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TRADE POLICY REVIEW MECHANISM
REPUBLIC OF KOREA
MINUTES OF MEETING

Chairman: Mr. G.E. Shannon (Canada)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN

1. The Chairman welcomed Council members to the first trade policy review of the Republic of Korea. He recalled that, pursuant to the CONTRACTING PARTIES' Decision of 12 April 1989 (L/6490), the Trade Policy Review Mechanism was intended to contribute to improved adherence by all contracting parties to GATT rules, disciplines and commitments, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of contracting parties.

2. The Council was to base its discussion of Korea's trade policies and practices on two reports, one by the Government of Korea (C/RM/G/27) and the other by the GATT Secretariat (C/RM/S/27A and 27B). In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Korea on its trade policies and practices, as far as the factual content of the Secretariat's report was concerned.

3. Australia, Canada, Hong Kong, New Zealand, the Nordic countries and the Philippines had given advance notice in writing of some questions that they intended to raise at the meeting. These points had been passed to the delegation of Korea in Geneva. Further, the questions had been distributed, at the start of the Council meeting, to all contracting parties, with a view to avoiding duplication in the questions to be asked of Korea during interventions by Council members. It was understood, however, that the distribution of the questions would not in any way limit the scope of the discussion.

4. With respect to the procedures for the discussion, the Chairman suggested the following two main themes:

- (i) General objectives of Korea's economic and trade policies. This would cover questions relating to the development of the Korean economy over the long term, but particularly in the past decade; the rapid growth of real GDP and the transformation of the Korean economy from an agrarian to a substantially developed industrial structure; the strategy of outward-orientation followed by Korea; and the market opening that had occurred during the 1980s and its consequences. Representatives might also wish to discuss the present situation of apparent overheating in the Korean economy and measures that the Government was taking to deal with the situation; prospects for the economy; and Korea's current rôle in world trade. In this latter context, it would also be useful to consider external constraints faced by Korea's trade and the type of trade liberalization measures that, if taken by

Korea's trading partner, could best serve the interests of Korea; and

- (ii) Korea's use of major trade policy instruments. Under this general heading, Council members might focus on the trade liberalization programme that Korea had undertaken since 1982, including tariff reductions, the decreased incidence of non-automatic import licensing, as well as the importance of the process of pre-announcing the programmes and their contributions to transparency. Representatives might also take up the sectoral structure of protection in Korea, particularly the dichotomy between agriculture and industry; the rôle of individual regulatory laws; and questions relating to the use of Korean export restraints.

5. The Chairman invited the representative of Korea to make his introductory remarks, to be followed by the two discussants, Ambassador Yerxa and Mr. Wong.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF THE REPUBLIC OF KOREA

6. The representative of the Republic of Korea, after thanking the Chairman, discussants and Secretariat, stated that Korea recognized the purpose of the Trade Policy Review Mechanism (TPRM) as enhancing transparency and increasing surveillance of the trade policies of the contracting parties. Korea has borne these objectives in mind in its cooperation with the Secretariat and in the preparation of its own report. He stated the goals of Korea's trade policy. These were:

- a) balanced expansion of external trade, based on the principle of free trade;
- b) internationalization of Korea's trade regulations and institutions; and,
- c) continued contribution to the multilateral trade system.

7. He noted that, when Korea entered the GATT in 1967, its total imports and exports stood at US\$ 1.3 billion. In 24 years of GATT membership, Korea's trade had increased over 110 fold, to approximately US\$146 billion in 1991. The ratio of merchandise trade to GDP in real terms was close to 60 per cent in 1990. It could not be denied that Korea was highly dependent on exports, and on export expansion. However, Korea was equally dependent on imports and since its industrialization had begun in the early 1960s, had run a trade deficit in all but four years (1986-1989). Since 1990, the Korean external trade account had again been in deficit. The 1991 deficit of US\$ 8.7 billion was cause for serious domestic concern, and should not be taken lightly, even at the multilateral level.

8. In line with the second objective of the internationalization of its trade régime, Korea had continuously tried to ensure conformity of its trade rules and practices with the GATT. Particularly since the early 1980s, Korea had sought to simplify its import and export procedures to achieve greater transparency. These reforms had been incorporated in the Foreign Trade Act of 1986. Korea had also rewritten its anti-dumping, safeguard, and countervailing duty laws, revised its intellectual property laws, and streamlined its laws dealing with health, safety, and sanitary and phytosanitary standards. It also intended to revise the Foreign Trade Act, and other trade related regulations, to reflect the eventual outcome of the Uruguay Round.

9. The third Korean trade policy objective was to strengthen the multilateral trading system. Korea had joined the GATT in 1967, and had since acceded to four of the Tokyo Round Codes. Its interest was now focused on the completion of the Uruguay Round. Korea was committed to

this goal, because it believed that the successful conclusion of the Round was the best means of avoiding bilateral trade friction, and the best deterrent to the trend towards protectionism and regionalism. The rule based international trading system had been and would continue to be, the cornerstone of Korea's international trade policy.

10. Korea also participated in the shipbuilding, steel, and Government procurement negotiations. It hoped that these negotiations would be concluded quickly. In this regard, Korea viewed with alarm the recent development regarding an anti-dumping action initiated in the United States on steel imports.

11. Market-orientation was and would continue to be, the foundation of Korea's economic policy. The significance of economic achievements under the free market system stood in stark contrast to the situation in the centrally planned economies. In Korea's attempt to keep faith with the free market system, it was engaged in a reform process of considerable magnitude, intensifying its efforts to make its system more responsive to market signals by minimizing government intervention and by continuing the ongoing process of deregulation. This commitment was reflected in Korea's Seventh Five-year Plan, in which deregulation and liberalization were key goals.

12. In its early stages of development, Korea had provided direct assistance to targeted industrial sectors. This was now a policy of the past; direct assistance was no longer provided to industries. Instead, indirect aid, such as research and development assistance and infrastructure improvements were offered. In addition, cumbersome business authorization procedures had been eliminated or simplified, and the coordination function of the Government had been reduced or eliminated. Businesses now made their own market decisions and took responsibility for the consequences.

13. Korea had continuously pursued, and would continue to pursue a policy of increased openness, liberalization and internationalization. This was reflected in increased opportunities for access to Korean markets. Improved market access had taken two main forms, the removal of import restrictions and the progressive reduction of tariffs.

14. In the early 1980s, Korea had instituted a three year programme of autonomous liberalization of its economy through the elimination of quantitative restrictions. Since then, Korea had continued the process through the implementation of two successive three year plans which had resulted in an import liberalization ratio of 97.7 per cent in 1992. The ratio would be 98.5 per cent in 1994.

15. Korea's progressive reduction of tariffs had also been important in increasing market access opportunities for foreign exporters, as well as improving Korean competitiveness. Tariff reductions were implemented by way of five year tariff reduction plans. Through these plans, the average tariff rate had fallen by more than 57 per cent over the last ten years and now stood at 10.1 per cent. The average would fall further, to 7.9 per cent in 1994; this was very close to the OECD average.

16. Korea's commitment to liberalization was also reflected in its comprehensive country schedule submitted in conjunction with the Uruguay Round. The line-by-line schedule on industrial goods met the Montreal target of a one-third reduction, and the scope of bindings would be increased from 23 per cent to 80 per cent.

17. Korea's commitment to liberalization could also be seen in the steps it had taken to streamline health, safety, and sanitary and phytosanitary standards, as well as import licensing procedures. Korea also actively participated in the GATT talks, and those in other international fora, so as to speed the internationalization of its own trade related regulations and institutions. As an illustrative example, an Inter-Ministerial Task Force had recently reviewed Korea's 45 individual regulatory laws; as a result, changes to more than half of these laws had already been implemented. Further, Korea actively promoted familiarity with the multilateral trading rules and disciplines by encouraging high level Government officials to conduct seminars and to meet with local customs officers and other field personnel.

