featuring the medium and long term general economic objectives and policies. Similarly, yearly trade policies are prepared by trade-related government offices as a part of the annual economic management plan outlining the economic goals and policies for the year. Individual trade measures are decided and implemented in accordance with these general economic policies and trade policy framework.

1.2 Decision Making Procedures of the Trade Policies within the Administration

The President is the final policy decision maker in the Administration. The State Council, chaired by the President, deliberates on major policies as specified in the Constitution.

All economic policies including trade policies must be deliberated at the Economic Ministers' Meeting chaired by the Deputy Prime Minister, who is concurrently the Minister of the Economic Planning Board, prior to the review by the State Council. The Economic Ministers' Meeting coordinates the implementation and administration of economic policies, and cooperation between the related economic ministries in the government. The meeting deliberates on important economic issues such as the general policies of the national economy, major policy issues on industries, and individual policies of the various economic ministries. All Ministers of economic ministries are required to participate in the meeting.

Aside from the Economic Ministers' Meeting, the Industrial Policy Committee (IPC) and the International Cooperation Committee (ICC)
deliberate and coordinate detailed industrial and international economic policies. The IPC, chaired by the Deputy Prime Minister and Minister of the Economic Planning Board, deliberates on import and export activities, customs, tax, industrial adjustment, administration of major funds, etc. The ICC, also chaired by the Deputy Prime Minister and Minister of the Economic Planning Board, was established by a Presidential decree in order to deliberate and coordinate major external economic policies such as bilateral and multilateral economic issues, foreign trade policies, countermeasures, etc. In sum, major trade policies are established through consensus in the deliberative and coordinating committees in the Administration.

In general, major trade policy issues to be deliberated by the State Council go through the following process: (i) proposal by each ministry (ii) deliberation by either the IPC or ICC (iii) deliberation by the Economic Ministers’ Meeting (iv) deliberation by the State Council (v) approval by the President.

For those issues that do not need to be deliberated by the State Council, the IPC or the ICC make the final decisions: (i) proposal by each ministry (ii) deliberation by either the IPC or the ICC.

2. Government Agencies Involved in the Process of Trade Policy Formulation

The major administrative agencies which participate in the formulation of trade policies are the Economic Planning Board, Ministry of Foreign Affairs, Ministry of Finance, Ministry of Agriculture, Forestry, and Fisheries, and Ministry of Trade and Industry. Major trade-related policies, in principle, are established by consensus among the ministries mentioned above in meetings presided by the Deputy Prime Minister and Minister of the Economic Planning Board.

Aside from the administrative institutions, independent commissions such as the Fair Trade Commission and the Korean Trade Commission take part in the formulation of foreign trade policies according to the relevant laws. The Fair Trade Commission mainly regulates unfair business activities. The Korean Trade Commission independently makes determinations on the existence of injury to domestic industries and recommends appropriate remedies to the Administration.

(1) Economic Planning Board

The National Government Organization Act defines the scope of the responsibilities of the Economic Planning Board as follows: formulation and implementation of the overall policy framework for economic and social development, coordination of investment policies, compilation and execution
of the budget, coordination of the plans of the central administrative institutions, and coordination of price stabilization policies and economic policies relating to international matters.

The International Policy Coordination Office was established in 1986 to coordinate all major international economic policies. The major functions of the Office are as follows: (i) formulation of a long term international economic policy and overall coordination of related policies, (ii) coordination of the government's position on bilateral and multilateral economic issues, (iii) administration of the ICC and coordination of the government's positions on various issues discussed at international meetings, and (iv) coordination of economic cooperation with socialist countries.

(2) Ministry of Foreign Affairs

The Ministry of Foreign Affairs has the following responsibilities: (i) formulation, implementation and coordination of external policies regarding foreign trade, navigation, aviation, etc., (ii) external policy formulation concerning international trade negotiations and international organizations, (iii) negotiations on adopting trade-related bilateral and multilateral treaties and agreements, and (iv) diplomatic activities to promote international cooperation in technology, natural resources, science and the environment.

(3) Ministry of Finance

The Ministry of Finance administers customs, foreign exchange, international financial policy, inward and outward foreign direct investment, and other related issues.

(4) Ministry of Agriculture, Forestry, and Fisheries

The Ministry of Agriculture, Forestry, and Fisheries handles foreign trade and other trade-related matters of agricultural, forestry, and fisheries products. Its major functions consist of the following: (i) coordination of trade policies related to agricultural, forestry and fisheries products, (ii) administration of matters related to the import liberalization of agricultural, forestry, fisheries products and relevant tariffs, and (iii) management of technological cooperation related to the agricultural, forestry and fisheries sectors.

(5) Ministry of Trade and Industry

The Ministry of Trade and Industry formulates the basic trade policies and administers the import and export regulatory system. Its major functions are as follows: (i) proposal, coordination, and management
of trade-related laws, (ii) administration of import and export-related systems, (iii) formulation and implementation of trade promotion policies, (iv) administration of the general system of preferential tariffs, (v) certification of origin for export products, (vi) management of the export insurance system, and (vii) other issues related to import policies and relevant systems.

In addition to the functions mentioned above, the Ministry of Trade and Industry plays a major role in the following: trade negotiations, cooperation for enhancing industrial technology, cooperation with international trade organizations, and multilateral trade cooperation.

(6) Korean Trade Commission

Recognizing the need to update and streamline the nation's import administrative system and bring it into conformity with the internationally accepted trade rules and principles, the Ministry of Trade and Industry established the Korean Trade Commission (KTC) on July 1, 1987 under the Foreign Trade Act.

The KTC is a quasi-autonomous body which investigates and determines whether injury to domestic industries has been caused by imports, and recommends to the relevant Ministers the appropriate relief measures to remedy such injury.

C. BILATERAL, MULTILATERAL, AND PREFERENTIAL AGREEMENTS

1. Bilateral Agreements

1.1 Promotion and Reciprocal Protection of Investment Agreements

Since 1960, Korea has concluded bilateral agreements with 26 countries for the promotion and reciprocal protection of investment. The agreements, under the principle of reciprocity, guarantee national treatment and most favoured nation (MFN) status, protect foreign investments from nationalization and expropriation, and ensure free repatriation of principal and profits. Korea has bilateral agreements for the promotion and reciprocal protection of investment with the following countries:

- Austria
- Bangladesh
- Belgium
- Czech and Slovak Federal Republic
- Denmark
- France
1.2 Trade Agreements

Since 1962, Korea has concluded trade agreements with 21 countries under which MFN treatment is granted in the area of trade in goods and the use of harbours by commercial vessels. However, these agreements do not stipulate national treatment nor the right of establishment. Korea has bilateral trade agreements in force with the following countries:

Botswana
Brazil
Burkina Faso
Canada
Colombia
Costa Rica
El Salvador
Germany
Haiti
Hungary
Iran
Italy
Jamaica
Japan
Kenya
Malaysia
Mexico
New Zealand
2. Multilateral Agreements

2.1 GATT and Tokyo Round MTN Codes

Korea joined the GATT in April 1967. Korea is also a signatory to the following Tokyo Round Multilateral Trade Negotiation Codes: Agreements on Technical Barriers to Trade, Anti-Dumping, Subsidies and Countervailing Duties, and Customs Valuation. Since October 1990, Korea has also been in the process of joining the GATT Agreement on Government Procurement.

2.2 Multi-Fibre Arrangement

Korea is a member of the arrangement regarding international trade in textiles: Multi-Fiber Arrangement (MFA). Korea has participated in the MFA since its inception in January 1974. Under the MFA, Korea has concluded bilateral textile agreements with the EC, Austria, Canada, the U.S., Finland and Norway.

2.3 Other Multilateral Agreements

Korea participates in the Agreement on Establishing a Common Fund for Commodities. This Agreement became effective in June 1989 with the objective of stabilizing the prices and the supply and demand of primary products through financial and capital assistance and the promotion of research and development. As of February 1991, Korea has contributed US$906,000 of its assigned amount of US$1,510,000 to the Fund.

Korea is also a signatory to the following multilateral agreements: the International Tin Agreement; the Convention Relating to International Exhibitions and Protocol to Amend the Convention Signed at Paris on November 22, 1928 Relating to International Exhibitions; the International Convention on the Harmonized Commodity Description and Coding System and Protocol of Amendment to the International Convention on the Harmonized Commodity Description and Coding System.

Since October 1989, Korea has participated in the negotiation of the Multilateral Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding & Repair Industry with Japan, the EC, Nordic countries and the U.S. Korea is also taking part in the talks for the Multilateral Agreement on Steel Trade Liberalization.
3. Preferential Agreements

3.1 GSTP and TNDC

In order to promote trade among developing countries, Korea has participated in the Agreement on the Global System of Trade Preference Among Developing Countries (GSTP) since April 1989. Korea applies preferential tariffs which are 10 percentage points lower on average than the basic tariff rates, to participating countries for 26 items such as sugar cane and plastic containers.

Furthermore, Korea has also participated in the Protocol Relating to Trade Negotiations among Developing Countries Negotiated in the GATT (TNDC) since February 1973 in order to assist economic development through mutual tariff reduction. In 1990, the number of concessionary tariff items was 12.

3.2 Bangkok Agreement

Korea participates in the Bangkok Agreement - the preferential trade agreement among developing countries under the aegis of the ESCAP - with the objective of enhancing trade through concessions on tariffs among the developing countries in the Asia-Pacific region since July 1976. Korea has participated in four rounds of negotiations that were held in order to increase the number of items for concession.

As of September 1991, Korea had increased the number of general concessionary tariff items from 32 to 208 which apply to all participating countries (Bangladesh, India, Laos and Sri Lanka). For Bangladesh and Laos, Korea has increased the number of items subject to special concessionary tariffs to 29 commodities. Tariff rates for those commodities are about 75 per cent or 65 per cent of the basic rates for those respective countries.

4. Other

Korea maintains voluntary export restraint arrangements with such countries as Japan, the EC, and Taiwan.

For details, refer to Table 1, "Korea's Tariff Concession as of the End of 1991" in IV.A.1.
IV. IMPLEMENTATION OF TRADE POLICIES

A. TRENDS AND PROSPECTS OF TRADE POLICY MEASURES

1. Tariffs

1.1 Basic Direction in Customs Policy

In contrast to Korea's former customs policy during the early development stage, which sought to shelter specific domestic industries, the current customs policy places greater emphasis on efficient allocation of resources, inducement of competition and balanced industrial development. As part of its efforts, Korea is lowering the basic tariff rates and reducing discrepancies in the tariff rates among commodities.

1.2 Tariff System

(1) Advance Notice of Tariff Reduction Plan

The Korean government has adopted the Advance Notice System of five-year tariff reduction plans since 1984. Some of the major objectives of this system are to provide domestic industries with a sufficient period to adjust themselves to upcoming tariff changes by giving them early notice, and to openly demonstrate Korea's willingness to liberalize its markets for the promotion of international trade.

Along with the large cuts in tariff rates, the second five-year (1989-93) tariff reduction plan was announced in advance in 1989. However, the abolition of the 2.5% Defense Tax at the end of 1990, which was levied uniformly on all imports, delayed the tariff reduction plan by one year so that the second five-year tariff reduction plan will be completed in 1994.

(2) Types of Tariffs

Although tariff rates are generally enacted as a law passed by the National Assembly (Tariff Schedule, Annex to the Customs Act), the Administration has the flexibility to adjust the tariff rates on certain goods under the conditions and limits permitted by law.

The order of precedence in applying tariff rates is as follows: International cooperation tariffs (conventional rates) take precedence over any other rates when the former is set lower than the latter. Next are flexible tariffs, which take precedence over the general or temporary rates. Temporary rates always take precedence over the general rates. A description of the various tariffs is as follows:

(i) General rates: the rates specified in the Tariff Schedule of the Customs Act;
(ii) Temporary rates: rates set along with general rates and levied when the application of general rates is inappropriate. They should be suspended by the Administration as soon as the conditions necessitating temporary rates disappear;

(iii) Flexible tariff system: the Administration may flexibly adjust the tariff rates on certain goods for a short period of time within the scope permitted by the Customs Act to promptly meet the changes in the domestic or external economic environment. Under this system, anti-dumping duties, tariff quotas, emergency duties and adjustment duties are currently applied;

(iv) International cooperation tariff: the Administration may, when necessary for the promotion of international trade, engage in tariff negotiations with a trading partner or international organization. Therefore, the administration may grant tariff concessions within the limit of 50 percent of the general rates under Article 43-8 of the Customs Act. Korea has applied international cooperation tariffs to certain goods in compliance with bilateral agreements or Korea's commitments to the international organizations such as the GATT, UNCTAD and ESCAP.

