

## **TRADE POLICY REVIEW BODY**

### **Review of Korea**

#### **TPRB's Evaluation**

The Trade Policy Review Body of the World Trade Organization (WTO) conducted its second review of Korea's trade policies on 30 September and 1 October 1996. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the two-day discussion.

The review enables the TPRB to conduct a collective examination of the full range of trade policies and practices of each WTO member country at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the WTO Secretariat and the government under review and which cover all aspects of the country's trade policies, including: its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs and the external environment.

A record of the discussions and the Chairman's summing-up, together with these two reports, will be published in due course as the complete trade policy review of Korea and will be available from the WTO Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Cameroon (1995), Canada (1990, 1992 & 1994), the Czech Republic (1996), Chile (1991), Colombia (1990 & 1996), Costa Rica (1995), Côte d'Ivoire (1995), the Dominican Republic (1996), Egypt (1992), the European Communities (1991, 1993 & 1995), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 and 1994), Israel (1994), Japan (1990, 1992 & 1995), Kenya (1993), Korea, Rep. of (1992 & 1996), Macau (1994), Malaysia (1993), Mauritius (1995), Mexico (1993), Morocco (1989 & 1996), New Zealand (1990), Nigeria (1991), Norway (1991 & 1996), Pakistan (1995), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992 & 1996), Slovak Republic (1995), South Africa (1993), Sri Lanka (1995), Sweden (1990 & 1994), Switzerland (1991 & 1996), Thailand (1991 & 1995), Tunisia (1994), Turkey (1994), the United States (1989, 1992 & 1994), Uganda (1995), Uruguay (1992), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).



## **TRADE POLICY REVIEW BODY**

### **Review of Korea, 30 September - 1 October 1996**

#### **CONCLUDING REMARKS BY THE CHAIRPERSON**

Over the past two days, the Trade Policy Review Body has conducted the second review of Korea's trade policies and practices under the WTO framework. These remarks, intended to summarize the salient points, are made on my own responsibility and do not substitute for the Body's collective evaluation and appreciation. Details of the discussion will be reflected in the minutes of the meeting.

The discussion developed under four main themes: (i) macro-economic developments and the implications of rapid economic expansion; (ii) policies related to tariff and non-tariff measures; (iii) TRIPS, TRIMs, industrial and competition policy issues; and (iv) sectoral issues.

#### **Macro-economic developments and the implications of rapid economic expansion**

Korea's rapid economic growth and continued trade liberalization since its initial Trade Policy Review in 1992 were strongly commended. The positive lessons for developing countries were highlighted. Members noted, however, the export promotion efforts adopted in response to the recent rise in the current account deficit, and sought confirmation that no public or private "anti-import" campaigns or other restrictive policies would be undertaken. Korea was asked the consequences of its rapid development and its expected OECD membership for its claims of "developing country" status, its implementation of WTO agreements, and the effects on its own GSTP and development co-operation schemes. Interest was also expressed in commitments undertaken under APEC, and their expected effects on trade with WTO members.

The representative of Korea responded that trade expansion through consistent market opening, trade liberalization and deregulation was at the root of Korea's recent economic growth. The expansion of social overhead capital, manpower development, R&D assistance and increased domestic and international competition in the financial sector were fundamental to strengthening competitiveness. Inward and outward foreign direct investment were promoted; and new financial instruments had been created to increase national savings, stabilize price levels and improve the current account. He confirmed that the Korean Government would not resort to or encourage "anti-import" campaigns or import discriminating policies.

The representative emphasized that active participation in the multilateral trading system was crucial for Korea's future growth. Although Korea had participated in the Uruguay Round as a developing country in consideration of its economic and political environment, Korea was making utmost efforts to expedite the implementation process. OECD membership was seen as a springboard for further liberalization, rather than an affirmation of fully developed country status. Within APEC, Korea was strongly committed to furthering open regionalism.

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**Policies related to tariff and non-tariff measures**

Members commented favourably upon Korea's "Five-Year Plan for a New Economy", with its emphasis on the elimination of unnecessary regulations, promotion of industrial co-operation with foreign countries and increased assistance to less-developed countries. Concern was expressed over the Import Diversification Programme, including local content provisions, as well as apparent import substitution aspects of the capital goods "localization" programme. Korea was requested to clarify various aspects of subsidy programmes and to explain the criteria used for sector-specific support granted under policy-based lending, including government guarantees for shipbuilding and support for small and medium-sized enterprises.