18. Korea's ongoing liberalization and internationalization was not confined to trade in goods but extend also to sectors such as investment, services, and intellectual property rights. Korea's Uruguay Round offer list included, among others, liberalization in banking, insurance, telecommunications, transportation, advertising and distribution.

19. The investment liberalization ratio in the manufacturing sector reached 97.8 per cent in 1992. Korea's liberalization in the financial sector was proceeding more rapidly than anticipated; for instance, an interest deregulation plan aimed at liberalizing most interest rates by 1996 and foreign investors had been permitted to buy and sell stocks in the Korean capital market since January 1992.

20. Since September 1, 1990, Korea had implemented a series of significant legislative changes compatible with international standards to protect industrial property. The scope of patent law had been extended to cover certain foods, beverages and related products; protection for patent holders had been increased by limiting the compulsory licensing requirement for national security considerations, and Korea's Unfair Competition Prevention Law had been strengthened to provide more effective protection

for industrial property rights. All of these steps had been taken to promote a healthy business environment by ensuring proper intellectual property right protection for trading partners.

21. Korea had also rewritten its anti-dumping and safeguard laws to bring them more into line with GATT rules and practice; a sunset clause had also been newly introduced to the countervailing duty and anti-dumping rules.

22. The Secretariat's report gave the wrong impression that Korean agriculture was heavily protected, and that Korea had built high barriers to its agricultural market. This impression underestimated the fact that, in spite of the enormous difficulties faced by Korean farmers, much progress had been made to reform the agricultural sector. Korea was the world's sixth largest net agricultural importer, with agricultural imports amounting to almost US\$ 10 billion in 1991. Korea imported almost 100 per cent of its wheat and sugar requirements, 98 per cent of its corn, 81 per cent of its soy bean needs and 56 per cent of its beef consumption. Korea depended on imported grains for 62.5 per cent of its domestic consumption. Korea's market liberalization ratio for agriculture in 1991 was 84.7 per cent and would be 91.9 per cent by 1994. The Secretariat had perhaps relied too much on such concepts as the "effective rate of protection" (ERP) and the "producer subsidy equivalent" (PSE) as tools of analysis, and on statistics from interested third parties.

23. Rice was, however, the one major exception to Korea's relative agricultural openness. Korea's agricultural sector, as in neighbouring monsoon countries, consisted primarily of small family farms heavily dependent on rice farming. Rice was Korea's staple food and the only major crop in which it was self-sufficient. Some asked that Korea give up its food security by opening its rice market. Indeed, in Korea's part of the world, rice was part and parcel of the culture and transcended the simple economic nature of this product. Many of Korea's agricultural problems were socio-political, rather than economic, issues. Given Korea's low level of agricultural self-reliance, and given its already heavy dependence on imported food, food security would remain a legitimate concern. This was already known from Korea's position in the Uruguay Round. However, with the exception of rice, the general trend in Korea was toward agricultural liberalization, and it was Korea's intention to continue this liberalization effort.

24. Most of the export subsidy and adjustment assistance programmes described by the Secretariat had been abolished within the last three to four years; the Secretariat's interest in historical detail created a misleading impression. This was particularly true as the Secretariat's report itself indicated that Korea did not provide export subsidies, and had dramatically curtailed its industrial adjustment assistance programmes.

25. Notwithstanding the above, the Secretariat's report was incisive. Its quality was highly appreciated by the Korean Government. In particular, it well presented the improvements during the last decade in Korea's trade environment.

26. Commenting on problems that continued to affect Korea's external trade and economic growth, the representative of Korea noted that exports to major trading partners were becoming increasingly difficult due to the growing use of anti-dumping measures, countervailing duties, safeguards and VERs, sometimes used arbitrarily and abusively for the purpose of domestic protection. While hoping that the Uruguay Round would eventually succeed in resolving many of these problems, Korea was not overly optimistic in the light of current developments.

27. Korea was steadfastly opposed to unilateralism in any form. It posed a major threat, to small countries like Korea, and to the multilateral trading system as a whole. Korea was particularly vulnerable to unilateral actions by major trading partners; in this context, the successful outcome of the Round would serve the interests of all participants, including Korea.

28. Regional trading blocs also posed a grave threat to many countries. The GATT had major difficulties in appraising the trade creating or trade diverting effects of such agreements. Korea feared that unless the necessary safety valves were in place, these arrangements could serve to divert trade away from the most efficient producers.

29. In concluding, the representative hoped that he had presented the essential aspects of Korean trade policy without creating the impression that Korea was blameless in its trade policy. His country, he thought, was on the right track. The evolution of policies over the last ten or more years showed the firm commitment of the Government to liberalization and openness. There were areas though where substantial improvements could still be made and Korea would continue to do its utmost in this regard. He expressed Korea's profound appreciation to its trade partners for their contribution to Korea's economic development. The Korean Government and people highly valued this mutually beneficial relationship. He again assured the Council that Korea would continue to do its part in making the world economy grow and prosper, and would move without hesitation down the road of liberalization, increased openness, and greater economic integration.

III. STATEMENTS BY THE DISCUSSANTS

30. The first discussant (Ambassador Yerxa) drew attention to the achievements of the Korean economy. Real growth had averaged 9 per cent a year over the past three decades; per capita GDP had doubled since 1985; income distribution was impressive, life expectancy and literacy were high and population growth was low. This record was testament to the benefits of international trade, with combined exports and imports having grown from one-tenth of GDP in 1962 to almost three-quarters of GDP today and with Korea now ranking as the GATT's fifth largest trading entity.

31. But growth for most of the past thirty years had not been the result of true trade liberalization. Rather, it was based on careful planning and conscious export-orientation, with genuine, across-the-board liberalization evident only in the 1980s. In short, much of Korea's success derived from open markets abroad while the Korean market remained fairly closed. This kind of asymmetry was no longer possible; future growth would depend on a more classically liberal economic system, akin to that of other industrialized nations.

32. In the 1960s, trade liberalization and export incentives had led the development of manufacturing. Balance of payments difficulties in the 1970s had motivated the Government to move to specific support for heavy and chemical industries; although this targeting had encouraged the manufacturing sector, it had also led to high inflation and structural imbalances. The resultant economic crisis had been eliminated by a return to more liberal trading policies in the 1980s. During this period, the average tariff had been lowered to 10 per cent and the scope of non-automatic import licensing greatly reduced. The Government would continue on its course, with the average tariff to be lowered to 8 per cent by 1994, and other overt barriers to trade and investment to be dismantled. However, there were still signs that parts of the bureaucracy and political establishment resisted liberalization.

33. Korea was a strong supporter of the multilateral trading system, but there remained areas of Korea's trade régime where improvements in transparency and liberalization could be made. Tariffs had been steadily reduced and further cuts were envisaged, and Korea's Uruguay Round offer would increase tariff bindings. However, often these would be at ceiling rates above applied rates. Import clearance procedures were sometimes overly complicated and lacked transparency. At various times, the consumption of broadly-defined "luxury goods", including many imported finished products, had been discouraged. Standards and testing procedures were at times implemented without prior public notification or without reference to established international norms. Lastly, agriculture still bore many features of a closed trading system, although some improvements had been made. The Foodgrain Control Act effectively prohibited imports of

rice and barley, and both high tariffs and non-tariff restraints were still used. As a result producer and consumer subsidy equivalents were high. In addition to these trade barriers, although progress had been made in liberalizing the foreign direct investment régime there was still an element of discrimination against foreigners, particularly in the area of financial services.

34. Korea was now learning that economic success could have its costs. Present expansion was being fuelled by domestic consumption, an overheated construction sector, and increasing wage rates; together these resulted in high inflation and high interest rates. In addition, the current account was again in deficit. The Korean Government, unfortunately, seemed to be addressing these problems with policies that could have a negative effect on trade, for example, by curtailing construction activity. A comprehensive macroeconomic response was required, one that did not give rise to new difficulties, particularly for Korea's trading partners.

