In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on the Republic of Korea. Volume B (Tables and Appendices) is presented in document C/RM/S/27B.

The Report is drawn by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by the Republic of Korea. As required by the Decision, in preparing its report the Secretariat has sought clarification from the Republic of Korea on its trade policies and practices.


NOTE TO DELEGATIONS

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

1. In the past three decades, the Republic of Korea has transformed itself from an agrarian to a largely diversified economy. Underpinned by large gains in productivity, real gross domestic product has grown at an annual average rate of 9 per cent a year, with a steady trend toward higher value added in production. The share of the manufacturing sector has quadrupled to a third of real GDP. Agriculture now accounts for less than 10 per cent of real GDP, although it still employs over one-sixth of the labour force. In line with the maturing of the economy, the services sector has grown steadily. The financial sector is being gradually opened, but internationalization in this area remains incomplete.

2. Korea's strong growth performance has been based on an outward-oriented, high investment strategy, supported by generally prudent macroeconomic policies and sustained by high domestic savings and continuous access to foreign borrowing and overseas markets. The latter has facilitated rapid trade expansion, diversification of the export base and the increasing integration of Korea into the international economy. In this regard, Korea has been a significant beneficiary of the liberal multilateral trading system.

3. Trade liberalization was an important feature of Korea's initial development and has proceeded again since the late 1970s. In the mid-1960s, a system of export incentives was introduced to offset the anti-export bias inherent in existing import restrictions. With the real exchange rate held roughly constant, import restrictions were relaxed and net export subsidies gradually reduced. Thus, with incentives relatively neutral, Korea's emerging industrial structure roughly matched its comparative advantage, as resources moved from agriculture particularly into light manufacturing.
4. Security considerations and balance-of-payments difficulties in the 1970s led Korean policy to shift toward industrial targeting, import substitution and assistance for strategic export industries. Under the Heavy and Chemical Industries (HCI) drive of 1973 to 1979, credit, interest rate, tax and trade policies were used to promote development of "key" industries.

5. Although the HCI drive radically transformed the structure of the Korean economy, and played a rôle in the later export success of sectors such as transport equipment, it contributed to serious structural imbalances. Concurrently, agricultural support increased, with financing deficits on farm policies amounting to some 4 per cent of Government expenditure by the late 1970s. These factors, together with adverse external conditions and a domestic drought, led to an economic crisis; high inflation brought competitiveness under severe pressure and real GDP declined in 1980.

6. Significantly, market opening was the first step taken in correcting the resource misallocation emerging from the HCI policy. This was followed by macroeconomic stabilization and, subsequently, by wide-ranging structural adjustment. Reform of the financial sector was initiated and steps were taken to liberalize foreign direct investment. Multi-year programmes were implemented to reduce tariffs and the scope of non-automatic import licensing. Greater decentralization of macroeconomic management was introduced and more reliance placed on market signals for resource allocation. By early 1982 virtually all export subsidies had been eliminated; by end 1985, all specific industry programmes had been replaced by broad legislation to promote technological development. Concurrently, prudent financial policies and the maintenance of a realistic exchange rate redressed domestic imbalances. Productive capacity continued to be built; the investment to GDP ratio stood at around 30 per cent throughout the period 1980-1985.

7. By 1985, Korea was well poised to take advantage of a more favourable external environment, including lower oil prices and the depreciation of
the U.S. dollar. Led by exports and a continued high rate of capital formation, real GDP growth averaged about 12 per cent in 1986-1988. Large and growing external surpluses permitted a significant reduction in Korea's external debt. Trade liberalization continued; non-automatic licensing applied to less than 5 per cent of all tariff lines by end 1988. Remaining restrictions were largely concentrated in agriculture, where tariffs were also well above the overall average of 18 per cent.

8. The high growth rates strained capacity utilization and generated inflationary pressures. At the same time, Korea's trade surpluses exacerbated international trade tensions while democratization released pent-up labour demands. Policy direction changed towards reducing the external surplus and improving living standards; financial restraint, exchange rate appreciation and trade liberalization were emphasized. Economic growth slowed and its pattern shifted toward meeting domestic demand. Export volume declined in 1989, for the first time in a decade. The policy of exchange rate appreciation was halted and in early 1990 market forces were accorded a greater rôle in determining the rate.

9. Growth has picked up since late 1989, but signs of overheating and resource constraints have become evident. Domestic demand has risen rapidly and current account deficits were recorded in 1990 and 1991.

10. Given Korea's high productivity of capital and its ready access to international capital markets, modest current account deficits need not be a point of concern. However, with labour shortages emerging, and unit labour costs rising relatively rapidly, inflation continues to be above that in Korea's major competitors.

11. Throughout the 1980s, trade liberalization and the disengagement of the Government from enterprise decision-making have encouraged efficient resource allocation. However, agricultural liberalization has lagged that in industry. The resulting intersectoral incentive structure appears now to increase resource constraints and put pressure on industrial
competitiveness, which in the past has been the source of Korea's exceptionally successful development.

(1) Korea in World Trade

12. Korea has grown increasingly dependent on international trade. In 1990, the ratio of merchandise trade to GDP, in real terms, was close to three-quarters, compared to barely one-tenth in 1962. Korea's exports and imports each account for almost 2 per cent of the world total, ranking Korea fifth among GATT members in world trade, counting the European Communities as one group.

13. Korea accords m.f.n. treatment to all countries, whether or not they are contracting parties to GATT. It extends tariff preferences on a small percentage of its imports under the Global System of Trade Preferences, the Protocol on Trade Negotiations among Developing Countries and the Bangkok Agreement with Bangladesh, India, Laos and Sri Lanka.

14. The share of exports in Korea's GDP rose steadily to almost 40 per cent in 1988, before falling back to one-third as the pattern of growth shifted towards domestic demand. Imports also increased from around one-tenth in the early 1960s to over 40 per cent of GDP in 1990. Developments in the two ratios are broadly related. Export-led growth was supported by high levels of imported capital goods, while the growth of intra-industry trade led to an export basket containing a high proportion of imported raw materials and components. The liberalization of restrictions on imports of manufactures has led Korean producers to specialize in higher value-added products with a substantial import content. Korea's areas of specialization have tended to follow that of Japan, which has both a technological and geographical advantage in the supply of capital goods and components.

15. Since 1986, Korea has operated "diversification" and "localization" programmes with a view, at least in part, to easing bilateral trade imbalances with major partners. The localization programme lends
financial support for import substitution, while the diversification programme discourages imports of designated items from specific sources. The two programmes, which are indications of attempts to manage trade, give rise to potential inefficiencies in the sourcing of inputs. They may also weaken the intra-industry links that have facilitated Korean specialization and consequent economies of scale.

(2) Institutional Framework

16. The Government of Korea combines Presidential and parliamentary systems, with the President as head of the Cabinet and of the Executive Branch of Government. Legislative power rests with a unicameral, elected National Assembly. Korea's accession to the GATT has been ratified by the Assembly, giving the Agreement the status of domestic law.

17. The Executive holds much of the responsibility for formulating and implementing trade and industrial policies. Proposals for policy usually emanate from a Ministry and undergo extensive discussion among relevant Ministries before being formulated as Government policy by the Cabinet. Recently, the National Assembly has become more assertive on foreign trade laws and in overseeing the Executive's operations.

18. Korea has no independent permanent body responsible for reviewing and advising the Government or the Assembly on matters of trade and industrial policy. However, a number of non- and quasi-governmental agencies, such as the Korean Trade Promotion Corporation, feed into the decision-making process. In addition, certain government-funded research institutions participate directly in task forces and inter-ministerial bodies concerned with policy formulation.

19. The private sector enters policy formulation through formal and informal channels. The President chairs regular meetings of private and Executive Branch representatives to review trade-related policies. On some items subject to import or export restrictions, responsibility for
initial approval of licenses is delegated to the relevant industry organization, suggesting the possibility for discretion.

(3) Trade Policy Features and Trends

(i) Recent evolution

20. The process of trade liberalization accelerated during the 1980s, under pre-announced tariff and import licensing reduction programmes. General adherence to these schedules confirmed Korea’s commitment to trade liberalization. From almost 24 per cent in 1982, the unweighted average tariff has been reduced to 10 per cent, and will be further lowered to about 8 per cent in 1994. Tariff dispersion has also been significantly reduced, with well over 90 per cent of rates below 20 per cent. Concurrently, the scope of non-automatic import licensing has been lowered. Less than 3 per cent of tariff lines are now subject to such restrictions, compared to almost 20 per cent in 1983. In addition, the authorities have moved to streamline individual regulatory laws to minimize their trade inhibiting effects. New safeguard provisions, in line with those of the GATT, were introduced on 1 January 1987, and in January 1989 the list of items subject to surveillance to limit surges in imports was abolished.

21. Korea disinvoked the GATT provisions on the use of trade measures for balance-of-payments reasons with effect from 1 January 1990. Consequently, all Korea's remaining import restrictions will be eliminated, or brought into conformity with the GATT, by 1 July 1997. As a first step, in March 1991 Korea announced a three year programme that will reduce the scope of non-automatic import licensing to some 1.5 per cent of all tariff lines by 1994. At the same time, partly in response to GATT panel findings, Korea has rapidly expanded its beef import quotas, reducing self-sufficiency in beef from 100 per cent in 1987 to some 45 per cent in 1991.
Type and incidence of trade policy instruments

22. Almost continuous tariff reform since the early 1960s has resulted in a structure of relatively low tariffs. Virtually all tariffs are applied on an ad valorem basis, and there are no variable levies. The average tariff rate on industrial goods is below 10 per cent but that on agricultural products remains close to 20 per cent, with rates of 30 to 40 per cent common throughout the sector. There are relatively few tariff peaks in industry; present rates of 17 per cent in the transport sector will be cut to 10 per cent by 1994. Tariff escalation is present on a fairly wide range of products. The overall tariff structure is somewhat complicated by the use of abatements and tariff quotas.

23. About a quarter of Korea's six-digit tariff lines under the Harmonized System (HS) are partially or wholly bound. Under Korea's Uruguay Round offer, the level of tariff bindings would rise significantly, to over 80 per cent of all lines.

24. Almost all the items now subject to non-automatic licensing are agricultural products. Some licensing requirements support price stabilization schemes, as for beef, pork, chicken and a number of vegetables and condiments. The schemes for beef, soyabean and other grains are underpinned by import quotas applied on an m.f.n. basis.

25. Import approval is also required under certain individual laws. Notable among such laws is the Foodgrain Control Act. The Act requires annual approval from the National Assembly for imports of rice and barley for food purposes; such approval is given only if the price stabilization schemes for these products indicate a shortage of domestic supply. As the rice and barley programmes are designed to achieve self-sufficiency, through high administered prices, there have been no imports of such products for food purposes for the past five years.

26. Since 1987 Korea has taken significant steps in simplifying and streamlining many of its 45 individual, regulatory laws addressing
domestic policy concerns, including health and safety standards. The implementation of recommendations from an interministerial Task Force has resulted in an important easing of non-tariff barriers to trade, including the simplification of inspection and approval procedures for a number of products and the elimination of certain import fees. Nevertheless, the laws can still result in cumbersome procedures, and the matter remains under consideration by a Commission chaired by the Prime Minister.

27. Korea is a signatory to the Tokyo Round Agreements on Anti-dumping, Customs Valuation, Subsidies and Countervailing Duties, and Technical Barriers to Trade. Korea has observer status to the Agreement on Import Licensing, pending possible accession in the light of the results of the Uruguay Round, and is in the process of negotiating its accession to the Agreement on Government Procurement. In principle, government procurement is under an open competitive process for all goods and services contracts above a minimum amount. However, single tendering accounts for over two-fifths of procurement of goods. Foreign suppliers are eligible to tender for items not produced in Korea, although the scope for foreign contractors is gradually being increased.

28. A notable feature of Korea's export régime is that some 20 per cent of all 6-digit HS tariff lines are affected by selective restraints to certain countries. Many of these measures result from bilaterally negotiated Governmental or inter-industry agreements, or from anti-dumping measures imposed by importing markets on Korean producers. A significant number, however, are unilateral restrictions on exports taken by Korea to prevent possible actions by importing countries.
(iii) Temporary measures

29. Korea makes limited use of anti-dumping and safeguard measures and has never imposed a countervailing duty. Recent legislative amendments introduced provision for a sunset clause on anti-dumping and countervailing duties, clarified the investigation procedures and limited petitions to domestic producers of like products. Each safeguard measure is subject to annual review.

(iv) Sectoral trade policies

30. The significant lowering of trade barriers since the early 1980s has contributed to making the Korean industrial policy environment more neutral. In manufacturing, the overall level and spread of protection have declined. However, tariff escalation contributes to protection considerably higher than the average in clothing and footwear, tobacco manufactures and electric machinery, where the localization programme also encourages import substitution.

31. The incidence of border protection on agricultural products in Korea has also declined during the 1990s, although less significantly than in manufacturing. Agricultural protection conceals wide sub-sectoral variations. While some product groups, such as vegetables, are probably internationally competitive, high rates of assistance in other areas continue to hold resources in the sector. However, the pace of change in agricultural policy appears to be accelerating; a number of markets are being opened to international signals and efforts are underway to increase agricultural productivity and retrain farmers for employment in other sectors.

32. Some 90 per cent of the assistance to agriculture derives from stabilization schemes supporting domestic prices that are high by international levels. This assistance results in high implicit taxation on consumers. The total cost of agricultural support in Korea in 1990 was
in the order of 7 per cent of GDP, indicating a welfare loss of well over 1 per cent of GDP.

(4) Trade Policies and Foreign Trading Partners

33. Over the last decade, Korea has made considerable strides in liberalizing trade on a steady, predictable basis. This is particularly the case in manufacturing, although some areas of relatively high protection still exist. Reduction in the scope of non-tariff measures and reliance on tariffs to a large extent have also contributed to greater transparency in Korea's trade régime. Nevertheless, high and relatively non-transparent protection persists in certain areas of agricultural trade. In addition, the localization and diversification policies, as well as the widespread use of export restrictions, appear to promote managed bilateral trade in sensitive areas.

34. Korea has benefited considerably from the opportunities provided under the multilateral trading system. Its own liberalization has contributed to the strength of the system. Under a successful Uruguay Round, it would benefit from improved market access within a framework of strengthened and clarified international trading rules; Korea shares in the responsibility for such a success. Further market opening on a secure, multilateral basis by Korea, which has become a significant trading partner for many countries, would also facilitate the continuation of its own successful growth performance.
I. THE ECONOMIC ENVIRONMENT

(1) Major Features of the Korean Economy

1. The Republic of Korea has transformed itself from a poor agrarian economy, under strong central leadership, to a nascent industrial democracy in the three decades since 1962. During that period, real per capita income has increased more than sixfold and the economic gains have been widely shared; income distribution is now comparable to that in many of the OECD countries. Under a series of mainly indicative, but closely monitored, five-year plans, Korea followed an outward-oriented, high investment growth strategy supported by generally appropriate macroeconomic policies. The strategy was assisted by a high level of domestic savings and continuous access to foreign borrowing and external markets. In the latter regard, Korea has been a significant beneficiary of the liberal multilateral trading system.

2. Located on a peninsula in north-east Asia, with Japan and the People's Republic of China as its closest cross-water neighbours, Korea has a population of 43.3 million, inhabiting close to 100,000 square kilometres. Of the total area, only about 30 per cent is usable for agricultural, industrial and other purposes. Since 1962, population growth has slowed from 2.9 per cent a year to 0.9 per cent in 1991; simultaneously, life expectancy at birth has risen by about 30 per cent. Some 70 per cent of the population is urbanized and virtually 90 per cent of the school-age population receives education beyond the primary level.

3. With a thin natural-resource base, Korea's strong growth performance has been founded on several structural factors. These include a homogenous society with a commitment to a well-educated labour force. The agricultural sector has allowed the release of resources to manufacturing without impairing farm output, although the cost of intervention in the sector has been high. These basic conditions have combined with a generally sustained export-led development strategy to result in per capita GDP of US$5,607 in 1990 (Table I.1), placing Korea in the upper middle-income category among developing countries. In the same year, Korean exports and imports each accounted for almost 2 per cent of the world total, ranking Korea as the world's 13th individual exporting country.

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and 14th largest importer.² The importance of trade to the Korean economy can be gauged by the fact that in 1990 the ratio of merchandise trade to GDP, in constant 1985 prices, was close to 75 per cent, compared to barely 11 per cent in 1962 (when outward-oriented policies began to be pursued) and some 65 per cent in 1983 at the advent of a wide-ranging five-year trade liberalization programme (Note I.1).

4. Since 1962, Korea's real GDP has grown at an average of 9 per cent per annum. Concurrently, the rate of unemployment has fallen from over 8 per cent in the early 1960s to less than 4 per cent in the mid-1970s and to an historic low of 2.3 per cent in 1991. The share of manufacturing in real GDP has risen from 8.2 per cent in 1963 to 33.5 per cent in 1990 (Table I.2), with the share of employment in the sector growing steadily to 27 per cent (Chart I.1). Large gains in manufacturing productivity have made possible real wage increases of about 8.5 per cent a year. At the same time, there has been a steady trend from labour intensive goods toward higher value-added production. Machinery, electronics and transport equipment now account for over 30 per cent of output of manufactures, compared to a share of 17 per cent for textiles and clothing.

²If the EC is counted as one group, Korea ranked fifth among GATT contracting parties in world trade (exports plus imports) on average in 1989-90.
Note 1.1 Degree of Openness of the Korean Economy, 1961-90

The evolution of the ratio of trade volume to real GDP provides a rough measure of the liberalization of a country’s trade régime. Trade liberalization normally can be expected to lead to an increase in the degree of openness but, as noted by Papageorgiu, Michaely and Choksi (1991), this is not an inevitable result: the correction of an overvalued exchange rate, in the context of a macroeconomic adjustment programme, including trade liberalization, could reduce imports.

The accompanying chart graphically demonstrates the switch in the early 1960s to outward-oriented policies, with the initial surge in the degree of openness probably due at least as much to the expansion of export incentives as to the relaxation of import licensing in 1965-67. In the subsequent decade trade liberalization came to a standstill, with the rise in the degree of openness reflecting mainly continued export promotion and a favourable export environment in the worldwide economic recovery from the recession of 1974-75. Since 1978, with a pause in 1980, there has been sustained progress in trade liberalization, although in the latter part of the 1980s, there was some increase in trade management to address bilateral imbalances.

Degree of "openness", 1961-90
Trade/GDP ratios
1985, Constant Prices

Chart 1.1
Sectoral shares of employment and nominal GDP, 1963-90
Per cent

(1) Agriculture, forestry and fishing, (of which the fishery is typically between 4 to 6 percent of the total for the sector).

5. Led initially by gains in construction, transport and communications, the services sector has also grown steadily, to some 58 per cent of real GDP in 1990 (Table I.2). Financial services have played a prominent rôle in the growth of the sector since the early 1980s. Before that time, the formal financial sector was highly segmented and subject to extensive regulation; under Government guidance, financing was used as an instrument of industrial policy, allocating credit at relatively low, preferential rates to designated industries and, within them, the larger firms. Since 1980, there has been gradual reform of the sector, designed to enhance efficiency through a greater reliance on market forces, both national and international. Reform, however, remains incomplete, with the rôle of international market forces still limited and the full liberalization of interest rates not expected until 1997.

6. In line with industrialization, the share of the agricultural sector (including forestry and fisheries) in real GDP has been on a declining secular trend, falling from 46 per cent in 1963 to 8 per cent in 1990 (Chart I.1). Agriculture still employs just over 18 per cent of the labour force as against 63 per cent in 1963. In that period, Korea's self-sufficiency in all grains declined from well over 90 per cent to about 43 per cent; in rice, however, Korea is more than self-sufficient. Against a background of an extensive land reform programme instituted in 1949, productivity growth, Government support programmes and increasing non-farm activities allowed the incomes of rural households to catch up with those of urban wage and salary earners in the mid-1970s and they have remained roughly equivalent since then. However, productivity in the agricultural sector is approximately one-third of that in manufacturing. Production in the agricultural sector is concentrated in grains (of which about 85 per cent is rice), fruit, vegetables and livestock.

7. Korea's rapid economic development was supported by high rates of domestic investment and generally expansionary monetary policy. While the latter provided the necessary liquidity for growth, it contributed to relatively high rates of inflation: the rate of increase of the GDP deflator averaged about 14 per cent in the period 1963-90 (Table I.3). The ratio of investment to GNP rose rapidly in the early stages of development, virtually doubling to some 25 per cent by 1970 and averaging almost

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3 An unorganized money market, or curb market, met the needs of households and small firms, at substantially higher rates. Although this market mitigated the adverse effects of the regulated formal sector, its quasi-legal nature (making contracts difficult to enforce) and geographic fragmentation added to the difficulty of monetary management.

4 In 1990, some 40 per cent of farm household income derived from non-farm sources, compared with 18 per cent in 1975. (Korean National Statistical Office, Korean Economic Indicators, various issues).
30 per cent since then (Chart I.2). Investment was financed to a large extent by domestic savings. With real interest rates generally positive after 1964 and financial institutions gradually developing, private savings rose steadily. Tax reform and improved administration underpinned increased Government capital expenditure, within a framework of fiscal restraint. Nevertheless, there was a national savings-investment imbalance, and the external current account was in deficit through much of the period. Consequently, Korea's external debt grew to some US$47 billion in 1985 (equivalent to 52.1 per cent of GNP) but, with exports growing rapidly, debt service remained within manageable limits and Korea's access to foreign borrowing was never seriously threatened. Subsequently the debt to GNP ratio fell sharply. (Table I.4)

Chart I.2
Savings and investment in Korea, 1962-90
Per cent


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6 In the period 1963-90, the fiscal deficit averaged 1.1 per cent of GDP (with a standard deviation of 1.5 per cent). International Monetary Fund, International Financial Statistics, Yearbook, 1991.
8. Exports played a central role in the growth process, as indicated by Korea's high export elasticity of 2.5 in the period 1963-90 (Table I.3). In the initial growth period the export elasticity was above 4 but gradually declined to about 1 with the maturing of the economy. At the same time, Korea considerably widened its export base, with its diversification index improving by some 40 per cent, from 0.84 in 1962 to 0.52 in 1988, and suggesting an underlying industrial structure at least as diversified as a number of industrialized countries. Concurrently, Korean industry became increasingly integrated into the international production process; the level of intra-industry trade rose from somewhat under 6 per cent in 1963 to almost 37 per cent in 1990, with Korean manufacturers benefiting from economies of scale through specialization. (Table I.5). The Korean percentage compares favourably with that of industrial countries and with other countries at a similar level of development, whose percentage of intra-industry trade with the world was estimated at some 43 and 29 per cent respectively in 1985; it is to be noted that the percentage for Japan was just under 18 per cent.

9. But growth, diversification and integration into the world economy was not achieved against an initial policy of free trade. Rather, a system of reasonably uniform incentives was introduced and its level gradually decreased. In the early period of outward oriented policies, from 1963 to 1973, real GDP grew at an average annual rate of almost 11 per cent, with associated export and import elasticities of 4 and 2, respectively. From 1961 to 1965 the system of export incentives was greatly expanded, with a view to removing the anti-export bias inherent in existing import

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7 The export elasticity is the ratio of the rate of growth of exports to that of GDP.

8 The index ranges from 0 to 1 and indicates the deviation of a country's export basket from that of the world, with declining values therefore denoting a growing diversity of export products.

9 Intra-industry trade is a measure of the extent to which trade takes place within rather than between industries. Such trade, which is the fastest growing component of world trade in manufactures, is most common in capital-intensive and science-based industries, and allows its participants the advantages of the more dynamic functions of trade: large scale production, product differentiation and specialization. It may occur for various reasons, including (a) heterogeneous products made in the same industry at vertically adjacent or complementary stages of production, and (b) heterogeneous or differentiated products that are close substitutes in production or consumption, but it can be adversely affected by distance from markets. The usual measure of intra-industry trade, as developed by Grubel and Lloyd (1975), ranges between zero and 100 per cent. If all traded commodities in a sector are either only exported or imported then the measure of intra-industry trade for that sector would be zero; if, on the other hand, exports equal imports in a sector then intra-industry trade is 100 per cent.

10 Helmut Forstner and Robert Ballance, Competing in a Global Economy, as prepared for the United Nations Industrial Development Organization, Unwin Hyman, London, 1990. The Newly Industrializing Countries in the study are: Argentina, Brazil, Hong Kong, Mexico, Korea and Singapore.
restrictions. Preferential export credit became an important incentive; a comprehensive drawback system was introduced for tariffs and indirect taxes on raw materials for export production; direct tax reductions were given on income earned from exports; and wastage allowances were permitted for raw materials imported for export production. These measures were available on a non-discriminatory basis to all exporters. Simultaneously an export mentality was fostered; informal export targets were monitored, and difficulties encountered by exporters discussed and resolved, at the highest levels of Government, including at well publicized monthly meetings often chaired by the President, of the Export Promotion Council.

10. During the early period of expansion, Korea kept the exchange rate at a generally realistic level, holding the real effective exchange rate roughly constant. Concurrently, import restrictions were relaxed; the list of import items subject to automatic licensing approval increased from some 12 per cent to 60 per cent of the tariff code in the period 1965-1967; and the average tariff rate was reduced from 40 per cent to 31.5 per cent in the ten years from 1963. These policies facilitated the gradual reduction of net export subsidies to the equivalent in 1973 of just over 2 per cent of the exchange rate, while normally maintaining the effective exchange rate for exports very close to that for imports. Thus, with incentives relatively neutral among export industries, the

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11The major elements of the exchange rate reform took place in 1964-65, and included a 61 per cent devaluation of the won (May 1964) and a unification of the exchange rate (March 1965).

12Established in 1966, the Conference was renamed as the Trade Promotion Conference in the early 1970s; since 1985 it meets on a bi-monthly basis. The Conference was usually attended by the President, Cabinet ministers, heads of financial institutions and major export firms, and not infrequently by Korea's ambassadors in major export markets: see; Yung W. Rhee, Bruce Ross-Larsen and Gary Pursell, Korea's Competitive Edge. World Bank. The Johns Hopkins Press, Baltimore, 1984.


15Excluding the drawback of tariffs and indirect taxes.

16Thereafter, export subsidies were never substantially increased and were virtually eliminated by 1983.

11. In the early 1970s, policy shifted toward industrial targeting, import substitution and the creation of strategic export industries. The shift resulted from a number of factors seen by the authorities as critical, including balance of payments difficulties and a dependence on imported capital goods; national security; and increased protectionism against some labour-intensive products, such as clothing, that had initially led Korea's export growth. Thus, under the Heavy and Chemical Industries (HCI) drive, officially announced in 1973, credit, interest rate, tax and trade policies were used to promote development of "key" industries, particularly iron and steel, non-ferrous metals, shipbuilding, machinery, chemicals, electronics, and petro-chemicals. The policy was officially abandoned in 1979 but its implementation continued through 1981. In addition, the Government played an active rôle during the early 1980s in the restructuring of distressed HCI industries, including machinery and fertilizer. During the period 1974-1983, which included the second oil shock and a severe drought in 1979/80, Korea's growth rate was lower and inflation higher, than in the preceding and following periods; real GDP growth averaged 7.9 per cent and inflation, as measured by the GDP deflator, rose at an annual average rate of 18.7 per cent (Table I.3).

12. The HCI policy upgraded Korea's industrial structure in very short order and laid the foundation for some elements of the export growth of the 1980s. However, it contributed to serious structural imbalances. The biased incentive structure, particularly cheap preferential credit combined with moral suasion to meet investment and export targets, led to substantial overcapacity in some HCI industries; industrial concentration increased and the "chaebols" became firmly established. In turn,

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19 In 1971 the United States reduced its ground forces in Korea by a third, which was widely felt to be the beginning of full withdrawal in the near future.


22 A "chaebol" is a grouping of enterprises owned or controlled by a person or family; either alone or in combination with other chaebols, they hold dominant positions in a number of sectors, including automobiles, electronic products, shipbuilding, chemicals and...
resources were diverted away from light industries, impeding efforts at strengthening the competitiveness of traditional exports. At the same time, increasing budget deficits (partly to fund agricultural support), an accommodating monetary policy and an emerging shortage of skilled labour fostered an inflationary environment. With the growth of nominal wages significantly outpacing productivity gains, inflation accelerating and a constant nominal exchange rate, Korea's competitiveness weakened considerably. These difficulties were aggravated by an international economic slowdown and a disastrous harvest. Export volume fell in 1979; in 1980 real GDP declined by 2 per cent, inflation soared to almost 30 per cent and the current account deficit grew to 8.5 per cent of GDP.

(2) Recent Economic Performance

13. Economic developments since 1979 can be roughly divided into three periods: (i) stabilization and adjustment in 1980-1985; (ii) economic boom in 1986 to 1988; and (iii) a period of adjustment since 1989. Exports were important to growth throughout the period, although the increased weight of domestic demand towards the latter part of the 1980s contributed to a declining export elasticity; the import elasticity stabilized at 1.4, a level roughly comparable to that of Japan.

(i) 1980-85

14. Korea took measures at an early stage to begin correcting the resource misallocations emerging from the HCI policy. Significantly, market opening was the first step taken. With demand management problems emerging in 1977, Korea undertook an import liberalization programme in 1978, aimed in particular at strengthening the international competitiveness of its domestic industries and stabilizing domestic prices. By late 1979, import items subject to automatic licensing approval had reached 70 per cent of the tariff code and the average tariff rate had been cut to just under 25 per cent.

(Footnote Continued)

petrochemicals. These positions were built largely during the early to late 1970s, when the real growth rate of the five largest chaebols was roughly triple that of GDP. The share of the top 30 chaebols in total shipments in mining and manufacturing peaked at some 40 per cent in 1985, but has settled at around 35 per cent since 1985. See: Economic Planning Board, Republic of Korea, Economic Bulletin, November 1991; and Leroy P. Jones, "Jaebul and the Concentration of Economic Power in Korean Development: Issues, Evidence and Alternatives", Macroeconomic Policy and Industrial Development Issues, ed. Il SaKong, Korea Development Institute, Seoul, Republic of Korea, 1987.

23See Bela Balassa, "Korea During the Fifth Five Year Plan Period (1982-86)", in Il SaKong (1987), op. cit.
15. In 1979, with the second oil shock contributing to the build-up of inflationary pressures, trade liberalization was supported by substantial price decontrol and a tightening of financial policies. These measures were followed in early 1980 by a comprehensive stabilization package, which included a depreciation of the won and the introduction of a more flexible exchange rate régime. However, the deepening recession and balance of payments difficulties, aggravated by high international interest rates, led the authorities in mid-1980 to relax their monetary and fiscal stance and to halt trade liberalization temporarily.

16. Stimulative financial policies were continued through 1982 and were complemented with structural measures to improve productivity and efficiency. Tax reform was implemented\(^{24}\), and in the financial field, credit controls with less direct monetary management, and preferential interest rates for priority sectors and export credit were eliminated. Import liberalization was resumed, raising the percentage of tariff code items subject to automatic licensing approval from 70 per cent to 77 per cent of all tariff lines.