10 Some of the details of Korea's International Cooperation Tariff are mentioned in Section III.C.3 "Preferential Agreements".
Table 1
Korea's Tariff Concessions as of the End of 1991

- Items conceded under the GATT:
  . Concession at time of Korea's entry into the GATT in 1967: 60 items
  . Concessions in the Kennedy Round: 17 items
  . Concessions in the Tokyo Round: 143 items
  . Concession list submitted in the Uruguay Round: 7300 items

- Concessions in the Global System of Trade Preferences Among Developing Countries

<table>
<thead>
<tr>
<th>Number of items</th>
<th>Concessionary Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>10% lower than the basic tariff rate</td>
</tr>
</tbody>
</table>

- Bangkok Agreement:

<table>
<thead>
<tr>
<th>Number of items</th>
<th>Concessionary Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>. general concessions: 268 items including coconut, green tea</td>
<td>. about 75% of the basic tariff rate</td>
</tr>
<tr>
<td>. preferential concessions: 29 items including jute, goatskins</td>
<td>. 65% of the basic tariff rate</td>
</tr>
</tbody>
</table>

- Bilateral Negotiations:

115 items including films, steel products, whisky, and wine at tariff rates determined in bilateral negotiations

Source: Ministry of Finance

1.3 Tariff Adjustment Procedures

General rates are set in the Customs Act which is legislated by the National Assembly. However, when the Administration imposes tariffs on certain goods within the scope permitted by the Customs Act, the following procedures are applied:

(i) The relevant ministries and the interested parties submit a request for a modification of the tariff to the Minister of Finance;

(ii) The Customs and Tariff Deliberation Committee (CTDC) examines the case;

\[^{11}\text{CTDC deliberates, but does not determine, major customs and tariff-related policies, and is under the Ministry of Finance, based on Article 16-2 of the Customs Act. This (Footnote Continued)}\]
(iii) The Industry Policy Committee (IPC) and the Economic Ministers' Meeting establish consensus among the relevant ministries and submit a recommendation to the State Council;

(iv) Upon approval by the State Council, the tariff is put into force by a Presidential decree.

1.4 Others

(1) Tariff Reduction and Exemption System and Tariff Quota

The major industries benefitting from the current tariff reduction and exemption systems are high-tech and factory-automation equipment industries. Korea reduces the customs duties of machinery and basic equipment necessary for sophisticated technology industries prescribed by the Ordinance of the Ministry of Finance, and for the defense industries prescribed by the Presidential decree. The ratio of reduction was 60% in 1991 and is 50% in 1992. The ratio will be decreased to 40% in 1993. The Ordinance of the Ministry of Finance designates the specific factory-automation equipment for tariff reduction.

The tariff quota system, which was introduced by the Customs Act in 1967, is designed to stabilize domestic commodity markets. Under the current tariff quota system, customs duties may be adjusted for a certain quantity of imported goods within the limit of the general rate plus or minus 40 percent in order to stabilize domestic commodity prices. As of 1991, the number of items with customs duties lower than the general rates was 329 (HS 10-digit base). However, rates higher than the general rates are applied only to bananas and soybean oil.

(2) Customs Drawback

The customs drawback scheme allows the reimbursement of duties levied on imported raw materials used in the production of exported goods. Korea operates this scheme in accordance with international standards.

(3) Charges

There are no charges in the customs system.

(Footnote Continued)

committee is composed of about 20 members including the Vice Minister of Finance (Chairman), high-level officials in relevant ministries such as the Economic Planning Board, Ministry of Trade and Industry and other experts.
2. Quantitative Restrictions

After joining GATT in April 1967, Korea maintained some quantitative restrictions under the GATT Article XVIII-Section B. These restrictions were examined at the regular consultations with the GATT/BOP Committee.

Korea has maintained quantitative restrictions through the negative list system, and operated them under the Export-Import Notice System. Importers who intend to import the restricted items under the Notice should obtain prior recommendations of the related ministries or authorities.

As a result of Korea's rapid liberalization of quantitative restrictions on manufacturing products and also on agricultural products, only a limited number of agricultural products are under quantitative restrictions. Korea plans to liberalize these products on a step-by-step basis.

Table 2

<table>
<thead>
<tr>
<th></th>
<th>Grand Total</th>
<th>1991 Import Restricted</th>
<th>Items for Liberalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of items</td>
<td>10274</td>
<td>283</td>
<td>43</td>
</tr>
<tr>
<td>(HS 10 digit)</td>
<td></td>
<td>(273)</td>
<td>(43)</td>
</tr>
<tr>
<td>Import Liberalization Ratio (%)</td>
<td></td>
<td>97.2</td>
<td>97.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(84.7)</td>
<td>(87.1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>98.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(89.5)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>98.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(91.9)</td>
</tr>
</tbody>
</table>

Note: Figures in the parentheses refer to agricultural products.
Source: Ministry of Trade and Industry

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12 With respect to the agricultural products under the quantitative restrictions, the Korean Government estimates the net import demand for those products by subtracting the (estimated) domestic supply from (estimated) domestic consumption, and thereafter establishes an annual import plan.

13 For more details, refer to IV.B.2: "Korea's import liberalization and its prospects".
3. Import-related Procedures

3.1 Import procedures by individual laws

Some individual laws other than the Foreign Trade Act contain provisions which stipulate import procedures such as quality inspections, type approvals, and recommendations from the relevant governmental authorities or associations. The purposes of these provisions are not to restrict imports but to protect national security, human, animal and plant life and health, and the environment, based on the GATT Articles XX and XXI, the MTN/TBT agreement, other agreements on environmental protection, etc. Most of these provisions are equally applied to domestic products.

These procedures can be classified roughly into the following categories according to their objectives:

(i) Import control for preservation of natural resources and the environment:
   - import control of endangered species of wild fauna and flora based on the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES),
   - import control of industrial waste, noxious chemical materials, substances destructive to the ozone layer such as chloro-fluorocarbon as specified in the Montreal Protocol and Basel Convention, etc.;

(ii) Import control of foods, pharmaceutical products, animals and plants for the protection of public health, safety and sanitation:
   - inspection of animals and plants for protection against blight and harmful insects, inspection of foods and pharmaceutical products according to relevant standards and bases;

(iii) Import control of electrical products and products for infants for the purpose of safety:
   - quality inspection, type approval, etc. of the products covered by the TBT Agreement for consumer safety;

(iv) Import control for public morality, national security and public security:
import recommendation requirements for books, phonograph records and motion pictures, etc.,

- prior permission for import of guns, swords, explosives, nuclear materials, etc.; and

(v) Import control for food security of major staple foods and the propagation of fish and marine plants:

- export and import licensing for the stable supply of major basic foodstuffs,

- approval of the Korea Fishery Board for carrying in or out and transplanting fish and marine plants for their protection and propagation.

3.2 Improvements in Import-Related Measures

Korea has simplified the import procedures based on the individual laws over the past several years in order to establish an import system consistent with international norms such as the GATT. One such action was the compilation of import procedures based on the individual laws into the Consolidated Public Notice in July 1982. This measure reduced the ambiguity of the scope of import restriction arising from the use of different classification systems by the individual laws and the lack of consistency among the ministries.

In 1989, the government organized an interministerial task force to improve import procedures stipulated in the individual laws. It streamlined and improved various import procedures based on 20 individual laws such as the Pharmaceutical Affairs Act, Electrical Products Safety Control Act, etc. The government reduced the number of products subject to import approval, advance permit, type approval, quality inspection, etc. As part of its efforts to simplify import license procedures, the government abolished the certification system by the Korean diplomatic mission stationed in the country where the products are manufactured, and removed the export obligation imposed on pharmaceutical import and export companies. It also shortened the inspection period by increasing the inspection personnel and modernizing customs facilities and equipment. The Korean government is fully committed to reforming its import-related procedures inconsistent with international norms.

4. Customs Valuation

Korea had adopted the "Brussels Definition of Value" since it joined the Convention on the Valuation of Goods for Customs Purpose in 1968. However, on January 6, 1981, Korea acceded to the Agreement on Implementation of Article VII of the GATT on the condition that the
application of its provisions be delayed for five years under Article XXI of the Agreement. After February 5, 1986, Korea had been implementing all the provisions of the Agreement, except for the computed value method. The computed value method came into effect on February 5, 1989.

The principles of the Agreement are reflected in Section 3 through Section 15 in Article 9 of the Customs Act. The Agreement provides that parties thereto may apply its provisions on either an f.o.b. or c.i.f. basis. Korea uses the c.i.f. basis, which includes cost of insurance and freight in the customs value.

5. Rules of Origin

5.1 Rules of Origin for Concessionary Tariff Rates


Paragraph 4 of Article 53 of the Enforcement Decree of the Customs Act stipulates rules of origin for the implementation of tariff concession under international agreements. The criteria for the determination of the country of origin are as follows:

(i) The origin of a product is conferred to the country in which the entire production takes place;

(ii) The origin of a product which has been produced, processed, or manufactured in two or more countries is conferred to the last country in which the product underwent a substantial transformation and acquired new characteristics. A substantial transformation occurs when the tariff schedule of the product is changed from that of its inputs and parts through the manufacturing or processing operations in the country.

5.2 Non-preferential Rules of Origin

Article 44 of the Foreign Trade Act prohibits exportation and importation of goods with false origin markings. Only export products were required to bear the "made in Korea" designation, and there were no regulations on imported goods up until July 1, 1991 when the Requirement of Origin Marking on selected import products was introduced. The purpose of the Origin Marking Requirement is to provide accurate information to consumers, to protect consumers and to promote fair trade.
There are 530 products at the HS 4 digit level which require country of origin markings such as textiles and apparel, household electric appliances, tools, personal accessories, toys, stationery materials and foodstuffs. The criteria for the determination of the country of origin are as follows:

(i) In the case of a good wholly produced with input goods originating from a country, the country shall be determined as the country of origin of the good: Mineral products extracted from a country, vegetable products harvested or gathered in a country, live animals born and raised in a country, and products obtained from live animals in a country shall be treated as wholly produced in that country; and

(ii) The origin of goods produced, processed or manufactured in two or more countries shall be determined according to the substantial transformation criterion. The principal criterion for substantial transformation is the change of tariff schedule at the HS 6 digit level. The value-added criterion and manufacturing and processing operation criterion as defined in Annex D1 of the Kyoto Convention are also used for some products. The district customs director entrusted by the Minister of Trade and Industry shall notify the regulations and procedures to verify the country of origin of an imported product. Accordingly, importers shall submit documentation of the country of origin upon the request of the district customs director.

6. Government Procurement

6.1 Government procurement and related laws

In Korea, each government authority is responsible for procuring goods and services for its own use. However, the Office of Supply of the Republic of Korea (OSROK) is responsible for procuring generally demanded goods and services by all authorities or goods and services which a specialized agency can procure more efficiently.

The OSROK's end users are classified into two categories: the obligatory and the voluntary end user. The former consists of central and local government agencies, which should purchase needed goods through the OSROK. The latter consists of government funded agencies, government sponsored agencies, etc. which have direct discretionary power to procure goods and services for themselves. However, in cases of urgent procurements or small purchases for which direct procurement is deemed appropriate, the obligatory end user is allowed to purchase materials and conclude construction contracts for itself. In 1990, the procurement by
OSROK amounted to 20.5% of the total public procurement amounts (including government-funded or sponsored agencies, etc.).

Laws related to government procurement are the Budget and Accounting Act and the Supply Fund Act, with procedural details in their Enforcement Decrees and Enforcement Regulations.