35. The second discussant (Mr. Wong) saw Korea as a reminder of the importance of the multilateral trading system, which had made possible the rapid development of the Korean economy. That development had been characterized by steady efforts at trade liberalization, in both goods and services. These efforts were continuing and their scope and pace would be enhanced by a successful conclusion of the Uruguay Round. Further, the present review of Korean trade policy, which would show the liberalization efforts of the past decade, would provide encouragement to the Korean Government to continue the process.

36. He noted that Korea strongly supported the multilateral trading system and took its responsibility seriously. For example, Korea had disinvoked its use of GATT's balance-of-payments provisions and granted m.f.n. treatment to all countries, regardless of whether they were GATT members. However, there were concerns notably regarding selective restraints, bilateral trade, and transparency.

37. Selective export restraints affected some 20 per cent of all Korean 6-digit H.S. tariff lines. The question could be raised how far, some of these measures had been taken unilaterally to prevent the possibility of trade actions by importing countries, as a response to the external trade environment and direct or perceived pressures from trading partners.

38. It also appeared that bilateral trade imbalances, particularly with Japan and the United States, played an important rôle in shaping Korean policy. He sought clarification of the diversification programme and asked how far, and under what circumstances, bilateral trade imbalances resulted in deliberate trade policies or practices by Korea. On the matter of transparency, he sought further information on the rôle of the National Assembly in policy formulation; the part played by export and import

associations in maintaining "order" in foreign trade. Moreover, the rôle of the "chaebols" should be further explained, while the implementation of health and safety standards, as well as the marks of origin system, seemed to suggest an element of discretion.

39. Finally, protection appeared to be high in the case of a number of agricultural products. In this, the interests of consumers appeared to matter little, as was the case in a number of countries. This reflected the political sensitivity of agricultural protection, calling for courage and vision at the highest levels to overcome what was the last major stumbling block to a successful conclusion of the Uruguay Round.

IV. STATEMENTS BY MEMBERS OF THE COUNCIL

40. Council members complimented Korea and the Secretariat for the quality of their reports, which were thought to be highly informative and a sound basis for the discussion. The discussants were thanked for their constructive introduction to the debate.

41. Council members joined in congratulating Korea on its remarkable economic development. Korea's high average growth rate, of 9 per cent a year, over the past three decades, had been based on outward-oriented policies, supported by high levels of domestic savings and investment and continuous access to foreign markets for capital and goods. In this respect, Korea had benefited significantly from the liberal multilateral trading system. Members also noted that, particularly since 1980, Korea had undertaken significant trade liberalization and that its trade régime was now largely without formal barriers, although assistance to agriculture remained substantial. Representatives remarked that the Korean economy presently showed signs of overheating and that appropriate macroeconomic and structural adjustment measures would need to be taken, including further trade liberalization, especially in the agricultural sector.

42. The representative of Switzerland said that Korea, by its own liberalization efforts and active participation in the Uruguay Round, had shown a strong commitment to the multilateral trading system. However, as a country highly reliant on trade, Korea should redouble its efforts toward achieving a successful outcome of the Uruguay Round. The Korean trade régime was generally liberal but the reason for certain remaining restrictions, including in agriculture, was not easy to understand, especially in light of Korea's disinvocation of GATT's balance-of-payments provisions. Also, the tariff structure remained fairly complicated, health and technical restrictions sometimes had a negative effect on trade flows, and the requirement for Korean language labels on a range of imports hindered traders.

43. The representative of the United States noted that Korea's place in the world economy had led to high expectations among its trading partners. Korea had dismantled many of its formal import and investment barriers but new and more subtle barriers had come into view, including import clearance procedures, standards and product testing, marks of origin, the "frugality" campaign, and consumer protection. Such measures, if transparent and non-discriminatory, could be GATT consistent and a legitimate part of the trade régime. However, U.S. traders had often found that the actions were protectionist in effect. It was also of concern that most of Korea's tariffs were unbound and that its agricultural sector was highly protected, to the detriment of consumers and foreign trading partners. The United States was also worried about the diversification and localization programmes; both programmes directly affected foreign exporters and the

localization programme appeared to be an attempt at import substitution. The above elements aside, the United States greatly valued its relationship with Korea. The Korean trade and investment reforms had been dramatic, and should be continued, benefiting both Korea and the global trading system.

44. The representative of the Philippines noted that, despite Korea's impressive liberalization record since the early 1980s, protection of the agricultural sector remained high relative to manufacturing. However, agricultural liberalization had begun and Korea should continue the process. Other countries should assist Korea in its liberalization efforts. He pointed to the fact that roughly 20 per cent of Korea's 6-digit U.S. tariff lines were subject to anti-dumping duties and export restraints, thus hindering Korea's access to foreign markets. He questioned the rationale for the diversification and localization programmes, both of which he saw as trade distorting, and asked for an explanation of criteria used for the implementation of Korea's marks of origin system. He encouraged Korea to establish an independent statutory body to review the Government's trade and industrial policies.

45. The Mexican representative saw Korea's development experience as an example of the success that could follow the adoption of outward-oriented policies. However, there were some stains on the Korean record of trade liberalization, not the least being that agricultural protection remained high relative to industry. There also seemed to be indications of late of a move towards managed trade, particularly in Korea's trade relations with its two major partners, Japan and the United States. Should there be difficulties in these relations then Korea should resort to GATT dispute settlement, rather than rely on bilateral solutions. In turn, this implied that GATT's dispute settlement procedures needed to be improved, making it imperative that the Uruguay Round succeed.

46. The representative of New Zealand was struck by the correlation between Korea's remarkable economic growth and trade liberalization; the latter had been an important feature of Korea's initial development in the 1960s and was the first step taken in correcting the economic imbalances that had resulted from the Heavy and Chemical Industries drive of the 1970s. Since the early 1980s, wide-ranging trade liberalization had gone hand in hand with rapid growth. Nevertheless, high and relatively non-transparent protection persisted in the agricultural sector, with the cost of agricultural support almost equal to the contributions of agriculture to GDP. The representative questioned the objectives of Korean food policy, particularly in that resources were drawn into areas such as beef, to the disadvantage of sectors, such as vegetables, that appeared to be internationally competitive. He also asked for information on assistance to farming, on Korea's anti-dumping and safeguard legislation, the localization programme, adjustment tariffs, and the marks of origin system.

47. The representative of Canada said that Korea's ongoing economic rationalization and the lowering of its trade barriers merited particular mention, as did its vigorous adjustment effort of the early 1980s when its external debt reached an alarming level. In consequence of sound policies, Korea had vaulted into the ranks of the most dynamic economies, but one which now had an increased responsibility to the soundness of the multilateral trading system. Korea's remarkable record highlighted those areas where it had not lived up to its responsibility. Foremost among these was agriculture, where the nominal rate of protection had risen to over 100 per cent. Faced with pressure from its partners, agricultural liberalization had begun, but results were meagre. Specifically, measures tended to favour major partners, as in the case of longer credits for purchases from the United States, the acceptance only of Australian and U.S. standards for beef grading, and higher tariffs on certain vegetable oils of interest to Canada than on close substitutes from other countries. Further, many of the health and sanitary regulations appeared to be arbitrary and unscientific, and Korea's implementation of its commitment to eliminate restrictions previously maintained for balance-of-payments reasons showed a reluctance to deal with the concerns of its partners. This was also reflected in the recent imposition of emergency tariffs of up to 100 per cent on a variety of products, as well as the "country of origin" labelling requirements for some 85 farm and marine imports. The representative also expressed concern about Korea's localization and diversification programmes, particularly as they indicated a tendency towards managed trade, and as well about Korea's anti-dumping régime, its marks of origin system, which was onerous for foreign exporters, and the anti-import campaign conducted by some Korean associations.