Members welcomed the tariff reductions implemented both autonomously and in connection with WTO commitments, as well as the greatly increased level of bindings for agricultural and industrial products. However, questions were raised over the lack of binding coverage for fishery and various strategic industrial products. The possibility of additional reductions in bound levels was raised, especially in regard to high rates resulting from tariffication and the substantial gap between bound and applied rates. Members observed that recourse to adjustment tariffs introduced instability into the tariff system, and enquired about their justification.

Members commended Korea's efforts to reform customs clearance procedures, import licensing, standards and inspection procedures, and government procurement, but expressed significant concern over the pace of implementation and the adequacy of the measures adopted. Questions were also raised concerning technical requirements for imports, changes to safeguards procedures, discriminatory taxation of liquor, and justification for expanded label-of-origin requirements affecting imported agricultural and other goods.

The representative of Korea indicated that Korea was faithfully implementing the Uruguay Round Agreements and seeking to expedite this process where possible. The Import Diversification Programme, introduced in 1978 to relieve the chronic trade imbalance with Japan, was to be abolished by the end of 1999. Rules of origin would be applied following WTO recommendations; there was no intention that these rules should reinforce the Import Diversification System. The representative stated that Korea had already abandoned its policy of targeting special industries in 1985. Most import recommendation procedures would be phased out by 1997 and all by 2001. Quantity undertakings had been excluded from anti-dumping procedures from 1 July 1996. Safeguard mechanisms were being brought into WTO consistency and would be strictly enforced. The Localization Scheme for the Capital Goods Industry, introduced in May 1995, sought to promote industrial demand and attract foreign investment, improve the R&D environment, and further quality improvements. The system for imports of used goods had been revised, and further modifications were in train. There were no restrictions on auto parts. The share of policy-based lending, presented in the Secretariat Report, was over-estimated, as it included a large proportion of general loans extended by special banks; no policy based lending was extended to shipbuilding. Assistance for small and medium-sized enterprises focused on information and technology dissemination.

On tariffs, the representative emphasized that Korea had made substantial tariff concessions in the Uruguay Round, with an average reduction of 54 per cent on a trade-weighted basis and expansion of bindings to 91.2 per cent of tariff lines; further reductions would take place under "zero for zero" and harmonization initiatives. The fact that most bound rates were higher than the currently applied rates reflected the impact of autonomous tariff reductions between 1989 and 1994; there were at present no plans for further revision of general tariff rates. While Korea's Customs Act provided for ten types of flexible tariff rates, countervailing duties, retaliatory duties and seasonal duties had never been applied;

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the use of anti-dumping and emergency duties was based on the relevant WTO Agreements; and price stabilization duties would be eliminated from 1997. Adjustment duties could be imposed within the limits of WTO bound rates to prevent import surges from disturbing the domestic market; the six-month application period was intended to avoid such duties remaining beyond the time necessary. Lower rate tariff quotas were applied more frequently than adjustment duties. The liquor tax and education tax were applied differentially to higher-alcohol products for fiscal, distributional and health reasons, not to discriminate against imports.

The representative indicated that Korea's non-tariff policies, primarily aimed at ensuring consumer safety, public health and similar objectives, were implemented in accordance with WTO rules, and were based on recognized international standards where possible. Recent changes in customs clearance procedures had reduced storage and processing from an average of 15 to some 2 or 3 days. Import licensing would be changed from a positive to a negative system in 1997, confining non-automatic licensing to a limited number of sensitive products. Origin marking, introduced to discourage counterfeiting, would be reviewed by end-1996; Korea was pursuing a wide range of actions to facilitate food inspection, including harmonization with international testing standards; random sampling would be introduced by end-1996. Industrial standardization and labelling was essentially in the hands of private sector organizations; where standards were converted into technical regulations, these were in accordance with the TBT Agreement. Provisions on eco-labelling were still being developed; no requests had been received from foreign companies to date. For government procurement, Korea published a short or medium-term plan at the beginning of each year; open competitive tendering was promoted and Korea's limited tendering procedure was consistent with the Plurilateral Agreement.

#### **TRIPS, TRIMS, industrial and competition policy issues**

While expressing their appreciation for Korea's implementation of new legislative measures to expand the protection of intellectual property, Members sought information on the time-frames for full implementation of WTO obligations in this area. Questions were raised regarding the lack of retroactive patent protection, the rôle of the patents court and current border measures for IPR enforcement. Clarification was also sought on investment performance measures, noting the lack of a TRIMs notification; current limitations on shareholding levels; and remaining difficulties in terms of inward foreign direct investment. Various competition policy issues were also raised, including the rôle of State trading organizations.

