



**TRADE POLICY REVIEW**

REPORT BY

REPUBLIC OF KOREA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Republic of Korea is attached.

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Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on the Republic of Korea.

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## 1 INTRODUCTION

1.1. Against the backdrop of a world economy that still displays low growth in the wake of the global financial crisis in 2008, Korea is employing domestic policies seeking economic recovery through a creative economy and regulatory reform, while on the international stage remaining committed to open markets and trade liberalization.

1.2. With the inauguration of the new administration in February 2013, the *Creative Economy* emerged as the Korean Government's central policy objective. A creative economy is defined as an economy that generates new added value, jobs and growth engines through the convergence of people's creativity with science, technology and information and communication technology (ICT). Both online and offline platforms for a creative economy were established. The Creative Economy Town (<https://www.creativekorea.or.kr/>) was launched in 2013 as an online platform to support the commercialization of creative ideas. A total of 17 Creative Economy Innovation Centers were also established in metropolitan cities and provinces nationwide as of July 2015, serving as stepping stones for the growth of venture companies and small and medium enterprises (SMEs).

1.3. In order to ensure momentum for an economic recovery from the low-growth trend, the Korean Government adopted the '*Three-Year Plan for Economic Innovation*' in January 2014. Its key elements include building an enabling environment for a creative economy and conducting structural reforms in four areas: public institutions, labour, finance and education. Reform measures in the four areas include adjustment of overlapping functions and introduction of performance-based annual salaries in public institutions; the creation of a fair and flexible labour market in the labour sector; promotion of the fintech industry in the financial sector; and structural reforms of universities.

1.4. Recognizing regulatory reform as a way to stimulate investment without spending, the Korean Government has placed priority on regulatory relaxation in order to build a business-friendly investment climate by adopting the "cost-in, cost-out" system, regulation impact assessment and the Regulatory Reform Sinmungo.<sup>1</sup>

1.5. Korea has been a long-standing advocate of the WTO regime as a member of the multilateral trading system, and is working to fully implement the decisions made at the WTO Ministerial Conferences held in Bali in December 2013 and Nairobi in December 2015.

1.6. Korea ratified the Trade Facilitation Agreement (TFA) in July 2015. Further to this, Korea is now subject to the revised version of WTO Agreement on Government Procurement (GPA) which entered into force on 14 January 2016. Korea participated in the WTO Information Technology Agreement (ITA) expansion negotiations and has been actively engaging in the negotiations for the Environmental Goods Agreement (EGA).

1.7. Korea continues to pursue open markets through high-standard, comprehensive FTAs that cover goods, services and investment, while at the same time taking part in mega-regional FTAs alongside negotiations on bilateral FTAs.

1.8. The Korean Government has stepped up efforts to improve the environment for foreign investment. During the review period, Korea made continuous efforts to attract high-tech or high-value added foreign investment projects and facilitate foreign investors' contribution to domestic job creation. In addition, the Korean Government enhanced communication with foreign investors and mechanisms for their participation by hosing regular meetings between foreign investors and government officials.

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<sup>1</sup> The Regulatory Reform Sinmungo is an online one-stop regulation suggestion processing system operated to manage citizens' suggestions regarding regulatory reforms.

## 2 ECONOMIC AND TRADE ENVIRONMENT

### 2.1 Economic Growth

#### *Relatively moderate GDP growth rate and employment rates*

2.1. Although Korea's economy has been growing steadily since 2012, GDP growth has yet to recover to the levels recorded before the global financial crisis in 2008. Real GDP increased from approximately ₩1,342 trillion in 2012 to ₩1,464 trillion in 2015.<sup>2</sup> While GDP growth remains below pre-crisis levels, rising only from 2.29% in 2012 to 2.6% in 2015, this is higher than the OECD average of below 2%.<sup>3</sup> Considering that Korea's world GDP ranking rose from 14<sup>th</sup> in 2013 to 11<sup>th</sup> in 2015, the country's economy has performed relatively well despite the global low-growth environment.<sup>4</sup>

2.2. The employment rate remained steady at roughly 65%, as 65.7% of the age group 15-64 was employed in 2015, up 1.5 percentage points from 2012.<sup>5</sup> Youth employment also grew by 1.1 percentage points from 2012 to 41.5% in 2015.<sup>6</sup>