17. By 1982 growth had recovered, to 7.3 per cent and the rate of inflation had abated to 7 per cent. However, the current account, with a deficit equivalent to 3.6 per cent of GDP, remained relatively weak, and the external debt grew to almost 50 per cent of GDP. As export growth was sluggish and fully a third of the debt was in short-term liabilities, the debt and its structure became a point of concern\(^{25}\).

18. Accordingly, the Government reversed its expansionary financial policies, pursued financial reform and accelerated trade liberalization. Concurrently, the authorities further distanced themselves from industrial targeting, inter alia, by continuing to decrease the scope for directed lending. In effect, it was during this period, given the growing sophistication of the economy, that the Government decided on the need for greater decentralization of macroeconomic management and more reliance on market signals for the allocation of resources.

19. Thus, in the financial sector, a long-term programme to free interest rates was initiated, the Government divested itself of nationwide

\(^{24}\)The emphasis was on promoting the neutrality of the tax system; high corporate and income tax rates were lowered, the number of tax exemptions were reduced and tax credits for low-income earners were enlarged.

commercial banks, new financial instruments were introduced and there was a certain easing of restrictions on foreign banks. Steps were also taken to liberalize foreign direct investment. In the area of trade policy, a five-year pre-announced programme to reduce tariffs, and narrow dispersion, was initiated in 1984 and at the same time the Government embarked on a five-year plan to reduce the scope of non-automatic licensing, with the brunt of protection remaining in agriculture. In 1985 the seven firm-specific industry programmes were replaced by the Industrial Development Act, whose aim was to promote restructuring and technological development on an industry-wide basis.

20. Largely in consequence of these policies, combined with a realistic exchange rate policy, export competitiveness increased, the current account deficit narrowed to 1 per cent of GDP in 1985 and the maturity structure of the external debt began to improve. During the same period the budget deficit was reduced to 1.2 per cent of GDP in 1985, compared to an average of 3.2 per cent in 1981 and 1982, and inflation was down to 2.5 per cent. In addition, capacity continued to be built, with the investment to GDP ratio at around 30 per cent throughout the first half of the 1980s. Thus, towards the end of 1985 Korea was well poised to take advantage of the onset of a more favourable external environment, marked in particular by lower world oil prices, a drop in international interest rates and the depreciation of the U.S. dollar.

(ii) 1986-88

21. Led by exports and capital formation, Korea's real GDP growth averaged about 12 per cent a year in the period 1986 to 1988. (Table I.6) This was accompanied by large and growing external current account surpluses, rising to 8.1 per cent of GDP in 1988. These permitted Korea to reduce its external debt by one-third to US$31 billion in 1988; the debt to GDP ratio fell to 18 per cent from its 1985 peak of 52 per cent. The average tariff rate was further reduced, although agricultural tariffs remained some 40 per cent above the overall average of 18 per cent. By end-1988, the automatic approval of licences applied to 95.5 per cent of the tariff code (80 per cent in the case of agriculture), and the list of items subject to surveillance, to limit a surge in their imports, was replaced with a new, less restrictive safeguard mechanism. Direct foreign investment was further deregulated. In addition, the process of streamlining individual regulatory laws to minimize their trade inhibiting effects was begun. However, a number of programmes, in particular the localization and diversification programmes (Chapter IV), were introduced with a view, at least in part, to reducing bilateral trade imbalances.

22. The high growth rates of the boom period strained capacity utilization and tightened labour markets, generating inflationary pressures. Korea's current account surpluses exacerbated trade tensions.
Trade partners called for further demand expansion, market opening and appreciation of the real effective exchange rate. Concurrently, subsequent to the Declaration of Democracy in June 1987, pent-up labour demands surfaced, the number of working days lost to strikes rose sharply and the upward pressure on wages increased further.26

23. The Government reacted to these internal and external pressures by changing policy direction in 1987 toward reducing the current account surplus while sustaining growth and improving living standards in a non-inflationary manner.27 Financial restraint, exchange rate appreciation and market opening were emphasized. Some tariff reductions foreseen for early 1988 were implemented in mid-1987, and in late 1988 the authorities announced a five-year tariff reduction plan, aimed at bringing the average rate close to OECD levels. A three-year programme of further cuts in in non-automatic import licensing was also announced, as were additional measures toward internationalization of the domestic capital market. These included permission for direct investment by non-resident foreigners in portions of the equity market by 1992. Most of these liberalization measures were implemented as planned, although the scheduled tariff reductions for 1991-1993 were deferred by one year to compensate for the loss in fiscal revenue resulting from the elimination of the defense tax in 1990.

(iii) 1989-91

24. The policy re-orientation brought a sharp adjustment in late 1988 and 1989. In 1988, the pattern of growth began to shift toward satisfying domestic demand, as sizeable wage settlements led to a substantial increase in disposable incomes. The 16 per cent nominal appreciation of the won vis-à-vis the U.S. dollar, together with rising inflation and unit labour costs, eroded the competitiveness of Korea's exports. These trends continued in 1989 when wage increases significantly exceeded productivity, the real effective exchange rate appreciated by a further 14 per cent and the volume of exports declined for the first time since 1979, curtailing domestic growth. Partly reflecting an upsurge in construction activity, domestic demand accelerated, spilling over to imports. The current account

26 The number of working days lost rose from 72,025 in 1986 to almost 7 million in 1987; see, Korea Foreign Trade Association, Major Statistics of Korean Economy, Seoul, Republic of Korea, 1991.

surplus fell sharply to 2.4 per cent of GDP in 1989, compared to 8.1 per cent in 1988, and growth was substantially reduced to 6.2 per cent.

25. The slowdown in growth was reversed in 1990, and real GDP increased by 9 per cent. Domestic demand rose rapidly, bolstered by enhanced Government efforts to improve the social infrastructure, particularly housing. A budget deficit equivalent to 0.7 per cent of GDP was recorded, the first since 1986. Exports recovered but volume growth fell considerably short of that for imports. The current account moved into deficit, equivalent to almost 1 per cent of GDP; the external debt increased for the first time since 1985, although its ratio to GDP remained low at 13.3 per cent. There were also indications that the economy was overheating, with an expansionary monetary policy contributing to a rise in inflation from 5 ½ per cent in 1989 to 8.6 per cent in 1990, the highest rate since the early 1980s. The won depreciated in nominal terms by some 5 per cent against the US dollar in 1990, following the mid-1989 halt of the policy of exchange rate appreciation and the introduction in March 1990 of a greater rôle for market forces in determining the rate; however, an improvement in export competitiveness was attenuated by rising inflation.

26. The economy continued to show signs of overheating in 1991. Growth slowed slightly to 8.5 per cent but, although the monetary stance was somewhat less expansionary than in 1990, labour shortages emerged and inflation rose further. Domestic demand remained strong, with high rates of investment in construction and equipment. The budget deficit widened moderately, as the Government continued to promote basic social policy goals. Export performance again improved, with volume up by 9.7 per cent. However, with higher oil prices in early 1991 and excess domestic demand spilling over to imports, the current account deficit increased markedly to 3.5 per cent of GDP, and Korea’s external debt rose sharply to US$39.3 billion or 15.8 per cent of GDP. Although the won again depreciated in nominal terms by 5.8 per cent vis-à-vis the U.S. dollar, Korea’s inflation performance relative to that of its trading partners was such that the real effective exchange rate appreciated slightly. These factors continued to threaten Korea’s export competitiveness, particularly vis-à-vis South-East Asian countries.

27. The Government took a number of micro-economic measures aimed at curbing inflation and addressing the external deficit. The issuance of new construction permits for certain building categories was suspended from May 1991 to June 1992, and in September 1991 a mandatory delay on commercial construction was imposed: these measures are designed to ease domestic shortages and reduce demand for imported construction materials. Market opening is also being pursued, with the first stage of a new three year programme to reduce the scope of non-automatic licensing for imports implemented in January 1992. Concurrently the average tariff was reduced from 11.4 per cent to 10.1 per cent. The first phase of a four-stage
interest rate liberalization plan was also implemented, deregulating the rates on most money market instruments.

(3) Trade Performance

28. Korea's economy has grown increasingly dependent on trade. The ratio of exports to GDP, in real terms, rose steadily from less than 2 per cent in the early 1960s to almost 40 per cent in 1988, after which it declined to 33 per cent as the structure of growth shifted toward domestic demand. The trend on the import side has been similar with the ratio moving from some 10 per cent in 1962 to just over 41 per cent in 1990. Developments in the two ratios are broadly related. Growth, fuelled by exports, was supported by high levels of imported capital goods, averaging some 30 per cent of total imports since 1970. In addition the growth of intra-industry trade led to an export basket containing a high proportion of imported materials and components, at an average of about 20 per cent of total imports since the mid-1970s. In fact, with the structure of trade policy measures, and in particular the liberalization of many restrictions on manufacturing trade exposing Korean exporters to world relative prices, Korean manufacturers were led to find profitable areas of specialization, invariably in higher value-added sectors with a high import content of both capital and intermediate goods. This increasing specialization was accompanied in the early 1980s by a shift in exports towards the United States, while the product areas of Korea's specialization tended to follow those of Japan, which had both a technological and geographic advantage in the supply of the required capital goods and components.

(i) Commodity pattern of trade

29. The product composition of Korea's exports has undergone substantial change. The percentage of primary products in the export basket fell rapidly from 75 per cent in 1963 to 13 per cent in 1973 and subsequently to some 5 per cent in 1990. Concurrently, the relative importance of light-industrial products in total exports rose to 65 per cent by the early 1970s but, with increased specialization in engineering products, has since declined to some 39 per cent in 1990. The share of textiles and clothing in the export basket mirrors these developments. As the initial engine of export growth, textiles and clothing accounted for almost 40 per cent of total export earnings in 1972. While they now still remain a major element

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in exports, their weight in the 1990 basket was down to less than 22 per cent (Tables 1.7 and A1.1). By contrast, the share of footwear in total exports has risen steadily from less than 1 per cent in 1963, to some 3 per cent by 1973 and 6.6 per cent in 1990.

30. The shift towards heavy-industry and electronics exports occurred with the HCI drive. While rapid in its early stages, it moderated after the abandonment of HCI policies, with resources increasingly allocated according to market signals. By 1980, these products accounted for some 42 per cent of exports, fully double their share in 1972. Within this grouping, iron and steel, at 9.4 per cent of total exports, were roughly equal in export importance to office machinery and telecommunications. Transport equipment was dominated by ships, an industry without exports prior to 1977. Ship exports rose to nearly 17 per cent of total exports by 1985, replacing clothing as Korea's most important source of export earnings. Subsequently, with a decline in international demand for shipping, ship exports fell sharply; in 1990 their share of total exports was less than 4.5 per cent.

31. Since 1980, Korea's commodity exports have become increasingly dominated by engineering products - machines, electrical machinery and transport equipment. In the latter category, road motor vehicles surpassed ships as a source of export receipts in the period 1985-90, and although demand declined in the North American market in the latter part of the 1980s automobiles were one of the fastest growing export sectors in the period since 1985 (Chart I.3). During this latter period consumer electronics, office machines, household appliances and a wide range of machines have done particularly well, with the result that by 1990, they, together with automotive products, accounted for some 50 per cent of the export basket. By contrast, the relative importance of iron and steel had declined by some 40 per cent.
Chart I.3
Leaders and laggards in Korean exports, 1985-90
Annual average growth rates, per cent

Leaders

<table>
<thead>
<tr>
<th>Product</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-electric machines</td>
<td>36.0</td>
</tr>
<tr>
<td>Office machines</td>
<td>35.5</td>
</tr>
<tr>
<td>Electric machines</td>
<td>34.8</td>
</tr>
<tr>
<td>Sound recorders and products</td>
<td>31.7</td>
</tr>
<tr>
<td>Railway vehicles</td>
<td>29.2</td>
</tr>
<tr>
<td>Road motor vehicles</td>
<td>27.5</td>
</tr>
</tbody>
</table>

Laggards

<table>
<thead>
<tr>
<th>Product</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ships</td>
<td>-11.1</td>
</tr>
<tr>
<td>Textiles</td>
<td>7.6</td>
</tr>
<tr>
<td>Fish</td>
<td>10.0</td>
</tr>
<tr>
<td>Toys</td>
<td>11.8</td>
</tr>
<tr>
<td>Clothing</td>
<td>12.9</td>
</tr>
<tr>
<td>Rubber articles</td>
<td>15.4</td>
</tr>
</tbody>
</table>

Note: Each of the leading and lagging exports accounted for at least 1 per cent of 1990 exports.

32. In the absence of domestic petroleum supplies, fuels remain the single largest component in Korea's imports (Table I.8). Other developments in import structure closely mirror domestic restructuring efforts and the growth of intra-industry trade. Thus, a rapidly growing import during the latter part of the 1980s was textile and leather machinery, with efforts underway to recapitalize the textile sector but also indicative of the growing export share of footwear. Among other rapidly growing imports during the period since 1985 have been office machines, scientific instruments and apparatus, road motor vehicles (mainly components) and specialized industrial machinery, thus closely paralleling the evolving structure of the export basket. The rapid increase in disposable income towards the end of the 1980s resulted in increased imports of consumer goods, particularly at the higher end of the market. The share of food in the import basket declined during the 1980s, albeit marginally in the latter half; this followed the fall in world prices but domestic assistance remains a brake on such imports.

(ii) Regional pattern of trade

33. The United States and Japan have been Korea's main trading partners since World War II, accounting for some 70 per cent of total Korean trade in the early 1970s. Korean success during the 1970s in finding new markets worldwide and higher oil prices reduced the combined US and Japanese share of Korean trade to less than 50 per cent by 1980 (Tables I.9 and AI.2).

34. The changing structure of Korea's export basket, with increased specialization led in part by the pattern of US demand, coincided in the first half of the 1980s with a significant depreciation in real terms of the Korean won vis-à-vis the United States. With exports sensitive to the lagged effects of the real bilateral rate, the U.S. share of Korean exports rose to 40 per cent in 1986, compared to some 26 per cent in 1980. This resulted in a widening trade surplus with the United States. During the same period, with Japan the predominant and sometimes sole supplier of components for a part of Korea's export basket, and with close investment

\[30\] GATT Secretariat calculations show a real effective depreciation of the Korean won versus the US dollar of almost 33 per cent in the period from end-1980 to 1985; during the same period the won depreciated in real terms against the Japanese yen by 11 per cent and appreciated against EC currencies by 32 per cent.

\[31\] For example, tape heads for video-recorders were available only in Japan. An econometric analysis indicates a strong negative correlation between the won's real effective rate vis-à-vis the yen and imports from Japan, suggestive of a certain rigidity in Korea's import basket from Japan. In fact, analysis by the Korean Ministry of Trade and Industry shows high import sourcing rates from Japan for a range of specialized products in 1990, e.g. magnetrons at 100 per cent, resistor components at 90 per cent and colour picture tubes at 93 per cent; source: The Korea Economic Weekly, Seoul, Republic of Korea, 20 January 1991.
links between Japan and Korea. Japan's share of Korean imports rose to slightly over 34 per cent in 1986, compared to about 26 per cent in 1980. This led to a widened Korean trade deficit with Japan.

35. The 1985 Plaza agreement and the adoption of the Korean policy strategy in 1987 to appreciate the won led to a sharp realignment of bilateral rates. In real terms, the won appreciated by some 35 per cent vis-à-vis the US dollar in the four years following 1985, and subsequently remained relatively steady. By contrast, there was a sharp real depreciation of the won against the yen in 1986-87. Thereafter, with Korean inflation more rapid than in Japan, the won again lost competitiveness, by almost 30 per cent against the yen. Against EC currencies the won followed a trend similar to that against the yen.

36. Reflecting the movement in bilateral rates, the share of the United States in Korea's exports fell steadily after 1986, while the relative importance of the United States as a source for imports rose; the latter was assisted by advance, non-discriminatory tariff reductions on some products of interest to the United States. Korea data show that by 1991 the Korean trade surplus with the United States had been eliminated. Japan's share of Korea's exports rose substantially in 1986-89 but has since declined, with the fall-off in Korea's bilateral competitiveness: Korea's trade deficit with Japan has widened, after an improvement in the earlier years.

37. The share of Korean exports to markets other than North America and Japan has tended to be negatively related to the North American share. This suggests that North America, with an extensive network of Korean trade promotion and information offices remains, together with Japan, the preferred market. On the import side, the European Communities' growing investment links with Korea, plus increased Korean demand for consumer goods, has contributed to a larger EC share in Korea's imports, of 12 per cent in 1990 compared to 10 per cent in 1985.

38. The share of Korea's imports from developing countries fell from 34 per cent in 1980 to 22 per cent in 1990. With the decline in the price of oil, the share of the Middle Eastern countries in Korea's imports declined from 23 per cent in 1980 to just over 7 per cent in 1990. ASEAN, supplying raw materials and with intra-trade links to Korea, is the most important group of developing country suppliers to Korea, and together with Hong Kong ranks as Korea's fourth largest export market.

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32 For example, in the period 1982-86, Japan accounted for 50 per cent of direct investment in Korea, according to data supplied by the Ministry of Finance, Republic of Korea.
(4) Outlook

39. The 1992 economic stance of the Korean authorities aims to restrain domestic demand, curb inflation and improve the external current account imbalance, thus slowing the growth of external indebtedness. The budget is to be balanced, with the rate of increase of fiscal expenditure to be held to 5.8 per cent, while the growth of the money supply (M2) is to be reduced marginally, from about 19 per cent in 1991 to 18.5 per cent in 1992. With large firms under moral suasion to limit the size of wage settlements, it is anticipated that the increase in real private consumption will not exceed 8 per cent. These policies, with a continued curb on construction activity and further recovery in export demand, are projected to result in real GDP growth of 8 per cent, slow inflation to less than 9 per cent and reduce the current account deficit from 3.5 per cent of GDP in 1991 to 2.7 per cent in 1992. Increased interest rate flexibility and improved foreign access to Korea's capital market should make it easier to finance the external deficit without endangering monetary management.

40. Signs of overheating are still evident, however, in the Korean economy. In addition, although the structure of growth has recently appeared to shift towards domestic demand, stable growth remains linked to export performance. The planned rate of monetary expansion may be too high to effectively slow inflation, which is critical to maintaining competitiveness. In this respect, the authorities may feel that they face a policy dilemma. A depreciation of the real exchange rate, through tight inflation control, could re-open a trade surplus with the United States while aggravating the deficit with Japan, thus complicating Korean trade diplomacy. However, this should not detract the attention of economic policy makers from continuing to ensure that a domestic savings-investment imbalance remains readily financeable through the external accounts. Further trade liberalization, particularly in the agricultural sector, would enhance the prospects for continued successful growth performance.
II. TRADE POLICY REGIME: OBJECTIVES AND FRAMEWORK

(1) General Framework

41. The Government of the Republic of Korea is a combination of presidential and parliamentary systems. The President, who is elected for a five year term and cannot be re-elected, represents the Republic as head of the Executive Branch of Government.

42. Legislative power rests with a unicameral elected National Assembly that passes all laws. The Assembly possesses broad powers to investigate and audit the Government's executive, introduces legislation and must approve the national budget. Members of the National Assembly may also serve in the Executive, although Ministers need not be members of the Assembly.

43. The Korean Constitution delegates the President's responsibility over policy matters to the Executive through the Cabinet Council. The Cabinet, comprising the President, the Prime Minister and all ministers, in practice deliberates on and formulates all important legislative proposals and Presidential decrees. The Executive also has the constitutional right to present bills and policy statements to the National Assembly.

44. Laws are constitutionally required on all matters affecting the rights and obligations of Korean citizens. International laws, agreements and treaties have equal status with domestic laws, provided they have been approved by the National Assembly. Potential conflicts between domestic and international laws are in practice avoided by the Executive, either acting on its own initiative or following a Supreme Court decision, amending domestic legislation to conform with international arrangements. International laws cannot override the Constitution.

45. The Constitution (Article 60) requires the National Assembly to approve all important international treaties to which Korea is a party. A special court, the Constitution Court, is responsible for interpreting the Constitution and deciding on the constitutional legality of individual laws.

46. Korea's accession to the General Agreement and the Anti-dumping Code has been ratified by the Assembly, giving GATT and the Code the status of  

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1Article 60 of the Constitution specifies categories of international treaties that need the approval of the National Assembly. The Constitution Court decides on the need for the National Assembly to approve a treaty if the Assembly and the Executive Branch differ on this matter.
domestic law. The independence of the judicial system is guaranteed by the Constitution. The highest court is the Korean Supreme Court.

47. Korea's centralised system of government has in the past severely restricted the powers of local governments. However, the Local Autonomy Act of 1988 now empowers these governments to take certain decisions, including the provision of assistance to promote local development, that could impinge on trade, for example, through the promotion of regional industries such as agriculture, commerce and manufacturing. Local governments may still not act in areas that remain the exclusive jurisdiction of the central governments, including Customs and the administration of the Foreign Trade Act.

(2) Structure of Trade Policy Formulation

(i) Legislative and executive branches of Government

48. All laws and amendments must be signed and made public by the President within 15 days of approval by the National Assembly. National laws rank second to the Constitution and are implemented by presidential decrees and various enforcement regulations. Decrees are promulgated by the President and rank ahead of enforcement regulations, which are issued by the relevant minister acting under authority specifically delegated by presidential decree. Although responsible ministers exercise some discretions, they must remain strictly within the limits established by the basic laws and presidential decrees.

49. Cabinet, as the Government's highest executive body, is responsible for formulating government policy. Executive decisions by the Cabinet are based on submissions prepared by the relevant ministries. In practice, minor policy initiatives are allowed, at the ministers' discretion, to by-pass the Cabinet.

50. Finalizing Cabinet submissions and decisions involves substantial consultation and coordination between the relevant ministries and their ministers. The Economic Planning Board plays a significant rôle on fundamental matters of economic policy, by advising on and formulating such policy and in coordinating with responsible ministries, either formally or informally. The Board, whose minister is the top policy-maker on economic issues and also the Deputy Prime Minister, frequently submits policy proposals to Cabinet. Other ministries normally involved in setting trade-related policies are Foreign Affairs, Trade and Industry, Forestry and Fisheries, Agriculture and Finance, with the latter holding responsibility for tariff policy.
51. Most matters concerning industrial and international economic policies are initially considered by the Industrial Policy Committee and the International Cooperation Committee. The former was established in 1981 by Presidential decree to deliberate on matters such as exports and imports, tariffs and taxes, industrial structural adjustment and rationalisation. The other Committee, formed by Presidential decree in 1986, examines matters relating to both bilateral and multilateral aspects of Korea's international trade relations. Chaired in both cases by the Deputy Prime Minister, the composition of these Committees is identical, except that the International Cooperation Committee includes, along with all economic ministers, the Chief Presidential Economic Advisor and the assistant minister to the Prime Minister, as well as the Ministers of Foreign Affairs and the Environment.

52. Subsequently, and prior to Cabinet consideration, economic policy proposals, including measures or plans on industrial development, are discussed by the Economic Ministers' Meeting, chaired by the Deputy Prime Minister. Established by Presidential decree in 1964 to promote cooperation between departments, the Meeting tries to ensure that policies adequately reflect economic considerations and not mainly non-economic and political factors. Policy proposals are often reviewed by a Vice Economic Ministers' meeting prior to consideration by the Economic Ministers' meeting.

53. In the area of trade and industrial policies, the Minister of Trade and Industry has been delegated substantial authority to implement the basic policies embodied in laws passed by the National Assembly. Policies drafted by the Ministry are first screened by the relevant Committee and subsequently reviewed by the Economic Ministers' meeting prior final approval by Cabinet (Chart II.1).

54. Policies implemented through laws require passage by the National Assembly. The Assembly itself is taking on a more important rôle in formulating trade-related economic policies. In the past, these functions were performed almost exclusively by the Executive Branch. The Assembly has become more assertive on foreign trade laws and in overseeing the Executive's operations. While this is likely to be accompanied by a greater shift to a rules-based trading system and improved transparency, trade policy-making in Korea is becoming more politicised.

Where particularly troublesome issues arise that cannot be resolved by the Economic Ministers' Meeting, a special informal Consultative Council comprising the same ministers is convened to resolve the policy deadlock. As it has no legal force, all decisions must be approved by the meeting of Economic Ministers.
Chart II.1
Korea: Decision making process for trade-related policies

President

Cabinet Council

Economic Ministers' Meeting

Industrial Policy Review Board

National Committee for Overseas Cooperation

Concerned Executive Branches of Government

Ministry of Trade and Industry and other Trade-related Ministries

Concerned Non-Government Agencies

Research Institutes

Private Enterprises

Committee for Government & Private Enterprises

Committee for Private Enterprises

Four Major Economy Organizations
KOTRA
Small (& Medium) Business Promotion Corporation
Cooperatives & Associations

Source: Ministry of Trade and Industry, Republic of Korea.
(ii) **Advisory bodies**

55. Although major trade and industry policies are subjected to considerable policy debate within both the Assembly and Executive Branch of Government, Korea has no independent permanent body responsible for reviewing and advising the Government on matters of trade and industry policies.

56. At the working level, informal inter-ministerial task forces are often established on an ad hoc basis to deal with specific policy issues. There are also six formal inter-ministerial groups handling various trade-related policy areas - the Committees on trade, import administration, foreign capital and technology transfer, foreign exchange, tariffs, agricultural and fisheries export promotion. All relevant Ministries are represented on these committees which, in most cases, are chaired by the Minister or Vice-Minister of the most relevant ministry. In addition, a number of non- and quasi-governmental agencies, such as The Korean Trade Promotion Corporation, which is responsible for trade promotion, feed into the decision-making process.

57. The private sector participates in trade and industrial policy formulation through formal and informal access to the decision-making process, mainly via the Ministries of Trade and Industry and Agriculture. For example, the President chairs bi-monthly meetings of relevant private and Executive Branch representatives to review trade-related policies. More generally, interests of private producers are represented by organisations, such as the Federation of Korean Industries, Korean Federation of Small Business, the Korean Chamber of Commerce and the Korean Foreign Trade Association. On many items subject to import or export restrictions, the responsibility for the initial approval of licences is delegated to the relevant industrial association.

58. A number of government-funded institutions conduct research and participate directly, as "think tanks", in task forces and inter-ministerial bodies. These include the Korea Development Institute, the Korea Institute for Economics and Technology, the Korea Institute of International Economic Policy and the Korea Rural Economics Institute.3

59. The interests of broader sections of the community, such as consumers and taxpayers, are represented in the policy debate through participating

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3 Some institutes are directly linked to individual Ministries, such as the Korea Development Institute to the Economic Planning Board.
in investigations, seminars and public hearings organised by the Government or economic research institutions.

(iii) Review bodies

60. Korea has no statutory body to conduct independent reviews of government trade and industrial policies. Within the Government, such policies are evaluated by the Performance Evaluation Bureau, in the Economic Planning Board, and to some extent by the Policy Assessment Bureau in the Prime Minister's Office. However, as neither of these is an independent statutory body it is difficult for them to carry out purely objective reviews. As a result, independent public reviews are left mainly to the universities as well as private and government-sponsored research organisations. For legislative changes to trade-related laws or the conclusion of trade agreements, the National Assembly conducts reviews and assessments of the proposed arrangements through investigations, discussions and committee hearings.

(3) Trade Policy Objectives

(i) General trade policy objectives

61. Since the early 1980s, Korea has made significant progress in liberalizing its trade and industrial policies. The previous interventionist approach towards industrial development, through targeting certain strategic industries, has been largely reversed. It is now recognized that these policies, while building up considerable capacity in shipbuilding, steel and other heavy industries, led to substantial rigidities and did not promote efficient resource allocation.

62. The Government's strategy of adopting more liberal trade and industrial policies was reflected in Korea's sixth five-year economic development plan, adopted in 1986. The Plan stated that "... (the) free market economic system is perhaps the best means of sustaining a cyclical process of increased production and improved distribution. As a result, every citizen can maximise his own production efficiency and a fair distribution can be achieved under the principles agreed upon by a majority of the people". As yet, however, the transition remains incomplete; major trade restrictions remain in a number of areas, particularly agriculture.

63. The principal goals of Korea's trade and industrial policies are designed to increase the international integration of the economy through:

- enhancing industries' international competitiveness by opening domestic markets to foreign competition;
contributing to, and cooperating in the development and sustainability of, the multilateral trading system; and

- bringing Korea's trade-related regulations into conformity with international practices.

(ii) Sectoral trade policy objectives

(a) Agriculture

64. According to the comprehensive plan for rural development contained in the Rural Development Act of 1990, Korea's general agricultural policy objectives are:

- to enable young farmers to achieve scale economies through greater specialisation and land reform, aided by the provision of preferential support, such as long-term credits, and improving the farming and marketing infrastructure, such as irrigation and road development;

- to expand and strengthen job retraining and alternative employment opportunities through rural industrialisation for those wishing to leave farming; and

- to improve rural living conditions through greater provision of services, such as education and health, as well as improved roads, water supply and sewerage systems.

65. Self-sufficiency remains a central policy objective in the traditional crops of rice and barley, for food security reasons. Under the Foodgrain Control Act of 1950 and its subsequent revisions and implementing legislation, the Government, subject to the approval of the National Assembly, intervenes in the rice and barley markets to implement price stabilization schemes and to ensure stable supplies throughout the year. The legislation also establishes the conditions for import and export of rice and barley. For any trade in these products annual approval by the National Assembly is required.

66. Self-sufficiency goals have been relaxed for some crops, such as soybean, corn and wheat. Agricultural policies, however, are directed at maintaining current levels of production. As well as preventing environmental damage, these policies aim chiefly to maintain equality between farm and urban incomes.

67. For some other commodities, Korea's agricultural objectives are pursued through policies designed, through import management, to stabilize
internationally-high domestic prices, set partly on the basis of production costs. A livestock price stabilization programme manages supply and demand, including the use of imports. Beef imports are administered by the Livestock Products Marketing Organization. For pigs and poultry, the National Livestock Cooperative Federation administers imports under the supervision of the Ministry of Agriculture, Forestry and Fisheries. Similar price stabilization and buffer stock programmes are operated for major seasoning products, such as red peppers, garlic and onions.

68. The Government also attempts to implement its agricultural objectives through the provision of general services, such as financing technology transfers and diffusion, structural improvement schemes, farmer retraining schemes, disease control and disaster relief.

(b) Industry

69. A central feature of policy over the past decade has been the steady liberalization and simplification of the trade régime. Since the early 1980's the average tariff rate has been lowered to around 10 per cent and tariff dispersion has been markedly reduced. Further, the scope of non-automatic licensing has been virtually eliminated.

70. Since 1986, two programmes have been operative that increase the possibility of bilateral managed trade. The localization programme seeks to enhance Korean production of machinery, parts and materials, with the view, at least in part, to reduce the trade deficit with countries with which Korea has a sizeable deficit, including Japan. Similarly, the diversification programme encourages importers to switch their source of supply for targeted items away from such countries.