6.2 Principles and procedures for government procurement

(1) Principles

The main principles of Korea's government procurement are "good quality, reasonable price and timeliness". The government standardizes and specifies materials which are commonly used by government agencies and ensures the quality of materials through pre-purchase testing. In addition, for timely procurement, the government publicizes a short-or mid-term procurement plan at the beginning of each year. Openly competitive tendering procedures are generally used.

(2) Procedures

Korea's government procurement can be divided into two categories: supply of materials and construction contracts. Supply of materials consists of supply of general materials and stockpile materials. In general, such materials can be purchased domestically or purchased overseas through open, competitive bidding procedures. Government construction work is classified into architectural, civil engineering, electrical and mechanical engineering and telecommunication projects. In most cases, an open, competitive bidding procedure is also applied to a government construction contract.

Table 3

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Procurement</th>
<th>Foreign Procurement</th>
<th>Construction Contracts</th>
<th>Stockpile materials</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>1,306</td>
<td>277</td>
<td>1,386</td>
<td>146</td>
<td>3,115</td>
</tr>
<tr>
<td>1989</td>
<td>1,542</td>
<td>212</td>
<td>1,389</td>
<td>43</td>
<td>3,186</td>
</tr>
<tr>
<td>1990</td>
<td>2,300</td>
<td>382</td>
<td>2,701</td>
<td>62</td>
<td>5,445</td>
</tr>
</tbody>
</table>

Source: The OSROK.
6.3 Efforts to Accede to the Government Procurement Code

Korea submitted its initial offer-list for accession to the Government Procurement Code (hereinafter referred to as "the Code") in June, 1990 and has been negotiating with member countries since then. Meanwhile, upon the request to expand of member countries, Korea has participated in the negotiation to expand the Code since October 1991.

Korea has submitted a new offer list to the GATT in accordance with the expanded coverage of the Code in April 1992, which contains local government entities and government-controlled entities as well as central government entities. It also includes the construction and other services covered by the Code and contains the specifications thereof.

7. Standards and Technical Regulations

7.1 International Harmonization

Korea has continuously made efforts to internationally harmonize its standards system. In 1963, Korea joined the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), which are the leading standardization organizations in the world. In October 1980, the Korean government signed the GATT Agreement on Technical Barriers to Trade. The inquiry point regarding the TBT of Korea is the International Standards Division of the Industrial Advancement Administration.

The KS Marking System was opened to foreign manufacturers (Industrial Standardization Act, Article 15.3) in 1982. In addition, Korea has actively participated in the TBT negotiations under the Uruguay Round, as a part of these efforts toward international harmonization.

7.2 Standards System

Korea enacted the Industrial Standardization Act in September 1961, and has since sought to protect consumer rights and safety, while establishing the fundamentals in the manufacture and distribution of products by setting national standards, i.e. the KS (Korean Industrial Standards). The Industrial Advancement Administration is in charge of establishing and notifying the KS. The Industrial Standardization Act also stipulates the KS Marking Approval System, which is a kind of quality certification system similar to the JIS of Japan, DIN of Germany, BS of the U.K. and NF of France.

At present, 7,000 out of about 8,500 KS items (85%) conform to international standards. Korea recognizes international standards and well-known foreign standards, and under the principle of national treatment and MFN, grants exemptions from quality inspection to the imported products.
that conform to the following standards: the CSA (Canadian Standards
Association), JIS (Japanese Industrial Standards), BS (British Standards),
BEAB (British Electrotechnical Approvals Board for Household Equipment), CB
(International Commission on Rules for the Approval of Electrical
Equipment), UL (Underwriters Laboratories), IECQ (International
Electrotechnical Commission Quality Assessment for Electronic Components),
VDE (Verband Deutcher Elektrotechniker), IWS (International Wool
Secretariat), etc.

7.3 Technical Regulations and Certification System

As in most countries, Korea administers technical regulations and
certification systems that are legally compulsory for ensuring public
interest, particularly in the areas of public health, sanitation and
safety, environmental protection and national security.

Korea does not have a single unified law that encompasses all
compulsory technical regulations and certification systems. The technical
regulations are stipulated in some individual laws, such as the Industrial
Goods Quality Control Act, Measuring Act, Electrical Products Safety
Control Act, High Pressure Gas Safety Control Act, Energy Usage
Rationalization Act, etc. All these laws, in principle, are based on the
GATT provisions and/or the TBT Agreement.

8. Safeguards

8.1 General Description

Korea's safeguard measure is based on the Foreign Trade Act, and its
operation conforms to the provisions of Article XIX of the GATT. The
Korean Trade Commission (KTC) investigates and determines whether imports
cause serious injuries to domestic industries. It also recommends
appropriate relief measures to remedy such injury to the Minister of Trade
and Industry and other relevant Ministers.

8.2 Procedures

(1) Application

Under Article 32 of the Foreign Trade Act, the concerned parties -
including industrial associations, individual firms and labor unions - or
relevant Ministers can apply to the KTC to investigate the alleged injury
to a domestic industry caused by increased imports.
(2) Initiation

The Commission must decide whether or not to conduct an investigation within 30 days after the receipt of the application, through consultation with the relevant Ministers.

(3) Investigation

The investigation seeks to determine whether increased imports of a particular product from a foreign entity constitute a substantial cause of serious injury to the domestic industry of like or directly competitive products, or the threat thereof exists. The investigation must be completed no later than 120 days after the date of initiation.

(4) Determination

In making an injury determination, the Commission should consider all relevant factors. If the Commission's finding is affirmative, the Commission recommends to the Minister of Trade and Industry an appropriate remedial measure which may include quantitative restriction or an increase in tariff rates.

8.3. Determination and Remedies

Between July 1987 and the end of 1991, there have been 19 applications for import relief, of which 12 were decided affirmatively by injury determination. The remedies are comprised of two cases of import restrictions based on Article XVIII-Section B of GATT, and five cases of tariff increase for unbound items. However, Korea has not invoked any safeguard measures such as quantitative restrictions of imports, or the withdrawal or modification of tariff concessions since January 1, 1990, when the Korean government decided to disinvoke the GATT Article XVIII-Section B.

9. Anti-dumping and Countervailing Actions

9.1 Anti-Dumping Actions

Korea acceded to the GATT Anti-dumping Code in February 1986. Korea's anti-dumping system has a legal basis in Article 10 of the Customs Act. Anti-dumping measures are imposed subject to the following conditions:

(i) when imported products are sold at a price lower than the normal value;

(ii) when dumped imports cause or threaten to cause material injury to a domestic industry or materially retard the establishment
of a domestic industry (hereinafter referred to as material injury, etc.); and

(iii) if deemed necessary to protect the domestic industry concerned.

Table 4
The Petitions For Import Relief, 1987-1991

<table>
<thead>
<tr>
<th>Year</th>
<th>Petitions</th>
<th>Determination</th>
<th>Remedies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 1987</td>
<td>Ceramic element for piezo-electronic ignition unit</td>
<td>Petition withdrawal</td>
<td>-</td>
</tr>
<tr>
<td>March 1988</td>
<td>Angora-rabbit hair</td>
<td>Affirmative</td>
<td>-</td>
</tr>
<tr>
<td>July 1988</td>
<td>Salted shrimp</td>
<td>Affirmative</td>
<td>Import restriction</td>
</tr>
<tr>
<td>May 1988</td>
<td>Hot bean paste</td>
<td>Affirmative</td>
<td>Import restriction</td>
</tr>
<tr>
<td>June 1989</td>
<td>Canned pork</td>
<td>Affirmative</td>
<td>Tariff measure</td>
</tr>
<tr>
<td>Aug. 1989</td>
<td>Reconstituted mica product(insulation plate and tape)</td>
<td>Affirmative</td>
<td>-</td>
</tr>
<tr>
<td>Aug. 1989</td>
<td>Stearic acid</td>
<td>Affirmative</td>
<td>-</td>
</tr>
<tr>
<td>Aug. 1989</td>
<td>Ethyl-acetate</td>
<td>Affirmative</td>
<td>-</td>
</tr>
<tr>
<td>Sep. 1989</td>
<td>Casting-roll</td>
<td>Petition withdrawal</td>
<td>-</td>
</tr>
<tr>
<td>Nov. 1989</td>
<td>Linear-low density polyethylene film (L-LDPE film)</td>
<td>Affirmative</td>
<td>Tariff increase</td>
</tr>
<tr>
<td>Feb. 1990</td>
<td>Feather-powder</td>
<td>Petition withdrawal</td>
<td>-</td>
</tr>
<tr>
<td>March 1990</td>
<td>Cocoa milk powder</td>
<td>Petition withdrawal</td>
<td>-</td>
</tr>
<tr>
<td>May 1990</td>
<td>Wooden-chopsticks</td>
<td>Affirmative</td>
<td>Tariff increase</td>
</tr>
<tr>
<td>Aug. 1990</td>
<td>Talc-powder</td>
<td>Affirmative</td>
<td>Tariff increase</td>
</tr>
<tr>
<td>Nov. 1990</td>
<td>Popcorn</td>
<td>Affirmative</td>
<td>-</td>
</tr>
<tr>
<td>March 1991</td>
<td>Vermicelli</td>
<td>Affirmative</td>
<td>Tariff increase</td>
</tr>
<tr>
<td>Oct. 1991</td>
<td>Mother-board for P.C.</td>
<td>Under investigation</td>
<td>-</td>
</tr>
<tr>
<td>Dec. 1991</td>
<td>Toothpicks and other articles of wood</td>
<td>Under investigation</td>
<td>-</td>
</tr>
<tr>
<td>Dec. 1991</td>
<td>Umbrellas, sun umbrellas and frames</td>
<td>Under investigation</td>
<td>-</td>
</tr>
</tbody>
</table>

Total 19 - -

Source: Korean Trade Commission
If a complaint is filed by the interested party or if sufficient evidence of the material injury, etc. caused by dumped imports is proven, the Minister of Finance shall, when deemed necessary, request the Customs and Tariff Deliberation Committee to investigate the case.

If the result of the investigation by the Committee shows that dumped imports have caused material injury, etc., and relief is necessary, an anti-dumping duty is to be imposed through the enactment of a Presidential Decree after deliberation by the State Council.

Since 1986, there have been 10 complaints of dumping. Among these, five cases were terminated because of no injury determination, two cases were settled through price undertakings, one case was withdrawn, and two cases resulted in anti-dumping duties.

The Korean government plans to incorporate the outcome of the Uruguay Round negotiation into its anti-dumping system.

9.2 Countervailing Actions

Korea has been one of the signatories to the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the GATT since June, 1980. Its countervailing duty system has a legal basis in Article 13 of the Customs Act. Countervailing actions are applied when all of the conditions listed below are met. The domestic procedures for countervailing actions are the same as those of anti-dumping:

(i) when any subsidies or bounties are granted to imported goods directly or indirectly by any foreign country in support of their manufacture, production or exportation;

(ii) when the imported products in question cause or threaten to cause material injury to a domestic industry or materially retards the establishment of a domestic industry; and

(iii) when it is deemed necessary to protect the domestic industry concerned.

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14 Number of cases of exporting countries.
### Table 5
**Anti-dumping Cases by Korea by Product and Country, 1986-91**

<table>
<thead>
<tr>
<th>Product description</th>
<th>No. of cases</th>
<th>Countries affected</th>
<th>Final outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dicumyl peroxide</td>
<td>2</td>
<td>Japan, Taiwan</td>
<td>Price undertakings*</td>
</tr>
<tr>
<td>Acetaldehyde</td>
<td>1</td>
<td>Japan</td>
<td>No injury</td>
</tr>
<tr>
<td>Slide fastener (Zipper)</td>
<td>1</td>
<td>Japan</td>
<td>No injury</td>
</tr>
<tr>
<td>Alumina cement</td>
<td>1</td>
<td>France</td>
<td>Price undertaking</td>
</tr>
<tr>
<td>Polyacrylamide</td>
<td>3</td>
<td>France, Germany, United Kingdom</td>
<td>No injury</td>
</tr>
<tr>
<td>Polyacetal resin</td>
<td>2</td>
<td>Japan, United States</td>
<td>Definitive duty</td>
</tr>
</tbody>
</table>

*The price undertakings were subsequently replaced by provisional measures, which were later invalidated.*

**Note:**

Korea has not taken any countervailing action since the countervailing duty system was introduced.