### 2.2 Exports, Imports and the Trade Balance

#### *Export and import growth slowdown since 2012*

2.3. The worldwide low-growth trend is evident in the deterioration of the trade climate, with global trade in goods dropping by 13% in 2015 compared to the previous year.<sup>7</sup> Korea's export growth has slowed since 2012, recording a slight increase of above 2% in 2013 and 2014, but a decrease of 8% in 2015 compared with the previous year.<sup>8</sup> Imports are in a similar situation, registering two-digit growth during the recovery from the economic crisis and then shrinking – albeit slightly – from 2012, followed by a 16.9% decrease in 2015.<sup>9</sup> Korea has maintained a trade surplus since 2009, which grew in volume from US\$28.3 billion in 2012 to US\$90.3 billion in 2015.<sup>10</sup> Despite challenging export conditions due to a worldwide contraction in demand, Korea has managed to position itself as the world's sixth-largest exporter and tenth-largest importer.<sup>11</sup>

2.4. Major export items include semiconductors, automobiles, vessel parts/marine structures, wireless communication devices, petroleum products, flat panel displays and sensors, with semiconductors in particular accounting for a growing share. Crude oil, semiconductors, natural gas, petroleum products, wireless communication devices and vehicles have been among Korea's main imports, with a marked decline in the share of crude oil due to falling international oil prices.<sup>12</sup>

2.5. Korea's geographical distribution of trade has undergone no notable changes since 2012, with exports as of 2015 delivered mostly to Asia (56.3%), North America (14.1%) and Europe (12.6%). As for imports, the top trading regions were Asia (46.9%), Europe (17.3%) and the Middle East (15.7%), while the Middle East lost much of its share compared to 24.6% in 2012 due to a drop in crude oil prices.<sup>13</sup>

2.6. Exports (receipts) in services fell slightly from US\$103.5 billion in 2012 to US\$97.9 billion in 2015, while imports (expenditures) grew from US\$108.7 billion in 2012 to US\$113.6 billion in

<sup>2</sup> Bank of Korea, Economic Statistics System (last viewed online on 7 July 2016).

<sup>3</sup> OECD, Economic Surveys: Korea 2016.

<sup>4</sup> IMF, World Economic Outlook (April 2016).

<sup>5</sup> Korean Statistical Information Service, Economically Active Population Survey (Annual), last viewed on 22 July 2016.

<sup>6</sup> Korean Statistical Information Service, Economically Active Population Survey (Annual), last viewed on 22 July 2016.

<sup>7</sup> WTO, International Trade Statistics (7 April 2016).

<sup>8</sup> Korea International Trade Association, K-Statistics (last viewed online on 23 June 2016).

<sup>9</sup> Korea International Trade Association, K-Statistics (last viewed online on 23 June 2016).

<sup>10</sup> Korea International Trade Association, K-Statistics (last viewed online on 23 June 2016).

<sup>11</sup> Korea International Trade Association, K-Statistics (last viewed online on 20 July 2016).

<sup>12</sup> Korea International Trade Association, K-Statistics (last viewed online on 24 June 2016).

<sup>13</sup> Korea International Trade Association, K-Statistics (last viewed online on 24 June 2016).

2015.<sup>14</sup> These shifts can be attributed to a decline in exports of transportation and construction services and growing imports in tourism.<sup>15</sup>

### 2.3 Foreign Direct Investment

#### *Inbound FDI rises, outbound FDI remains steady*

2.7. Korea's inbound foreign direct investment (FDI) calculated on an arrival basis has grown from US\$10.7 billion in 2012 to US\$16.4 billion in 2015.<sup>16</sup> By sector, FDI inflows are climbing significantly in services relative to manufacturing, and by region, investment from the U.S. and China showed a notable increase from 2013 through 2015.<sup>17</sup>

2.8. Outbound FDI calculated on a remittance basis changed slightly from US\$28.5 billion in 2012 to US\$27 billion in 2015.<sup>18</sup> The service sector displays steady growth in FDI outflows, while investment in the U.S. remains consistently high, while investment in China is falling.<sup>19</sup> Outbound FDI to Japan recorded marked growth in 2015.