71. Export incentives and targeting, which were widely used in the 1960s and 1970s, have also been virtually eliminated. Most notable among the incentives that remain are post-shipment export loans, which are nevertheless in line with the OECD code, and a limited provision for tax free reserves against export losses, with taxes levied if the losses do not emerge. Exporters also benefit from a well functioning duty drawback scheme, an efficient system of export credit insurance and guarantees, free trade zones and the provision of infrastructure to smooth the flow of exports. Indirectly, there is also a certain preferential access to credit. Although the latter is extended at market rates, the central bank rediscounts up to 50 per cent of the amount at preferential rates as a

4Details are provided in Chapter IV.
means of supplying reserves to the banking system. In addition, the Korean Trade Promotion Corporation and the Korea Foreign Trade Association promote Korean exports throughout the world.

72. More recently, there are some signs of attempts to manage exports. Since the mid-1980s there appears to have been an increase in the use of auto-limitations to forestall possible trade tensions. In October 1991 a programme, with relatively limited financing, was introduced to bolster exports to Japan in the period through June 1992.

73. In 1986, specific development funds for targeted industries were replaced, under the Industry Development Act, by concessional loans for industry-wide restructuring and technology development. Such loans were provided until 1989 under the Act to industries adjusting to excess production in the face of deteriorating international competitiveness, except in the case of textiles and fabrics for which the restructuring period has been extended to 1992. In addition, tax incentives promote economy-wide investment. The Government also supports R & D expenditure in areas of basic industrial technology development, as well as selected technology development projects, under the Industry Development Fund.

74. Special financial arrangements, including tax incentives and subsidies for R&D expenditure, help offset structural problems of small business under the Special Act for Stabilisation and Structural Adjustment of Small and Medium Firms adopted in 1989. Commercial banks are also directed to channel a certain percentage of new loans to small and medium sized firms at market interest rates. Tax concessions and other incentives are also offered to assist firms establishing in regional locations.

(iii) Objectives in the Uruguay Round

75. The Korean Government's stated priority in the Uruguay Round is to strengthen the GATT multilateral trading system. Korea's commitment to multilateralism and successful conclusion of the Round reflects its view that an effective GATT system offers smaller trading countries the best means of resisting bilateral pressures from major trading partners, that can at times conflict both with domestic interests and those of the multilateral trading system. Furthermore, Korea sees an effective GATT system as an important constraint on protectionist pressures and the negative aspects of the trend towards regionalism.

76. In the Round, Korea has played an important intermediary rôle in some areas between the industrial and developing countries. Of particular interest to Korea is the need to strengthen the existing arrangements on dispute settlement and the safeguard provisions, which are seen as disadvantageous to efficient exporters. Korea expects these matters to take on greater importance in the future, as friction with imported markets could increase as Korea develops its export base in higher value-added products.

77. Korea views the present GATT dispute settlement procedures as being largely ineffective at efficiently resolving trade disputes with major trading partners; stricter provisions under GATT Articles XXII and XXIII are seen as necessary. Similarly, Korea thinks it essential to improve the safeguard provisions, to limit countries from side-stepping Article XIX arrangements and introducing grey-area measures, such as voluntary export restraints. The Government opposes the selective application of safeguards and advocates a reframing of Article XIX to:

- clarify the exact circumstances under which its provisions can be invoked. Objective criteria must be established to define the terms "an increase in imports" and "serious injury to domestic industries";

- impose sunset clauses of 2-3 years at most on the duration of emergency action;

- provide adequate compensation and avenues of retaliation for aggrieved trading partners, including the establishment of a safeguards surveillance body to ensure adherence to compensation agreements; and

- ensure that structural adjustment measures accompany safeguard measures, and that these be monitored by the safeguards surveillance body.

78. Other areas in the Round of active interest to Korea are trade in services, textiles, and the Tokyo Round agreements covering anti-dumping and subsidies and countervailing action. Korea takes the view that both codes leave too much room for unilateral interpretation and that consequently the relevant provisions should be tightened to prevent the abuse of "fair trade" laws to harass competitive suppliers. In textiles, Korea has argued for the removal of the Multifibre Arrangement (MFA) and the reintegration of textiles trade into the GATT. In services, Korea supports a strong m.f.n. principle with minimum derogations. According to the authorities, Korea considers the Uruguay Round as an opportunity to strengthen the competitiveness of its service sectors by introducing
foreign competition. However, Korea is cautious on access in areas such as financial services where, it is argued, establishment might cause prudential-regulation concerns or lead to destabilizing capital flows. More generally, on market access Korea is conscious of the importance of lowering border barriers, both to help sustain its outward-oriented growth strategy and as a counterpart for its own potential concessions in difficult areas, including intellectual property, services and agriculture.

79. On agriculture, although generally supportive of minimum market access for most products, Korea strongly resists opening-up its domestic rice market to imports at present. While Korea has withdrawn its request for a grace period in phasing-out border protection and agricultural subsidies, it continues to argue that for certain basic commodities, especially rice, the Government should be able to pursue its self-sufficiency policies. On this basis, proposals such as the tariffication of non-tariff barriers on agricultural products without exception, have to date been rejected by the National Assembly and, according to the authorities, by public opinions.

(4) Trade Laws and Regulations

80. Korean trade policies are implemented through laws passed by the National Assembly and presidential decrees, in areas delegated to the President by law. These are administered by enforcement regulations issued by the relevant ministry. Decrees and regulations must be strictly applied within the limits set by the relevant laws, including the Constitution.

81. The principal law governing the export and import of goods in Korea is the Foreign Trade Act, which establishes the guidelines for regulating merchandise trade. Measures potentially affecting trade are also enforced under forty-five individual (or special) laws. Many of these are used to maintain quality levels and to help meet health and safety standards. Others, as in the case of rice, satisfy domestic policy objectives, such as maintaining self-sufficiency, protecting farmers and stabilizing markets. Some of the individual laws also affect exports, including measures designed to protect endangered fauna and flora; to observe bilateral as well as plurilateral agreements; to preserve and ensure adequate domestic supplies of scarce natural resources; and to control strategic products.

82. A number of these individual laws affecting trade were rationalised following the recommendations of an interministerial Task Force established

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6 In the context of Article 18 of the Foreign Trade Act, the Government annually publishes an Export and Import Notice listing restricted export and import items.
in December 1988, to help simplify the importation system as part of the Government's import liberalisation. Of the thirty-nine laws reviewed by the Task Force, changes were recommended for 23 laws, such as the Pharmaceuticals Act, Electrical Products Safety Control Act and the Basic Telecommunication Act; by 1 July 1991, most of the proposed changes had been implemented. These amendments, *inter alia*, reduced the number of products subject to import restrictions; eliminated special licence requirements to trade in pharmaceuticals and medical equipment; and simplified a number of inspection and approval procedures.

83. Korea's system of tariffs and customs regulations and procedures fall mainly under the Customs Act, the basic law on all customs-related matters. This covers all aspects concerning the determination and collection of duties, including the basis for the assessment, customs valuation, dutiable goods, tariff rates, tariff concessions, customs clearance procedures, enforcement arrangements and bonded warehouse arrangements. It also provides for a flexible tariff system that allows the imposition of anti-dumping, emergency and countervailing duties, as well as tariff quotas. The Tariff Schedule is annexed to the Customs Act.

84. Korea's duty drawback scheme is covered by the Special Act for Refund of Customs Levied on Raw Materials for Export. The law stipulates the manufactured export goods eligible for the refund of tariff duties and internal taxes, the raw materials covered, and the methods and procedures applied to ensure that the drawback of duty does not exceed the amount paid on importation.

85. Foreign direct investment into Korea is subject to the Foreign Capital Inducement Act. This has been progressively liberalised since 1984. A Negative List was introduced in 1984 and the number of restricted industries has been gradually reduced. Further, the Notification System established in March 1991, simplified the approval procedures for foreign direct investment, and is to be extended from 1993 to cover, with some exceptions, all liberalized manufacturing and service industries.

(5) Trade Agreements and Arrangements

(i) Multilateral agreements

86. Korea acceded to the GATT in 1967. It has participated actively in all subsequent rounds of multilateral trade negotiations. Korea has

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7These matters are detailed in Chapter III.
accepted four MTN Tokyo Round Agreements - those on Technical Barriers to Trade, Subsidies and Countervailing Action, Anti-Dumping, and Customs Valuation. Korea has observer status in the MTN Agreements on Government Procurement and Import Licensing. The country participates as an exporter in the MFA and is a member of the International Textiles and Clothing Bureau. Quantitative import restrictions were applied by Korea for balance-of-payments reasons under Article XVIII:B of the GATT from 1967 to December 1989.

87. Korea is not a member of any particular country grouping, except the International Textiles and Clothing Bureau, within the Uruguay Round. Korea accords m.f.n. treatment to all countries, whether or not they are contracting parties to the GATT. Korea extends preferential tariffs on 12 items under the 1971 Protocol relating to Trade Negotiations Among Developing Countries. Under the Global System of Trade Preferences (GSTP) Korea also extends preferential tariff treatment on imports of 26 items, with an average margin of preference of some 10 per cent.

88. Korea is a member of the United Nations and other multilateral organisations with responsibilities in the field of trade or finance, such as UNCTAD, the International Monetary Fund, the World Bank and the Asian Development Bank. It also participates in four multilateral commodity agreements/arrangements - the International Tropical Timber Agreement of 1983; the Wheat Trade Convention of 1986; the International Sugar Agreement of 1987; and the Fourth International Tin Agreement of 1970.

(ii) Regional agreements

89. Korea is a member, together with India, Sri Lanka, Bangladesh and Laos in the First ESCAP Agreement on Trade Negotiations Among Developing Countries in the Asia-Pacific Region (the Bangkok Agreement) of 1976. The Agreement was formed with the objective of promoting economic development and improving the national welfare of member countries through expanding regional trading opportunities. The coverage of items subject to tariff preferences was increased substantially in 1990 to 237. On average, preferential margins afforded eligible imports are about one-third of the m.f.n. rate.

(iii) Bilateral agreements

90. Korea maintains bilateral export restraint agreements, under Article 4 of the MFA, with the European Communities, Austria, Canada, Finland, Norway, and the United States. In addition, voluntary export restraint agreements are in place on a number of products, such as steel exports to the United States, footwear to the European Communities and silk products to Japan. A number of bilateral agreements cover agriculture and
fisheries, including with Australia, Canada and Japan, some of which appear to have the possibility of export regulations.

91. Korea also maintains international bilateral treaties designed to encourage economic and technical cooperation between governments, and to facilitate cultural exchanges, including with Australia, France, New Zealand and the United States.

(iv) Other agreements

92. As a developing country Korea receives preferential access under the Global System of Preferences (GSP) from all developed markets with the exception of the United States, which discontinued GSP treatment for Korea in 1989. The European Communities withdrew GSP benefits from Korea in 1988 but restored GSP treatment to Korea from 1 January 1992.
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

93. Korea's real exchange rate has been maintained at roughly the same level since the unification of the exchange rate in 1965. Up to early 1980, misalignments of the rate were corrected by periodic discrete devaluations; subsequently, the nominal rate was flexibly managed against a currency basket of Korea's major trading partners. Since March 1990 market forces play a greater role in the determination of the nominal rate, which floats, within margins, against the U.S. dollar.

94. The relative constancy of the real effective exchange rate has largely removed one major uncertainty in resource allocation, while allowing the authorities to pursue gradual liberalization of the trade regime without substantially biasing the industrial incentive structure in favour of export production or import-substitution. Exchange restrictions were also eased over time, and in November 1988 Korea formally accepted the obligations of Article VIII, Sections 2, 3 and 4 of the Articles of Agreement of the International Monetary Fund. Concurrently, particularly since 1984, the scope for foreign direct investment was enhanced and measures were taken toward the liberalization and internationalization of domestic financial markets. Thus monetary policy can now be more flexibly used than it was in the past.

(1) Exchange Rate Movements and Trade

95. On 2 March 1990, Korea adopted a market average exchange rate (MAR) system. The won/US dollar nominal interbank exchange rate floats within relatively narrow daily margins (+/- 0.6 per cent) around the basic rate

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1 GATT calculations show that in the period 1966-90 the average real effective exchange rate was 103, with a standard deviation of less than 9 per cent (1985 = 100; upward movements in the rate indicate an appreciation); the calculations were based on data provided by the Korean Ministry of Finance and Won A. Park (1989) op. cit.

2 Even in the period 1973-79, when import-substitution was official policy under the Heavy and Chemical Industries drive, the real effective exchange rate appears to have appreciated by less than 16 per cent, with about 80 per cent of the appreciation taking place in 1979; the nominal rate was devalued by some 20 per cent against the U.S. dollar in early 1980.

3 The obligations require the avoidance of restrictions on current international payments, the avoidance of discriminatory currency practices and the convertibility of foreign-held balances for current transactions unless otherwise specifically approved by the Fund.

4 For example, the current account surpluses of 1986-89, with the inflow of reserves creating inflationary pressures, contributed to a policy dilemma: a tightening of credit policies placed upward pressure on interest rates, encouraging capital inflows and complicating monetary management. With market forces now more important in interest rate and, particularly, exchange rate determination the possibility of such pressures may have been attenuated.
which is determined as a weighted average of the previous day's interbank rates for spot transactions (the "market average rate"). The basic exchange rates of the won against currencies other than the U.S. dollar are determined in relation to the U.S. dollar exchange rates in international markets against these currencies. For transactions with customers, banks are allowed to set the won/US dollar telegraphic transfer (T/T) rate within +/- 0.6 per cent margins of the basic rate; for foreign currencies other than the U.S. dollar, banks are permitted to set the T/T rate of the won against the currency within margins of +/- 0.8 per cent of the basic rate.

96. Foreign exchange banks may conduct forward and future transactions, with no specific restrictions on the terms for interbank transactions. However, forward contracts with a non-bank customer must be based on a genuine transaction, with the contract amount not exceeding the expected payment or receipt on the transaction.

97. The real effective exchange rate of the won appreciated steadily in the period 1987-89, with the authorities having adopted a policy of nominal exchange rate appreciation. Subsequently, particularly following the introduction of the MAR system, it depreciated slowly but with the recent upsurge in inflation it appears that most of the competitiveness gains of 1990 have been eliminated. Analysis shows a statistically significant negative relationship between movements in the real exchange rate and the trade and current accounts (Chart III.1). This normal price relationship is somewhat clouded by Korea's reliance on imports from Japan for inputs into many elements of its export basket (Chapter I.(3)), reflecting the fact that Korea's export composition is similar to that of Japan. However, attempts to artificially alter the Korea-Japan production links could disturb price relativities to the disadvantage of Korea's comparative advantage in specialized engineering products.

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5 The daily margins were initially set at +/- 0.4 per cent against the MAR but were widened to +/- 0.6 per cent on 2 September 1991.

Chart III.1
External transactions and the real effective exchange rate, 1980-90

Percentage change

Note: Upward movements in the real effective exchange rate indicate an appreciation and vice-versa.

Source: Data supplied by the Korean Ministry of Finance; and International Monetary Fund, *International Financial Statistics*, various issues, Washington D.C.
Since late-1986 Korea's export competitiveness has come under pressure from rapidly rising unit labour costs. During much of the earlier development period, productivity growth reduced the conflict between competitiveness and the standard of living. The upward pressure on prices from periodic nominal depreciations of the won's exchange rate was normally more than offset by productivity increases, allowing a steady rise in real wages while retaining competitiveness. However, the high wage settlements since 1986 have led to an average annual increase in Korean unit labour costs that, in terms of U.S. dollars, is almost 40 per cent higher than in Taiwan and close to 12 times the rate in Japan. Clearly, if discrepancies of this order of magnitude are sustained vis-a-vis major competitors it will begin to weaken Korea's potential for stable growth.

(2) Foreign Exchange Allocation

The legal basis for foreign exchange controls is the Foreign Exchange Control Act of 31 December 1961. The Government has prepared a revision of the Act, under which the current system prohibiting foreign exchange activities unless otherwise stipulated will be replaced by a "negative list" system allowing all activities except those specified. The revised legislation has been enacted, to be implemented as of 1 September 1992.

Exports and imports against Korea's own foreign exchange reserves are normally effected against irrevocable letters of credit, although provisions exist for exporting or importing on "documents against acceptance" (D/A) and "documents against payment" (D/P). An import letter of credit is opened with a foreign exchange bank upon the presentation of an import licence (Chapter IV). The requirement of advance import deposits, ranging from 5 per cent to 10 per cent against usance or sight letters of credit, was eliminated on 1 March 1990. Import and export contracts can be denominated in Korean won (or foreign

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8 In 1990, some 92 per cent of imports were against foreign exchange, with the remainder against loans or imports by diplomats, visitors, returning residents, etc.; Korean Customs Administration, Statistical Yearbook of Foreign Trade, Seoul, Republic of Korea, 1990.

9 D/A involves trade credit, under which an importer makes no payment for the goods until the date called for in the credit; however, the importer may clear goods through customs prior to payment. D/P is the same as D/A except that the goods cannot be cleared through customs prior to payment.
currencies) but settlement must be effected in designated foreign currencies.\(^{10}\)

101. Trade credit, under usance letters of credit or under D/A and D/P, is permitted only for commodities with a tariff rate of 10 per cent or less and for crude petroleum. The normal trade credit terms are (i) 30 days for imports from Hong Kong, Japan, the Philippines and Taiwan; and (ii) 60 days for all other countries: the shorter term of maturity for the first group of countries is attributable to their proximity to Korea and hence fewer navigation days for the shipment of products. In February 1990, the maturity limit on trade credits for raw materials was extended from 60 to 90 days. In the view of the authorities, limits on trade credit maturities are required to limit short-term borrowing and facilitate monetary management.

102. Payments for invisibles require individual licences. These are normally granted automatically. There are some limits on foreign exchange allowances for Koreans travelling or studying abroad but the Bank of Korea grants approval for any bona fide request for additional amounts. Foreign firms or shareholders in Korea may repatriate dividends or profits freely and foreigners employed in Korea may remit their earnings.

103. There are restrictions on capital transactions. Note III.1 describes the steps that have been taken to internationalize the domestic financial market and the next section deals with foreign direct investment in Korea. Overseas investment and loans by Korean residents require approval, with approval for investments of less than US$2 million granted automatically. Korean firms incorporated abroad may retain profits for expansion and, within limits, may obtain offshore financing without prior approval.

\(^{10}\) Together with the Hong Kong dollar and the Swiss franc, the designated currencies are those of IMF members that have accepted the obligations of Article VIII of the Fund’s Articles of Agreement.
It is the view of the authorities that controls on financial capital can only be fully lifted after domestic interest rates have been deregulated, a process that will be complete by 1997, and exchange rates are free to find their own equilibrium level. Acceptance of the obligations under Article VIII of the IMF's Articles of Agreement in November 1988 and the introduction of the MAR system in March 1990 are seen as being significant steps in that direction.

At present, foreign banks, life insurance companies and securities firms may set up branches or representative offices. Subsidiaries are permitted only in the case of foreign life insurance companies. Since 1984, the authorities have moved toward national treatment for locally based foreign financial services suppliers but limits remain on establishment, real estate ownership and lending. Foreign securities firms are allowed to acquire up to 50 per cent of the equity of large domestic securities companies. The branches of foreign securities firms are eligible to engage in dealing, brokerage and underwriting subject to a capital base of Won 10 billion to conduct one such activity, Won 15 billion for two of the activities and Won 20 billion for all three activities. Since January 1992, foreigners have been permitted to purchase Korean securities, but combined foreign ownership is limited to 10 per cent of the total shares in a company listed on the Korean Stock Exchange with a single individual limited to 3 per cent of the shares.

A chronology of recent measures toward internationalization of the financial market is:

1980  Foreign securities firms were allowed to open representative offices in Korea.

1981  Two international investment funds were established, for limited indirect investment by foreigners in the Korean stock market.

1984 (a)  A closed-end mutual fund was launched in New York; and

(b)  Korean securities companies were permitted to open representative offices overseas.

1985 (a)  Foreign bank branches were granted access to the rediscount window of the Bank of Korea on the same terms as local banks and were permitted to engage in certain trust business;

(b)  Korean companies were allowed to issue convertible bonds, bonds with warrants and depository receipts in international capital markets; the maximum issue was restricted to 15 per cent of the equity of the issuing company, and an individual investor was limited to 3 per cent of any company's equity through the exercise of bond conversion or subscription rights;

(c)  Four more international investment funds were started; and

(d)  Foreign securities firms were allowed to invest in equities of Korean securities firms to a limited extent.
1986 Foreign bank branches were allowed to issue negotiable certificates of deposit (CDs).

1987 (a) Foreign life insurance companies were allowed to open branch offices; and  
(b) A closed-end mutual fund was launched in London.

1988 Domestic institutional investors were granted permission to invest in foreign stock markets for their own account, up to a limit of US$30 million by securities companies and US$10 million by insurance companies and investment trusts: the limits were raised in 1990 to US$50 million and US$30 million, respectively.

1989 (a) The limit on equity investment by foreign securities firms in domestic securities firms was raised to 40 per cent from 10 per cent;  
(b) A U.S. dollar call market was established; and  
(c) Foreign life insurance companies were permitted to enter into joint ventures with Korean life insurance companies.

1990 (a) Matching investment funds were established, balancing inward and outward portfolio capital flows, and the scope for equity-linked overseas bond issues was increased; and  
(b) Foreign life insurance companies were allowed to open subsidiaries in Korea.

1991 (a) A limited number of foreign securities companies were allowed to establish branches, provided the home companies had at least 10 years of continuous operation;  
(b) Proceeds from the sale of equity from convertible bonds and bonds with warrants were allowed to be used for the purchase of other domestic securities;  
(c) Foreign bank branches were permitted to engage in the full range of trust business, restrictions were eased on multiple-branching by such banks and the ceiling on their paid-in capital was eliminated;  
(d) The limit on equity investment by foreign securities firms in Korean securities firms was increased to 50 per cent;  
(e) Korean securities companies were allowed to establish subsidiaries overseas; and  
(f) A closed-end mutual fund was launched in Hong Kong and London.

1992 Foreigners were permitted direct participation in the Korean Stock Market on a limited basis.
104. Korea regards foreign direct investment as an essential element in strengthening the international competitiveness of its industries, especially through the transfer of advanced technology. Particularly since mid-1984, the scope for foreign direct investment has been increased and procedures simplified, although investment by foreigners in some 20 per cent of industries remains prohibited or restricted (Table III.1). Foreign investment is accorded national treatment, except in specified cases such as financial services (Note III.1). Various tax and tariff benefits are temporarily available to certain types of foreign direct investment, notably for high technology projects, and the repatriation of dividends and principal is guaranteed.

105. Legal conditions for foreign direct investment are defined in the Foreign Capital Inducement Act of 1960. This is administered by the Ministry of Finance with certain functions delegated to the Bank of Korea. Since 1 July 1984 the Act permits direct investment in all industries, except those specified on a "negative list". In January 1992, 793 of 999 sectors in the Korea Standard Industrial Classification were open to foreign investment, implying a liberalization ratio of 79.4 per cent compared to 66.1 per cent when the negative list was introduced. The liberalization ratio in manufacturing is almost 98 per cent, about 62 per cent in services and 20 per cent in agriculture.

106. The negative list is subdivided into prohibited and restricted sectors. Prohibited sectors comprise those reserved to the Government or public organizations, areas considered injurious to public health or morals and others such as radio broadcasting, newspaper publishing and the production of grains. Restricted industries are usually not open to foreign investment, although permission may be granted on a case-by-case basis.

107. The required minimum initial investment is Won 50 million (equivalent to about US$65,000)\(^\text{12}\); the limitation does not apply to subsequent investment in the same project. There are few restrictions on foreign

\(^{11}\)The negative list includes public utilities, most telecommunications, projects directly affecting the livelihood of farmers and fishermen, the wholesale of grain, meats, fruits and vegetables, alcoholic beverages, fertilizers, pesticides and books and newspapers, and the retail of grains, meats, fruits, vegetables not elsewhere specified, foods and beverages, tobacco, drugs, toiletries, books, antiques and art, oil, fuel oil, petrol, bottled gas and coal briquettes.

\(^{12}\)When two or more foreign investors intend a joint project, the participation of each investor must be at least Won 25 million.
investment in the liberalized sectors, but approval is needed from the Minister of Finance for foreign investment in:

(a) retail trade when such investment leads to the opening of more than 10 shops or a single shop with floor space in excess of 1,000 square metres;

(b) construction, non-life insurance, the distilling of ethyl alcohol and the manufacture of certain wines, where foreign investment requires a joint venture with an existing company in the area; and

(c) the manufacture of certain agriculture and related products, and textile fabrics, which may be undertaken as a joint venture with a Korean company in the same area of business, although the foreign investor may hold a majority of the equity.

108. There are two types of approval procedures for a foreign company that seeks to establish an incorporated business in Korea under the Korean Commercial Code. Investments in non-manufacturing projects and those in manufacturing that result in an equity position of more than 50 per cent require the approval of the Ministry of Finance; since March 1991, all other investments are notified either to the Ministry of Finance or the Bank of Korea, with investments that imply an equity position of 50 per cent or those that are accompanied with an application for tax and tariff advantages to be notified to the Ministry of Finance. Applications in the first category are normally referred by the Ministry of Finance to the relevant ministries and, if the investment is over US$20 million, the Foreign Capital Project Review Committee (FCPRC) (Chart III.2). Approval is to be granted within at most 60 days. The acquisition of real-estate by foreign-invested companies is subject to the approval of provincial and local governments.

13 The products are: cultivators, tractors, rice planters, binders, combines, sprayers, vegetable oils and fats, husked and milled cereals, beans and similar products, and starches.

14 A foreign investor, other than in the case of financial services, may open a branch office by filing a report with the Bank of Korea, which authorizes the repatriation of earnings and profits; a branch office may not own shares in a Korean company (except in the case of certain financial services) and may not engage in manufacturing. Branch offices in the area of financial services are authorized by the Ministry of Finance.
Chart III.2
Foreign investment approval procedures

(a) Non-manufacturing projects and manufacturing projects where foreign investment leads to a foreign equity position of greater than 50 per cent

1. Application
2. Review by relevant ministries
3. Ministry of Finance - responds within at most 60 days
4. Review by FCPRC if the investment is over US$ 20 million.
5. Customs approval for capital-goods imports
6. Report on capital imports
7. Incorporation

(b) Foreign investment by notification, for manufacturing projects where foreign investment leads to a foreign equity position of no more than 50 per cent

1. Foreign Investor
2. Relevant ministries and/or FCPRC, if possibility of rejection
3. Customs
4. Report on capital imports
5. Incorporation
6. Bank of Korea, when investment leads to an equity position of less than 50 per cent
7. Notification, accepted if there is no response within 30 days

109. Investments eligible for notification are, in principle, not subject to review by the authorities. However, notifications may be rejected on several grounds, relating to national security, health, environment and monopoly practices, following the advice of the relevant ministry or the FCPRC. If, within 30 days of filing the application, the investor has not received a reply, the investment is deemed accepted and the project may commence. All liberalized industries will be covered by the notification system as of January 1993, with the exception of a few cases, notably in the retail and wholesale sectors and projects requiring a joint venture with existing domestic industries.

110. Tax and tariff privileges are available to foreign investment made in a free export zone or which is accompanied by advanced technology. An application for the benefits is filed with the Ministry of Finance, which in consultation with the relevant ministries is required to give a response within 60 days. The capital goods must be imported within 2 years of the granting of the benefits. The privileges are accorded in proportion to the foreign equity holding in a firm and consist of:

(a) an exemption from corporate and income tax for 3 years and a 50 per cent reduction of such taxes for the following 2 years;

(b) a 50 per cent reduction for 5 years of the aggregated real estate taxes, property taxes and acquisition taxes; and

(c) a 50 per cent reduction of customs duties, value added taxes and special consumption taxes on the imported capital goods.

111. Japanese investment in Korea has historically been higher than either U.S. or European investment (Table III.2). The divergence increased in the mid-1980s but subsequently narrowed after 1988. Japanese investment in Korea tended to be concentrated in the engineering sectors, reinforcing Korean-Japanese production linkages in these areas. U.S. and European investments have been mainly in the manufacturing sectors, although there has been a recent build-up of investments in the financial services sector. European investments in 1991 were almost quadruple those of 1990, mainly because of holdings acquired by a single company in engineering and chemical sectors.

\[15\] The privileges are not provided to firms in the Seoul area, to discourage greater movement of population to the capital.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

112. In the early 1960s, Korea switched to an outward-oriented growth strategy through the introduction of a more neutral system of incentives encouraging the emergence of an industrial export structure roughly reflecting Korea's comparative advantage. Despite a halt during much of the 1970s, these incentives were subsequently lowered gradually so that, by the early 1980s, export subsidies had been virtually eliminated and border protection for imports considerably reduced. The process of trade liberalization accelerated during the 1980s, under pre-announced tariff and non-automatic import licensing reduction programmes. At the same time, the authorities moved away from a firm-specific industrial policy toward one that emphasized greater reliance on market signals (Chapter I(1)).

113. This chapter provides an overview of Korea's trade-related policies and practices, according to whether the measures operate directly on imports, exports or, more generally, trade and production. Not all the measures applied are deliberately designed to influence trade. Nor are the ultimate effects of any of the measures described in this chapter confined to delimited segments of the economy. For example, import restrictions in agriculture, though rationalized on the grounds of social necessity, will affect production in other sectors and ultimately reduce the economy's overall productive capacity.

114. The unweighted average nominal tariff in Korea is of the order of 10 per cent, to be reduced to about 8 per cent by 1994. Tariffs on non-agricultural products average about 8.5 per cent, with few peaks; however, escalation provides protection to producers in a number of areas, including leather products and textiles. Tariffs on agricultural goods average about 19 per cent, with rates of 30 to 40 per cent common throughout the sector. The overall tariff structure is complicated by the use of both abatements and tariff quotas.

115. The scope of non-automatic import licensing has been considerably reduced. The few remaining requirements apply mainly to agriculture. However, the application of individual laws to address domestic policy concerns, including health and safety standards, can give rise to trade impediments, particularly in the areas of pharmaceuticals and agriculture. In the latter sector, self-sufficiency in rice and barley and the maintenance of farm incomes are central objectives of policy. These aims are supported by an effective import ban on rice and barley, import quotas on a number of other agricultural products and a wide range of price stabilization schemes. In some instances, the authority to approve
imports has been delegated to industry associations, suggesting scope for discretion by interested parties.

116. Korea makes limited use of anti-dumping and safeguard measures. Government procurement remains dominated by restricted tendering, with foreign suppliers normally only eligible if the required goods are not produced in Korea. Technical and safety standards are applied under a fairly large number of laws, often requiring type testing of products before import permission is granted; however, efforts are underway to harmonize national standards with related international norms.

117. Since 1986, Korea has used "diversification" and "localization" programmes with the intention, at least in part, to reduce trade imbalances with major partners. The localization programme lends financial support for import-substitution, while the diversification programme officially discourages imports of designated items from specific sources.

