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REPORT BY THE SECRETARIAT

REPUBLIC OF KOREA

This report, prepared for the seventh Trade Policy Review of the Republic of Korea, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Republic of Korea on its trade policies and practices.

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SUMMARY

1. Since its previous Trade Policy Review in 2012, the Republic of Korea's relatively strong fundamentals and solid buffers to external shocks have helped maintain macroeconomic stability and ensure the resilience of its export-led economy. During the review period, annual GDP growth ranged from 2.3% (2012) to 3.3% (2014), and its annual average rate for the period 2012-15 stood at 2.8%, a major slowdown compared to previous performance (averaging at 4.4% over 2001-11). Monetary and fiscal stimulus measures are being used to spur economic recovery. Major developments in Korea's position among the most competitive economies in the world involve lack of improvement in labour productivity growth and, in particular, total factor productivity (TFP) growth, but also weaknesses in several areas where reforms are under way. Whereas in 2015 headline inflation dropped progressively to 0.7% (a third of its 2012 level), the unemployment rate remained relatively stable (3.6%) and below target.

2. During the review period, trade and trade-related structural reforms (e.g. rice tariffication, taxation, and competition policy) were undertaken. Reforms aimed at spurring broad-based productivity growth, thereby improving Korea's international competitiveness. The enhancement of growth and domestic demand is under way in areas such as taxation, SME support, state enterprises, innovation, and labour market rigidities. Since July 2012, the Bank of Korea has progressively cut its policy rate from 3% to a record-low 1.5%, and fiscal surplus has been in decline to accommodate additional government spending to support consumption and investment.

3. The responsiveness of the floating exchange rate system to economic developments provided an important buffer against external shocks and facilitates adjustment toward domestic sources of growth. The nominal exchange rate has slightly depreciated (except in 2013 and 2014) while the effective exchange rates appreciated owing to external and internal factors, *inter alia*, involving global risk-on risk-off investment behaviour, changes in major advanced economies' monetary policies, and trends in the current account balance. The current account registered a substantially larger overall surplus, averaging 6% of GDP during 2012-15 compared to 1.9% over 2007-11, reflecting weak domestic demand and falling global oil prices. Foreign exchange reserves have increased steadily due to continuously increasing returns from the management of reserve assets. Gross external debt increased during the period 2012-14, and dropped in 2015.

4. The openness of the Korean economy to international trade, and its integration into the world economy continued to be reflected by the high ratio of its trade (exports plus imports) in goods and services to GDP that stood at 84.8% in 2015, though significantly lower than in 2012. International trade and foreign direct investment (FDI) trends reflect the continued importance of Asia-Pacific as Korea's main regional market and supplier, though China, the EU, and the United States remain its major individual trading and FDI partners; furthermore, trade under regional (free trade) agreements (RTAs/FTAs) has risen during the review period. Korea's FDI policy remains unchanged. FDI caps are in place in several sub-sectors, including: beef cattle farming, inshore and coastal fishing, transmission and distribution of electric power, air transport and supporting services, publishing activities, broadcasting and telecommunication services. Official approval is required for foreign investment in financial services, while prior notification by foreigners is needed in various other subsectors. Incentives to FDI are mainly in the form of tax exemptions/reductions, cash grants, and industrial site support. The cost effectiveness of these incentives remains questionable.

5. A 2013 government restructuring exercise affected a number of public institutions; for example, the Ministry of Trade, Industry and Energy (MOTIE), which formulates and implements trade and industrial policies, replaced the Ministry of Knowledge Economy (MKE). Korea, a global leader in e-government, has been implementing a Smart Government Strategy 2011-15.

6. As an original Member of the WTO, Korea grants at least MFN treatment to all its trading partners. The general trade policy objective remains to build a free and open economy based on market principles, and the Government has been rigorously pursuing market opening opportunities through not only multilateral, but also regional trade agreements. Six RTAs entered into force during the review period (with China, New Zealand, Viet Nam, Canada, Australia, and Turkey), adding to the existing RTA network with large economic blocs and newly emerging markets (with ASEAN, APTA, Chile, EFTA, the EU, India, Peru, Singapore, and the United States). Rice remains excluded from all the RTAs. Maintaining its developing country status, Korea has been eligible for trade preferences under the GSP schemes of Australia, Belarus, Kazakhstan, and the

Russian Federation. Korea has continued to provide duty-free treatment to most imports from LDCs.

7. The Government has continued to improve its regulatory framework to reduce the burden of doing business. In 2014, the Government launched the "cost-in, cost-out" approach to avoid introducing unnecessary new regulations. From January 2014 to January 2015, the number of economic regulations was cut by 10%. Korea has taken steps to fulfil its transparency obligations at the multilateral level by, *inter alia*, meeting its WTO notification requirements, though notifications in certain areas (e.g. government procurement, export subsidies, and domestic support in agriculture) have been subject to long submission gaps.

8. The tariff remains one of Korea's main trade policy instruments, and a significant, albeit declining, source of tax revenue. The 2016 customs tariff remains transparent but is relatively complex, involving a multiplicity of rates (85 *ad valorem* duties, 44 alternate duties, and 1 specific duty) often with small rate differences and some involving decimal points. As a result of changes relating to the insertion of 16 tariff lines at 513% (rice and rice products), the splitting of tariff lines with high rates and the merger of tariff lines with low rates, the average applied MFN tariff rate increased from 13.3% in 2012 to 14.1% in 2016. This remains high by OECD-country standards, thereby requiring tariff concessions or drawbacks to ensure that tariffs on intermediate inputs do not become taxes on exports, adding to the complexity of border taxation. Peak *ad valorem* rates also remained unchanged and concentrated in agricultural items (WTO definition); applied MFN tariff rates ranged from zero to 887.4% (for manioc). As was the case in 2012, 85% of rates were 10% or below in 2016. Tariff-rate quotas are in place under Korea's multilateral agricultural market access commitments, with in-quota rates ranging from zero to 50% (2016) compared with out-of-quota rates of up to 887.4%, and with a decreasing average fill rate of 59.5% (2015). Other measures (e.g. "autonomous" tariff quotas, usage tariffs, and duty concessions) selectively reduce tariffs on inputs. Korea has bound 90.1% of its tariff lines; that is, 99.6% of agricultural lines (excluding seaweeds and bait for fishing) and 88.6% of its non-agricultural lines (WTO definitions). The gap of 4.4 percentage points between the average bound and applied MFN tariff rates imparts a degree of unpredictability to the tariff regime and provides scope for the authorities to raise applied rates within the bindings. Korea has continued to use this gap to apply higher MFN duties (e.g. adjustment duties) termed "flexible tariffs", which the authorities maintain are within WTO bindings; product coverage under "flexible tariffs" fell from 216 (HS six-digit) items in 2012 to 145 in 2016.

9. During the review period, trade facilitation improvements included the ratification of the WTO Trade Facilitation Agreement (TFA) in 2015, the expansion of the authorized economic operator-related mutual recognition arrangements, and the introduction of a *de minimis* clearance process for consumer goods purchased online. Regarding customs valuation, legislation allowing for joint application of a unilateral advance pricing arrangement and an advance customs valuation arrangement were introduced. Activities to help companies utilize RTA/FTA trade preferences, *inter alia,* subject to diverse and complicated rules of origin were continued.

10. Rice import quotas were replaced as of 1 January 2015 by a tariff-rate quota of 5% and a virtually prohibitive 513% out-of-quota duty. Import licensing requirements cover numerous tariff items and prohibitions are maintained mostly for the protection of public morals, human health, hygiene and sanitation, animal and plant life, environmental conservation or essential security interests in compliance with domestic legislation requirements or international commitments. Korea intensified the use of anti-dumping provisions, mainly against imports of chemicals, plastics, and stainless steel; it initiated 20 anti-dumping investigations (2011-2015) and had 32 final measures in effect on imports from 11 countries, mostly in Asia. Price-based special safeguard provisions (SSG) have been imposed on ginseng and rice and related products, while volume-based SSGs were imposed for the first time since 2007 on ground-nuts, rice and related products, cereal flour and other worked grain.

11. Korea continued to maintain the option to restrict or monitor exports of certain products to ensure adequate domestic supplies, thereby possibly assisting downstream processing of these products. Quantitative export restrictions (recommendations) on rice were removed in March 2015 although, in practice, there has been no trade-restrictive effect; no quantitative export restrictions for any other agricultural products are in place. Export prohibitions are aimed at protecting animal rights and endangered species, and conserving natural resources. Direct export subsidies are maintained to reduce marketing costs for certain agricultural products. In addition to the tariff

drawback scheme, excises and VAT are rebated at the border. Furthermore, income tax relief is accorded to enterprises located in free trade zones. Exporters continue to benefit from export credit insurance, finance, and the promotional activities provided by state-owned institutions.

12. Several measures, involving grants, tax concessions or low-interest loans, continue to support the production and trade of a range of products and to encourage SMEs, R&D, and environmental-protection activities. Although tax incentives were to terminate automatically in accordance with "sunset" clauses, many were extended. SMEs remain among the major beneficiaries of these measures, which are especially generous for information technology activities, although a new 2015 policy direction was aimed at reducing guarantees to mature SMEs and focusing on start-ups and early-stage SMEs; those facing problems of access to raw materials are supported by a fund. Agriculture continues to receive substantial domestic financial support in line with the relevant WTO provisions. Compensation or adjustment support for farmers and manufacturers adversely affected by a bilateral free trade agreement remains in place.

13. Korean industrial standards have been reduced over the review period and those adopted in mandatory technical regulations decreased by 39%; the share of those harmonized with international standards increased. During the review period, a mandatory organic certification programme was introduced and changes were made, *inter alia*, in the areas of reporting, declaration of conformity, testing and environmental impact review as well as maximum residue limits, food additives, and genetically engineered animals. A traceability system for infant/baby food and health functional foods, and labelling requirements for tobacco health warnings and biotech crops and food were introduced.

14. Despite the lack of domestic price preferences, Korea has continued to use government procurement as an instrument of economic policy for promoting SMEs, companies in a disadvantageous position (firms owned by women and disabled people), regional development, and green purchasing. Although no substantial changes were made to the main government procurement legislation, since 14 January 2016, additional market opening commitments in the form of a reduction of threshold values and a slight expansion of entities' coverage have been undertaken as a result of the implementation of the revised WTO Agreement on Government Procurement (GPA); nevertheless, the already small share of foreign supplies continued to fall during the review period. Consequently, foreign suppliers accounted for only 0.9% of the Public Procurement Service's total purchase operations in 2015. Procurement remains decentralized as more than 70% of the market involves direct purchases by public institutions.

15. State involvement in the economy (e.g. agriculture, mining and energy, financial services, broadcasting and media, and transport) persists, as the limited privatization efforts during the review period were widely opposed; however, action *inter alia* involving increased transparency, reduction of the debt level, and improved management efficiency of public institutions was undertaken. One government agency remains responsible for imports of all rice within the tariff quota and another state entity for those of some other agricultural items; their operations allow for important price mark-ups.

16. During the review period, several legislative changes, necessary for the realization of economic democratization intended to narrow the wealth divide, as well as to reflect the actual market situation and improve regulations, were undertaken in the competition policy framework; its sectoral coverage exemptions and price controls remain unchanged. A prohibition on new cross-shareholding (i.e. circular-shareholding) between subsidiaries under large business groups, many of which are family-controlled, was introduced. Nonetheless, market concentration remains relatively high. Large corporations and SMEs continue to be encouraged to voluntarily sign an agreement on fair trade and shared growth. Consumer protection has been reinforced by strengthening law enforcement with respect to products and areas that closely affect consumers, such as daily necessities and e-commerce.

17. Korea's extensive intellectual property rights legislation has been further strengthened with wide-ranging amendments, including the expansion of copyright protection to the duration of the author's life plus 70 years, *inter alia,* to facilitate the implementation of the Government's "creative economy" vision. Protection was further enhanced with the expansion of international commitments, and other enforcement improvements. Parallel imports of genuine products compliant with certain requirements remain allowed, in the interest of competition and thus consumers.

18. The agriculture sector remains heavily protected; its contribution to GDP (2.3%) was little more than its support (1.8%). In 2015, Korea replaced its import quota regime on rice with a tariff quota system, and abolished its rice export quota regime. Other agricultural policies have remained largely unchanged since the previous Review in 2012. At the border, tariffs continue to be the main instrument supporting domestic prices, particularly on rice. The average applied MFN tariff for agricultural goods reached 60% in 2016, up from 55% in 2012, and is more than nine times the average for non-agricultural goods (6.6%). Tariff quotas are utilized, administered or allocated by state-trading entities or industry associations. Domestic support continued to affect agricultural production and trade, and Korean consumers had to pay much higher prices than the world levels (1.9 times). Domestic support for fishing has fallen significantly. The Government introduced more severe sanctions in recent years to fight against illegal, unreported and unregulated fishing.

19. The energy sector has not seen any significant reforms since 2012. Korea relies heavily on imported energy and its per capita energy consumption is three times the world average. The Government has adopted various measures including financial and technical support and tax credits, for energy saving and to promote renewable energy. It has been encouraging diversification of crude oil supply through subsidizing up to 100% of the additional transport cost of importing crude oil from non-Middle East countries. State-owned companies continue to play a major role, and prices are often regulated (for natural gas and electricity). In addition, agriculture consumers benefit from lower energy prices, reflecting cross-subsidies between consumer groups.

20. Manufacturing contributed to about 30% of GDP, 17% of total employment and around 85% of total merchandise exports. Manufacturing activities are dominated by large conglomerates, with a large labour productivity gap between large firms and SMEs. The simple average applied MFN tariff rate was 11.3% (ISIC 3) on imports of manufacturing products, and the rate was 6.3% on manufacturing excluding food processing products; both are much lower than the rates for agricultural products. Sector-specific support included incentives to upgrade the steel industry, and the financing arrangement of the shipbuilding industry.

21. The share of services to GDP and total employment increased slightly to 59.7% and 69.8% in 2015; the same year they represented 17.8% of total exports. Labour productivity of the services sector is only half that of the manufacturing sector, reflecting policies favouring the manufacturing sector (including tax incentives and sector-specific supports). Foreign equity restrictions apply to several services sectors, notably facilities-based basic telecommunications, air transport and maritime services. The Government has been encouraging banks, which had a traditionally close relationship with large conglomerates and their subsidiaries, to shift lending to consumers and SMEs, and to invest overseas. None of the major players in both fixed-line and mobile phone market are state owned. Restrictions are also applied on the access of large retailers (super supermarkets) to traditional markets. Korea has made commitments beyond GATS in the context of some RTAs, although its GATS commitments remain unchanged.

22. Korea's economic growth is expected to gradually gain momentum in 2017. Despite Korea's mainly solid economic fundamentals, downside risks to the economic outlook remain. Notwithstanding the considerable success of its existing buffers, the economy remains vulnerable to exogenous shocks such as a delayed rebound in international trade, particularly due to its heavy reliance on exports of manufactures produced mostly by a few large business conglomerates, and global financial linkages. Future prosperity and sustainable growth depend on the Government implementing TFP-enhancing structural reforms, especially those aimed at closing productivity gaps in the non-traded sector as well as addressing issues relating to unviable SMEs, the rapid ageing of the population and the associated decline in the labour force. These and related reforms, including tax, privatization and continued regulatory reforms, would increase the flexibility of the Korean economy and its ability to respond to growing external competition, thus enabling it to continue meeting its broad-based economic and welfare objectives including inclusive growth and narrower wealth divide.

1 ECONOMIC ENVIRONMENT

1.1 Overview

1.1. Since its previous Trade Policy Review in 2012, the Republic of Korea's relatively strong fundamentals and solid external buffers have helped maintain macro financial stability and ensure the resilience of its export-led dualistic economy.[1] However, after decades of robust and sustained growth, the slowdown in world trade, strong competition from emerging economies, an appreciated currency, and domestic demand constrained by structural problems such as high household debt, stagnant service-sector productivity and struggling small and medium-sized enterprises (SMEs), have slowed Korea's economic performance, although its growth rate still exceeds that of many of its peers.[2] Developments in Korea's position among the most competitive economies in the world reflect lack of improvement in labour productivity growth and, in particular, total factor productivity growth (Table 1.1, Section 1.2.1) – a key long-term determinant of international competitiveness and domestic living standards, but also weaknesses in several areas where reforms are under way (Section 1.3.3).[3] Whereas headline inflation dropped progressively to a third of its 2012 level (0.7% in 2015), the unemployment rate remained relatively stable at above 3%, peaking at 3.6% in 2015. Despite remaining a very high human development country, Korea's performance in this area has slightly deteriorated, though its income inequality index remains at OECD average level.[4] International trade and foreign direct investment (FDI) trends reflect the continued importance of Asia-Pacific as Korea's main regional market and supplier, though China, the European Union, and the United States remain its major individual trading and FDI partners. Furthermore, trade under free trade agreements (FTAs) has risen during the review period (Section 2.6).

Table 1.1 Selected macroeconomic indicators, 2011-15

	2011	2012	2013	2014	2015[a]
National accounts	*(Percentage change, unless otherwise indicated)*				
Real GDP (at 2010 prices)	3.7	2.3	2.9	3.3	2.6
Consumption	2.7	2.2	2.2	2.0	2.4
Private consumption	2.9	1.9	1.9	1.7	2.2
Government consumption	2.2	3.4	3.3	3.0	3.4
Gross fixed capital formation	0.8	-0.5	3.3	3.4	3.8
Exports of goods and non-factor services (XGS)	15.1	5.1	4.3	2.0	0.8
Imports of goods and non-factor services (MGS)	14.3	2.4	1.7	1.5	3.2
XGS/GDP (%) (at current market price)	55.7	56.3	53.9	50.3	45.9
MGS/GDP (%) (at current market price)	54.3	53.5	48.9	45.0	38.9
Unemployment rate (%)	3.4	3.2	3.1	3.5	3.6
Productivity	*(Percentage change)*				
Labour productivity	9.9	2.6	-0.4	0.4	..
Total factor productivity	0.3	1.2	0.6	..	..

[1] In 2015, Korea ranked 70th out of 130 countries in the *FM Global Resilience Index*, a position that it has kept over the previous three years. Despite its strengths in the economic and supply chains factors, its position is apparently hindered by its exposure to natural hazards and its relatively low ability to respond effectively to them (Section 1.2.1). Oxford Metrica (2015); IMF (2015).

[2] Exports are at the centre of these trends, accounting for both the period of rapid growth and the slowdown; they represent nearly 60% of total demand and exceed 50% of GDP, significantly higher than the OECD average. Growth was driven in large part by the emergence of Korea's flagship companies to world-class status and accompanied by a sizeable gain in global market share. IMF (2015); OECD (2016c).

[3] In 2015, Korea ranked 25th out of 61 countries (22nd out of 59 countries in 2011 and 2012) in the *IMD World Competitiveness Yearbook*. Furthermore, in 2015/16, Korea ranked 26th among 140 economies (24th out of 142 in 2011/12) in the WEF *Global Competitiveness Index*. According to the WEF, in 2015/16, despite improvements in several areas, policy instability, restrictive labour relations (Section 1.3.3.5) and the falling innovation potential remained a concern. WEF (2015a).

[4] In 2014, Korea ranked 17th out of 188 countries in the UNDP's human development category (12th out of 186 in 2012). In 2013, its income inequality index (Gini coefficient) stood at 0.302, near the average for OECD countries (0.308); a value of zero represents absolute equality, a value of 1 absolute inequality. However, there are underlying trends pointing to increasing polarization. Income inequality in Korea is closely related to the difference in labour productivity between those employed in the tradeable (mostly manufacturing) sector and those employed in the non-tradeable (mostly services) sector, as well as to labour market practices. UNDP (2013); UNDP (2015); OECD (2016c); IMF (2015).

	2011	2012	2013	2014	2015[a]
Prices and interest rates			*(%)*		
Inflation (CPI, % change)	4.0	2.2	1.3	1.3	0.7
Core inflation (% change)	..	1.7	1.6	2.0	..
Loans and discounts rate	5.76	5.40	4.64	4.26	3.53
Savings deposit rate	3.69	3.43	2.73	2.43	1.74
Exchange rate					
Won/US$ (annual average)	1,108.1	1,126.9	1,095.0	1,053.2	1,131.5
Real effective exchange rate (% change)	-4.9	3.6	6.9	6.4	3.1
Nominal effective exchange rate (% change)	-1.1	0.8	7.3	6.6	3.5
	(% of GDP, unless otherwise indicated)				
Consolidated fiscal balance	1.4	1.3	1.0	0.6	-0.01
Consolidated revenue	21.9	22.6	22.0	21.6	21.8
Tax revenue	14.4	14.7	14.1	13.8	14.0
Consolidated expenditure and net lending	20.5	21.3	21.0	21.0	21.8
Central government total debt	31.6	32.2	34.3	35.9	37.9
Saving and investment					
Gross national savings	34.6	34.2	34.3	34.5	35.4
Gross domestic investment	32.9	30.8	29.0	29.3	28.5
Savings-investment gap	1.7	3.4	5.3	5.2	6.9
External sector					
Current account balance	1.6	4.2	6.2	6.0	7.7
Net merchandise trade	2.4	4.0	6.3	6.3	8.7
Merchandise exports	48.8	49.4	47.4	43.5	39.8
Merchandise imports	46.4	45.3	41.0	37.2	31.1
Services balance	-1.0	-0.4	-0.5	-0.3	-1.1
Capital account	-0.0	-0.0	-0.0	-0.0	-0.0
Financial account	-2.0	-4.2	-6.1	-6.3	-8.0
Direct investment	-1.7	-1.7	-1.2	-1.3	-1.6
Balance of payments	1.2	1.1	1.2	1.3	0.9
Terms of trade (2010=100)	89.8	88.3	91.3	92.8	103.9
Merchandise exports[b] (% change)	26.6	2.8	2.4	-0.8	-10.5
Merchandise imports[b] (% change)	34.2	-0.7	-3.4	-2.1	-18.2
Service exports[b] (% change)	9.2	13.9	0.2	8.1	-12.7
Service imports[b] (% change)	5.8	5.4	1.4	5.0	-1.9
International reserves[c] (US$ billion, end-period)	306.4	327.0	346.5	363.6	368.0
Foreign exchange reserves (US$ billion, end-period)	298.2	316.9	335.6	353.6	358.5
in months of imports of goods and services	5.4	5.7	6.2	6.6	7.9
Total external debt (US$ billion; end-period)	400.0	408.9	423.5	424.4	396.6
of which short term	139.8	128.0	111.8	116.4	108.7
Debt service ratio[d]	..	7.0	7.2	7.9	8.4

.. Not available

a Estimates.
b Growth rates are based on US$.
c Including foreign exchange reserves, gold, special drawing rights and IMF reserve position.
d Debt service on medium- and long-term debt in % of exports of goods and services.

Source: Bank of Korea Economic Statistics System online information. Viewed at: http://ecos.bok.or.kr/; IMF eLibrary data; and data provided by the Korean authorities.

1.2. Despite Korea's mainly solid fundamentals, downside risks to the economic outlook remain. Domestic/endogenous risks to the economy stem, *inter alia*, from its high reliance on manufacturing export-led growth, the large productivity gaps in the non-traded sector, the rapid ageing of the population and the associated decline in the labour force, the weight of households' concerns about future house price and wage growth impact on consumption, and subdued

business confidence on prospects for investment.[5] The main external/exogenous risks include a delayed rebound in world trade (particularly in Korea's main markets and oil-exporting countries), a sharper-than-expected slowdown in China, a persistently weak yen, global financial market turbulence and weakness in emerging market economies.[6] According to the IMF, future prosperity depends on success in closing productivity gaps, *inter alia,* by means of investment in R&D, thus fostering more broad-based productivity growth.[7] An active structural, fiscal and monetary policy approach to boost near-term aggregate demand and longer-run productivity would also help reduce external imbalances, reinforcing their importance in bringing about a more stable, resilient, and durable structure to the economy while reducing the role of net exports as a source of demand-side growth.

1.2 Recent Economic Performance

1.2.1 Growth, income, and employment

1.3. During the review period, Korea's annual GDP growth ranged from 2.3% (2012) to 3.3% (2014), and its annual average rate for the period 2012-15 stood at 2.8%, a major slowdown compared to the average of 4.4% over 2001-11 (Table 1.1). According to the IMF and the OECD, the reasons for these developments include: the slowdown in world trade since 2010 intensified by a marked drop in demand from China and other Asian countries in 2015; strong export competition from emerging economies, notably China; prosperity concentrated within the highly competitive export-oriented conglomerates employing a small share of the population; falling performance in some major manufacturing industries; struggling SMEs; sluggish household income growth and service sector productivity; high savings and low investment; and, an outbreak of the Middle East respiratory syndrome, leading to a contraction in private consumption in the second quarter of 2015.[8] Recognizing the challenging growth environment, the authorities put in place a number of measures to spur economic recovery, in addition to loosening the monetary policy stance (Section 1.3.1). These included: direct budget stimulus in form of financial support for home buyers/renters and social spending; increased support for policy-based lending (e.g. capital injection to the Korean Development Bank to support new growth source projects); *ad hoc* tax measures to incentivize firms to allocate idle cash to wages, dividends, or investments; and measures to revive the housing market (e.g. removing regulatory roadblocks for housing reconstruction projects) (Sections 1.3.2, 1.3.3.1, and 3.4.2.1).[9] A 2013 "creative economy" initiative driven, in part, by regulatory reform and increased competition, is to generate new jobs and economic revitalization, stimulate entrepreneurship and improve efficiency, especially in SMEs, through innovation (Section 2.4). A 2014 Three-Year Plan for Economic Innovation is to raise the potential growth rate to 4% by 2017 (Sections 1.3.1 and 1.3.3).[10] According to the IMF and OECD, growth is projected to gradually gain momentum, reaching 2.7% in 2016 and 2.9%-3% in 2017.[11] A pick-up in private consumption is projected to increase output growth, whereas the free trade agreements with Australia, Canada and New Zealand in 2014, and with China in 2015 are expected to support export growth (Section 2.6). On the other hand, according to the Asian Development Bank (ADB), against a backdrop of subdued external demand, growth is likely to

[5] Korea is expected to become one of the oldest countries in the OECD by 2050 with the dependency ratio increasing rapidly. IMF (2015).

[6] IMF (2015); OECD (2016c); Asian Development Bank (2016).

[7] Korea's market share has been at a standstill since 2011 with continued gains in electronics offset by stable or falling shares for other leading export products. IMF (2015).

[8] Korea's household debt was 164% of household disposable income in 2014, well above the OECD average of 126%. Rising household debt and large corporate loans to weak sectors, such as shipbuilding, have boosted the banking sector's risk-weighted assets. In 2015, the ratio of regulatory Tier 1 capital to risk-weighted assets was the lowest in the OECD at 11.7%, still above the 8% standard set by the Bank for International Settlements. IMF (2015); OECD (2016c).

[9] IMF (2015); OECD (2016c).

[10] Despite innovation concerns, Korea ranked at the top of the 50 most innovative countries in the 2016 *Bloomberg Innovation Index*. Korea notched top scores for manufacturing value added as well as for tertiary efficiency (e.g. enrolment in higher education and the concentration of science and engineering graduates). It was second for R&D intensity, high-tech density and patent activity, and ranked sixth for researcher concentration. *Bloomberg*, "These Are the World's Most Innovative Economies", 19 January 2016. Viewed at: http://www.bloomberg.com/news/articles/2016-01-19/these-are-the-world-s-most-innovative-economies.

[11] OECD (2015c); OECD (2016c).

stagnate at 2.6% in 2016 and edge up to 2.8% in 2017, assuming stable expansion in the global economy.[12]

1.4. Since 2012, changes in the overall sectoral pattern of Korea's GDP and employment consisted of minor increases in the contribution of services – accounting for 59.7% of economic activity – well below the OECD average, construction and electricity, gas, and water, as well as a slight decline in manufacturing (hit by slack domestic demand and declining export orders) and agriculture (Table 1.2). Labour productivity has slowed markedly and total factor productivity (TFP) has been weak in Korea's dualistic economy, slowing the rise of incomes and well-being (Table 1.1).[13] Productivity growth impediments include: low service sector productivity; an un-dynamic SME sector; and, labour market rigidities and distortions leading to underutilization of productive resources (Section 1.3.3.5). Korea is well integrated into global value chains (GVCs), as reflected in the country's top exports and imports, which prominently feature intermediate goods (e.g. electronic circuits, motor parts and liquid crystal devices).[14] In 2011, its participation in GVCs (62.1%) and domestic value added in exports (58%) stood above the average level of developing and developed exporting economies.[15] To increase the forward participation in GVCs while remaining competitive, investment in sectors (e.g. service links and software) that are less fragmented than manufacturing could be considered.[16]

Table 1.2 Basic economic and social indicators, 2011-15

	2011	2012	2013	2014	2015
Real GDP at market prices (₩ billion, 2010 prices)	1,311,892.7	1,341,966.5	1,380,832.6	1,426,972.4	1,464,244.0
Real GDP at market prices (US$ billion, 2010 prices)	1,184.1	1,190.9	1,260.9	1,354.8	1,294.1
Current GDP at market prices (₩ billion)	1,332,681.0	1,377,456.7	1,429,445.4	1,486,079.3	1,558,591.6
Current GDP at market prices (US$ billion)	1,202.7	1,222.4	1,305.4	1,410.0	1,377.5
GDP per capita at current market prices (₩ '000)	26,772.0	27,547.0	28,464.0	29,472.0	30,792.0
GDP per capita at current market prices (US$)	24,159.8	24,445.1	25,993.4	27,982.5	27,213.5
GDP by economic activity at constant 2010 prices (Percentage change)					
Agriculture, forestry and fishing	-2.0	-0.9	3.1	3.6	-1.5
Mining and quarrying	-1.0	-0.3	8.1	-0.1	-0.7
Manufacturing	6.5	2.4	3.6	3.5	1.3
Electricity, gas and water	0.2	4.0	-0.3	2.6	6.2
Construction	-5.5	-1.8	3.0	0.8	3.0
Services	3.1	2.8	2.9	3.3	2.8
Wholesale and retail trade	6.5	3.9	3.3	2.4	3.0
Accommodation and food service activities	0.6	1.5	0.9	2.4	-0.7
Transport and storage	3.6	1.6	1.4	2.3	2.7
Finance and insurance	1.5	3.9	4.0	5.6	6.3
Real estate and leasing	2.6	-0.2	0.9	3.3	1.9
Information and communication	5.7	4.7	5.1	4.5	2.3

[12] Asian Development Bank (2016).

[13] Korea's dualistic economy is characterized by large productivity gaps between manufacturing and services, large and small firms, and regular and non-regular workers (Section 1.3.3.5). Overall productivity was only 55% of the top half of OECD countries in 2014. The level of labour productivity in the services sector was only about half of that in manufacturing, compared to an average of 92% in the OECD, whereas SMEs' productivity was only 30.5% of that in large firms. SMEs provide the bulk of services and employ around 90% of the workforce. IMF (2015); OECD (2016c).

[14] The share of intermediate goods in trade is marginally higher in Korea (23%) than the Asia-Pacific region overall (22%) in the case of imports, and much higher in Korea (24%) than Asia-Pacific (18%) in the case of exports. United Nations Economic and Social Commission for Asia and the Pacific (2015).

[15] The GVC participation rate indicates the share of a country's exports that is part of a multi-stage trade process. Online WTO information. Viewed at: https://www.wto.org/english/res_e/statis_e/miwi_e/countryprofiles_e.htm.

[16] Horj (2015).