## 3 ECONOMIC POLICY

### 3.1 Three-Year Plan for Economic Innovation

3.1. In order to ensure momentum for an economic recovery from the low-growth trend of the global economy and the fast-changing trade environment, the Korean Government developed the Three-Year Plan for Economic Innovation in February 2014. Its key elements include building an enabling environment for a creative economy and conducting structural reform in four areas: public institutions, labour, finance and education.

#### 3.1.1 Creative Economy

3.2. The Creative Economy is defined as an economy that underscores creativity as a central economic value, and generates new added value, jobs and growth engines through the convergence of people's creativity with science, technology and ICT.<sup>20</sup>

3.3. Both online and offline platforms were established to lay the groundwork for a creative economy.<sup>21</sup> In September 2013, the Creative Economy Town (<https://www.creativekorea.or.kr/>) was launched as an online platform to support the commercialization of creative ideas so that they can be translated into business start-ups and added value. A total of 17 Creative Economy Innovation Centers were also established in metropolitan cities and provinces nationwide as of July 2015, serving as stepping stones for the growth of venture companies and small and medium enterprises (SMEs).

3.4. Efforts were made to lower existing entry barriers such as location and environment-related regulations so as to facilitate the easy and swift establishment of start-ups. The Government is also addressing areas where a lack of appropriate guidelines results in delays in product launches, another challenge for foreign investors.

3.5. Such actions have contributed to supporting the growth of venture start-ups and SMEs as well as fostering regional industries and creating jobs. The Creative Economy Innovation Centers established nationwide have incubated and supported around 2,540 start-ups and SMEs and attracted ₩260 billion worth of private investment as of June 2016.

<sup>14</sup> Bank of Korea, Economic Statistics System (last viewed online on 24 June 2016).

<sup>15</sup> Bank of Korea, Economic Statistics System (last viewed online on 24 June 2016).

<sup>16</sup> Ministry of Trade, Industry and Energy, Foreign Investment Statistics (last viewed online on 23 June 2016).

<sup>17</sup> Ministry of Trade, Industry and Energy, Foreign Investment Statistics (last viewed online on 23 June 2016).

<sup>18</sup> Export-Import Bank of Korea, Foreign Investment Statistics (last viewed online on 23 June 2016).

<sup>19</sup> Export-Import Bank of Korea, Foreign Investment Statistics (last viewed online on 23 June 2016).

<sup>20</sup> <https://www.creativekorea.or.kr/town/introduce> (last viewed online on 17 July 2016).

<sup>21</sup> Ministry of Culture, Sports and Tourism, Three-Year Policy Review of the Park Administration, p. 10 (March 2016).

### 3.1.2 Structural Reforms

3.6. With the aim of building fundamental strength for recovery of the Korean economy, Korea has been undertaking structural reforms for four major areas, namely public institutions, labour, finance and education, under the Three-Year Plan for Economic Innovation.

3.7. The Korean Government took several measures in order to enhance efficiency in public institutions. Structural reforms of public institutions have been implemented, including the adjustment of overlapping functions among institutions, downsizing of non-core businesses, and improvement of management effectiveness. A reform on the public employee pension scheme was conducted in May 2015, followed by debt reduction and functional restructuring for the public sector. Public institutions have also adopted performance-based annual salary<sup>22</sup> and wage peak systems.<sup>23</sup> As a result of these efforts, the financial soundness of public institutions was greatly enhanced through reduction in overall public debt, which dropped from 220% in 2012 to 183% in 2015. Furthermore, financial resources saved by the wage peak system will be utilized to support the creation of more than 8,000 jobs in 2016 and 2017.

3.8. In the labour sector, work is being done to create a fair and flexible labour market and heighten stability. Based on a tripartite agreement among labour, management and the Government in September 2015, working hours are being reduced; criteria and procedures for new employment and employment termination clarified; the amount and period of employment benefits extended; and terms of employment for contract workers improved. Relevant law revisions are underway in the National Assembly.

3.9. In the financial sector, the Government set up a plan for the promotion of the fintech industry in May 2015 in order to promote a new kind of financial industry combined with IT. The plan enables consumers to create bank accounts without making personal visits to financial institutions through non-face-to-face identification checks. It also repealed related regulations such as those requiring installment of security programs and use of public certification programs. In addition, crowd funding and internet-only banks are now legalized in an attempt to promote the fintech industry in Korea.