48. The representative of Finland, speaking on behalf of the Nordic countries, underlined that Korea's economic development had been without comparison over the past 30 years. Credit was due to Korea for its significant trade liberalization. Nevertheless, the Nordic countries were concerned by Korean actions in a number of areas. These included tariff peaks, providing a high degree of effective protection for many industrial products, the localization programme, cumbersome custom procedures, the marks of origin system, quotas on imports of certain fish products, disincentives for the purchase of foreign cars, the prevalence of selective export restraints, and the possibility of discrimination against foreign products in government procurement. In addition, the Nordic countries were worried about Korea's tailoring of trade concessions, and arrangements for intellectual-property-rights protection, to meet the requests of major trading partners. The representative urged Korea to follow the multilateral avenue and negotiate its concessions in the Uruguay Round. With Korea now joining the ranks of developed countries, it should contribute increasingly to strengthening the GATT, by the daily implementation of both the rules and the spirit of the GATT.

49. The representative of the European Communities said that Korea's growth experience stood as an excellent example for other developing countries. Korea had taken advantage of an open trading system and in the last few years it had increased its own adherence to an open trade régime. With Korea's achievements had come new responsibilities; in particular, other developing countries should now be placed in a situation of being able to benefit from a Korean GSP scheme and development programmes. Although Korea now had a fairly liberal trade system, there were still problems. These included: the ongoing "frugality campaign", from which the Government should disassociate itself; lengthy and cumbersome customs procedures; customs valuation practices, where the invoice price was not always accepted; and the implementation of standards, technical controls, labelling requirements and certificates of origin, which were all creating trade difficulties. With regard to foreign direct investment and trade in services there had been appreciable liberalization but more needed to be done. For example, certain sectors, such as resale trade, were virtually closed to foreign direct investment. Such limitations ran counter to Korean interests, as they tended to limit the transfer of technology. Korea was moving in the right direction but, to achieve greater efficiency in resource allocation, both domestically and internationally, Korea should take further steps towards liberalization.

50. The representative of Argentina appreciated Korea's intention, under its disinvocation of GATT's balance-of-payments provisions, to eliminate its remaining import restrictions, or bring them in to conformity with GATT provisions, by 1 July 1997; this would eliminate the present asymmetry in Korean trade policy against agricultural imports. Korea had acted promptly to implement dispute-panel recommendations to liberalize its beef import régime. However, the application of certain sanitary measures for beef had the effect of a non-tariff measure. Argentina was concerned that although Korean tariff dispersion was relatively moderate, the presence of peaks and escalations, particularly in industry, tended to provide high protection to certain sectors. The representative asked about Korea's plans to remove foreign investment restrictions in the services sector, specifically retail trade, construction and non-life insurance.

51. The representative of Singapore felt that Korea's development experience provided a striking demonstration of what could be achieved if the principles of free trade were embraced. Singapore and Korea enjoyed good bilateral trade ties and it was probable that Korea soon would become one of Singapore's major partners. There were no significant trade issues between the two countries, although the recent Korean introduction of a marks of origin system was worrying.

52. The representative of Japan welcomed Korea's trade liberalization efforts, which had both contributed significantly to Korea's impressive growth performance and underlined Korea's commitment to maintaining and

strengthening an open and non-discriminatory multilateral trading system. There was room for improvement, however. Areas of particular concern to Japan were the diversification and localization programmes; both should be promptly eliminated with the former being of doubtful GATT consistency and the localization scheme designed to encourage import replacement by domestic production. Japan was also worried that some aspects of Korea's revised anti-dumping legislation were not in full conformity with the Anti-Dumping Code, while the marks of origin system lacked transparency and imposed an excessive burden on foreign exporters. Further, Korea's tariff régime, although considerably liberalized in the past decade, still protected some of Korea's competitive items, including textiles, chemical products and electric machinery. Also, under Korea's "flexible tariff system", adjustment duties had recently resulted in a significant increase in tariff rates on various items; as these increases were likely to have a sizeable trade impact, Korea should explain the rationale behind the higher rates. Finally, Japan was concerned about the discriminatory nature of the agreements on intellectual property protection that Korea had concluded with the European Communities and the United States.

53. The representative of India noted that Korea's rapid economic development had radically changed the composition of its export basket, with the share of primary products declining to 5 per cent while that of manufacturers had risen sharply. This was testimony to a highly competitive industrial structure. Korea was now one of the world's major trading nations and therefore had significant responsibility to support the multilateral trading system. As such it should not resort to measures that weakened the system, including the localization and diversification programmes, tariff peaks and escalation, high agricultural protection, export restraints, and a tendency to rely on bilateral solutions to trade problems.

54. The representative of Hong Kong suggested that a successful conclusion of the Uruguay Round would provide the best environment for the continuation of the already well-advanced process of trade liberalization in Korea. With Korea as its fifth largest supplier, Hong Kong followed closely the evolution of Korea's trade policy. Several measures were of concern, including the marks of origin system, the 45 regulatory laws and the considerable number of selective restraints on exports. In the latter regard, Korea should explain its export restrictions on electrical equipment and spectacle frames to Hong Kong; Hong Kong had not requested the restraints. Korea should also provide information on the scope of bureaucratic discretion in the implementation of policy, for example, with respect to non-automatic import licensing.

55. The representative of Australia noted that Korea had been an active member of GATT since its accession in 1967 and that it was now an important participant in the Uruguay Round. Korea, during the course of its

development, had considerably liberalized its formal trade barriers, although protection in agriculture remained high relative to that for industry. There also continued to be significant direct and indirect government intervention in many areas of the economy; for example, sole import rights for certain products countered low tariff rates, and single or selective tendering appeared to be common in government procurement. The agricultural régime was of particular concern to Australia. Korea had begun liberalizing its agricultural import restrictions but a core of products, such as rice and barley, appeared to be excluded from the process. Further, Korea seemed to be deferring liberalization in sensitive areas for as long as possible - or even, as in beef, the structural adjustment necessary to prepare for liberalization. In line with GATT panel reports and Korea's disinvocation of GATT's balance of payments provisions, Australia had substantial interest in Korea re-affirming its commitment to remove import restrictions, or bring them into GATT conformity, by 1997 at the latest. The representative also requested an explanation of the role of local governments in the determination and implementation of trade policy.

56. The representative of Hungary concurred with other members that trade liberalization had been important in Korea's development. But in the agricultural sector one could hardly detect the signs of liberalization. The agricultural system was complex, lacked transparency and denied access for certain Hungarian products. The situation had worsened since 1991, when a 50 per cent surcharge had been levied on pig meat. As a major beneficiary of the multilateral trading system, and as one of the world's largest traders, Korea should fully accept its responsibility for the health of that system, including by lowering its agricultural barriers. Additional concerns were the relatively low level of Korean tariff bindings and the localization and diversification programmes. Hungary was confident that a successful conclusion of the Uruguay Round, to which Korea could make a major contribution, would offer opportunities for Korea to continue its wide-ranging liberalization process.

57. The representative of Chile echoed other delegations in its praise for Korea's successful growth strategy and the liberalization of its trade régime. Agriculture, was, however, a notable exception to the opening of Korean markets. Adjustments were also needed to bring Korea's sanitary and phytosanitary standards into line with international standards and care should be taken that the marks of origin system was fully consistent with the Code on Technical Barriers to Trade.

V. COMMENTS AND RESPONSES BY THE REPRESENTATIVE OF THE REPUBLIC OF KOREA

58. The representative of The Republic of Korea stated that the interventions by Council members had made him very cognizant of the responsibility that Korea should assume as one of the world's most important trading countries. Delegations had been kind in their praise of Korea's accomplishments but had also given constructive comments and criticisms on its trade policies. There was still room for progress but he felt that Korea's policy was headed irreversibly in the right direction.

59. On Korea's agricultural protection, despite difficulties, Korea had been liberalizing its market and would continue to do so. Korea was also implementing a structural adjustment programme to improve agricultural efficiency and establish a more market-oriented system. In this regard, the initial plan had been the General Policy for the Development of Agriculture and Forestry of April 1989. Subsequently, the Agriculture and Fisheries Restructuring Plan by year 2001 had been set out in 1991, and was designed to: achieve economies of scale; expand and strengthen job training and employment programmes for those who want to leave farming; diversify the structure of the rural economy; provide special retirement and social welfare programmes; and improve rural living conditions, including education, roads, medical services, water and sewage systems. To implement these programmes the Government had established the Rural Development Fund. He added that, as noted in his opening remarks, he continued to have serious reservations about the Secretariat's use of production subsidy equivalents and nominal rates of protection to gauge agricultural protection; his Government had conveyed these concerns to the Secretariat, which in its own report had recognised the difficulty of interpreting such estimates.