	2011	2012	2013	2014	2015
Business activities	3.8	3.0	4.7	4.8	4.0
Public administration and defence	2.2	2.9	2.5	2.4	2.7
Education	0.1	0.9	0.6	0.1	0.6
Health and social work	3.5	7.1	5.2	6.8	5.6
Culture and other services	1.1	1.6	2.2	1.3	-0.1
Share of sectors in current GDP[a] (%)					
Agriculture, forestry and fishing	2.5	2.5	2.3	2.3	2.3
Mining and quarrying	0.2	0.2	0.2	0.2	0.2
Manufacturing	31.4	31.0	31.0	30.2	29.5
Electricity, gas and water	2.0	2.1	2.3	2.8	3.2
Construction	4.8	4.8	4.9	5.0	5.1
Services	59.1	59.5	59.3	59.6	59.7
Wholesale and retail trade	9.1	9.1	8.9	8.6	8.3
Accommodation and food service activities	2.6	2.6	2.6	2.6	2.7
Transport and storage	3.5	3.5	3.6	3.7	4.0
Finance and insurance	6.4	6.1	5.6	5.6	5.5
Real estate and leasing	7.8	7.9	7.9	8.1	8.1
Information and communication	3.9	3.9	3.9	3.9	3.8
Business activities	6.9	7.1	7.3	7.4	7.5
Public administration and defence	6.9	7.1	7.2	7.3	7.4
Education	5.5	5.5	5.5	5.5	5.4
Health and social work	3.9	4.0	4.1	4.2	4.3
Culture and other services	2.7	2.7	2.7	2.7	2.6
Share of sector in total employment					
Agriculture, forestry and fishing	6.4	6.2	6.1	5.7	5.2
Mining and quarrying	0.1	0.1	0.1	0.1	0.1
Manufacturing	16.9	16.6	16.7	16.9	17.3
Electricity, gas and water	0.3	0.3	0.4	0.3	0.4
Sewerage, waste management, materials recovery	0.3	0.3	0.3	0.3	0.3
Construction	7.2	7.2	7.0	7.0	7.0
Services	68.9	69.3	69.5	69.7	69.8
Wholesale and retail trade	15.0	14.9	14.6	14.8	14.6
Accommodation and food service activities	7.6	7.7	7.9	8.2	8.4
Transport and storage	5.5	5.6	5.6	5.5	5.4
Finance and insurance	3.5	3.4	3.4	3.3	3.0
Real estate and leasing	2.0	2.0	1.9	2.0	2.1
Information and communication; publishing, visual entertainment	2.9	2.8	2.8	2.8	3.0
Professional, scientific and technical activities	4.0	4.2	4.1	4.0	4.0
Business facilities management and business support services	4.5	4.5	4.7	4.6	4.8
Public administration and defence; compulsory social security	3.9	3.9	3.9	3.7	3.6
Education	7.0	7.1	7.0	7.1	7.0
Health and social work	5.4	5.7	6.2	6.6	6.8
Culture and other services	7.6	7.6	7.5	7.1	6.9

a Percentage of gross value added at basic prices.

Source: Bank of Korea Economic Statistics System online information. Viewed at: http://ecos.bok.or.kr/; and data provided by the Korean authorities.

1.5. During the review period, Korea's unemployment rate remained relatively stable at above 3%, peaking at 3.6% in 2015 (Table 1.1), *inter alia,* as a result of a governmental job creation policy with a roadmap for achieving a 70% employment rate by promoting flexible part-time jobs, providing employment services and vocational training, and adopting youth employment measures (Section 1.3.3.5). According to the OECD, with the improvement of economic conditions, the unemployment rate for 2016 and 2017 is expected to drop to 3.5% and 3.4%, respectively.

1.2.2 Prices

1.6. Headline inflation dropped gradually to 0.7% in 2015, about one sixth of its 2011 level, and as from 2012 it has remained below the Bank of Korea's target, *inter alia*, on account of sluggish growth and falling oil prices. Core inflation, which excludes energy and food, picked up in 2014 (Table 1.1, Section 1.3.1). According to the ADB and the OECD, faster output growth, a sustained and moderate expansion in domestic demand, and the expected oil price prospects are to increase headline inflation to 1-1.4% in 2016 and 1.7%-2% in 2017.[17]

1.3 Main Macroeconomic Policy Developments

1.3.1 Monetary and exchange rate policy

1.7. Monetary policy has been conducted by the independent Bank of Korea (BOK) mainly on the basis of an inflation target which was set at a range of 2.5-3.5% for 2013-15, and at 2% for the period 2016-18.[18] With inflation undershooting its target range since 2012, the BOK has cut its policy rate progressively by removing 0.25 percentage points seven times since July 2012 from 3% to a record-low 1.5% (11 June 2015) amidst concerns of a larger-than-expected output gap, low inflation pressure, and more recently the need to take pre-emptive action against downside risks.[19] According to the ADB and the OECD, with price pressures subdued, the BOK is likely to maintain its accommodative monetary policy stance to stimulate domestic demand, while remaining vigilant about any further build-up in household debt and the risk of capital outflows.[20]

1.8. Korea has maintained its floating exchange rate system which provides an important buffer against external shocks and facilitates adjustment toward domestic sources of growth, thereby reducing external imbalances to levels consistent with Korea's fundamentals.[21] According to the IMF, the won should remain market determined with intervention limited to smoothing excess volatility.[22]

1.9. During the review period, the nominal ₩/US$ exchange rate has slightly depreciated (except in 2013 and 2014) (Table 1.1); in trade-weighted terms, overall the effective exchange rate appreciated, thus reducing Korea's international competitiveness and helping to rebalance the economy toward domestic demand, one of the main objectives of the Three-Year Plan for Economic Innovation (Sections 1.2.1 and 1.3.3).[23] Exchange rate movements were driven by both external and internal factors. External factors included global risk-on risk-off investment behaviour, depending on changes in major advanced economies' monetary policies and concerns over economic slowdown in China, whereas internal factors included trends in the current account balance following export and import, foreign capital flows, changes in domestic monetary policy,

[17] Asian Development Bank (2016); OECD (2016c).

[18] In addition to monetary policy, in order to mitigate the rise in inflation, the Government has been implementing, *inter alia,* administrative price stabilization measures, including flexible customs tariffs, autonomous tariff quotas, flexible individual consumption (special excise) tax rates, and price controls (Sections 3.2.3.3, 3.2.4.2, 3.4.1.1, and 3.4.5.2). Bank of Korea (2015); and online BOK information. Viewed at: http://eng.bok.or.kr/broadcast.action?menuNaviId=1612.

[19] IMF (2015).

[20] Asian Development Bank (2016); IMF (2015); OECD (2015c); OECD (2016c).

[21] IMF (2015).

[22] According to the authorities, the exchange rates should be freely determined by the market so as to reflect economic fundamentals and market supply/demand, and any deliberate foreign exchange rate policy tailored to exchange rate levels, exports, or price levels is inadvisable. WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[23] OECD (2015c).

and the geopolitical risk related to the Democratic People's Republic of Korea. According to the IMF methodology, the exchange rate remains undervalued, a view not shared by the authorities.[24]

1.3.2 Fiscal policy

1.10. Korea's prudent fiscal policy shifted to an expansionary more pro-growth stance to support consumption and investment, a move consistent with utilizing fiscal space when needed while preserving longer-term fiscal sustainability.[25] Consequently, the fiscal surplus declined steadily from 1.4% of GDP (including social security surplus) in 2011 to 0.6% in 2014 and to a slight deficit of 0.01% in 2015 (Table 1.1), due to increased spending, including a supplementary budget and fiscal stimulus measures equivalent to 0.5% and 1% of GDP in 2014 and 2015 respectively (Section 1.2.1).[26] The Government is to raise spending by 2.9% in 2016 to bolster domestic demand, and expects fiscal revenues to increase by 2.3%. Consequently, in February 2016, it announced measures to boost growth involving: frontloading 40% of government spending in the first quarter of 2016; expanding policy lending by public financial institutions by 15.4% in 2016; and, extending the cut in the excise tax on cars (from 5.0% to 3.5%) during the first half of 2016. According to the OECD, the fiscal situation is sound.[27]

1.3.3 Structural policies

1.11. Trade and domestic reform are considered as intrinsically linked. The Government's Three-Year Plan for Economic Innovation, announced on 25 February 2014, is aimed at creating an economy based on strong fundamentals and dynamic innovation, and balanced between domestic demand and exports (Section 2.4).[28] It involves, *inter alia,* public sector reform, developing creative industries, investing for the future, making inroads into overseas markets, deregulation in the most promising service industries (healthcare, education, finance, tourism and software), and job creation to stimulate domestic demand. According to the IMF, as of 2015, key priority areas for raising productivity include: promoting competition in health, education, and other protected professions; phasing out government support to unviable SMEs (Sections 1.1, 1.2.1 and 3.4.2.1); and reducing labour market rigidities.[29]

1.3.3.1 Tax reform

1.12. Tax reform under the vision of a "competitive, fair, and principles-based tax system" was undertaken in 2013 and included: support of the national policy agenda through tax incentives for R&D, SMEs, mergers and acquisitions (M&As) (Section 3.4.5.1), and the KONEX market (Section 3.4.2); securing a citizen-oriented tax system; and achieving fairer taxation and base-broadening.[30] In 2014, a tax code revision under the vision of a "competitive, fair, and principles-based tax system", was focused on economic stimulation and stability of the public livelihood as top priorities, while realizing fair taxation and rationalizing the tax system. The 2014 Three Tax Schemes for Boosting Household Income were introduced to stimulate domestic consumption.[31] The initiative included: a 10% tax credit for firms (5% for conglomerates) that have granted a wage increase that is higher than the average of the preceding three years; a tax rate cut on dividends from 14% to 9% to revitalize the stock market; and an additional tax of 10% levied on those firms whose investment, wage payments and dividends do not reach a certain

[24] In addition, as of April 2016, the United States placed Korea together with other countries on its monitoring list with regard to the possibility of foreign exchange rate manipulation. According to the authorities, there can be different views on the appropriate level of the exchange rate depending on its models, time horizons and research/analysis methods, and assessing its level could provoke market turmoil. They consider that the won's real effective exchange rate (REER) deviation from its historic average is minor. IMF (2015); *BusinessKorea,* "FX Rate Manipulation Treasury Department of U.S. Put South Korea on Monitoring List", 2 May 2016. Viewed at: http://www.businesskorea.co.kr/english/news/money/14559-fx-rate-manipulation-treasury-department-us-put-south-korea-monitoring-list#sthash.luKTM0Q5.dpuf.

[25] IMF (2015).

[26] OECD (2015c); Asian Development Bank (2016).

[27] OECD (2016c).

[28] *Korea.net*, " President Park announces three-year plan for economic innovation", 27 February 2014. Viewed at: http://www.korea.net/NewsFocus/Policies/view?articleId=117839; Australian Government online information. Viewed at: http://dfat.gov.au/people-to-people/foundations-councils-institutes/australia-korea-foundation/Pages/koreas-3-year-plan-for-economic-innovation.aspx.

[29] IMF (2015).

[30] Ministry of Strategy and Finance (2015).

[31] OECD (2016c).

level. Support for SMEs and venture firms has been reinforced, *inter alia,* through simplified requirements on firms eligible for tax incentives, and an extended sunset period for special tax reductions/exemptions. Measures were taken to reinforce the protection of taxpayers' rights and reduce compliance cost. According to the IMF, Korea's tax revenue is low relative to most OECD countries at similar levels of development in part reflecting weak compliance and high levels of exemptions (Sections 3.2.3.5 and 3.4.1.3); tax reform focused on broadening the base would reduce rather than increase policy distortions and improve productivity.[32] As of June 2016, tax reform plans were under consideration.

1.13. In 2015, the tax reform was aimed at: providing economic stimulus for boosting the young employment rate, encouraging consumer spending, and enhancing export and investment; stabilizing public livelihood by supporting property "formation of labourers" and expanding tax benefits for the self-employed, etc.; improving fairness, rationalizing tax reduction schemes, enhancing transparency in revenues, and preventing tax evasion; and protecting tax payers' rights and rationalizing the level of the tax burden. The 2016 tax reform is designed to revitalize and drive a structural change in the real economy, as well as to support sustainable growth and ensure stable tax revenues. Under the 2016 tax reform, more tax benefits will be offered to industries with high potential for economic growth and job creation. Non-taxation or tax reductions and exemptions will be realigned/revised whenever their objectives are achieved or their policy effects are less than expected. At the same time, taxes on off-shore incomes will be imposed in a stricter manner by collecting information on their off-shore taxation and by improving the current regime. Regarding financial incomes, the taxation structure will be realigned as at present there are inefficient procedures and red tape in the system.

1.3.3.2 Privatization

1.14. Similarly to the previous Review, despite the Government's commitment to privatization of some state-owned enterprises there has been virtually no progress in its few attempts in this area. Instead, to boost efficiency of the public sector, rather than introducing a sweeping privatization campaign, a 2013 Public Institution Reform Plan, *inter alia,* involving efforts to reduce the debt level of public institutions and improve their productivity was launched and is under way (Section 3.4.4). Faced with spending pressures, it is essential for Korea to enhance public-sector efficiency, as planned in the Three-Year Plan for Economic Innovation (Section 2.4).[33]

1.3.3.3 Competition policy

1.15. During the review period, Korea undertook several legislative changes in this area, *inter alia,* to expand the number of institutions with a right to file criminal complaint, prohibit new circular (i.e. cross)-shareholdings between subsidiaries under a large business group, and assess dominance resulting from a merger or acquisition; at the same time it took action to activate the M&As market (Section 3.4.5.1).[34] Market and industry concentration remains relatively high, and large business and state conglomerates continue to be monitored. Efforts to promote fair trade and mutual growth between large companies and SMEs through voluntary fair trade agreements and sub-contracting continue.

1.3.3.4 Corporate governance and the cost of capital

1.16. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital.[35] Despite a strong drive to reform business practices regarding large business conglomerates, their dominance continues to be reflected in corporate governance in Korea and contributes to the so-called "Korea discount" (10-40% less in 2010), i.e. the amount by which investors undervalue Korean stocks

[32] IMF (2015).

[33] OECD (2016c).

[34] In general, distortions to competition can be the consequence of interventionist policies in certain areas, but also possibly some weakness in addressing anticompetitive practices of large business conglomerates (*chaebols*), that may abuse their dominant market position to the detriment of consumers and SMEs, not to mention productivity. The authorities do not share these views and point to their globally recognized strong competition law enforcement. More information on the competition-related challenges in the Korean market is available in WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[35] Online World Bank information. Viewed at: http://elibrary.worldbank.org/doi/full/10.1596/978-1-4648-0484-7_corporate_governance.

owing to the perceived higher investment risk in Korea compared with other countries.[36] The authorities consider that this causal link is ambiguous.

1.3.3.5 Labour market policies

1.17. Labour market rigidities remain in place. Employment protection, involving laying-off costs, has been a key reason for the rise in the share of non-regular workers (i.e. fixed-term, dispatched and part-time workers) to around a third of employment.[37] As of July 2014, a new basic pension for those aged over 65 has been operated at a maximum monthly amount of ₩200,000 (US$197, 6.2% of the average wage) for those at the lower 70% income bracket; the remaining were assured lower amounts but no less than ₩100,000 per month.[38] To promote social cohesion, the Government is pushing for labour market reforms and aims to boost employment to 70% of the working-age population (Section 1.2.1). A September 2015 Tripartite Agreement between the Government, workers and employers aims to, *inter alia*: increase youth employment; alleviate the dual structure of the labour market (regular and non-regular workers), a major cause of income inequality; and, expand the social safety net. According to the IMF, reducing labour market rigidities by addressing gaps in legal protection for regular and non-regular workers, moving to performance and task rather than seniority-based wages, reducing incentives for forcing early retirement, and improving unemployment insurance, as well as increasing female labour force participation, *inter alia,* by improving public support for childcare, facilitating part-time work, and enhancing job search and training support, form part of the reform issues in this area.[39] As of 2016, firms with over 300 workers were required to set a mandatory retirement age at the age of 60 (previously 58) or above, and the law is to be extended to smaller firms in 2017.[40] The Korea Trade-Investment Promotion Agency (KOTRA) continues to operate its Contact Korea programme with the aim of attracting highly specialized foreign professionals to Korea by offering special privileges regarding immigration.

1.4 Balance of Payments

1.18. In line with its traditional strategy of encouraging export-led growth based on manufactures, Korea continues to run a rising surplus in merchandise trade and a deficit in services (Table 1.3). The merchandise trade surplus considerably exceeded the deficit in services. Consequently, despite the real exchange rate appreciation, the current account registered a substantially larger overall surplus, averaging 6% of GDP during 2012-15 (7.7% in 2015)

[36] The prime cause of the discount is more likely to be poor corporate governance at the family-run business conglomerates, but also to, *inter alia*, geopolitical risks in the Korean peninsula, investors' concern over the high level of household debt, Korea's reputation for labour militancy, and Korea's low albeit improved ranking on Transparency International's *Corruption Perceptions Index* (CPI) (37th out of 167 countries in 2015, 43rd out of 183 in 2011). According to the Korea Fair Trade Commission (KFTC), as of end-2015 the share of owners or immediate family who are listed as members of the board at affiliates of large family-run conglomerates stood at 21.7%, whereas the share of outside directors of large conglomerates stood at 49.5%. More information on the relationship between corporate governance, large business groups and the Korea discount is available in WTO document WT/TPR/S/268/Rev.1, 8 November 2012. *The Economist*, "Minority report – The Korea discount – Corporate governance explains South Korea's low stockmarket ratings", 11 February 2012. Viewed at: http://www.economist.com/node/21547255; Yonhap News Agency, "S. Korean conglomerates backtracking on responsible governance commitment", 23 December 2015. Viewed at: http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20151223004700320; Transparency International (2015), *Corruption Perceptions Index 2015*. Viewed at: http://www.transparency.org/cpi2015.

[37] Regular workers receive high employment protection as a result of government policies, business practices, social customs and labour unions. Consequently, in 2014, the share of temporary workers was 22%, double the OECD average; they earned only 62% as much per hour as regular workers, boosting inequality and relative poverty. Korea ranked 115th out of 140 countries in its flexibility in hiring and firing in the 2015-16 World Economic Forum *Global Competitiveness Index*, while its highly inflexible labour market (121st) impeded allocation of workers to their most productive uses. OECD (2016c); WEF (2015a).

[38] Yonhap News Agency, "Gov't to launch basic pension program for senior citizens", 29 June 2014. Viewed at: http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20140629001800320.

[39] IMF (2015).

[40] According to the OECD, this policy, *inter alia,* places additional burdens on firms, to the extent that the higher retirement age is respected, by widening the gap between productivity and wages; to limit the negative impact, the Government is paying various subsidies to maintain the employment of older workers. OECD (2016c).

compared to 1.9% over 2007-11, reflecting weak domestic demand and falling global oil prices.[41] The overall current account surplus reflects the extent to which gross national saving (35.4% of GDP, 2015) continues to increasingly exceed the weakened gross domestic investment (28.5% of GDP) (Table 1.1). According to the ADB and the OECD, the current account surplus is expected to narrow to 6.5% in 2016 and further to 5.5% in 2017 as, *inter alia,* import growth driven by stronger domestic demand is expected to outpace export growth.[42] According to the authorities, these forecasts are mainly attributable to temporary and structural factors.[43]

1.19. Korea's gross external debt increased by 3.8% during the period 2012-14, and dropped by 6.6% to US$396.6 billion in 2015 (Table 1.1); as a result the debt service ratio rose from 7% to 8.4% over the same period. As a percentage of GDP, gross external debt dropped from 33.5% in 2012 to 28.8% in 2015. According to the IMF, Korea's reduced and now modest level of short-term external debt as of 2015 was projected to remain relatively low over the medium term.[44]

Table 1.3 Balance of payments, 2011-15

(US$ million)

	2011	2012	2013	2014	2015
Current account	18,655.8	50,835.0	81,148.2	84,373.0	105,870.7
Goods and services balance	16,810.8	44,192.4	76,281.8	85,206.9	104,581.9
Trade balance	29,089.9	49,406.0	82,781.0	88,885.4	120,290.0
Exports	587,099.7	603,509.2	618,156.9	613,020.6	548,837.8
Imports	558,009.8	554,103.2	535,375.9	524,135.2	428,547.8
Services balance	-12,279.1	-5,213.6	-6,499.2	-3,678.5	-15,708.1
Receipts	90,900.1	103,533.2	103,739.2	112,105.9	97,877.0
Transportation	37,184.9	41,669.9	37,772.6	38,316.7	32,668.3
Travel	12,475.5	13,428.5	14,628.8	17,835.7	15,284.9
Payments	103,179.2	108,746.8	110,238.4	115,784.4	113,585.1
Transportation	30,815.5	31,492.5	30,419.9	32,128.5	29,644.0
Travel	19,920.3	20,644.9	21,647.6	23,192.0	24,957.9
Income balance	6,560.6	12,116.7	9,055.7	4,150.8	5,901.7
Credit	27,436.2	30,160.5	30,108.3	26,817.1	28,023.6
Compensation of employees	751.4	711.2	721.0	767.9	868.6
Investment income	26,684.8	29,449.3	29,387.3	26,049.2	27,155.0
Debit	20,875.6	18,043.8	21,052.6	22,666.3	22,121.9
Compensation of employees	1,182.5	1,150.1	1,169.0	1,219.4	918.1
Investment income	19,693.1	16,893.7	19,883.6	21,446.9	21,203.8
Current transfers	-4,715.6	-5,474.1	-4,189.3	-4,984.7	-4,612.9
Credit	8,432.2	8,558.0	8,778.6	8,873.9	8,922.5
Debit	13,147.8	14,032.1	12,967.9	13,858.6	13,535.4
Capital and financial account	-24,427.8	-51,624.1	-80,131.6	-89,342.9	-109,794.7
Capital account	-112.0	-41.7	-27.0	-8.9	-64.7
Financial account	-24,315.8	-51,582.4	-80,104.6	-89,334.0	-109,730.0
Direct investment	-19,931.7	-21,136.2	-15,593.2	-18,765.6	-22,597.8
Korea's direct investment abroad	-29,704.7	-30,632.1	-28,359.8	-28,039.2	-27,639.8
Foreign direct investment in Korea	9,773.0	9,495.9	12,766.6	9,273.6	5,042.0
Portfolio investment	13,142.7	6,747.8	-9,344.5	-30,608.9	-48,592.8
Assets	-4,138.4	-26,079.5	-27,494.2	-39,816.8	-41,305.4
Equity securities	-988.8	-14,619.5	-13,759.1	-13,963.3	-16,072.3
Debt securities	-3,149.6	-11,460.0	-13,735.1	-25,853.5	-25,233.1

[41] According to the IMF, Korea's underlying current account surplus is larger than would be consistent with its economic and policy fundamentals. This gap reflects a number of factors including precautionary savings related to a relatively weak social safety net. IMF (2015); OECD (2016c).

[42] OECD (2015c).

[43] Temporary factors include improvement in the terms of trade stemming from low oil prices, and the slowing domestic economy that has synchronized with the sluggish global economy. Structural factors include increased savings in line with population aging.

[44] IMF (2015).

	2011	2012	2013	2014	2015
Liabilities	17,281.1	32,827.3	18,149.7	9,207.9	-7,287.4
Equity securities	-6,851.4	16,572.5	4,383.2	6,753.2	-1,987.0
Debt securities	24,132.5	16,254.8	13,766.5	2,454.7	-5,300.4
Financial derivatives	-1,031.3	2,627.8	4,410.3	3,826.9	-2,532.5
Assets	43,553.9	33,454.3	29,795.5	35,773.1	46,061.6
Liabilities	-44,585.2	-30,826.5	-25,385.2	-31,946.2	48,594.1
Other investment	-2,542.7	-26,637.3	-43,281.1	-25,900.6	-23,954.3
Assets	-22,166.4	-8,600.1	-37,096.7	-38,410.0	-15,499.7
Trade credits	-673.0	369.1	-1,683.4	-1,595.5	3,393.0
Loans	-14,211.5	-5,566.5	-22,584.8	-10,461.2	-9,666.6
Currency and deposits	-5,869.1	-3,765.9	-14,338.3	-21,183.6	-12,361.9
Other assets	-1,412.8	363.2	1,509.8	-5,169.7	3,135.8
Liabilities	19,623.7	-18,037.2	-6,184.4	12,509.4	-8,454.6
Trade credits	-1,451.6	-1,817.1	293.0	-544.2	-4,077.2
Loans	11,549.7	-13,050.6	-6,273.2	10,894.4	-2,057.7
Currency and deposits	10,714.7	-3,454.6	-109.1	1,181.3	-2,696.9
Other liabilities	-1,189.1	285.1	-95.1	977.9	377.2
Reserve assets	-13,952.8	-13,184.5	-16,296.1	-17,885.8	-12,052.6
Net errors and omission	5,772.0	789.1	-1,016.6	4,969.9	3,924.0

Source: Bank of Korea Economic Statistics System online information. Viewed at: http://ecos.bok.or.kr/.

1.20. Since 2012, Korea's foreign exchange reserves have increased steadily by an overall 13.1% largely due to continuously increasing returns from the management of reserve assets (Table 1.1); in 2015 they were equivalent to 26% of GDP, 7.9 months of imports of goods and services, and more than three times its short-term external debt. As of end-March 2016, foreign exchange reserves stood at US$360.8 billion, equivalent to nearly 9 months of imports of goods and services. According to the IMF, based on measures of adequacy, Korea's reserves should be sufficient to buffer against a range of possible external shocks and reduce the cost of foreign borrowing.[45]

1.5 Composition and Pattern of Trade

1.21. The openness of the Korean economy to international trade, and its integration into the world economy continued to be reflected by the high ratio of its trade (exports plus imports) in goods and services to GDP; nevertheless, this ratio dropped progressively and significantly from 109.8% in 2012 to 84.8% in 2015, partly due to export and import growth slowdown on account of weaker global demand and strong competition from other Asian countries, import compression resulting from the decline in oil prices, and domestic demand contraction (Table 1.1). The authorities indicated that the decline of exports was also due to changes in China's growth strategy, intensified competition with neighbouring countries and overseas expansions of Chinese exporters.[46]

1.22. Since its previous Review, Korea's merchandise trade has remained largely and increasingly dependent on manufactures (Chart 1.1, Tables A1.1 and A1.2). The share of office machines and telecom equipment, chemicals, electrical machines and non-electrical machinery in total exports has risen, whereas the share of transport equipment and agriculture dropped. Fuels continued to account for a third of total imports, whereas agriculture for about 7%.

1.23. At the same time, while Korea's merchandise trade with countries in the region remained virtually unchanged for exports, the pattern of imports shifted away from Asia-Pacific as a result of the increase in the share of the European Union, possibly relating to the entry into force of the FTA with this partner (Chart 1.2, Tables A1.3 and A1.4, Section 2.6.2). Notwithstanding some fluctuation in trade shares, more than 66.2% of total merchandise trade has continued to be

[45] IMF (2015).

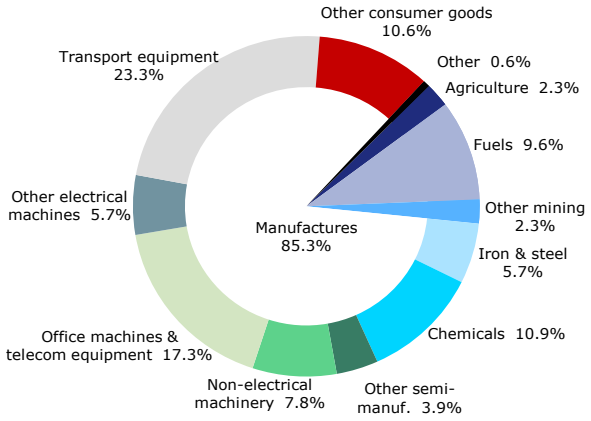
[46] China's accelerated replacement of imported intermediate goods with those provided by its own manufacturers negatively affected Korea's exports, as a majority of these exports are intermediate goods. However, despite the decreasing share of intermediate goods exports in Korea's total exports to China, Korea is taking a steadily increasing share of China's total imports, suggesting Korea's growing complementary relationship with China.

conducted with trading partners from the Asia-Pacific Economic Cooperation (APEC) and 12.6% with ASEAN members. Reportedly trade under FTAs rose from 24.6% (2011) to 36% (2013) of total trade and should have risen further with the entry into force of the FTAs with the United States and Canada.[47] Korea's main individual trading partners remain China, the United States, the European Union and Japan. Whereas China's merchandise trade shares for both imports and exports increased, those of Japan fell.

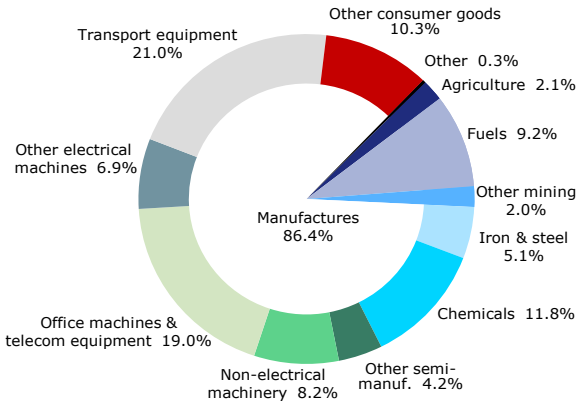
Chart 1.1 Product composition of merchandise trade, 2011 and 2014

2011 **2014**

(a) Exports (f.o.b.)

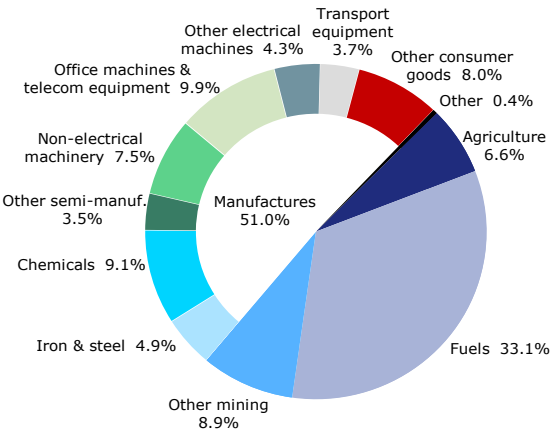


Total: US$555.2 billion

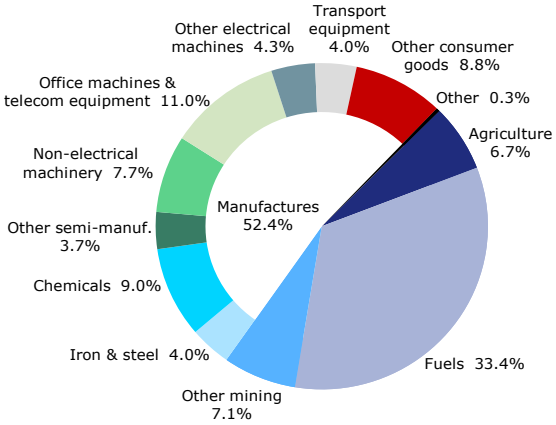


Total: US$573.1 billion

(b) Imports (c.i.f.)



Total: US$524.4 billion



Total: US$525.6 billion

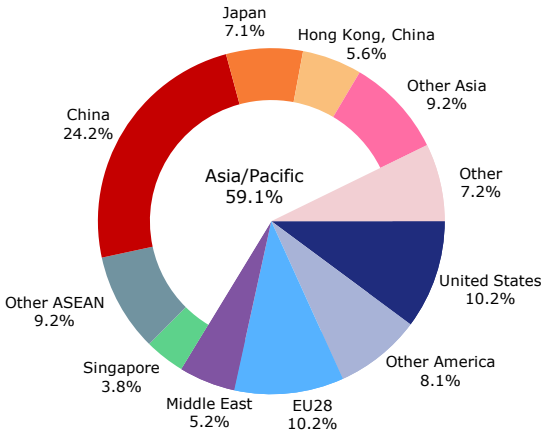
[47] FTA utilization rates stood at 78.4% for Chile, 80.5% for EFTA, 38.5% for ASEAN, 43% for India, 80.9% for the EU, 92% for Peru, 76.4% for the United States and 70.2% for Turkey; the main reason for non-utilization being the lack of knowledge. Online presentation by a Korea Customs Service (KCS) officer at the WCO Origin Conference 2014 titled *Korea Customs' FTA Outreach Program for Small and Medium-sized Enterprises*, 21 January 2014.

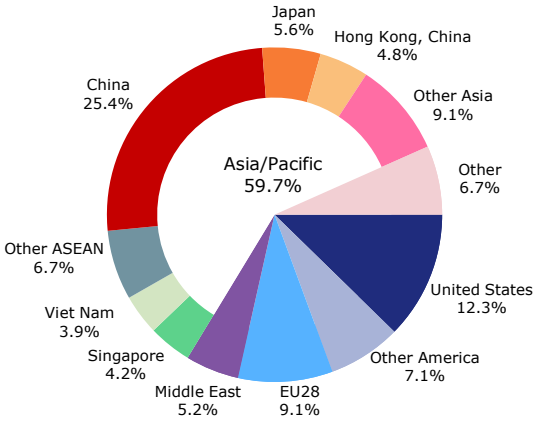
Source: UNSD, Comtrade database (SITC Rev.3).