118. A notable feature of Korea's export régime is that some 20 per cent of all 6-digit tariff lines under the Harmonized System are affected by selective restraints to certain countries. While many of these restraints result from bilaterally negotiated Governmental or inter-industry agreements, or from anti-dumping measures imposed by importers on Korean products, a significant number are unilateral restrictions on exports, taken by Korea to prevent possible measures by importers. Certain other export prohibitons apply on raw materials, mainly for resource preservation and environmental protection.

119. Korea maintains no significant direct export subsidies. However, the operation of the export credit system can result in the preferential availability of export financing. In the period October 1991 to June 1992 a special loan programme financed exports to Japan.

120. Since 1986, Korea has supported structural adjustment in a number of industries, including automobiles and textiles. Recently, the emphasis of industry support has shifted toward research and development and the promotion of efficiency in smaller-scale enterprises. Loans to the latter are at market related rates although, under banking legislation, they are accorded preference in the availability of loans. To prepare the agricultural sector for further import liberalization and to encourage employment of farmers in other sectors, the authorities recently established a special fund for structural adjustment in agriculture.
(2) Registration and Documentation for Traders

121. Most exports and imports require licences. These are mainly granted to traders licensed under the authority of the Ministry of Trade and Industry (MTI) and registered with the Korea Foreign Trade Association (KFTA). The Association is a non-governmental, juridical body that provides trade policy advice to the Government and trade information and development services to its members. The KFTA is financed by membership fees, equivalent to a charge of 1/25th of 1 per cent of a trader's imports, service charges and the sale of trade publications.

122. The Foreign Trade Act of 31 December 1986 permits two types of registered traders: A- and B-class Trade Businesses. A licence to establish as an A- or B-class trader is granted to a Korean corporation or individual, under powers delegated by MTI, by the local authorities of the applicant's domicile, and to foreigners by MTI. MTI may designate a trade business as a General Trading Company (GTC). A GTC's stock is to be quoted on the Korea Stock Exchange and each GTC must account for more than 2 per cent of Korea's annual exports (Note IV.1).

123. A-class traders may freely engage in all legal import and export activities, provided that they meet certain financial criteria and maintain a minimum export or import value of US$0.5 million in either of the last two calendar years. The same conditions apply to foreigners, provided that they meet the criteria of the Foreign Capital Inducement

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1 Exceptions to the licensing requirement include emergency exports or imports, and goods exported or imported by diplomats or for purposes other than commercial transactions.

2 Exceptions to the requirement that exports and imports be affected only by registered traders are: (a) imports for their own use by State organs, local governments, universities, research institutes, non-profit juridical persons, the Korea Electric Power Corporation, the Korea Telecommunication Authority, and the Korea Petroleum Development Organization; (b) capital-goods imports under the Foreign Capital Inducement Act; (c) exports and imports requiring a foreign exchange transaction of less than US$50,000 unless otherwise specified by MTI; and (d) exports and imports for emergency or non-commercial reasons, and by diplomats and emigrants.

3 One-half of the import fee is passed on to the Korea Trade Promotion Corporation (KOTRA).

4 The Mayor of the city or Governor of the Province.

5 A stamp duty of Won 20,000 is levied on all applications to establish as a registered trader.

6 In order to be licensed as an A-class trader a corporation must have a paid-in capital of at least Won 50 million (equivalent to about US$67,000), and an individual must have a daily bank deposit balance that exceeds Won 50 million in the month prior to lodging the application for a licence.
Act, notably a 50 per cent or greater equity holding in the firm applying for an A-class trade licence.

124. The issuance of B-class trade licences is limited, essentially, to enterprises to allow them to conduct their own trading activities. No financial criteria need be met to be granted a licence, and nor does a minimum level of trade need to be sustained for the retention of the licence. Legally established local branches of foreign firms are freely granted B-class trade licences.
Note IV.1 General Trading Companies

The Government first introduced a system of General Trading Companies (GTCs) in 1975 to specialize in international marketing. The need for GTCs grew out of the lack of efficiency of small-scale individual salesmanship on the international market and the tendency of Korean exporters to rely on Japanese trading companies. Normally associated with "chaebols" (Chapter I), the GTCs were initially viewed also as a supportive element of the Heavy and Chemical Industries drive of the 1970s, by finding and diversifying markets for higher value-added products. The 12 GTCs licensed in the period 1975-77 were required to meet minimum export targets in at least seven different products to no less than 10 countries and to post a minimum of 10 agents abroad. In return, the GTCs and their parent "chaebols" were granted preferences, particularly in the allocation of bank loans, access to imports and in establishing local and overseas corporations. By 1977, the GTCs accounted for 21.4 per cent of Korea's exports; the level grew steadily to a peak of 50 per cent in 1985: see the accompanying table, drawn on the basis of information provided by the Korean Ministry of Trade and Industry.

Following the abandonment of the Heavy and Chemical Industries drive in 1979, the preferences accorded to the GTCs were gradually reduced and were eliminated by 1985. Licensing conditions were also simplified, with the stress now on GTCs acting as agents for the trading activities of small- and medium-scale enterprises. Thus, if a GTC is deemed by the Minister of Trade and Industry to be needed to support the trading activities of small- and medium-scale firms, the requirements to be listed on the Korea Stock Exchange and to account for over 2 per cent of exports may be waived.

The importance of GTCs in Korea's trade has declined since 1985. The share of GTCs in exports has fallen by 12 percentage points, to 38 per cent in 1990, and their number is down to eight. No particular advantages are now associated with GTC status. Further, with a view to reducing the concentration of economic ownership, the parent "chaebols" of GTCs are under legal pressure to limit their investment in affiliated companies and to increase the number of their shareholders. Nevertheless, the GTCs remain an important force in Korean export growth and diversification, backed as they are by a world-wide sales network and the production base of their parent companies.

The GTCs do not play a major rôle in introducing imports into the Korean distribution system, being unlikely to import products to compete with those of their parent companies. This may change, however, as their links with the "chaebols" are weakened under wider ownership of their shares and decentralized management. At present, the import activities of the GTCs tend toward meeting requirements of small- and medium-scale enterprises and those of their parent companies, although both groups of firms also use their own in-house licensed traders for their imports of components and materials.
## Exports and Imports by General Trading Companies
(Millions of U.S. dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Samsung Co. Ltd.</td>
<td>390</td>
<td>23</td>
<td>3,019</td>
<td>1,105</td>
<td>6,281</td>
<td>3,096</td>
</tr>
<tr>
<td>Hyundai Corp.</td>
<td>-</td>
<td>-</td>
<td>3,972</td>
<td>1,731</td>
<td>5,783</td>
<td>3,453</td>
</tr>
<tr>
<td>Dalwoo Corp.</td>
<td>362</td>
<td>50</td>
<td>2,994</td>
<td>532</td>
<td>4,665</td>
<td>845</td>
</tr>
<tr>
<td>Lucky-Goldstar Corp.</td>
<td>199</td>
<td>45</td>
<td>1,445</td>
<td>341</td>
<td>2,914</td>
<td>673</td>
</tr>
<tr>
<td>Ssang-yong Corp.</td>
<td>117</td>
<td>43</td>
<td>1,264</td>
<td>396</td>
<td>1,706</td>
<td>516</td>
</tr>
<tr>
<td>Sunkyong Corp.</td>
<td>176</td>
<td>56</td>
<td>929</td>
<td>990</td>
<td>1,619</td>
<td>913</td>
</tr>
<tr>
<td>Hyosung Corp.</td>
<td>153</td>
<td>26</td>
<td>901</td>
<td>218</td>
<td>1,502</td>
<td>396</td>
</tr>
<tr>
<td>Korea International Trading Ltd.</td>
<td>24</td>
<td>29</td>
<td>135</td>
<td>75</td>
<td>240</td>
<td>140</td>
</tr>
<tr>
<td>Kukjo Corp.</td>
<td>297</td>
<td>75</td>
<td>496</td>
<td>91</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Hamil Corp.</td>
<td>127</td>
<td>60</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Samhwa Corp.</td>
<td>167</td>
<td>17</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Keumho Corp.</td>
<td>135</td>
<td>14</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total of above</td>
<td>2,147</td>
<td>437</td>
<td>15,155</td>
<td>5,479</td>
<td>24,710</td>
<td>10,032</td>
</tr>
</tbody>
</table>

**GTCs as a percent of total**

<table>
<thead>
<tr>
<th></th>
<th>1977</th>
<th>1985</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>21.4</td>
<td>50.0</td>
<td>17.6</td>
</tr>
<tr>
<td>Imports</td>
<td>4.0</td>
<td>17.6</td>
<td>38.0</td>
</tr>
</tbody>
</table>

**Source:** Ministry of Trade and Industry, Republic of Korea.
125. Imports are normally ordered against an "offer sheet", which is a commercial document listing prices, quantities and delivery dates for items to be imported. Offer sheets are issued by A-class Trade Agencies, acting as the agent for a foreign exporter, or exporters, and duly licensed by MTI and registered with the Association of Foreign Trading Agents of Korea (AFTAK). No financial criteria need to be met to be licensed as an A-class trade agent, but such agents are required to maintain a record of commissions of at least US$30,000 in any of the two immediately preceding calendar years in order to retain a licence. B-class trade agency licences are issued by MTI to agents of foreign importers; holders of such licences are required to register with the Korea Export Purchasing Association. Registered traders, including GTCs, usually also hold trade-agency licences.

(3) Measures Directly Affecting Imports

(i) Tariffs

126. Korea has undertaken an almost continuous process of tariff reform since its adoption of outward oriented policies in the early 1960s. The objective has been to increase the competitiveness of industry by lowering tariffs, narrowing their dispersion and improving the predictability and transparency of border controls. By end-1983, the simple average tariff rate had been reduced to 23.7 per cent from about 40 per cent in 1962. A further tariff reform programme was implemented in the period 1984-88 as part of a comprehensive liberalization package which, besides lowering tariff rates, aimed at restricting and reducing the industry-specific use of tariff abatements as a tool of industrial policy. Under the programme, the average tariff was lowered to 18 per cent and tariff dispersion was substantially narrowed. A new five-year tariff reduction programme was introduced in 1988; in 1990 its staged implementation was deferred by one year to offset losses in fiscal revenue resulting from the elimination of

7 Imports can be made without an offer sheet from an AFTAK member in the following four cases: (i) imports of raw materials for the production of exports; (ii) imports for joint-ventures or technology cooperation; (iii) defence-industry imports; and (iv) imports from a foreign company without an agent in Korea, subject to an AFTAK confirmation of the terms of the import contract.

8 A stamp duty of Won 20,000 is levied on all applications to establish as a trade agent.

the defence tax.\textsuperscript{10} By 1994, the average unweighted tariff will be reduced to 7.9 per cent, with virtually 94 per cent of tariffs at or below 10 per cent. The average tariff on agricultural products will remain relatively high compared to that on non-agricultural products, at average rates of 16.6 per cent and 6.2 per cent, respectively (Table IV.1).

127. The Korean tariff schedule is annexed to the Customs Act of 1949 and falls under the jurisdiction of the Ministry of Finance. The tariff is relatively complex in that it provides for rates on 10,274 10-digit lines under the Harmonized System (H.S.).\textsuperscript{11} The Act provides for a flexible tariff system, designed to cope with short-term changes in industrial and economic conditions; as such, it includes provisions, \textit{inter alia}, for emergency and adjustment duties as well as for a tariff quota system, countervailing and anti-dumping duties and the abatement of duties.

128. There are three different rates in the Korean Tariff Schedule: for each year of the tariff reduction programme up to 1994, the Schedule specifies statutory or basic rates, temporary rates and concessionary, GATT bound rates. The lowest of the three rates applies.

129. Almost all Korean tariffs are applied on an ad valorem basis, except for specific duties on 20 10-digit H.S. lines for cinematographic film and one 10-digit line for recorded video tapes. These duties are maintained, according to the Korean authorities, in order to avoid customs valuation difficulties and to promote the importation of high quality film and tapes.

130. Duties are applied on an m.f.n. basis, except in the case of preferences negotiated under the First ESCAP Agreement on Trade Negotiations Among Developing Countries in the Asia-Pacific Region (the Bangkok Agreement) of 1976, the Global System of Trade Preferences (GSTP) and the 1971 Protocol Relating to Trade Negotiations Among Developing Countries (TNDC). In 1990, imports under these agreements amounted to

\textsuperscript{10}The defence tax was repealed with effect from 1 January 1991; it had been levied as a surcharge of 2.5 per cent on customs duties and, at various rates, on other taxes. Revenues from the tax accounted for between 10 per cent to 12 per cent of the Government's tax revenue, roughly equivalent to the share of import duties in tax receipts (Table IV.1).

\textsuperscript{11}Korea implemented the Harmonized System (H.S.) on 1 January 1990, with 10,205 10-digit items; reclassifications and the development of new products raised the number of 10-digit lines to 10,241 in 1989 and to 10,274 in 1990.
some US$360 million, or 0.5 per cent of total imports, at an average preferential margin of 11 per cent on the basic tariff rate.  

131. Data from the GATT Tariff Study shows that, in 1988, some 11 per cent of all Korean 10-digit H.S. tariff lines were either fully or partially bound (Chart IV.1). For agriculture the share was 19 per cent (including 1 per cent of partially bound lines), and for industrial products 10 per cent of all tariff lines were bound (including 2 per cent of lines partially bound). At the 6-digit H.S. level, the bindings covered part or all of 23 per cent of all lines. Under Korea's Uruguay Round tariff offer, some 83 per cent of all 6-digit H.S. lines would be partially or totally bound. In 1988, 22 per cent of Korea's imports entered under fully or partially bound rates; the share in agriculture was 34 per cent, all under fully bound rates, and 22 per cent in industry (including 2 per cent of industrial imports under partially bound rates).  

(a) Tariff averages, peaks and escalation  

132. In the industrial sector, the simple average tariff of the lower of statutory and GATT bound rates in 1992 is 10.2 per cent; dispersion, as measured by the standard deviation, is 2.4 per cent (Table IV.2). If reductions due, for example to abatements and temporary duties, are taken into account the average applied industrial tariff is in the order of 8.5 per cent. In agriculture, the average rate is 19.8 per cent, with a standard deviation of almost 10 per cent; taking reductions into account, the average is some 19 per cent.  

133. Across the industrial sectors, average tariffs range from a low of zero per cent for works of art to a high of 12.1 per cent for footwear and travel goods. Tariff peaks of 20 per cent occur for only three 10-digit H.S. lines (for casein). Tariff rates for motor vehicles are at 17 per cent, to be reduced to 15 per cent in 1993 and 10 per cent in 1994. In no other cases do industrial tariffs exceed 13 per cent. In the main, dispersion of tariffs within industrial sectors is moderate, with standard deviations generally in the order of 2 per cent to 4 per cent and at a high of 6 per cent for transport equipment.  

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12 Under the Bangkok Agreement, Korea extends an average preferential margin of some 30 per cent on imports under 237 6-digit H.S. lines from Bangladesh, India, Laos and Sri Lanka, mainly in the area of textiles and clothing, paper products and light manufactures. GSTP preference margins average 10 per cent on the basic rate on imports under 25 6-digit H.S. lines, with cane sugar from Thailand and cathodes from Chile and Peru accounting for 86 per cent of US$336 million of Korean imports under the System in 1990. Under the TNDC, Korea accords preference margins of 10 per cent on the basic rate on imports of 12 6-digit H.S. tariff lines, with tobacco from Turkey amounting to 90 per cent of Korean imports under the scheme in 1990.
Chart IV.1
Bound tariffs in Korea, 1988

a) Bound tariff lines

Percentage of tariff lines

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Industry</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unbound</td>
<td>18</td>
<td>8</td>
<td>89</td>
</tr>
<tr>
<td>Fully Bound</td>
<td>81</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>Partially Bound</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

Source: GATT Tariff Study.

b) Imports under bound tariffs

US$ Billion and per cent

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Industry</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unbound</td>
<td>34</td>
<td>20</td>
<td>78</td>
</tr>
<tr>
<td>Fully Bound</td>
<td>66</td>
<td>20</td>
<td>78</td>
</tr>
<tr>
<td>Partially Bound</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

Source: GATT Tariff Study.
134. By contrast to industry, the average tariff in agricultural sectors is below 10 per cent only in the case of grains, and ranges to highs of 38 per cent for both dairy products and beverages. In the latter sector, virtually all fruit juices have tariff rates of 50 per cent, a rate which also applies to most fruits and some vegetables and nuts. In general, rates of 30 to 40 per cent are relatively common throughout the agricultural sectors. The dispersion of tariff rates within the agricultural sectors is also more pronounced than in industry, with standard deviations ranging to highs of 14.2 per cent and 11.5 per cent in foodstuffs and beverages, respectively.

135. Data on average tariffs for industrial and agricultural products by stages of processing show the presence of tariff escalation in a fairly wide range of product categories as between primary, semi-manufactures and manufactured products (Table IV.3). Tariff escalation is steeper for industrial than for agricultural products, mainly because in certain agricultural sectors, notably foodstuffs and dairy products, the escalation is limited by high nominal tariffs on imports of raw materials to protect local producers. In industry, tariff escalation is more pronounced in sectors where Korea has a fairly high self-sufficiency ratio, including certain metal products, leather and footwear, fertilizers, paper products and textiles and clothing.

136. Tariff averages do not accurately reflect effective duty collections. On average, collected import duties have been fairly stable at 6.2 per cent of the value of total imports throughout the 1980s. This results largely from the operation of the duty drawback scheme on imported materials used in the production of exports. However, tariff abatements also play a role, as has the m.f.n. implementation of tariff reductions negotiated bilaterally. On the latter, following bilateral negotiations with the European Communities, Hungary and the United States, Korea has, since mid-1987, lowered tariffs on more than 1,000 10-digit H.S. lines (equivalent to some 10 per cent of all lines). These have been implemented by Presidential Decrees, as an "International Cooperation Tariff". The reductions comprised, in 1987 to 1989, a lowering of rates by up to 20 percentage points on some 900 items, including vehicles, television sets, tools, fruits and cosmetics; and, in 1990 and 1991, the implementation of lower tariffs on over 100 items, mainly for telecommunication equipment but also for alcoholic beverages, steel and aluminium products. Many of the reductions have been in advance of those foreseen under the tariff reform programmes, and have subsequently become

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13 There is also a downward bias in the weighted average tariff, with demand for an import negatively related to its nominal tariff rate.
an integral part of the Tariff Schedule. At present, Korea still has in effect tariff reductions under the "International Cooperation Tariff" on 115 10-digit H.S. lines, mainly on telecommunications equipment and alcoholic beverages.

137. As tariff abatements, Korea presently allows reductions of 80 per cent on the base tariff rate for imports of 88 items, at the 10-digit H.S. level, related to pollution control and waste recycling. In addition, base tariffs are reduced by 50 per cent on 823 products imported by high-technology industries and on 183 items used by the defence industry. Further, in an effort to help increase income for farmers and fishermen, a 100 per cent tariff exemption applies to imports of various purebred animals and certain seeds, including some for animal feed. Tariff reductions of 80 to 90 per cent also apply to imports of research and development equipment by accredited research institutions, including inter-company technical colleges.

(b) Temporary duties

138. Korea applies a system of temporary duties, normally at rates below the statutory levels (Table IV.4). The temporary rates, recorded in the Tariff Schedule for each year of the tariff reduction programme, are applied on an m.f.n. basis. They have often been used as advance reductions of rates in anticipation of the programmed lowering of statutory duties. Thus, in 1992, temporary duties were eliminated on some 310 10-digit H.S. lines in the textiles and clothing sector when the planned tariff reductions on these lines brought the statutory rates down to the previously prevailing temporary rates of 11 per cent.

139. At present, there are very few temporary duties. They remain in place on 38 10-digit lines, mainly in areas where either Korea's import dependence is fairly high, such as ores and metals, or where industrial

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14 The reductions were 60 per cent in 1991 and are expected to be 40 per cent in 1993. The items on which tariffs are reduced include: 341 items for the microelectronics industry, including gas generators, laser processors and light-wave analysers; 109 items for the precision machinery industry, including measuring apparatus and computers; 111 items for the new materials industry, including projectors and laser welders; 75 items for the chemical industry, including gas detectors and heat exchangers; 7 items for the biology sector, including cell crushers; 124 items for light industry, including signal generators and capacity testers; and 56 items for the aircraft industry, including gyroscopes and robots. The 183 items used by the defence industry to which tariff reductions apply include automatic meters, amplifiers and acceleration testers.

15 The product groups are: purebred breeding mares, ducks, minks, foxes, oatseeds, grain sorghum seeds for animals, rapeseed for animal feed, and breeding pearl oysters.
Adjustment efforts are underway, as in textiles. Most of these duties will remain in place through 1994. However, in 1993 the temporary duties on eight 10-digit H.S. lines will be eliminated when the statutory rates on certain machines and diagnostic equipment are to be reduced from 11 per cent to 9 per cent, below the prevailing temporary rates of 10 per cent.

(c) Retaliatory, price stabilization, emergency and adjustment duties

140. Any of the above duties can be temporarily implemented by Presidential Decree if deemed necessary by the Minister of Finance. They are applied on an m.f.n. basis, with the exception that retaliatory duties can be applied selectively against imports from countries that discriminate against Korean exports. No retaliatory duties are in place. Price stabilization duties, which may serve either to raise or lower the base tariff rate, can be used in the event of, or to forestall, severe price fluctuations in imports, including those of seasonal products; no such duties are now in use. Both emergency and adjustment duties are designed to serve essentially as safeguard measures. With the introduction of new safeguard regulations, under the Foreign Trade Act, in January 1987, the use of the latter duties has been largely phased out. At present three emergency and three adjustment duties are in place, each of which is to be eliminated before, or by the end of 1993.\(^\text{16}\)

(ii) Tariff quotas

141. Korea uses tariff quotas to stabilize domestic commodity prices (usually of raw materials and semi-processed goods) through temporary changes of tariffs on specific quantities of merchandise. In cases where there is no domestic production of a specific good, all imports of the article may become eligible for the tariff quota rate. The quotas, applied on an m.f.n. basis, are announced by the Minister of Finance at the start of each calendar year. They are based on estimates of the anticipated supply and demand situation for items for which either a ministry or an interested party has suggested the use of a tariff quota.

142. Fairly active use has been made of tariff quotas in the period since the early 1980s (Table IV.1). At present they apply to items under

\(^\text{16}\) The emergency duties in place are: 40 per cent on swine meat in airtight containers, from July 1991 to June 1993; 30 per cent on talcum powder, from July 1991 to June 1993; and 25 per cent on linear-LDPE film, from October 1990 to September 1992. The adjustment duties in effect are: 53 per cent on chopsticks, from April 1991 to March 1993; 60 per cent on Chinese vermicelli, from January 1991 to December 1993; and 15 per cent on plywood, from January 1991 to December 1993.
74 4-digit H.S. lines, affecting approximately 1 per cent of all imported products (Table IV.5). However, because of the inclusion of items such as petroleum, some 16 per cent of the value of total imports falls under tariff quotas. In almost all cases, the tariff quota rate is substantially below the statutory rate, although for bananas and soybean oil the rates are significantly higher. In the case of 18 items, including petroleum, the tariff quota covers all imports.

(iii) Variable import levies

There are no variable import levies applied by Korea.

(iv) Customs valuation and clearance

Korea is a signatory to the MTN Agreement on the Implementation of Article VII of the General Agreement (the Customs Valuation Code). Recent amendments to the Customs Act, to rationalize the valuation procedures for imports, were found by the Code's signatories to be in accordance with Korea's obligations under the Code. The transaction value of imported goods is basically used as their customs value. As a result of measures taken by the authorities since 1988 to simplify and expedite customs clearance procedures, the average time needed for imported goods to clear customs has been reduced from 2.7 days in 1987 to 7 hours in 1991. Since 1 January 1991, a pre-import valuation system has been available, under which documents are submitted to customs prior to the arrival of goods. Additionally, a post-clearance valuation system, under which the value of imported goods is examined by customs after the release of imported goods, also has been available since 1 January 1991. Self-assessment of duties

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17 The tariff quota rates for bananas and soybean oil (with statutory rates in brackets) are 90 per cent (40) and 25 per cent (13), respectively; imports of bananas are typically some 40 per cent of the 1992 tariff quota amount of 50,000 metric tons, and those of soybean oil are generally in line with the 1992 tariff quota volume of 10,000 metric tons.

18 The 18 items and their respective tariff quota rates (with statutory rates in brackets) are: ducks, zero per cent (20); sunflower-seed oil, 25 per cent (35); propanes, 1 per cent (5); butanes, 1 per cent (5); petroleum bitumen, 2.5 per cent (5); venadic pentaoxide, 5 per cent (13); zirconium dioxide, 8 per cent (11); yttrium oxide, 8 per cent (11); methanol, 2 per cent (5); silicones in primary forms, 8 per cent (11); cellulose acetates, 8 per cent (10); tropical wood in the rough, 1.5 per cent (2); artificial staple fibres, 5 per cent (13); unrefined lead, 2 per cent (4); weaving machine parts, 10 per cent (13); crude oils, 1 per cent (5); gas oils, 1 per cent (5); and bunker oils, 1 per cent (5).

19 GATT document VAL/M/27.
is allowed to importers, subject to customs checking whether the self-assessed duty is correct; this facility is used for some 90 per cent of all imports.

145. Complaints about customs valuation and other customs measures can be filed with the head of the customs office concerned, or the Commissioner of the Korean Customs Administration, within 60 days of an initial custom's decision (or within 90 days when the duty payer resides outside of Korea). Complaints are normally reviewed by the Tariff Review Commission, composed of senior officials from relevant ministries. If unsatisfied, complainants may seek judicial proceedings under the National Tax Act. In the period 1989-1991, some 80 complaints per year were filed, of which about 10 per cent were upheld.

(v) Levies and other charges

146. Korea applies no border duties or levies other than tariffs.

147. A value added tax (VAT) of 10 per cent is applied, with certain exceptions, to both domestically produced and imported goods and services. VAT is zero-rated on exports, and on all inputs for export production. Exempt items, whether imported or domestically produced, include basic unprocessed foodstuffs, books and newspapers.

148. Excise taxes are levied on specific luxury and durable goods, whether domestically produced or imported. These include (with excise tax rates in brackets): certain jewellery (60 per cent); electric refrigerators and washing machines (15 to 20 per cent); colour television sets (15 to 20 per cent); automobiles (10 to 25 per cent); and movie projectors (25 per cent). Excise taxes are also levied on certain items subject to "consumption restraint", including coffee (20 per cent), cocoa, sugar and soft beverages (10 per cent) and gasoline (100 per cent).

(vi) Minimum import prices

149. Korea does not maintain minimum import prices on any products. However, as a result of anti-dumping cases, price undertakings are in effect on imports of dicumyl peroxide from Japan and Taiwan, and alumina cement from France.

(vii) Import prohibition

150. The Korean Import Notice of import restricted items lists no products subject to import prohibitions. Under the Customs Act, the importation of the following goods is prohibited: (i) counterfeit coins, bank notes and securities; (ii) goods revealing confidential information of the
Government; and (iii) books, publications, drawings, films, phonographic records, sculptures, and other similar items that infringe upon the constitutional order or harm public security or customs.

151. The Foreign Trade Act prohibits the importation of goods if they infringe on patent rights, utility rights, design rights, trademark rights, copyrights, quasi-copyrights and programme rights protected under the laws and regulations of the exporting country. Upon detection of such goods by random checking, customs withholds clearance and prosecution is pursued of those involved in the attempted importation of the articles. Penalties of up to Won 20 million or of five years imprisonment can be exacted.

(viii) Import licensing

152. Article 19 of the Foreign Trade Act specifies that most imports require approval from the Minister of Trade and Industry. In practice, under the authority delegated by the Minister, import licences are processed and issued by a foreign exchange bank upon presentation of the appropriate commercial documentation and, if necessary, a recommendation from the authorities concerned. Korea has observer status to the MTN Agreement on Import Licensing, pending possible accession to the Agreement in the light of the results of the Uruguay Round.

153. The approval of licences is automatic unless items are on the restricted list, published annually as the Import Notice, or fall within the purview of certain individual laws that might affect trade (Table AIV.1). Notable among such laws is the Foodgrain Control Act. The Act requires the National Assembly to give approval annually for imports of rice and barley for food purposes, if the price stabilization schemes for these products indicates a shortage of domestic supply. As the rice and barley programmes are designed to achieve self-sufficiency through high administered prices, there have been no imports of such products for food purposes in the past five years.

154. The number of items on the restricted list has been reduced gradually through a series of liberalization programmes. Under the first such


21 A foreign exchange bank is one authorized by the Bank of Korea to engage in foreign exchange transactions; at end-1991 there were some 1,900 such banks and their branches throughout Korea.
programme, from 1978 to 1982, the scope of the restricted list was reduced from 50 per cent to 23 per cent of all tariff lines. Subsequently, the Government announced a five year programme for 1984-1988, with additional liberalization undertaken in 1987 and 1988 following the emergence of trade surpluses and bilateral negotiations with major partners. By 1988, the scope of the restricted list had been reduced to 4.5 per cent of all tariff lines (Table IV.6). A subsequent programme, through 1991, left non-automatic licensing under the Import Notice in place on 283 10-digit H.S. lines, affecting some 1.5 per cent of total imports (Table IV.7).

155. All remaining restrictions will be eliminated or brought into conformity with GATT provisions by 1 July 1997, consequent upon Korea's disinvocation of GATT's balance-of-payments provisions (Article XVIII:B), with effect from 1 January 1990. As a first step, Korea announced a three year programme in March 1991 for the removal of 133 items from the restricted list, with an initial 43 items removed at the beginning of 1992 (Table IV.7).

156. Almost all the items remaining on the restricted list are agricultural products. In a number of cases, the licensing requirements on agricultural imports support price stabilization programmes. This is the case for beef, pork, chicken, milk, a number of vegetables, including beans, potatoes and onions, and a variety of condiments, such as pepper, garlic, sesame and onions. For most of these products, the Minister of Trade and Industry has delegated the authority to recommend the issuance of a licence to the Ministry or organization administering the price stabilization programme. Thus, the National Livestock Cooperative Federation, a government agency, authorizes licences for pork and chicken imports when domestic market prices for these products exceed the upper limit of the price stabilization band that is established annually.

157. Licensing restrictions on other agricultural products normally support official Government policy to maintain incomes in the sector at a level equivalent to that of urban wage earners. The authority to recommend the approval of licences in these cases is usually with the Ministry of Agriculture, Forestry and Fisheries, or its agencies.

22GATT document BOP/R/183 and Add.1.
23GATT document L/6834.
24Including 8 10-digit H.S. items relating to raw silk.
25In 1991 imports of pork were equivalent to some 3 per cent of domestic production; there have been no imports of chicken for the past five years. (Source: Ministry of Agriculture, Forestry and Fisheries, Republic of Korea.)
However, in some instances it has been delegated to other ministries, as the Ministry of Health and Social Affairs for certain beverages, or to independent industry organizations, such as the Korea Dairy Industries Association for butter and cheese.  

158. The few remaining licensing requirements under the Import Notice for imports of industrial products are normally in support of small-scale producers, as for salt, or for declining industries in the process of adjustment, as is the case for anthracite. For all but one of these restrictions the authority to recommend the approval of licences has been delegated to private organizations, either producers or the relevant exporters association. Under Article 55 of the Foreign Trade Act, import and export associations are charged to contribute to the maintenance of order in foreign trade.  