**Source:** Ministry of Finance.

10. Tax Exemptions and Other Government Supports

10.1 Agricultural Sector

Assistance to the agricultural sector has various objectives such as the stable supply of major staple foods for food security, environmental conservation, modernization of the agricultural production structure, and balanced development between urban and rural areas. To achieve these objectives, the Korean government enacted the Special Act for Rural Development in 1990. Programs implemented by the Act are as follows:

(i) For structural improvement:

- fostering specialized full-time young farmers,
- achieving an economy of scale by reforming the system of land holdings and utilization,
- establishing an agricultural information system and marketing facilities,
- expanding and strengthening job training and employment programs for those who want to leave farming or hold multiple jobs,
- creating off-farm income sources.

(ii) For the improvement of rural living conditions:
social programs such as medical services, education and housing, and infrastructure improvements such as roads, water supply, and sewage systems.

In addition to those programs, the Korean government operates rice and barley purchasing systems to secure a stable supply of basic foodgrains and to ensure a sustainable source of income for farmers.

10.2 Support for the Manufacturing Sector

Assistance to the manufacturing sector can be roughly categorized into assistance for technological development, structural adjustment, environmental preservation, and small- and medium-sized industries. Korea enacted the Industrial Development Act, and established the Industry Development Fund in 1986. The Act replaced the individual industrial promotion laws which had thus far assisted specific industrial sectors, and the Fund also replaced the individual funds created by those individual laws. The new Fund is functionally appropriated for R & D on an equal basis to all industries. Tax deductions are granted for investments in developing technology and manpower, prevention of environmental pollution, industrial disaster relief facilities, etc. These deductions are mainly for small- and medium-sized industries.

For assisting structural adjustment, the government once selected industries for rationalization to assist them in restructuring themselves for a limited period of time in accordance with the Industrial Development Act. The time limits of most of these rationalization programs ended by 1989.

The government promotes investment for the prevention of environmental pollution through the Environmental Pollution Relief Fund. Tax deductions or special depreciations are also used to promote investment in facilities for conserving the environment.

The Korean government also enacted the Special Act for Small- and Medium-Sized Industries for Stable Business Activities and Structural Adjustment in 1989. It aims to alleviate the obstacles to the development of small- and medium-sized industries. In addition, tax reductions are offered to the small- and medium-sized enterprises which move from the

Seven industrial laws for machinery, shipbuilding, petro-chemical, steel, non-ferrous metals, textiles and electronics which were gradually established in the late 1960s and 1970s.
greater Seoul metropolitan area to local areas, and which move to the specially designated development regions.

11. Free Trade Zone

Based on the Free Trade Zone Establishment Act of 1970, the Korean Free Trade Zone (FTZ) was introduced to encourage employment and technological advancement in domestic export industries by inducing foreign direct investment. In Korea, two FTZs were established, Masan FTZ in 1971 and Iri FTZ in 1973.

The government applies simplified procedures to enterprises entering FTZs concerning foreign capital inducement, permission for movement into a FTZ and export and import licensing. In addition, the government constructs standardized factory facilities for lease, and provides one-stop-service in tariff, banking and administrative procedures, etc. for firms in FTZs. Infrastructure such as ports and power system is also well equipped in FTZs.

After Masan FTZ was established in 1971, one hundred firms were established there from 1973 to 1975. However, after the 1980s, the number of enterprises fell to between 70 to 80. The major products in FTZs are electronic and electrical products, metal products, precision products, machinery products and so on. Most firms in FTZs are small-and medium-sized.

12. Export Restrictions

12.1 Voluntary Export Restraint

Korea restricts the export of a few products in order to maintain its export order. The restriction is applied based on the Foreign Trade Act. As of April 1992, Korea has nine VER items and the details thereof are as follows:

(i) Items restricted by export quantity based on inter-government arrangements:

- footwear (EC)
- silk fabrics products (Japan)
- passenger cars (Taiwan)

(ii) Items restricted by export quantity based on inter-industry agreements:

- color picture tubes (EC)
- microwave ovens (EC)
- flatware (USA, England, Germany, Belgium, Netherlands, Luxembourg)
(iii) Items which the government deems necessary to prevent disturbance of the export and import order:

- steel products (USA)
- footwear (USA, Canada)
- polyester fabrics (Middle East countries, Southeast Asian countries, Panama)

There are three different ways of undertaking VER: quantity restriction, restriction of the qualified companies and price control.

12.2 Textile Quota

The Korean government maintains a textile quota system under the six bilateral textile agreements based on the Multi-Fibre Arrangement, and determines the quota amounts for each category in consultation with these countries. At the end of every year, the government announces the "notice of the textile quota management" to regulate the allocation of next year's quota to exporting companies.

13. State Trading

As the GATT provisions concerning state trading do not clearly define its scope, it is not clear whether trade by some Korean institutions fall under the category of state trading in the GATT. Some of the institutions listed below have exclusive import rights for certain restricted items under the import recommendation system, even though they are non-profit organizations established on the basis of either individual laws or the civil law. They carry out specific public functions.

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Refer to III.C.2.
### Table 6
State Trading-Related Organizations

<table>
<thead>
<tr>
<th>Name of Organization</th>
<th>Underlying Laws or Regulations</th>
<th>Characteristics of State Trading Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of Supply</td>
<td>Supply Fund Act</td>
<td>Government Institution</td>
</tr>
<tr>
<td>Tobacco and Ginseng Corporation</td>
<td>Tobacco Business Act, Ginseng Business Act</td>
<td>Corporation with exclusive privileges</td>
</tr>
<tr>
<td>Livestock Products Marketing Organization (LPMO)</td>
<td>Livestock Business Act, Foreign Trade Act</td>
<td>Entity with exclusive privileges</td>
</tr>
<tr>
<td>Agricultural and Fishery Marketing Corporation (AFMC)</td>
<td>Agricultural and Fisheries Products Marketing and Price Stabilization Act, AFMC Act, Foodgrain Control Act</td>
<td>Entity with exclusive privileges</td>
</tr>
<tr>
<td>Korean Gas Corporation</td>
<td>Korean Gas Corporation Act</td>
<td>Monopolistic corporation on import</td>
</tr>
</tbody>
</table>

The Office of Supply purchases raw materials, necessities, facility materials, etc. They are stockpiled and released when necessary in order to stabilize prices on both the short term and long term basis.

The Tobacco and Ginseng Corporation currently holds the exclusive right to import and export leaf tobacco and its by-products, white ginseng, and fresh ginseng. The Corporation also has the right to recommend import and export of the aforementioned products. These products are also purchased and sold through an international, open and competitive bidding procedure.

The Livestock Products Marketing Organization (LPMO) was established in 1988. It holds the exclusive right to import beef, to issue import recommendations in order to balance the demand and supply and to prevent fraudulent circulation of beef in the market. The LPMO purchases beef in most cases by open competitive bidding in world markets. However, a portion of beef imports, as agreed in the bilateral negotiations with major beef exporting countries following the GATT panel decisions in November.

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17 For more details, refer to V.A.6 "Government Procurement".

18 In Korea, domestically produced beef is generally much more preferred and expensive than imported beef.
1989, imported by the LPMO through the simultaneous buy and sell system (SBS).

The Agricultural and Fishery Marketing Corporation (AFMC) exclusively imports a limited number of agricultural and fishery products such as red pepper, garlic, onion, and sesame to maintain price stabilization. However, the AFMC does not have exclusive importing right for the liberalized items such as bananas.

The Korean Gas Corporation is currently importing liquified natural gas under government license. As the gas industry requires long-term and large scale investment, the Korean Gas Corporation naturally holds exclusive market share.

14. Trade-Related Foreign Exchange System

While the Foreign Trade Act stipulates the conditions for the transaction of imports and exports, the Foreign Exchange Management Act stipulates the conditions concerning the settlement of such trade transactions. The Foreign Exchange Management Act classifies import/export account settlement into two categories. One is the standard settlement, which allows for the payment and receipt of import/export-related funds without any restrictions. The other is the non-standard settlement, which imposes certain criteria on the payment and receipt. The standard settlement, in principle, must meet the following conditions:

(i) The currency of payment may be in any foreign currency, while the currency of receipt should be, in principle, a designated currency;

(ii) At the time of settlement, the payment or receipt must meet the at sight condition, in principle;

(iii) The institute for settlement should be a foreign exchange bank; and

(iv) The payment and receipt for imports/exports should be made in full.

19 In SBS, domestic buyers and exporting country suppliers form one bidding group together. Within each group, the buyer and seller jointly agree upon the purchasing and selling price, which is offered as a bid to the LPMO. The LPMO, as an intermediary, then selects a bidding group. Thus, the buyer and supplier are simultaneously determined.
On the other hand, the non-standard settlement of trade refers to those transactions such as deferred payments, advances under red-clause L/C and exports on a simple remittance basis, where transaction is possible without having to meet the conditions of the standard settlement method.

15. Foreign Trade Financing and Export Insurance

15.1 Foreign Trade Financing

Korea maintains no export financing system that is export subsidizing in nature, such as the application of preferential interest rates.

(1) Medium and Long-Term Export Credit

Medium and long-term export credit is a type of official financing based on the Export-Import Bank of Korea Act. It aims at financing export transactions on a deferred payment basis for capital goods such as industrial plants, ships, etc. In general, the contract amount is large, and the payment period is long. The export credit loans are typically secured by guarantees of foreign banks or governments. The terms and conditions of the export credit are in line with those of OECD guidelines.

(2) General Export Financing

General export financing is provided, based on the Bank of Korea Act and the Regulations on Export Financing. Banks provide the domestic producers or processors of eligible export goods or raw materials specified by the regulations with these funds. The interest rates on these loans are individually determined by banks generally at the same level as general loans.

(3) Export Financing for Construction and the Supply of Services

Under the export financing scheme for construction and the supply of services, funds are provided to fulfill the requirements of contracts denominated in foreign currencies for the supply of construction or other services. The interest rates on these loans are individually determined by banks generally at the same level as general loans.

(4) Export Financing for Agricultural and Marine Products

Under the export financing scheme for agricultural and marine products, funds are provided for gathering or storing agricultural or marine export products. The interest rates on these loans are individually determined by banks generally at the same level as general loans.
15.2 Export Insurance

Currently, the Export-Import Bank of Korea operates the export insurance scheme on behalf of the Korean Export Insurance Corporation. The export insurance scheme, specified in the Export Insurance Act, is a mechanism to assist the healthy development of external transactions by protecting exporters from the risks which cannot be covered by such non-life insurance facilities as marine insurance, fire insurance, etc. The covered risks can be classified into political, commercial and managerial risks.

The following nine export insurance policies are in operation to cover the risks arising from international transactions:

- General Export Insurance
- Export Finance Insurance
- Export Bill Insurance
- Medium and Long-Term Credit Insurance
- Overseas Investment Insurance
- Consignment-Sale Export Insurance
- Overseas Construction Works Insurance
- Export Bond Insurance
- Buyer Credit Insurance

Between 1969 and 1990, the export insurance business recorded a loss ratio of 143.1%, largely due to several large claims paid in 1990. In fact, from 1969 to 1988, the loss rate has been quite low.

Table 7
Export Insurance Business Results

<table>
<thead>
<tr>
<th>Year</th>
<th>Insurance Amount (billion won)</th>
<th>Premium Income (A)</th>
<th>Paid Claims (B)</th>
<th>Loss ratio (B/A, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969-88</td>
<td>9,166.2</td>
<td>53.8</td>
<td>16.6</td>
<td>30.9</td>
</tr>
<tr>
<td>1989</td>
<td>371.0</td>
<td>1.2</td>
<td>1.4</td>
<td>116.6</td>
</tr>
<tr>
<td>1990</td>
<td>1,688.8</td>
<td>4.4</td>
<td>67.0</td>
<td>1,522.7</td>
</tr>
<tr>
<td>Total</td>
<td>11,226.0</td>
<td>59.4</td>
<td>85.0</td>
<td>143.1</td>
</tr>
</tbody>
</table>

Source: Export-Import Bank of Korea.
16. Direct Investment

16.1 Korea's Overseas Investment Policy

(1) Overseas Investment System

The Korean government has consistently liberalized its overseas investment policy. After converting the overseas investment system to the Negative List System from the Positive List System in January 1979, the government has gradually eased such restrictions as qualification requirements, maximum investment amounts, etc.