Chart 1.2 Direction of merchandise trade, 2011 and 2014

2011 **2014**

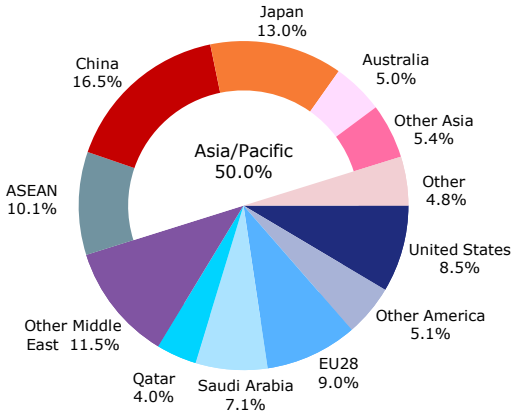
(a) Exports (f.o.b.)

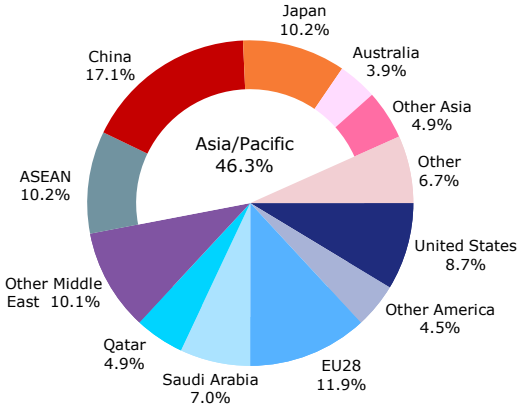




Total: US$555.2 billion **Total: US$573.1 billion**

(b) Imports (c.i.f.)





Total: US$524.4 billion **Total: US$525.6 billion**

Source: UNSD Comtrade database.

1.6 Trends and Patterns in Foreign Direct Investment

1.24. Korea remains not only a major exporter of goods, but also of capital. FDI outflows (on a balance-of-payments basis) peaked in 2012 and dropped gradually by an overall 9.8% (Table 1.3). Nevertheless, the global expansion of major Korean multinational enterprises, such as Samsung, continues to translate into significant outflows, increasingly to low-income economies within the

region, especially in Viet Nam.[48] According to data supplied by the authorities, in 2014 they were largely concentrated in services (finance, insurance, real estate), manufacturing, and mining and quarrying activities. At the same time, the main individual destinations were China, the United States, and the European Union, while 14.4% of total outflows were directed to ASEAN countries. The FDI outward stock increased steadily since 2011 by 37.6% (Table 1.4); in 2013, it was estimated at US$238.0 billion and allocated to services (mainly finance and insurance, and wholesale and retail trade), manufacturing, and mining and quarrying; its main locations were China, the United States, and the EU. Korea was the largest investor in landlocked developing countries (LLDCs) in 2012 and has been promoting investment ties with Central Asian LLDCs, particularly Uzbekistan, where a further US$5 billion worth of FDI in the natural gas and chemicals sectors was announced; in 2015 Posco's announced investment in Turkmenistan was the 7th largest greenfield investment project in LLDCs.[49] Korea's 2013 "Eurasia Initiative" aims to boost connectivity and economic ties between Korea and Europe.

Table 1.4 Stock of outward foreign direct investment, 2011-13

	2011	2012	2013
Total outward stock (US$ million)	173,002.1	202,801.7	237,985.2
		(% of total)	
By sector			
Agriculture, forestry and fishing	0.5	0.4	0.3
Mining and quarrying	15.4	16.7	12.8
Manufacturing	42.0	40.9	41.7
Electricity, gas and water	1.0	1.3	1.0
Construction	1.9	2.2	1.3
Services	39.3	38.5	42.9
Wholesale and retail trade, and repairs	14.3	14.5	15.0
Accommodation and food service activities	1.0	0.8	0.7
Transport and storage	1.4	1.3	1.0
Information and communication	0.4	0.5	1.1
Financial and insurance activities	8.0	7.5	17.7
Real estate activities	4.4	4.2	3.8
Business service activities	7.7	8.0	3.0
Other services	2.2	1.8	0.6
By destination			
Netherlands	2.2	2.6	3.0
United Kingdom	3.2	2.9	2.7
Germany	1.9	1.8	1.6
Czech Republic	0.6	0.7	0.8
Ireland	1.0	0.6	0.6
Russian Federation	1.3	1.4	1.2
United States	16.6	17.0	18.1
Cayman Islands	1.4	1.4	2.0
Canada	3.2	2.9	2.0
Brazil	1.6	1.9	1.7
Mexico	0.5	0.7	0.8
Bermuda	1.2	1.6	0.7
Australia	2.7	3.1	3.6
China	25.8	24.9	27.6
Hong Kong, China	5.9	5.7	5.1
Viet Nam	3.7	3.5	3.3
Singapore	2.4	2.2	2.2
Japan	2.4	1.8	2.1
Indonesia	2.5	2.5	1.9
India	1.9	1.9	1.5
Malaysia	1.9	2.1	1.5

[48] UNCTAD (2016).
[49] UNCTAD (2015b); UNCTAD (2016).

	2011	2012	2013
Philippines	0.8	1.1	1.3
Thailand	1.0	1.3	1.0
Myanmar	0.6	0.7	0.8
Kazakhstan	0.9	0.9	0.7
Other	12.8	12.6	12.1

Source: Data provided by the authorities of the Republic of Korea.

1.25. Inward FDI is not only an additional source of capital, but it also brings with it entrepreneurship, management skills, and especially new technology, which contribute to improved total factor productivity. During the review period, FDI inflows remained much lower than outflows; between 2012 and 2015 they ranged from 18.2% (2015) to 45% (2013) of the outflow amount (Table 1.3). The reasons for these relatively low FDI inflows remain unclear, although they may be partly related to the "Korea discount" factors (Section 1.3.3.4) as well as Korea's manufacturing-based industrial structure. According to the OECD, barriers to trade and investment help to explain why the stock of FDI as a share of GDP in Korea was the third-lowest in the OECD area, at 13% in 2014.[50] FDI inflows (on a balance-of-payments basis) peaked in 2013 (US$12.8 billion) and bottomed in 2015 (US$5 billion) (Table 1.3) due to a major divestment by Tesco (United Kingdom) in order to consolidate its global operation and focus more on its home market.[51] In addition to explicit barriers, the low stock of FDI reflects the business environment and other domestic restrictions, making regulatory reform key to attracting more FDI. The FDI inward stock peaked in 2013, and then dropped to US$170.7 billion in 2014 (Table 1.5). As of 2014, it was largely allocated to services (mainly finance and insurance) and manufacturing; it mainly originated in the European Union (36.7%), Japan and the United States. The authorities indicated that the amount of newly realized FDI has increased since 2013, but it was offset by some large divestments, mostly because of the uncertainty of the global economy, including the eurozone.

Table 1.5 Stock of inward foreign direct investment, 2011-14

	2011	2012	2013	2014
Total inward stock (US$ million)	133,665.0	156,141.6	172,554.0	170,703.8
	(% of total)			
By sector				
Agriculture and fishing	0.1	0.2	0.1	0.1
Mining and quarrying	0.0	0.0	0.0	0.0
Manufacturing	40.5	40.8	40.5	38.2
Electricity, gas and water	0.3	0.5	0.5	0.5
Construction	0.7	0.1	0.1	0.1
Services	59.7	39.4	58.7	61.1
Trade and repairs	8.3	8.1	9.4	9.6
Hotels and restaurants	8.5	8.2	8.3	7.8
Transport, storage and communication	2.2	2.1	5.8	6.5
Financial intermediation	33.0	35.2	28.4	29.2
Real estate, renting and business activities	7.1	8.6	5.5	7.5
Other services	0.4	0.6	1.3	0.4
Unallocated	-1.3	19.0	0.0	0.0
By origin	95.5	96.3	97.1	96.8
Austria	0.6	0.7	0.6	0.5
France	3.8	3.9	4.1	3.3
Germany	4.8	4.3	3.6	3.7
Hungary	2.5	2.3	2.1	2.4
Ireland	0.8	0.8	1.0	1.0
Luxembourg	0.6	0.5	0.8	0.2
Malta	1.0	2.1	2.7	2.8
Netherlands	11.1	11.8	9.6	9.5

[50] OECD (2016c).
[51] UNCTAD (2016).

	2011	2012	2013	2014
Sweden	1.1	1.2	1.2	1.0
United Kingdom	9.0	9.7	7.9	7.8
Norway	0.9	0.6	0.7	0.9
Switzerland	1.4	1.6	2.0	2.3
Canada	0.6	0.6	0.8	0.8
United States	22.3	19.1	18.1	18.8
Australia	0.5	1.1	0.8	0.6
Japan	25.5	26.8	27.8	28.1
New Zealand	0.0	0.0	1.9	1.7
China	1.1	1.3	1.4	1.6
Hong Kong, China	2.5	2.1	2.5	2.6
Malaysia	1.1	1.4	1.3	1.1
Singapore	3.1	3.6	3.7	4.6
Saudi Arabia	0.0	0.0	1.1	0.4
British Virgin Islands	0.2	0.0	0.7	0.7
Cayman Islands	0.7	0.8	0.6	0.7
Other	4.5	3.7	2.9	3.2

Source: Data provided by the authorities.

2 TRADE AND INVESTMENT REGIME

2.1 Introduction

2.1. The Republic of Korea has continued to improve its business environment since the previous Review in 2012. The Government issued its Three-Year Plan for Economic Innovation in February 2014, covering the period up to February 2017, and aiming at improving economic fundamentals and increasing the GDP growth rate. Korea, a global leader in e-government, has been implementing a Smart Government Strategy 2011-15. The Government also continued to improve its regulatory framework, through several initiatives, to reduce the burden of doing business. The economic democratization measures were intended to narrow the wealth divide and promote fair competition between large and small companies.

2.2. The general trade policy objective remains to build a free and open economy based on market principles, and the Government has been rigorously pursuing market opening opportunities through not only multilateral initiatives, but also regional trade agreements (RTAs). Six RTAs entered into force from 2013 to 2016 (with China, New Zealand, Viet Nam, Canada, Australia, and Turkey). This added to the existing RTA network with large economic blocs and newly emerging markets (with ASEAN, APTA, Chile, EFTA, the EU, India, Peru, Singapore, and the United States). Agriculture remains partly covered, and rice is excluded from all the RTAs. Korea ratified the WTO Trade Facilitation Agreement (TFA) on 30 July 2015, and the revised Agreement on Government Procurement (GPA) in January 2016. Korea maintains its developing country status, and remains a major donor to WTO Trade-Related Technical Assistance (TRTA) activities. Korea has continued to provide duty-free treatment to most imports from LDCs, and has been eligible for trade preferences under the GSP schemes of Australia, Belarus, Kazakhstan, and the Russian Federation. During the review period, Korea was directly involved in four disputes at the WTO: two as a complainant, two as a respondent. It also participated as a third party in 33 dispute settlement cases.

2.3. Korea has the third-lowest FDI stock in the OECD area, which is due in part to the remaining trade and investment barriers. Foreign investment is regulated under the Foreign Investment Promotion Act, which was most recently amended in 2016 to attract investment from global companies. FDI in a few sectors remains restricted: out of 1,145 categories of businesses, foreign investment is not permitted in 5.2% of businesses activities (such as nuclear power generation, broadcasting, and rice and barley growing), and is partially permitted in 2.5% of business activities (such as transport services, broadcasting and telecom services, and some financial services). Apart from these, foreigners are allowed to invest in the country without restraint. Incentives to FDI are given by the central and local governments, mainly in the form of tax exemptions/reductions, cash grants, and industrial site support. The cost effectiveness of these incentives remains questionable.

2.2 General Constitutional and Institutional Framework

2.4. Korea is a democratic unitary republic, with a presidential parliamentary system. Since the previous Review, there have been no changes to the general constitutional and institutional framework of Korea. The Constitution was most recently amended in 1987.[1]

2.5. The National Assembly, with 300 fixed members (253 members elected in local constituencies and 47 elected by political parties), exercises legislative power by enacting laws and monitoring state administration including control of the Budget. Members of the current National Assembly (May 2016 to May 2020) were elected in April 2016.

2.6. According to the Constitution, the executive authority rests with the President and the State Council (Cabinet), which is chaired by the President and comprises the Prime Minister and the members of the State Council including ministers. The President is elected through direct election for a term of five years, and cannot be re-elected for a second term. The current President was elected in December 2012 and was inaugurated in February 2013. The President appoints the Prime Minister (subject to approval by the National Assembly), and ministers from among members of the State Council on the recommendation of the Prime Minister. In the absence of the

[1] Korea.net online information. Viewed at: http://www.korea.net/Government/Constitution-and-Government/Executive-Legislature-Judiciary.

President, the Prime Minister controls the ministries of the Government on his/her behalf. At present, the executive branch of the government operates one board, one agency, five offices, 22 ministries, 16 administrations, and six committees.

2.7. In descending order of importance, the Constitution is followed by acts to realize the constitutional notions, and administrative legislation including presidential decrees, ordinances, and administrative rules (called directives, regulations or public notices). Since the previous review, there have been no changes to the legislative procedures.[2] Legislation is mainly introduced into the National Assembly by the executive, through relevant ministers. Members of the National Assembly may also introduce bills. The President must promulgate bills passed by the National Assembly within 15 days by publication in the Official Gazette, unless vetoed by him/her. Laws and subordinate statutes generally enter into force 20 days after publication.

2.8. Treaties concluded and promulgated under the Constitution, as well as generally recognized rules of international law, have the same effect as domestic laws. Proposed treaties must be deliberated on by the State Council. The National Assembly has the right to consent to the conclusion and ratification of treaties, including on trade, and the President must ratify them.

2.9. The judicial branch of the government is composed of the Supreme Court, appellate courts, district courts, family courts, administrative courts, and the patent court, among others. The Supreme Court Chief Justice is appointed by the President with the consent of the National Assembly, and other Supreme Court justices are appointed by the President upon the recommendation of the Chief Justice. The term for the Chief Justice and other justices is six years. Korea was a pioneer in using electronic features to streamline court processes. Since the launch of the electronic case filing system in 2010, by 2014, more than half of the civil cases had been e-filed.[3] As a consequence, according to the World Bank's Doing Business Report, resolving a standard contract enforcement dispute takes 230 days and costs 10% of the claim (the OECD high-income averages are 538 days and 21% of the claim), making Korea the second-best in 189 economies in the ranking of the ease of enforcing contracts.[4]

2.3 Structure of Trade Policy Formulation

2.10. Following the most recent presidential election in 2012, there was a restructuring of the Government in 2013. The authorities indicated that the objective was to, *inter alia*, utilize science and ICT as the key sources for a creative economy. Changes included: the establishment of new ministries (the Ministry of Science, ICT and Future Planning, and the Ministry of Ocean and Fisheries); the restructuring of the Korea Food and Drug Administration (KFDA) to become the Ministry of Food and Drug Safety (MFDS); and the restructuring of agencies leading to the reallocation of tasks in certain areas (Section 3). Under a 2013 Public Institution Reform Plan, the Government developed measures involving increasing transparency and improving management efficiency (Section 3.4.4).

2.11. In particular, trade and industrial policies are formulated and implemented by the Ministry of Trade, Industry and Energy (MOTIE), which replaced the Ministry of Knowledge Economy (MKE) in 2013.[5] The MOTIE formulates trade policies and makes policy decisions in consultation with the relevant stakeholders, including not only representatives from other government ministries such as the Ministries of Strategy and Finance; Agriculture, Food and Rural Affairs; Justice; Land, Infrastructure and Transport; but also stakeholders from the private sector such as the Korea Chamber of Commerce and Industry (KCCI), and the Korea International Trade Association (KITA). The MOTIE and the Korea Trade-Investment Promotion Agency (KOTRA) jointly hold Foreign Investment Advisory Council meetings regularly, where foreign firms may advise the Government on foreign investment policy (Section 2.7).

2.12. Public research institutes continue to work on trade-related research topics, including on multilateral and bilateral policy issues. They include the government-funded think-tanks Korea Institute for International Economic Policy (KIEP), Korea Institute for Industrial Economics and

[2] For details of the legislative procedures, see WTO (2012).
[3] World Bank (2016b); and information provided by the authorities.
[4] World Bank (2016a).
[5] MOTIE online information. Viewed at: http://english.motie.go.kr/?cat=52.

Trade (KIET), Korea Development Institute (KDI), Korea Economic Research Institute (KERI), and Korea Rural Economic Institute (KREI).

2.13. To improve transparency in public finance, in January 2007, the Ministry of Strategy and Finance (MOSF) implemented a Digital Budget and Accounting System (DABS), which is an integrated financial management information system. The DABS, also known as "dBrain", manages the entire fiscal process, ranging from budget formulation to accounting, and links the fiscal information of all public entities (51 central government agencies and 55 external systems and local governments, public entities and subordinate organizations). This system further reinforced risk managing capacity by enabling real-time information sharing in public finance.[6]

2.14. The Government has been implementing a Smart Government Strategy (2011-2015)[7], which has involved:

a. identifying and developing innovative services using mobile devices (mobility, location-based, and camera, etc.), and expanding the provision of government policy information and interactive communication channels with citizens by using social network services (such as Twitter and Facebook);

b. trying to achieve "Connected Government", where information flows freely between government and citizens, and between government and businesses; and

c. making efforts to ensure accessibility for the marginalized population, by creating information networks in villages, supplying assistance devices for disabled people, and offering relaying services, home-visiting IT education services, and video conference services for multicultural families.

2.15. Korea was ranked the top performer in 2014 by the United Nations in its e-Government Survey.[8] The Government started implementing the Advancement of e-Government Strategy in 2007, and reached a fully digitized public administration with government-to-citizen (G2C) and government-to-business (G2B) service delivery and multi-channel communication and transactions. Reflecting its developed telecommunications infrastructure, strong national education policy and high GDP per capita, Korea took the lead globally in e-government ranking. According to the United Nations e-Government survey, Korea established a world-class transparent and efficient online presence and an equally impressive e-mobile presence.

2.4 Trade Policy Objectives

2.16. Korea issued its Three-Year Plan for Economic Innovation in February 2014, covering the period up to February 2017. The Plan aimed at increasing real and potential GDP growth rates and improving economic fundamentals by stepping up structural reforms.[9] In accordance with the Plan, Korea is to build itself into an economy with:

a. strong fundamentals, through reforming the public sector, building a rules-based market economy, and establishing a strong social safety net;

b. dynamic innovation, through developing creative industries, investing for the future, and exploring overseas markets; and

c. a balance between domestic demand and exports, through improving the investment environment, strengthening domestic demand, and encouraging the labour force participation of young people and women.

2.17. Korea's general trade policy objective remains to build a free and open economy based on market principles. To promote international competitiveness of its businesses and economic growth, Korea has been making efforts to improve access to key markets, through participation in

[6] UNPACS online information. Viewed at: https://publicadministration.un.org/egovkb/en-us/Data/Country-Information/id/138-Republic-of-Korea.
[7] NIPA (2012).
[8] UN (2015).
[9] OECD (2014).

multilateral negotiations, as well as negotiations for more RTAs and close economic cooperation with its trading partners. The Ministry of Trade, Industry and Energy (MOTIE) aims at building a creative economy, expanding growth engines, creating better jobs, and supporting balanced growth among industries. To accomplish these goals, MOTIE identified the following policy priorities:[10]

- promoting industrial convergence to maximize economic growth potential and provide high-quality employment opportunities;
- fostering a cooperative industrial ecosystem, especially for small and medium-sized businesses, by enforcing market rules;
- seeking balanced regional development to revitalize local economies and employment;
- pursuing a trade policy devoted to the national interest and economic benefits, by preparing a trade strategy that will earn more public support through better communication with related interest groups and other ministries (according to the authorities, objectives of the current trade strategy include: actively pursuing mega free trade agreements (FTAs) aiming at regional economic integration; seeking new FTAs with promising emerging economies on a reciprocal basis; and actively participating in the WTO's multilateral/plurilateral negotiations on further trade liberalization with a view to helping Korea bring innovative changes to its domestic industrial structure); and
- establishing a safe and reliable energy system.

2.5 Trade Laws and Regulations

2.5.1 Regulatory reform

2.18. Despite Korea's efforts in pursuing trade liberalization through RTA negotiations with its major trade partners (Section 2.6.2), the OECD index of trade and investment barriers was the second-highest in the OECD area in 2013. This index helped to partly explain why Korea had the third-lowest FDI stock in the OECD area, at 13% of GDP in 2014.[11] Barriers to entrepreneurship in Korea were the ninth-highest in the OECD area in 2013.

2.19. Recognizing the costs of overly burdensome regulation, the Government continued to improve its regulatory framework. From January 2014 to January 2015, the Government cut the number of economic regulations (9,876) by 10%. As more restrictive regulation leads to lower aggregate productivity, reducing regulatory burden tends to stimulate private investment in innovative activities, the diffusion of knowledge, improved managerial performance and entry by new firms.[12]

2.20. The impact of regulation is bigger in the services sector than in the manufacturing sector.[13] By 2013, there were 4,336 regulations in the services sector, four times that in manufacturing. As part of the efforts to reform the regulatory framework in the services sector, the Government announced a package of Measures to Stimulate Investment: Fostering Promising Service Industries in August 2014. Seven services industries were selected based on their expected ability to create jobs and enhance the growth potential of the Korean economy: medical care, tourism, culture, education, finance, logistics, and software. Nearly half of the regulations covering the services sector are applied to these seven services industries.

2.21. The Regulatory Reform Committee (RRC), established in 1998, is responsible for responding to public opinion, reviewing new and amended regulations, and evaluating each ministry's efforts to improve regulations. It consists of 19 private-sector experts and six government ministers. The

[10] MOTIE online information. Viewed at: http://english.motie.go.kr/?cat=50.
[11] OECD (2016a).
[12] OECD (2016a).
[13] OECD (2016a).

Government established a regulatory information disclosure portal in October 2013 (www.better.go.kr), allowing the public to follow regulatory developments. In the services sector, regulatory reform measures are decided by the Service-Sector Advancement Committee under the MOSF, and are aimed at promoting competition, and exploring new export markets.

2.22. During the review period, the Government also introduced several initiatives to supplement the work of the RRC. In particular, the Government launched a "cost-in, cost-out" (CICO) approach in 2014: any new regulation that is expected to impose a direct incremental net cost on business must be offset by measures that provide savings of at least the same amount. Costs and savings are estimated through regulatory impact assessments (RIAs). Two RIA centres were established, under the Korea Development Institute (KDI) and under the Korea Institute of Public Administration (KIPA).[14] Those regulations relating to protecting people's lives and safety are exempt from this requirement. CICO was first introduced in eight ministries and agencies, and expanded to 14 in 2015 and 22 in 2016.

2.23. Other regulatory initiatives include the following:

a. The Regulatory Reform Ministerial Meeting, chaired by the President, met for the first time in March 2014. The meetings are attended by ministers, directors of major economic organizations, academic experts and the general public, and the focus is on priorities for job creation and economic revitalization via regulatory reforms.

b. The Sin-Moon-Go campaign, introduced in March 2014, allows citizens to suggest regulatory reforms. Once an idea is submitted, the relevant ministry has two weeks to determine whether or not to pursue the reform; if approved, it must be resolved within three months. The number of citizen requests for specific regulatory reforms increased sharply after the launch of this campaign, from 300 in 2013 to 7,963 in 2014, with the acceptance rate of such proposals rising from 8% to 38%.

c. The Regulatory Guillotine, introduced in 2015, solicits reform ideas from major business organizations. From 329 proposals made during the first and second rounds, 189 regulations were improved or eliminated by the end of 2015.

d. The Thorn under the Nail initiative, introduced in 2015, aims at addressing chronic regulatory problems that are burdensome to small firms. Of the 426 proposals received, 386 had been resolved by the end of 2015.

2.24. The Government is trying to ensure that SMEs in particular benefit from regulatory reform.[15] Measures adopted in this regard also include economic democratization, which aims to narrow the wealth divide and promote fair competition between conglomerates and smaller companies. Considering that the traditional growth pattern led by large businesses had not contributed sufficiently to the improvement of living standards for the Korean people, the Government has been making efforts to achieve economic democratization and improve welfare. For example, the Government suggested reform measures in the area of competition policy to support the development of SMEs and micro enterprises (Section 3.4.5). Indeed, Article 119 of the Constitution states that: the economic order is based on respect for the freedom and creative initiative of enterprises and individuals in economic affairs, and that the State may regulate and coordinate economic affairs to maintain balanced growth and stability of the economy, to ensure proper income distribution, and prevent market domination and the abuse of economic power.

2.5.2 Trade-related legislation

2.25. The main legislation on international trade remains the Foreign Trade Act, and the Customs Act. Since the previous Review in 2012, the following trade-related legislation has been amended (Table 2.1).

[14] OECD (2015d).
[15] OECD (2016a).

Table 2.1 Main trade- and investment-related legislation amended since 2012

Subject	Legislation
Customs procedures	Customs Act, most recently amended in 2015 Act on Special Cases Concerning the Refund of Customs Duties etc. Levied on Raw Materials for Export, most recently amended in 2015 Act on Special Cases of the Customs Act for the Implementation of Free Trade Agreements, most recently amended in 2015
General import and export procedures	Foreign Trade Act, most recently amended in 2014
Standards and technical requirements	Framework Act on National Standards, most recently amended in 2016
Sanitary and phytosanitary requirements	Food Sanitation Act, most recently amended in 2015 Plant Protection Act, most recently amended in 2015 Act on the Prevention of Contagious Animal Diseases, most recently amended in 2015
Government procurement	Government Procurement Act, most recently amended in 2016
Zones	Act on Designation and Management of Free Economic Zones, most recently amended in 2016
Tax and incentives	Framework Act on National Taxes, most recently amended in 2015 Special Tax Treatment Control Act, most recently amended in 2015 Income Tax Act, most recently amended in 2015 Corporate Tax Act, most recently amended in 2015 Inheritance Tax and Gift Tax Act, most recently amended in 2015 Value Added Tax Act, most recently amended in 2015 Individual Consumption Tax Act, most recently amended in 2015 Traffic, Energy and Environmental Tax Act, most recently amended in 2015 Act on Special Rural Development Tax, most recently amended in 2015 Education Tax Act, most recently amended in 2015 Securities Transaction Tax Act, most recently amended in 2015
Competition policy/price controls	Monopoly Regulation and Fair Trade Act (MRFTA), most recently amended in 2015
State-owned enterprises, privatization, and state trading	Act on the Improvement of Managerial Structure and Privatization of Public Enterprises, most recently amended in 2013
Intellectual property rights protection	Utility Model Act, most recently amended in 2015 Patent Act, most recently amended in 2015 Trademark Act, most recently amended in 2016 Copyright Act, most recently amended in 2016
Agriculture	Framework Act on Agriculture and Fisheries, Rural Community and Food Industry, most recently amended in 2015
Energy and natural resources	Energy Act, most recently amended in 2014
Financial services	Electronic Financial Transactions Act, most recently amended in 2016 Use and Protection of Credit Information Act, most recently amended in 2015
Telecommunications	Framework Act on Telecommunications, most recently amended in 2015
Transportation	Marine Transportation Act, most recently amended in 2016
Foreign investment	Foreign Investment Promotion Act, most recently amended in 2016

Source: Information provided by the authorities.

2.5.3 Transparency

2.26. Korea signed the United Nations Convention against Corruption (UNCAC) in 2003, which took effect in April 2008 in the country. Korea continued to make efforts to implement the G20 Anti-Corruption Action Plan, while regulating to counter money laundering activities using financial transactions and prevent crimes by improving the supervision of financial institutions. In addition, a Government Welfare Fraud Report Centre was launched in October 2013: it is a hotline for welfare fraud reports to monitor and crack down on illegal payments of government welfare benefits. Korea ranked 37th (43rd in 2011) out of 183 countries in 2015 on Transparency

International's Corruption Perceptions Index (CPI), which measures the perceived level of public sector corruption.[16]

2.27. Korea attaches great importance to ensuring transparency and accessibility of its legislation to the public, including foreigners. The Ministry of Government Legislation (MOLEG) makes laws and regulations available on its Internet homepage in English and Korean, and publishes regulations affecting foreign trade in the Consolidated Public Notice on Guidelines of Exports and Imports. The authorities indicated that English translation for most of the Acts and Presidential Decrees are already available, the MOLEG is making continued efforts to have the Ordinances of the Prime Minister and Departmental Ordinances translated into English as well.

2.28. The implementation and promotion of anti-corruption policy in Korea is an administrative goal of the President. The Anti-Corruption & Civil Rights Commission (ACRC) remains the national anti-corruption agency. Since the previous Review, a number of anti-corruption laws were amended or revised. In particular, the Improper Solicitation and Graft Act was promulgated in 2015 and is to be enforced in September 2016 (one year and six months after its promulgation).[17] This Act aims at eradicating improper solicitations that undermine the performance of public officials' duties, and punishing public officials who offer or accept money/gifts/other items of value, whether or not such an offer is given in connection with their official duties or in exchange for any favours. In accordance with this Act, public officials are to be punished by imprisonment for not more than three years or by a fine of not more than ₩30 million (roughly US$30,000) if they receive money or other valuables in excess of ₩1 million (roughly US$1,000) at a time, or ₩3 million (roughly US$3,000) in a fiscal year from the same person.

2.29. Other recent amendments or newly issued legislation related to anti-corruption include:

a. the Public Interest Whistle-Blower Protection Act, enacted in 2011, to encourage people to report violations of the public interest (including acts that infringe on the health and safety of the public, the environment, consumer interests, and fair competition) to prevent such violations;

b. the Act on Special Cases Concerning Forfeiture for Offences of Public Officials, revised in July 2013, to extend the period for confiscating property from former public officials to ten years, and to allow the forfeit of those criminal proceedings that have been transferred to a third party or a family member;

c. the Enforcement Decree of the Act on Regulation of Punishment of Criminal Proceeds Concealment, entered into force in May 2014, to reward up to ₩100 million to a person who contributes to the recovery of criminal proceeds;

d. the Act on Real Name Financial Transactions and Confidentiality, revised in May 2014, to ban illegal transactions under borrowed names regardless of "consent" between actual owners and individuals whose names are on the account;[18]

e. the Public Service Ethics Act, revised in March 2015, to extend the period preventing retired officials from taking jobs in the private sector from two to three years; and

f. the Act on Combating Bribery of Foreign Public Officials in International Business Transactions, revised in October 2014 (see below).

2.30. Korea is a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. In accordance with the OECD recommendations, the Government revised the Act on Combating Bribery of Foreign Public Officials in International Business Transactions in October 2014. As a result, Korean companies face criminal punishment if they provide small facilitation payments to foreign officials.

[16] Transparency International online information. Viewed at: http://www.transparency.org/cpi2015.
[17] ACRC online information. Viewed at: http://www.acrc.go.kr/eng_index.html.
[18] Before the revision, the law allowed transactions under borrowed names when the two parties expressed "consent".

2.6 Trade Agreements and Arrangements

2.6.1 WTO

2.31. Korea's trade policies have been reviewed six times, and the last Review took place in 2012. Korea accords at least MFN treatment to all WTO Members, and to 18 non-WTO Members.[19] Korea, a member of the WTO Committee on Government Procurement, has been implementing the revised Agreement on Government Procurement (GPA) since 14 January 2016 (Section 3.2.10). Korea is also a party to the Information Technology Agreement (ITA). Korea ratified the WTO Trade Facilitation Agreement (TFA) on 30 July 2015, the 10th WTO Member to ratify this agreement.[20]

2.32. Korea, maintaining its developing country status, participates actively in the WTO work and attaches high priority to the successful conclusion of the Doha Development Agenda. It is part of a number of negotiation groups: the Asian Group of Developing Members, the APEC group, the G-10 group, the G-33 group, the Friends of Anti-Dumping Negotiations (FANs) group, and the Joint Proposal (in intellectual property) group.[21] It has developed detailed positions in all negotiation areas.