60. The representative turned to Korea's disinvocation of GATT's balance-of-payments provisions and its undertaking, in this regard, to eliminate its remaining restrictions or bring them into GATT conformity by 1 July 1997. In accordance with that undertaking, Korea had already notified the "1992-94 Programme of Liberalization" on 5 April 1991. During the first year of the programme, 43 products, including fish products, had been liberalized. Korea would report on the progress of its 1992-94 liberalization programme annually to the Council. The Korean Government had done its best to incorporate the interests of major trading partners in drawing up the 1992-94 programme. With regard to the remaining restrictions, not part of the 1992-94 programme, including those on some fruits, fish products, frozen pork, natural honey, coal, etc., Korea confirmed its position to implement the undertakings.

61. On a related matter, that of the beef import régime, Korea had respected the panel reports and the associated bilateral agreements. As a result Korean beef imports had increased rapidly, with imports accounting

for about 55 per cent of domestic Korean beef consumption in 1991. Further, Korea was presently engaged in bilateral beef consultations with Australia, New Zealand and the United States, with meetings with these countries having been held in Seoul in June 1992. Beef imports were based on a global quota system, with all foreign exporters eligible, provided they met the standards applied by the Livestock Product Marketing Organisation.

62. With respect to concerns about Korea's sanitary and phytosanitary standards (SPS), the measures were not applied to restrict trade, nor did they discriminate between domestic and foreign suppliers; rather in accordance with GATT, they protected human, animal and plant life. The Korean Government would continue its efforts to improve its SPS measures, based on international standards and would bring them into conformity with the eventual results of the Uruguay Round negotiations. Import facilities and procedures would also be improved. The Government was ready to discuss any technical issues with interested parties.

63. On other agricultural issues, Korea was committed to the successful conclusion of the Uruguay Round, including in the area of agriculture. In spite of domestic difficulties, Korea had submitted its draft list of specific commitments on market access, domestic support and export subsidies. These were largely in line with the guidelines suggested by the Draft Final Act. Regarding the longer credit terms for imports from the United States, the U.S. Commodity Credit Programme dated back to the period when Korea had a foreign exchange shortage, and had been used to secure important agricultural products, such as essential foodstuffs. However, the programme was to be terminated in September 1994.

64. On tariffs, the Korean Government had consistently lowered rates and narrowed their dispersion. The current average tariff of 10.1 per cent would be reduced to 7.9 per cent by 1994. The average tariff on agricultural products was also to be lowered, from 18.5 per cent at present to 16.6 per cent by 1994. This was still higher than for industrial products but it was difficult to accelerate the reductions of tariff rates on agricultural products at the same time as liberalizing other import restrictions on these products.

65. In the non-agricultural sector, the average tariff was 8.4 per cent and would be reduced to 6.2 per cent by 1994. The highest rate was 20 per cent, for casein. Some had suggested further tariff reductions on textiles, chemicals and electrical machinery, but in no case were these tariffs above 13 per cent, which was not high by comparison to rates in some developed countries, and would moreover be reduced to 8 per cent by 1994. Others should lower their tariff peaks in these sectors.

66. With respect to tariff escalation, the Korean tariff structure did not have a major protective effect. It was Korean policy to mitigate tariff escalation to the point at which tariffs became neutral. On tariff differentials between similar products, a specific tariff rate was based on an assessment of the effects of imports on the relevant industry; these effects could differ across industries, therefore requiring differential tariffs. It was to be noted, however, that Korea did not apply tariffs in a discretionary or discriminatory manner.

67. The representative explained that any uncertainty inherent in Korea's flexible tariff was lessened by the fact that duties were mostly below statutory rates. Moreover, uncertainty would be further decreased with the planned increase in tariff bindings, from 23 per cent to 80 per cent, at the conclusion of the Uruguay Round. The recent use of emergency and adjustment duties, which served essentially as safeguard measures, had been fully in line with the GATT; the duties were temporary and had been used to alleviate the shock to domestic producers caused by a sharp increase in imports of newly liberalized goods. Under the flexible tariff, price stabilization duties and a tariff quota system were also used to stabilize domestic prices.

68. On customs procedures, the average time for clearance through Korean customs had been reduced to seven hours, and would be further simplified under complete computerization. In the related matter of customs valuation, the primary basis for valuation was the transaction value method. Where the buyer and seller were commercially related the deductive value method could be used if the relationship influenced the price actually payable. Where the deductive method was used, the profit and general expenses to be applied against the general sales price were calculated on the basis of data presented by the importer. If there was no such information, customs used a standard rate per industry, bases on actual import data.

69. As to Korea's anti-dumping legislation and practices, upon receipt of a complaint from an interested party, the Minister of Finance decided whether to initiate an investigation. The Korean Trade Commission (TC), whose independence was guaranteed under law, investigated and determined whether alleged anti-dumping caused serious injury to a domestic industry. If the finding was positive, and relief was necessary, an anti-dumping duty was imposed, after deliberation by the State Council, by Presidential Decree. Korea's anti-dumping regulations were fully consistent with the GATT and the Tokyo Round Code on Anti-Dumping. Further, the Government would incorporate the outcome of the Uruguay Round negotiations into Korea's anti-dumping regulations.

70. On Korea's export and import restrictions, the Government had delegated authority to issue import licenses to certain industry groups.

However, there was little scope for discretion or abuse as the criteria and procedures for licensing were detailed in the relevant regulations. Korea was not a member of the Import Licensing Code but would observe the results of the Uruguay Round on this subject. Regulations required that import licenses be processed within three days, but in practice, licenses were issued on the spot; no fees were levied. As to import restrictions under special laws, this was done for the protection of public health, security, morality etc. Nevertheless, some aspects of these laws could be burdensome to traders; therefore, although over half of the 45 regulatory laws had already been streamlined, the Government was continuing its efforts to minimize trade impediments that might result from the implementation of the laws.

71. With regard to export control measures, these in principle were not used except in the event of substantial shortages of basic materials or to implement international agreements. However, in many cases the Government was compelled to restrain its exports through voluntary export restraints and other agreements. Thus the unilateral export restraint on microwave ovens to Hong Kong was applied to prevent circumvention to the market of the European Communities.

72. The representative then turned to Korea's regulations concerning Korean standards, labelling and marks of origin. This issue overlapped with that of the regulatory laws. In general, Korea's standards conformed with international norms and the Code on Technical Barriers to trade, and were operated without discrimination to domestic and imported products. On the mutual acceptance of standards, Korea had no bilateral agreements but was considering entering some such agreements with its partners. Korea's GATT inquiry point on standards was the Bureau of Standards of the Industrial Advancement Administration. The standard making body was the Industrial Standards Review Committee, with a number of sub-committees of technical experts from relevant industries and the Government. The representative added that more technical questions on standards were complicated and best answered specifically in written form.

73. With respect to labelling, consumer products were normally required to have labels detailing the content, the function of the product, and any appropriate warnings associated with the use of the product. Items that required labelling included foodstuffs, electrical appliances, textile goods, and pharmaceutical products. Imported and domestic products were equally subject to the labelling requirements. As for price-labelling, the purpose of the system was to provide consumers with comparable information about the price at different stages of the distribution process. Again, the requirement applied equally to domestic and imported products. It had to be noted that the Government did not use standards and labels as obstacles to trade, with the systems applied according to internationally accepted rules.