(2) Overseas Investment Performance

Until the early 1980s, Korea's overseas investment performance was no more than 50 projects per annum. However, since 1986, overseas investment has increased rapidly, spurred by the current account surplus and the worsening of the domestic business environment for Korean companies due to wage hikes, labor-management disputes and appreciation of the won.

As a result, the total number of remaining overseas investment projects as of the end of 1991 was 1,673 projects amounting to US$3,373 million, an annual growth rate of about 40 percent since 1986.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts*</td>
<td>411</td>
<td>224</td>
<td>570</td>
<td>959</td>
<td>1,125</td>
</tr>
</tbody>
</table>

Note: *Total investment amounts.

Source: Bank of Korea.

However, as of the end of 1991, the overseas investment share of GNP was still at the relatively low level of 1%, compared to the 5-10% of developed countries such as the U.S. and Japan.

Until 1980, the manufacturing sector's share in total investment amount stood at only 17%. From the outset of the 1980s, investment in the manufacturing sector increased rapidly, reaching 48.9% of the total amount or 45.8% of the total projects on the remaining basis as of the end of 1991.
The overseas investment share in South East Asia was the highest before the 1980s because of large investments for natural resources. Entering the 1980s, investment in North America soared to US$1,553 million (46.0%), followed by South East Asia with US$1,141 million (33.8%). Recently, investment opportunities have diversified to such countries as China, the former Soviet Union and East European countries.

16.2 Korea's Foreign Investment Policy

(1) Foreign investment system

The Foreign Capital Inducement Act, its Presidential Decree, and the Ordinance of the Ministry of Finance specify Korea's foreign investment system. Individual laws also apply if they contain provisions concerning foreign investment in specific industries.

Any industry not on the Negative List in the Ordinance is eligible for foreign investment. Some industries on the Negative List have to meet certain criteria for approval. There is no upper limit on investment amount, but the minimum amount is 50 million won.

In principle, there is no limit on the foreign equity ratio in foreign investment. There are exceptions in a few industries such as construction, non-life insurance, and marine transportation services, in which foreign investments are required to be in the form of joint ventures with domestic companies.

(2) Progress in foreign investment

During the mid-1980s, foreign investment from Japan and the U.S. in the manufacturing industries increased rapidly as a result of Korea's consistent liberalization policy. However, since 1989, foreign investment has decreased for reasons such as Korea's sharp wage hikes.

As of the end of 1991, the accumulated total of foreign investment was 9,269 million dollars in 3772 cases, in which the Japanese investment share was 43.4% and the U.S., 27.6%.
Table 9
Foreign Direct Investment to Korea

<table>
<thead>
<tr>
<th>Year</th>
<th>Cases</th>
<th>Amount* (US$ million)</th>
<th>Total (1962-91)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>352</td>
<td>1,283</td>
<td>3,772</td>
</tr>
<tr>
<td>1989</td>
<td>349</td>
<td>1,090</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>501</td>
<td>803</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>297</td>
<td>1,396</td>
<td></td>
</tr>
<tr>
<td>Total(1962-91)</td>
<td></td>
<td></td>
<td>9,269</td>
</tr>
</tbody>
</table>

Note: *Total licensed amounts.
Source: Ministry of Finance.

(3) Direction of foreign investment policy

The Korean government has been pursuing the liberalization of foreign investment through such measures as adopting the Negative List System on July 1, 1984, introducing the Notification System on March 1, 1991, continuously reducing the number of restricted industries to foreign investment, abolishing performance requirements imposed on approval of investment in December 1989, etc. The Korean government will continue to implement these liberalization policies and improve the business environment for foreign invested firms.

B. INDUSTRIAL STRUCTURAL ADJUSTMENT AND TRADE LIBERALIZATION

1. Industrial Structural Adjustment

Korea's industrial policy by the mid 1970s for channelling the relatively scarce resources into strategically important industries played an important role in rapid economic growth and the deepening of the industrial structure. On the other hand, this process caused many difficulties. For example, while the pattern of international specializations was changing rapidly, domestic industries adapted poorly to the changing external economic environment. In addition, as the size of the economy grew and the industrial structure became complicated and diversified, the traditional strategy itself proved no longer appropriate for further economic growth largely because of the resulting imbalance in the industrial structure as well as general economic inefficiency.

As from the mid-1970s, massive investments were made in the heavy and chemical industries and in the relatively underdeveloped sectors such as agriculture. This investment policy, in addition to the oil shocks and the weak foreign demand for Korean products, led to various economic hardships such as high inflationary pressures and the extremely low capital utilization ratio. Furthermore, the investments in the agricultural sector
did not produce successful structural adjustment. As a result, much of the late 1970s and early 1980s was spent on remedying the dislocations caused by such overactive industrial structure adjustments.

The lessons of the 1970s led to the adoption of macroeconomic policies emphasizing economic stability for the 1980s. The achievement of industrial restructuring was pursued through liberalization and enhanced competition. By the mid 1980s, the Korean economy achieved increased employment, stabilized prices and an improved balance of payments.

The economic policies of this period can be characterized by the commitment to liberalization. The tariff rates were reduced and the environment for foreign direct investment was improved. Moreover, the industrial supports such as the sector-specific financial and taxation supports were dramatically reduced. The government now only assists industrial structure adjustment indirectly through investment in technology, human capital and infrastructure.

The principal directions of industrial structure adjustment are clearly indicated in the Seventh Five-Year Economic and Social Development Plan, which covers the period for 1992-1996. This Plan aims to enhance industrial competitiveness through the following:

(i) modification of the education system to be compatible with that of an industrial society;

(ii) promotion of technological innovation and establishment of an efficient information flow system;

(iii) expansion of infrastructure such as the transportation system; and

(iv) enhancement of the efficiency of the private sector and industrial organizations, and strengthening the competitiveness of small-and medium-sized firms.

2. Korea's Trade Liberalization and its Prospects
2.1 General Description

Korea's trade policy for liberalization has the following objectives: domestically, trade liberalization will assist Korea's economic stabilization and industrial structural adjustment - these policies aim to promote industrial competitiveness for enhancing the efficient allocation of resources in the economy. Externally, Korea implements trade liberalization to contribute to the expansion of world trade and to preserve harmonious trade relationships with Korea's major trading partners.
2.2 The Reduction of Import Restrictions and its Prospects

Korea's initial import liberalization policy was implemented in the 1970s, but it took off during the 1980s under the framework of the stabilization-cum-liberalization policy. Consequently, Korea's import market has attained a high level of liberalization.

Before 1975, many de facto import restriction measures had been in place. After 1976, in line with the expansion of Korea's trade volume and improvement of balance of payments, Korea implemented a long-term import liberalization plan. However, from 1979-1980, the second oil shock brought about a global economic recession as well as the sluggish growth and deterioration of the Korean economy. These adverse economic circumstances slowed Korea's pursuit of its liberalization policy.

Entering the 1980s, however, the Korean government changed its basic economic policy drastically to focus upon economic liberalization, stabilization, market opening and industrial competitiveness, achievable through the infusion of foreign and domestic competition. Under these fundamental economic policy objectives, Korea removed many import restrictions, sharply increasing Korea's import liberalization ratio from 67.6% in 1979 to 80.4% in 1983. In the mid-1980s, in accordance with its improved balance of payments situation, Korea accelerated its market opening policy through a series of advance notice 3-year import liberalization programs started in 1984. These programs increased the import liberalization ratio to 91.5% in 1986, 94.7% in 1988 and 97.2% in 1991.

In October 1989, Korea, as a result of consultations with the GATT/BOP committee, decided to disinvoke GATT Article XVIII-Section B. In doing so, Korea committed itself to gradual import liberalization of the items which had been restricted under Article XVIII-Section B, by July 1, 1997, or otherwise bring those import restrictions into conformity with the GATT rules. In 1991, in keeping with its commitments, Korea announced the import liberalization program for 1992 to 1994. This program, which liberalizes the import of 133 items out of 283 items still under BOP restrictions as of December 1991, was reported to the GATT in March 1991. As a result of this consistent market liberalization policy, Korea's import liberalization ratio reached 99.9% for manufacturing products and 87.1% for agricultural products in 1992.

Most of the 240 items (based on the HS 10 unit) that are currently under import restrictions are agricultural, forestry or fisheries products (230 items). Despite structural deficiencies in these sectors such as small scale farming and insufficient farmland consolidation and mechanization, Korea continues to pursue liberalization of these items. Since it will take much time and investment to adjust the agricultural structure, Korea's liberalization of agriculture will inevitably be pursued
in a step-by-step manner. Nevertheless, Korea will, as it agreed at the GATT/BOP consultation in October 1989, eliminate its remaining restrictions, or otherwise bring them into conformity with GATT provisions, including the results of the Uruguay Round.

2.3 The Reduction of Tariff Rates

Since the early 1980s, Korea has consistently pursued policies to reduce tariffs and it will continue to do so in the future. Korea has been implementing its five-year programs to reduce tariff rates since 1984 in order to enhance the effectiveness of import liberalization. The first five year schedule lowered the average tariff rate from 23.7% in 1983 to 18.1% in 1988. In 1994, when the second five-year program is completed, Korea's average tariff rate will have dropped from the current 10.1% to 7.9%, reaching the level currently in effect in most OECD countries. In addition to the five year schedules, the Korean government has made further reductions in tariff quotas in order to promote imports.

Table 10
Advance Notice of the Tariff Reduction Plan (1988-1994) (unit : %)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Manufactured products</td>
<td>16.9</td>
<td>11.2</td>
<td>9.7</td>
<td>8.4</td>
<td>7.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Agricultural products</td>
<td>25.2</td>
<td>20.6</td>
<td>19.9</td>
<td>18.5</td>
<td>17.8</td>
<td>16.6</td>
</tr>
<tr>
<td>All products</td>
<td>18.1</td>
<td>12.7</td>
<td>11.4</td>
<td>10.1</td>
<td>8.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Representative tariff rate</td>
<td>20</td>
<td>15</td>
<td>13</td>
<td>11</td>
<td>9</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance.
PART TWO: BACKGROUND OF TRADE POLICIES: ECONOMIC, SOCIAL AND EXTERNAL ENVIRONMENTS

I. PRIMARY GOALS OF ECONOMIC DEVELOPMENT

Over one generation, Korea has achieved the rapid economic growth known as "condensed growth", and matured into one of the newly industrialized countries. Korea’s basic economic policies and major economic indicators during that period are as follows:

Table II
Korea's Basic Policy Directions and its Achievements

<table>
<thead>
<tr>
<th>Basic Policy Direction</th>
<th>Major Economic Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962-1971</td>
<td></td>
</tr>
<tr>
<td>Establishing the basis for outward-oriented industrialization</td>
<td>Export amounts: US$1 billion in 1970</td>
</tr>
<tr>
<td>Expansion of key industries and infrastructure</td>
<td>Per capita GNP: US$82 in 1961 to US$289 in 1971</td>
</tr>
<tr>
<td></td>
<td>The ratio of manufacturing sector in GNP: 17.0% in 1966</td>
</tr>
<tr>
<td>1972-1981</td>
<td></td>
</tr>
<tr>
<td>Deepening of industrial structure by fostering the heavy &amp; chemical industries</td>
<td>Export amounts: US$1 billion in 1977</td>
</tr>
<tr>
<td>Constructing the fundamentals for self-guided growth</td>
<td>Per capita GNP: US$1 in 1977</td>
</tr>
<tr>
<td>Rural developments</td>
<td>The ratio of manufacturing sector in GNP: 27.6% in 1976</td>
</tr>
<tr>
<td>1982-1991</td>
<td></td>
</tr>
<tr>
<td>Economic stabilization and competition</td>
<td>Export amounts: US$7 billion in 1991</td>
</tr>
<tr>
<td>Enhancement of social welfare and equity</td>
<td>Per capita GNP: US$6498 in 1991</td>
</tr>
<tr>
<td>Market opening and internationalization</td>
<td>Import liberalization ratio (manufacturing): 99.9% in 1991</td>
</tr>
</tbody>
</table>

Source: Economic Planning Board.