159. Apart from licensing requirements under the restricted list, import licences or specific import procedures may be necessary under certain individual or regulatory laws. With few exceptions, notably the Foodgrain Control Act, these laws enforce health, safety and other standards, and apply equally to imported and domestic goods, including those that are exported. Important examples of import regulations, not specified in the Import Notice of restricted items, are as follows, with import licences granted automatically by a foreign exchange bank once the required approval has been obtained from the appropriate authority (in brackets):  

- import approval, under the Foodgrain Control Act, for rice and barley (National Assembly), corn, potatoes and starches (National Agricultural Cooperative Federation), soybeans (Korea Soyabean Processors Association), and pulses (Agricultural Food Marketing Corporation) in support of price stabilization programmes;  

- import approval, under Agricultural Feed Management Act for feed ingredients (Korea Food Industries Association) and corn for feed (Korea Livestock Cooperative Federation), to implement safety standards;  

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26 Recommending bodies mentioned in Table IV.7, or in the text, with the word Korea in their title are industry associations. All other recommending bodies are ministries or government agencies.  

27 The listing is based on information supplied by the Economic Planning Board, Republic of Korea.
import licences (Ministry of Health and Social Affairs) under the *Pharmaceuticals Act*, for type approval\(^{28}\) of 14 (6-digit H.S.) finished pharmaceutical products, to implement public health standards. Under the same Act an import approval is required for 105 (6-digit H.S.) healthcare and pharmaceutical-related items (Korea Pharmaceutical Trade Association) and 33 6-digit H.S. items relating to medical apparatus (Korea Medical Instruments Association);

- permit as an importer (from the Ministry of Agriculture, Forestry and Fisheries), under the *Agricultural Chemicals Management Act*, for agricultural chemicals, to ensure their safe use;

- approval as a trader (by the Korea Tobacco and Ginseng Corporation), under the *Tobacco Act*, for leaf tobacco and its related products, to promote the development of the tobacco industry and to maintain orderly trade;

- approval as a trader, under the *Ginseng Business Act*, for ginseng and related products, for the same reasons and under the same recommending body as in the case of leaf tobacco, above;

- acceptance of an import declaration (by the Industrial Advancement Administration), under the *Electrical Appliances Safety Control Law* for type approval\(^{29}\) of 338 (6-digit H.S.) electrical appliances and materials, to ensure abidance by safety standards;

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\(^{28}\)Type approval is required only for the initial imports of an item, provided the importer remains the same; thereafter the Ministry of Health and Social Affairs automatically grants a licence.

\(^{29}\)Type approval can be granted for three to seven years, during which an import declaration is automatically accepted.
Chart IV.2
Import procedures for pharmaceuticals

1. Type testing for health and standards
   Importer
   National Institute of Health
   National Institute of Safety and Research
   Provincial health and environmental institutes

2. Report to importer

3. Import license from Ministry of Health and Social Affairs

4. Import license (automatic) from foreign exchange bank: open a letter of credit

5. Arrival of goods and customs clearance

6. Goods with importer

7. Sample inspection

8. Report to importer

9. Ministry of Health and Social Affairs: Labelling inspection

10. Domestic Sales

Note: Step 1, type testing, is required only for the initial imports, provided the importer remains the same. Steps 1 and 7 take approximately one month.

Source: Ministry of Health and Social Affairs, Republic of Korea.
import approval (by the Radio Research Laboratory), under the Basic Telecommunications Act, for type approval\textsuperscript{30} of 28 (6-digit H.S.) telecommunication items, to ensure safety standards;

import approval (by the Ministries of Transport and Environment), under the Motor Vehicle Administration Act, the Air Quality Control Law, and the Noise and Vibration Control Law, for type approval\textsuperscript{31} of motor vehicles and motor cycles, to ensure safety and abidance with environmental standards; and

import licence (from the Ministry of Energy), under the Petroleum Industry Act and the Liquified Petroleum Act, for most petroleum and petroleum products, as an energy conservation and orderly markets measure.

(ix) Import quotas

160. Korea does not maintain quotas under its Import Notice. However, other import quotas are in effect to support price stabilization schemes for beef, corn, soybeans and other grains. The respective quotas for 1991 were: beef, 115,000 metric tons\textsuperscript{32}, plus 7 per cent of the quota under a simultaneous buy/sell facility for use by tourist hotels, tourist restaurants, the National Livestock Cooperative Federation and the Korea Cold Storage Company\textsuperscript{33}; corn, 5.05 million metric tons; other grains, 150,000 metric tons; and soybeans, 730 metric tons. In addition, the National Assembly set an effective quota limit of zero for rice and barley by not authorizing imports under the annual price stabilization scheme for these products.

161. The quotas are applied on an m.f.n. basis, under competitive bidding by foreign suppliers. The quota amounts are set annually on the basis of estimated market conditions by the Ministry of Agriculture, Forestry and

\textsuperscript{30}See footnote 28, above.

\textsuperscript{31}See footnote 28, above.

\textsuperscript{32}Under bilateral negotiations with Australia, New Zealand and the United States, in consequence of dispute settlement cases (Chapter VI), Korea had agreed to a minimum quota level of 62 thousand metric tons for 1991 (GATT document L/6697).

\textsuperscript{33}Under the scheme the Livestock Products Marketing Organization matches demand from a qualified domestic bidder with a foreign supplier, in open competition.
Fisheries. Imports above quota limits may be permitted if there are indications of excess demand during the course of the year. Thus, for corn, other grains and soybeans, imports in 1991 were above the quota limits by 23 per cent, 3 per cent and almost 50 per cent, respectively.

(x) Import surveillance

162. Korea maintained an import surveillance list in the period 1983-1988. Sensitive items for which licensing procedures had been liberalized were put on the list temporarily to limit a surge in their importation. The issuance of import licences on the list required the approval of the Association of Foreign Trading Agents of Korea. With the adoption of safeguard procedures under the Foreign Trade Act of 1987 the number of items on the surveillance list was reduced substantially, to 34 in 1988 compared to 165 in 1983. Subsequently, the list was abolished on 1 January 1989.

(xi) State trading

163. The Korean authorities report four organizations with characteristics of State-trading enterprises. These are the Livestock Products Organization (LPMO), the Korea Tobacco and Ginseng Corporation (KT + GC), the Agricultural and Fisheries Marketing Organization (AFMC) and the Office of Supply (OSROK). In addition, the Government is the sole authorized importer of grain and barley, with its price stabilization activities for these products financed by the Grain Management Fund (GMF).

164. The Livestock Products Marketing Organization was established in 1988 with a mandate to oversee supply and demand for beef and to implement a price stabilization scheme, with the purpose of preserving the domestic production base for beef. It is the sole authorized importer of beef, and manages the annual beef import quota (Chapter IV(3)(ix)). Since 1990, the LPMO has not incurred any deficits on its operations, a performance made possible at least partly by the fact that in the period 1988 through October 1991 the domestic price of beef exceeded the import price by an

34 In the case of beef, the lower bound of a possible quota is determined in negotiations with Australia, New Zealand and the United States (footnote 31, above) and other interested parties.

35 Prior to 1988, the LPMO's functions were carried out by the National Livestock Cooperative Federation (NLCF).

36 This compares with deficits of US$21 million and US$15 million in 1988 and 1989, respectively; in 1987, the NLCF incurred a deficit of US$44 million on its beef operations. Source: GATT document L/6630/Add.15.
average of 90 per cent. It is to be noted, however, that due to rising imports, following the agreements reached with major suppliers, Korea's self-sufficiency in beef has fallen from 100 per cent in 1987 to 45 per cent in 1991.  

165. The Korea Tobacco and Ginseng Corporation replaced the Korea Monopoly Corporation in April 1989. It is charged with promoting the sound development of the tobacco and ginseng industries and with maintaining orderly trade in these products. The KT + GC and traders recommended by the Corporation are the only authorized importers of leaf tobacco, ginseng and related products. The Corporation has not imported any such products since 1989.  

166. Prior to 1 July 1988, the KT + GC and its designees were the sole authorized importers of manufactured tobacco. Since then, traders registered with the Ministry of Finance may freely import manufactured tobacco, at a tariff rate reduced from 50 per cent to 40 per cent in July 1988. Imports of manufactured tobacco have increased from 74 million packets in 1988 to 246 million packets in 1991.  

167. The Agricultural and Fishery Marketing Corporation was established in 1967 to implement price stabilization schemes for various agricultural products, including potatoes, red and green beans, red peppers, garlic, onion, sesame and peanuts. The Corporation maintains buffer stocks of the products under its purview, purchasing the items at prices established on the basis of production costs and prevailing market conditions. Stocks are released onto the market, at prevailing prices, during periods of perceived shortage. With the exception of beans and potatoes, imports of the above products are on the restricted list, under the Import Notice, with licences subject to the approval of the Ministry of Agriculture, Forestry and Fisheries or the AFMC. Under the Foodgrain Control Act, imports of potatoes require the approval of the National Agricultural Cooperative Federation and imports of beans need the permission of the AFMC.  

168. For the past decade, the Corporation's main intervention activity has been with respect to red pepper, garlic and onions. Since 1985, there have been no imports of red pepper and garlic; in 1991, onions were

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37 Source: Data supplied by the Ministry of Agriculture, Forestry and Fisheries, Republic of Korea.  
38 Source: Ministry of Finance, Republic of Korea.
imported for the first time since 1984, in an amount equivalent to 4 per cent of domestic consumption.  

169. The Office of Supply serves as the Government's procurement agent (Chapter IV(3)(xv)). It also maintains stockpiles of materials, specified annually by the Economic Planning Board in consultation with other ministries. The stockpiles, mainly of non-ferrous metals, are generally self-financing with OSROK intervening in the market, at prevailing prices, to forestall severe price fluctuations. OSROK has no special import privileges and procures stockpile materials under competitive bidding on the world market when the products are not available domestically.

170. The Grain Management Fund was established in 1970, under the authority of the Foodgrain Control Act, to finance the Government's management of basic foodgrains. Annually, the Government, subject to the approval of the National Assembly, sets (purchase and sale) intervention prices for rice and barley, with a view to maintaining Korean self-sufficiency in these products. The Government also sets the amount of the rice crop it will purchase, usually between 15 and 20 per cent of production, to achieve both price stability and food security. Similarly, the National Agricultural Cooperative Federation (NACF) negotiates contracts with barley farmers for the purchase of their crop; the Federation's deficits are financed by the GMF. If necessary, the Government imports rice and barley to maintain price stability. With the intervention purchase prices set higher than the sales prices, the GMF has incurred deficits in each year since its inception. In 1991, the GMF's deficit was US$1.44 billion, equivalent to 2.7 per cent of Government expenditure and 0.5 per cent of GDP.

(xii) Import cartels and related practices

171. The Monopoly Regulation and Fair Trade Act of 1980 prohibits import (or export) cartels. However, under the Foreign Trade Act, the Minister

\[39\] GATT documents L/6111/Add.12 and L/6630/Add.15 and data supplied by the Ministry of Agriculture, Forestry and Fisheries, Republic of Korea.

\[40\] Stockpiled materials generally account for less than 5 per cent of domestic demand. In 1990, purchases of stockpile materials amounted to US$75 million, of which 80 per cent was non-ferrous metals.

\[41\] A similar programme for wheat was dropped in 1984.

\[42\] Prior to 1987, the Government procured barley directly.

\[43\] Information provided by the Ministry of Agriculture, Forestry and Fisheries.
of Trade and Industry may authorize such cartels for imports (or exports) of specific goods from (to) a particular country, if a cartel is deemed necessary to maintain orderly trade. In cases where such cartels might restrict competition, prior consultation is required with the Fair Trade Commission, the body charged with the administration of the Fair Trade Act. The Commission has no record of any import (or export) cartels, or of consultations to establish such cartels, in Korea.

172. Sole importers and exclusive supply contracts are permitted under Korean competition law, provided that they do not act "in restraint of trade". For example, contracts that serve to restrict parallel imports are subject to investigation by the Commission, leading to corrective action if necessary. Import (or export) supply contracts with a term of one year or longer need to be reported to the Fair Trade Commission, for examination of restraint of trade. More than 200 such contracts were reported in 1991, with no irregularities found.

173. More generally, under the Fair Trade Act, any activity that restricts competition or causes unfair trade practices is subject to investigation by the Commission, either upon a report by an interested party or on the initiative of the Commission. The law applies equally to domestic and foreign owned firms. In case of violations of the Fair Trade Act, the Commission may impose a fine equivalent to a maximum of 1 per cent of the firm's sales until the action is corrected. In addition, the courts may impose penalties of two to three years imprisonment or fines not exceeding Won 200 million (approximately US$270,000). The largest fine imposed by the Commission has been the equivalent of US$4 million, on an oil-company. In the two year period through 1991, the Commission dealt with some 2,100 cases, of which 70 per cent were dismissed with a warning. Corrective action was called for in 29 per cent of the cases, a fine of 2 per cent of sales during the violation period was imposed in one case, and a further 16 cases have led to court filings.

174. There are no restrictions on new entry of firms, except that for oil refineries, food manufacturing and the financial, construction, electrical, communication and maritime sectors licences need to be issued by the relevant ministry. In all instances, foreign direct investment is also subject to the Foreign Capital Inducement Act (Chapter III(3)).

(xiii) Countertrade

175. Korea does not have a policy of encouraging countertrade, being of the view that it is inefficient. An agreement with Thailand, of Korean fertilizer for Thai corn, was allowed to lapse in 1987. A 1985 ministerial agreement on fruit trade with Taiwan remains operative, accounting for US$30 million of total trade in 1991.
176. Korea is a signatory to the MTN Agreement on Technical Barriers to Trade. The Korean authorities state that the provisions of the Agreement are used as a basis for establishing domestic standards wherever appropriate. Domestic standards apply nationwide, without differentiation by region or product. Korea is an active participant in the International Organization for Standardization and the International Electrotechnical Commission.

177. Korea has 45 individual (special) regulatory laws. The purpose of many of these laws is to address domestic policy concerns, mainly quality, health and safety standards (Table AIV.1). Although the purpose of the laws is not to restrict imports per se, the procedures involved in administering the laws can result in restrictions. A process of streamlining the laws began in 1987, leading to the establishment in December 1988 of an interministerial Task Force with the mandate to identify, and suggest changes to correct, impediments to trade resulting from the individual laws.

178. The Task Force recommended four types of changes: a reduction in the number of products subject to restrictions under the law; the elimination of licensing requirements for traders by anybody other than the Ministry of Trade and Industry; the simplification of inspection and approval procedures; and the elimination of import fees. The recommendations applied to 23 laws. To date, almost all have been implemented, resulting in an important easing of non-tariff barriers to trade (Table IV.8). Nevertheless, the laws can still result in cumbersome procedures (Chapter IV(3)(viii), on import licensing), and the matter remains under the advisement of a Commission on Deregulation, chaired by the Prime Minister.

179. Domestic and imported agricultural products, including foodstuffs, are subject to sanitary and phytosanitary standards under the Food Sanitation Act, the Quarantine Act and the Plant Protection Act. Imported food products, additives, apparatus and food containers and packaging materials are liable to inspection, on a sampling basis, prior to customs clearance; the process takes at most 10 days, according to the

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44 Trade regulations under certain of these laws give effect to Korea's abidance by norms under international treaties or conventions, which include: the Vienna Convention for the Protection of the Ozone Layer; the Montreal Protocol on Substances that Deplete the Ozone Layer; the Convention on International Trade in Endangered Species of Wild Fauna and Flora; and the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal.
authorities. Laboratory testing may also be required, especially for tolerance levels for pesticides. Animals, plants and their products may be subject to periods of quarantine, usually well short of a week. In order to speed the inspection process more facilities and equipment are being installed; regulations are also in the process of simplification to accommodate international standards such as the Codex Alimentarius and those of trading partners (including the European Communities, Japan and the United States). Korea does not accept foreign certification of compliance with sanitary and phytosanitary standards in the absence of a bilateral agreement. At present, Korea has no such agreements.

180. Technical, safety and environmental standards for industrial products are applied on imported and domestic goods principally under the Basic Telecommunications Act, Electrical Products Safety Control Act, Environmental Preservation Act, Industrial Safety and Health Law, Industrial Goods Quality Control Act, Motor Vehicles Administration Act, Pharmaceuticals Act, and the Radio Waves Regulation Act. For most industrial products, type approval is required for the initial imports by a trader. A range of products, including toys, fragrances, protective helmets and tricycles, carrying either the IECQ or IWS international standards marks are exempt from the approval procedures. Products bearing the domestic quality mark KS are also exempt. The latter mark can be attained after approval procedures lasting about one month. It has been granted to some 1,000 industrial components from seven countries (People's Republic of China, Italy, Japan, Taiwan, Thailand, the United States and Yugoslavia). In addition, the legal framework provides for the recognition of certification by foreign testing bodies provided Korea has entered into a bilateral agreement for mutual acceptance of standards with the foreign parties. Several such agreements are now being considered. Korea has also recently established an International Standards Committee for the harmonization of national standards, under the KS mark, with related international standards. To date, the Committee has no instance where international standards have been found inappropriate.

181. Korea requires that the country of origin must be marked, in Korean or English, on imports under 530 4-digit H.S. lines, equivalent to some 42 per cent of all such lines in the Korean Tariff Schedule (Table IV.9). The "marks of origin" system includes all foodstuffs,

45 With effect from 1 January 1992, Korea doubled to 32 the number of pesticides for which tolerance levels in agricultural products have been set: GATT document TBT/Notif. 91.67.

46 GATT documents L/6890, TBT/Notif. 91.94 and TBT/Notif. 92.7 and information provided by the Ministry of Trade and Industry, Republic of Korea.
dairy and fish products and most of textiles and clothing, chemicals, electrical and non-electrical appliances, transport and professional equipment, toys, footwear and furniture. According to the Korean authorities, the system was introduced, on 1 July 1991, as a consumer protection device and in order to promote fair trading practices, with a number of imported items previously having been sold as products of domestic origin. 47 Under the system, the country of origin is defined as the country in which the goods are wholly produced or have undergone substantial transformation to a changed tariff line. In cases where manufacturing or processing operations are deemed by the authorities not to result in substantial transformation, a value-added test, of 35 per cent, and a "main-parts" criterion are successively applied. These latter criteria apply to 51 10-digit H.S. items, including computer printers, facsimile machines, digital tape recorders, mobile and hand-held telephones, colour television receivers, video recorders and electronic and video games.

(xv) **Government procurement**

182. Korea is an observer to the MTN Agreement on Government Procurement, and is currently negotiating its accession to the Agreement. 48

183. Government procurement falls under the legal authority of the Budget and Accounting Act, as wholly amended in March 1989. The Office of Supply (OSROK) acts as the procurement agency for the central and local governments for all contracts on materials and supplies, including services, above Won 20 million (approximately US$27,000). OSROK also manages all central Government construction projects above Won 200 million, and projects above Won 1.5 billion of six local governments (Seoul Metropolitan Government and five special cities). Contracts below the above amounts are handled by the ministries and agencies concerned.

184. In principle, government procurement is under an open competitive tendering process for all goods and construction contracts above Won 10 million (approximately US$13,400) and for all service contracts above Won 5 million. However, if deemed necessary in light of the nature of the contract, the qualifications of prospective contractors may be specified, several contractors may be nominated for competitive bidding.

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47 When first introduced, the system applied to 326 4-digit H.S. lines; it was expanded to its present coverage on 1 April 1992.

48 Since June 1990, Korea has held two rounds of bilateral meetings with existing signatories to the Agreement.
or the contract may be let under single tendering. In 1990, single tendering accounted for 45.5 per cent of OSROK's procurement of goods and 13.7 per cent of its construction contracts (Table IV.10).

185. Foreign suppliers, registered with OSROK, are eligible for the tendering process for items not produced in Korea. Invitations for bids are forwarded to all Korean diplomatic missions and to its four foreign-based procurement offices (in New York, San Francisco, Tokyo and Hamburg). Contracts are let on a competitive basis unless the conditions for restricted or single tendering apply. In 1990, foreign sources supplied some 14 per cent of goods procured by OSROK, mainly in the areas of raw materials and telecommunications and medical equipment.

(xvi) Local content requirements

186. The authorities state that Korea does not have any local content schemes, as such. However, since 1986 Korea has had in place a "localization programme" to encourage domestic production of certain imported commodities (Chapter IV(3)(xxii)).

(xvii) Rules of origin

187. Imports entering Korea under preferential arrangements are subject to rules of origin. The rules define the country of origin as either the country in which the goods are wholly produced, or the country in which the goods have last undergone a substantial transformation that results in a new essential characteristic being conferred to the goods. Korea also applies a marks of origin system to imports under 530 4-digit H.S. lines (Chapter IV(3)(xiv), on standards).

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49 Article 76 of the Budget and Accounting Act is specific on the conditions under which restricted or single tendering is authorized: these include, contracts with other State bodies or local governments; specific technical requirements; emergencies and disasters; and the need for secrecy.

50 The scope for foreign suppliers in government procurement is being gradually increased under guidelines adopted on 7 January 1992, allowing for the prior qualification of non-Korean suppliers for contracts. To date, only U.S. telecommunication firms have received the necessary clearance to take part in all tenders. (The Korea Economic Weekly, Seoul, Republic of Korea, 13 January 1992).

51 In cases where procurement is financed by loans from international agencies, such as the World Bank, the procurement guidelines of the relevant agency is taken into account.
Anti-dumping and countervailing measures

188. Korea is a signatory to the MTN Agreements on the Implementation of Article VI of the GATT (the Anti-dumping Code) and on the Interpretation and Application of Articles VI, XVI and XXIII of the GATT (the Subsidies and Countervailing Duties Code). Korea's accession to the Anti-dumping Code was ratified by the National Assembly, giving the Code the status of domestic law. The Subsidies and Countervailing Duties Code is thought to have equal status with domestic laws (Chapter II(1)).

189. Korea recently amended its domestic legislation on anti-dumping and countervailing duties. The amendments, which went into effect on 1 January 1989, introduced a sunset clause of three years for anti-dumping and countervailing measures, unless the application period is fixed; limited petitioners to domestic producers of like products, or to an association whose members produce a like product; and, clarified the investigation procedures.

190. The application of anti-dumping and countervailing measures is under the responsibility of the Minister of Finance. Acting under his authority, the Customs and Tariff Deliberations Committee decides on the necessity for the initiation of an anti-dumping or countervailing investigation, and determines the dumping or subsidy margin. The Korean Trade Commission, a quasi-autonomous body, conducts an investigation to determine material injury. The anti-dumping or countervailing duty investigation is terminated in the absence of a positive finding by the Commission.

191. Since 1986, Korea has initiated 10 anti-dumping investigations. Five of these resulted in a finding of "no injury" (Table IV.11). Definitive

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52 Articles 10 and 13 of the Customs Act, respectively.
53 Previously "interested persons" could file complaints.
54 GATT documents ADP/1/Add.13/Rev.1/Suppl.1 and SCM/1/Add.13/Rev.2/Suppl.1.
55 The Customs and Tariff Deliberations Committee is chaired by the Vice-Minister of Finance and has as its other members senior representatives from the economic and other relevant ministries, the National Tax Administration, the Customs Administration and an expert appointed by the Minister of Finance.
56 The Commission was established in 1987 by the Ministry of Trade and Industry, under authority of Article 32 of the Foreign Trade Act. There are seven Commissioners, each appointed by the President of Korea for a three-year renewable term.
57 The investigation determines whether a dumped or subsidized import causes or threatens material injury to a domestic industry or materially retards the establishment of a domestic industry.
duties have been imposed in two cases, on polyacetal resins from Japan and the United States; three cases resulted in price undertakings (Table IV.12). In addition, a complaint of dumping was filed on imports of organic peroxides from Japan and the Netherlands, but was withdrawn before an investigation was initiated.

192. No countervailing duty has ever been imposed by Korea, nor has any such case been initiated in the past decade.

(xix) **Safeguard action**

193. The Foreign Trade Act contains comprehensive safeguard provisions in line with GATT Article XIX. The Korean Trade Commission is empowered to investigate whether increased imports of a particular product are the substantial cause of serious injury, or threat thereof, to the domestic industry of like or competitive products. If the Commission's finding is affirmative, it recommends a remedial measure to the Minister of Trade and Industry, who decides if and when to put the action into effect. Measures may include adjustment in tariff rates, quantitative restrictions or assistance for structural adjustment. Petitions for relief from import surges are filed with the Commission by "persons having an interest in the domestic industry concerned," including individual firms, industrial associations, labour unions, or a relevant Government minister. Each safeguard measure is subject to annual examination by the Commission, in order to determine its continued appropriateness.

194. Since 1987, 19 petitions have been filed with the Commission. Seven of these have resulted in remedial measures. Tariffs were increased in five cases; in the other two cases, imports were made subject to a

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58 The provisions were introduced in the wholly amended Act of 31 December 1986 and were subsequently modified in 1990 to bring them more into line with GATT Article XIX. Korea has never invoked GATT Article XIX.

59 Article 64 of the Enforcement Decree of the Foreign Trade Act.

60 The share of the firm in the domestic industry must account for more than 30 per cent, except in the case of agriculture, forestry and fisheries where a petition must be filed by more than 10 producers.

61 The tariff increases were on: (i) canned pork, from 30 per cent to 50 per cent, from May 1990 to June 1991, and subsequently lowered to 40 per cent for the period ending June 1993; (ii) L-LOPE film, from 13 to 25 per cent, from October 1990 to September 1992; wooden-chopsticks, from 10 per cent to 53 per cent, from April 1991 to March 1993; talcum powder, from 10 per cent to 30 per cent, from July 1991 to June 1993; and on vermicelli, from 13 per cent to 50 per cent, from January 1992 to December 1993.
recommendation of the Administrator of National Fisheries and the Ministry of Health and Social Affairs. 62

(xx) Balance-of-payments measures

195. Korea disinvoked the use of trade measures to safeguard its balance of payments, under GATT Article XVIII:B, with effect from 1 January 1990 (Chapter IV(3)(viii), on import licensing).

(xxi) Free-trade zones

196. Korea has two free-trade zones, the Iri and Masan Free Export Zones. Together, the zones accounted for 2.7 per cent and 1.2 per cent of Korea's exports and imports, respectively, in 1990. Establishment in the zones is generally limited to firms wholly or partially owned by foreigners, and engaged in manufacturing, processing or assembling goods for export. Imports into the zones are exempt from tariffs and there are no special restrictions on imports or exports. Principal exports from the zones are electric and electronic products, machinery, textiles and footwear. Foreign investment in the zones is subject to the same conditions and incentives as all such investment in Korea (Chapter III(3)). In the period 1987 to 1990, foreign direct investment in the zones accounted for some 2 per cent of total direct investment by foreigners in Korea. 63 All administrative matters regarding imports, exports and investment are handled directly in the zones.

(xxii) Other measures

197. Since 1986, Korea has operated "localization" and "diversification" programmes with a view, at least in part, to easing bilateral trade imbalances with major partners, particularly Japan and the United States. In addition, during the period 1987-91, the Special Foreign Currency Loan programme sought to contain bilateral trade imbalances.

198. The localization programme seeks to "deepen" the Korean industrial structure and promote technological development by fostering the domestic production of a list of imported machinery, parts and materials. The authorities consider that the pattern of development of the industrial sector, particularly in the area of durable goods, has given rise to

62 The import restrictions were on: (i) salted small shrimp, from July 1988 to December 1991, and subsequently extended to December 1994; and on hot bean paste from October 1989 to December 1992.

63 Data supplied by the Ministry of Finance, Republic of Korea.
structural bilateral trade imbalances (Chapter I(3)), especially vis-à-vis Japan, that must be addressed in the longer-run interest of the Korean economy. The Government includes an item on the localization list only at the request of the private sector, endorsed by the Korea Foreign Trade Association, and if it is generally imported from a country with which Korea has a substantial trade deficit.

199. The number of items on the localization list has grown from 314 in 1986 to 1,737 in 1990, on a 10-digit H.S. basis. Some 60 per cent of the items are machinery and machine parts, about 30 per cent are components for electric and electronic products, and the bulk of the remainder are parts for the transportation industry. Firms that seek to develop items on the list can obtain loans, through commercial banks, from a number of Government-supported Funds. The maximum loan per firm is Won 300 million (approximately US$400,000), for five years at 6.5 per cent a year (compared to the Bank of Korea's discount rate of 10 per cent). Total loans extended for localization in the period 1986 to 1990 amounted to Won 448.1 billion (approximately US$590 million). It is estimated that during the same five-year period the localization programme resulted in import replacement of some US$3.7 billion and increased exports of US$2.4 billion, equivalent to 1.5 per cent and 0.9 per cent of actual imports and exports, respectively, in 1986 to 1990.

200. The diversification programme encourages import sourcing of designated items away from countries with which Korea has what the authorities deem to be an "excessive" trade deficit. The programme is in effect directed toward reducing the reliance on Japan for certain imports. The number of designated items has been steadily reduced from 637 to 1987 to 258 in 1991, affecting 2.5 per cent of all 10-digit H.S. tariff lines, mainly in the chemicals, machinery, electronics and transport sectors (Table IV.13). In the first 11 months of 1991, imports of items on the list amounted to US$6.25 billion, of which Japan accounted for 47 per cent. No financial support is provided directly for the diversification programme.

201. The Special Foreign Currency Loan programme was initiated in 1987 to finance imports of equipment for structural adjustment from countries with which Korea had a trade surplus. With the re-emergence of a trade surplus with some Asian countries, the programme was expanded in 1991 to take advantage of the re-emergence of a trade surplus in the region.

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64 The Funds involved in lending in 1990 (with loans extended in brackets) were: the Industrial Development Fund (Won 840 million) and the Structural Adjustment Fund for Small and Medium Enterprises (Won 400 million).

65 Data and estimates cited in the paragraph were provided by the Ministry of Trade and Industry, Republic of Korea.
deficit, the programme was abolished at the end of 1990. Foreign currency loans, with a term to maturity of up to 10 years, were made available for eligible imports at the London Interbank Offer Rate (LIBOR) plus 0.75 per cent a year. The total amount of funding available under the programme amounted to US$8.7 billion in the period 1987 to 1990.

202. Korea has maintained a foreign currency loan programme since 1952. Loans in foreign currency are available in foreign currency for imports of capital goods, regardless of source, by any enterprises that might otherwise have difficulty in obtaining financing. Loans are made at market rates and have a term to maturity of at most 8 years. The borrower accepts the foreign exchange risk.

(iii) Export prohibitions

205. Under the Export Notice of restricted items, Korea prohibits the exportation of whale meat and its products, grass, mosses and lichens, vegetable materials other than rushes, bark of arrowroot stems and arrowroot fibre, natural granite stones, dog furskins and their products, certain natural corks, most wood charcoals, rough wood grown in Korea, except paulownia, and certain silk wastes. The export ban on whale meat and its products is in compliance with the International Whaling Committee Treaty, that on dog furskins and products protects animal rights, and the other prohibitions, according to the authorities, are for resource preservation and environmental protection.