74. On marks of origin, the representative said that their purpose was to protect consumers, by providing them with accurate information about a products' country of origin. The system had been initiated on 1 July 1991, with 326 imported items, and had been extended to a further 204 items on 1 April 1992. These moves had been in response to frequent cases of imported goods being sold as Korean products, as well as products of one country being sold as those of another after only slight modification. According to Korea's system, the criteria for establishing the country of origin was: first, the country in which the item was wholly produced; second, the country in which there was substantial transformation. Marks of origin on parts or components were only needed when the items were traded independently. When they were incorporated in a manufactured product, that had been substantially transformed, a mark on the packaging was sufficient. Korea felt that its system was within the framework of international rules, such as the Kyoto Convention. In an effort to increase the transparency of the system, it had been notified to the Technical Barriers to Trade. Korea would also accept the results of the Uruguay Round on marks of origin. To alleviate unnecessary friction with trading partners, customs officials were being trained on the system. Should specific issues arise Korea would do its best to find mutually satisfactory solutions.

75. With regard to rules of origin, certificates of origin were needed for imports. Origin certificates for exports could be issued by the Chamber of Commerce at the request of an exporter. The principal criterion on rules of origin was a change in the 6-digit H.S. tariff heading. But where a manufacturing or processing operation was not regarded as substantial, even if there was a change in tariff classification, a value added criterion or main parts criterion was applied. Products subject to these criteria were specified in a ministerial notice.

76. On the matter of government assistance, most programmes described in the Secretariat's report had been abolished within the last three to four years. However, small businesses were offered research and development grants at more favourable terms than large corporations, and funds were made available to them to promote training, automation and the development of information network systems. These funds were provided under the Structural Adjustment Act, and amounted to approximately U.S. 1.2 billion dollars at the end of 1991.

77. With regard to government procurement, Korea was presently engaged in accession negotiations to the Government Procurement Code. With its accession, Korea's government procurement policies would be based on the national treatment and m.f.n. principles. The present criteria for tendering could be found in the Budget Accounting Law and its related regulations. Open tendering was the principle, with selective or single tendering applied only in special cases.

78. Many comments had been directed at the localization and diversification programmes. The localization programme was an industrial policy measure, focusing on research and development; it aimed at the transformation of Korea's industrial structure, by enhancing the competitiveness of the machinery, parts and materials industry. The programme did not prohibit or restrict imports of foreign products. It operated through the provision of indirect assistance to industries in the form of credit availability. Credit was normally granted at market interest rates, although for research and development activity it could be provided at lower rates.

79. As to the diversification programme, its purpose was to encourage import sourcing of designated items away from a country with which Korea had a chronic and excessive trade deficit. While the programme was not necessarily desirable, it was somewhat inevitable given the continued expansion of Korea's trade deficit with Japan, which equalled 3 to 5 per cent of Korea's GDP. However, the Government had progressively reduced the number of items subject to the programme, and would continue to do so. Further, as in the past, the programme would be applied in a non-restrictive manner and would be phased out once a more balanced trade relationship had been achieved. In this respect, a recent Korea-Japan agreement aimed at addressing the trade imbalance was a sound step toward phasing-out the diversification programme in the nearest possible future.

80. The representative went on to explain that the "frugality campaign", or the New Life/New Ethics Campaign, was designed to redress social problems resulting from rapid industrialization and democratization. These included the erosion of traditional values, such as respect for elders, law, community, honesty, discipline and hard work. Thus, the campaign was motivated by larger objectives, with frugality being only one element. Nor was this sort of civic movement limited to Korea; for example, American workers boycotted foreign products. He had no intention of denying that the frugality element might have trade discouraging effects. Indeed some unfortunate incidents had been reported, and had led some to think that the Government was putting in place secondary barriers to offset formal trade liberalization. However, Korea's commitment toward increased openness, liberalization and internationalization was unshakable. Problems that did arise were not due to a retreat in the Korean commitment, nor to shortcomings in the system, but rather to difficulties in implementation. It should also be noted that the Government had issued clear-cut directives and had launched public-relation programmes to make the public aware of the true meaning of the New Life/New Ethics Campaign and of Korea's international obligations. The Government was taking all necessary measures to protect the legitimate concerns of its trading partners that arose from the Campaign.

81. Regarding comments on the trade-decision making process in Korea, the National Assembly deliberated and enacted trade-related laws, approved international agreements and audited the Executive Branch of Government. The latter consulted the National Assembly on important policy issues. Local governments might exercise some indirect influence on foreign trade, such as in the promotion of local industries, but they had no significant rôle to play in trade policy matters and related decision making. As to interest groups, Korea was no exception to other democracies, where government policies were usually the outcome of national consensus. In this regard, the conglomerates and other business groups had long since established various associations to transmit their views, including the Korean Foreign Trade Association. In addition, groups such as farmers, consumers and labour unions were making their voices heard.

82. An independent advisory body to review trade and industrial policies did not exist in Korea, nor was such a body contemplated. However, Korea was open to new ideas and with the launching of a new administration early in 1993 new proposals would receive serious consideration.

83. Questions had also been raised on the transparency of Korea's trade policies. Since its accession to GATT in 1967, Korea had attempted to make its trade régime more transparent. It would continue to do so. However, there were several factors responsible for the perception that the Korean system was not always transparent. One reason was that, while Korean laws were usually very concrete, some Korean laws still contained discretionary elements, due to the differing evolution of the Korean legal system. In line with its economic modernization, Korea would continue to refine its legal system and reduce discretionary provisions. A second problem was that Korea was no exception to the fact that different societies had different social, cultural and business practices. The Government had gone to great lengths to accommodate foreign businesses in this regard, but it remained the case that businessmen visiting Korea would be more successful if they knew the Korean language, culture and traditions. Nevertheless, Korea was committed to improving the transparency of its trade régime; Korea was as dependent on imports as on exports and thus transparency was in its own national interest.

84. With respect to Korea's use of VER's and the external trading environment in general, Korea had an unequivocal commitment to the multilateral trading system and a strong aversion to all alternatives. In this regard, VER's reflected the worsening trading environment. Korea's exports were increasingly subject to import quotas, various indirect restrictive measures, such as administrative discretion in the application of anti-dumping and countervailing regulations, and so forth. In Korea's case, VER's were in place under government to government, or business to business, agreements that had resulted from implicit or explicit requests from importing countries. Most of Korea's unilateral export measures were

monitoring arrangements, introduced without a request from a trading partner; such arrangements did not restrict exports.

85. Turning to the area of services, foreign direct investment and intellectual property rights, Korea had pursued unilateral liberalization of its services sector since the early 1980s. Indeed, since the launching of the Uruguay Round, Korea had taken a number of market opening measures in major sectors such as telecommunications, transportation, finance, distribution and advertising. These actions were reflected as binding commitments in Korea's services offer in the Uruguay Round. Korea would continue to open its service sectors, both multilaterally and unilaterally.

86. Specifically, on financial services, Korea had launched in 1992 a three stage liberalization programme that would be completed around 1997. The first phase had been implemented; thus, for example, national treatment in stock investments was now extended to domestic branches of financial institutions. At present, Korea was midway through the implementation of the second stage.

87. On foreign direct investment, the environment for such activity had been continuously improved. Since January 1992, foreign direct investment, with foreign equity not exceeding 50 per cent, could be made by notification in all liberalized sectors, which accounted for 75 per cent of all industries. Starting in January 1993, any foreign direct investment, regardless of equity participation, in a liberalized sector would be possible by notification.

88. With regard to intellectual property rights, Korea was fully aware that appropriate protection was important for the development and transfer of industrial technology, as well as for promoting a healthy business environment. Therefore, Korea had taken significant steps to protect intellectual property, including the enactment of new laws, the revision of existing laws and regulations, and the improvement of enforcement measures. For example, Korea had introduced a product patent protection system in 1987, which had still not been introduced in some developed countries. In addition, both the Unfair Competition Prevention Law (to protect business secrets) and the Copyright Prevention Act had been revised. Further, to strengthen enforcement, Korea had established a standing Inter-Ministerial Task Force to actively combat counterfeit goods and pirating of books, videos and other recordings. Lastly, the intellectual property protection accorded the European Communities and the United States did not run counter to the m.f.n. principle, but the matter was perhaps best left for bilateral discussions.