Looking towards the 21st century, Korea established the Seventh 5-Year Economic and Social Development Plan in 1992, which states as its prime objectives the advancement to the level of industrialized countries and the reunification of the Korean peninsula. In the Plan, the primary strategies for these objectives are described as follows:

First, Korea will strive to strengthen industrial competitiveness, curb inflation and achieve external balance. Specifically, the government will encourage private firms to improve competitiveness through their own business innovations, while the government will create a favorable business environment by promoting the development of skilled manpower and basic technologies, and by upgrading infrastructure.
Second, the government will promote more balanced growth among various regions and economic sectors essential for sustained economic growth, and improve the quality of life. For these objectives, the government will strive to resolve problems of housing, environmental pollution, social security, and rural development as well as national morality. The government views these measures as the infrastructure for sustained economic development.

Third, the government recognizes that in order to advance its economy to the level of industrialized countries, the Korean economy should be more internationalized and liberalized. In this regard, the government will actively pursue economic deregulation and market-opening measures in accordance with international norms and promote international economic cooperation.
II. TRENDS IN EXTERNAL SECTORS

A. TRENDS IN EXPORTS AND IMPORTS

1. Overview

Korea's exports of merchandise, after growing at an average annual rate of 26.1% from 1986 through 1988, slowed down significantly in 1989 and have remained sluggish thereafter. In striking contrast, imports rose sharply in 1987 and continued to surge at a double-digit rate annually through 1991.


Table 12
Summary of Exports and Imports

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Exports(A)</td>
<td>3.3</td>
<td>34.7</td>
<td>47.3</td>
<td>6.7</td>
<td>62.4</td>
<td>65.</td>
</tr>
<tr>
<td>Imports(B)</td>
<td>31.1</td>
<td>31.6</td>
<td>41.</td>
<td>51.8</td>
<td>61.5</td>
<td>69.8</td>
</tr>
<tr>
<td>(A-B)</td>
<td>-.8</td>
<td>3.1</td>
<td>6.3</td>
<td>8.9</td>
<td>.9</td>
<td>-4.8</td>
</tr>
</tbody>
</table>

Note: On a customs-clearance basis.

Source: Office of Customs Administration.

2. Exports

Korea's exports grew 26.1% per annum during the period of 1986-1988 mainly due to the favorable trading environment highlighted by the so-called "three lows": a weak U.S. dollar against the major international currencies, low oil prices, and low international interest rates.

The growth rate of exports, however, dropped sharply to only 2.8% in 1989 and 4.2% in 1990 on a year-to-year basis. The sluggish growth of exports was further aggravated by rapid domestic wage hikes, the appreciation of the won, and slow progress in technological innovations, which all eroded the competitive edge of Korean products.

Since 1986, electric and electronic products have become Korea's leading export items. These products alone accounted for 28.1% of total exports in 1991. However, textile products, Korea's traditional major export items, have shown sluggish export increases since 1989. Their
export amounts declined by 2.6% in 1990 compared to the previous year, reflecting their weakened international competitiveness. Automobiles, Korea's burgeoning export product, also suffered from a major setback in the export markets. Automobile exports actually shrank 12.5% in 1990 compared with the previous year. The decline was due mostly to the increased inventories in the United States, and to the weakened price competitiveness of Korean automobiles.

Table 13
Trends in Exports

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Total exports</td>
<td>30.3</td>
<td>34.7</td>
<td>47.3</td>
<td>60.7</td>
<td>62.4</td>
<td>65.0</td>
<td>71.9</td>
</tr>
<tr>
<td>Textiles &amp; clothing</td>
<td>7.1</td>
<td>8.8</td>
<td>11.8</td>
<td>14.1</td>
<td>15.1</td>
<td>14.7</td>
<td>15.5</td>
</tr>
<tr>
<td>Electric &amp; electronic products</td>
<td>4.9</td>
<td>7.6</td>
<td>11.5</td>
<td>16.2</td>
<td>17.1</td>
<td>17.8</td>
<td>20.2</td>
</tr>
<tr>
<td>Automobiles</td>
<td>0.6</td>
<td>1.4</td>
<td>2.9</td>
<td>3.6</td>
<td>2.4</td>
<td>2.1</td>
<td>2.5</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>10.8</td>
<td>13.9</td>
<td>18.3</td>
<td>21.4</td>
<td>20.6</td>
<td>19.4</td>
<td>18.6</td>
</tr>
<tr>
<td>EC</td>
<td>3.2</td>
<td>4.3</td>
<td>6.6</td>
<td>8.1</td>
<td>7.4</td>
<td>8.8</td>
<td>9.7</td>
</tr>
<tr>
<td>Japan</td>
<td>4.5</td>
<td>5.4</td>
<td>8.4</td>
<td>12.0</td>
<td>13.5</td>
<td>12.6</td>
<td>12.4</td>
</tr>
</tbody>
</table>

Note: On a customs-clearance basis.
Source: Ministry of Trade and Industry.

The share of exports to the United States in Korea's total merchandise exports has decreased from 35.6% in 1985 to 25.9% in 1991. By contrast, the share of exports to Japan and the European Community (EC) rose from 14.9% to 17.2% and from 10.6% to 13.5%, respectively. Korea's exports to the Association of Southeast Asian Nations (ASEAN) and former socialist countries have also increased.

3. Imports

Korea's imports have expanded at a double-digit rate every year since 1987, while exports increased at a sluggish pace. This trend is attributable to several significant factors: increased demand for imports due to a surge in domestic consumption, lower tariff rates, and the appreciation of the Korean won. These factors have made imports more competitive, together with the further opening of the domestic market.
### Table 14
Trends in Imports

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exports</td>
<td>31.1</td>
<td>31.6</td>
<td>41.0</td>
<td>51.8</td>
<td>61.5</td>
<td>69.8</td>
<td>81.5</td>
</tr>
<tr>
<td>Consumer goods (including grain)</td>
<td>2.6</td>
<td>3.1</td>
<td>3.9</td>
<td>4.9</td>
<td>6.1</td>
<td>6.7</td>
<td>8.1</td>
</tr>
<tr>
<td>Raw materials (including crude oil)</td>
<td>17.4</td>
<td>17.2</td>
<td>22.5</td>
<td>27.9</td>
<td>33.0</td>
<td>37.7</td>
<td>43.4</td>
</tr>
<tr>
<td>Capital goods</td>
<td>11.1</td>
<td>11.3</td>
<td>14.6</td>
<td>19.0</td>
<td>22.4</td>
<td>25.5</td>
<td>30.1</td>
</tr>
<tr>
<td>Japan</td>
<td>7.6</td>
<td>10.9</td>
<td>13.7</td>
<td>15.9</td>
<td>17.5</td>
<td>18.6</td>
<td>21.1</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>6.5</td>
<td>6.6</td>
<td>8.8</td>
<td>12.8</td>
<td>15.9</td>
<td>16.9</td>
<td>18.9</td>
</tr>
<tr>
<td>EC</td>
<td>3.1</td>
<td>3.2</td>
<td>4.6</td>
<td>6.0</td>
<td>6.5</td>
<td>8.4</td>
<td>9.9</td>
</tr>
</tbody>
</table>

*Note: On a customs-clearance basis.*

*Source: Ministry of Trade and Industry.*

As for the composition of imports, the share of raw materials including crude oil dropped from 55.9% in 1985 to 53.3% in 1991. This drop was due primarily to falling world oil prices. On the other hand, the share of capital goods such as machinery and semiconductors increased substantially as the demand for imports of plant and equipment rose, especially in the electronics sector. The share of consumer goods also rose significantly, reflecting a rapid increase in demand stimulated by higher income.

As the import share of capital goods rose more rapidly than that of other goods, the share of imports from industrialized countries increased. In particular, the share of imports from Japan (25.9% in 1991), Korea's largest source of imports, expanded considerably as Korea's demand for Japanese machinery and other capital goods remained high. Imports from the United States and the EC member countries also showed a continued upward trend.

### B. TRENDS IN EXPORT AND IMPORT UNIT VALUES

Korea's export unit values rose at an annual double-digit rate from 1987 through 1989 as the prices of export products were increased to compensate for the appreciation of the won and sharp wage hikes. In 1990, however, export unit values were stabilized, showing a slight decline of 0.3% from the preceding year's level as the won actually depreciated, though modestly. Import unit values climbed substantially in 1987 and
1988, primarily as a result of the weakened U.S. dollar relative to other major currencies. However, import unit values edged up only slightly in the two following years, rising 2.1% in 1989 and 0.4% in 1990 on a year-to-year basis.

Compared with 1985, export unit values in 1990 were 39.8% higher, while import unit values showed a rise of 14.1% over the same period. These trends translated into a 22.5% improvement in Korea's net barter terms of trade.

C. BALANCE OF PAYMENTS, FOREIGN EXCHANGE RESERVES, AND FOREIGN EXCHANGE RATES

1. Balance of Payments


The trade balance has worsened steadily, shifting from a surplus of US$4.6 billion in 1989 to a deficit of US$7.1 billion in 1991, reflecting the sluggish growth of exports and the rapid growth of imports.

The invisible trade balance, after improving in 1986 and two subsequent years as a result of decreased external debt and increased external assets, started to deteriorate in 1989, as expenditures for travel abroad by Koreans increased following government measures to liberalize overseas travel. The invisible trade balance and net transfers shifted to a deficit of US$1.7 billion in 1991 from a surplus of US$0.5 billion in 1989.

The long-term and short-term capital balances showed a net inflow of US$4.7 billion in 1991 from a net outflow of US$3.3 billion in 1989. The long-term capital balance changed sharply from a net outflow of US$3.4 billion in 1989 to a net inflow of US$0.5 billion in 1990 and US$4.3 billion in 1991 as a result of the sharp increase in the portfolio investments by foreigners, and the expansion of bank borrowing from abroad that had been restrained until 1988.

The net inflow of short-term capital increased from US$0.1 billion in 1989 to US$3.3 billion in 1990. This increase was due partially to the drastic increase in trade credits and mainly to the sharp rise in borrowing for crude oil imports in the wake of the oil price hike toward the end of 1990. In 1991, however, it was stabilized to a net inflow of US$0.4 billion compared to 1990.
Table 15  
Trends in Balance of Payments  

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Current balance</td>
<td>14.2</td>
<td>5.1</td>
<td>-2.2</td>
<td>-8.8</td>
</tr>
<tr>
<td>Trade balance</td>
<td>11.4</td>
<td>4.6</td>
<td>-2.0</td>
<td>-7.1</td>
</tr>
<tr>
<td>Invisible trade balance</td>
<td>1.3</td>
<td>0.2</td>
<td>-0.5</td>
<td>-1.6</td>
</tr>
<tr>
<td>Transfers (net)</td>
<td>1.4</td>
<td>0.3</td>
<td>0.3</td>
<td>-0.1</td>
</tr>
<tr>
<td>II. Capital account balance</td>
<td>-1.4</td>
<td>-3.3</td>
<td>3.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Long-term</td>
<td>-2.7</td>
<td>-3.4</td>
<td>0.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Short-term</td>
<td>1.3</td>
<td>0.1</td>
<td>3.3</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Bank of Korea.

2. Foreign Exchange Reserves

The amount of foreign exchange reserves declined slightly as net inflows in the capital balance offset a part of the current account deficit in 1990. However, in 1991, in spite of the large net inflow of capital, the drastic expansion of the current account deficit seriously depleted the foreign exchange reserves. Foreign exchange reserves fell from US$15.2 billion in 1989 to US$14.8 billion at the end of 1990 and to US$13.7 billion in 1991.