2.33. Korea remains a major donor to WTO Trade-Related Technical Assistance (TRTA) activities. In December 2015, Korea donated US$350,000 (about SwF 352,735) to the Doha Development Agenda Global Trust Fund; this brought Korea's total contribution to WTO trust funds to SwF 4.6 million.[22] Korea's contribution is to support the WTO's training programmes aimed at helping developing countries and least developed countries (LDCs) participate more effectively in WTO negotiations and other WTO activities. The programmes also help these countries meet their WTO obligations and fully benefit from their WTO membership.[23]

2.34. Between May 2012 and 20 June 2016, Korea was directly involved in four disputes, two as a complainant[24] and two as a respondent.[25] It also participated as a third party in 33 cases.[26] On 19 April 2016, the United States filed a notice of appeal in the dispute (DS464) with Korea

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[19] These include: Afghanistan, Andorra, Belarus, Bhutan, Ethiopia, Iran, Iraq, Lebanon, Liberia, Monaco, Nauru, San Marino, Somalia, Syrian Arab Republic, Sudan, Union of the Comoros, Uzbekistan, and the Holy See.

[20] WTO online news. Viewed at: https://www.wto.org/english/news_e/news15_e/fac_03aug15_e.htm.

[21] WTO online information on negotiation groups. Viewed at: https://www.wto.org/english/tratop_e/dda_e/negotiating_groups_e.htm#grp023.

[22] WTO online news. Viewed at: https://www.wto.org/english/news_e/pres15_e/pr762_e.htm.

[23] Since its accession to the OECD Development Assistance Committee (DAC) in 2010, Korea has actively participated in providing Official Development Aid (ODA). In 2015, its ODA amounted to US$1.91 billion, comprising of US$1.45 billion in bilateral aid, and US$452.7 million in multilateral aid. The Korea International Cooperation Agency (KOICA) is the leading implementing agency to grant aid. Ministry of Foreign Affairs (MOFA) online information. Viewed at: http://www.mofa.go.kr/ENG/policy/oda/index.jsp?menu=m_20_110.

[24] These disputes involved: (i) on 29 August 2013, Korea requested consultations with the United States concerning anti-dumping and countervailing measures relating to large residential washers from Korea; (ii) on 22 December 2014, Korea requested consultations with the United States regarding certain anti-dumping measures on oil country tubular goods (OCTG) from Korea and the investigation methodology underlying such measures. In the first case, a panel was established and a panel report was circulated. On 19 April 2016, the United States notified the Dispute Settlement Body (DSB) of its decision to appeal and on 25 April 2016, Korea filed a notice of other appeal. In the second case, the parties agreed on the composition of the panel. Viewed at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds464_e.htm and https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds488_e.htm.

[25] On 21 May 2015, Japan requested consultations with Korea regarding: (i) import bans on certain food products; (ii) additional testing and certification requirements regarding the presence of certain radionuclides; and (iii) a number of alleged omissions concerning transparency obligations under the SPS Agreement. Korea's measures were adopted subsequent to the accident at the Fukushima Daiichi nuclear power plant in March 2011. The DSB established a panel. Viewed at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds495_e.htm. On 15 March 2016, Japan requested consultations with Korea regarding measures imposing anti-dumping duties on valves from pneumatic transmission from Japan and the documents and factual information underlying the imposition of those duties. Viewed at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds504_e.htm.

[26] WTO online information. Viewed at: https://www.wto.org/english/thewto_e/countries_e/korea_republic_e.htm. These are cases with dates of request for consultation between May 2012 and 12 May 2016.

concerning "anti-dumping and countervailing measures on large residential washers from Korea".[27] On 25 April, Korea filed a notice of other appeal in DS464.

2.35. Korea has submitted a number of notifications to the WTO during the review period (Table A2.1), although notifications in certain areas (e.g. government procurement, and export subsidies, special safeguards and domestic support in agriculture) have been subject to long submission gaps. The Government plans to submit notifications to the WTO in the areas with notification gaps before the end of 2016.

2.6.2 Regional and preferential agreements

2.36. Korea continues to actively pursue RTAs with its key trading partners. Over the review period, six FTAs entered into force: with China (on 20 December 2015), with New Zealand (on 20 December 2015), with Viet Nam (on 20 December 2015), with Canada (on 1 January 2015), with Australia (on 12 December 2014), and with Turkey (on 1 May 2013). Korea also signed an FTA with Colombia (on 21 February 2013), which has not yet entered into force.[28] Korea already has RTAs with ASEAN, some Asia-Pacific countries under APTA, Chile, EFTA, the EU, India, Peru, Singapore, and the United States. It made early announcements to the WTO of negotiations with Mexico and Japan. The key features of these RTAs are set out in Table 2.2.

Table 2.2 Korea's notified RTAs in force: main features, 2016

RTAS ENTERED INTO FORCE DURING THE REVIEW PERIOD (2012–16)	
Korea–China	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	01/06/2015
Entry into force	20/12/2015
End of transition period for Korea	2035
Coverage (selected features)	Goods and services
Korea's merchandise trade with China (2014)	17.1% of total imports; 25.4% of total exports
WTO consideration status	Factual presentation not distributed
WTO document series	WT/REG370/N/1-S/C/N/854, 2 March 2016
Korea–New Zealand	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	23/03/2015
Entry into force	20/12/2015
End of transition period for Korea	2034
Coverage (selected features)	Goods and services
Korea's merchandise trade with New Zealand (2014)	0.3% of total imports; 0.3% of total exports
WTO consideration status	Factual presentation not distributed
WTO document series	WT/REG367/N/1-S/C/N/855, 4 January 2016
Korea–Viet Nam	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	05/05/2015
Entry into force	20/12/2015
End of transition period for Korea	2029
Coverage (selected features)	Goods and services
Korea's merchandise trade with Viet Nam (2014)	1.5% of total imports; 3.9% of total exports
WTO consideration status	Factual presentation not distributed
WTO document series	WT/REG371/N/1-S/C/N/861, 10 March 2016
Korea–Canada	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	22/09/2014
Entry into force	01/01/2015
End of transition period for Korea	2032
Coverage (selected features)	Goods and services, investment
Korea's merchandise trade with Canada (2014)	1.0% of total imports; 0.9% of total exports
WTO consideration status	Factual presentation distributed
WTO document series	WT/REG362/N/1-S/C/N/789, 20 January 2015
Korea–Australia	
Type of agreement	Free trade agreement and economic integration agreement

[27] WTO online information. Viewed at: https://www.wto.org/english/news_e/news16_e/ds464apl_19apr16_e.htm.

[28] UNCTAD online information. Viewed at: http://investmentpolicyhub.unctad.org/IIA/CountryOtherIias/111#iiaInnerMenu.

Date of signature	08/04/2014
Entry into force	12/12/2014
End of implementation period	2033
Coverage (selected features)	Goods and services, investment
Korea's merchandise trade with Australia (2014)	3.9% of total imports; 1.8% of total exports
WTO consideration status	Factual presentation distributed
WTO document series	WT/REG359/N/1-S/C/N/786, 22 December 2014
Korea–Turkey	
Type of agreement	Free trade agreement
Date of signature	01/08/2012
Entry into force	01/05/2013
End of implementation period	2023
Coverage (selected features)	Goods
Korea's merchandise trade with Turkey (2014)	0.1% of total imports; 1.2% of total exports
WTO consideration status	Factual presentation distributed
WTO document series	WT/REG339/N/1, 1 May 2013
RTAS ENTERED INTO FORCE BEFORE 2012	
ASEAN–Republic of Korea Free Trade Area (AKFTA)	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	24/08/2006 (goods) 21/11/2008 (services)
Entry into force	01/01/2010 (goods) 01/05/2009 (services)
End of transition period for Korea	On 1 June 2007 for goods, and on 1 May 2009 for services. Korea's tariff rates on 90.8% of all products were reduced gradually to zero in 2010, and the rates on 5.4% of items are to be reduced to a range from zero to 5% by 2016. Trade in 3.1% of tariff items are liberalized in four ways: 50% tariff rate capping; tariff reduction by 20%; tariff reduction by 50%; or tariff quota system. The remaining 0.77% of tariff items (including rice) are exempted from tariff concessions.
Coverage (selected features)	Goods and services. A Korea–ASEAN FTA in Trade in Investment was signed on 2 June 2009, and entered into force in September 2009 for Korea.
Korea's merchandise trade with ASEAN (2014)	10.2% of total imports; 14.8% of total exports
WTO consideration status	Factual presentation not distributed
WTO document series	WT/REG287/N/1-S/C/N/559, 8 July 2010; and WT/COMTD/N/33-S/C/N/560, 8 July 2010
Asia-Pacific Trade Agreement (APTA)	
Parties	Bangladesh; China; India; Korea, Republic of; Lao People's Democratic Republic; Sri Lanka
Type of agreement	Partial scope agreement
Date of signature	31/07/1975
Entry into force	17/06/1976
Remarks	Formerly known as "Bangkok Agreement". Entry into force of the amended Agreement: 01/09/2006.
End of implementation period	02/11/1976 Under this agreement, Korea grants concessions on 1,367 ten-digit HS items.
Coverage	Goods
Korea's merchandise trade with other APTA members (2014)	18.2% of total imports; 27.9% of total exports
WTO consideration status	Report adopted
WTO document series	WT/COMTD/N/22, 27 July 2007; WT/COMTD/62, 27 July 2007
Korea–Chile	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	01/02/2003
Entry into force	01/04/2004
End of transition period for Korea (goods liberalization)	Korea undertook to eliminate tariffs on over 96% of its tariff lines within ten years, under a phased elimination schedule.
Coverage (selected features)	Goods, services, investment
Korea's merchandise trade with Chile (2014)	0.9% of total imports; 0.4% of total exports
WTO consideration status	Factual presentation distributed
WTO document series	WT/REG169/N/1-S/C/N/302, 19 April 2004
Korea–EFTA	
Parties	Iceland; Liechtenstein; Norway; Switzerland; Korea, Republic of
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	15/12/2005
Entry into force	01/09/2006
End of transition period for Korea (goods	Korea eliminated tariffs on 88%-88.5% of its tariff lines (excluding basic

liberalization)	agricultural items) by 2016.
Coverage (selected features)	Goods and most services
Korea's merchandise trade with EFTA members (2014)	1.1% of total imports; 0.4% of total exports
WTO consideration status	Factual presentation distributed
WTO document series	WT/REG217/N/1-S/C/N/373, 28 August 2006
Korea–EU	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	06/10/2010
Entry into force	01/07/2011
End of transition period for Korea (goods liberalization)	By the end of the implementation period (2031), 11,843 of Korea's tariff lines (99.5%) will be duty-free for imports from the EU, representing more than 99.99% of the value of Korea's imports from the EU; practically all customs duties on industrial goods will be fully removed within the first five years of implementation; Korea's 40% customs duty on beef is to be phased out over a period of 16 years; rice and a few other agricultural products (57 tariff lines), of which the EU is not a significant exporter, are excluded from the agreement.
Coverage (selected features)	Goods and services
Korea's merchandise trade with the EU (2014)	11.9% of total imports; 9.1% of total exports
WTO consideration status	Factual presentation distributed
WTO document series	WT/REG296/N/1-S/C/N/594, 8 July 2011
Korea–India	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	07/08/2009
Entry into force	01/01/2010
End of implementation period	Korea eliminated or reduced immediately tariffs on 93% of tariff items and 90% of the trade value of Indian goods. Trade liberalization excludes highly sensitive agriculture, fisheries and forestry products.
Coverage (selected features)	Goods, services
Korea's merchandise trade with India (2014)	1.0% of total imports; 2.2% of total exports
WTO consideration status	Factual presentation not distributed
WTO document series	WT/REG286/N/1-S/C/N/558, 1 July 2010; WT/COMTD/N/36-S/C/N/570, 29 September 2010
Korea–Peru	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	21/03/2011
Entry into force	01/08/2011
End of implementation period	2027. All tariffs on the items currently traded between the two countries will be eliminated within ten years. Both parties agreed to exclude rice from all concessions. Korea limits preferential treatment on several other sensitive agricultural goods with seasonal tariffs or safeguard measures.
Coverage (selected features)	Goods, services
Korea's merchandise trade with Peru (2014)	0.3% of total imports; 0.2% of total exports
WTO consideration status	Factual presentation distributed
WTO document series	WT/REG298/N/1-S/C/N/598, 10 August 2011
Korea–Singapore	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	04/08/2005
Entry into force	02/03/2006
End of implementation period	Immediate liberalization of 59.7% of Korea's goods imports from Singapore. The end of the implementation period is 2016.
Coverage (selected features)	Goods and services
Korea's merchandise trade with Singapore (2014)	2.2% of total imports; 4.2% of total exports
WTO consideration status	Factual presentation distributed
WTO document series	WT/REG210/N/1-S/C/N/363, 24 February 2006
Korea–United States (KORUS FTA)	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	30/06/2007
Entry into force	15/03/2012
End of implementation period	2031. Korea undertook to eliminate tariffs on 96% of its non-agricultural tariff lines within five years, with virtually all remaining tariffs eliminated within ten years. Tariffs and quotas on a broad range of agricultural products will be eliminated immediately or phased out; 40% of Korea's agricultural product tariff lines or almost two thirds (by value) of its agriculture imports from the United States became duty-free upon entry into force. Rice is exempted from any tariff obligation.
Coverage (selected features)	Goods, services

Korea's merchandise trade with the United States (2014)	8.7% of total imports; 12.3% of total exports
WTO consideration status	Factual presentation distributed
WTO document series	WT/REG311/N/1-S/C/N/621, 16 March 2012

Source: WTO Secretariat, based on information from the WTO RTA database. Viewed at: http://rtais.wto.org/UI/PublicSearchByMemberResult.aspx?MemberCode=410&lang=1&redirect=1; UNCTAD online information. Viewed at: http://investmentpolicyhub.unctad.org/IIA/CountryOtherIias/111#iiaInnerMenu; and information provided by the authorities.

2.37. Korea is also a party to the Trade in Services Agreement (TISA) negotiations. In November 2012, the launch of Korea-China-Japan RTA and the RCEP (Regional Comprehensive Economic Partnership) negotiations were officially announced. Korea is currently negotiating bilateral FTAs with six Central American countries (El Salvador, Panama, Guatemala, Honduras, Nicaragua and Costa Rica) and with Ecuador. On 24 May 2016, Korea reached an agreement with Israel to launch FTA negotiations.

2.38. Korea also provides preferential tariff treatment to a limited number of imports from other developing countries.[29] Based on the 2016 tariff schedule in HS 2012 nomenclature:

a. out of 30 ten-digit HS 2012 tariff items subject to tariff preferences for 43 countries under the Global System of Trade Preferences (GSTP), 9 are subject to a rate lower than the MFN applied rate;

b. under the GATT Protocol Relating to Trade Negotiations Among Developing Countries (TNDC) for 12 countries, out of 22 ten-digit HS 2012 tariff items, 6 are subject to a rate lower than the MFN applied rate.

2.39. In 2015, annual imports subject to actual preferential rates under these schemes were: US$32.3 million or 0.01% of total imports under the GSTP, and no imports under the TNDC.

2.6.3 Preferential trade agreements

2.40. Korea has been providing duty-free market access for imports from 48 UN-defined least developed countries (LDCs) (Table 3.2). On the other hand, Korea, as a developing country, is eligible for trade preferences under the GSP schemes of Australia, Belarus, Kazakhstan, and the Russian Federation.[30]

2.6.4 Other agreements and arrangements

2.6.4.1 Asia-Pacific Economic Cooperation (APEC)

2.41. APEC's trade efforts focus on its members meeting unilateral targets for liberalization and for better quality measures in a broad range of areas, from customs procedures and standards to subsidies and contingency measures.[31] Korea intends to meet APEC's voluntary target of free and open trade, including in services and investment by 2020. Korea's latest IAP (Individual Action Plan) on the assessment of achievements of the Bogor Goals, which is a roadmap (updated every two years) containing APEC members' intended actions in 15 policy areas to achieve APEC's liberalization goals, was done in 2014.[32] According to this IAP, Korea planned to make further improvements in the following areas: tariffs; non-tariff measures; services; investment; standards and conformance; customs procedures; intellectual property rights; government procurement; and deregulation and regulatory review. The authorities indicated that an update for 2016 was submitted.

[29] WTO RTA database. Viewed at: http://rtais.wto.org/UI/PublicShowMemberRTAIDCard.aspx?rtaid=146.

[30] WTO PTA database. Viewed at: http://ptadb.wto.org/Country.aspx?code=410.

[31] APEC's 21 member economies are: Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; the Philippines; Russian Federation; Singapore; Chinese Taipei; Thailand; the United States; and Viet Nam.

[32] APEC online information. Viewed at: http://www.apec.org/About-Us/About-APEC/Achievements%20and%20Benefits/2014-Bogor-Goals.aspx.

2.6.4.2 Asia-Europe Meetings (ASEM)

2.42. The Asia-Europe Meetings are informal dialogues and cooperation programmes among 53 European and Asia-Pacific partners[33]. Summits are held every two years with discussions on a range of economic, political, security and social issues. ASEM has been working on a Trade Facilitation Action Plan (TFAP) for some years, aiming to reduce non-tariff barriers, increase transparency, and promote trade opportunities within the two regions. It specifies biannual goals in the priority areas of customs, standards and conformity assessment, public procurement, quarantine and SPS, intellectual property, mobility of business people, and other trade activities, such as market access in distribution.

2.6.4.3 Trade with the Democratic People's Republic of Korea

2.43. Korea regards trade with the Democratic People's Republic of Korea as intra-Korean commerce in accordance with the 1992 Agreement on Reconciliation, Non-Aggression and Exchange and Cooperation. Such trade is therefore exempt from tariffs, although approval must be obtained from the Minister of Unification of the kind of products traded, the type of transaction, and the settlement method. However, trade with the Democratic People's Republic of Korea has been prohibited since 24 May 2010, except for goods manufactured in the Gaeseong Industrial Complex (located in the Democratic People's Republic of Korea). On 10 February 2016, the Government closed down the Gaeseong Industrial Complex (Section 3.2.6).

2.7 Foreign Direct Investment

2.7.1 Overview

2.44. According to the World Bank's Doing Business 2016 report, Korea's rank improved further from 8th in 2012, to 4th in 2016 out of 183 countries in overall terms of the ease of doing business.[34] It ranked 23rd in terms of the ease of starting a business, up from 24th in the 2012 report. According to the 2016 report, entrepreneurs have to go through 3 steps to start a business, which takes on average 4 days; in the OECD area, the average is 4.7 procedures and 8.3 days.[35] Korea abides by OECD Codes of Liberalization of Capital Movements and of Current Invisible Operations, and the National Treatment Instrument.

2.45. The main legislation governing foreign investment, the Foreign Investment Promotion Act, was most recently amended in January 2016 (by Act No. 13426, which will enter into force on 28 August 2016), with a view to simplifying procedures including those for FDI notifications and registrations. Recent amendments to the Foreign Investment Promotion Act also allowed exceptions to the Monopoly Regulation and Fair Trade Act. In accordance with the Monopoly Regulation and Fair Trade Act, to prevent excessive concentration of economic power, every second-tier subsidiary of a general holding company is prohibited from holding stocks of any domestic affiliate, except when a second-tier subsidiary holds the total outstanding stocks of a domestic affiliate company. However, the amended Foreign Investment Promotion Act allows second-tier subsidiaries to hold 50% or more of the domestic affiliate, while the foreign partner holds 30% or more.[36]

2.46. FDI is regulated by the Foreign Investment Committee, which consists of representatives of various agencies and ministries including the MOSF and the MOTIE. The central and local government agencies designate foreign investment promotion offices to provide support for foreign investment, and the Korea Trade-Investment Promotion Agency (KOTRA) facilitates and promotes FDI (Section 2.3). KOTRA operates a number of Korea Business Centres (KBCs) worldwide. The main business arm of KOTRA – InvestKorea, functions as a one-stop shop for foreign investors. The Office of the Foreign Investment Ombudsman (and its grievance resolution body), under

[33] The partners are: the 28 EU member States, the European Commission, the ASEAN 10, the ASEAN Secretariat, and Australia, China, India, Japan, Republic of Korea, Mongolia, New Zealand, Pakistan, and the Russian Federation.

[34] World Bank online information. Viewed at: http://www.doingbusiness.org/data/exploreeconomies/korea/.

[35] World Bank online information. Viewed at: http://www.doingbusiness.org/data/exploreeconomies/korea/#starting-a-business.

[36] KOTRA (2015).

KOTRA, handles specific grievances encountered by foreign investors in Korea. The number of cases handled by the Office of the Foreign Investment Ombudsman increased from 383 in 2013 to 462 in 2015.[37]

2.47. The Government tries to attract FDI by issuing an FDI Promotion Policy annually. The main target is to attract high-value-added projects by making the regulatory environment more business friendly and enhancing policy transparency.[38] Also, meetings between foreign investors and relevant government officials have been held regularly since 2015, to facilitate communication between the two sides. The Government introduced a global headquarter and R&D centre programme in October 2014: employees working at global headquarters and R&D centres may obtain cash grants and income tax reductions or exemptions. Furthermore, from October 2014, businesses renting state/public properties began to benefit from different discount rates on their rents depending on the number of job opportunities created.

2.48. Prior notification by foreign investors is needed: foreign investors or their agents must inform KOTRA, Korean Business Centres (KBC) of KOTRA, headquarters and branches of foreign exchange banks, or domestic branches of delegated foreign banks, of their investment. According to the Banking Act, Insurance Business Act, and Financial Investment Services and Capital Market Act, foreign financial institutions must be approved by the Financial Services Commission (FSC). Approval from the Government is only required in the case of financial services and the defence industry.[39]

2.49. Land acquisition by foreigners in Korea is governed by the Foreign Investment Promotion Act, the Foreigner's Land Acquisition Act, and the Foreign Exchange Transactions Act. Acquisition procedures are different for those areas requiring permission, and those requiring reporting. The authorities stated that regulations and limitations on the acquisition, usage, and development of land are applied uniformly to Koreans and to foreign nationals.

2.7.2 FDI restrictions

2.50. Except as otherwise prescribed by other legislation of the Republic of Korea, a foreigner may conduct, without restraint, various activities related to foreign investment in the country. Foreign investment restrictions apply in the following cases: where it threatens the maintenance of national safety and public order; where it has harmful effects on public hygiene or environmental preservation or is against Korean morals and customs; and where it violates the Acts and subordinate statutes of the Republic of Korea. According to the authorities, out of a total of 1,145 categories of businesses under the Korean Standard Industrial Classification (KSIC), foreign investment is not permitted in 60 categories (5.2%) of businesses including public administration, diplomacy, and national defence (unpermitted category of business), while it is partially permitted in 29 categories (2.5%) of businesses (restricted category of business), as prescribed by the Foreign Investment Promotion Act (Table 2.3).

Table 2.3 FDI restricted sectors

Sector/business	FDI limitation
A. Closed	
Nuclear power generation	Wholly closed
Broadcasting	
Radio broadcasting	Wholly closed
Over-the-air broadcasting	Wholly closed
B. Partially closed	
Growing of crops	Allowed, except for rice and barley growing
Farming of animals	Allowed, except for beef cattle (less than 50% foreign equity)
Fishing	Allowed, except for inshore and coastal fishing (less than 50% foreign equity)
Manufacture of chemicals and chemical products, and manufacture of basic	Allowed, excluding the manufacture and supply of fuel for nuclear power generation

[37] Office of the Foreign Investment Ombudsman (2016).

[38] Foreign Investment Regulatory Reforms Plan, 6 May 2015. Viewed at: http://www.investkorea.org/en/news/notice.do?mode=download&articleNo=32701&attachNo=7561.

[39] Where a foreign investor intends to make foreign investment in a defence industry company, the foreign investor must obtain permission from the MOTIE in advance. The MOTIE must consult with the Ministry of National Defence before determining on the permission.

Sector/business	FDI limitation
metal products	
Electricity	
Hydroelectric, fire, and other power generation (except for nuclear power generation)	Foreign nationals may purchase from the KEPCO (Korea Electric Power Corporation) no more than 30% of all domestic power generation facilities
Transmission and distribution of electric power	Less than 50% foreign equity, and the largest shareholder is Korean
Waste collection, disposal and material recovery	Allowed, except for disposal of radioactive waste
Wholesale trade and commission trade	Allowed, except for wholesale of meat (less than 50% foreign equity)
Water transport	Allowed between the Republic of Korea and the Democratic People's Republic of Korea; less than 50% foreign equity; foreign investors must enter into joint ventures with domestic shipping companies Not allowed for coastal water passenger/freight transport
Air transport	Less than 50% foreign equity
Supporting air transport activities	Allowed, except for aircraft maintenance, repair and overhaul (less than 50% foreign equity)
Publishing activities	
Publishing of newspapers	Less than 30% foreign equity
Publishing of magazines and periodicals	Less than 50% foreign equity
Broadcasting	
Programme distribution	No more than 49% foreign equity (no more than 20% foreign equity for general service programming; and no more than 10% foreign equity for specialized programming of news reports) No foreign equity restriction for: (1) programme providers, except for general service programming, specialized programming of news reports, or specialized programming of sales; (2) according to the FTA between Korea and the United States
Cable networks	No more than 49% foreign equity (wholly closed for cable CATV broadcasting business)
Broadcasting via satellite and other broadcasting	No more than 49% foreign equity (no more than 20% foreign equity for general service programming; and no more than 10% foreign equity for specialized programming of news reports) No foreign equity restriction for: (1) Internet multimedia broadcast services, except for general service programming, specialized programming of news reports, or specialized programming of sales; (2) according to the FTA between Korea and the United States
Telecommunications (wired, wireless, satellite, and other telecommunication)	No more than 49% foreign equity (no more than 20% foreign equity for Internet multimedia broadcast service which provide general service programming or specialized programming of news reports) No foreign equity restriction for: (1) taking the examination of the Public Interest Examination Committee; (2) under the FTA between Korea and the United States, and between Korea and the EU
Information service activities	Allowed, except for news agency activities (less than 25% foreign equity)
Financial institutions	Allowed, except for special banks

Source: Information provided by the Korean authorities.

2.51. Since the previous Review, there have not been any major changes in the country's FDI restrictions. However, some changes were made regarding the broadcasting and telecommunications sectors. In 2015, the Government stipulated exceptions to foreign investment restrictions in domestic laws[40] regarding the broadcasting sector (including programme distribution and internet multimedia broadcast services) and telecommunications businesses, to reflect the requirements of some RTAs.

[40] These include the Broadcasting Act, Internet Multimedia Broadcasting Business Act, and Telecommunications Business Act.

2.7.3 FDI incentives

2.52. The Government has been providing various incentives to attract foreign investment. The incentives typically take the form of tax incentives, cash grants, and industrial site support.

2.7.3.2 Tax incentives

2.53. Korea provides a range of tax incentives for FDI (Table 2.4). They are provided for limited periods and on an MFN basis. Minimum investment requirements apply in some cases.

Table 2.4 Summary of FDI tax incentives, 2016

(a) National tax (corporation tax, income tax) and local tax[a] (acquisition tax, property tax) reductions

Business category	Investment amount	Reduction period and details
Industry support services & high degree technology businesses **Businesses in stand-alone-type foreign investment zones (FIZ)[b]**		Seven years in total according to the following ratio (amount multiplied by the foreign investment ratio) - 100% for five years after income creation - 50% for next two years
Manufacturing	Over US$30 million	
Tourism	Over US$20 million	
Logistics	Over US$10 million	
R&D	Over US$2 million, with more than 10 employees with Master's degree or above	
Businesses in free economic zones (FEZ), including Saemangeum Area		Five years in total according to the following ratio (amount multiplied by the foreign investment ratio) - 100% for three years after income creation - 50% for next two years
Manufacturing	Over US$10 million	
Tourism	Over US$10 million	
Logistics	Over US$5 million	
Medical institutions	Over US$5 million	
R&D	Over US$1 million	
Free economic zones (FEZ), including Saemangeum Area, developers		
	Over US$30 million; over 50% of foreign shares and US$500 million on business costs	
Jeju investment promotion district developers		
	Over US$10 million; over 50% of foreign shares and US$100 million on business costs	
Businesses in complex-type foreign investment zones (FIZ)[b]		
Manufacturing	Over US$10 million	
Logistics	Over US$5 million	
Businesses in business city development zones		
Manufacturing	Over US$10 million	
Engineering		
Additional communication		
Information processing & other computer operation-related businesses		
Science & technology services		
Tourism		
Culture industry		
Various facilities		
Renewable energy generation		
R&D	Over US$2 million	
Logistics	Over US$5 million	
Business city developers		

	Over US$30 million; over 50% of foreign shares and US$500 million on business costs	
Businesses in free trade zones		
Manufacturing	Over US$10 million with more than 100 full-time employees	
Logistics	Over US$5 million	

(b) Exemption of tariffs, special excise tax, VAT, etc.

Business category	Taxes	Items	Remarks
Industry support services & high degree technology businesses	Tariff; individual consumption tax; VAT	Capital goods imported with invested cash or as investment objects	On condition of import within five years from the day of declaring foreign investment
Businesses in stand-alone-type foreign investment zones (FIZ)	Tariff; individual consumption tax; VAT		
Free economic zones (FEZ), including Saemangeum Area, developers	Tariff		
Jeju investment promotion district developers			
Businesses in complex-type foreign investment zones (FIZ)			
Businesses in free trade zones (FTZ)			

a According to the local government regulations, the period of local tax reduction may be extended up to 15 years, or the reduction ratio may be increased.

b Free export zones (Iksan, Massan) are considered as stand-alone-type foreign investment zones, with no limitations on investment amount for establishing factory facilities.

Source: Information provided by the Korean authorities.

2.54. As tax incentives may contribute to inefficient allocation of resources, and their cost effectiveness is questionable, the Government has been paying attention to ensure that the financial and efficiency costs of incentives do not exceed their stated benefits. Efforts made in this regard include:

a. establishing the maximum amount of cumulative tax incentives to prevent excessive tax exemptions and reductions, i.e. the amount equals 50% (or 40%) of accrued foreign investment in the case of 7-year (or 5-year) tax exemptions and reductions;

b. establishing the maximum amount of ceiling extension for job creation, i.e. the amount equals 40% (or 30%) of accrued foreign investment in the case of 7-year (or 5-year) tax exemptions and reductions;

c. publishing annually tax expenditures for the previous/current/following years, to improve transparency in the tax incentive system.

2.7.3.3 Cash grants

2.55. Where foreign investment meets certain conditions, the central and local governments provide cash grants for projects such as the construction of a new factory. These conditions include whether the relevant foreign investment incorporates advanced technology, the effect of technology transfer, the extent of job creation, the "propriety of the location" in which foreign investment is to be made, and the effect on the local and national economy. The exact cash grant ratio is determined through negotiations with the investor. To be eligible for cash grants, a foreign investor must own at least 30% of the equity.[41]

[41] KOTRA (2015).

2.7.3.4 Industrial site support

2.56. In accordance with the Foreign Investment Promotion Act, the Special Act on Designation and Management of Free Trade Zones, and the Special Act on Designation and Management of Free Economic Zones, the Government may designate foreign investment zones (FIZs), free trade zones (FTZs), and free economic zones (FEZs) to attract foreign investment (Table 2.5). The locations designated for FDI may vary in terms of eligibility for occupation, targeted industries, and investment incentives (rent, taxation, customs duty, and cash grants) (Table A2.2).