3.10. In the education sector, structural reforms of universities have been conducted in order to ensure the quality of higher education in Korea. Reflecting the actual supply and demand of youth job seekers and hiring businesses, structural reforms of universities are being encouraged by adjusting the number of students admitted to departments as well as expanding integrated industrial-academia vocational schools. University enrolment quotas will be reduced considering a change of demographic trends. In addition, the newly-enacted legislation on the promotion of liberal arts aims to nurture students' talents in liberal arts and contribute to strengthening the capacity of universities in the liberal arts field.

### 3.2 Regulatory Reforms

3.11. The Korean Government places a priority on regulatory reform, which is deemed as the best way to stimulate investment and consumption without spending. In line with the principle of global regulatory reform led by APEC and the OECD, Korea has made bold efforts to eliminate unnecessary regulations, while revising and reinforcing those that are closely related to people's safety and lives.

3.12. Strong leadership guided the creation of a regulatory reform framework. Launched in March 2014, the Ministerial Meeting on Regulatory Reform is chaired by the President while another mechanism, on-site inspection meetings for regulatory reform, is led by the Prime Minister.

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<sup>22</sup> The performance-based annual salary system, which currently applies only to high-level officials, will be expanded to cover government employees above the assistant-director level.

<sup>23</sup> The wage peak system means the gradual reduction of salaries after a certain age in exchange for extending the retirement age. The introduction of the salary peak system for all public institutions has been finalized as of end of December 2015.

3.13. The entire regulatory system was also improved through measures such as the "cost-in, cost-out" system, regulation impact assessment and the Regulatory Reform Sinmungo<sup>24</sup> among others.

3.14. Introduced in January 2014, the "cost-in, cost-out" system offsets the cost of newly creating or reinforcing regulations by abolishing or relaxing existing regulations. Regulations can now be analysed in more detail thanks to the adoption of the regulation impact assessment system in a number of areas including competition, SMEs and technical regulations. Through the Regulatory Reform Sinmungo, a total of 3,549 suggestions have been accepted out of 9,069, indicating an acceptance rate of approximately 40%.

3.15. As a result of these efforts, a total of 3,992 regulations were eased or revised during the period from March 2014 to the end of 2015, and the resulting economic impact is estimated to reach KRW 20 trillion.

### **Box 3.1 International Views on Korea's Economic Innovation Policies**

- Three-Year Plan for Economic Innovation: Appraised by the IMF and OECD in 2014 as an exemplary model among G20 economic growth strategies in terms of growth effectiveness; Korea ranked first on the Bloomberg Innovation Index.
- Creative economy and regulatory reform: Ranked fourth overall, first among G20 members and third among OECD members on the World Bank's Doing Business 2015 list.
- Sovereign credit rating: Korea's rating upgraded by credit rating agencies (S&P: A+ to AA- in September 2015, Moody's: Aa3 to Aa2 in December 2015).

## **3.3 Sectoral Policies**

### **3.3.1 Agriculture and Fisheries**

#### ***Continuing to open agricultural markets and future industrialization for the fishing industry***

3.16. A substantial portion of Korea's agricultural market has been opened through a large number of FTAs. As of 2015, Korea's imports of agricultural and livestock food products recorded approximately US\$30.2 billion, of which imports from FTA partners amounted to approximately US\$24.9 billion, or 82.4%.

3.17. In compliance with its obligations under the WTO Agreement on Agriculture, the Korean Government terminated its special treatment of rice under Annex 5 of the Agreement, and from January 2015 began applying customs duties. Tariff rates were set pursuant to the Agreement's guidelines.

3.18. The Rural Industrial Convergence Zone was adopted in 2014 to relax regulations and strengthen value chains in a bid to reinforce agricultural competitiveness. Furthermore, the previously complex certificate of origin and verification procedures required for exports were also simplified.

3.19. The fisheries industry is making the transition from "catching fish" to "breeding fish" through offshore, biofloc<sup>25</sup> and smart farm aquaculture, by using information technology (IT) and biotechnology (BT). Quality management is another priority. Tools such as Hazard Analysis and Critical Control Points (HACCP) and the Seafood Traceability System are in place to ensure the safe provision of marine products.

3.20. In August 2015, the Government enacted the Fishery Resources Management Act to systemize protection measures in order to manage fishery resources more efficiently. Korea is also

<sup>24</sup> The ministry or office concerned will promptly examine whether to accept suggestions on regulation and respond within 14 days under the real name of responsible person such as a bureau director or manager.