The representative of Korea stressed that his country had consistently sought to improve intellectual property protection. A series of legislative reforms was aimed at implementing the TRIPS Agreement as early as possible; on a voluntary basis, Korea did not resort to the longer implementation period provided for under the Agreement. The new Patent Law provided for a 20 year protection period from the date of application. A patents court, to be established by March 1998, would review IPR-related cases on appeal of decisions taken by the Korean Industrial Property Office. Recent changes to customs legislation had aligned provisions for border enforcement with those contained in the TRIPS Agreement. The representative recalled the main provisions of the 1996 Foreign Direct Investment Liberalization Plan, including an increase in foreign shareholding limitations to 20 per cent from October 1996; he specified liberalization to take place in 1997 and stated that these limitations were to be fully eliminated by the year 2000. Limitations on foreign companies' trading operations would be liberalized from July 1997. He recalled recent improvements in the status and rôle of the Korea Fair Trade Commission, made to strengthen competition legislation and support the economic globalization process in the post Uruguay Round era.

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## Sectoral issues

In regard to agriculture, Members again noted the high duty levels resulting from the tariffication of previous quantitative measures, as well as potential conflicts of interest in connection with Korea's practice of offering tariff-quota administration to domestic associations and other directly related entities. Additional information was requested in regard to statistics on minimum access commitments, safeguard investigations for recently liberalized "sensitive" products, inspection and quarantine procedures, and shelf-life regulations. For fisheries, Korea was asked to explain the reasons for high tariff rates, the low level of bindings and continued use of quantitative restrictions.

In connection with services, members commented on Korea's extensive use of horizontal access limitations, including restrictions on commercial presence, land purchase, foreign equity participation and the movement of natural persons. Korea was urged to consider more rapid elimination of barriers to foreign participation in transport, communications and financial services; in this connection, problems of access for telecommunications equipment were also raised. Problems were also noted in regard to the certification of foreign service professionals.

The representative of Korea recalled that his country's agricultural sector, dominated by rice production on small farms, suffered from low productivity and an underdeveloped infrastructure. However, widespread reforms were under way in the context of the WTO implementation process, including mechanization and consolidation of farms. Tariffication was applied in all areas other than rice. The operation of tariff quotas had generally been a success; some minor problems, such as unfilled quotas, were attributable to adverse market conditions rather than to problems in quota management. Safeguard investigations for specific products, such as milk powder blends, were based on WTO provisions. The possible introduction of measures would be decided by the Korean Trade Commission. In May 1995, Korea had established an ambitious plan to improve its sanitary and phyto-sanitary system. Recent reforms included expedited customs clearance for perishable products, the planned introduction of random sampling, and the gradual conversion of official shelf-life regulations into a manufacturer-determined system. Clarification was given on beef tariffication, limits on game meat, and conditions for imports of wool. In the fisheries sector, Korea did not currently envisage any tariff reductions; however, imports of close to 50 items were to be fully derestricted by the end of 1997.

On services, the representative indicated that Korea had taken important steps to facilitate commercial presence, including the increasing of ceilings for foreign portfolio investment. Korea was firmly committed to implementing the concessions offered in the negotiations on financial services in 1995. In maritime transport, Korea's envisaged reforms went beyond the commitments initially tabled under the GATS. Korea's draft schedule of commitments in telecommunications was very different from the status quo, covering international services and satellite telecommunication services. Foreign equity ownership in basic telephone services would be allowed up to 33 per cent, and no economic needs test would be imposed. Resale of basic telecommunications services would be permitted, with the exception of voice resale services which were to be liberalized from 2001. This delay was intended to allow for the establishment a nation-wide telecommunications infrastructure.

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**Overall**

Members acknowledged and appreciated the steps taken by the Republic of Korea over the past few years towards economic reform and market opening, including in the areas of tariff reduction, internal deregulation and liberalization of the investment régime. They emphasized the importance of further steps to improve market access, to increase predictability, transparency and certainty in Korea's trade practices, and to ensure that Korea's regulatory and administrative régimes are consistent with the stated aims of increased liberalization and openness. The need for improved access in the agricultural sector and continued liberalization in various fields of services was particularly emphasized. Overall, Members offered strong encouragement to the Republic of Korea to continue and accelerate the reform process in all economic areas and to be ready to undertake responsibilities within the WTO fully commensurate with the strength and dynamism of its economy.

We understand that Korea will provide further written replies to detailed questions, and look forward to receiving these in due time.

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