Table 2.5 Industrial sites for foreign investors as of 2016

Industrial site system		Designated region	No. of locations
Foreign investment zone	Complex-type	Jangan High-Tech Industrial Complex No. 1 & No. 2, Oseong Industrial Complex, Dang-dong Industrial Complex, Cheonan Industrial Complex, Cheonan Industrial Complex No. 5, Inju Industrial Complex, Ochang Industrial Complex, Woljeon Industrial Complex, Daebul Industrial Complex, Iksan Industrial Complex (parts), Mieum Parts Industrial Complex in Busan, Sacheon Industrial Complex, Jisa Industrial Complex, Changwon Industrial Complex (parts), Dalseong Industrial Complex, Pohang Industrial Complex (parts), Gumi Industrial Complex (parts), Munmak Industrial Complex, Jincheon-Sansu Industrial Complex, Songsan 2 Industrial Complex, Iksan Food Cluster	21
	Individual-type	Manufacturing industry (65 companies), service industry (10 companies)	75
	Service-type	IDS-K (Daejeon)	1
* Rental complex for foreign-invested companies in Gyeonggi Province	Hyeongok Industrial Complex, Poseung Industrial Complex, Chupal Industrial Complex, Eohyeon-Hansan Industrial Complex		4
Free trade zone	Industrial complex-type	Ulsan Free Trade Zone, East Sea Free Trade Zone, Gunsan Free Trade Zone, Gimje Free Trade Zone, Daebul Free Trade Zone, Yulchon Free Trade Zone, Masan Free Trade Zone	7
	Ports and airports-type	Port of Busan, Port of Pohang, Dangjin-Pyeongtaek Port, Port of Gwangyang, Port of Incheon, Incheon International Airport	6
Free economic zone	Busan-Jinhae Free Economic Zone, Gwangyang Bay Area Free Economic Zone, Incheon Free Economic Zone, Yellow Sea Free Economic Zone, Daegu-Gyeongbuk Free Economic Zone, Saemangeum-Gunsan (Saemangeum project area) Free Economic Zone, East Coast Free Economic Zone, Chungbuk Free Economic Zone		8

Source: KOTRA (2015), *Doing Business in Korea*, 24 September. Viewed at: http://www.investkorea.org/en/published/publications.do?mode=view&articleNo=71376.

2.7.4 Other

2.57. Korea is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA), the International Convention on the Settlement of Investment Disputes between States and Nationals of other States (ICSID Convention), and party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). Several of its RTAs contain

investment provisions, such as those with Australia, Canada, Chile, China, Colombia, India, Peru, Singapore, and the United States.[42]

2.58. Korea has 95 bilateral investment treaties (BITs) in force. During the review period, Korea signed a BIT with Myanmar (in 2014), which has not yet entered into force.

2.59. As of end-July 2015, Korea has bilateral tax treaties (conventions for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital) in force with 85 countries. The MOSF considers that, in addition to the primary objective of avoiding international juridical double taxation, tax treaties serve purposes such as promoting the introduction of advanced technology and capital from abroad as well as encouraging business expansion of domestic companies in foreign countries.[43] Among the 85 bilateral tax treaties, eight entered into force since 2012 (with Bahrain, Colombia, Ecuador, Gabon, the Kyrgyz Republic, Panama, Peru, and Uruguay).

2.60. The authorities indicated that Korea does not maintain any restrictions on investment abroad. Investors are required to give their bank prior notice or an *ex post facto* report.

[42] UNCTAD online information. Viewed at: http://investmentpolicyhub.unctad.org/IIA/CountryOtherIias/111#iiaInnerMenu.

[43] Ministry of Strategy and Finance (2015).

3 TRADE POLICIES AND PRACTICES BY MEASURE

3.1 Introduction

3.1. Since its previous Trade Policy Review, the general thrust of the Republic of Korea's trade policy has remained relatively unchanged. While no unilateral liberalization has been undertaken, there have been policy developments in certain areas including trade facilitation, rice tariffication, preferential trade agreements, sanitary and phytosanitary requirements, government procurement, competition policy, and intellectual property rights. Some measures continue to protect domestic producers, especially farmers, from foreign competition.

3.2. The tariff remains one of the main trade policy instruments and a significant, albeit declining, source of tax revenue (3.9% of total tax revenue in 2015). Although most tariff lines are *ad valorem*, and therefore transparent, the tariff involves a multiplicity of rates (85 *ad valorem* duties, 44 alternate duties, and 1 specific duty). As a result of the insertion of 16 tariff lines at 513% (rice and rice products), the splitting of tariff lines with high rates and the merger of tariff lines with low rates, the average applied MFN tariff rate increased from 13.3% in 2012 to 14.1% in 2016, which remains high by OECD-country standards, thereby requiring tariff concessions or drawbacks to ensure that tariffs on intermediate inputs do not become taxes on exports; these measures add to the complexity of border taxation.

3.3. Peak *ad valorem* rates continue to apply to agriculture (WTO definition). Tariff rates range from zero to 887.4% (manioc); similarly to 2012, 85% of rates were at 10% or below. Under its multilateral agricultural market-access commitments, Korea applies tariff-rate quotas; some of its out-of-quota rates are sufficiently high to, in effect, constitute quantitative restrictions whereas in-quota tariff rates are much lower, ranging from zero to 50%. Nevertheless, the persistently large proportion of these quotas that are unfilled is largely due to lack of sufficient domestic demand as well as an increase in international prices, more imports from regional (or bilateral) free trade agreement (RTA/FTA) partners, or sanitary measures related to the outbreak of diseases in exporting countries, rather than the administration and allocation of these quotas. Other measures, such as autonomous tariff quotas that selectively reduce tariffs on inputs, are a potential impediment to efficient resource use and add to tariff complexity and uncertainty.[1] While 90.1% of tariff rates are bound, the average gap of 4.4 percentage points between applied and bound MFN rates (8.6 percentage points for agricultural items (WTO definition)), allows leeway to raise applied tariffs. Indeed, Korea has used this leeway to apply higher MFN tariff rates, termed "flexible tariffs", which the authorities maintain are within WTO bindings; during the review period the role of the "flexible tariffs" on price stabilization was reduced, *inter alia,* due to low inflation. Korea intends to reduce, or remove gradually, non-*ad valorem* tariffs, and "flexible tariffs" in line with the reduction undertakings resulting from RTAs/FTAs.

3.4. Korea's customs clearance performance is welcome at international level. During the review period, its trade facilitation developments include the ratification of the WTO Trade Facilitation Agreement (TFA) in 2015, the expansion of its authorized economic operator-related mutual recognition arrangements, and the introduction of a *de minimis* clearance process for consumption goods purchased online as from 2014. Regarding customs valuation, it reduced the dutiable freight charge for express cargo with a weight of 3 kg or less, passed legislation allowing the joint application of a unilateral advance pricing arrangement, and enacted an advance customs valuation arrangement. RTA/FTA promotion activities to help companies utilize trade preferences *inter alia* subject to diverse and complicated rules of origin were continued.

3.5. Rice import quotas under Korea's WTO minimum market access (MMA) commitments were replaced as of 1 January 2015 by a tariff-rate quota of 5% and a virtually prohibitive 513% out-of-quota duty. Import licensing requirements cover numerous tariff items and prohibitions are maintained mostly for the protection of public morals, human health, hygiene and sanitation, animal and plant life, environmental conservation, or essential security interests in compliance with domestic legislation requirements or international commitments. Korean industrial standards have been reduced over the review period and those adopted in mandatory technical regulations decreased by 39%; the share of those harmonized with international standards increased. During the review period, a mandatory organic certification programme was introduced and changes were made, *inter alia,* in the areas of reporting, declaration of conformity, testing and environmental

[1] The authorities consider that autonomous tariff quotas are raising efficiency of resource use.

impact review as well as maximum residue limits, food additives, and genetically engineered animals. As of 2015, Korea has been shifting its maximum residue limits system to a new "positive list" system (PLS) for agrochemical residues inhibiting the use of non-registered pesticides which are not evaluated by scientific assessment. A traceability system for infant/baby food and health functional foods, labelling requirements for tobacco health warnings and biotech crops and food were introduced. During the period under review, recourse to anti-dumping action doubled; Korea continued to use anti-dumping provisions, mainly against imports of chemicals, plastics, and stainless steel originating mostly in Asia. Price-based special safeguard provisions (SSGs) under the WTO Agreement on Agriculture have been used on ginseng and rice and related products, while volume-based SSGs were imposed for the first time since 2007 on ground-nuts, rice and related products, cereal flour and other worked grain.

3.6. Korea continued to maintain the option to restrict or monitor certain exports to ensure adequate domestic supplies, thereby possibly assisting downstream processing of these products. From 2008 to March 2015, rice was the only product subject to quantitative export restrictions (recommendations) although, in practice, there has been no trade-restrictive effect; currently no quantitative export restrictions for rice or any other agricultural products are in place. On the other hand, direct export subsidies are maintained to reduce marketing costs for certain agricultural products. A drawback scheme continues to provide refunds of border taxes on raw materials used in exports. Internal indirect taxes are reimbursed on exports, while income tax relief is accorded only to foreign investment enterprises located in free trade zones (FTZs). Exporters benefit from export credit insurance, finance, and the promotional activities provided by state-owned institutions.

3.7. Measures involving grants, tax concessions, and low-interest loans continued to support production and trade of various agricultural, forestry, fishing, coal mining and manufactured products, and to encourage SMEs, R&D, and environmental-protection activities. Although tax incentives were to terminate automatically in accordance with sunset clauses, many were extended. SMEs remain among the major beneficiaries of these measures, which are especially generous for information technology activities. However, a 2015 policy direction is aimed at reducing guarantees to mature SMEs and focusing on start-ups and early-stage SMEs; those facing problems of access to raw materials are supported by a fund. Agriculture receives substantial domestic financial support. Compensation or adjustment support for farmers and manufacturers adversely affected by a bilateral free trade agreement remains in place.

3.8. State involvement in the economy persists as the limited privatization efforts during the review period were widely opposed; however, action *inter alia* involving increased transparency, the reduction of the debt level, and improved management efficiency of public institutions was undertaken. The Ministry of Agriculture, Food and Rural Affairs (MAFRA) is the sole entity responsible for imports of all rice within the tariff quota, and the state-owned Korea Agro-Fisheries and Food Trade Corporation (aT) for some other agricultural items; their operations allow for important price mark-ups. Although no substantial changes were made to the main government procurement legislation, since 14 January 2016, additional market opening commitments in the form of a reduction of threshold values and a slight expansion of entities covered have been undertaken as a result of the implementation of the revised WTO Agreement on Government Procurement (GPA); nevertheless, the already small share of foreign supplies continued to fall during the review period. Meanwhile, government procurement is still seemingly used as an instrument of economic policy for promoting SMEs, companies in a disadvantageous position (firms owned by women and disabled people), regional development, and green purchasing despite the non-utilization of price preference schemes. Most procurement remains decentralized.

3.9. During the review period, several legislative changes necessary for the realization of economic democratization as well as to reflect the actual market situation and improve regulations were undertaken under the competition policy framework; its sectoral coverage exemptions remain unchanged. A prohibition on new cross-shareholding (i.e. circular-shareholding) between subsidiaries under large business groups, many of which are family-controlled (*chaebols*), was introduced, but market concentration remains relatively high. Large corporations and SMEs are encouraged to voluntarily sign an agreement on fair trade and shared growth. Consumer protection has been reinforced by strengthening law enforcement with respect to products and areas that closely affect consumers such as daily necessities and e-commerce. Korea's intellectual property rights legislation has been strengthened with wide-ranging amendments, including the expansion of copyright protection during the author's life plus 70 years, *inter alia,* to facilitate the

implementation of the Government's "creative economy" vision. Protection was further enhanced with the continuous expansion of international commitments, and other enforcement improvements.

3.2 Measures Directly Affecting Imports

3.2.1 Customs procedures

3.10. Import declarations must be made by consignees, customs brokers or corporations for customs brokerage/clearance.

3.11. Customs clearance, including declaration procedures, and cargo management systems are fully computerized. The Korea Customs Service (KCS) operates a seven-fields paperless e-clearance system (UNI-PASS, a KCS brand name) to handle export/import clearance operations, import cargo management, duties collection, the duties drawback system, and a single window system covering requirement-confirmation processes (see below), including quarantine and inspection. The UNI-PASS portal, which allows for trade and customs formalities anytime without having to visit each government entity, continues to be exported to other countries and was last updated in April 2016.[2] The KCS's single window system is linked to 40 (34 in 2012) agencies (handling 88% of total import verification at end-2015) responsible for approving certain imports subject to requirements that need to be verified electronically.[3] The number of items requiring such clearance-related checks under Article 226 of the Customs Act and another 38 laws (previously 35) increased from 5,527 ten-digit HS items in 2012 to 5,566 in 2016. The payment of commissions or fees for regulatory permits and licences as well as duties and taxes for the clearance of merchandise is done online anytime. The use of the paperless clearance system expanded significantly; as of May 2016 there were 300,125 (110,000 in mid-2012) companies in the trading sector using electronic data exchange (EDI). In 2016, cargo management and import declarations remain 100% paperless.

3.12. Since 2009, Korea has used a standard e-document management system, a tool for connecting customs networks around the world, to promote trade efficiency and security within the framework of a global (networked) single window concept consisting of an export declaration in one country substituting the import declaration in the country of destination.[4] Considering the need for interconnectivity with neighbouring countries and foreign customs in achieving the objective of a global single window, the UNI-PASS system applies international standards such as World Customs Organization (WCO) Data Model (DM) 3.0, UN Codes, and open technology standards.[5] To expand the application of the global standard of customs administration, the KCS uses the system to design e-documents circulated within its internal networks; at present 96.9% (21% in 2012) of XML documents used within KCS's network are based on WCO DM. A one-stop FTA Support Centre has operated at six main customs offices spread nationwide since 2010; it

[2] Since 2005, the UNI-PASS e-clearance scheme, the world's first 100% electronic clearance portal system, has been exported to: Kazakhstan (2005), the Kyrgyz Republic (2008), the Dominican Republic (2008), Mongolia (2009), Guatemala (2009), Ecuador (2010, 2011), Nepal (2011), Tanzania (2011, 2012), Uzbekistan (2012), and Cameroon (2015), thus generating total revenue amounting to US$335.6 million. Since 2011, the previous UNI-PASS system continued to be upgraded with its 4th generation system in operation as from April 2016. The 4th generation system was developed, aiming at user-centric services (i.e. users having more control, more choices or more flexibility), the Smart clearance system, and creation of integrated IT infrastructure for information resources. The Smart customs administrations use mobile devices (e.g. small computing device) to provide services to the public such as clearance of moving items, checking export data, as well as more assistance services to customs offices involving registration of import examination and checking of exported cars.

[3] Since 2012 the Korea Feed Association, the Korea Feed Ingredient Association, the Animal and Plant Quarantine Association, KOTITI Testing and Research Institute, and the Korea Gas Safety Corporation were among the agencies that joined the system.

[4] More information about this system is available in WTO document WT/TPR/S/268/Rev.1, 8 November 2012. There is considerable impetus in regional and international fora for greater connectivity between countries, regions and across continents. The implementation of the fully fledged ASEAN Single Window (ASW) Pilot Project Component 2, the first regional initiative that seeks to enhance regional connectivity, has begun in stages since April 2015. Viewed at: http://asw.asean.org/about-asw. United Nations Economic and Social Commission for Western Asia (ESCWA) (2011).

[5] Korea Customs Service (2014).

provides personalized consultations for any difficulties arising within the RTA/FTA utilization process as well as post-management company assistance (Section 3.2.3.7).[6]

3.13. Clearance proceeds through a two-track control management system consisting of low-risk (safe track) fast clearance (e.g. exemption of inspection, and self-audits), and high-risk (non-safe track) (e.g. document audits and physical inspections).[7] Since 2009, an Authorized Economic Operator (AEO) Programme has been implemented for 9 types of entity: exporters, importers, customs brokers, warehouse operators, bonded transporters, freight forwarders, sea carriers, air carriers and ground handlers.[8] As of April 2016, under Enforcement Rule on the Authorization and Management of Authorized Economic Operators (AEO Enforcement Rule), 788 certified entities (199 in 2011) were qualified for special treatment in customs procedures, including less physical inspection, exemption from customs audit, and less administrative fines. In 2015, 26% (0.3% in 2012) of Korea's imports entered under the AEO system. Korea has significantly expanded its AEO-related mutual recognition arrangements (MRAs); as of April 2016, it had signed MRAs with 13 partners: the United States (25 June 2010); Canada (25 June 2010); Singapore (25 June 2010); Japan (20 May 2011); New Zealand (25 June 2011); China (27 June 2013); Hong Kong, China (13 February 2014); Mexico (11 March 2014); Turkey (9 June 2014); Israel (22 March 2015); the Dominican Republic (23 April 2015); India (8 October 2015); and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei) (22 December 2015). As of May 2016, MRAs with Viet Nam and Thailand were to be signed, and negotiations with Australia and the EU were to start.

3.14. In 2015, customs declarations were processed within 2 hours on average, compared to 1.75 hours in 2011; the increase was due to enhanced inspection for safety management of imports including in relation to anti-terrorism. Prior-entry import declarations are allowed (up to five days for sea and one day for air).[9] Most imports (about 96%) are cleared after being taken into a bonded area; the average clearance time from port entry to release from a bonded warehouse was 2.1 days in May 2016, down from 2.3 days in 2012. During the review period, the KCS conducted time release studies (TRS) in line with the WCO's guidelines but it was unable to disclose their results due to the comprehensiveness of the issue. A cargo selectivity system automatically selects high-risk cargo for documentary and possibly physical inspection; between 2011 and 2015, an annual average of 3% of customs clearance cases were subject to physical inspection compared to 3.4% (293,340 cases) in 2008-11. The KCS operates, on request, an "on-dock" immediate clearance system at the major ports of Busan, Incheon, and Gwangyang, to allow imports of reputable companies (with a good law compliance record) to be released before submission of import declarations (required within ten days). Some 42% (40% in 2011) of inward cargo uses this system; goods are cleared without being moved to a warehouse outside the port.

3.15. Since July 2014, a *de minimis* clearance process for consumption goods purchased online and priced at US$100 – and as from December 2015 US$150 – or lower have been exempt from documentation and taxation requirements; for goods bought from US websites the cap is raised to US$200 under the KORUS FTA.[10] To ensure consumer safety, foodstuff subject to quarantine

[6] Post management is what AEO-certified companies should do after the AEO authorization in order to maintain its validity. More specifically, it means management of post-authorization acts such as reporting any changes, conducting regular self-inspections, performing comprehensive audits, etc. Korea Customs Service online information. Viewed at: http://www.customs.go.kr/kcshome/main/content/ContentView.do?contentId=CONTENT_ID_000003180&layoutMenuNo=31121 and http://english.customs.go.kr/kcshome/main/content/ContentView.do;jsessionid=kF9xPxWB37mWScpgBdpn1h3p3ybjy6FlGmTG8FGzyl6X22gJJS7Q!3799452?contentId=CONTENT_ID_000001329&layoutMenuNo=21046 .

[7] High-risk cargo is screened out for audit and inspection through automatic checks on the degree of risk, based on compliance record, type of item, etc. Audit and inspection by customs authorities mainly aim at preventing illicit importation and tax evasion.

[8] An AEO is a company validated and authorized by the KCS in accordance with criteria under the Law on Compliance, Internal Control System, Financial Solvency and Security Management. Viewed at: http://aeo.or.kr/eng/aeoAboutaeo.do. These criteria enable eligible companies to qualify for different controls and benefits depending on their AEO classification level.

[9] According to World Bank Doing Business data, importing a shipment of goods required border and documentary compliance equivalent to 6 hours and US$315, and 1 hour and US$27, respectively. World Bank (2016a).

[10] Yonhap News Agency, "Customs clearance to be simplified for products purchased through foreign websites", 9 April 2014. Viewed at: http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20140409000700320.

requirements and certain medication are not eligible for the simplified process; previously its scope covered only six items (including clothing and shoes). Of the 11.2 million e-transactions tallied in 2013, 34% benefited from the simplified clearance procedure; this ratio was to increase by over 50% in 2014 and 2015. In 2015, there has been an annual increase of 35%, and a total of 57.2% of e-transactions were processed through the simplified clearance procedures.

3.16. The KCS's 2015 Future Customs Administration Strategy for the medium and long term constitutes a response to the rapidly changing customs environment by eliminating non-tariff barriers through improved RTA/FTA utilization and expansion of AEO programmes. Action is envisaged in several areas including: the setting of a new silk trade road using FTAs and AEO programmes; the creation of an advanced import/export environment via cross-national risk management; the prevention of tax avoidance-related fraudulent practices; the eradication of illicit trade; the provision of high quality public services; and, the overall reorganization of the national trade information system. Korea ratified the WTO Trade Facilitation Agreement (TFA) by depositing its instrument of acceptance on 30 July 2015; according to the authorities the TFA has reflected practices of the Korean Single Window of the UNI-PASS system.[11] It is estimated that "full" implementation of the TFA will reduce trade costs for Korea by 11.3%.[12] Korea acceded to the revised Kyoto Convention (International Convention on the Simplification and Harmonization of Customs Procedures) in February 2003, subject to certain reservations; the Convention took effect in February 2006.[13]

3.17. Korea's trade facilitation efforts are appreciated at international level and the KCS considered at the cutting edge of international best practice.[14] According to World Bank Doing Business data, in 2016 Korea ranked 31st among 189 countries (30th in 2015) in ease of trading across borders; at the same time it ranked 30th out of 138 countries in the World Economic Forum's Enabling Trade Index in 2014, and 19th in its efficiency and transparency of border administration sub-index, while estimates of gains from its trade facilitation by 2020 are estimated to attain 2.18% of GDP (US$29 billion) and 8.18% of exports (US$52 billion).[15] According to the OECD trade facilitation indicators, as of 2015, Korea matched or exceeded best performance across the 133 participating countries in the areas of information availability, simplification of documents, external border agency cooperation and governance and impartiality. Between 2012 and 2015, performance improved in the areas of information availability, involvement of the trade community, simplification of documents, streamlining of border procedures, external border agency cooperation, and governance and impartiality.[16] In the areas of appeal procedures, fees and charges, and automation some ground was lost. Performance in the areas of involvement of the trade community, advance rulings, appeal procedures, fees and charges, automation, streamlining of border procedures and internal border agency cooperation is below best performance. Both the OECD and the World Economic Forum appraisals suggest that amidst a challenging overall environment reform remains possible in these areas.

3.18. According to the authorities, blended products remain classified depending on their materials or components with intrinsic properties; the KCS is enforcing an advanced classification ruling under the WCO's recommendation.[17] When a dispute occurs, the KCS Tariff Classification Committee, consisting of experts from the public and private sector, makes the final decision.

[11] Korea Customs Service (2014).

[12] OECD (2015h).

[13] Korea accepted 14 of the 25 Chapters in Specific Annexes of the Protocol, and maintained reservations on 18 recommended practices, mainly relating to areas unsuitable to Korea's trade environment.

[14] Between April 2013 and May 2016, the KCS invested ₩174.2 billion to establish the integrated customs information system; the project involved the reorganization of the entire business process and the integration of 58 administrative systems to 16 systems. At the time of the previous Review, the KCS estimated that it spent some US$38 million annually on its information technology infrastructure, US$9 million of which was for the single window system. But the estimated benefits, US$2 billion-US$3.3 billion a year according to KCS, far outweighed the costs. See WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[15] According to the World Economic Forum's assessment, Korea's trade enabling performance is relatively uneven due to its low marks in the market access sub-index and, to a lesser extent, for the quality of its operating environment; furthermore, it is indicated that various aspects of the institutional framework, from red tape to the judiciary, as well as the access to finance, and the inward looking nature of certain regulations, remain problematic. World Bank (2016a); World Economic Forum (2014); and, WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[16] OECD trade facilitation indicators identify areas for action and enable the potential impact of reforms to be assessed. OECD (2015g).

[17] WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

Whenever necessary, the Committee requests an opinion of the WCO Secretariat or its Harmonized System Committee through the Ministry of Strategy and Finance; since 2012 the number of advance rulings in this area increased rapidly with over 5,000 advance rulings issued per year compared to 7,010 in the entire period between 2008 and 2011.

3.19. The KCS provides prompt responses to enquiries made online and maintains a Roadmap for Integrity. A Customs Irregularities Reporting Centre is in place and the Cyber Corruption Report Centre advises customs staff and other stakeholders to report customs irregularities to the KCS website; no enquiries have been received at the Centre since 2007. Currently, a Customs Ombudsman is operated for the public on the KCS official website; no cases were examined during the review period. A Code of Conduct for the Integrity of Customs Officers has been in effect since May 2003.

3.20. Seized items at customs offices are auctioned through electronic bids after they are handed over to a commissioned company for sale through electronic bids, the internet or display of the items. The authorities indicated that they included gold, jewellery, cosmetics, clothes, imported liquors and watches.

3.2.2 Customs valuation

3.21. According to the authorities, Korea's customs valuation legislation (sub-section 2 of the Customs Act 1949) is in line with the WTO Agreement on Customs Valuation. Imports are valued at their c.i.f. price; a 30% decrease of the dutiable freight rate applied to express cargo with a weight of 3 kg or less became effective on 14 October 2015. The main method used is transaction value (based on the price actually paid or to be paid by the buyer); about 96% of imports are subject to this method. When the transaction value method cannot be used, valuation is determined using, in order, identical goods, similar goods, domestic sale price, or computed value; upon the importer's request, the order of application of value based on domestic sale price and computed value may be reversed.[18]

3.22. While the KCS may, in principle, set special customs valuation and documentary requirements for second-hand imports (Presidential Decree of the Customs Act), it applies the same customs valuation methods as for new items. However, as a last resort, Customs may determine their valuation using "reasonable standards", whereby prices paid are adjusted based on appraised prices from certified appraisal institutes, domestic wholesale prices or other recognized price lists. To prevent tax evasion, the KCS checks declared values of imported used cars, including comparisons with transaction values of new cars of the same model that have been recognized as customs values, with the deduction of depreciation (depreciated value). According to the authorities, the transaction value is accepted where insignificant differences exist, unless there is reason to suspect the authenticity or accuracy of the declared value, in which case an alternative WTO-consistent valuation method is used. The use of the "depreciated value" would be applied only as a last resort. Documentary requirements include a letter of technical inspection from an automobile performance-testing institute.[19]

3.23. In response to taxpayer concerns, in 2012, Korea's international taxation and customs laws were amended to require that the National Tax Service (NTS) and the KCS respect an adjustment made by the other.[20] In 2015, legislation was amended with the insertion of three new provisions (Paragraph 1, Article 37 of the Customs Act, and Paragraphs 2 and 3 of Article 31 of the Enforcement Ordinance). In accordance with these provisions, in cases where taxpayers apply to

[18] Article 7, Paragraph 2 of the Agreement on Implementation of Article VII of the GATT 1994 stipulates that no customs value shall be determined on the basis of, *inter alia*, the selling price in the country of importation of goods produced in the country, or the price of goods on the domestic market of the country of exportation. Viewed at: http://www.wto.org/english/docs_e/legal_e/20-val_01_e.htm.

[19] WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[20] Historically, there has been a disconnect between transfer pricing and customs valuations, and this has been a long-standing issue encountered by multinational enterprises undertaking cross-border trade transactions. Online KPGM information. Viewed at: https://home.kpmg.com/xx/en/home/insights/2015/06/korea-transfer-pricing-customs-valuations-advance-arrangements.html. An MOU signed in January 2009 by the KCS, the Ministry of Strategy and Finance (MOSF), and the NTS had addressed the issues of transfer pricing and customs valuation, two areas in which multinational corporations faced difficulties while doing business in Korea. WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

the KCS Commissioner for an advance customs valuation arrangement (ACVA), they are also allowed to request an advance pricing arrangement (APA) at the same time. Under three additional amendments (Paragraph 3, Article 6 of the Act of the Coordination of International Tax Affairs, and Paragraphs 7 and 8 of Article 14 of the Enforcement Ordinance), a joint mediation process in which the Commissioners of the KCS and the NTS work closely together to determine how to calculate customs value has been introduced. These legislative amendments were undertaken to promote communication between the two tax authorities and reduce the burden on multinational corporations of "double" tax audits.

3.24. Between 2012 and 2015, ₩73.7 billion was collected on undervalued imports, compared to ₩124.3 billion in the period 2008-11. The 2007 SIREN, a KCS early warning system to block undervalued imports of agricultural goods, plants, and fishery products remains in place.[21] Based on the result, undervalued products go through audit, while normal products are cleared promptly. In the past, SIREN seemed to have increased tax revenue and had an import substitution effect.

3.25. Customs duties (including domestic taxes) must be paid within 15 days of acceptance of the import declaration (where a security has been lodged). Late payments are subject to an additional 3% of the amount owed for the first month, and 1.2% for each month thereafter (up to a maximum of 60 months). Criminal penalties (up to three years imprisonment with "hard" labour or a fine not exceeding the higher amount between five times the amount of evaded customs duties and the prime cost of the relevant goods) apply for fraudulent declaration of dutiable value, false tariff rates or incorrect tariff classifications with the intention of affecting the determination of the amount of duty to be paid. They also apply for imports of goods as components and other unfinished, incomplete or finished goods having major characteristics as partial components for the purpose of avoiding import restrictions imposed under statutes.

3.26. Customs decisions may be appealed to the KCS Commissioner, to the National Tax Tribunal or to the Board of Audit and Investigation. In this case, the Customs Appeal Committee comprising five KCS internal staff members and six external experts (in the public sector) makes a decision after an in-depth examination. A lawsuit may be filed against its decisions.

3.2.3 Tariffs

3.27. Since January 2012, Korea has used the 2012 version of the Harmonized System of Tariff Classification (HS), at present consisting of 12,243 ten-digit lines (11 more lines than in 2012). The general tariff schedule is in the form of an Annex to the Customs Act. It is revised whenever required to, *inter alia*, implement changes relating to the use of "flexible tariffs" (Section 3.2.3.3) under procedures involving the relevant ministries and interested parties, including the Ministry of Strategy and Finance (MOSF), the Customs and Tariff Deliberation Committee, the State Council, and the National Assembly. Its basic/general structure remains unchanged since 2013.

3.28. The tariff comprises several rates according to the source of imports. These are the MFN tariffs from non-preferential sources (termed general rates), and various preferential tariffs, including for imports from other members of the Asia Pacific Trade Agreement (Bangkok Agreement), RTA/FTAs and least developed countries (Sections 2.5 and 3.2.3.7). The WTO bound rates are also contained in the tariff.

3.2.3.1 Applied MFN rate

3.29. The tariff structure has changed little since the last Trade Policy Review of Korea. The 2016 simple average (unweighted) MFN tariff increased to 14.1% (13.3% in 2012) (Table 3.1 and Chart 3.1) mainly as a result of the insertion of 16 tariff lines (out-of-quota rates for rice and rice products) at 513% (Section 3.2.6.2), the splitting of tariff lines with high rates and the merger of tariff lines with low rates.[22] Tariff protection varies substantially across and within sectors,

[21] SIREN is designed to screen out undervalued products by calculating the proper import prices of the products and comparing them with the declared prices. The Kalman filter model, a statistical model, is used for calculating a proper import price. See WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[22] The tariff analysis follows the Secretariat's practice of including out-of-quota duties for tariff quotas (i.e. excluding the in-quota rate) and the *ad valorem* part of alternate-type duties when official *ad valorem* equivalents are unavailable, as for Korea. As out-of-quota rates are much higher than in-quota rates, this is likely to overstate tariff protection where no out-of-quota imports occur. However, using the *ad valorem* rate of

averaging 60% for agricultural products and 6.6% for industrial goods in 2016 (WTO definitions).[23] Average tariffs are highest for vegetable products (HS section 2), at 108.2% (Chart 3.1). Manufacturing tariffs are highest for footwear and headgear (HS section 12) at 10.1%, and for textiles and articles (HS section 11) at 9.7%. According to Korea's submission to the WTO Trade Monitoring Exercise, as of 1 January 2016, the MFN applied tariff rates on 54 items contained in the September 2012 APEC List of Environmental Goods (EGs) that directly and positively contribute to green growth and sustainable development objectives were 5% or less; however, according to the 2016 customs tariff supplied for this trade policy review exercise, some of these items remain subject to an 8% tariff rate, which in virtually all cases reflects the implementation terms of this commitment.[24] By according varied and substantial levels of protection to selected industries, especially agriculture, tariffs distort competition by favouring some activities. Reducing high tariffs (mainly out-of-quota agricultural duties) would improve Korea's resource allocation and national welfare, a view not shared by the authorities. The authorities indicated that agricultural tariffs, including out-of-quota duties, are maintained in line with corresponding international and domestic laws, taking market conditions into account.

3.30. Over 99% of tariffs are levied at *ad valorem* duties, and therefore transparent. There are some 130 (same as in 2012) different rate bands (85 *ad valorem* duties, 44 alternate duties, and 1 specific duty) of which about 43 involve decimal rates[25]; alternate duties apply to 0.8% of total tariff lines (93). Tariff rates continue to range from zero to 887.4% (Table A3.1). Similarly to 2012, slightly more than 85% of rates are 10% or below, and rates of over 30% apply to 3.4% of tariff items (Chart 3.2). The Korean tariff could be rationalized, for example, by reducing the large number of rate bands and removing decimal rates.