206. The Customs Act prohibits the exportation of counterfeit coins, bank notes and securities, items containing confidential Government

66 Prior to January 1992, the term to maturity was at most 10 years.
information, and books, publications or products contrary to constitutional order or public security. Under the Foreign Trade Act and other laws the exportation is prohibited of goods that infringe intellectual property rights (Chapter IV.(3)(vii)).

(iv) Export licensing

207. Most exports require approval from the Ministry of Trade and Industry under Article 19 of the Foreign Trade Act. In practice, the authority to process and issue licences has been delegated to the foreign exchange banks, which grant licences automatically upon presentation of the appropriate commercial documentation and, if required, a recommendation from the authorities concerned.

208. The 1991 Export Notice listed items under 1,263 6-digit H.S. tariff lines as subject to export restrictions, equivalent to fully one-quarter of all Korean 6-digit H.S. lines (Table IV.14). The authorities estimate that at the 4-digit H.S. level, exports in the categories affected by restrictions accounted for 61 per cent of all exports in 1990. In the main, the authority to recommend the granting of export licences for products subject to restrictions under the Export Notice has been delegated by the Ministry of Trade and Industry to industry associations. Thus, for example, the Korea Garments and Knitwear Export Association and the Korea Export Association of Textiles play a main rôle in assuring that annual bilateral export quotas under the Multifibre Arrangement (MFA) are observed.

209. Some 20 per cent of all Korean 6-digit H.S. tariff lines are affected by selective restraints on exports to certain countries. At the 4-digit H.S. level, headings containing tariff lines affected by selective restraints accounted for 48 per cent of Korea's exports in 1990. About 70 per cent of the selective restraints result from the MFA, the 34 anti-dumping measures in place on Korean exports and the 13 voluntary export restraint agreements (Note IV.2) on various Korean products. The remaining selective restraints are in the nature of unilateral export restrictions, taken according to the Korean authorities as defensive measures to prevent the possibility of trade measures by importing countries.

Korea has entered into MFA bilaterals with Austria, Canada, the EC, Finland, Norway and the United States. The anti-dumping measures on Korean exports have been taken by: Australia (4), Canada (8), the EC (11), New Zealand (1) and the United States (10). The operative voluntary export restraint agreements are on: steel products (United States), silk products (Japan), passenger cars (Taiwan), footwear (Canada, the EC, the United States), knitwear (Japan), flatware (EC members), polyester textiles (Middle-East countries, South East Asian countries, Panama), colour picture tubes (EC) and microwave ovens (EC).
countries. These restrictions on exports include: manufactured leather and rubber products to the EC and the United States; textile products to Japan, African, Asian and Middle Eastern countries; manufactured mineral products to Japan; steel products to the EC and Japan; electrical equipment (mainly microwave ovens) to the United States, Japan, Hong Kong, Singapore, Norway, Sweden, Switzerland, Austria, and Iceland; spectacles and frames to the EC, Japan, Hong Kong and the United States; footwear to Japan, Finland and Norway; travel goods to Australia, Canada, EC members, Japan, Sweden, Switzerland and the United States; some furniture products to Canada and the United States; video recorders to the EC and the United States; and chestnuts and certain fish products to Japan.
Note IV.2 Voluntary Export Restraints

A voluntary export restraint (VER) is a measure by which the Government or an industry in the importing country arranges with the Government or the competing industry in an exporting country for a restriction on the volume of the latter's exports of one or more products to the importing country. By this definition, the term VER is a generic reference for all bilaterally agreed measures to restrain exports. Strictly speaking, a VER is unilaterally taken and administered by the exporting country and is "voluntary" in the sense that the country has the formal right to eliminate or modify it. But, usually a VER arises because of direct or perceived pressure from an importing country; it can be thought of as voluntary only in the sense that the exporting country may prefer it to alternative trade barriers that the importing country might use.

A VER by its very nature is an instrument of selective trade control, in contradiction to the principle of non-discrimination that has served as the cornerstone of multilateral trade rules since the Second World War. Non-discrimination in economic terms means that a given level of protection for domestic producers can be achieved at minimum cost to domestic consumers and the rest of the world. It also protects the interests of smaller trading nations and helps to ensure the access of new entrants to the international market place. Its rôle in multilateral trade rules lends transparency and predictability to international trade relations and to domestic decision making.

A typical VER, as shown in the accompanying chart, raises prices in the importing country, leads to trade diversion, and gives rise to economic rents, welfare losses and global resource misallocation. VERs also tend to spread, carrying the risk of fragmenting the trading system into a series of market-sharing arrangements, dominated by the major trading nations. In addition, VERs can create vested interests in both the importing and exporting country, which can work against the removal of VERs.

VERs normally seek to provide relief for industries adversely affected by foreign competition. As such they serve as substitutes for safeguard actions under GATT, with governments often finding VERs more convenient to negotiate. A GATT safeguard action may eventually require compensation for, or lead to retaliation by, the exporting country, with possible adverse effects on the exports of the importing country. By contrast, VERs have built-in compensation for the foreign supplier in the form of economic rents and provide a degree of certainty in market access. Further, in negotiating a VER, the foreign country is seen to be directly supporting the affected industry, while often avoiding a domestic and multilateral debate in which the costs of protection become clear.
Some economic effects of VERs

Notes: $S_1$ is the importing country's supply curve; $S_{12}$ is the aggregate supply curve of the importing country and a partner country; and $D_1$ is the importing country's demand curve. Under free trade, the price is $P_0$; $Q_0$ is produced by the importing country, and its imports are $Q_0Q_4$, of which $Q_0Q_1$ is supplied by the partner country. Under a VER of $Q_2Q_3$, imposed under the assumption that trade with partner country remains free, the price in the importing country rises to $P_1$, its production increases to $Q_1Q_3$ and its imports decline to $Q_1Q_3$; but imports from the partner country increase to $Q_1Q_2$ owing to trade diversion. Economic rents that accrue to restrained exporters are $DFGE$; additional producer rents in the importing country are $P_0P_1BA$, and in the partner country they are $ABCD$. Welfare loss in the importing country is $ABFH$. Global welfare loss is $DCE$ plus $FGH$, of which $DCE$ is the global resource misallocation loss.

210. Other than selective restraints, Korea has global, non-discriminatory export restrictions on items under some 20 per cent of all 6-digit H.S. lines. Some 60 per cent of items are in the nature of raw and semi-processed products. Where the industry association charged with recommending export licences is at least partly concerned that manufacturers of higher value-added items are not hampered by a shortfall of the required materials. Other global restraints, such as those on cotton fabrics, cutlery, plastic articles and transport equipment, tend to be in areas where Korean exports face trade measures, or the potential of such actions, in importing countries.

211. Apart from licensing requirements under the Export Notice, export licences or specific procedures may be necessary under certain individual laws. Examples include:
- export approval (from the Korea Pharmaceutical Trade Association) for health care and pharmaceutical raw materials, under the Pharmaceuticals Act, to implement health and safety standards;
- approval as a trader (by the Korea Tobacco and Ginseng Corporation) for exports of leaf tobacco and its products, under the Tobacco Act, and ginseng and its products, under the Ginseng Business Act, to promote the development of, and to maintain orderly trade in, the tobacco and ginseng industries;
- export approval (from the Ministry of Energy) for petroleum products, under the Petroleum Industry Act, as an energy conservation measure; and an
- export recommendation (from the Ministry of Culture) for Korean films, under the Motion Pictures Act, to prevent copyright infringements and harm to national prestige.

(v) Export cartels

212. The Monopoly Regulation and Fair Trade Act generally prohibits export cartels. However, such cartels may be authorized by the Minister of Trade and Industry if they are deemed necessary to maintain orderly trade in exports of specific goods to a specified country. The Korean authorities have no record of any export cartels operating in Korea (Chapter IV.(3)(vii)).

(vi) Export subsidies

213. Korea, according to the authorities, has no export subsidies as such. However, certain programmes act to facilitate exports: these include post-shipment export loans and export related tax free reserves.
Indirectly, there is also preferential access to export credit and in the period October 1991 to June 1992 special loans were made available to firms exporting to Japan.

214. Post-shipment export loans are available from the Korean Export-Import Bank for products ranging from industrial machinery and transport equipment to optical and precision instruments. The terms and conditions of the loans are in line with OECD guidelines, including those on export credit for ships. The maximum available loan is the contract value for exports minus the down payment, which must be at least 20 per cent for ships and 15 per cent for all other items. Loans are made for a maximum period of 10 years, at internationally based rates according to OECD guidelines. Total post-shipment loans outstanding at the end of December 1991 amounted to Won 1,814 billion, equivalent to approximately US$2.38 billion.

215. Korean tax law allows any corporation engaged in export activity to build tax-free reserves to lessen the risks inherent in overseas market development. The maximum allowed level of such reserves is the equivalent of 1 per cent of foreign currency earnings. In general, reserves that are not used to offset expenses for market development become taxable, in three annual instalments, within 2 years after the reserves have been established. A similar system of reserves to protect against price fluctuations in export goods was abolished in 1988.

216. Export credits are extended at market related interest rates by financial institutions acting on commercial considerations. Prior to 1982 export credits were subsidized. Export credit is based either on letters of credit or on expected exports (based on a record of actual export performance). The maximum terms are 180 days for loans against letters of credit and 90 days for those based on anticipated export performance. All exports, including construction and services, are eligible for the credits, as is the preparation for export of agricultural and marine products. 68 Firms producing intermediate goods for export items may also receive the credits, on presentation of a domestic letter of credit issued by a foreign exchange bank against an order from a domestic producer of export products.

217. In 1988, following two years of current account surplus, export credits for large firms were abolished and the limit on credits for small- and medium-scale enterprises was reduced from 80 cents per U.S. dollar of

68 GATT document L/6630/Add.15.
exports to about 60 cents per U.S. dollar. With the slowdown of export
growth in 1989 and the tighter financial conditions of firms, the loanable
amount per U.S. dollar was raised to Won 600 (about 80 cents) for smaller
firms and to Won 400 (about 54 cents) for larger firms with annual exports
of US$50 million or less, not affiliated with major conglomerates. At
end-October 1991, 2.1 per cent of total domestic credit had been extended
for export financing, with some 90 per cent of the amount lent to small-
and medium-scale firms. 69

218. At the end of 1991, the interest rate on export credits was
10 per cent a year. As an instrument for injecting reserves into the
banking system, the Bank of Korea discounts up to 50 per cent of the
export credits at a rate of 7 per cent, compared to its prevailing
discount rate of 10 per cent. 70 This can translate into a concession that
can have the effect of making export credits preferred loan activity.

219. In October 1991, a loan fund of Won 200 billion (approximately
US$267 million) was established to finance exports to Japan, as a step
toward alleviating the Korean trade deficit vis-a-vis Japan. Under the
programme, one month loans are made on commercial terms. By end
February 1992, some Won 185 billion of loans had been extended. The
programme was due to end in June 1992, but its extension is under
consideration.

(vii) Duty drawbacks

220. The Korean Customs Drawback Scheme of 1975 provides for the rebate of
tariffs and indirect internal taxes levied on all imported materials used
in the production of goods for export. 71 Normally duties and indirect
taxes are collected when the intermediate inputs are imported and refunded
upon certification that the related finished goods have been exported. 72
Certification must be provided within two years of exportation of the
products and consists of the required export licence, documentation on the
tariffs and indirect taxes paid on the imported materials, and

69 Ministry of Finance, Republic of Korea.

70 Ministry of Finance, Republic of Korea; and Industry Commission (1991), op. cit.

71 Prior to 1975 there was a system of outright tariff exemptions on imports of
intermediate goods for export production.

72 In 1985, the Scheme was amended to include an Offset System, under which duties are
not collected at the time of importation but are debited in an account maintained by Customs
and offset when the related goods have been exported.
documentation on the actual amount of imported intermediate products used in the exported goods, based on input-output coefficients prepared by the Bank of Korea.

221. All exports are eligible for the scheme, including "indirect exports" (i.e. Korean-produced intermediate items with an import component, which are subsequently used in exported goods). Rebates for indirect exports are given against the above documentation with a domestic letter of credit (Chapter IV.(4)(vi)) replacing an export licence. All requests for rebates are subject to random checking by the Ministry of Finance for detailed verification of the claim. In 1990, total rebates under the scheme amounted to approximately US$1.7 billion,\(^73\) equivalent to some 2.6 per cent of total exports.

(viii) Export performance requirements

222. Korea maintains no export performance requirements, according to the authorities.

(ix) Export insurance\(^74\)

223. Export insurance is available from the Korea Export Insurance Corporation. The supervisory body for the Corporation is the Ministry of Trade and Industry. Any deficits which cannot be financed by the Corporation’s reserves are covered by the Government budget. Over the period 1986-1990, the ratio of total claims paid to insurance premia collected was some 363 per cent, comparable to, or less than, the ratio in most OECD countries.\(^75\)

224. Insurance is available on all exports and on overseas construction contracts. Coverage ranges from 90 per cent of the export sales value under general export insurance to a low of 70 per cent of the principal and interest on exports financed by buyers credits; on construction projects, the maximum coverage is 80 per cent of the contract value net of down payments. In the five-year period 1986 to 1990, insurance coverage

\(^{73}\) Including duties under the Offset System.

\(^{74}\) Data cited in this sub-section are based on information supplied by the Ministry of Trade and Industry, Republic of Korea.

\(^{75}\) In the period 1969 to 1990, the ratio of claims paid to premia collected was 143 per cent.
was taken on less than 2 per cent of Korea's annual exports and foreign construction projects.

225. Insurance premia vary from contract to contract, depending both on the terms of payment for exports and on country risk. Discounts of 10 per cent and 25 per cent respectively are applied on the premia if the exports are to a public organization or payment is guaranteed by a bank or government. Surcharges of 50 per cent and 100 per cent apply if an exporter's ratio of paid claims to premia exceed 200 and 500 per cent, respectively.

(x) Export promotion

226. Korea's main export promotion agency is the Korea Trade Promotion Corporation (KOTRA). A rôle is also played by the General Trading Companies (GTCs), the Korean Foreign Trade Association (KFTA) and industry association. Equally important in the promotion of exports have been efforts devoted by Government to build necessary infrastructure, including ports, airports, and communication links and, through the early 1980s, the availability of preferential export financing.

227. KOTRA is a quasi-governmental body established in 1962 as a non-profit organization to promote Korean exports. Since the mid-1980s, with the emergence of Korean trade surpluses, its rôle has expanded to include import promotion. The Corporation is supervised and directed by the Ministry of Trade and Industry but has its own budget and board of directors, on which the public sector and trade and industry associations are represented. Some 75 per cent of KOTRA's budget, of almost US$52 million in 1991, is financed directly by the Government, with the remainder financed by income from its activities and as a contribution from traders' membership fees to KFTA (Chapter IV.(2)). KOTRA maintains a branch network of Korea Trade Centres spanning 80 cities in 69 countries in addition to its headquarters in Seoul and 11 other domestic offices.

228. KOTRA's export promotion activities include collecting and distributing international market information, finding customers for Korean products, assisting in product design and packaging, and advertising Korean products abroad, particularly by active participation

76 Data supplied by the Ministry of Trade and Industry, Republic of Korea.

in international trade fairs. On the import side, KOTRA matches importers with foreign suppliers, collects and disseminates information on foreign products, and promotes local exhibitions for foreign goods. The Corporation also feeds into the Government's trade-decision process, by supplying it with information and advising on policy.

229. Korea's 12 GTCs play an active rôle in promoting the exports of small- and medium-scale enterprises (Chapter IV, Note 1). The KFTA provides its membership, inter alia, with information on foreign trade laws and regulations and with research and surveys on trade trends and product development (Chapter IV.(2)). Export and industry associations provide market surveys for export promotion and frequently advise on quality and design improvements.78 The associations are internally financed but often - particularly the export associations - have links to the Government, especially in the management of trade arrangements, such as voluntary export restraints.

(xi) Free-trade zones

230. Korea has two free-trade zones, the Iri and Masan Free Export Zones (Chapter IV.(3)(xvi)).

(5) Measures Affecting Production and Trade

231. After the abandonment of the Heavy and Chemical Industries drive in 1979, the authorities moved steadily away from a firm-specific industrial policy toward a greater reliance on market signals for resource allocation. Government policy now is concentrated on improving the competitiveness of Korean products through supporting private sector initiatives to increase productivity and upgrade technology. Several Funds support these efforts, including those for Industrial Development, Structural Adjustment for Small and Medium Enterprises, and Research and Development. The Rural Development Fund was established in 1990 to facilitate adjustment in the agricultural sector.

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78 There are five export associations, established under Article 55 of the Foreign Trade Act; these are the Korean Exporters Association of Textiles, Korea Fisheries Exporters Association, Korea Garments and Knitwear Exporters Association, Korea Leather and Fur Exporters Association and the Korea Consumer Goods Exporters Association. Article 56 of the Foreign Trade Act charges the associations to carry out activities to, inter alia, maintain order in trade, improve quality and design of products and to provide information to facilitate exports.
(i) Adjustment assistance

232. The Industrial Development Act of 1986 replaced seven specific industry-promotion laws, covering machinery, shipbuilding, iron and steel, non-ferrous metals, electronics, textiles, and petrochemicals. The Act adopted an industry rather than a firm-specific approach, and focused primarily on the improvement of industrial technology. To finance activity under the Act, the Government established the Industrial Development Fund. The Fund's resources derive from the separate funds that supported the 7 industry specific laws, the operational income of the Fund and borrowing from Government revenue.

233. The Act has two main objectives: to encourage specialization and investment in sectors in which Korea has a perceived comparative advantage; and to promote structural adjustment in troubled industries. Under the first objective, the Fund has made loans of some Won 339 billion (equivalent to about US$450 million) since 1986, mainly in engineering sectors, such as automobiles, electronics and machinery. These technology development loans are made with a term to maturity of 5 years at annual rates of interest of 6.5 per cent, compared to the Bank of Korea's discount rate of 10 per cent.

234. The Act also set procedures for industrial restructuring, or rationalization. In order to avoid the type of unilateral Government intervention practised in much of the 1970s, a consensus approach was adopted to garner a wide range of opinions from various economic circles. Industries seeking rationalization assistance need to demonstrate excess capacity and lagging international competitiveness to a range of experts drawn, under the authority of the Ministry of Trade and Industry, from the private sector, government agencies and academia. On the basis of the discussions, a rationalization programme is agreed. This is normally required to be carried out within 2 to 3 years. The plan might include special loans, mergers, capacity reduction and entry deterrence. Under these procedures, eight industries have, to date, undertaken rationalization plans, 7 of which have been completed, with one extended to June 1992 (Table IV.15).

235. Four of the eight programmes were for declining industries, namely, ferro-alloys, fertilizers, dyeing and textiles. The other programmes,

79 Data cited in this sub-section are based on information supplied by the Economic Planning Board, Republic of Korea.

none of which received financial support under the Act, were for industries thought capable of competing profitably in the international market. Thus, the automobile, construction, diesel machinery and heavy equipment sectors received technical advice and expert managerial assistance, with a view to finding areas of specialization in which they might hold a comparative advantage. In each case, capacity utilization improved, with exports normally showing substantial gains.

236. Among the declining-industry programmes, Government intervention was normally more direct. Only in the case of fertilizer was no financial assistance provided; in this instance the thrust of the programme was to deregulate domestic prices and to privatize public holdings. The programme for ferro-alloys was underpinned by limitations on new entry, the designation of firms to specialize in manganese steel and the provision of a long-term supply contract with domestic steel companies.

237. The most substantial programmes involved dyeing, textiles and fabrics. Total loans to these sectors amounted to Won 280 billion (approximately US$370 million), for 8 years at an interest rate of 7 per cent a year. The emphasis under the programmes was the replacement of worn out equipment, with financing under the Act for the purchase of one new machine for every two old machines that were written off. The dyeing programme resulted in a significant improvement in capacity utilization. Results through mid-1989 were mixed in the textile and fabrics sector, where capacity utilization declined but exports showed a significant increase, in part because the substantial appreciation of the Japanese yen during the middle-part of the 1980s allowed Korean producers to capture a larger international market share. However, with productivity still lagging in the sector, the authorities have retained import licensing requirements for certain fabrics, particularly those based on silk, and have extended the rationalization programme for 3 years beyond its initial terminal date of June 1989.

238. In the period 1974 to end-1991 the National Investment Fund provided investment financing for major industries, in part with a view to increasing exports. The Fund was financed by the Government, savings deposits with banking institutions and premia income from insurance companies. Five- to eight-year loans were extended, at market related rates, for the purchase of equipment, to finance exports on a deferred

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81 In return for National Investment Bonds, paying market rates of interest, banking institutions lent the Fund 7 per cent of their annual net increase in savings deposits, and insurance companies provided an amount equal to 5 per cent of their net annual income (gross premia minus claims paid and business expenses).
payments basis and to support projects that increased food production. At end-November 1991, the Fund had total outstanding loans of Won 2,045 billion (approximately US$2.7 billion). Some 80 per cent of this total was for the purchase of plant and machinery by, or technological development projects in, heavy industry, particularly ship-building, chemicals and iron and steel. The Fund ceased operations with effect from 31 December 1991. The authorities have taken the view that continued Fund support for major sectors was not compatible with an efficient market allocation of available credit.

239. In 1989, the National Assembly enacted the Special Act for Stabilization and Structural Adjustment of Small and Medium Enterprises, with a view to promoting efficiency in smaller-scale enterprises. The Act, which is to remain in force through the end of 1994, established the Structural Adjustment Fund for Small and Medium Enterprises with a mandate to finance, inter alia, technological development, stabilization programmes and information networks. Total available financing is to be in the order of Won 1,000 billion (US$1.3 billion), provided through special Government accounts. Loans, at market related rates, are available to all small- and medium-scale enterprises, on the acceptance by the Fund of appropriate business development plans. Financing ranges from Won 200 million to Won 5 billion per firm, repayable over 5 years. Small and medium sized firms also benefit from a requirement that, in principle, financial institutions make at least 45 per cent of their net lending to such firms. In the period 1988 to 1990, some 52 per cent of all loans extended by the banking sector were to small and medium sized companies.

240. The Rural Development Act of 1990 encourages structural reform in the agricultural sector. Against a background of actual and planned agricultural import liberalization, particularly the easing of licensing requirements (Chapter IV.(3)(viii)), the provisions of the Act seek, in particular, to raise agricultural productivity and retrain farmers for employment in other industries. Financial support for these purposes is provided by the Rural Development Fund, under two accounts: the Development Account, funded by the Government budget, the issuance of bonds and borrowing from commercial banks; and the Improvement Account, financed both by tariffs on agricultural imports and the value-added tax on agricultural machinery and animal feeds. Loans, at market related rates, have a term to maturity of 5 to 8 years. Total lending under the Act in 1990 and 1991 totalled Won 1,550 billion (approximately US$2.1 billion). Some 50 per cent of the loans supported structural adjustment, with much of the rest aimed at rescheduling farm debt.
(ii) Research and development assistance

241. It is estimated that total research and development (R & D) expenditure in Korea increased from 0.6 per cent of GDP in 1980 to almost 2 per cent of GDP in 1989. In line with improving Korean competitiveness, the Government seeks to increase R & D expenditure to some 3.5 per cent of GDP by 1995.  

242. The Government supports research projects through the Research and Development Fund, founded in 1982 and financed under special budgetary accounts. For approved projects, large corporations receive grants equal to 30 per cent of total R & D outlays, small and medium sized firms are allowed grants up to 70 per cent of expenditure, and industrial research associations can receive grants of up to 80 per cent depending on the participation of smaller companies. All grants are repayable in full from earnings of products developed under, or benefiting from, the supported R & D projects. In the ten year period from 1982, Government R & D grants totalled Won 576 billion (equivalent to approximately US$770 million). In 1992, the Ministry of Trade and Industry estimates that some Won 110 billion will be made available by the Government for R & D projects by industry.

(iii) Production subsidies and tax concessions

243. The authorities report five programmes pursuant to GATT Article XVI:1 on general subsidies: these are the Foodgrain Procurement Programme, the Livestock Price Support Programme, the Agricultural Price Stabilization Programme, the Sericulture Price Stabilization and Promotion Programme and the Trade Financing Programme.

244. Under the Foodgrain Procurement Programme, the Government operates price stabilization programme for rice and barley, with deficits financed by the Grain Management Fund (Chapter IV.(3)(xi)). The Livestock Price Support Programme oversees supply and demand for beef, pork and chicken with a view to price stabilization and sound development of livestock production. Activities with respect to beef are managed by the Livestock Economic Planning Board, Republic of Korea; and Far Eastern Economic Review, "Taking on the Titans", Hong Kong, 31 October 1991.

82 Information supplied by the Ministry of Trade and Industry, Republic of Korea.
83 GATT document L/6630/Add.15. However, the Ministry of Agriculture, Forestry and Fisheries has noted that the Foodgrain Procurement Programme and the Agricultural Price Stabilization Programme will not be notified in future, on the grounds that they act only as price stabilization measures.
Products Marketing Organization, with no losses reported since 1990 (Chapter IV.(3)(xi)). Price stabilization programmes for swine and chickens are operated by the National Livestock Cooperative Federation, with neither programme showing a substantial deficit in the period since 1987. Both programmes are supported by import licensing restrictions, with no imports of chicken having been made in the period since 1987; there were minor quantities of pork imports in the period 1987 to 1989, while those in 1990 and 1991 amounted to 0.5 per cent and 3.4 per cent of domestic production, respectively.  

245. The Agricultural Price Stabilization Programme is operated by the Agricultural and Fisheries Marketing Corporation with a view to preventing sharp fluctuations in the prices of various agricultural products, mainly red pepper, garlic and onions (Chapter IV.(3)(xi)). The Programme is essentially self-financing; the Corporation buys during the harvest season, at prices established largely on the basis of production costs, and releases stocks, at prevailing market prices, during periods of perceived shortage. Imports of the above products are subject to licensing requirements.  

246. The Sericulture Price Stabilization and Promotion Programme is administered by the Korean Sericultural Association. It sets prices for silk cocoons and raw silk on the basis of production costs and prevailing world prices. The Association, which is wholly financed by its membership of silk producers and spinners, manages price-buffer stocks and assists in the maintenance of mulberry fields. The Association's price-stabilization efforts are supported by import licensing requirements on cocoons and raw silk; imports of both products average some 40 per cent to 60 per cent of annual Korean consumption.  

247. The Trade Financing Programme, authorized under the Bank of Korea Act of 1950, makes credits available for exports of goods and services. The Programme is operated by individual commercial banks, operating on market principles (Chapter IV.(4)(vi)).  

248. Tax concessions introduced in the early 1960s with a view to promoting exports have almost all been eliminated. These included special

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85 The swine programme recorded a deficit of Won 4 million (about US$5.3 thousand) in 1990, according to the Ministry of Agriculture, Forestry and Fisheries, Republic of Korea.  

86 Data provided by the Ministry of Agriculture, Forestry and Fisheries, Republic of Korea.  

87 GATT document L/6630/Add.15.
wastage allowance, accelerated depreciation allowances for major exporters and direct tax reductions on income earned from exports; only export-related tax-free reserves remain (Chapter IV.(4)(vi)). Concessions now are geared toward encouraging direct foreign investment (Chapter III.(3)) and the establishment of small and medium sized enterprises (SMEs). Under national tax law, newly established SMEs in manufacturing, mining and technology-intensive sectors receive a four year exemption from income tax, followed by a 50 per cent reduction of such taxes for the next two years; in addition, property taxes are reduced by 50 per cent for the first five years of operation and registration taxes are halved for the initial two years of business. As an incentive for technology development, all firms may deduct from corporation taxes 10 per cent of the cost of technological improvements. To promote the balanced development of urban and rural areas, special depreciation allowances apply for firms establishing in agricultural areas; such firms may also be eligible for exemptions from corporation taxes for periods of up to 1 year. Finally, tax incentives are available for firms investing in various types of equipment, including that for productivity enhancement, energy saving and pollution avoidance.

(iv) Pricing and marketing arrangements

249. Other than the price stabilization programmes noted in the above sections, the Ministry of Energy and Resources regulates the prices of petroleum and its products, as an energy conservation measure. The programmes are supported, under the Petroleum Industry Act and the Liquified Petroleum Act, by a requirement that imports of such products require approval from the Ministry of Energy and Resources. The Ministry also operates various programmes, including an approval system for imports of anthracite, to support structural adjustment in the coal industry. Korea’s self-sufficiency in coal (including bituminous and anthracite) has declined from 56 per cent in 1987 to 32.5 per cent in 1991.


89 Information provided by the Ministry of Energy and Resources.
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Overview

250. The export promotion strategy adopted by Korea in the early 1960s operated to offset substantially the prevailing import restraints. Incentives were relatively neutral, with reasonably moderate dispersion of effective rates of protection (Note V.1) among individual sectors. As a result, by the late 1960s Korea had begun to develop an industrial export structure roughly matched to its comparative advantage, with resources moving from agriculture particularly into light manufacturing products.

251. The announcement in the late 1960s of the phasing out of U.S. food aid and the onset of the Heavy and Chemical Industries (HCI) drive in the early 1970s brought a change in direction. Food policy became more protective in nature and in industry the Government actively sought to "pick winners", becoming directly involved in decision making. Interventionist policies favoured "key" industries through preferential extension of credit, tax advantages and the partial reversal of previous import liberalization, including in electric and non-electric machinery and transport equipment. In agriculture, prices were set to ensure an adequate degree of food security and to allow farm incomes to achieve parity with urban levels. Although the HCI programme radically transformed the structure of the Korean economy, and contributed to the later export success of sectors such as automobiles, electronics and shipbuilding, the associated misallocation of resources played a rôle in the economic crisis of 1979 and 1980 (Chapter I.(1)). Concurrently, deficits in operating farm policies amounted to 4 to 5 per cent of Government expenditure.

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3Danny M. Leipziger (1988), op. cit.

4Jung-ho Yoo, "The Industrial Policy of the 1970s and the Evolution of the Manufacturing Sector in Korea", Working Paper No. 9017, Korea Development Institute, Seoul, Republic of Korea, 1990. It should be noted, however, that during the HCI drive the overall index of trade liberalization remained constant, and in fact rose moderately in both 1978 and 1979; moreover, the operative exchange rate for exports was kept roughly equal to that for imports, ensuring minimal bias in production for exports vis-à-vis import substitution: Kwang S. Kim (1991), op. cit.

252. Since the early 1980s, Korea has made great strides in cutting many trade barriers, especially on manufactures. Average tariff levels have been markedly reduced, and many non-tariff measures have been wholly or partially phased out. Many import quotas and other protective measures have been abolished. The overall policy environment has therefore become more neutral.

253. However, as shown in Chapter IV, Korea's nominal tariffs, even on industrial goods, escalate as between primary, semi-manufactured and finished goods for a wide range of product categories. Export restrictions on certain products, and the localization programme, appear also to support the structure of escalating tariff protection in some cases. The combination of these elements is likely to result in rates of effective protection to manufacturing which exceed the protection provided by tariffs alone.