3. Foreign Exchange Rates

Korea's exchange rate system changed from the Multiple-basket Pegged System to the Market Average Exchange Rate (MAER) System on March 2, 1990 in order to enhance the market mechanism of exchange rates and the linkage between the national and international financial markets. This move was consistent with Korea's sustained efforts to open and internationalize the domestic economy.

The MAER system was introduced as an interim step toward the adoption of a free floating system. Under the current system, the exchange rate of the Korean won against the U.S. dollar is determined according to the demand and supply of foreign exchange in interbank markets, albeit with some limits in daily fluctuations. The exchange rates of the Korean won against other key currencies are determined through arbitrage of the won-dollar exchange rate and the value of the dollar in the international foreign exchange markets.
Since the adoption of the current system, the Korean won has displayed a trend of moderate depreciation against the U.S. dollar, reflecting the widening current account deficit. The won depreciated 5.14% against the U.S. dollar from 679.60 won at the end of 1989 to 716.40 won per U.S. dollar at the end of 1990. At the end of 1991, the Korean won depreciated 5.84% from the end of 1990 to 760.80 won.

D. INTERNATIONAL MACROECONOMIC ENVIRONMENTS AND KOREAN ECONOMY

In the mid-1980s, world oil prices, international interest rates, and the value of the U.S. dollar against the major international currencies fell dramatically, spurring the economic recovery of major industrialized countries and worldwide economic expansion. Largely as a result of these factors, the Korean economy grew rapidly at an average annual rate of 12% for three consecutive years starting in 1986. Korea's current account surplus reached a high of US$14.2 billion in 1988, compared to the US$4.7 billion deficit of 1981.

From the second half of 1989, however, the growth of the world economy and world trade volume slowed down. In particular, the growth of imports by both Japan and the United States, Korea's two largest export markets, has declined substantially. Moreover, the widespread international trends towards regional economic blocs and increasing trade protectionism are negative factors affecting Korea's access to foreign markets. Other than these external factors, Korea faces domestic difficulties stemming from the significant increases in labor disputes and wages, high growth fueled by excessive domestic demand, coupled with high inflationary pressure, which have lead to the weakening of the competitiveness of Korean products.

Consequently, the rate of increase in exports fell sharply to 2.8% in 1989 and 4.2% in 1990 from the annual average growth rate of 26.1% during the 1986-88 period. As a result, the trade balance deficit increased to US$2.0 billion in 1990 and to US$7.1 billion in 1991.

The present world economic environment is characterized by the contradictory trends of regionalism and globalism. Against this background, Korea sincerely hopes that a successful conclusion of the Uruguay Round negotiations will strengthen the multilateral trading system of GATT, expand world trade and bring sustained economic growth to the world. In this regard, Korea, heavily dependent upon foreign trade, is firmly committed to devoting to a successful conclusion of the Uruguay Round through its utmost efforts.
III. PROBLEMS IN EXTERNAL MARKETS

A. THE MULTILATERAL TRADING SYSTEM

Recent major phenomena in the world trade environment appear to be the expansion of unilateralism and the tendency toward building regional blocs. These trends cause great concerns and difficulties, particularly to developing countries, such as Korea, whose economic growth largely depends on a favorable international trading environment. Lacking viable alternatives, developing countries have difficulties coping with unilateralism and regionalism.

Korea believes that unilateralism is likely to distort a developing country's own liberalization and restructuring efforts. Furthermore, Korea is also concerned that this unilateralism may lead to the undermining of the multilateral trading system of the GATT.

Although regional trading arrangements may have positive effects on the growth of the global economy and expansion of world trade owing to the complementary trade structures of different economies, serious problems could arise when the arrangements develop into an economic blocs and discriminate against non-member countries. Moreover, regional trading blocs may weaken the GATT system by applying rules and procedures to the non-member countries - such as rules of origin, customs user fees, quantitative restrictions, government procurement standards, safeguard measures and dispute settlement procedures - which are different from the international rules. Consequently Korea believes that regional economic arrangements should be pursued in a manner non-discriminatory to non-member countries.

B. NON-TARIFF MEASURES BY MAJOR TRADING PARTNERS

As tariff rates have been continuously lowered, non-tariff measures have become serious threats to the efforts of developing countries to achieve economic growth through expansion of trade. Korea, one of these developing countries, is facing not only direct quantitative restrictions such as import quotas and VERs on its major export products, but also numerous indirect restrictive measures like administrative discretion in applying anti-dumping actions, countervailing actions, strict import inspection, complex certification procedures and delays in customs clearance procedures.

In 1991, 18% or US$8 billion of Korea's exports to the developed countries were subject to non-tariff measures. These measures were generally targeted at Korea's most competitive products such as footwear, textiles and clothing, cutlery, iron and steel, and electronic and electrical machinery.
Among non-tariff measures, anti-dumping duties and VERs have been most frequently applied against Korean goods. Anti-dumping actions against Korean exports have been applied in a very unpredictable manner. In general, investigation periods have lasted anywhere from 7 months to 2 years. Moreover, the duration of the duty imposition was relatively long once anti-dumping duties were charged, ranging from 2 to 14 years. Furthermore, there has been a wide disparity in the determination of dumping margins between the preliminary and final determinations, and in some cases there have been wide variations in the margin rates imposed on different export firms which had similar pricing levels. These practices have caused great uncertainty for Korean export firms.

As VERs are often discriminatory and negotiated bilaterally outside the purview of the GATT, developing countries like Korea feel particularly vulnerable to pressure from developed countries to enter into VERs.

In this light, Korea reaffirms its position that anti-dumping and countervailing measures should be applied in such a way as to avoid any unintended adverse effects on trade, and that the grey area measures such as VERs should be removed.
STATISTICAL APPENDIX
1. Trends in imports and exports as a percentage of GDP (current prices)

Source: Bank of Korea.
2. Trends in import liberalization and tariff reduction

Per cent

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>25.2</td>
<td>16.9</td>
</tr>
<tr>
<td>1990</td>
<td>20.8</td>
<td>11.2</td>
</tr>
<tr>
<td>1991</td>
<td>19.9</td>
<td>9.7</td>
</tr>
<tr>
<td>1992</td>
<td>19.9</td>
<td>9.7</td>
</tr>
<tr>
<td>1993</td>
<td>18.5</td>
<td>8.4</td>
</tr>
<tr>
<td>1994</td>
<td>17.8</td>
<td>7.1</td>
</tr>
<tr>
<td>1995</td>
<td>16.6</td>
<td>6.2</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance (Tariff), Ministry of Trade and Industry (Import Liberalization)
### 3. Major Macroeconomic Indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GNP at current prices</strong></td>
<td>Bil. Won</td>
<td>106,024</td>
<td>126,231</td>
<td>141,794</td>
<td>171,488</td>
<td>206,027</td>
</tr>
<tr>
<td></td>
<td>Bil. US dollars</td>
<td>129</td>
<td>173</td>
<td>211</td>
<td>242</td>
<td>281</td>
</tr>
<tr>
<td><strong>GDP at current prices</strong></td>
<td>Bil. US dollars</td>
<td>132</td>
<td>175</td>
<td>213</td>
<td>244</td>
<td>283</td>
</tr>
<tr>
<td><strong>Per capita GNP</strong></td>
<td>US dollars</td>
<td>3,110</td>
<td>4,127</td>
<td>4,994</td>
<td>5,659</td>
<td>6,498</td>
</tr>
<tr>
<td><strong>Per capita NI</strong></td>
<td>US dollars</td>
<td>2,411</td>
<td>3,202</td>
<td>3,898</td>
<td>4,419</td>
<td>5,126</td>
</tr>
<tr>
<td><strong>Real GNP (1985 Prices)</strong></td>
<td>Bil. Won</td>
<td>99,612</td>
<td>111,980</td>
<td>119,577</td>
<td>130,685</td>
<td>141,602</td>
</tr>
<tr>
<td><strong>GNP growth rate</strong></td>
<td>per cent</td>
<td>13.0</td>
<td>12.4</td>
<td>6.8</td>
<td>9.3</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>Growth rate by economic activities</strong></td>
<td>per cent</td>
<td>-6.8</td>
<td>8.0</td>
<td>-1.1</td>
<td>-5.1</td>
<td>-0.8</td>
</tr>
<tr>
<td>Agriculture(^1)</td>
<td>per cent</td>
<td>18.8</td>
<td>13.4</td>
<td>3.7</td>
<td>9.1</td>
<td>8.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>per cent</td>
<td>12.6</td>
<td>9.6</td>
<td>14.5</td>
<td>21.5</td>
<td>10.4</td>
</tr>
<tr>
<td>Ele., gas, water, &amp; construction</td>
<td>per cent</td>
<td>14.5</td>
<td>12.7</td>
<td>8.4</td>
<td>10.1</td>
<td>10.6</td>
</tr>
<tr>
<td>Other Services</td>
<td>per cent</td>
<td>106.4</td>
<td>112.7</td>
<td>118.6</td>
<td>131.2</td>
<td>145.5</td>
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<tr>
<td><strong>GNP deflator (1985-100)</strong> (per cent change)</td>
<td>(per cent)</td>
<td>(3.5)</td>
<td>(5.9)</td>
<td>(5.2)</td>
<td>(10.6)</td>
<td>(10.9)</td>
</tr>
</tbody>
</table>

1 Includes forestry and fishing.

**Source:** Bank of Korea.
4. Change in Industrial and Employment Structure (Share of Percent)

### Production Structure (at current prices)

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<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity, gas, water, construction and other services</td>
<td>41.8</td>
<td>47.5</td>
<td>55.9</td>
<td>61.6</td>
<td>64.0</td>
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<tr>
<td>Mining and manufacturing</td>
<td>19.8</td>
<td>27.5</td>
<td>31.3</td>
<td>29.4</td>
<td>27.9</td>
</tr>
<tr>
<td>Agriculture, forestry and fisheries</td>
<td>38.4</td>
<td>25.0</td>
<td>12.8</td>
<td>9.0</td>
<td>8.1</td>
</tr>
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</table>

*Source: Bank of Korea.*

### Employment by Industrial Sectors

<table>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity, gas, water, construction and other services</td>
<td>31.1</td>
<td>35.0</td>
<td>50.7</td>
<td>54.4</td>
<td>56.4</td>
</tr>
<tr>
<td>Mining and manufacturing</td>
<td>10.3</td>
<td>19.1</td>
<td>24.4</td>
<td>27.3</td>
<td>26.9</td>
</tr>
<tr>
<td>Agriculture, forestry and fisheries</td>
<td>58.6</td>
<td>45.9</td>
<td>24.9</td>
<td>18.3</td>
<td>16.7</td>
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</table>

*Source: Bank of Korea.*
5. Trends in Consumer Price and Wholesale Price Indexes

(1985-100, percentage change)

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumer Price Index</th>
<th>Wholesale Price Index</th>
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<tr>
<td></td>
<td>index</td>
<td>percentage change</td>
</tr>
<tr>
<td>1985</td>
<td>100.0</td>
<td>2.5</td>
</tr>
<tr>
<td>1986</td>
<td>102.8</td>
<td>2.8</td>
</tr>
<tr>
<td>1987</td>
<td>105.9</td>
<td>3.0</td>
</tr>
<tr>
<td>1988</td>
<td>113.4</td>
<td>7.1</td>
</tr>
<tr>
<td>1989</td>
<td>119.9</td>
<td>5.7</td>
</tr>
<tr>
<td>1990</td>
<td>130.2</td>
<td>8.6</td>
</tr>
<tr>
<td>1991</td>
<td>142.8</td>
<td>9.7</td>
</tr>
<tr>
<td>1991</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>136.6</td>
<td>2.1</td>
</tr>
<tr>
<td>February</td>
<td>138.5</td>
<td>1.4</td>
</tr>
<tr>
<td>March</td>
<td>140.3</td>
<td>1.3</td>
</tr>
<tr>
<td>April</td>
<td>141.0</td>
<td>0.5</td>
</tr>
<tr>
<td>May</td>
<td>141.8</td>
<td>0.6</td>
</tr>
<tr>
<td>June</td>
<td>142.5</td>
<td>0.5</td>
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<tr>
<td>July</td>
<td>143.1</td>
<td>0.4</td>
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<tr>
<td>August</td>
<td>144.9</td>
<td>1.3</td>
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<tr>
<td>September</td>
<td>145.7</td>
<td>0.6</td>
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<td>October</td>
<td>145.9</td>
<td>0.1</td>
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<tr>
<td>November</td>
<td>146.5</td>
<td>0.4</td>
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<tr>
<td>December</td>
<td>146.5</td>
<td>0.0</td>
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<tr>
<td>1992</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>147.6</td>
<td>0.8</td>
</tr>
<tr>
<td>February</td>
<td>148.4</td>
<td>0.5</td>
</tr>
<tr>
<td>March</td>
<td>150.3</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Note: The figures are averages of the period.