Table 3.1 Tariff structure, 2012 and 2016

(%, unless otherwise indicated)

	MFN applied		Final bound[a]
	2012	2016	
Bound tariff lines (% of all tariff lines)	89.9	90.1	90.1
Simple average rate	13.3	14.1	18.5
WTO agricultural products	55.0	60.0	68.6
WTO non-agricultural products	6.6	6.6	9.3
Duty-free tariff lines (% of all tariff lines)	16.2	15.9	14.0
Simple average of dutiable lines only	15.9	16.8	21.9
Tariff quotas (% of all tariff lines)	1.9	1.9	1.9
Non-*ad valorem* tariffs (% of all tariff lines)	0.8	0.8	1.0
Domestic tariff "peaks" (% of all tariff lines)[b]	3.0	2.7	2.0
International tariff "peaks" (% of all tariff lines)[c]	10.5	10.7	18.5
Coefficient of variation	4.0	4.1	3.1
Nuisance applied rates (% of all tariff lines)[d]	1.7	1.8[e]	1.7
Total number of tariff lines	12,232	12,243	12,243
Ad valorem rates	10,138	10,197	9,196
Duty-free rates	1,983	1,952	1,720

Korea's alternate tariffs, which apply "whichever is the greater" rate, will slightly understate tariff protection when the alternate specific rate is operative. Higher adjustment tariffs are also excluded.

[23] WTO definition of industrial products covers all non-agricultural products, i.e. products not covered by the WTO Agreement on Agriculture. WTO agricultural products include all processed and unprocessed agricultural commodities (HS Chapters 1 to 24, less fish and fish products, plus some additional HS items).

[24] The authorities indicated that there are three ways to apply the 5% or less tariff rate to the APEC EGs: apply 5% or less tariff rates by using HS 6-digit codes; identify each one of the 54 HS sub-headings in their national tariff lines (TLs) (for Korea, HS 10-digit) and then decide whether to reduce rates for all imports under the provision of an existing TL or for a more narrowly-defined range; or examine each item's sub-positions and then decide whether to apply or not a 5% or less tariff rate. Document titled *The APEC Environmental Goods List Implementation Reference Guide, Submitted by New Zealand and the United States*, March 2015, and based on the publicly available APEC Environmental Goods List. Viewed at: http://www.apec.org/Meeting-Papers/Leaders-Declarations/2012/2012_aelm/2012_aelm_annexC.aspx.

[25] Excluding tariff quotas and alternate tariffs, Korea's tariff rates still range from zero to 72%, and have around 38 bands, often with very small rate differences and decimal rates. For example, there are 17 *ad valorem* rate bands of 10% or below, and 37.5% and 11.6% of tariff lines have the rate of 8% and 6.5%, respectively.

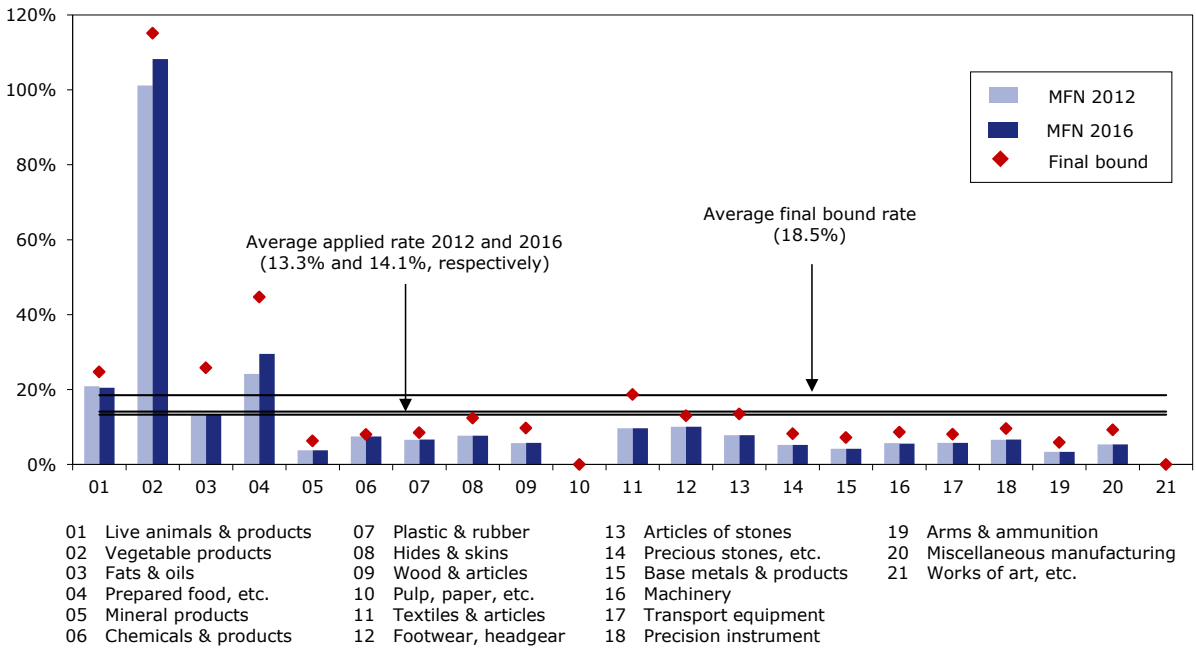
	MFN applied		Final bound[a]
Alternate rates	95	93	119
Specific rates	0	1	0
Missing/Unbound	16	0	1,208

Note: 2012 and 2016 tariffs are based on HS 12 nomenclature. Calculations include the *ad valorem* part of alternate rates. For 2016, AVEs are provided by the authorities for 64 out of 94 non-*ad valorem* rates (based on 2014 import data). Figures for 2016 remain the same including or excluding AVEs (except for nuisance applied rates).

a Based on 2016 tariff schedule. Calculations are based on 11,035 bound tariff lines.
b Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate.
c International tariff peaks are defined as those exceeding 15%.
d Nuisance rates are those greater than zero, but less than or equal to 2%.
e 1.9% including AVEs.

Source: WTO Secretariat calculations, based on data provided by the Korean authorities.

Chart 3.1 Average applied MFN and bound tariff rates, by HS section, 2012 and 2016



Note: Calculations for averages exclude in-quota tariff rates and include the *ad valorem* part of alternate rates. Only HS sections 03, 12, 14, 19 and 21 are fully bound. Final bound rates are based on the 2016 tariff schedule.

Source: WTO Secretariat calculations, based on data provided by the Korean authorities.

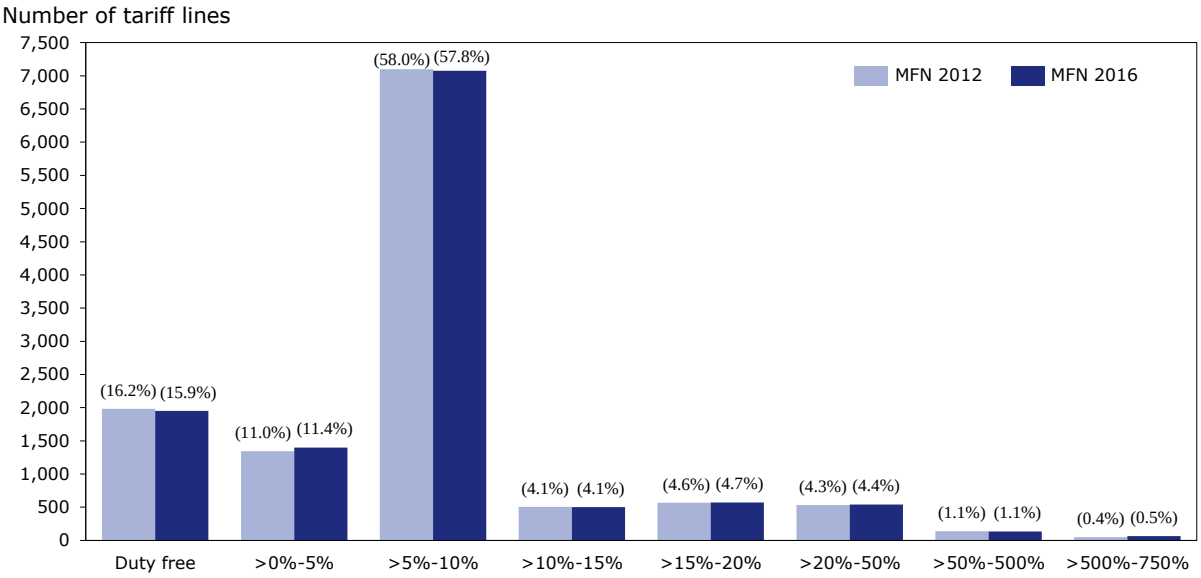
3.31. Non-*ad valorem* tariffs continue to consist of alternate duties on several tariff items, mainly manufacturing products such as cinematographic film and diagnostic or laboratory reagents, as well as a specific duty on recorded video tapes (previously an alternate duty) (Table A3.2). They generally apply the greater (agricultural products) or the lower (other items)[26] component, i.e. either an *ad valorem* or a specific duty, whereby the *ad valorem* alternate rate sets a floor or a ceiling on the import duty rate. According to calculations of the authorities, in 2016 the *ad valorem* equivalents (AVEs) of the specific part of alternate duties could range from zero (cinematographic film HS3706901000) to 377.2% (ginger), and most of them were lower than the *ad valorem* component of the alternate duty (Table A3.2)[27]; these alternate duties form part of Korea's WTO

[26] The authorities indicated that no specific regulations of application of alternate duties existed for manufacturing items. Therefore, at present manufacturing items are subject to the lower of an *ad valorem* or a specific duty.

[27] AVEs were calculated on the specific duty components of 63 of 93 ten-digit tariff lines subject to alternate duties and the rate of the sole specific duty. In 9 cases (involving oak mushrooms, fruits of the genus

tariff binding commitments. Alternate duties also apply to 43 agricultural tariff lines as out-of-quota duties; these involve very high minimum *ad valorem* rates and exceed 500% on sesame seeds and oil, jujubes and pine nuts (Section 3.2.4.1).

Chart 3.2 Distribution of MFN tariff rates, 2012 and 2016



Notes: Figures in parentheses indicate the share of total lines. Calculations exclude in-quota rates and include the *ad valorem* part of alternate rates. In 2012 totals do not add up to 100% as no tariff rates were provided for 16 lines (import restriction, representing 0.1% of total lines). In 2016, one specific tariff rate is excluded.

Source: WTO Secretariat calculations, based on data provided by the Korean authorities.

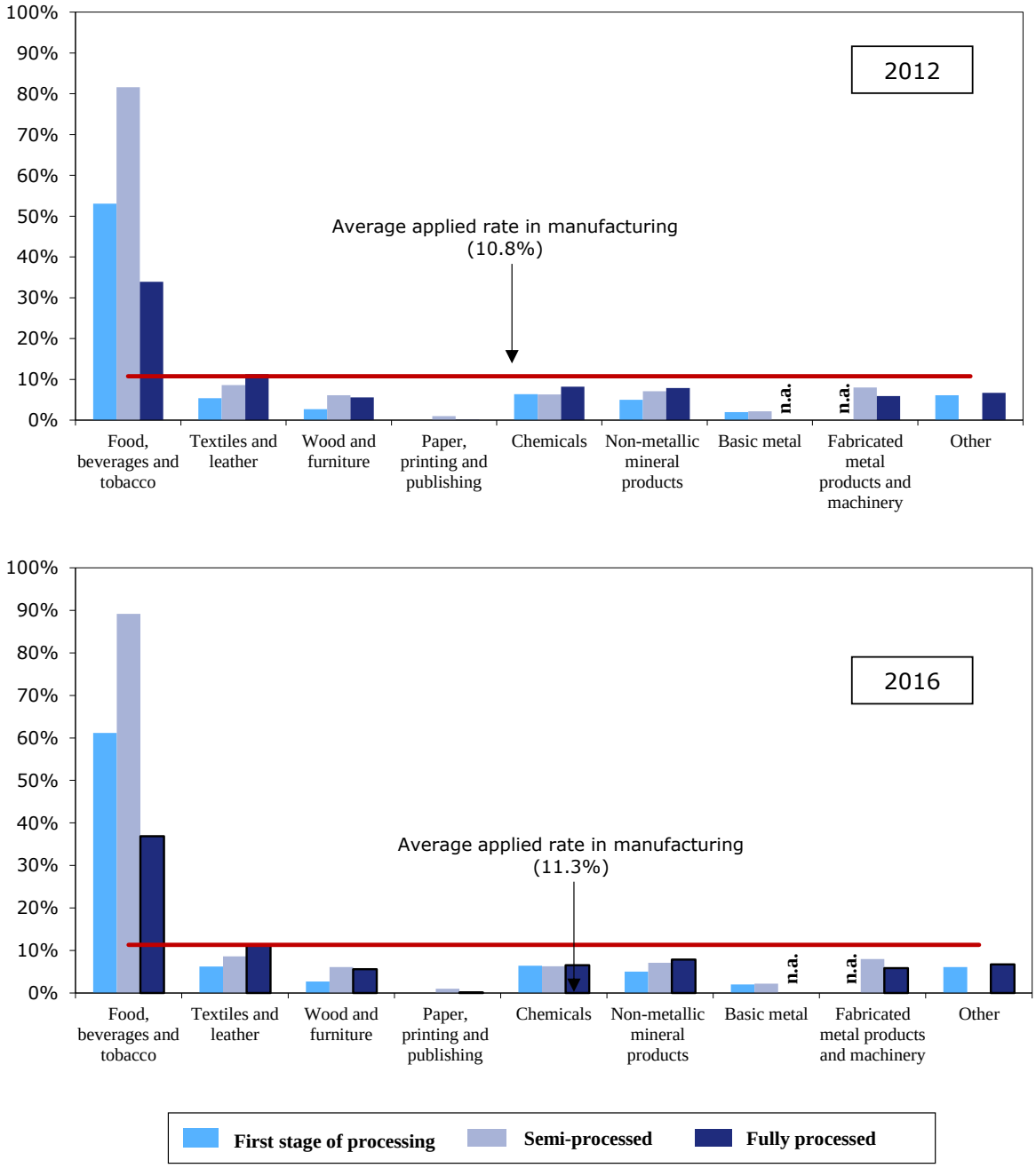
3.32. In the Doha Development Agenda (DDA) negotiations, Korea had supported the elimination of non-*ad valorem* duties to some extent. At the time of the previous Review, the authorities had indicated that non-*ad valorem* duties would be removed to a large extent from Korea's tariff schedule if agreed at the DDA negotiation.

3.2.3.2 MFN tariff dispersion and escalation

3.33. Similarly to the previous Review, indicators of tariff dispersion and escalation show little change during the period under review (Table 3.1 and Chart 3.3).

Capsicum, ginkgo nuts in shell, carrots, and cinematograph film) the specific duty component was higher than the *ad valorem* part of the alternate rate whereas 46 AVEs were lower and 7 were equal. These calculations are based on the 2014 import value and volume supplied by the Korean authorities.

Chart 3.3 Tariff escalation by 2-digit ISIC industry, 2012 and 2016



n.a. Not applicable.

Source: WTO Secretariat calculations, based on data provided by the Korean authorities.

3.2.3.3 "Flexible" tariffs

3.34. Korea applies temporary MFN duties (termed as "flexible" tariffs). The flexible tariffs mechanism includes not just the adjustment and seasonal duties (described below), but also autonomous tariff quotas and "usage" tariffs as well as safeguard and special safeguard duties (Sections 3.2.4.2, 3.2.3.6, and 3.2.8.2).[28] The system allows the authorities to increase or decrease certain tariffs at their discretion providing considerable scope to encourage or discourage

[28] Autonomous tariff quotas are also referred to as flexible tariffs, and are discussed in Section 3.2.3.3. See WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

imports of particular items to stabilize prices, protect local producers and ensure a steady supply.[29] In 2016, the authorities reduced the role of the flexible tariff system on price stabilization, considering the country's low inflation and continued drops in prices of oil and other raw materials and sought to increase its support for export companies and other vulnerable industries.[30] In 2015, nine industrial materials and parts used to produce display panels, semiconductors and secondary batteries, the country's key export goods, benefited from autonomous tariff quotas (Section 3.2.4.2); the authorities indicated that the autonomous tariff is not designed to boost exports, as tax refund for exporting processed raw materials is in place (Section 3.3.4). To help offset a recent rise in costs for farmers, the Government would offer lower import duties on animal feed.

3.35. The number of items covered by flexible tariffs dropped from 216 (HS six-digits) in 2012 to 145 in 2016. According to the authorities, the leading principle of flexible tariffs is to maintain its application to a minimum as prescribed by the law. At the time of the previous Review, the authorities intended to reduce or remove gradually these tariffs in line with the reduction of tariff rates resulting from the DDA and RTA negotiations.

Adjustment duties

3.36. Adjustment duties aim to protect domestic industries from import surges and lighten the shock from trade liberalization. They only affect MFN rates and are set annually by the MOSF.

3.37. In 2016, they apply to 18 six-digit tariff items (or 13 different types of product) covering mainly certain fish and seafood, rice preparations, sauces, and plywood, compared to 18 six-digit tariff items (or 15 different types of product) until 2015 (Table A3.3). *Ad valorem* adjustment duties continue to range from 10% on plywood to 50% on steamed or boiled rice compared to general rates ranging from 8% (e.g. rice, plywood, sauces) to 30% (oak mushrooms) with the biggest difference affecting rice preparations. Alternate duties, where applicable duties are the higher of an *ad valorem* or a specific duty, affect five six-digit tariff lines in 2016. Several products subject to adjustment duties, such as certain fish and plywood items, remain unbound; adjustment duties rates for the four bound items are below their binding level. In 2015, adjustment tariffs for four commodities (eels, sea bream, Alaskan pollack, and shrimps) were lowered because high protection of these domestic products was considered unnecessary, and *gochujang* sauce was listed; in 2016 croaker and *maejoo* sauce were delisted, *inter alia*, in consideration of the fact that there are no aquaculture farms for live croaker in Korea and croaker caught in the domestic sea is an expensive sashimi dish rather than a staple of Korean consumer diets.[31]

Seasonal duties

3.38. The authorities indicated that no seasonal duties have been applied on an MFN basis during the period under review. Preferential tariff treatment of certain agricultural items under the RTA/FTAs with Chile, the EU, Peru, and the United States is applied only during the Korean off-season. In the case of the Korea–Chile FTA, seasonal preferential duties have been levied on grapes imported from Chile since 2004; under both the Korea–EU FTA and the Korea–Peru FTA, seasonal preferential duties on grapes and oranges originating in these trading partners have been in place since 2011. Under the Korea–US FTA, seasonal preferential duties have applied to potatoes for chipping, fresh or chilled, in addition to oranges and grapes, since the entry into force of the agreement in March 2012. Seasonal preferential duties are also levied: on potatoes for chipping and pumpkins (buttercup squash) from New Zealand since 2015 under the Korea–New Zealand FTA; on potatoes (for chipping) from Canada since 2015 under the Korea-Canada FTA; and, on potatoes for chipping (fresh or chilled), oranges, mandarins, grapes and kiwis from Australia since 2014 under the Korea-Australia FTA.

[29] *The Korea Herald*, "Korea to expand flexible tariff list in 2016", 29 December 2015. Viewed at: http://m.koreaherald.com/view.php?ud=20151229000374#jyk.

[30] *The Korea Herald*, "Korea to expand flexible tariff list in 2016", 29 December 2015. Viewed at: http://m.koreaherald.com/view.php?ud=20151229000374#jyk.

[31] USDA Foreign Agricultural Service (2015a).

3.2.3.4 Bound tariff

3.39. Korea bound 90.1% (2016 tariff schedule) of all tariff lines in the Uruguay Round, covering 99.6% of agricultural tariff lines (excluding seaweeds and bait for fishing) and 88.6% of industrial tariff lines (WTO definitions). On a tariff classification basis, 81.3% of agricultural tariff lines (HS Chapters 01-24) and 92% of industrial lines (HS Chapters 25-97) are bound.

3.40. The simple average bound tariff rate rose slightly during the review period due to the inclusion of rice products (Table 3.1); as of 2009, all Uruguay Round commitments were fully implemented. Following the "tariffication" of non-tariff measures, very high bound (and applied) tariffs apply to many commodities. Korea's average bound rates on agricultural and industrial products (WTO definitions) are 68.6% and 9.3%, respectively (in 2016). The overall gap between the simple average MFN applied and bound rates has remained at 4.4 percentage points. The gap is 8.6 percentage points for rates affecting agricultural items. Korea uses this scope mainly to raise MFN tariffs annually by applying higher adjustment duties (Section 3.2.3.3) on a number of products to temporarily protect domestic producers.

3.41. Korea has been included in several collective waivers that suspended the application of the provisions of Article II of GATT 1994 in order to allow it to reflect the changes resulting from the HS 2002 and HS 2007 nomenclatures in its Schedule of Tariff Concessions. These modifications and rectifications to Schedule LX became effective as of 1 July 2011 and 5 November 2015 (pursuant to the Committee on Market Access approval on 7 July 2015), respectively.[32] Since 1 January 2012, Korea has benefited from collective waivers for the introduction of HS 2012 changes in its Schedule of Tariff Concessions; as of January 2016, HS 2012 transposition had not begun for any Member.[33] The authorities indicated that they would start working on transposition of Schedule LX to HS 2012 in the course of 2016.

3.2.3.5 Duty concessions/exemptions

3.42. The application of import duty relief through duty concessions and exemptions granted by the Ministry of Strategy and Finance (MOSF) for various purposes, such as industrial development (Articles 88-109, Customs Act), has not changed since the last Trade Policy Review of Korea. The revenue forgone from import duty relief was US$1 billion (₩1,175 billion) in 2015 (equivalent to 12.1% of total tariff revenue) up from US$693 million (7%) in 2010.

3.43. Tariff concessions also apply under other legislation. The Promotion Act for the Development of Aircraft and Space Industries also allows duty-free imports of parts not produced domestically (with resulting revenue forgone amounting to ₩70.8 billion in 2014, up from ₩33.1 billion in 2010).[34]

3.2.3.6 "Usage" tariff rates

3.44. Imported inputs for specified end-uses may be exempt from tariffs under the "usage" tariff rates scheme (Article 83, Customs Act). Korea continues to treat "usage" tariff rates, autonomous tariff quotas, and duty concessions on inputs as part of its industrial policy, to encourage certain manufacturing activities (Sections 3.2.3.5 and 3.2.4.2). Since 2012, "usage" tariff rates have been used for inputs in activities such as sowing, animal feeding, and semiconductor manufacturing. No further information on this policy instrument was available from the authorities.

3.2.3.7 Tariff preferences and rules of origin

Preferences

3.45. Korea's efforts to expand its bilateral and regional free trade agreements during the review period meant that its simple average tariff rate on imports from RTA/FTAs (e.g. 4.6% for imports from the United States, 4.9% from the EU, and 5.3% from ASEAN and Viet Nam), the Asia-Pacific Trade Agreement (APTA) (13.8%) and LDC trading partners (7.8%) remained considerably below

[32] WTO documents WT/L/808, 16 December 2010; WT/Let/804, 25 July 2011; and WLI/100, 23 November 2015.

[33] WTO documents WT/L/834, 5 December 2011; and WT/L/969, 2 December 2015.

[34] WTO documents G/SCM/N/220/KOR, 23 September 2011; and G/SCM/N/284/KOR, 6 July 2015.

the 14.1% MFN average tariff rate (Table 3.2). However, it remains unchanged for imports from countries receiving preferences under the Global System of Trade Preferences Among Developing Countries (GSTP) and the GATT Protocol Relating to Trade Negotiations Among Developing Countries (TNDC) (Section 2.6, Table 3.2). Since its last Trade Policy Review, Korea has kept virtually unchanged the number of items eligible for unilateral (non-reciprocal) duty-free and quota-free tariff preferences to LDCs (Section 2.6.3, Table 3.2). The Minister of Strategy and Finance may withdraw or modify unilateral trade preferences if considered inappropriate taking into account the country's income level, volume of imports, and international competitiveness of the product and country concerned. The KCS maintains a webpage containing all preferential import tariffs (http://www.customs.go.kr/kcshome/site/importtariff/ImportTariff.do).

Table 3.2 Summary analysis of the preferential tariff, 2016

	Total			WTO agriculture		WTO non-agriculture	
	Average (%)	Duty-free lines[a] (%)	Coverage[b] (%)	Average (%)	Duty-free lines[a] (%)	Average (%)	Duty-free lines[a] (%)
MFN	14.1	15.9		60.0	5.5	6.6	17.7
Regional agreements							
APTA[c]	13.8	16.0	10.7	59.9	5.5	6.3	17.7
APTA for Lao PDR and Bangladesh	13.7	17.1	12.5	59.8	5.5	6.1	19.0
ASEAN	5.3	91.3	81.9	35.5	68.5	0.4	95.0
Bilateral agreements							
Australia FTA	7.6	82.5	82.1	50.7	27.4	0.5	91.6
Canada FTA	7.7	80.0	81.7	50.4	26.9	0.7	88.7
Chile FTA	7.0	95.7	79.8	49.5	69.9	0.0	99.9
China FTA	10.8	49.4	76.5	57.1	13.1	3.2	55.3
EFTA FTA							
Iceland	8.2	88.5	77.0	58.2	21.3	0.1	99.6
Norway	8.3	88.2	75.4	58.4	19.4	0.1	99.6
Switzerland	8.3	88.0	74.1	58.2	17.3	0.1	99.6
EU FTA	4.9	92.5	83.3	33.5	62.7	0.2	97.4
India CEPA[d]	8.2	78.6	75.9	55.2	14.4	0.5	89.2
New Zealand FTA	8.5	74.6	81.7	54.8	16.5	0.9	84.2
Peru FTA	5.6	90.7	83.0	39.0	53.8	0.1	96.8
Singapore FTA	7.3	89.5	73.9	47.4	66.3	0.7	93.3
Turkey FTA	8.7	80.1	76.5	57.6	10.8	0.7	91.5
United States FTA	4.6	90.9	83.5	30.9	60.6	0.3	95.9
Viet Nam FTA	5.3	92.2	82.6	35.6	68.4	0.3	96.1
TNDC	14.1	15.9	0.05	60.0	5.5	6.6	17.7
GSTP	14.1	15.9	0.1	60.0	5.5	6.6	17.7
LDC	7.8	90.3	74.5	51.5	59.3	0.6	95.4

a Duty-free lines as a percentage of total tariff lines.
b % of total number of lines. Only rates that are lower than the corresponding MFN rate are taken into account.
c Preferential rates under APTA are applicable to China, Sri Lanka, Bangladesh, India, and Lao PDR.
d Comprehensive Economic Partnership Agreement.

Note: Calculations are based on national tariff line level (10-digit); excluding in-quota rates and specific rates and including the *ad valorem* part of alternate rates.

Source: WTO Secretariat calculations, based on data provided by the authorities of the Republic of Korea.

Rules of origin

3.46. Preferential rules of origin apply to imports under preferential trading arrangements and RTA/FTAs, which increases the complexity of implementing preferential tariffs.[35] Korea considers that rules should be transparent and promote trade and investment. Rules of origin covering imports under APTA, GSTP, TNDC, and LDC preferential treatment are based on the provisions of the Korea Customs Act. For LDCs to receive duty-free access on eligible imports, goods must be either "wholly produced or obtained" in the exporting country, or manufactured from originating materials comprising at least 40% of the finished product's f.o.b. price (i.e. non-originating materials must not exceed 60% of the f.o.b. price). Vessels catching fish must be registered in the exporting country and have at least 60% domestic equity. Under the Asia-Pacific Trade Agreement, eligible imports are subject to APTA preferential rules of origin.

3.47. All of Korea's RTA/FTAs are based on common principles, such as "goods wholly obtained" and the "substantial transformation" criteria, under the FTA Special Customs Act. The value-added rule is also applied to selected agricultural and industrial products in the form of the regional value content (RVC) method or the import content (MC) method. Regarding RVC, some of Korea's RTA/FTAs allow exporters to use a "build-up" or a "build-down" method on a selective basis; for example, the Korea–Peru FTA provides for RVC of not less than 45% using the "build-down" method or of not less than 35% under the "build-up" method for automobiles and some electronic devices.[36] A number of clothing items are subject to specific-process rules. In addition to the "build-up" and the "build-down" methods, based on the value of non-originating materials, the Korea–US FTA provides also for the "net cost" (NC) method, based on the production costs for certain automotive goods; furthermore, *de minimis* clauses allow for a good containing a non-originating material that does not undergo the tariff classification change to still originate if either the value of all non-originating materials does not exceed 10% of the adjusted value of the good (non-textiles), or the total weight of all fibres or yarns in a component of a textile or apparel good is not more than 7% of the total weight of that component.[37] Under the Korea–Canada FTA, product-specific rules of origin require, *inter alia*, a change from a heading, whether or not there is also a change from any other heading, provided that the value of the non-originating materials of the heading does not exceed 10% or 55% of the transaction value or ex-works price of the good.[38]

3.48. The KCS has continued to undertake RTA/FTA promotion activities to help companies utilize trade preferences subject to diverse and complicated rules of origin. For the simplification of proof of origin and supporting documents, since 2010, the KCS has been operating a system whereby an exporter with the capability to prove the country of origin of its products is designated as an approved exporter. As from 7 September 2010, it has also operated a paperless FTA-PASS for origin determination and management purposes; it also made the FTA-PASS connectable to UNI-PASS (Section 3.2.1) so that origin supporting documents can be issued promptly and conveniently. Since 2010, the KCS has operated an FTA Utilization e-Alert System that indicates the goods subject to preferential tariff treatment on the e-Customs Clearance System at the time of importation. For SMEs (Section 3.2.10), a self-origin management solution programme, which determines the origin status of goods, was developed by the KCS and has been distributed online, free of charge, since September 2010.[39] Since October 2010, it has operated a website (http://yesFTA.customs.go.kr) providing access to information and data about all RTA/FTAs concluded so far. Efforts to raise public awareness are made through seminars, workshops, contests, and RTA/FTA-related courses. As from 6 January 2015, an Import and Export Business Support Centre has been leading education on RTA/FTA utilization and consultation.

[35] WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[36] Build-down method is based on: RVC = (Adjusted Value - Value of Non-Originating Materials)/Adjusted Value X 100; or RVC = (f.o.b. - Value of Non-Originating Materials)/f.o.b. X 100. The build-up method derives from: RVC = (Value of Originating Materials/Adjusted Value) X 100. The adjusted value or f.o.b. is applied in accordance with the Agreement.

[37] The "net cost" method derives from RVC = (NC - Value of Non-Originating Materials)/NC X 100. The basis of the Origin Criteria under the Korea-US RTA/FTA on HS 2002 has been changed to HS 2012 since 1 January 2014. Korea Customs Service (2012).

[38] Online information. Viewed at: http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/korea-coree/03-1.aspx?lang=eng.

[39] Online presentation by a KCS officer at the WCO Origin Conference 2014 titled *Korea Customs' RTA/FTA Outreach Program for Small and Medium-sized Enterprises*, 21 January 2014.

3.49. Korea applies non-preferential rules of origin to all other imports. Korea's non-preferential rules of origin are also based on the "wholly obtained goods" and "substantial transformation" criteria. The tariff shift rule is applied, except on cameras (value-added rule) and textile articles (specified process rule). The rule of origin for certain live animals is determined by the territory where they were bred for over six (bovine) or two (swine) months.