89. The representative concluded his remarks by referring to Korea's close contact with industrialized countries and the OECD. As amply demonstrated by statistics, the OECD countries were important partners of

Korea, so it was natural for Korea to stay in close touch with these countries. For example, Korea participated in the Development Centre and the Working Party on Shipbuilding and had recently indicated its willingness to take part in the Nuclear Energy Agency and the Trade Committee.

VI. FURTHER COMMENTS

90. The first discussant said that Korea had crossed the Rubicon on trade liberalization and market orientation of its economy. Moreover, policy makers seemed convinced that the process of internationalization was both inevitable and to Korea's benefit. Some sectors still lagged, particularly agriculture, but change could not come overnight. In all areas Korea was moving in the right direction, but trading partners retained legitimate concerns. Again, in this, agriculture was notable. Clearly these were serious social and political constraints but, just as clearly, Korea faced an adjustment challenge in agriculture, as did many other countries. A successful Uruguay Round conclusion could help resolve Korea's difficulties in agriculture. However, the biggest area of concern, to his mind, remained the whole panoply of bureaucratic, regulatory and discretionary practices affecting trade, particularly in the area of safety and health standards, customs procedures, product testing and labelling. Here an attitudinal problem had to be dealt with, and the Government would need to redouble its efforts to change old habits, of a bias against trade. However, overall the picture was positive and the challenge now for Korea was to fully realise the implications, and live-up to the responsibility, of its having become one of the world's leading traders.

91. The second discussant noted that there was a consensus that Korea should be complimented for its trade liberalization efforts. But there were concerns that had not been completely dispelled by the remarks of the Korean representative. This was inevitable, for blemishes stood out more clearly the better was the record. But the solution to removing the doubts lay in removing the blemishes, not in complicating the system. It was also the discussant's impression that some of Korea's trade practices were a defence against real or perceived pressures from its trading partners, yet there had been little reflection during the course of the meeting on this matter: it was legitimate to question Korea but others should also look to themselves and the effects of their own actions on the behaviour of their trading partners. Also, it had been useful to have a list of questions from contracting parties circulated at the start of the meeting; perhaps in future, questions could be provided to the country a few days in advance, so that the answers might also be circulated before the review. The discussant concluded that the reviews were valuable not only for the discussion at the meeting, but also for the reaction of the country after the review. He was confident that the review would have encouraged Korea to continue its process of wide-ranging liberalization.

92. The representative of the European Communities raised several points in response to the remarks of the Korean representative. On price labelling, although applied to imported and domestic goods, there was a difference between the ex-factory and c.i.f. price, especially as the latter included profit mark-ups, leaving consumers with the impression of

large profit margins on imported goods. With respect to marks of origin, there was concern about the implementation procedures, particularly as customs documentation sometimes dealt with confidential business information. It was gratifying that sanitary and phytosanitary standards were non-discriminatory and would be in line with international norms but some practices were hard to justify: for example, the import restrictions on Belgian and German fruits and vegetables because of Mediterranean fruit-fly. On customs procedures it was understood from the Korean explanation, that European Community traders were incorrect in suggesting that clearance could take 3 to 4 weeks. With regard to the "frugality campaign", the Korean representative had said that it was not anti-import in intent; it was to be hoped that the matter would not be an issue in the future. On "hidden barriers", the practical application of testing procedures could become a trade restraint even though all regulations were in conformity with international norms. Korean efforts to liberalize foreign direct investment were appreciated, and remaining restrictions should be rapidly removed.

93. In response, the Korean representative agreed with the first discussant that the direction of Korea's trade policy was irreversible. Korea, despite difficulties, was fully committed to trade liberalization, a process that would be helped by a successful outcome of the Uruguay Round. There were indeed some bureaucratic obstacles, but these would be overcome. The concerns about Korean agricultural policy were well taken, but the thrust, except in the cases of rice and barley, was towards liberalization. The trade policy review of Korea would spur the overall liberalization process. He counselled that trade differences between countries should not become politicized for this could lead to unproductive exchanges and, perhaps, unilateral actions. The proper forum for the airing of these differences was GATT, for example, in the trade policy review exercise. The representative agreed with the second discussant that both questions and their answers should be circulated prior to a review.

VII. CONCLUDING REMARKS BY CHAIRMAN OF THE COUNCIL

94. The reviews undertaken by the Council in the framework of the Trade Policies Review Mechanism aim to provide a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. My closing remarks are intended to summarise, on my own responsibility, the salient points emerging from this review of the Republic of Korea. These remarks are not a substitute for the full discussion and assessment by the Council. This, including Korea's responses to points raised by participants, will be reflected in the minutes of the meeting.

95. In his introductory statement, the representative of the Republic of Korea said that Korea's trade policies had three basic objectives: balanced expansion of external trade based on the principle of free trade, internationalization of Korea's trade regulations and institutions, and continued contribution to the multilateral trading system. In Korea's twenty-four years of GATT membership, its trade had increased more than 110-fold. Korea was not only an export-oriented economy, but was equally dependent on imports, and thus sought a balance between exports and imports through its trade policies. Korea had continuously made efforts to ensure that its trade policies and practices were in conformity with the GATT and, particularly since the early 1980s, had simplified its trade procedures to achieve greater transparency. Korea sought to strengthen the multilateral trading system through active participation in GATT and the Uruguay Round, as well as in negotiations on shipbuilding, steel and government procurement.

96. Korea's policies were undergoing considerable reform to make the economy more responsive to market signals. The policy of direct assistance to targeted industrial sectors was a thing of the past. Many of the regulatory and co-ordinating functions of Government had been reduced or eliminated. Improved market access was being achieved through the removal of import restrictions and the progressive reduction of tariffs. By 1994, 98.5 per cent of tariff lines would be free from import licensing restrictions and the average tariff rate would be very close to OECD levels. Korea's commitment to liberalization could also be seen in its Uruguay Round offers, as well as in steps to streamline health, safety and import licensing procedures. In addition, anti-dumping and safeguard regulations had been revised, and a sunset clause had been introduced in anti-dumping and countervailing rules. Korea's liberalization was not confined to trade in goods but extended to areas such as investment, services and intellectual property rights.

97. Korea was the world's sixth largest net agricultural importer in 1991. The general trend in Korea was toward agricultural liberalization. However, liberalization of the rice market raised serious social, economic

and political concerns related to food security and to the family-based structure of Korean agriculture.

98. In relation to the external economic environment, Korea was concerned about the increasing use of anti-dumping and similar measures for purposes of protection, the growth of unilateralism, and the possible trade diversion resulting from regional trading agreements.

99. Participants recognized Korea's development over the past three decades as a remarkable success. During this period, Korea had transformed itself from an agrarian to a largely diversified industrial economy. Real economic growth averaging 9 per cent a year had been based on an outward-oriented, high investment strategy, supported by continuous access to foreign markets. In this latter respect, Korea had been a significant beneficiary of the open multilateral trading system. The economy presently showed clear signs of overheating, which should be addressed by appropriate macroeconomic measures to maintain competitiveness. A successful conclusion of the Uruguay Round would further assist Korea's growth potential.

100. Trade liberalization had played an important rôle in the early stages of Korea's development and again during the 1980s. In the past decade, the average tariff had been reduced from 24 to about 10 per cent; the scope of non-automatic licensing had been substantially reduced; export subsidies had been eliminated; and the trade-inhibiting effects of individual regulatory laws had been lessened. Korea's disinvocation of GATT balance-of-payments provisions had set in train a further reduction in import restraints. Korea was also playing an active rôle in the Uruguay Round, particularly in the dispute settlement and rule-making areas. These moves had contributed to strengthening the multilateral trading system.

101. Participants noted that Korea was now the fifth-largest trading entity in GATT. This implied a significant responsibility for the continued successful functioning of the multilateral trading system. The system would benefit from further liberalization by Korea, both in industry and particularly in agriculture where certain products, including rice and barley, were effectively sheltered from international competition. In this connection, it was recalled that the economic cost of agricultural support in Korea was almost equivalent to the sector's contribution to GDP, suggesting the need for greater structural adjustment in agriculture.