<sup>25</sup> Biofloc is an aggregate of bacteria, plankton, protozoa, etc. Biofloc aquaculture uses microorganisms to decompose and purify pollutants in aquaculture water.

extending efforts to restore the coastal ecosystem and create spawning grounds and habitats by building marine ranches, marine forests and artificial fishing banks.

### **3.3.2 Manufacturing**

#### ***Promoting convergence of manufacturing industry and IT***

3.21. To respond proactively to the "smart revolution", the convergence of manufacturing and IT that succeeds the industrial and information revolutions, the Korean Government launched the Manufacturing Innovation 3.0 Strategy in June 2014. Key elements of the strategy include promoting the use of smart factories to fundamentally innovate production systems using IT, software and the Internet of Things (IoT); designating special zones for the demonstration and pilot operation of innovative products; and laying the groundwork for new industrial convergence.

3.22. The strategy seeks to apply IT, software and IoT to existing production systems with the aim of building an intelligent and optimized production process, and to put 10,000 smart factories into use by 2020, mostly among SMEs. As of the end of 2015, a total of 1,240 companies took part in this initiative, which brought benefits including increased productivity, improved quality, and cost and delivery time cuts. Standards and accreditation procedures for smart factories were also set up to encourage the spread of voluntary use in the private sector.

3.23. Special zones for demonstration and pilot operation were designated to demonstrate and test highly innovative products such as unmanned aerial vehicles and autonomous cars. This will be accompanied by efforts to make regulatory improvements.

3.24. The Korean Government also seeks to facilitate smooth market entry and swift investment in new convergence industries. To this end, a Negative Rules Evaluation System was adopted, under which rules related to investment are screened on a negative list approach, alongside the existing fast-track licensing system. The Government is also preparing the enactment of the Special Act on the Designation and Operation of Regulation-Free Zones to Promote Local Industries, which would temporarily lift regulations inside certain regions.

3.25. New convergence products that could not be released on the market due to lack of accreditation criteria will be given licensing permission by developing appropriate criteria within six months. Regulations related to new industries have shifted to a system of negative control; once a business sector raises difficulties due to a specific regulation, the regulation will be abolished unless specifically prohibited by law.

3.26. The push for the enactment of the Special Act on the Designation and Operation of Regulation-Free Zones to Promote Local Industries is an illustration of the efforts being made toward bold deregulation in new industries at the local level. The alleviation of core regulations related to business type, location and so forth is expected to help provide a platform to promote local industries that harness local strengths and characteristics. For new technology fields in which it is unclear whether regulations apply, the agency in charge is required to provide confirmation within a set period so as to eliminate gray zones.

### **3.3.3 Energy**

#### ***Creating new energy industries and boosting the share of new and renewable energy***

3.27. In response to the global movement toward reducing greenhouse gas emissions and saving energy, Korea launched the 2<sup>nd</sup> National Energy Master Plan in January 2014. The plan supports a fundamental policy paradigm shift from supply-led energy provision driven by the Government to demand-centered management that can attract efficient investment from the private sector.

3.28. Under this plan, the Korean Government developed a more detailed New Energy Industry Development Strategy in three stages, in July 2014, November 2015 and July 2016, to attract private investment and encourage SME participation in the energy sector.

3.29. The supply quota of new and renewable energy was raised to stimulate production and distribution. In order to expand private sector participation in the energy market, the direct sale of



electric power produced from solar energy to consumers or businesses will be allowed. Companies using energy storage systems (ESS) will be permitted to engage in the electricity sales business, and investors in new energy industries such as ESS will be able to purchase electricity directly from the electric power market. In addition, complicated regulations will be modified to foster new energy industries including electric vehicles, solar energy and ESS.

3.30. In the Fourth Basic Plan for Technology Development, Application and Deployment of New and Renewable Energy developed in September 2014, the Korean Government set a target of raising the rate of new and renewable energy supply from 3.2% of that of primary energy in 2012 to 11% and from 3.7% of total electricity supply in 2012 to 13.4% by 2035. To achieve this target, solar energy and wind power will be developed into major energy sources, the goal being to boost their utilization share from 2.7% in 2012 to 14.1% and from 2.2% in 2012 to 18.2% respectively by 2035.