3.2.4 Tariff quotas

3.2.4.1 Agricultural tariff quotas

3.50. Korea applied tariff-rate quotas (TRQs), under its multilateral agricultural market-access commitments, on 227 ten-digit tariff items (including rice as from 2015 (Sections 3.2.6.2 and 4.2)) in 2015 and 2016 (Table A3.4) compared to 187 (excluding rice) in 2011.[40] Whereas in-quota tariff rates are much lower, ranging from zero to 50%, many out-of-quota rates remain very high (e.g. beans, pine nuts, green tea, jujubes, cereal grains, starches, ginseng) and peak at 887.4% (manioc) *ad valorem*. Many out-of-quota rates are alternate duties. According to the latest data provided by the authorities, the average fill rate of tariff quotas dropped to 57% in 2014 (66.2% in 2011) and rose to 59.5% in 2015.[41] Fill ratios were low for several product groupings (Table A3.5). According to the authorities, the consistently large unfilled share of tariff-rate quotas on some items, even with relatively low in-quota tariffs, resulted, *inter alia,* from lack of sufficient or decreased domestic demand, increased imports from RTA/FTA partners, increased domestic production, imports of substituting items, increased import prices or sanitary measures related to the outbreak of diseases in exporting countries, such as BSE. They also indicated that the fill rate of TRQ products allocated through state trading or auctioning (see below) is much higher (78% in 2015) than the level attained under the first come, first served allocation method (42% in 2015). Moreover, when certain TRQ volume is below domestic demand, MAFRA increases TRQ import volume by expanding quotas; as of 2015, 17 products were imported at a much higher level than originally committed, and in volume terms, 5,069,283 tonnes of additional TRQ products entered the Korean market.

3.51. Tariff quotas, and the import quota on rice (until end-2014), are administered or allocated by 24 different organizations (as of 2016) including ministries, state trading entities (such as the Korea Agro-Fisheries and Food Trade Corporation (aT) commissioned by the Ministry of Agriculture, Food and Rural Affairs (MAFRA) (until March 2013, Ministry for Food, Agriculture, Forestry and Fisheries)), and various producer associations. In some cases, the administering agency is owned or controlled by domestic producers competing with the imported item. With the exception of the National Agricultural Cooperatives Federation, the National Forestry Cooperative Federation, and the Jeju Citrus Growers' Agricultural Cooperative, producers associations include members that process foodstuffs imported under tariff quotas. Credible import administration would require that directly interested parties are not directly involved in controlling imports. The authorities indicated that in most cases the administering agency (e.g. Korea Feed Association, the Korea Corn Processing Industry Association, the Korea Paper Association, the Korea Dairy Industry Association, and the Korean Soybean Processors' Association) does not produce goods competing with the imported items but utilizes them for processing foodstuff or for breeding animals as domestic agricultural production cannot meet demand for ingredients or raw materials used for processed food.

3.52. Mechanisms used for quota allocation (depending on the product) include the auctioning of quotas, allocation to designated agency, real demand allocation[42], and a combination thereof. State-trading enterprises impose additional mark-ups on top of the in-quota tariff on various items (Section 3.2.7). Most state-trading enterprises are engaged directly in marketing imports by selling through wholesale markets or distributing directly to final users. State-trading enterprises, producer associations, processor associations and importing companies allocate quotas. The authorities indicated that, as of 2016, only 1 item (rice) was state traded, 2 items (chestnuts and

[40] As a result of the revision of the HS 2012 nomenclature, the tariff lines for some product groupings (including ginseng, barley, ginger, and buckwheat) were further divided, increasing the total number of tariff lines to 211; another 16 tariff lines were added by the tariffication of rice in 2015 (Section 3.2.6.2).

[41] However, according to the authorities, when excluding some TRQ product groups with no domestic demand (including silkworm eggs, mulberry trees, and cattle for breeding), the annual average fill rate rises to more than 80% for the period 2013-15. WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[42] This term refers to quota allocation on a first come, first served basis without any qualification requirement or quota allocation to buyers meeting certain qualification requirements.

ginseng) were auctioned, 49 items (including maize, barley, and potatoes) were allocated on a real demand basis, and 11 other items (including ginger and onion) were allocated through state-trading and other methods.

3.2.4.2 Autonomous tariff quotas

3.53. Korea grants concessional tariffs using autonomous tariff quotas, mainly for raw materials, inputs, semi-processed goods, components, parts, and machines (Table A3.6); this measure is aimed at helping stabilize prices through increased supply and/or increasing the competitiveness of the domestic agricultural and livestock industries, which are faced with increasing pressure from imports under RTA/FTA preferential treatment challenging domestic products.[43] In 2016, these TRQs covered 116 six-digit tariff items (including 4 additional sub-items under the same tariff line) (235 in 2012), of which 91 items were quota-free. In 2015, Korea proceeded with: listing import-depending feeding commodities (whey, manioc pellets, unhulled barley, and oats); establishing a tariff quota for beet-pulp, cotton seed oil cake for mushroom growing and young eels for aquaculture in order to mitigate high prices for imports of these items; and, increasing the tariff quota for refined sugar from 40,000 MT to 90,000 MT to stabilize domestic retail prices. In 2016, *inter alia*, the tariff quota for eels, animal/vegetable fats, and refined sugar was reduced, whereas for whey, fodder roots it was increased; tariff quotas for cotton seeds were opened to all imports. In-quota tariff rates continued to range from zero to 10% (manioc chips for alcoholic beverages), whereas out-of-quota rates ranged from 1% to 40% (whey for feeding). Autonomous tariff quotas are revised annually.

3.2.5 Other levies and charges

3.54. A surcharge levied on petroleum imports (Petroleum Business Act, 1977) provides funds to ensure adequate supply and price stability. The surcharge on crude oil remains at ₩16 per litre and Korea's refiners get a similar amount of rebate on oil product exports. The Government promotes oil imports from the Americas, Africa, and Europe, including the Russian Federation (Section 4.4.1.1), a non-attained objective during the review period.[44] Surcharges on non-Middle East oil imports are lower to offset their higher transport costs. In 2014, Korea renewed efforts to reduce the country's heavy reliance on Middle East crude imports by compensating refiners that import far away from the Middle East for about 100% of additional costs; budgetary outlays relating to these costs amounted to ₩44 billion in 2015.[45]

3.2.6 Import licensing, quotas, and prohibitions

3.2.6.1 Licensing

3.55. Import approval is governed by the Foreign Trade Act and 56 other laws.[46] The Consolidated Public Notice, containing all export and import certification requirements stipulated in the 56 separate laws, is updated by the Ministry of Trade, Industry and Energy (until 2013, Ministry of Knowledge Economy (Section 2.3)) when there is a legislative change. Import licensing procedures are maintained in order to protect national security, human, animal or plant life or health, and the environment and are not intended to restrict the quantity or value of imports. In 2016, these requirements covered some 3,000 six-digit HS tariff items (1,000 in 2008), including petroleum, LPG (liquefied petroleum gas), agricultural fertilizers, crop seeds, animals, and animal products, nuclear materials, narcotics, foods and food additives, foreign publications, firearms and explosives.

3.56. Implementation of the certification, permission, and type approval requirements is the responsibility of 13 ministries and/or agencies. According to the authorities, import licence applications are screened or checked in a "fair" manner. Korea is a party to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

[43] WTO document WT/TPR/S/268/Rev.1, 8 November 2012; USDA Foreign Agricultural Service (2015a).
[44] Middle East oil dependency has dropped slightly from 86.19% (2011) to 82.3% (2015).
[45] Platts, "South Korea refiners say incentives to diversify crude import sources too low", 16 July 2014. Viewed at: http://www.platts.com/latest-news/oil/seoul/south-korea-refiners-say-incentives-to-diversify-26835016.
[46] WTO document G/LIC/N/3/KOR/11, 30 October 2015.

3.57. At the time of the previous Review, Korea provided regular Replies to the Questionnaire on Import Licensing Procedures to the WTO Committee on Import Licensing; during the review period there was only one notification, which was submitted on 27 October 2015.[47]

3.2.6.2 Quotas

3.58. Korea liberalized its rice market through tariffication, as its import quota was replaced by a tariff-rate quota of 5% (408,700 tons) and a virtually prohibitive 513% out-of-quota duty as of 1 January 2015 (see below and Sections 3.2.4 and 4.2.2). The authorities indicated that this out-of-quota rate was calculated in conformity with the principles of the WTO Agreement on Agriculture.[48] Until 2014, rice was subject to import quota restrictions in accordance with Korea's WTO minimum market access (MMA) commitments under Annex 5 of the WTO Agreement on Agriculture. Under arrangements re-negotiated in 2004, Korea was obliged to import close to 8% of its domestic consumption of rice until 2014.[49] Country-specific quotas previously given to Australia, China, the United States, and Thailand have all been cancelled and replaced by a global tariff quota allocated on an MFN basis according to Korea's schedule (G/MA/TAR/RS/98) as of 2015.[50] MAFRA has been the only organization in charge of importing and managing MMA commitments on rice since 1995; its agency, the Korea Agro-Fisheries and Food Trade Corporation (aT), has been in charge of rice trading. Consequently, the Ministry accounted for 100% of rice imports in 2012, 2013, 2014 and 2015.[51] Imported rice is procured through open bidding; rice for table use is sold by aT through open bidding, and rice for food processing by local authorities on behalf of MAFRA.[52] Rice imports under the MMA commitments have increased steadily, rising from 347,658 tonnes in 2011, to 368,000 tonnes in 2012, 388,353 tonnes in 2013, and 408,700 tonnes per year in 2014 and 2015.[53] Under the tariff quota regime, in 2015 Korea had auctioned 348,700 tonnes of brown rice and 60,000 tonnes of milled rice.

3.59. According to data supplied by the authorities at the time of the previous Review, the cost of rice producers' protection in terms of consumer burden, i.e. the ratio of the domestic price compared to the international price, had dropped from 3.7 (2006-07) to 2.0 (2011). The authorities indicated that, as Korea continued to impose the in-quota tariff of 5% after tariffication, the implementation of the 513% out-of-quota rate would not affect the ratio, which was estimated to be less than 2.0 in 2015; nevertheless, according to other estimates the eventual implementation of the 513% out-of-quota rate was to triple the 2011 ratio to 6.1.[54]

3.2.6.3 Prohibitions

3.60. Korea prohibits a few imports, mainly to protect health, safety, security, public morality, the environment, and natural resources, and to prevent deceptive practices. Korea does not maintain any trade embargoes with other countries. Trade with the Democratic People's Republic of Korea requires approval from the Ministry of Unification (Section 2.5.4); bilateral trade, which was first legalized in 1988, rose steadily to almost US$1.82 billion in 2008. It declined sharply thereafter, until it was prohibited by the Republic of Korea as of 24 May 2010, except for goods

[47] Article 7.3 of the Agreement on Import Licensing Procedures stipulates that "Members undertake to complete the annual questionnaire on import licensing procedures promptly and in full". WTO document G/LIC/N/3/KOR/11, 30 October 2015.

[48] USDA Foreign Agricultural Service (2014).

[49] According to Korea's latest WTO notifications on state trading, domestic sales by MAFRA (i.e. imported rice) represented 4.6%, about 4%, about 2% and 1.4% of national consumption in 2012, 2013, 2014, and 2015, respectively. The quantity of rice imported by MAFRA in 2014 was 408,700 tonnes and represented 9.2% of national consumption (4,436,000 tonnes). WTO documents WT/TPR/S/268/Rev.1, 8 November 2012; G/STR/N/15/KOR, 17 October 2014; G/AG/W/147, 4 December 2015; and G/STR/N/16/KOR, 14 July 2016.

[50] Between 2012 and 2014, country-specific quotas (CSQ) involving 116,159 tonnes from China, 50,076 tonnes from the United States, 29,963 tonnes from Thailand, and 9,030 tonnes from Australia were implemented. A certain amount of rice from China and Australia was not imported through CSQ in 2012 and 2013 due to the market conditions in the exporting countries.

[51] WTO document G/STR/N/15/KOR, 17 October 2014.

[52] Imported table rice reaches consumers through trade marketing routes, wholesalers, and dealers. In 2015, 592 companies were participating in the public auction, including grain wholesale companies (329) and agricultural produce wholesale or retail companies (263). In practice, any company can participate in the auction as long as it is registered and equipped with the required facilities.

[53] WTO documents WT/TPR/S/268/Rev.1, 8 November 2012; and G/STR/N/15/KOR, 17 October 2014.

[54] USDA Foreign Agricultural Service (2014).

manufactured in the Kaesong (Gaeseong) Industrial Complex (located in the Democratic People's Republic of Korea).[55] On 10 February 2016, the Government of the Republic of Korea completely shut down operations at the Gaeseong Industrial Complex, and since then there has been no trade related to the complex. All of the tenant companies of the Republic of Korea withdrew from the complex and were to be compensated for losses resulting from this development.

3.61. On 21 May 2015, Japan notified the WTO Secretariat that it wished to initiate new dispute settlement proceedings against Korea regarding certain import bans and additional testing and certification requirements that have affected the importation of food products from Japan since the 2011 Fukushima Daiichi Nuclear Power Plant accident (Sections 2.6.1, 3.2.9.2.2 and 3.2.9.2.3). On 8 February 2016, a panel was composed to deal with this case.

3.2.7 State trading

3.62. Despite privatization efforts, the State participates in a wide range of trade and/or trade-related activities (Section 3.4.4). According to Korea's latest WTO notifications on state trading (see below), since 2012, two government agencies (the Ministry of Agriculture, Food and Rural Affairs (MAFRA), and the Korea Agro-Fisheries and Food Trade Corporation (aT)) have been authorized to allocate and/or operate tariff quotas as well as quotas, in the context of Korea's WTO commitments in agriculture, thus affecting quota utilization and price mark-ups (Section 3.2.4); prior to that date, the National Forestry Cooperatives Federation (NFCF) was also involved.[56] Since 1995, MAFRA has maintained exclusive rights on rice imports within the tariff quota and controlled the importation of MMA-related rice in order to, *inter alia,* smoothly implement WTO commitments, ensure food security and avoid domestic market disturbances caused by a sudden influx of rice (Section 3.2.6.2). The operations of the Korea Agro-Fisheries and Food Trade Corporation are, *inter alia,* aimed at stabilizing the domestic market for some other agricultural items. Since 2012, MAFRA has been the sole importer of rice, while aT undertook some imports of other agricultural items; all agricultural items were subject to important mark-ups, but at much lower level than at the time of the previous Review, except for rice, which was not at that time subject to such a practice.[57]

3.63. During the review period, Korea improved its record on WTO notification of state trading by making three submissions in August 2012, October 2014, and July 2016, compared to past practice where a ten-year period (1998-2009) passed without notifications.[58] No written questions

[55] In response to concerns that goods from the Democratic People's Republic of Korea may illegally enter the Republic of Korea via third countries, the KCS maintains various measures covering clearance, investigation, and in "audit fields" to cut off illegal entry of goods made in the Democratic People's Republic of Korea. The Gaeseong Industrial Complex has been a large-scale industrial complex which combined capital and technologies of the Republic of Korea with land and workforce of the Democratic People's Republic of Korea. According to Ministry of Unification online data, as of the end of 2015, 125 (123 in 2012) tenant businesses of the Republic of Korea were operating in the Gaeseong Industrial Complex, employing 54,988 workers of the Democratic People's Republic of Korea. The annual production in the complex totalled US$563.3 million in 2015, while between 2012 and 2014 its annual output remained steady at about US$470 million, except for a drop to about US$224 million in 2013, a crisis year when the Government of the Democratic People's Republic of Korea removed all its workers from the park. Goods originating in the Gaeseong Industrial Complex were exempt from taxes under Article 12 of the Inter-Korean Exchange and Cooperation Act.

[56] Korea's rights to impose mark-ups on WTO-related TRQs are stipulated in Note 4, Section 1: Agricultural Products, Part 1: Most-Favoured-Nation Tariff of Schedule LX of the Republic of Korea on Agricultural Products (WTO documents WT/LET/492, 12 April 2005; and WT/LET/504, 5 December 2005).

[57] In 2012 and 2013, the share of sales of aT to national domestic consumption of items concerned varied, e.g. up to 81.7% for soybeans, 81.6% for small red beans, 74.8% for green beans, 18.7% for buckwheat, 2.3% for genus *Capsicum*, 5.8% for garlic, 1,6% for ginger, and 50.2% for sesame seeds. Considerable mark-ups (average import price higher than average representative domestic sales price) affected soybeans (up to 48.7%), small red beans (up to 25.7%), green beans (up to 61.7%), buckwheat (up to 69%), genus *Capsicum* (up to 7.6%), garlic (up to 24.2%), onions (up to 9.3%), ginger (up to 61.2%), and sesame seeds (up to 31.7%). In 2012 and 2013, mark-ups of 34.4% and 40.9%, respectively, were imposed on rice (HS 10006.30.1000). According to the authorities the mark-up for imported table rice is not pre-determined but presumably *ex post facto* the gap between the purchase price from abroad and the sales price of domestic buyers; concerning rice for processing usage, the mark-ups are not imposed because its selling price is lower than the import price due to low consumer preference. WTO document G/STR/N/15/KOR, 17 October 2014.

[58] WTO documents WT/TPR/S/268/Rev.1, 8 November 2012; G/STR/N/14/KOR, 14 September 2012; G/STR/N/15/KOR, 17 October 2014; and G/STR/N/16/KOR, 14 July 2016.

were submitted by Members regarding these notifications, and no questions were raised at the meetings of the Working Party on State Trading Enterprises held during the review period.

3.2.8 Contingency measures

3.64. Contingency (trade remedy) measures are authorized under the Customs Act and the Act on the Investigation of Unfair International Trade Practices and Remedy Against Injury to Industry (2001). The Korea Trade Commission (KTC), under MOTIE, administers the measures and investigates and determines whether imports are dumped or subsidized and whether they cause or threaten to cause injury to the domestic industry. KTC investigations under emergency safeguard provisions determine whether imports have caused or threatened to cause "serious" injury to domestic industry. The decision on the imposition of anti-dumping and countervailing duties is taken by the Ministry of Strategy and Finance (MOSF).

3.65. According to Korea's WTO notification, parts of the Customs Act and its sub-regulations on anti-dumping measures have been in force and unchanged since March 2011.[59] Since 2012, Korea has entered into five RTAs, each containing a specific trade remedies chapter in which the parties' WTO rights and obligations concerning the application of safeguards, anti-dumping and countervailing measures, are preserved[60]. This is subject to certain clarifications and requirements, including with respect to: (i) the possibility of excluding imports of products covered under the relevant bilateral agreement from the application of safeguard measures[61]; (ii) the provision of written notice of an application for anti-dumping measures[62], or anti-dumping and countervailing measures, prior to the initiation of an investigation[63]; (iii) the possibility of holding a meeting or consultations prior to the initiation of an anti-dumping and countervailing measure investigation[64]; (iv) the transmission of written information regarding procedures for requesting price undertakings and an obligation to duly consider or give reasonable consideration to undertakings proposed or requested by exporters[65]; (v) the consideration of applications for anti-dumping measures with respect to goods on which anti-dumping measures have been terminated in the previous 12 months as a result of a review[66]; (vi) the application of the *de minimis* dumping margin threshold set out in Article 5.8 of the Anti-Dumping Agreement in new shipper reviews[67]; and (vii) the creation of a Committee on Trade Remedies, to be convened at least once a year, to oversee the trade remedies chapter of the relevant RTA and to discuss various other matters relating to trade remedies agreed by the parties.[68]

3.2.8.1 Anti-dumping and countervailing measures

3.66. During the period under review, recourse to anti-dumping action doubled.[69] Between 2012 and 2015, Korea initiated 20 anti-dumping investigations (8 in 2008-11) involving aluminium bottle can (Japan), plywood (China), oriented polypropylene film (China, Indonesia, and Thailand), PET film (Japan), ethanolamine (Japan, Malaysia, Thailand, and United States), polyester filament partially oriented yarn (India, Malaysia, and Thailand), valves for pneumatic transmissions (Japan), structural steel sections (China), ethyl acetate (India), and coniferous wood plywood

[59] WTO document G/ADP/N/1/KOR/6, 23 March 2011.

[60] Articles 6.5 and 6.8(1), Korea–Australia FTA; Articles 7.1(1) and 7.7(1)(a), Korea–Canada FTA; Articles 7.5 and 7.7, Korea–China FTA; Articles 7.6 and 7.7(1), Korea–New Zealand FTA; and Articles 7.5 and 7.6(1), Korea–Viet Nam FTA.

[61] Article 6.5, Korea–Australia FTA; Article 7.1(1), Korea–Canada FTA; Article 7.6, Korea–New Zealand FTA; and Article 7.5, Korea–Viet Nam FTA.

[62] Article 6.9(1), Korea–Australia FTA; Article 7.8(1), Korea–New Zealand FTA.

[63] Article 7.7(2), Korea–Canada FTA; Article 7.8, Korea–China FTA; and Article 7.7, Korea–Viet Nam FTA.

[64] Article 7.7(2), Korea–Canada FTA; Article 7.8, Korea-China FTA; and Article 7.7, Korea–Viet Nam FTA.

[65] Article 6.10, Korea–Australia FTA; Article 7.7(4), Korea–Canada FTA; Article 7.9, Korea–China FTA; Article 7.9, Korea–New Zealand FTA; and Article 7.8, Korea–Viet Nam FTA.

[66] Article 7.12, Korea–China FTA; and Article 7.9, Korea–Viet Nam FTA.

[67] Article 7.14, Korea–China FTA.

[68] Article 7.8, Korea–Canada FTA; Article 7.15, Korea–China FTA; and Article 7.11, Korea–Viet Nam FTA.

[69] With 127 cases initiated between 1995 and 2014, Korea was the world's 12th major user of anti-dumping measures. WTO online information. Viewed at: https://www.wto.org/english/tratop_e/adp_e/adp_e.htm.

(China).[70] As of December 2015, 32 anti-dumping measures were in force on 12 products, mainly choline chloride (4 cases), ethanolamine (4 cases), ethyl acetate (3 cases), PET film (3 cases), oriented polypropylene film (3 cases), and stainless steel bar/plate (2 cases); 31 measures were in place in March 2012. Action affected mostly products originating in Asia (28, mainly China (10), Japan (7), India (3), Malaysia (3), and Thailand (2)), and to a lesser extent Canada, the EU (Spain) and the United States.[71] Virtually all final measures consisted of definitive duties. Between 2012 and 2015, Korea completed 13 sunset reviews, of which 12 resulted in the extension of measures and 1 in termination; 3 measures were terminated without a review. In January 2016, 1 sunset review was under way. On 15 March 2016, Japan requested consultations with Korea under the dispute settlement system concerning measures imposing anti-dumping duties on valves for pneumatic transmission ("pneumatic valves") from Japan (Section 2.5.1).

3.67. Korea has never taken countervailing measures. Since its last Trade Policy Review, Korea has regularly submitted semi-annual reports on anti-dumping and countervailing actions to the relevant WTO Committees.

3.2.8.2 Safeguards

General

3.68. Safeguard measures, including provisional measures, may be applied where as a result of unforeseen developments and the effect of obligations incurred under the GATT 1994, increased imports cause or threaten to cause serious injury to domestic producers of a like or directly competitive product. In deciding on the type and duration of measures to be imposed, the KTC takes into account the impact on the industries concerned, domestic price levels, consumer interests, and international trade relations.[72] Safeguard measures apply for up to four years (200 days if provisional), but may be extended by four years subject to a further review.[73] Since the previous Review in 2012, no safeguard measures have been applied; the last investigation in this area dates back to 1999.

Sector-specific

3.69. Since its last Review, Korea has had recourse more frequently to the special safeguard (SSG) provisions under Article 5 of the WTO Agreement on Agriculture. Korea reserved the right to take SSG action on crop and related products (e.g. grains, potatoes, ginseng, and soybean) under the WTO Agreement on Agriculture. The decision to implement such measures is made annually by the MOSF through a ministerial ordinance, at the request of MAFRA. Korea reserved the right to apply SSG provisions to 124 agricultural ten-digit tariff items (as of 2011), but so far they have been applied to a small sub-set of items. The Special Safeguard Tariff Schedule is issued annually to implement these provisions; its coverage was raised as from 2015, *inter alia*, due to the introduction of rice and rice items eligible for volume- and/or price-based action.[74] Korea's first WTO notification in this area since 2007 was submitted in January 2012 and covered SSGs implemented from 2005 to 2010.[75] Notifications covering the period from 2011 to 2013 indicate price-based SSG measures on raw ginseng (2011 and 17.4.2012-13.12.2012), white ginseng (11.1.2011), and ginseng root (24.4.2013-24.12.2013); similar measures affected ginseng in the period 2014-16 and rice and related products in 2015-16. Volume-based SSGs have been used on ground-nuts (2012-13), rice and related products (2014-15), cereal flour and other worked grain (HS 1102.90.9000, HS 1103.11.0000, HS 1104.22.0000, HS 1104.29.9000)

[70] WTO documents G/ADP/N/230/KOR, 6 August 2012; G/ADP/N/237/KOR, 4 February 2013; G/ADP/N/244/KOR, 2 August 2013; G/ADP/N/252/KOR, 4 March 2014; G/ADP/N/259/KOR, 10 September 2014; G/ADP/N/265/KOR, 9 February 2015; G/ADP/N/272/KOR, 19 October 2015; and, G/ADP/N/280/KOR 6 April 2016.

[71] WTO document G/ADP/N/280/KOR, 6 April 2016.

[72] Article 17 of Law No. 6417 in WTO document G/SG/N/1/KOR/5, 26 October 2001.

[73] Article 19.5 of Law No. 6417 in WTO document G/SG/N/1/KOR/5, 26 October 2001.

[74] The Special Safeguard Tariff Schedule covered 22 ten-digit items eligible for price-based action and 22 for volume-based action in 2012 and 2013, 18 ten-digit items eligible for price-based action in 2014, and 38 ten-digit items eligible for price-based action and 27 for volume-based action in 2015 and 2016, as compared to 33 ten-digit items in 2008, 29 in 2009, 25 in 2010, and 23 in 2011 eligible for price-based action only.

[75] WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

(16.5.2015-31.12.2015) for the first time since 2007.[76] Korea's latest SSG measures were notified to the WTO Committee on Agriculture in July 2016.[77]

3.2.9 Standards and other technical requirements

3.2.9.1 Standards, testing, and certification

3.70. During the review period, the institutional setting in this area remained relatively unchanged.[78] The Korean Agency for Technology and Standards (KATS), an affiliate of MOTIE, sets, administers, and disseminates Korean Industrial Standards (KSs) on the basis of the National Standardization Act and the Industrial Standardization Act. In December 2013, KATS was reorganized to strengthen the role of industrial standards and to augment their economic added value. KATS, the official enquiry point on industrial products under the WTO Agreement on Technical Barriers to Trade, is in charge of planning and coordinating national standards policy. The Korea Standards Association (KSA), a KATS affiliate with public and private sector membership, provides comprehensive knowledge services (standardization, standards, certification and training), and several private bodies perform standardization-related tasks.[79] Other bodies performing standards-related work include the Korea Research Institute of Standards and Science (responsible for metrology standards and measurement) (KRISS), and the Telecommunications Technology Association (TTA), an agency affiliated with the Korea Communications Commission, which is responsible for group standards for telecommunications, information technology, radio communications, and broadcasting.[80] The National Standards Council reviews general plans for the introduction of national standards and coordinates the standards-related activities of the different ministries.

3.71. Standard development remains government-led, and is a significant element of Korea's industrial policy. The KATS implemented its fourth National Standards Plan (2016-20) with key policy goals including the development of standards for new growth engine activities, for improving people's daily life, and the eradication of redundant certification systems. Its third National Standards Plan (2011-15) had the same key policy goals. At present, it aims to advance the national standards system, strengthen the standard technology infrastructure, actively participate in international standardization activities, and assist the private sector in increasing its capacity to develop standards.[81]

3.72. Under the Framework Act on Administrative Regulations (last amended by Act No. 9965, 25 January 2010), a regulatory impact analysis (RIA), including cost-benefit analysis, has been required since 1997, prior to introducing a new regulation or reinforcing existing regulations.[82] The

[76] WTO documents G/AG/N/KOR/47, 25 January 2013; and G/AG/N/KOR/49, 8 January 2015.

[77] WTO document G/AG/N/KOR/55, 18 July 2016.

[78] Korea faces huge testing and certification demand, and according to the authorities it provides speedy and inexpensive services, and has a high level of digitalization and the ability to respond quickly to market changes. Nevertheless, its testing and certification agencies appear to lag behind their counterparts overseas (e.g. BV of France, SGS of Switzerland, and Intertek of the UK), *inter alia*, in terms of brand power, and service diversity. As of 2014, their overall capabilities were considered to be around 65.4% of those of global leading agencies; more specifically, their service expansion capabilities and the testing and certification standardization capabilities were just 46.9% and 53.6% of those of the global leading institutes respectively. Interview with Seong Si-heon, administrator of KATS, published in the online *Business Korea* article titled "Korean Agency for Technology and Standards – Augmenting Added Value by Strengthening Industrial Standards", 31 January 2014. Viewed at: http://www.businesskorea.co.kr/english/features/special-reports/3370-korean-agency-technology-and-standards-augmenting-added-value#sthash.cbQ06lXW.dpuf.

[79] In 2013, the KSA opened a KS Certification Support Centre and a Global Standardization Support Centre. Online MOTIE and KSA information. Viewed at: http://english.motie.go.kr/?cat=58&paged=4 and http://www.ksa.or.kr/eng/index.jsp.

[80] The TTA sets industry standards and has been instrumental in creating the current Korean Information and Communication Standards. The TTA also collaborates with international and national standards organizations, such as the ITU. KRISS is a public institute registered in the Ministry of Education, Science and Technology (MEST), and it mainly serves as the national metrology institute (NMI). KRISS also manages National Centre for Standard Reference Data (NCSRD).

[81] Between 2010 and 2013, Korea made 236 proposals for new international standards at ISO (168) and IEC (68). KATS online information. Viewed at: http://www.kats.go.kr/en/content.do?cmsid=404 and http://www.kats.go.kr/en/content.do?cmsid=407.

[82] The authorities indicated that KATS continues to prepare, adopt and apply standards in line with the provisions of Annex 3 of the WTO TBT Agreement (Code of Good Practice). SPS measures are taken mainly against diseases that are new to Korea and that are subject to strict domestic preventive measures.

RIA has been carried out by three Ministry of Food and Drug Safety (MFDS) divisions in different fields. KATS is implementing a technical regulatory impact assessment (TRIA) aiming to comprehensively review costs, advantages, impacts and compatibility of regulations for technical regulation issues. In 2015, out of 602 cases suggested for adjustment 52% were adjusted.

3.2.9.1.1 Voluntary, compulsory, national, and aligned standards

3.73. The Korean standardization system consists of technical regulations (mandatory standards) developed by ministries and government agencies, as well as standards (voluntary) set by KATS (KSs) and the Radio Research Agency (Korea Communications Standards, KCSs). As of 2015, the KCSs, set on the basis of the Framework Act on Broadcasting and Communications Development and operated by the Ministry of Science, ICT and Future Planning, were "consolidated" into KSs (Korean Standards). As from 2015, KATS has re-organized the KSs to better reflect current market demand and technological development, and moved ahead with a new standards development system.[83] The KSs with lower utilization are being repealed, and those affecting consumer safety and requiring compliance with international standards are to be updated. As from 2015, seven ministries and one agency (Ministry of Science, ICT and Future Planning; Ministry of Environment; Ministry of Agriculture, Food and Rural Affairs; Ministry of Employment and Labour; Ministry of Oceans and Fisheries; Ministry of Food and Drug Safety; and Korea Forest Service) have participated in developing KSs. On the basis of the expertise of each ministry, Korea is to develop KSs and improve efficiency in adopting standards and technical regulations. The standards enactment and revision procedure will be improved so that the relevant agencies can independently work on and manage their standardization plans; so far the KS processes have been handled by KATS only.

3.74. KATS prepares the roadmap for standardization and carries forward standard development in connection with government policies and R&D. In 2011, eight sectors were subject to national standards coordination projects: smart grid, 3D businesses, electric cars, cloud computing, nuclear power, smart media, smart logistics, and smart medical information; as of 2016, KATS was to proceed with the same type of projects in the fields of smart factory, smart health, next generation steel, next generation material and wearable smart-equipment.