254. As a result of the liberalization measures taken since the early 1980s, one would expect effective protection in manufacturing to have declined; indeed, one set of provisional estimates suggest that the average effective rate has declined from around 32 per cent in 1982 to some 27 per cent in 1990 (Table AV.1). Although protection for most sectors of manufacturing appears to be relatively close to the average level, tariff escalation would seem to have been an important factor in yielding effective rates considerably higher than the average in clothing and footwear, tobacco manufactures, and electric machinery, where the localization programme also encourages import substitution.

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Note V.1 Effective rate of protection

The average level of tariffs does not, even in the absence of non-tariff barriers, give an accurate view of the structure of protection extended to an activity, or of the trade and production effects of the protective structure. For example, ad valorem tariffs directly increase the import price of foreign goods by the amount indicated - a 20 per cent tariff on automobiles increases the import price by 20 per cent, etc. This does not, however, show the real extent of protection to the activity of producing automobiles in the importing country, or the extent to which resources are encouraged into the protected activity. For this, it is necessary to look at the combined effects of tariffs and other restrictions on imports of the finished goods, as well as to the tariffs and other restrictions on the materials and parts used in the production process. The concept of the effective rate of protection has been developed for this purpose.

The effective rate measures the percentage increase in value added resulting from protection in an activity, taking full account of the tariff and non-tariff measures affecting outputs and inputs. The level of effective tariff protection in a particular activity is a function of the tariff on the finished goods, the average rate on material inputs and components, and the extent of value added under free trade in the activity.

If the average tariff rates on inputs and finished goods are identical, then the effective rate on the industrial activity is also the same level. If the nominal rate on the finished good is higher than that on inputs, then the effective rate is generally higher than the nominal rate on the finished good. The extent to which it is higher depends critically on the value added in the activity at free-trade prices. The lower the value added, the higher the effective rate. Thus, an industry with a tariff on finished goods equal to 20 per cent and an average rate on inputs equal to zero could have an effective rate close to 20 per cent if there is high value added in the industry; but for low value added, e.g., 10 per cent, the effective rate could be as high as 200 per cent.

By contrast, a higher average tariff on inputs than on finished goods could lead to substantial negative effective protection.

Industries with negative or below average effective rates are in effect being taxed relative to those industries receiving higher effective rates. This is because the more highly protected industry is in a more advantageous position to bid for primary factors such as land as well as non-traded inputs. By bidding up such prices, protected industries increase costs for other sectors beyond what they would be under free trade. Thus, unprotected sectors, or sectors with relatively little protection, become less competitive. This is what is meant by saying that protection has a taxing effect on non-protected sectors and that protection results in a misallocation of resources.
Like many quantitative tools used by economists, the concept of the effective rate of protection employs a number of simplifying assumptions. First, it assumes that production techniques are unchanged by the assistance. Secondly, it assumes that the domestically-produced and imported products are perfect substitutes, and that the country concerned cannot influence international prices. Thirdly, it assumes that trade flows are not reversed by assistance policies. An additional problem is that of defining value added; although it includes land, labour and capital, the treatment of non-traded inputs such as services may pose extra difficulties for industries with significant non-traded inputs.

Deriving effective rate estimates that reliably reflect the effects of non-tariff barriers like import quotas and prohibitions is perhaps the most difficult measurement problem. In these cases, estimation may require resorting to less robust methods, such as conducting price comparisons, where quality differences could become important and need to be taken into account.

Thus, the concept of effective protection, by its nature, cannot generate precise figures. It must be interpreted as reflecting broad orders of magnitude. From a policy perspective, effective rate estimates are a relative concept whose real value is in being able to rank industries according to the extent to which Government assistance policies affect production incentives. Despite its imperfect nature, the effective rate of protection remains one of the most useful tools available for assessing the domestic economic impact of protection on resource allocation.
255. The incidence of border protection on agricultural products in Korea has also declined during the 1980s, although less significantly than in manufacturing. Nevertheless, assistance to agriculture, however measured, continues to be substantial. Agricultural production in many areas is supported by price stabilization measures, import management and relatively high tariffs. Declining international prices vis-à-vis domestic support levels are likely to have contributed to increased nominal and effective protection to the sector (see Note V.1). In this connection, provisional estimates suggest that average effective protection for agriculture in 1990 was well over six times that for manufacturing (Table AV.1). The agricultural average conceals wide sub-sectoral variations, with some product groups such as vegetables probably internationally competitive. Nevertheless, high rates of assistance continue to hold resources in the sector, in particular in certain grains where self-sufficiency is promoted. However, the pace of change in agricultural policy appears to be accelerating, particularly since the disinvocation of GATT balance-of-payments provisions in 1989; a number of markets are being opened to international signals and efforts are underway to increase agricultural productivity and retrain farmers for employment in other sectors.

256. By contrast, provisional estimates of effective protection in other primary sectors show that support levels are low, and that tariff escalation and other forms of assistance do not appear to distort resource allocation substantially.

(2) Agriculture

257. The contribution of agriculture (excluding forestry and fisheries) to GDP has been on a declining trend since Korea's switch to an outward-oriented development strategy in the early 1960s. Its share of real GDP fell from some 44 per cent in 1963, to 24 per cent in the early 1970s and to about 8 per cent in 1990. Concurrently, the percentage of the labour force employed in agriculture has declined from just over 60 per cent in 1963, to about 48 per cent in 1973 and some 17 per cent in 1990. The level of food self sufficiency, except in rice and barley, has fallen.

258. In addition to the intersectoral adjustment away from agriculture, a number of changes have occurred within the sector. In output, the share of grains has fallen from some 60 per cent in the early 1960s to about

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7 The numbers cited relate to primary agricultural production and do not include food manufacturing, such as dairy products, which are also referred to in this section.
43 per cent in the mid 1980s. With vegetables, livestock products and fruits increasingly supplementing cereals in the Korean diet, the combined share of these products in farm output has risen from under 29 to around 48 per cent over the past three decades. Further, over 40 per cent of farm household income now derives from non-farm sources, more than double the share during the early 1960s. On the input side, the use of chemical fertilizers has tripled since the mid-1960s. This, together with very rapid mechanization has boosted the productivity of farming. As a result, total agricultural output has doubled since the mid-1960s.

259. With the declining importance of agriculture in Korea's production structure, the pattern of assistance to agriculture has moved from effectively taxing the sector to progressively increasing assistance to farmers relative to other producers. In 1960 the nominal rate of agricultural protection was in the order of -15 per cent; by the early 1970s, the rate was some 30 per cent and since then has grown further to a level estimated at over 100 per cent in 1988. 8

260. The growth in support to the farm sector stems from policy changes in the late 1960s. Rapid productivity, and consequent wage, increases in manufacturing in the mid-1960s brought a sharp fall in farm incomes relative to that of urban wage-earners. This, together with the commencement of the phasing-out of U.S. food aid triggered successful demands for farm assistance through price supports and protection from import competition. The key objectives of agricultural policy became the maintenance of an adequate degree of food security and parity in urban and farm incomes.

261. Since the early 1970s, the emphasis on food security has narrowed to self-sufficiency in rice and barley for food purposes: an objective which has not diminished over the past two decades. With livestock also an important source of income for most farmers, maintenance of equality in the earnings of the rural and urban population has been perceived to require support to this sub-sector, as well as to food- and feed-grains.

262. The cost of agricultural support, the associated rise in land prices and mounting international pressures for food import liberalization since the mid 1980s, have begun to shift agricultural policy. Agricultural tariffs are being reduced, the beef market is being gradually opened, the

8 Economic Planning Board, Major Statistics of Korean Economy, various issues.

scope of non-automatic licensing for agricultural products is being reduced and, in 1990, the National Assembly passed the Rural Development Act for structural adjustment in agriculture (Chapter IV.(5)(i)).

263. Judged by its own objectives, Korean agricultural policy is a qualified success. Farm household income has been in line with, and in fact frequently in excess of, that of urban wage earners since the mid-1970s. Self-sufficiency in staple food grains, rice and barley, has also been retained (Table V.1), albeit with significant initial support for the chemical fertilizer sector. An adequate domestic livestock supply has required increasing reliance on imported feedstuffs, with self-sufficiency in all grains down from some 94 per cent in the early 1960s to 43 per cent in 1990. Overall, therefore, Korea's agricultural self-reliance is less than the domestic supply balance for basic food products would suggest. Moreover, although there have been significant productivity gains, the attainment of the food policy objectives - self-sufficiency in staples and farm/non-farm income parity - has been achieved at growing economic costs, to counter the decline in Korea's comparative advantage in agriculture. As a result, for most farm products, Korean producer prices are generally several times higher than world prices (Chart V.1).
The nominal rate of protection is defined as the percentage by which the domestic producer price exceeds the border price, with the latter adjusted upwards for freight, insurance, handling and transport charges.

Source: GATT Secretariat estimates based on data supplied by the Ministry of Agriculture, Forestry and Fisheries, Republic of Korea.

It is estimated that about 90 per cent of the assistance to agriculture derives from stabilization schemes supporting domestic prices that are high by international levels. These price support programs, for cereals, livestock and its products, and a range of vegetables and seasoning items, are administered either directly by the Government (in the case of rice) or organizations of a public and semi-public character, including the National Agricultural Cooperative Federation (NACF), the Agricultural and Fisheries Marketing Corporation (AFMC), the National Livestock Cooperative Federation (NLFC), and the Livestock Product Marking Organization (LPMO). The intervention schemes are normally supported by import licensing requirements, either under the Import Notice of restricted items or under an individual law (Chapter IV(3)(viii)), and in a number of instances, such as beef, by import quotas (Chapter IV(3)(ix))

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and (xi)). Farmers also benefit from the Balanced Fertilization Programme, under which the Government until 1994 underwrites NACF losses on the purchase and sale of selected fertilizers. Further assistance is provided through Central Government budgetary outlays for development programmes, including for soil improvement, irrigation and infrastructure.

265. The assistance to agriculture resulted in an estimated aggregate producer subsidy equivalent (PSE) for 9 products of 97 per cent in 1990 (Chart V.2). The aggregate PSE had been relatively stable at around 65 per cent during the early- to mid-1980s, but rose sharply from 1987 onwards with the decline of international food product prices. In 1990, individual product PSEs ranged from 38 per cent for chicken to 125 per cent for corn.

266. As measured by the aggregate consumer subsidy equivalent (CSE), the implicit tax on Korean consumers for farm support in 1990 was estimated at the equivalent of 68 per cent of the total cost of purchasing the 10 products covered by the measure (Chart V.2). The aggregate CSE was normally somewhat below 60 per cent during most of the early- to mid-1980s, but has risen recently with the downtrend of international prices. Individual product CSEs in 1990 ranged from a low of -6 per cent (minimal implicit taxation) to a high of -86 per cent for milk.

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11 Although the Government has supported the use of fertilizers as an agricultural input since the late 1960s, farmers faced an implicit tax on fertilizer use until at least 1987 because of significant protection for the domestic fertilizer industry: Kym Anderson (1989), op. cit.


13 The PSE measures the assistance to farmers by the value of transfers to them as a percentage of total value of output. The numbers in the text are gross PSEs, without feed adjustment; the latter adjustment would typically lower the PSE by about 5 percentage points. The product coverage for the PSE measure is: barley, beef and veal, chicken, corn, eggs, milk, pork, rice and soybeans. The sources for PSE estimates in this section are J. Albert Evans (1991), op. cit., and the data bank of the U.S. Department of Agriculture.

14 The CSE measures the total transfers, through higher prices for example, from consumers to agriculture as a percentage of the total purchase price of the products included in the measure, viz: barley, beef and veal, chicken, eggs, milk, pork, rice, soybeans, sugar and wheat flour. The sources for CSE estimates cited in this section are J. Albert Evans (1991) op. cit., and the data bank of the U.S. Department of Agriculture.
Chart V.2  
Producer and consumer subsidy equivalents (PSEs and CSEs), 1990 (1)  
Per cent

1 The PSE measures the value of assistance to farmers as a percentage of the value of their total output of the products covered, viz: barley, beef and veal, chicken, corn, eggs, milk, pork, rice and soybeans; the chart shows gross PSEs, without feed adjustment, which would typically lower the aggregate PSE by about 5 percentage points. The CSE measures the implicit tax imposed on consumers by agricultural policy; it is the value of transfers by consumers, for example in the form of higher prices, as a percentage of the total cost of the products covered, viz: barley, beef and veal, chicken, eggs, milk, pork, rice, soybeans, sugar and wheat flour.

267. The total gross cost of agricultural support in Korea in 1990 is estimated to have been the equivalent of 7.4 per cent of GDP. Further estimates suggest that in 1990, Korean producers received one dollar for every 1.3 dollars transferred as agricultural support by consumers-cum-taxpayers; this indicates a welfare loss in Korea of potentially as high as 1.7 per cent of GDP as a result of agricultural assistance in 1990.

(i) Grains (Table AV.3)

268. Rice accounts for about 85 per cent of total grain production, with barley making up most of the remainder. Since the liberalization of the wheat market in 1984, production has fallen from some 1.6 per cent of total grain output in 1983 to minimal amounts in the late 1980s, with Korea now almost totally dependent on imports for wheat consumption. Corn production is underpinned by a price stabilization scheme and import quotas (Chapter IV(3)(ix)), with the result that output levels have remained relatively constant through much of the 1980s, and now account for about 1.5 per cent of total grains. During the 1980s, total grain production has remained approximately stable.

269. Korea is self-sufficient in rice and barley for food purposes, with no such imports over the past five years. The tariff on rice and food-barley is 5 per cent, but price stabilization schemes and implicit zero import quotas support domestic production of both products (Chapter IV(3)(xi)). In the case of both rice and barley, the

15 Estimates are by the GATT Secretariat. Gross cost is calculated as gross Central Government budgetary transfers plus the aggregate amount of consumer transfers used in the CSE calculation. The net cost of agricultural support would take into account Government tariff revenue from imports (and budgetary transfers from local governments). As indicated by the self-sufficiency ratios of Table V.1, there were no, or minimal, imports into Korea of a number of food products in 1990. However, using total food imports at the average agricultural tariff as a basis for calculation would yield tariff revenue roughly equivalent to one-quarter of Central Government budgetary transfers to agriculture. This would lower the cost of agricultural support in 1990 to approximately the equivalent of 7 per cent of GDP. Sources: International Monetary Fund, Government Finance Statistics Yearbook, Volume XIV, Washington, D.C. 1990; Organization for Economic Cooperation and Development, Agricultural Policies, Markets and Trade: Monitoring and Outlook 1991, Paris, 1991; and the data bank of the U.S. Department of Agriculture, Washington, D.C.

16 Taking tariff revenue into account, as in the above footnote, would imply that the farmer receives one dollar for approximately every 1.25 dollars transferred by consumers-cum-taxpayers to agriculture; this would imply a welfare loss equivalent to 1.3 per cent of GDP in 1990.

17 Some 32.3 thousand tons of barley, equivalent to about 4 per cent of domestic production, was imported for malting purposes in 1990.

18 The tariff rate on malting-barley is 35 per cent, down from 40 per cent in 1990 and 1991.
intervention purchase prices over the past five years have been on average some 34 per cent above the sales release prices, with the result that the programmes have incurred annual, Government-financed, losses equivalent to an average of 0.3 per cent of GDP a year. \(^{19}\) In 1990, Korean producers of rice and barley received some 3 times the world price for their output. The associated PSEs for rice and barley were estimated at 114 and 88 per cent respectively. As measured by the CSE, the implicit tax on consumers of rice was 83 per cent and that on barley was 78 per cent.

(ii) Livestock and dairy products (Tables AV.4 and 5)

During the 1980s, Korean livestock production (mainly cows, pigs and chicken) increased by about 110 per cent. The number of cattle rose sharply in the early 1980s, with Korea self-sufficient in beef by 1987. Since then, largely under the impact of liberalization of the beef market, the number of head has fallen to about its 1980 level, with Korean self-sufficiency in beef down to 45 per cent in 1991 (Chapter IV(3)(xi)). By contrast, Korea retained self-sufficiency in both pork and chicken, with the number of animals up by 150 per cent and 85 per cent, respectively, during the course of the 1980s.

Livestock production is supported by price stabilization schemes for beef, pork and chicken, import licensing requirements, an average tariff of 8.9 per cent (down from 10 per cent in 1990 and 1991), and by an import quota for beef (Chapter IV(3)(xiii), (ix) and (xi)). The beef import quota, administered by the Livestock Products Marketing Organization (LPMO), has been raised progressively from 15,000 metric tons in 1988 to 115,000 tons in 1991, equivalent to 116 per cent of domestic output in that year. Under a simultaneous buy and sell arrangement for 7 per cent of the beef quota (Chapter IV(3)(ix)), actual 1991 imports of beef amounted to 122 thousand tons. With the domestic sales price of beef in both 1990 and 1991 virtually double the c.i.f. import price, the LPMO did not incur deficits in its beef support programme. \(^{20}\) Under the impact of market liberalization and the adoption of more efficient management techniques, beef price distortions have declined since the mid-1980s, when the nominal rate of protection for beef was in the order of 350 per cent. \(^{21}\) Nevertheless, the PSE for beef was 90 per cent in 1990,

\(^{19}\) Data supplied by the Ministry of Agriculture, Forestry and Fisheries, Republic of Korea.

\(^{20}\) GATT document L/6630/Add.15 and data provided by the Ministry of Agriculture, Forestry and Fisheries, Republic of Korea.

\(^{21}\) Kym Anderson (1989), op. cit.
with consumers paying an implicit tax of about 70 per cent on their purchases (down from 78 per cent in 1983).

272. The price stabilization schemes for pork and chicken are administered by the National Livestock Cooperative Federation (NLCF), with imports authorized by the Federation when domestic market prices exceed the upper limit of the price stabilization band. In the case of chicken, there were no imports in the period 1987 to 1991. During the same period, minor quantities of pork have been exported each year (equivalent to an average of 1.4 per cent a year of domestic production). There were small quantities of pork imports in the period 1987 to 1989; in 1990 and 1991 there were imports equivalent to 0.5 per cent and 3.4 per cent of domestic output, respectively. With domestic pork and chicken market-prices both some 150 per cent above international prices, the NLCF has not run deficits on its price support schemes in any of the past five years.  

273. Support for the livestock sector, and the consequent maintenance of a relatively large production base, has virtually doubled the total consumption of feedstuffs in the period since 1980. Korea's self-sufficiency in livestock feed is estimated at 27 per cent. Tariff quotas or temporary duties (on corn) lower duties on most imported feedgrains from 5 to 3 per cent. However, the Feed Control Act of 1963 places restrictions on the types of feed ingredients that can be used. It is difficult to estimate the effect of distortions on feed prices, because of weighting problems; however, it is suggested that the average price for livestock feed in Korea was, in the mid-1980s, some 20 per cent above world prices (adjusted for freight, insurance, etc.)

274. As a result of support to the livestock sector, including significant tariff escalation through the processing stages, the nominal rate of protection for meat and meat products was provisionally estimated to be in

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22 GATT document L/6630/Add.15 and information supplied by the Ministry of Agriculture, Forestry and Fisheries, Republic of Korea.

23 Ministry of Agriculture, Forestry and Fisheries, Republic of Korea.

24 Kym Anderson (1989) op. cit. GATT Secretariat calculations suggest that the nominal rate of protection might be in the order of 40 per cent, on the basis of data provided by the Ministry of Agriculture, Forestry and Fisheries, Republic of Korea. Using the 20 per cent estimate, a nominal rate of protection of 122 per cent for meat and meat products (Chart V.1) and actual production values, suggests that the border value of beef, chicken and pork was somewhat less than the border value of feedstuffs: Source: Ministry of Agriculture, Forestry and Fisheries, Yearbook, Seoul, Republic of Korea, 1990.
the order of 122 per cent in 1990.\textsuperscript{25} At the assisted prices, value added in the animal products sector is about 0.4 per cent of total value added in manufacturing (Table V.2, category 26).\textsuperscript{26} However, it is estimated that at international prices, value added for meat and meat products is less than zero, implying that the sector would not be viable without assistance. Partly under the impact of beef-market liberalization, the import penetration ratio in the sector was about 23 per cent in 1989 (the latest year for which compatible trade and production data is available).

275. A similar picture emerges for dairy products. A price stabilization scheme for milk, tariffs of up to 40 per cent for milk, butter and cheese, and import licensing restrictions resulted in an estimated nominal rate of protection of over 330 per cent in 1990. In that year, the PSE for milk was 69 per cent, with consumers paying an implicit tax of 86 per cent, as measured by the CSE, on their milk purchases. Although at assisted prices, value added in the dairy sector is some 0.8 per cent of manufacturing value added, it is estimated that at border prices value added would be negative, and that the sector is unlikely to be viable at free trade prices. With restrictions limiting imports, the import penetration of the Korean dairy-products market in 1989 was less than 1 per cent (Table V.2, category 30).

(iii) **Vegetables, fruits, oilseeds and other foodstuffs**
(Tables AV.6, 7 and 8)

276. Vegetable and fruit production accounts for about 22 per cent of Korea's agricultural output, up from some 15.5 per cent in the past two decades. The estimated average nominal rate of protection on vegetables in 1990 was in the order of 15 per cent, with an associated effective rate of about 13 per cent. There were, however, wide variations in nominal protection among vegetables, caused in part by tariffs ranging from zero per cent for potato seeds to 50 per cent for lettuce and onions. High tariffs combined with price stabilization schemes, administered by the Agricultural and Fisheries Marketing Corporation (Chapter IV(3)(xi)), to yield nominal protection rates of over 200 per cent for certain pulses. However, despite high tariffs and a price stabilization scheme it would appear that the nominal protection on onions is negative, as it is for tomatoes, cabbage and certain types of potatoes. In effect, these

\textsuperscript{25}Strictly, meat processing is part of manufacturing but is presented here for continuity with agriculture, as are other agro-related sectors, such as dairy products, beverages, etc.

\textsuperscript{26}Manufacturing accounted for 31.2 per cent of economy-wide value added in 1989, the year for which Table V.3 is drawn.
products seem to be implicitly taxed, with the accompanying suggestion that their production would be viable, and higher, under an unassisted agricultural régime.  

277. In the case of fruits, including edible nuts, tariffs range from 30 to 50 per cent, non-automatic licensing applies and a buffer stock programme supports the price of peanuts. This support structure results in high overall levels of protection. Nevertheless, it is notable that under processing the combined fruit and vegetable sector had an estimated negative effective rate of protection, suggesting that much of the support flows back to producers and that certain parts of the sector may be competitive at international prices.

278. The oil-seed sector is protected by non-automatic import licensing, tariffs ranging from 3 per cent, on a temporary basis, for soybeans to 40 per cent for sesame, and by price stabilization schemes for both soybeans and sesame. As a result, nominal rates of protection are estimated to be in the order of 200 per cent and 500 per cent for soybeans and sesame, respectively. However, with oil-seeds as marginal crops for most farmers, Korea's self-sufficiency ratio for the products has fallen in line with the relative decline of the agricultural sector, to some 20 per cent in the case of soybeans (Table V.1). On the processing side, moderate tariff de-escalation is somewhat exacerbated by tariff quotas that lower applied duties on some vegetable-oils by 40 per cent. Overall, it would appear that nominal protection for processing was about 20 per cent in 1990. High input costs, because of protection on the primary products, suggest estimates of a negative effective rate, implicitly penalizing processing and implying it could be competitive under international prices. The processing sector has low value added and import penetration of some 32 per cent (Table V.2, category 27).

279. Foodstuffs, other than sectors already noted, such as dairy products and oil seeds, include fruits and vegetable preserves, coffee, condiments, sugar, and tea. Fairly significant tariff de-escalation (Chapter IV(3)(i)) reduces effective protection, relative to that for primary production. However, non-automatic import licensing for items such as sugar and tea, and an average tariff of some 22 per cent on finished products mitigate against significant import penetration. In addition, excise taxes of up to 20 per cent (Chapter IV(3)(v)) are levied on products such as coffee and sugar for which Korea is almost wholly import

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27 The estimates are tentative, because it is difficult to obtain international prices for many of the products since they are usually traded in small quantities and have widely varying qualities.
reliant. Nevertheless, estimates suggest that a number of sub-sectors, including bread and cereal products, had negative effective protection, placing them at a competitive disadvantage to other manufactures, and indicating the resource misallocation that results from assistance to primary producers. Overall, imports accounted for somewhat over 4 per cent of apparent consumption in 1989 (Table V.2, category 24).

(iv) Tobacco (Table AV.9)

280. The tobacco sector is protected by tariffs of 20 per cent on unmanufactured tobacco and by rates of 40 per cent on manufactures. The Korea Tobacco and Ginseng Corporation (Chapter IV(3)(xi)) is charged under the Tobacco Act of 1988 with promoting the "sound development" of the sector and maintaining "orderly trade". Imports of leaf tobacco and its products, and exports of all tobacco products, may only be effected by the Corporation and by traders who have been recommended by it. The Corporation has not imported any leaf tobacco since 1989. On the other hand, imports of manufactured tobacco were liberalized in July 1988, subject to importers being registered with the Ministry of Finance.

281. The nominal rate of protection on tobacco processing was 40 per cent in 1990. With relatively low value added in the sector, effective protection, which was estimated at almost 100 per cent, may have been eroded by import liberalization. Import penetration was 3.4 per cent in 1989 (Table V.2, category 32); with imports of manufactured cigarettes up by some 18 per cent since then the foreign share of the Korean market should now be somewhat over 4 per cent.

(v) Beverages and spirits (Table AV.10)

282. The average tariff on beverages and spirits is 38 per cent, compared to 44 per cent in 1990 and 1991. Tariff dispersion is significant, with rates ranging from a low of 11 per cent for mineral water to highs of 50 per cent for most fruit juices. Duties on wines and alcoholic beverages are in the order of 40 per cent, although a tariff quota on distilled raw alcohol lowers the applicable tariff rate on that item to 10 per cent. 28 Non-automatic licensing applies to most fruit juices, as well as to alcoholic preparations and liqueurs. Nominal rates of protection tend toward the tariff averages but, with much of the assistance transferred back to primary producers, effective protection rates appear to be lower, with estimates ranging from 5 per cent for

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28 A liquor tax applies to most beverages with an alcohol content of 1 per cent or more; the tax ranges from 5 per cent for takju to 150 per cent for beer, brandy and whisky.
alcoholic beverages to around 20 per cent for soft drinks. Import penetration in 1989 was under 3 per cent (Table V.2, category 29) but is likely to have edged up since then, with growth in the domestic production index for beverages significantly lagging the increase in imports in 1990.

(vi) Fish, shellfish and products (Table AV.11)

283. The fisheries sector accounts for about 0.8 per cent of both GDP and employment. Reflecting the continuing shift in Korea's comparative advantage away from primary production, the contribution of the sector to GDP has contracted by about 50 per cent in the past decade, with export growth during this period significantly below the economy-wide average (Table AI.1). Assistance to fisheries is largely in the form of border protection, although the Government does provide some support for productivity enhancing investments and for debt rescheduling. The tariff average for the sector is just over 17 per cent, with rates ranging from 10 per cent for live, and some frozen, fish to 20 per cent for certain crustaceans. Tariff quotas reduce the rate on most varieties of frozen fish from 10 per cent to 5 per cent. Non-automatic import licensing applied to almost 40 per cent of all 10-digit H.S. lines in the category in 1991. Under the 1992-94 liberalization programme, this share will fall to 13 per cent by 1994. In addition, selective export restraints are in effect on a number of fish varieties, mainly to Japan but also to the United States.

284. The fish processing sector accounts for about 75 per cent of all fish related exports. The sector's nominal rate of protection appears to be below 10 per cent, both under the impact of the tariff quotas and the seeming non-binding nature of import licensing. Under low value added and the transfer of assistance to the primary sector, effective protection would seem to be slightly negative. Import penetration, with a fairly high level of intra-industry trade (Chapter I.(1)), accounts for about one-fifth of Korean apparent consumption in the sector (Table V.2, category 31).

(3) Mining

285. Korea is poorly endowed with mineral resources. Anthracite coal is the only domestic fossil energy source and its exploitation accounts for almost two-thirds of all mining activity. With only minor deposits of metals, stone and limestone quarrying makes up most of the remainder of mining. The sector, whose production index in 1990 was virtually unchanged relative to 1980, contributes 0.5 per cent to Korean GDP, compared to about 1.3 per cent in 1980, and employs some 0.4 per cent of the labour force.
286. Government financial assistance to the mining sector, amounting to the equivalent of about US$145 million in 1991, is concentrated in anthracite coal, mainly to retrain miners and provide support for the closure of non-economic mines. Tariff rates in the sector are low, ranging from 1 per cent for most ores and coal, to 4 per cent for limestone and 9 per cent for certain precious stones. Non-automatic import and export licensing, largely non-restrictive, applies to anthracite; salt is similarly subject to non-automatic import licensing and most stones, clays and limestone are under export licensing restrictions.

287. Production of anthracite coal has fallen by some 30 per cent since 1987, with about two-thirds of Korea's mines becoming economically unviable and shutting down operations during that period. With some 65 per cent of Korean households using coal as a major energy source, declining anthracite production has raised Korea's reliance on coal imports from 44 per cent of consumption in 1987 to almost 68 per cent in 1991. 29

(4) Manufacturing

288. In the period since 1962, real value added in manufacturing has grown at an annual average rate of 15.3 per cent, underpinning average real GDP growth of 9 per cent a year. During this period, the share of manufacturing in real GDP has increased from just over 8 per cent in 1963 to 18 per cent in 1973 and 33.5 per cent in 1990. The sector employed 27 per cent of the labour force in 1990, compared to 8 per cent in 1963 and just under 16 per cent in 1973. Growth of the sector was initially centred in light manufactures, particularly clothing and fabricated wood and metal products, but began to switch toward engineering products in the mid-1970s, under the impact of the Heavy Chemical and Industries drive. Since the early 1980s, the fastest growing sub-sectors have been transport equipment and electric and electronic machinery.

289. The recent shift in the structure of growth toward domestic demand, particularly construction (Chapter I.(2)) has contributed to a slight contraction of the manufacturing sector relative to its 1988 peak of almost 34.5 per cent of real GDP. In part, the move toward services is in line with the normal maturing of an economy. However, the export competitiveness of the sector has also come under pressure, with recent sharp increases in unit labour costs relative to major competitors for

29 Data cited in the paragraph is based on information provided by the Ministry of Energy and Resources, Republic of Korea.
export markets (Chapter III.(i)). High wage settlements, in excess of productivity growth, stem partly from the release of pent-up demand subsequent to the June 1987 Declaration of Democracy. They are also associated with increasingly tight labour markets: the retention of resources in the heavily protected agricultural sector and peaks in protection for manufacturing sub-sectors such as clothing have contributed to this rigidity.