3.31. In June 2016, Korea announced restructuring measures for public energy companies in a move to enhance the efficiency and management of public firms in the energy sector. Similar or overlapping functions in public organizations will be consolidated or merged, underperforming businesses disposed of, non-core business reduced and companies gradually opened to competition.

### **3.3.4 Services**

#### ***Establishing the legal basis and supportive infrastructure***

3.32. Korea recognizes that the performance of its service sector lags behind those of developed economies, in large part due to a policy focus on manufacturing and a wide spectrum of regulations. In this light, the Korean Government is preparing the enactment of new framework legislation on service industry development, and in July 2016 unveiled the Service Economy Development Plan as a comprehensive measure to foster the service sector.

3.33. Currently awaiting approval by the legislative body, this framework act seeks to promote the systematic development of the service sector. Once the bill is passed, Korea will set up a government-wide implementation framework in the form of a committee on the advancement of service industry development and five-year master plans.

3.34. The recently announced Service Economy Development Plan contains a policy agenda for the transition to a developed economy driven by services. Current government policies in the areas of public procurement, venture business certification and site regulations which were designed for the manufacturing sector will be amended to allow easy access for the service sector. Added value will be heightened in key manufacturing sectors through the deployment of business services such as design and engineering. Furthermore, the integrated trade information portal (<http://www.tradenavi.or.kr/>) will support providing related information on the service sector.

3.35. Regulations that serve as barriers to growth will be modified, especially in service sectors with great growth potential, such as tourism, content, medical, educational, financial, software and logistics services. Related measures are expected to attract more investment and create jobs, and will be supported by reform of relevant laws and regulations.

3.36. One such measure is the Culture Creation and Convergence Belt, which has been in operation since February 2015. This measure aims to provide a basis for economic reform by helping to create a new paradigm of the creative economy and playing a pivotal role in cultural enrichment. Programs are provided to help innovative start-ups share and combine creative ideas with an aim of commercialization. Meanwhile, the Tourism Promotion Act was amended in December 2015 to ease regulations on hotel construction, thereby consolidating essential tourism infrastructure.

## **4 TRADE AND INVESTMENT POLICY**

4.1. Following the inauguration of the new administration in February 2013, the functions of trade negotiation, implementation and domestic measures were consolidated under the Ministry of Trade, Industry and Energy to enhance the effectiveness of trade policies. While openness is still

the keyword for Korea's trade policy, the new administrative structure now also enables collaboration and communication with the business community and the general public.

#### **4.1 Multilateral and Plurilateral Trade Agreements**

4.2. As a Member of the WTO, Korea has attached great importance to WTO-led trade liberalization, adopting it as the core principle of its trade policy, and continues to seek liberalization in goods, services and investment.

##### **4.1.1 WTO DDA Negotiations**

4.3. Korea is a strong advocate of the WTO's commitment to pursue trade liberalization as a means of economic growth as well as its fundamental principle of benefiting all member countries through the development and implementation of multilateral rules.

4.4. In line with this principle, Korea contributed to producing the Bali Package in December 2013 and the Nairobi Package in December 2015, and is presently working to ensure their full implementation.

4.5. After negotiations on the TFA were concluded in December 2013, Korea ratified the agreement in July 2015. Prior to the ratification, Korea enhanced its ability to implement key TFA provisions by accelerating clearance procedures, enabling web-based information disclosure, and applying a single window customs clearance system through the launch of UNI-PASS, a fourth-generation e-clearance platform, in April 2016.<sup>26</sup>

4.6. The Tenth WTO Ministerial Conference in Nairobi produced outcomes on preferential rules of origin for least developed countries (LDCs) and preferential treatment in favour of service and service suppliers of LDCs. Even before these decisions, Korea has long been offering benefits to LDCs. LDCs have been benefiting from preferential treatment in services since July 2015. Value-added rules have made the determination of rules of origin simpler, and the value of foreign input allowed in LDC imports has been extended to 60%, a level on par with developed countries.

##### **4.1.2 Plurilateral Trade Agreements**

4.7. Being an original party to the WTO GPA, Korea is now subject to the revised GPA which entered into force for Korea on 14 January 2016. The implementation of the revised GPA is expected to enhance efficiency and transparency and provide foreign suppliers and service providers with wider market access to Korea's government procurement market.