102. Participants raised a number of specific questions and concerns:

- the tariff system remained complex, with numerous abatements and provisions for temporary, adjustment and emergency duties. Recently, emergency duties of up to 100 per cent had been imposed on some products;

- there was a marked discrepancy between the relatively low average duties applied to industrial goods and the much higher rates on agricultural and food products;
- tariff escalation and peaks led to high levels of effective protection in certain sectors, including clothing, footwear and electronics;
- the level of tariff bindings was relatively low. Although Korea's Uruguay Round offer would lead to a substantial improvement, many of the new bindings would be at ceiling levels considerably higher than applied rates;
- most remaining licensing restrictions covered agricultural products, and there appeared still to be an element of discretion in the granting of licences, through the delegation of authority to trade associations. Moreover, the easing of import licensing requirements under the disinvocation of Article XVIII:B did not yet address certain areas of importance to trading partners;
- with the reduction of formal trade barriers, informal restrictions had become more evident. It appeared that other, more discretionary measures were being used to impede market access, including lengthy customs procedures, health and technical standards and State-trading provisions;
- Korea's diversification programme had discriminatory aspects, while the localization programme encouraged import substitution to the detriment of efficient resource allocation and market access opportunities;
- the tendency for Korea to accept bilateral solutions to trade disputes also led to a degree of discrimination, as in certification procedures for beef and agreements on intellectual property rights. These factors, together with the diversification and localization programme, as well as the significant number of export restraints, indicated a tendency towards managed trade;
- the high percentage of government procurement contracts let under selective or single tendering procedures might also imply a measure of discrimination;
- the recently-introduced marks of origin system, and the labelling requirements imposed by Korea, were burdensome to traders and did not seem necessary for consumer protection;

- the rôles of the National Assembly, local governments and private interest groups in the decision-making process were questioned;
- recent "frugality campaigns" seemed to have inhibited imports. It was hoped that the Government would dissociate itself from anti-import drives; and
- foreign direct investment regulations, though considerably liberalized during the 1980s, remained less than fully transparent and continued to limit access to certain sectors, including retail trade and financial services.

103. Replying to comments and questions, the representative of Korea thanked the representatives and discussants for their appreciation of Korea's development and its trade policies. The process of Korea's liberalization was now irreversible and its commitment to the multilateral trading system was unshakable. Many of the questions raised had been highly technical and complex in nature. Where it was not possible to deal with them fully in the meeting, answers would be provided subsequently.

104. Korea had been, and would continue, liberalizing its agricultural market, despite both internal and external difficulties. Its structural adjustment programme in this area aimed to achieve economies of scale, expand training and employment programmes, diversify the rural economy, provide special retirement and social welfare facilities and improve rural living conditions. The Rural Development Fund had been established for these purposes.

105. Following disinvocation of Article XVIII:B, Korea had notified its 1992-94 programme of liberalization in April 1991. Progress in implementation would be reported annually to the Council. Korea had made its best efforts to incorporate the interests of major trading partners in drawing up the programme and would implement its undertakings in regard to remaining import restrictions. Moreover, Korea had faithfully respected the Beef Panel reports, including subsequent bilateral agreements and understandings, and was currently in consultation with the United States, Australia and New Zealand concerning the import régime for the period after 1993. Korea presently imported beef based on a global quota system; any consignments which met the standards applied by the Livestock Products Marketing Organization were eligible for importation under the quota.

106. Korea's sanitary and phytosanitary measures were in accordance with the relevant GATT provisions and did not discriminate between domestic and imported products. Such measures would be brought into conformity with the final results of the Uruguay Round. Overall, Korea was committed to the successful conclusion of the negotiations and had submitted a draft list of

specific commitments for agriculture, covering market access, domestic support and export subsidies.

107. Korea's average tariff rate would be down to 7.9 per cent by 1994; it would be 16.6 per cent for agricultural products and 6.2 per cent for other products. Tariffs on textiles, chemicals and electrical machinery would be reduced to 8 per cent by 1994; it was hoped that other countries would eliminate tariff peaks in these sectors. The reduction of tariffs also aimed, through lower escalation, to provide a neutral tariff structure. The increase in bindings resulting from the Uruguay Round would reduce uncertainty for traders. Flexible duties were mostly below statutory levels, fully compatible with GATT provisions, and subject to time limitations.

108. Customs clearance time had been reduced to seven hours on average, and procedures would be further simplified through full computerization. Anti-dumping regulations and procedures were fully consistent with the provisions of GATT.

109. It was true that the Government had delegated import licensing authority to certain industry groups, but safeguards ensured that discretion would not be abused. The progressive liberalization of remaining import restrictions would further reduce reasons for concern. Special laws relating to the import of certain goods were generally for the protection of public health, security or morality; efforts were continuing to streamline the effects of such laws.

110. Korea had no bilateral agreements for mutual acceptance of certificates or test results with other parties; however, it was considering concluding such agreements. Consumer products were normally required to have labels detailing content, function and any appropriate warnings for the products. Price labelling applied to domestic and imported products equally. The marks of origin system was designed for consumer protection. He believed that the system and the associated rules of origin fell within the framework of internationally-accepted rules. It had been notified to, and discussed in, the TBT Committee.

111. Most government assistance programmes in Korea had been abolished. Small businesses, however, were granted R & D assistance at more favourable terms than large corporations; in addition, funds of approximately US\$1.2 billion were available under the Structural Adjustment Act.

112. Korea was presently engaged in accession and expansion negotiations for the Government Procurement Code. Generally, open tendering was followed, and selective or single tendering was applied only exceptionally.

113. The localization programme aimed to enhance the competitiveness of Korea's engineering industries. It did not prohibit or restrict imports of foreign products. The diversification programme sought to switch imports of designated items away from Japan, with which Korea had an enormous trade deficit. The number of items covered by the programme had been significantly reduced and the programme would be phased out once a more balanced relationship was achieved. A recent agreement on an inter-active programme to address the trade imbalance between Japan and Korea would assist in the rapid phase-out of this programme.

114. The "New Life/New Ethics Campaign" was aimed to address social problems, including the erosion of traditional values; the frugality element was only one aspect. It was not to be interpreted as a move away from the Government's commitment to increased openness. Wide efforts were being made to minimise unintended negative effects, bearing in mind concerns expressed by trading partners.

115. In Korea's decision-making process, the National Assembly was consulted by the Executive Branch on all important policy issues. Local governments had no significant rôle to play in trade policy matters. Interest groups made their views known through associations, as well as through public hearings by the Government and the National Assembly. As yet, there was no independent advisory body to review trade and industrial policies.

116. In regard to the external trade environment, Korea's exports were increasingly subject to various indirect restrictive measures. VERs were operated through agreements between governments or businesses; unilateral export restrictions were monitoring arrangements on exports instituted without a request from a trading partner which did not restrict the quantity of exports.

117. Since the early 1980s, Korea had taken a number of market-opening measures in major services sectors. These were reflected in Korea's offer in the Uruguay Round. Financial services were now subject to a three-stage liberalization programme to be completed around 1997. Korea had also taken significant steps to protect intellectual property rights, for example through the introduction of a product patent protection system, revision of the Unfair Competition Prevention Law and of the Copyright Protection Act.

118. In concluding this review, my appreciation is that Korea should be complimented for the steps it has taken in the past ten years to liberalize its trade policies and practices, and many aspects of its economy. This process appears firmly supported by a strong commitment to the multilateral trading system and will be helped by a successful conclusion of the Uruguay Round. However, some areas of concern remain, particularly the remaining high levels of assistance in certain areas of agriculture, which create

significant costs for the Korean economy, the visible tendency of Korea to seek bilateral solutions for its trading problems in a number of important industrial sectors, and the emergence of informal barriers. The statements by the representative of Korea that liberalization is irreversible were welcomed by the Council as an indication of Korea's determination to maintain the process, to the benefit of both Korea and the multilateral trading system.