Source: National Statistical Office.
### 6. Trends in Balance of Payments

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<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Current balance</td>
<td>9,854</td>
<td>14,161</td>
<td>5,055</td>
<td>-2,179</td>
<td>-8,827</td>
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<tr>
<td>Trade balance</td>
<td>7,659</td>
<td>11,445</td>
<td>4,597</td>
<td>-2,004</td>
<td>-7,065</td>
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<tr>
<td>Export</td>
<td>46,244</td>
<td>59,648</td>
<td>61,409</td>
<td>63,124</td>
<td>69,522</td>
</tr>
<tr>
<td>Imports</td>
<td>38,585</td>
<td>48,203</td>
<td>56,812</td>
<td>65,127</td>
<td>76,587</td>
</tr>
<tr>
<td>Invisible trade</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts</td>
<td>977</td>
<td>1,267</td>
<td>211</td>
<td>-451</td>
<td>-1,615</td>
</tr>
<tr>
<td>Payments</td>
<td>10,010</td>
<td>11,252</td>
<td>12,642</td>
<td>14,269</td>
<td>15,470</td>
</tr>
<tr>
<td>Transfers (net)</td>
<td>9,033</td>
<td>9,985</td>
<td>12,431</td>
<td>14,719</td>
<td>17,085</td>
</tr>
<tr>
<td>Long-term capital (net)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic balance</td>
<td>-5,836</td>
<td>-2,733</td>
<td>-3,363</td>
<td>548</td>
<td>4,349</td>
</tr>
<tr>
<td>Short-term capital (net)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Errors &amp; Omissions</td>
<td>4,018</td>
<td>11,428</td>
<td>1,692</td>
<td>-1,632</td>
<td>-4,478</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-7</td>
<td>1,336</td>
<td>60</td>
<td>3,334</td>
<td>362</td>
</tr>
</tbody>
</table>

**Source:** Bank of Korea.
### 7. Trade Statistics

#### 7.1 Exports and Imports by Country

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Grand Total</td>
<td>62,377</td>
<td>61,465</td>
<td>65,016</td>
<td>69,844</td>
<td>71,870</td>
<td>81,525</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>20,639</td>
<td>15,911</td>
<td>19,360</td>
<td>16,942</td>
<td>18,559</td>
<td>18,894</td>
</tr>
<tr>
<td>Japan</td>
<td>13,457</td>
<td>17,449</td>
<td>12,638</td>
<td>18,574</td>
<td>12,356</td>
<td>21,120</td>
</tr>
<tr>
<td>EC</td>
<td>7,415</td>
<td>6,499</td>
<td>8,876</td>
<td>8,421</td>
<td>9,729</td>
<td>9,880</td>
</tr>
<tr>
<td>Germany</td>
<td>2,137</td>
<td>2,624</td>
<td>2,849</td>
<td>3,284</td>
<td>3,192</td>
<td>3,698</td>
</tr>
<tr>
<td>U.K.</td>
<td>1,861</td>
<td>923</td>
<td>1,750</td>
<td>1,226</td>
<td>1,767</td>
<td>1,559</td>
</tr>
<tr>
<td>France</td>
<td>894</td>
<td>854</td>
<td>750</td>
<td>1,170</td>
<td>838</td>
<td>1,431</td>
</tr>
<tr>
<td>Italy</td>
<td>681</td>
<td>854</td>
<td>750</td>
<td>1,170</td>
<td>838</td>
<td>1,431</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3,375</td>
<td>582</td>
<td>3,780</td>
<td>614</td>
<td>4,769</td>
<td>773</td>
</tr>
<tr>
<td>China</td>
<td>1,438</td>
<td>1,705</td>
<td>1,553</td>
<td>2,268</td>
<td>2,370</td>
<td>3,395</td>
</tr>
<tr>
<td>Canada</td>
<td>1,882</td>
<td>1,680</td>
<td>1,731</td>
<td>1,465</td>
<td>1,673</td>
<td>1,907</td>
</tr>
<tr>
<td>Australia</td>
<td>1,005</td>
<td>2,243</td>
<td>956</td>
<td>2,589</td>
<td>990</td>
<td>3,009</td>
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<tr>
<td>Singapore</td>
<td>1,532</td>
<td>641</td>
<td>1,805</td>
<td>897</td>
<td>2,702</td>
<td>1,030</td>
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<tr>
<td>Taiwan</td>
<td>1,308</td>
<td>1,328</td>
<td>1,249</td>
<td>5,452</td>
<td>1,609</td>
<td>1,515</td>
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<tr>
<td>Saudi Arabia</td>
<td>815</td>
<td>1,042</td>
<td>740</td>
<td>1,725</td>
<td>980</td>
<td>3,269</td>
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<tr>
<td>Indonesia</td>
<td>667</td>
<td>1,135</td>
<td>1,079</td>
<td>1,600</td>
<td>1,349</td>
<td>2,052</td>
</tr>
<tr>
<td>Thailand</td>
<td>752</td>
<td>416</td>
<td>969</td>
<td>464</td>
<td>1,337</td>
<td>562</td>
</tr>
<tr>
<td>Philippines</td>
<td>476</td>
<td>205</td>
<td>500</td>
<td>270</td>
<td>675</td>
<td>323</td>
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<tr>
<td>Sweden</td>
<td>438</td>
<td>258</td>
<td>803</td>
<td>375</td>
<td>406</td>
<td>500</td>
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<tr>
<td>Former U.S.S.R.</td>
<td>208</td>
<td>392</td>
<td>519</td>
<td>370</td>
<td>642</td>
<td>581</td>
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<tr>
<td>Other</td>
<td>6,970</td>
<td>9,979</td>
<td>8,458</td>
<td>11,818</td>
<td>11,724</td>
<td>12,715</td>
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</table>

*Source: Office of Customs Administration.*
7.2 Exports and Imports by Commodities

<table>
<thead>
<tr>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Calendar year 1989 1990 1991</td>
</tr>
<tr>
<td>------------------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>Fishery products</td>
<td>62,377</td>
</tr>
<tr>
<td>Light industry products</td>
<td>24,478</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>15,141</td>
</tr>
<tr>
<td>Footwear</td>
<td>3,588</td>
</tr>
<tr>
<td>Heavy industry products</td>
<td>34,475</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>797</td>
</tr>
<tr>
<td>Iron &amp; steel products</td>
<td>4,298</td>
</tr>
<tr>
<td>Machinery</td>
<td>7,338</td>
</tr>
<tr>
<td>Electronic products</td>
<td>17,087</td>
</tr>
<tr>
<td>Other products</td>
<td>1,733</td>
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</tbody>
</table>

Source: Ministry of Trade and Industry.
8. Trends in Terms of Trade

(1985 = 100, percent)

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit value indexes</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports (A)</td>
<td>108.1</td>
<td>104.4</td>
<td>100.4</td>
<td>103.9</td>
<td>100.0</td>
<td>102.1</td>
<td>112.4</td>
<td>127.7</td>
<td>140.2</td>
<td>139.8</td>
<td>104.8</td>
</tr>
<tr>
<td>(percentage change)</td>
<td>3.2</td>
<td>-3.4</td>
<td>-3.8</td>
<td>3.5</td>
<td>-3.8</td>
<td>2.1</td>
<td>10.1</td>
<td>13.6</td>
<td>9.8</td>
<td>-0.3</td>
<td>0.7</td>
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<tr>
<td>Imports (B)</td>
<td>116.9</td>
<td>108.2</td>
<td>103.1</td>
<td>104.4</td>
<td>100.0</td>
<td>93.8</td>
<td>100.8</td>
<td>111.4</td>
<td>113.7</td>
<td>114.1</td>
<td>101.3</td>
</tr>
<tr>
<td>(percentage change)</td>
<td>5.4</td>
<td>-7.4</td>
<td>-4.7</td>
<td>1.3</td>
<td>-4.2</td>
<td>-6.2</td>
<td>7.5</td>
<td>10.5</td>
<td>2.1</td>
<td>0.4</td>
<td>0.0</td>
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<tr>
<td>Net barter terms of trade indexes (A/B)</td>
<td>92.5</td>
<td>96.5</td>
<td>97.4</td>
<td>99.5</td>
<td>100.0</td>
<td>108.8</td>
<td>111.5</td>
<td>114.6</td>
<td>123.3</td>
<td>122.5</td>
<td>103.4</td>
</tr>
<tr>
<td>(percentage change)</td>
<td>-2.0</td>
<td>4.3</td>
<td>0.9</td>
<td>2.2</td>
<td>0.5</td>
<td>8.8</td>
<td>2.5</td>
<td>2.8</td>
<td>7.6</td>
<td>-0.6</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Note: 1985 = 100

Source: Bank of Korea.
9. Trends in Foreign Exchange Rates

(Won per currency)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>per US Dollar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>684.10</td>
<td>679.60</td>
<td>716.40</td>
<td>760.80</td>
<td>723.10</td>
</tr>
<tr>
<td>July</td>
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<td>Jan.</td>
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<td>Feb.</td>
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<tr>
<td>per 100 Yen</td>
<td>547.72</td>
<td>427.06</td>
<td>526.08</td>
<td>607.18</td>
<td>526.08</td>
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</table>

Note: The figures are the rates at the end of the period and arbitrage rates based on market-average rate.

Source: Bank of Korea.
### 10. Summary of Money and Banking

(End of year, billion won, percentage change)

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</thead>
<tbody>
<tr>
<td>Money supply (M1)</td>
<td>10,107</td>
<td>12,151</td>
<td>14,329</td>
<td>15,905</td>
<td>21,752</td>
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<tr>
<td>(percentage change)</td>
<td>(14.7)</td>
<td>(20.2)</td>
<td>(17.9)</td>
<td>(11.0)</td>
<td>(36.7)</td>
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<tr>
<td>Money supply (M2)</td>
<td>40,280</td>
<td>48,939</td>
<td>58,638</td>
<td>68,708</td>
<td>83,746</td>
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<tr>
<td>(percentage change)</td>
<td>(19.1)</td>
<td>(21.5)</td>
<td>(19.8)</td>
<td>(17.2)</td>
<td>(21.8)</td>
</tr>
<tr>
<td>Bank notes &amp; coins issued</td>
<td>4,843</td>
<td>5,630</td>
<td>6,794</td>
<td>8,228</td>
<td>9,102</td>
</tr>
<tr>
<td>(percentage change)</td>
<td>(21.0)</td>
<td>(16.2)</td>
<td>(20.7)</td>
<td>(21.1)</td>
<td>(10.6)</td>
</tr>
<tr>
<td>Reserve money</td>
<td>7,469</td>
<td>9,728</td>
<td>12,819</td>
<td>13,811</td>
<td>16,321</td>
</tr>
<tr>
<td>(percentage change)</td>
<td>(48.9)</td>
<td>(30.2)</td>
<td>(31.8)</td>
<td>(7.7)</td>
<td>(18.2)</td>
</tr>
<tr>
<td>Domestic Credit</td>
<td>57,041</td>
<td>64,099</td>
<td>79,089</td>
<td>96,883</td>
<td>118,186</td>
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<td>(percentage change)</td>
<td>(15.2)</td>
<td>(12.4)</td>
<td>(23.4)</td>
<td>(22.5)</td>
<td>(21.9)</td>
</tr>
</tbody>
</table>

**Source:** Bank of Korea.