4.8. Korea was also a party to the 1996 ITA and participated in the ITA expansion negotiations, which were concluded in December 2015. Korea is currently undertaking the necessary WTO and domestic procedures for its implementation.

4.9. As part of efforts to protect the environment and to promote trade in environmental goods and services, Korea is an active participant in the negotiations on the WTO EGA.

#### **4.2 Trade and Development**

4.10. Strongly committed to the integration of developing countries and LDCs into the multilateral trading system, Korea is taking active part in trade capacity-building activities at the WTO level.

4.11. The amendment to the Presidential Decree on Preferential Tariffs for Least-Developed Countries has been allowing LDCs duty-free, quota-free (DFQF) market access for 4,870, or 93.6%, of all tariff lines since January 2012.

4.12. Korea has donated approximately US\$5 million overall as of 2016 to the WTO Doha Development Agenda Global Trust Fund (DDA GTF), which was established in December 2001 to provide technology support and capacity-building assistance to LDCs in the area of trade. A total of

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<sup>26</sup> A system that allows trading companies to submit all import-related requested documents through a single window.

US\$1 million was also donated to the Tier 1 projects of the Enhanced Integrated Framework (EIF), which was launched in September 2007 with the aim of supporting LDCs' trade capacity-building and integration into the multilateral trading system. Korea plans to continue participating in the GTF and EIF Tier 2 projects in an effort to create more opportunities and benefits through trade and market development.

4.13. On a separate note, Korea is sharing with developing countries its experience in designing and managing a customs clearance system. As part of these efforts, Korea has been supporting business process reengineering (BPR) for customs administration in 14 countries since 2012. Around 400 customs officials are invited to Korea every year to share knowledge in risk management and other issues.

### 4.3 Regional and Bilateral Trade Agreements

4.14. Korea has continued to pursue FTAs with the conviction that market openness and liberalization contribute to strengthening national competitiveness. Eight new FTAs have been concluded since 2012, including those with the U.S. and China. As of 2016, Korea is connected to 52 countries through a network of 15 FTAs.

4.15. Korea seeks comprehensive, high-standard FTAs that cover not only goods, but also services, investment and rules. Having signed FTAs with some of the world's largest economies including the U.S., the EU and China, Korea is engaged in negotiations for the Korea-China-Japan FTA, the Korea-Central America FTA, the Korea-Ecuador SECA and the Korea-Israel FTA.

**Table 4.1 Overview of Korea's FTAs**

Phase	Trading Partner	Progress	Notes
In force (7)	Chile (April 2004), Singapore (March 2006), EFTA (September 2006), ASEAN (September 2009), India (January 2010), Peru (August 2011), EU (December 2015)		
Recently entered into force (8)	U.S.	Entered into force in March 2012	Tariffs eliminated for 96% of all tariff lines within 5 years of entry into force
	Turkey (Framework Agreement, Agreement on Trade in Goods)	Entered into force in May 2013	Tariffs eliminated for all tariff lines within 10 years of entry into force (Korea: 99.6%, Turkey: 100%)
	Australia	Entered into force in December 2014	Tariffs eliminated for the majority of tariff lines within 10 years of entry into force (Australia: within 5 years)
	Canada	Entered into force in January 2015	Tariffs eliminated for the majority of tariff lines within 10 years of entry into force (Korea, Canada: 97.5%)
	China	Entered into force in December 2015	Tariffs eliminated for over 90% of all tariff lines within 20 years of entry into force Services and investment: Follow-up negotiations on liberalization to begin within 2 years of entry into force
	New Zealand	Entered into force in December 2015	New Zealand to eliminate tariffs within 7 years, and Korea within 15 years, of entry into force
	Viet Nam	Entered into force in December 2015	Additional tariff reduction on sensitive and highly sensitive tariff lines that are not covered by the Korea-ASEAN FTA: 94.7% for Korea (+3 percentage points compared to Korea-ASEAN FTA), 92.2% for Vietnam (+6 percentage points compared to Korea-ASEAN FTA) Product-specific rules of origin improved