(i) Paper, wood and furniture (Table AV.12)

290. Since 1980, production in the paper sector has increased at an average of 9 per cent a year, compared to an average rate of 12 per cent a year for manufacturing as a whole. In the related wood products and furniture sectors, the index of production rose at an average annual rate of 8.4 per cent, with growth of furniture production more than triple that of wood products. Concurrently, unit labour costs increased at an average rate of 2.6 per cent a year in the paper industry, compared to an annual increase of 1.6 per cent in manufacturing. Unit labour costs in wood products rose at double the average rate in manufacturing but those in furniture production fell at an average rate of 1 per cent. During the same 1980 to 1990 period, exports by the paper industry grew at an average rate of 13 per cent a year, compared to 14 per cent for manufactures. Exports of wood products actually declined, while those of furniture rose at 21 per cent a year on average (Table AI.1).

291. Assistance to the sectors is limited to border protection. Tariffs range from zero per cent for certain books to 13 per cent for some stationery items. Furniture imports are subject to a uniform tariff of 11 per cent, down from 13 per cent in 1990 and 1991. Tariff escalation is significant for both wood and paper products (Chapter IV.(3)(i)) and is exacerbated in both sectors by tariff quotas that lower applied rates on some raw and semi-manufactured materials. Non-automatic export licensing, including export prohibitions, on most rough woods may serve to lower input prices for processors.

292. Exports of certain manufactured paper articles, mainly photo albums, are subject to anti-dumping duties in major markets. In furniture, non-automatic export licensing for shipments of some products to Canada and the United States may serve to restrain exports (Chapter IV.(4)(iv)).


31. The furniture sector includes metal furniture, but almost 80 per cent of production, value added and exports is from wood and related products.
The import diversification programme encourages both furniture and manufactured-paper producers to alter their sourcing of imported inputs, to the possible detriment of efficient production (Chapter IV.(3)(xxii)).

293. The sector appears to be internationally competitive. Estimated nominal rates of protection are low, ranging in 1990 from just under 2 per cent for printing and publishing to 8.4 per cent for paper products. The corresponding effective rates are generally marginally negative, except for a positive rate of almost 10 per cent for paper products (Table AV.1), and are significantly below the average for manufacturing. In the case of wood products, import penetration is well above 40 per cent but drops to below 14 per cent for the paper industry and to just 4 per cent in the case of furniture (Table V.2, categories 03, 04 and 17).

(ii) Textiles and clothing (Table AV.13)

294. The performance of textiles and clothing lagged that of manufactures during the 1980s, with lower-cost producers in South-East Asia taking larger shares of the world market relative to Korea.\(^\text{32}\) Taken together, textiles and clothing accounted for just under 22 per cent of Korea's exports in 1990, down from almost 30 per cent in 1980, with the decline reflecting Korea's increasing specialization in engineering products. Overall, textile and clothing production grew at just one-half the average annual rate of 12 per cent for manufactures in the period 1980 to 1990.

295. In the ten year period from 1980, textile production averaged annual increases of 4.8 per cent, with unit labour costs up almost 5 per cent a year on average. The clothing production index rose at an annual average rate of just below 7 per cent, but with wage increases fully 4 percentage points higher than productivity growth, unit labour costs rose at more than double the manufacturing average (of 1.6 per cent).

296. In 1989 and 1990, production activity in textiles and clothing declined at an annual average rate of almost 2 per cent; clothing output fell at a rate of 4.3 per cent. Clothing exports during this period declined at an average rate of 4.4 per cent, while exports of textiles grew annually by 13.9 per cent. Exports of textiles and clothing combined

\(^{32}\)In the period 1980 to 1990, Korea's share of world textile exports rose from 4 per cent to 5.5 per cent while that of: Hong Kong rose from 3 per cent to 7.5 per cent; China grew from 4.5 per cent to 6.5 per cent; and Taiwan increased from 3 per cent to 5.5 per cent. During the same period, Korea retained its 7 per cent share of world clothing exports while the combined share of China, Hong Kong and Thailand rose from 16.5 per cent to 25 per cent. Source: General Agreement on Tariffs and Trade (GATT), International Trade 90-91, Geneva, 1992.
grew by only 2 per cent annually, compared to a 10 per cent average for the decade 1980-90. Employment in textiles and clothing fell from 657,000 in 1988 to 573,000 in 1990, with three-quarters of the decline in textiles. Together, textiles and clothing accounted for 20 per cent of employment in manufacturing in 1990, down from 22.6 per cent in 1988.

297. Since 1986, the Government has supported structural adjustment in textiles and fabrics with loans at below market rates to replace worn-out equipment (Chapter IV.(5)(i)). As a result, average productivity gains appear to have been in the order of about 13 per cent a year but competitiveness declined relative to the rest of manufacturing under the impact of large wage settlements.

298. Tariffs on textile and clothing imports range from 2 per cent on wool, cotton and other raw materials to 13 per cent on most clothing items and accessories. The average scheduled tariff of 11 per cent in 1992 compares to an average rate of 13.2 per cent in 1990 and 1991; however, in the latter two years, importers benefited from temporary duties that reduced scheduled rates from 13 to 11 per cent on almost one-fourth of all 10-digit H.S. tariff lines in textiles and clothing (Chapter IV.(3)(i)). Tariff escalation is significant in the sector and somewhat exacerbated by tariff quotas on certain yarns which lower statutory rates on these products from 11 to 2 or 3 per cent. Part of the silk sub-sector is protected by non-automatic import licensing. The import diversification programme encourages importers of wool, cotton, artificial fibres and certain yarns to change their sources of supply, potentially raising input costs.

299. In 1991, export restraints affected almost 90 per cent of all 6-digit tariff lines applying to textiles and clothing (Chapter IV.(4)(iv)). Bilateral export quotas are in effect, under the Multifibre Arrangement (MFA), with Austria, Canada the European Communities, Finland, Norway and the United States. Further, voluntary export restraints operate on sales of knitwear and silk products to Japan and on synthetic and artificial fibres to certain Middle Eastern countries. Exports are also affected by anti-dumping duties, levied by Canada on nylon rope, by the European Communities on polyester yarn, and by the United States on sweaters from man-made fibres. In addition, non-automatic export licensing applied in 1991 on shipments of a variety of fabrics and clothing to Japan, Sweden, the Middle East, Africa and Asia.

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Korea Foreign Trade Association (1991), op.cit., tables 64A.5 and 64A.7 based on the Ministry of Trade and Industry classification.
300. The combination of these import and export measures implies that low protection on textiles was contrasted to relatively high protection for clothing. This is supported by estimates suggesting that in 1990, textiles had a nominal rate of protection of just over 5 per cent, whereas nominal protection for clothing was in the order of 30 per cent (Table AV.1), and that the effective rate of protection for clothing (a relatively low value-added sector) was around 100 per cent. With textiles transferring much of its assistance to clothing, under the escalating tariff structure, the effective assistance to the sector was estimated to be negative; in effect, textiles was heavily taxed relative to clothing and to manufacturing in general. Taken together, textiles and clothing had an import penetration ratio of over 18 per cent in 1989; with rapid growth in Korean demand for high fashion clothing products, the share of imports in the domestic market is likely to have risen since 1989 (Table V.2, category 05).34

(iii) Footwear, leather and rubber products (Table AV.14)

301. The sector includes leather and rubber footwear, travel goods, tyres and tubes. Rubber products have been included in the grouping as fully 63 per cent of value added in the manufacture of rubber products in Korea stems from rubber footwear.

302. Korea is among the world’s foremost exporters of footwear, with a significant number of European and U.S. brands of sport-footwear having established their main production facilities in Korea’s relatively low-cost, highly skilled production environment. In 1990, exports of footwear accounted for 6.6 per cent of total Korean exports, compared to 5.2 per cent in 1980. During the period 1980 to 1990, production of leather and rubber goods, including footwear, rose at an annual average rate of almost 9 per cent a year. Unit labour costs in both categories of products rose more rapidly than in manufacturing as a whole, particularly in 1989 and 1990. In the latter years, there were marginal production declines for the sector as a whole, but output of footwear grew slightly. With improved competitiveness, the value of footwear exports rose at an annual average rate of 6.5 per cent in 1989 and 1990, compared to a rate of 3.5 per cent for the whole manufacturing sector.

303. Footwear imports into Korea face a uniform tariff rate of 11 per cent, with rates of 11 to 13 per cent on most other manufactured

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34 The value of imports of clothing and accessories, in U.S. dollars, increased by almost 100 per cent in 1990. Source: United Nations Statistical Office, Comtrade Data Base.
articles of leather and rubber. Tariff escalation provides assistance for producers of finished and semi-finished manufactures with a tariff rate of 2 per cent on natural rubber and 4 per cent on raw hides and furskins. However, voluntary export restraints limit footwear sales to Canada, the European Communities and the United states. In addition, Canada maintains anti-dumping duties on waterproof rubber footwear imported from Korea, and there are price undertakings with the European Communities on Korean exports of tyres and tubes. Non-automatic export licensing by Korea monitors exports of footwear to a number of countries, including Japan; travel goods to Australia, Canada, France, Italy, Japan, the United States and others; and certain manufactured items of leather and rubber to the European Communities and the United States.

304. Low value added in the footwear sector, together with tariff escalation, implies that effective protection for final output should be high; tentative estimates for 1990 suggest that the effective rate was over 140 per cent, making footwear a highly protected sector relative to the rest of manufacturing (Table AV.1). Import penetration for leather and rubber products in 1989 was fairly high, above 20 per cent, but for footwear and travel goods the import share of the Korean domestic market was below 4 per cent (Table V.2, categories 01, 02 and 15).

(iv) Coal, gas and petroleum products and refining (Table AV.15)

305. Korea is wholly reliant on imports for petroleum and natural gas supplies. The statutory tariff rates on both crude petroleum imports and natural gas are 5 per cent, lowered to 1 per cent under tariff quotas that have no quantity limitations. The Petroleum Industry Act of 1970 requires the Minister of Energy and Resources to promote stable market conditions for petroleum and its products, with the result that imports and exports require the approval of the Minister. In practice, the restraint is non-binding on imports. However, under the Liquefied Petroleum Act, liquefied petroleum gas prices are controlled by the Government and supported by non-automatic licensing restrictions.

306. Since the early 1980s, the Korean authorities have actively promoted energy conservation, principally by allowing increases in international oil prices to pass through to final consumers. As a result, production of refined petroleum and other petroleum products has grown at just over half the average annual rate of 12 per cent for manufactures. Overall,

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35 This is at the 3-digit level of the Korean Standard Industrial Classification; in the case of footwear, the category does not cover footwear of vulcanized or moulded rubber or of plastic.
refiners and producers of petroleum products receive moderate effective assistance, with low tariffs augmented by export licensing restraints. Value added in the processing sector remains relatively low, contributing about 1 per cent of GDP. Moreover, unit labour costs in petroleum refining have risen at almost 30 per cent a year in the period since 1988, reducing the competitiveness of the sector and bringing a sharp increase in imports of gasoline. The import penetration ratio for refined petroleum and associated products is thus likely to have increased from the 8.5 per cent recorded in 1989 (Table V.2, category 09).

(v) Chemicals and fertilizers (Tables AV.15 and 16)

307. The sector comprises industrial chemicals, including organic and inorganic chemicals and chemical fertilizers; other chemical products, such as paints, pharmaceuticals and cosmetics; and plastic products.

308. Developments in the chemical sector were roughly the same as those in manufacturing as a whole during the period 1980 to 1990. However, in the last two years, chemical production was some 1 percentage point above the manufacturing average of almost 6 per cent, with unit labour costs in chemicals rising at under half the average rate of 7.6 per cent a year in manufacturing. Led by exports of organic chemicals, exports of the chemicals sector grew at an average rate of 11.6 per cent a year in 1988 and 1989, compared to an average of 3.5 per cent for all exports.

309. Tariff dispersion in the sector is generally low, with most rates between 10 and 11 per cent. Tariff quotas marginally lower the applied rates on a number of products, including certain organic chemicals and some colouring and plastic materials. The import diversification programme applies to a fairly wide range of items, such as organic chemicals, inorganic acids and products, medical and pharmaceutical goods, plastics and colouring materials. Korea applies anti-dumping duties on imports of polyacetal resin from Japan and the United States, and in the context of anti-dumping actions, price undertakings are in effect on Korean imports of dicumyl peroxide from Japan and Taiwan (Chapter IV.(3)(xiii)).

310. On the export side, nine anti-dumping measures, by Australia (2), Canada (2), the European Communities (2) and the United States (3), apply

36 In addition, to implement health standards, most imports of pharmaceuticals and related products require licenses from the Ministry of Health and Social Affairs (Chapter IV.(3)(viii)) and a variety of imports of chemical fertilizers need prior approval from the Ministry of Agriculture, Forestry and Fisheries.
on Korean chemical products. Non-automatic export licensing is in effect on certain plastic items to the European Communities and the United States; it is also used to generally monitor most plastic exports, regardless of destination.

311. The data presented above suggests that effective rates of protection for industrial chemicals should be relatively low, whereas for products such as pharmaceuticals it can be expected to be high (Table AV.1). The import penetration ratio for the sector was in the order of 25 per cent (Table V.2, category 10), with intra-industry trade at almost 50 per cent and Korea well integrated in the international production process in the sector.

(vi) **Ores and metals (Table AV.17)**

312. The sector comprises basic metals, of iron, steel and non-ferrous minerals, and fabricated metal products, such as cutlery, tools and containers but not machinery. Virtually all metal fabrication in Korea is based on imported ores.

313. Korea is the world's eighth largest exporter of iron and steel.\(^{37}\) In 1990, Korea's share in world exports of steel was 3.5 per cent, compared to 2 per cent in 1990. However, reflecting Korea's increased specialization in higher value-added engineering products, the share of iron and steel in Korea's total exports declined from 9.4 per cent in 1980 to 5.7 per cent in 1990. During this period, production of basic metals grew at an annual average rate of just over 12 per cent, with unit labour costs and exports increasing at average rates of 3.9 per cent and 11 per cent a year, respectively.\(^{38}\) The ferro-alloy sub-sector underwent a Government supported rationalization programme in the period 1986 to 1989, with the result that capacity utilization rose by about one-eighth, to 90 per cent (Chapter IV. (5)(i)).

314. Production of metal products grew at an average rate of 10.5 per cent in the period 1980 to 1990. However, growth slowed to just over 5 per cent on average in 1989 and 1990, with export demand weak. Overall, the basic metals and products sector employed almost 300,000 persons in 1990, equivalent to 10.5 per cent of labour force in manufacturing. The

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\(^{37}\) **GATT (1992), op.cit.**

\(^{38}\) Comparable figures on average annual growth rates for iron and steel are: production, 11.1 per cent; unit labour costs, 5.3 per cent, and exports, 10.4 per cent.
sector contributes about 11.5 per cent of total value added in manufacturing (Table V.2, category 08).

315. The average tariff on imports in the sector in 1992 is 9.5 per cent, down from an average rate of 10.7 per cent in 1990 and 1991. Producers of semi- and finished products are further protected by tariff escalation, with raw materials entering Korea at an average tariff of 1.3 per cent and semi-manufactures and finished goods at average rates of 9 per cent and 11.2 per cent, respectively. Tariff quotas lower rates on significant quantities of certain non-ferrous metals and unworked iron and steel. The import diversification encourages alternate import sourcing, away from countries with which Korea has a trade deficit, for semi-manufactures and parts for tools, household equipment and containers.

316. Non-automatic export licensing affects 45 per cent of all 6-digit H.S. lines in the sector. Voluntary export restraints are in effect on cutlery to certain EC members and the United States, and on steel products to the United States. Anti-dumping duties are levied on Korean exports of cast iron pipes to Australia, on steel pipes and casings to Canada, and on brass sheets and steel cookware to the United States. In addition, non-automatic licensing controls exports of a wide range of steel products to the European Communities, steel bars to Austria and steel waste to Japan.

317. With the overall structure of protection generally moderate, estimates of nominal and effective rates of protection for the sector in 1990 were low (Table AV.1). Strong intra-industry links to producers in foreign markets contributed to an import penetration ratio in Korea of almost 25 per cent in 1989 (Table V.2, category 08).

(vii) Electric and non-electric machinery (Table AV.18)

318. Korea is the world's sixth leading exporter of office machines and telecommunications equipment. Its share of world exports in 1990 was 4.5 per cent, compared to 2 per cent in 1980. Concurrently, these products have become Korea's largest export category, with their share in Korea's total exports rising from 9.7 per cent in 1980 to 22.1 per cent in 1990. Export growth has been particularly rapid for video-recorders and automatic data processing machines, with exports increasing in the period 1980 to 1990 at annual average rates of 138 per cent and 90 per cent, respectively.

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39 GATT (1992), op.cit.; the publication is the source for shares of world exports and imports cited in the text.
319. Reflecting Korea's integration into the international production process, it is the world's eleventh largest importer of office machines and telecommunications products. In 1990, its share of world imports was 2.5 per cent, compared to 1.5 per cent in 1980. The share of these items in Korea's total imports rose from 5.2 per cent in 1980 to 11.1 per cent in 1990. Imports of data processing machines and parts increased in the period 1980 to 1990 at an annual average rate of almost 39 per cent, and imports of semi-conductors and electronic parts grew at an average of 25 per cent and 23 per cent a year, respectively; these rates compare with an average rate of just over 12 per cent for all imports.

320. The electric and non-electric machinery sectors comprise a wide variety of products other than office machines and telecommunications equipment. Non-electric machinery includes heating equipment, engines and turbines, boilers and agricultural, textile and office machinery. Electric machinery covers products such as radios, televisions and electric tubes and appliances. Together, the two sectors account for some 23 per cent of value added in Korean manufacturing, equivalent to about 7 per cent of GDP. In 1990, combined employment in the sectors accounted for 3.6 per cent of the labour force.

321. Since 1980, production in both the electric and non-electric machinery sectors has risen at annual average rates of almost 23 per cent, almost double that of manufacturing as a whole. On average, during the period 1980 to 1990, unit labour costs declined in both sectors, at rates of about 4 per cent and 0.5 per cent a year in electric and non-electric machinery, respectively. Relative to these averages, performance was weaker in 1989 and 1990, with rapid increases in wages raising unit labour costs by over 6 per cent a year in electric machinery and by about 3.5 per cent annually in non-electric machinery. Production growth slowed to some 13 per cent and 7 per cent a year in, respectively, non-electric and electric machinery. Nevertheless, on all counts, performance was superior to that in manufacturing, with the sectors improving their competitiveness relative to the rest of Korean production.

322. Nominal tariff protection in the sectors is fairly uniform, with little dispersion of rates around the average of just below 11 per cent. Temporary duties and tariff quotas lower rates marginally on imports of agricultural and textile machinery. A more serious potential import...

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A "mark of origin" requirement applies to most imports (Chapter IV.(3)(xiv), and under technical regulations a wide variety of electric products and telecommunication equipment is subject to type-testing before initial imports by a particular trader (Chapter IV.(3)(viii) and (xiv)).
constraint is the application of the localization programme to a wide variety of products in the sectors; the authorities encourage import substitution both as a means to upgrade Korean technology and to reduce Korea's reliance on particular suppliers, especially those such as Japan with which the authorities consider Korea to have a structural trade imbalance (Chapter IV.(3)(xxiii)). The import diversification programme also affects considerable parts of the sectors, potentially giving rise to inefficiencies in the sourcing of imports. Both programmes could operate to weaken the intra-industry links that have facilitated specialization within the sectors and allowed the consequent improved competitiveness from economies of scale.

323. No export licensing restrictions apply to non-electric machinery. However, among electric and electronic products, voluntary export restraints limit Korean sales of colour picture tubes and microwave ovens to the European Communities. Also, anti-dumping measures are in effect on Korean exports of batteries to Australia and New Zealand; colour picture tubes and television sets to both the European Communities and the United States; audio cassette tapes, colour television receivers, compact disc players and video recorders to the European Communities; and telephone systems to the United States. In addition, Korea uses non-automatic licensing to monitor its exports of microwave ovens to a number of markets, including Austria, Switzerland, Japan and the United States, and its shipments of radio receivers to the European Communities.

324. Provisional estimates suggest that, in 1990, the effective rate of protection for electrical machinery was considerably higher than that for non-electrical machinery (Table AV.1), reflecting both high nominal rates of protection for household appliances and relatively low value added in certain sub-sectors, such as household equipment, that rely substantially on imported components. With significant intra-industry trade in the sectors, the import penetration ratios were high, at almost 52 per cent for non-electric machinery and over 30 per cent for electric and electronic products (Table V.2, categories 11 and 12).

(viii) Transport equipment (Table AV.19)

325. The sector comprises the production of ships, motor vehicles, railroad equipment, aircraft and parts for these products. It accounts for some 8.5 per cent of total value added in manufacturing, equivalent to some 2.6 per cent of GDP, and employs just under 8 per cent of the labour force in manufacturing, or 1.2 per cent of the total labour force.

326. The structure of the sector has changed radically since the early 1980s. In 1980 it was dominated by shipbuilding, which accounted for
two-thirds of the sector's exports and for 3.5 per cent of Korea's total exports. Passenger cars accounted for about 5 per cent of exports by the sector in 1980 and for less than 0.5 per cent of total Korean exports. Shipbuilding grew rapidly through 1985, by which point it was Korea's largest export item, accounting for 16.6 per cent of total exports. Subsequent decline in world-wide shipping demand, accompanied by rapidly rising labour costs, reduced this share to 4.3 per cent in 1990.

327. The automobile industry in Korea initially developed behind high import protection, and largely on the basis of licensed imported technology, particularly from the United States. Production, both on the basis of domestic and export demand, grew rapidly between 1980 and 1988. Exports of passenger cars in the latter year accounted for over 55 per cent of the transport sector's total exports and 5.3 per cent of Korea's total exports. A subsequent decline in demand in the major North American market, exacerbated by a fall in competitiveness due to rapidly rising unit labour costs, has reduced the share of passenger cars in Korea's total exports to about 3 per cent in 1990. Overall in 1990, automotive products made up some 40 per cent of exports by the transport sector, compared to a share of about 49 per cent for shipbuilding. Railroad equipment accounted for the bulk of remaining exports by the sector.

328. In the 10 year period following 1980, production of transport equipment grew at an annual average rate of 21.6 per cent, with unit labour costs rising at some 2 per cent a year. Underpinned largely by domestic demand for motor vehicles and a slight recovery in world shipping demand, production rose at a rate of 14 per cent a year on average in 1989 and 1990, well above the manufacturing average. However, with wage settlements leading to increases averaging 25 per cent a year, unit labour costs have risen sharply, at an average of almost 13 per cent, and have begun to erode the competitiveness of the sector, domestically and internationally.

329. The automobile and diesel boat industries undertook rationalization programmes under the Industrial Development Act in the three year period starting July 1986 (Chapter IV.(5)(i)). With an emphasis on increased specialization under both programmes, capacity utilization in the automobile industry rose by one-fifth in each of the industries, to around 80 per cent. Korea joined in October 1990 the OECDs Working Party for

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Shipbuilding (WP6) and participates in the negotiations to eliminate subsidies for the industry.

330. Tariffs in the transport sector range from zero per cent for aircraft, naval vessels and locomotives to 17 per cent for motor vehicles. The average tariff rate is below 10 per cent, compared to 11.4 per cent in 1990 and 1991. The tariff on passenger cars has been reduced from 100-150 per cent in 1982, to 25 per cent in 1989, 20 per cent in 1990 and 1991, and is due to be lowered further to 10 per cent in 1994. There is a non-uniform excise tax on all motor vehicles, domestic or imported, of 10 per cent to 25 per cent, with higher rates applied to cars with larger engine size. Road taxes also increase with engine size. Both the localization and import diversification programmes apply to certain products in the sector, particularly parts for motor vehicles.

331. A voluntary export restraint limits sales of motor vehicles to Taiwan. In addition, non-automatic licensing monitors exports of a large variety of ships, including tankers and cargo vessels.

332. The estimated effective rate of protection for the sector was low in 1990 (Table AV.1). In 1989, the foreign share of the Korean market in the sector was in the order of 13.5 per cent (Table V.2, category 13), and may have risen since then with imports of motor vehicles and ships up by over 75 per cent in 1990.

(ix) Professional and scientific equipment (Table AV.19)

333. The sector includes medical instruments, optical equipment, surveying instruments, testing devices and watches. Since 1980, production has grown at an average annual rate of 13 per cent, with unit labour costs virtually flat on average. Exports grew at an average rate of about 10 per cent a year, accounting for 1.3 per cent of total Korean exports in 1990. Imports have grown at an annual average rate of over 19 per cent, to a 3.6 per cent share in total Korean imports in 1990, compared to 1.9 per cent in 1980. Intra-industry trade in the sector is relatively high.

334. Tariffs in the sector average 11 per cent, with little dispersion. The import diversification programme applies to certain optical equipment, and some cameras, measuring devices and wrist watches. On the export side, non-automatic licensing applies to sales of certain spectacles and

42To ensure compliance with safety and environmental standards approval for the importation of motor vehicles is required from the Ministries of Transport and Environment.
their frames to the European Communities, Japan, Hong Kong and the United States. The sector's import penetration ratio in 1989 was almost 60 per cent, the highest among manufacturing sectors (Table V.2, category 14).
VI. TRADE DISPUTES AND CONSULTATIONS

335. As noted in previous chapters, Korea considers that the present GATT dispute settlement procedures must be strengthened in the Uruguay Round (Chapter II.(3)(iii)) and has itself made use of voluntary export restraints (Chapter IV.(4)(iv)). Nevertheless, Korea considers GATT dispute settlement provisions (including consultation provisions) as the principal means of finding mutually acceptable solutions in the event of trade disputes.

(1) GATT Dispute Settlement

336. Korean has been involved in three Article XXIII cases, one dispute under the Tokyo Round Agreement on Implementation of Article VI of the GATT (the Anti-Dumping Code), and consultations under the Multifibre Arrangement (MFA).

(i) Article XXIII

337. Australia, New Zealand and the United States separately requested the establishment of Panels in 1988 concerning import licensing restrictions maintained on beef by Korea. The requests followed consultations between each of the parties and Korea, which had not resulted in mutually satisfactory settlements of the issue. The GATT Council established Panels in May 1988 to examine the complaints of Australia and the United States, and a third Panel in September 1988 in the matter raised by New Zealand. As the complaint was identical in each instance it was decided that each Panel would have the same composition.

338. Since its accession in 1967, Korea had maintained import restrictions on various products, including non-automatic import licensing for beef, under GATT Article XVIII:B, on trade measures taken for balance-of-payments reasons. In the early 1980s, both higher levels of beef imports and rising domestic production resulted in falling beef prices in Korea and pressure from Korean beef farmers for protection from the perceived adverse effects of beef imports. In October 1984, Korea ceased issuing tenders for commercial imports for the general market, and in May 1985 orders for imports of high-quality beef for the hotel market

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1GATT documents L/6316 (complaint by the United States), L/6332 (Australia) and L/6354 (New Zealand).

2Korea disinvoked its use of Article XVIII:B with effect from 1 January 1990 (Chapter IV.(3)(viii)).
also ceased, leading to a virtual stop of commercial beef imports. Between May 1985 and August 1988, no commercial imports of beef took place. These measures were not notified to the GATT, nor discussed in the GATT Committee on Balance-of-Payments Restrictions. Australia, New Zealand and the United States considered that the restrictions contravened Korea's obligations under the GATT, inter alia, the prohibition in Article XI against the maintenance of quantitative restrictions on imports made effective through quotas, import licences, or other means.

339. The Panel reports of May 1989, adopted by the GATT Council in November 1989, found that the import measures and restrictions introduced in 1984 and 1985 were not consistent with the provisions of Article XI and were not taken for balance-of-payments reasons. The Panels recommended that Korea eliminate, or otherwise bring into conformity with the provisions of the GATT, its import measures on beef. The Panels also recommended that Korea hold consultations with Australia, New Zealand, the United States and other interested GATT contracting parties to work out a timetable for the removal of import restrictions on beef justified since 1967 for balance-of-payments reasons. In July 1990, Korea reported to the GATT Council that in consultations with the parties involved in the complaint it had agreed that:

(a) the base (minimum) quota levels of general consumption importation of beef, on a customs clearance basis, would be 58,000 metric tons in 1990, 62,000 tons in 1991 and 66,000 tons in 1992. The quotas would be implemented on an m.f.n. basis;

(b) bilateral consultations would be initiated no later than 1 July 1992 to reach agreement on a beef import régime designed to increase imports following the year 1992; and

(c) a simultaneous buy/sell system would be implemented, from no later than 1 October 1990, for 7 per cent of the base quota level for the importation of beef, to be used initially by tourist hotels, tourist restaurants, the National Livestock

3Korea partially reopened its market in August 1988, setting a quota of up to 14,500 tons to be imported before the end of the year; for 1989, a quota of 50,000 tons was announced.

4GATT documents L/6503 (Panel report on the U.S. complaint), L/6504 (Australia) and L/6505 (New Zealand).
Co-operative Federation and the Korean Cold Storage Company Limited (Chapter IV.(3)(ix)).

(ii) **Tokyo Round Agreements**

340. In September 1991, Korea imposed definitive anti-dumping duties on imports of polyacetal resins from the United States. The latter has complained that the affirmative determination of injury made by the Korean authorities in the anti-dumping investigation departed from the standards set forth under the Anti-Dumping Code and was inconsistent, therefore, with Korea's obligations under the Code. Neither bilateral consultations nor conciliation by the Committee on Anti-Dumping Practices resulted in the United States and Korea arriving at a mutually agreed solution. Subsequently the Committee established a Panel in February 1992 to examine the U.S. complaint. The matter remains under consideration of the Panel.

(iii) **Multifibre Arrangement**

341. In 1984, the United States took unilateral action under the Arrangement with respect to man-made fibre luggage imported from Korea. Subsequently, Korea argued before the Textiles Surveillance Body that the U.S. measure was not consistent with U.S. obligations under the Arrangement. The classification of textile and non-textile luggage needed to be determined by the two parties. The Body recommended bilateral consultations. In July 1984 both Korea and the United States reported that they had arrived at a mutually agreed solution to the matter.

(2) **Other Disputes**

342. Korean legislation does not contain trade remedies, including retaliation, that allows recourse to measures not covered by, or inconsistent with, the GATT. Other than the GATT, the following fora operate to deal with trade issues with Korea's trading partners:

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5GATT document L/6697.

6GATT documents ADP/72, ADP/72/Add.1, and ADP/M/34.

7The Committee has administered the Code since its entry into force in 1980.

8The Textiles Surveillance Body reviews all restrictions, whether unilaterally imposed or bilaterally agreed, to determine whether they are fully consistent with the Arrangement. It is also a forum for the settlement of disputes, with the Body making recommendations, where appropriate, to the countries concerned to help bring about a resolution.

9GATT document COM.TEX/SB/983.
(a) The European Communities - An annual meeting between Korea's Foreign Minister and the EC Commission's External Relations Commissioner, and an annual meeting between the Director-General of the International Trade Bureau of the Korean Foreign Ministry and the Director-General for External Relations of the EC Commission;

(b) Japan - The Korea/Japan Trade, Industrial Scientific and Technological Cooperation Committee; and

(c) The United States - At least annual meetings of the Korea/United States Subcabinet Economic Consultations, Korea/United States Trade Subgroup Meeting, and the Korea/United States Trade Action Group.
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