Phase	Trading Partner	Progress	Notes
Negotiations concluded (1)	Colombia	Entered into force in July 2016	Tariffs eliminated for the majority of tariff lines within 10 years of entry into force (Korea: 96.1%, Colombia: 96.7%)
	Turkey (Agreement on Services and Investment)	Concluded in 2014, officially signed in February 2015	-
Under negotiation (5)	Korea-China-Japan FTA	10 rounds of official negotiations	-
	Korea-Central America FTA	4 rounds of official negotiations	-
	RCEP	13 rounds of official negotiations	Negotiations targeted for conclusion in 2016
	Korea-Ecuador SECA	2 rounds of official negotiations	-
	Korea-Israel FTA	Negotiations launched in May 2016, 1 round of official negotiations	-

Source: Ministry of Trade, Industry and Energy, <http://www.fta.go.kr>

#### 4.4 Investment Policy Development

4.16. The Korean Government has recently stepped up efforts to improve the environment for foreign investment by enhancing communication with foreign investors and reducing regulations, with considerable results in terms of FDI attraction.

4.17. Annual FDI inflow (arrival basis) has increased significantly over the past two years, but the yearly FDI inflow (net basis) has remained stagnant or declined due to the impact of investment capital withdrawals following profit gains.

**Table 4.2 Realized FDI and FDI Net Inflow, 2011-2015**

(Unit: US\$ million)

	2011	2012	2013	2014	2015
FDI inflow (arrival basis) <sup>a</sup>	6,642	10,712	9,861	12,078	16,444
FDI inflow (net basis) <sup>b</sup>	9,773.0	9,495.9	12,766.6	9,273.6	5,042.0

a Ministry of Trade, Industry and Energy, *Foreign Investment Statistics* (last viewed online on 23 June 2016).

b Bank of Korea, *Economic Statistics System* (last viewed online on 24 June 2016).

#### *Improving foreign investment attractiveness*

4.18. The Korean Government has made continuous efforts to attract high-tech or high-value added foreign investment projects and facilitate foreign investor's contribution to domestic job creation.

4.19. In October 2014, the Enforcement Decree and Enforcement Rules of the Foreign Investment Promotion Act were amended to provide incentive for global business headquarters and R&D centers. Foreign workers and technicians who work in these headquarters or R&D centers receive income tax incentives.

4.20. Foreign-invested companies that generate more employment are eligible for extra reduction of rental fees for state property in accordance with the amendment to the Enforcement Decree of the Foreign Investment Promotion Act in October 2014. The scale of job creation is now reflected more extensively in determining corporate tax cuts for foreign-invested companies in accordance with the amendment to the Restriction of Special Taxation Act in December 2015.

***Enhancing communication and conducting regulatory reform for foreign investment***

4.21. As part of efforts to improve the transparency of foreign investment-related policy, the Korean Government is enhancing communication with foreign investors and mechanisms for their participation. For example, regular meetings between foreign investors and government officials in charge of foreign investment related policies are held to facilitate communication. In addition, the Regulatory Information Portal (<http://e.better.go.kr/engMain.laf>) was opened in July 2015 to promote foreign investors' participation in the policy-making process.

4.22. In a move to promote joint investment ventures between domestic and foreign companies, the Foreign Investment Promotion Act was amended in December 2014 to allow the establishment of a third-tier subsidiary of a parent company (to partially own shares), on the condition that it is a joint stock corporation with a foreign company. This represents a deregulation of the Monopoly Regulation and Fair Trade Act, which prohibited second-tier subsidiaries of parent holding companies from owning stock in a second-tier company's subsidiaries.

4.23. Amendments to the Foreign Investment Promotion Act in July 2016 have helped streamline foreign investment procedures. Reporting and registration procedures for different types of investment are now simpler with fewer documents required.

**5 THE WAY FORWARD**

5.1. The Korean Government will continue to seek ambitious and high-standard trade liberalization conforming to the WTO rules. Korea will support the multilateral trading system under the auspices of the WTO and contribute to the advancement of the remaining DDA negotiations and new issues such as electronic commerce. Committed to pursuing this goal beyond tariff elimination, Korea will continue to eliminate non-tariff barriers, open services and investment markets and proactively respond to the spread of mega-FTAs.

5.2. Furthermore, the Korean Government will work to promote a creative economy for the growth of new industries and recovery of economic growth. Korea will also undertake institutional improvements in the form of regulatory reform as a way to enhance market transparency and efficiency, which will in turn boost productivity. This will be accompanied by constant efforts to build a transparent investment environment.

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