3.75. As of April 2016, about 3,072 (about 15% of all standards) KSs (5,000, or 24.6%, in 2010) were contained in 5,470 (15,375 in 2010) technical regulations issued by 19 government ministries. At the end of April 2016, 20,495 KSs had been adopted (23,622 in 2010). The allocation of all KSs by sector was: chemicals, textiles, and ceramics (4,518, 22%); machinery (3,120, 15%); electricity (3,469, 17%); metal, mining, and construction (2,368, 11.5%); transportation machines, shipbuilding, and the aerospace industry (1,522, 7.4%); information technology (1,636, 8%); and food, environment, etc. (3,862, 19%). At April 2016, 19,880 (97%) of KSs had been harmonized with corresponding international standards, compared to 14,157 (59.9%) in 2010. Non-harmonized standards, i.e. those that are either unique to Korea, with no corresponding international norm (e.g. for kimchi), or cannot be harmonized because of their link to other domestic regulations, remain in place; no information on developments on "Korea-specific" standards since 2012 was available from the authorities.[84] Roughly 3% (2.5% in 2010) of KSs have been established without any reference to international standards. In April 2016, approximately 66% (60% in 2010) of KSs were subject to international ISO/IEC harmonization.

3.76. At March 2016, Korea maintained bilateral MoUs with 42 agencies (46 in 2011) from 31 (33 in 2011) countries for mutual cooperation in global standardization activities, exchange of

[83] Interview with the administrator of KATS published in the online *Business Korea* article titled "Korean Agency for Technology and Standards – Augmenting Added Value by Strengthening Industrial Standards", 31 January 2014. Viewed at: http://www.businesskorea.co.kr/english/features/special-reports/3370-korean-agency-technology-and-standards-augmenting-added-value#sthash.cbQ06lXW.dpuf.

[84] At the time of the previous Review, according to the authorities, there were very few "Korea-specific" standards, and these were maintained only where there were no equivalent international standards and when there was sufficient justification. Moreover, "Korea-specific" standards were not aimed at creating unnecessary obstacles to international trade; they involved Korean traditional food products and related items, such as *gwamegi* (dried Pacific saury or mackerel pike), *doenjang* (fermented soybean paste), *gochujang* (thick soy and red pepper paste), and kimchi refrigerators.

technical information related to standards and conformity assessment, organization of standardization meetings, operation of joint education programmes, and exchange of experts.[85]

3.2.9.1.2 Food, health-related and other measures

3.77. Legislative responsibility for regulating food safety and quality remains divided between several ministries. The Ministry of Food and Drug Safety (MFDS) regulates food safety (including foods of plant, animal and aquatic origin), whereas the Ministry of Agriculture, Food and Rural Affairs (MAFRA) deals with animal and plant health (including import quarantine measures for animal, livestock products and plants). The Ministry of Oceans and Fisheries deals with aquatic health including import quarantine measures for fishery products and safety for exporting fishery products. Safety of foods, pharmaceuticals, medical devices and cosmetics is governed by the Ministry of Food and Drug Safety (MFDS), formerly the Korea Food and Drug Administration (KFDA) – a government body upgraded to ministerial level in March 2013.[86] MFDS's main role is to protect public health and safety, including the safety of food and livestock products. MFDS, with its six regional offices, and the National Institute of Food and Drug Safety Evaluation, a think-tank, are responsible for establishing and enforcing basic legislation and its implementing regulations, as well as setting standards and specifications for domestic and imported foods, including livestock products, functional foods, food additives, food packaging, containers and equipment (Section 3.2.9.2).[87] As from March 2013, standards and specifications for meat, dairy, and egg products have been handled by the MFDS, whereas quarantine standards for animals and animal products have been handled by MAFRA. The MFDS regulates domestic and imported salts for domestic consumption, with the exception of industrial salt and solar salt, which are inspected by the Animal and Plant Quarantine Agency (QIA).

3.78. Imports of pharmaceuticals continue to require a free sale certificate, issued by an authority of the exporting country. Any person intending to import medical devices or pharmaceuticals must obtain an item-specific approval from, or file a notification with, the MFDS in accordance with the relevant law. Item-specific pre-approval involves the submission of extensive clinical trial data and other safety and efficacy-related data as prescribed by the Pharmaceutical Affairs Act Enforcement Decree.[88] Manufacturers must submit detailed data on certain active pharmaceutical ingredients under the MFDS's Drug Master File.

3.79. Each batch of imported pharmaceutical products remains subject to batch release testing by the healthcare authorities, even if they have already been tested and released by the manufacturer and the health authority of the country of origin. The authorities indicated that the same rules and regulations are applied in accordance with the Pharmaceutical Affairs Act to domestically distributed biological drugs (locally and foreign produced), and results of tests conducted by foreign manufacturers or health authorities of the exporting country must not substitute results of batch or lot release tests conducted by the MFDS. For some medical devices used for medical practice, the Government needs to determine whether they are eligible for reimbursement before they are used at healthcare institutions including hospitals, since all healthcare institutions in Korea are reimbursed by the Government for medical services provided to patients. With regard to medical devices subject to health technology assessment, under the relevant laws, it takes up to about 17 months (or 510 days) from the date of application for MFDS approval by a device manufacturer to the date when the MFDS approval is granted and the product is launched onto the market: approval takes 80 days; health technology assessment 280 days; and listing the product for reimbursement 150 days.

[85] Online KATS information. Viewed at: http://www.kats.go.kr/en/content.do?cmsid=408.

[86] Following the March 2013 revision of the National Government Organization Act, the policy-making function of the Ministry of Health and Welfare (MOHW) regarding food and drug safety, and the duties of the former Ministry for Food, Agriculture, Forestry and Fisheries regarding sanitation and safety of agro-livestock fishery products were transferred to the MFDS. Online MFDS information. Viewed at: http://mfds.go.kr/eng/index.do?nMenuCode=9.

[87] USDA Foreign Agricultural Service (2015d).

[88] Most regulations in this area are harmonized with the International Conference on Harmonization (ICH) guidelines. Since March 2016, the MFDS has participated in ICH as an observer and it is considering becoming a regular member.

3.80. Cosmetics are regulated by the MFDS and fall under two categories: "functional" cosmetics and regular cosmetics.[89] "Functional" cosmetics include whitening, anti-wrinkle, and sunscreen and tanning products. The MFDS reviews only "functional" cosmetics for pre-market approval. For all other regular cosmetics, the Korea Pharmaceutical Traders Association (KPTA) has been authorized by the MFDS to review and certify import permission requests submitted by the Korean importer. The MFDS administers registration requirements on imported and domestically produced "functional" cosmetics. Importers must conduct "self-regulated" quality inspection for each product type to ensure conformity with the cosmetic standards and test methods.[90] Cosmetics importers are required to file a customs report to, and obtain prior approval from, the Korea Pharmaceutical Traders Association (KPTA) on all products. Test results submitted by overseas manufacturers using quality standards that are internationally accepted or certified, or that are more stringent than the Korea Cosmetic Good Manufacturing Practice (KCGMP) standards, are accepted without any additional quality testing in Korea. Quality inspection by the importer of cosmetics is required, according to manufacturing serial/batch number. Certain products classified as cosmetics (e.g. depilatory, hair dye products) overseas are not considered as such in Korea; reportedly, this makes it hard to harmonize regulations with other countries. The MFDS is revising the Cosmetics Act; depilatories and hair dye products are to be classified as cosmetics by the end of 2017.

3.2.9.1.3 Conformity assessment

3.81. KATS is responsible for conformity assessment, certification, registration and testing of industrial products for voluntary (KS) standards. It runs the Korea Laboratory Accreditation Scheme (KOLAS), which accredits testing and calibration laboratories and inspection bodies, as well as the Korea Accreditation System (KAS), which accredits product certification bodies. Accreditation accords with internationally recognized standards. In 2015, there were 487 (403 in 2011) accredited testing laboratories, 209 (193 in 2011) calibration laboratories, 55 (46 in 2011) inspection bodies, 8 proficiency testing providers in KOLAS and 20 (16 in 2011) product certification bodies in KAS.[91]

3.82. Korea maintains a single national integrated certification mark, the Korea Certification (KC) mark, fully implemented as from January 2011.

3.83. In 2011, KATS set a five-year comprehensive plan on quality management to identify quality-related issues that could be addressed to enhance sustainable growth and Korea's international competitiveness. The plan laid out 15 major actions and strategies in order to rank 10th in terms of global quality competitiveness by the year 2015; its results have been generally satisfactory and at present KATS is working on a basic plan of quality management for 2016 to 2020.

3.84. Certification authorities are encouraged to negotiate mutual recognition arrangements (MRAs) with foreign counterparts. KOLAS is a signatory to the International Laboratory Accreditation Cooperation (ILAC) Multilateral Recognition Arrangement (MLA) for testing and for calibration; as of May 2016, 89 accreditation bodies from 74 countries participated in the MLA. KATS is a signatory to the International Accreditation Forum (IAF) MLA for bodies operating product certification systems. Korea also maintains an extensive network of MRAs, especially with APEC economies. The Korean Accreditation Board (KAB) and KAS form part of the Pacific Accreditation System (PAC). KAB is a signatory of the IAF MLA for Quality Management Systems, and participates in the IAF MLA for Environmental Management Systems. Korea is also a member of the APEC MRA on Conformity Assessment of Telecommunications Equipment (Phase I and II) and of Part I of the APEC Electrical MRA; it does not intend to participate in Part II and III of the latter. It joined the MRA on Conformity Assessment of Electrical and Electronic Equipment in 2015.[92]

[89] Korea is the world's 10th largest cosmetics market, representing nearly 2.8% of the global market and worth US$7.8 billion (2014). Viewed at: http://www.export.gov/southkorea/doingbusinessinskorea/leadingsectorsforusexportsinvestment/cosmetics/index.asp.

[90] WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[91] Online KOLAS information. Viewed at: https://www.kolas.go.kr/english/.

[92] Online APEC information. Viewed at: http://www.apec.org/Groups/Committee-on-Trade-and-Investment/~/media/7F1C151806EE44D48FC04FA3D4BFDD49.ashx.

3.85. Korea maintains: an APEC-TEL MRA with Canada (1997), the United States (2005), Viet Nam (2006), and Chile (2007) on recognition of test results for telecommunications equipment; an FTA with the EU with provisions on recognition of conformity assessment for telecommunications equipment; and an MRA with Singapore (2006) on electrical and electronic appliances under the Korea–Singapore FTA. Under the Industrial Technology Innovation Promotion Act, the NEP (New Excellent Product) certification system continues to cover products manufactured with new technologies developed first in Korea or improved with innovative technologies. The certificate is valid for three years. NEP-certified products receive government support to expand sales channels and accelerate technology development. Products certified as NEP receive an additional qualification point in procurement by government and public organizations. At the time of the previous Review, the authorities indicated that the NEP system does not affect international trade. No data on the specific product coverage of and financial support under the NEP system was available from the authorities.

3.86. The MFDS facilitates food imports through the "authorization of foreign official laboratories" system and the "pre-confirmed registration system of imported foods". The former covers inspection agencies authorized by the Government of the exporting countries and the MFDS; it includes 59 agencies in 9 countries. Test results issued by these agencies are recognized by the MFDS and therefore relevant imports are exempt from laboratory inspection. Under the "pre-confirmed registration system of imported foods", foodstuffs pre-approved and registered based on site inspection at the exporter's premises and advanced test certification of an officially authorized agency are exempt from laboratory inspection. Korea has not joined the APEC MRA on Conformity Assessment of Foods and Food Products.

3.87. Following the revision of the Act on the Management and Support for the Promotion of Eco-Friendly Agriculture/Fisheries and Organic Foods (New Organic Act) in 2012, as from 1 June 2013 a mandatory organic certification programme requires all domestic and imported organic fresh (unprocessed) and processed produce and livestock products to be certified by a MAFRA accredited certifying body.[93] As of December 2015, 15 Korean certifying agencies and four foreign certifying agencies were accredited by MAFRA's National Agricultural Products Quality Management Service (NAQS) for certification of organic processed food products. Korea maintains a zero-tolerance policy for the inadvertent presence of biotech content in processed organic products (Sections 3.2.9.2.1 and 3.2.9.3); any organic products tested positive for genetically modified organisms (GMOs) importers/producers can be instructed to remove an organic claim from the product label and NAQS may investigate the case to see if there is any intentional violation.[94] In response to consumer demand for a higher standard of environment-friendly agricultural products, Korea stopped issuing new certification for low pesticide organic agricultural produce in 2010 in view of the discontinuation of this category in 2016.[95] In lieu of certification by accredited certifying agents, the 2012 Act allowed MAFRA to have an equivalency agreement on processed organic products with foreign trade partners. On 1 July 2014, the United States and Korea adopted an equivalency arrangement allowing processed food products certified as organic in the United States or Korea to be sold as organic in either country without having to go through a costly certification process again under the importing country's standards.

3.88. During the review period, action was also taken in the areas of reporting, declaration of conformity, testing and environmental impact review. In 2013, an Act on the Registration and Evaluation of Chemicals requiring manufacturers and importers of chemical substances to register and comply with annual reporting requirements was enacted and notified to the WTO TBT Committee; on 18 February 2014, the Ministry of Environment (MOE) released implementing regulations in force as of 1 January 2015.[96] A new regulation requiring companies to make

[93] The certification for organic produce is classified into two categories: organic and no-pesticide. For livestock products, two categories of certification are available: organic livestock and no-antibiotic livestock. USDA Foreign Agricultural Service (2015d); USDA Foreign Agricultural Service (2015b).

[94] USDA Foreign Agricultural Service (2015c).

[95] Sustainable agricultural produce has been classified into three categories: organic produce, no-pesticide produce, and low-pesticide produce (until 2015), and can be labelled accordingly. For livestock products, two categories of certification are available: organic livestock and no-antibiotic livestock (WTO document WT/TPR/S/268/Rev.1, 8 November 2012).

[96] Concerns remain with these registration and reporting requirements, in particular the high costs and potential release of sensitive business information, as well as the 20 days for interested parties to submit comments prior to implementation. USTR (2015). WTO documents G/TBT/N/KOR/305, 9 March 2011;

information on chemical products, such as the name and quantity of chemical products in production facilities, publicly available was implemented as of 1 January 2016.[97] KATS released its final Safety Regulations rule for information technology equipment, effective 1 July 2013; these regulations expanded the scope of products subject to a supplier's declaration of conformity, and adopted the most current International Electrotechnical Commission (IEC) standard.[98] In March 2014, an environmental impact review on the use of cadmium in solar panels determined that a hazard existed for using Cadmium Telluride (CdTe).[99] Pursuant to an amendment of the Motor Vehicle Management Act, Korea requires, as of 8 January 2015, that all auto manufacturers or dealers report vehicle repair histories to vehicle purchasers in order to account for any damages taking place between the manufacturing site and customer delivery.[100]

3.2.9.1.4 Transparency

3.89. New and/or revised legislation and the implementing guidelines are published in the government gazette for public comments; these changes are also notified regularly to the WTO for Members' comments. Between 2012 and 2015, Korea made 281 new notifications under the WTO Agreement on Technical Barriers to Trade (the TBT Agreement); the majority remained under Article 2.9 of the Agreement, and in 91.1% of the notified cases the timeliness of the submission allowed for a comment period of 60 days or more, while in only 11 cases the period was less than 45 days.[101] To help Korean companies respond to technical barriers to trade, KATS maintains a TBT division, which is exclusively responsible for WTO/TBT-related affairs. KATS maintains an online information service on technical regulations of respective countries, which are notified to the WTO.[102] KATS runs a TBT Notifications Alert Service, which transmits TBT notifications to stakeholders by email and encourages them to submit their comments.

3.90. During the review period, Members raised specific trade concerns (STCs) at the Committee on Technical Barriers to Trade regarding several measures under consideration or taken by Korea (e.g. relating to chemical material; thin-film solar panels; PCV flooring material, wallpaper and paper linoleum, and toys; wood products; automobile standards; tyres for motor vehicles; cell phone electromagnetic values/exposure; cosmetics; radio-frequency identification tags for imported whiskeys; and energy efficiency of windows).[103]

G/TBT/N/KOR/305/Add.1, 30 August 2013; G/TB/N/KOR/478, 28 February 2014; and, G/TBT/N/KOR/592, 5 August 2015.

[97] USTR (2016).

[98] Nevertheless, concerns remain as the regulation requires separate safety certification with respect to each factory's products, even for identical products produced by the same company but in a different factory, and does not establish a certificate renewal process. Furthermore, despite being a member of the IEC System for Conformity Testing and Certification of Electrical and Electronic Components, Equipment and Products Certification Bodies' Scheme (CB), KATS is not currently accepting CB reports without additional testing. Finally, the final rule imposes burdensome labelling requirements for information that could be disclosed instead in an insert or manual. USTR (2015); USTR (2016).

[99] Korea requires solar panels to be certified by the Korea Management Energy Corporation (KEMCO) before they can be sold for projects receiving government support provided to the vast majority of solar projects in the country. KEMCO maintains a standard for thin-film solar panels that can only be satisfied by panels manufactured from amorphous silicon and copper indium gallium selenide. Over recent years Korea was urged at WTO TBT Committee meetings to adopt in full the relevant international standard, IEC 61646, without limiting its application solely to the type of thin-film solar panel its industry produces. USTR (2015).

[100] This new reporting requirement seems to discriminate against auto importers because local auto manufacturing sites are co-located with the Pre-Delivery Inspection (PDI) facility, thus vehicles are unlikely to require any reportable reconditioning; since imported vehicles routinely undergo some kind of reconditioning that would require reporting under this law, consumers perception of imported vehicles could be harmed. USTR (2015); USTR (2016).

[101] In 2014 and 2015, Korea made 35 and 71 online notification submissions (TBT NSS), respectively. WTO documents G/TBT/33, 27 February 2013; G/TBT/34, 7 March 2014; G/TBT/36, 23 February 2015; and G/TBT/38/Rev.1, 24 March 2016.

[102] Viewed at: http://www.knowtbt.kr/eng/index.aspx/.

[103] Historically, Korean measures are frequently subject to TBT STCs. Overall, from 1995 to 2015, 30 new STCs have been raised against Korean measures before the TBT Committee. This makes Korea the 4th WTO Member with most measures discussed in the Committee, only behind the EU, China and the United States. However, in 2015, Korea was not among even the top 8 Members in terms of measures subject to STCs. WTO documents G/TBT/33, 27 February 2013; G/TBT/34, 7 March 2014; G/TBT/36, 23 February 2015; and, G/TBT/38/Rev.1, 24 March 2016.

3.2.9.2 Sanitary and phytosanitary measures

3.2.9.2.1 Food standards-setting framework

3.91. Korea's regulatory system takes into account the opinions of consumers and industry, and reflects them in the decision-making process.[104] The main laws affecting food standards and specification are the Food Sanitation Act (last amended in 2016), the Food Code and the Food Additive Code. Since 2008, a Food Safety Policy Committee comprehensively revises and coordinates food safety management tasks dispersed across the various ministries and agencies; so far each relevant agency has developed comprehensive three-year food safety plans (2008-11, 2012-14, 2015-16) to carry out food safety control schemes to prevent hazardous food at all stages of the food chain from production to distribution. Following efforts to consolidate all imported food regulations, which were scattered among various acts, into a single act, a Special Act on Imported Food Safety Management, effective as of 4 February 2016, requires all foreign food facilities and establishments to be registered by the MFDS. Reportedly, this act is to facilitate sound transactions and enhance public health by guaranteeing the safety of imported foods in the domestic market and food exported overseas, to promote quality, and to provide correct information, as well as to provide the legal grounds to take measures if foreign manufacturers decline audits.[105] A six-month grace period for foreign facility registration, until 3 August 2016, was granted to allow a smooth transition.

3.92. As from March 2013, the responsibility of implementing the Hazard Analysis of Critical Control Point (HACCP) programme (see below) and the recall systems for food, livestock, and dairy products were transferred from MAFRA to the MFDS. The MFDS expanded the application of the Hazard Analysis Critical Control Point system to 13,991 firms by December 2015 compared to 2,500 firms in 2012. In addition, the MFDS sets and implements regulations governing safety evaluations of agricultural products that have been enhanced through biotechnology and labelling requirements for both agricultural products and processed food products manufactured using GMO ingredients (Section 3.2.9.3).[106]

Maximum residue levels

3.93. The MFDS remains responsible for regulating pesticide residues in foodstuffs, in accordance with the maximum residue levels (MRLs) set in the Food Code and applied for both domestic and foreign products.[107] The authorities indicated that MRLs are established based on the scientific residue data, and the MFDS tries to harmonize them with the CODEX tolerance whenever possible until full enforcement of the "positive list" (see below); if the standard is different to that of the CODEX, it is reassessed to promote standards harmonization.[108] As of December 2015, the MFDS had set MRLs for 449 pesticides in agricultural products and 79 pesticides in ginseng products. The Food Code also lists MRLs for 82 pesticides and 147 veterinary drugs in meat, fish, eggs and milk products that remain virtually unchanged since the previous Review. In addition to the Food Code, the MFDS maintains an MRLs database (Pesticide Residue Database) for agricultural products, in Korean with English translations.[109] Food importers have to provide lists of all food ingredients and additives to the MFDS and the QIA for customs clearance; the ingredient content ratio (mixture ratio of materials) is not required.

[104] WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[105] As for establishments of livestock products, including dairy products, the MFDS will recognize establishments that have a record of export to Korea prior to the implementation of the Special Act. Those establishments with a record will not require any additional registration. For any new establishment that wishes to export products to Korea, registration shall be made through the exporting Government. USDA Foreign Agricultural Service (2015c).

[106] USDA Foreign Agricultural Service (2015d).

[107] In addition to MFDS, MAFRA and the Ministry of Environment (MOE) handle pesticide-related matters. MAFRA is responsible for pesticide registration and the MOE is responsible for testing pesticide levels in water, soil and agricultural products. USDA Foreign Agricultural Service (2015d).

[108] If an MRL is established in the Food Code for a pesticide in a particular agricultural product, other tolerance levels, such as CODEX, are not accepted. However, for pesticides where tolerance levels have not been established in the Korean Food Code, the following rules apply: the CODEX standards set for a particular agricultural product (excluding crop groupings) in question shall apply; if the previous provision is not applicable, the lowest residue limit for the pesticide in question for a similar agricultural product shall apply; and if both previous provisions are not applicable, the lowest of the residue limits of the pesticide for any agricultural crop applies. USDA Foreign Agricultural Service (2015d).

[109] See 2009 KFDA online information. Viewed at: http://eng.kfda.go.kr/policy/pesticides.php.

3.94. Since 2015, Korea has been in the process of shifting to a new positive list system (PLS) for agrochemical residues which would inhibit the use of non-registered pesticides which are not evaluated by scientific assessment and would no longer allow imports of food containing agrochemical residues unless the substance has been listed, or approved, for the commodity in question and an MRL has been established. The MFDS plans to first complete the transition to the PLS for tropical fruit and nuts/seeds by the end of 2016; it then plans to complete the transition for all other crops by the end of 2018 and veterinary drugs by 2020. In the process of making this shift, Korea is requiring new import tolerances for agrochemicals not already registered for use in the country.[110] This process may prove a significant challenge to exporters of fruit and grain if import tolerances are not set at an appropriate level and in a timely manner; sufficient time for a smooth transition to the PLS may be required.[111] After a single MRL violation by an export shipment to either Korea or another country, Korea may impose restrictive import requirements on that product's grower, shipper, and importer, and may require a number of compliant shipments to Korea before the requirement is removed.

Food additives

3.95. All food additives require prior approval. As of December 2015, Korea had a positive list of 605 (601 in 2011) approved food additives.[112] Food additives and related items are grouped into three categories: (a) chemical synthetics (408 items), (b) natural additives (197 items), and (c) mixed substances (7 categories of mixture of approved additives). Reportedly, even though there may be an established CODEX standard for a given food additive, domestic or imported foods with "reasonable" levels of a food additive may not be marketed, either because their food additive is not registered in the Korean Food Additives Standards Code, or because it failed to comply with item-specific standards specified in the Code or its usage in a certain food product is not specified in the existing Food Additive Code.[113] Getting a new additive added to the approved list usually takes a year or more. In 2015, food additives were to be reclassified based on the Codex Alimentarius Commission; a revised plan for the classification system for food additives was to bring them in line with that of advanced countries.[114] The authorities indicated that, since 2012, eight new food additives were authorized, and the relevant standards and specifications have been consistently revised for their harmonization with global standards.[115]

3.96. A 2009 system of managing safety of OEM (original equipment manufacturing) food imports mandates OEM food importers to perform on-the-spot inspection and self-quality control for OEM food products (food and food additive imports other than agricultural items, forestry items and alcoholic beverages manufactured by overseas contractors and labelled with the contractor's brand). The MFDS and city/province authorities conduct regular on-site inspections for domestically produced food products. If imported OEM food products prove to be safe, their imports are to increase once consumer confidence is restored.

Genetically modified products and living modified organisms

3.97. Korea's legislation on the marketing of genetically modified agricultural products (GMAPs), , continues to apply equally to domestic and imported GMAPs. Since 1 January 2008, Korea has implemented the Act on Transboundary Movement of Living Modified Organisms (LMO Act), the law implementing the Cartagena Protocol on Biosafety to the Convention on Biological Diversity. Imports of biotech grains, as well as genetically engineered animals, are regulated under the Food Sanitation Act and the LMO Act, which was last revised in December 2012 and became effective on 12 December 2013, to, *inter alia*, provide a definition of stacked events[116]; its Enforcement Decree, the Enforcement Regulations, and the Consolidated Notice were revised in 2014.

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[110] If no domestic MRL has been established, then an import tolerance will be required in order to import foods containing substances not approved for use in Korea. If no import tolerance is set, 0.01 ppm will be applied as the default tolerance. USDA Foreign Agricultural Service (2015d); USTR (2016).

[111] USTR (2015).

[112] USDA Foreign Agricultural Service (2015d).

[113] WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[114] Ministry of Food and Drug Safety (2013).

[115] These items are polyvinyl alcohol, urease, sodium fluoride, potassium iodate, butane, ammonium phosphatides, polyethylene glycol, and calcium caseinate.

[116] Despite the revisions, it appears that the regulations still do not distinguish between biotech for food, feed and processing (FFP) and biotech seed, do not eliminate the redundant risk assessment process, and do

3.98. Food safety and environmental risk assessments (ERAs) are mandatory on biotechnology crops and LMOs. The authorities indicated that, in accordance with CODEX guidelines and OECD Biosafety Consensus Documents, safety of LMOs for food is evaluated under the principle of substantial equivalence based on scientifically valid and justified data such as comparison of toxicity, allergenicity and the nutrients of the GM food in question and its non-GM counterpart; they consider that the approval procedure is legitimate and does not lead to unnecessary delays.[117] The MFDS remains responsible for risk assessment for human health of food-related GMAPs and maintains a policy of zero tolerance for the presence of biotechnology products in processed food that is labelled as organic (Section 3.2.9.1.3). It has authority to conduct mandatory safety assessments to evaluate genetically modified organisms (GMOs) in products used for human consumption. The Rural Development Administration (crop cultivation environment), the National Institute of Ecology overseen by MOE (as from end-2013, replacing the National Institute of Environmental Research) (natural ecosystem), and the National Fisheries Research and Development Institute (marine ecosystem) are responsible for environmental risk assessment (ERA). According to the LMO Act, the MFDS implements risk assessment for human health on food, and the Korea Centre for Disease Control and Prevention (KCDC) does the same on feed for industrial use. The authorities indicated that there are neither overlaps of data requirements nor unnecessary delays in the LMO food approval process. GMAPs production and imports have been allowed since 2008. As of May 2016, food safety approval for GMAPs had been given to 139 varieties of soybean, maize, cotton, canola, sugar beet and alfalfa, out of 150 submissions. So far, no GM crops have been grown in Korea and, therefore, the process for crop and food approval has only been applied to imported products. By March 2016, MAFRA had completed a total of 131 out of 151 applications for review of environmental risks of LMOs; as of April 2016, it was conducting 11 reviews and had completed a total of 6 out of 14 applications for environmental risk assessment on food.

3.99. Korea implements the Advance Informed Agreement Procedure as well as labelling requirements for GMOs and LMOs (Section 3.2.9.3).

3.2.9.2.2 Quarantine regulations

3.100. Korea's main laws on quarantine requirements for imports (and exports) remain the Plant Protection Act, the Contagious Animal Disease Prevention Act, and the Aquatic Creatures Disease Control Act. As from March 2013, the Animal, Plant and Fisheries Quarantine and Inspection Agency was divided into the Animal and Plant Quarantine Agency (QIA) and the National Fishery Products Quality Management Service (NFQS). Thus, animal and plant quarantine and inspection are handled by the QIA under MAFRA, and fisheries by the NFQS under the Ministry of Oceans and Fisheries.

3.101. Imports of plants and plant products must have a phytosanitary certificate issued by the competent authority in the exporting country. Imports of soil, plants with soil, and certain plants or vegetable materials are banned. Imports of rice in the husk, chaff, and rice straw from all origins, except Japan and Chinese Taipei, are prohibited for pest reasons. Plants from most countries for planting are also prohibited or restricted. Following the disaster at the Fukushima nuclear plant, since March 2011, Korea has prohibited imports of 27 agricultural products from 13 prefectures that were under distribution restriction in Japan (Section 3.2.6.3).[118] Food products with possible radioactive contamination from these prefectures have been subject to certificate of origin requirements and a test certificate issued by the Japanese Government that proves the food products in question are not contaminated. Following the discovery of continuing leakages of contaminated water in 2013, Korea implemented temporary measures including the extension of the import ban and testing requirements. Some of these measures led to a dispute settlement case in 2015 (Sections 2.5.1 and 3.2.9.2.3). In August 2012, Korea prohibited the importation of

not provide a workable definition of adventitious presence. The authorities do not share this assessment. USDA Foreign Agricultural Service (2015c).

[117] Certain documentation requirements for biotech approvals seemingly go beyond the provisions of the Cartagena Protocol on Biosafety; it appears that data and information requests may lead to delays in the approval of new products and at times lack scientific justification. USTR (2015).

[118] The items subject to this action included rice, tea, spinach, mushrooms, chestnuts, kiwi, leafy greens, and bamboo shoots. Online MFDS information. Viewed at: http://mfds.go.kr/eng/eng/index.do?nMenuCode=75&searchKeyCode=134&page=1&mode=view&boardSeq=67404.

fresh potatoes from the states of Idaho, Oregon, and Washington (United States) due to the presence of zebra chip in the region.[119]

3.102. Animal and animal products are subject to inspection and quarantine. Document and organoleptic inspection, and laboratory testing, if necessary, are undertaken to verify that no contagious animal disease is brought into Korea and that no hazard is posed to public health. Korea bans the import of animals and their products from countries affected by exotic animal diseases such as foot-and-mouth disease and bovine spongiform encephalopathy (BSE). Upon request of the exporting country the import ban may be lifted depending on the outcome of import risk analysis. Imports from countries affected by HPAI (highly pathogenic avian influenza) are banned, but those of poultry meat that is heat-processed to kill the HPAI virus are allowed. According to the authorities, Korea applies the same animal quarantine and livestock product health requirements to domestic production and imports. On 19 November 2015, Korea lifted the import ban on poultry and poultry meat products from the United States that had been imposed in December 2014 due to the outbreak of HPAI.[120] Cheese imports must meet Korea's pasteurization requirements.[121] Under Article 14 of the Imported Food Inspection Instruction, the declared minimum import weight of "food" and "food apparatus, containers and packages" for sanitary inspection by MFDS is 100 kg.[122]

3.2.9.2.3 Transparency

3.103. Between January 2012 and mid-June 2016, 161 notifications were submitted under the WTO Agreement on Sanitary and Phytosanitary Measures (the SPS Agreement). This includes 367 regular notifications, 4 emergency notifications, and 21 addenda/corrigenda. During the review period, STCs involving Korea's strengthened import restrictions on food and feeds with regard to radionuclides (first raised on 16 October 2013, Japan, STC 359) and import restrictions due to African swine fever (first raised on 15 July 2015, EU, STC 393) were raised at the meetings of the WTO SPS Committee.[123] On 21 May 2015, Japan requested consultations with Korea regarding: (a) import bans on certain food products; (b) additional testing and certification requirements regarding the presence of certain radionuclides; and (c) a number of alleged omissions concerning transparency obligations under the SPS Agreement.[124] As of February 2016, a panel was composed to examine the case (Sections 2.6.1 and 3.2.6.3); Brazil, Canada, China, the European Union, Guatemala, India, New Zealand, Norway, the Russian Federation, Chinese Taipei, and the United States reserved their third-party rights.

3.104. Korea maintains MoUs on food safety and quality standards with China's General Administration of Quality Supervision, Inspection and Quarantine (signed January 2003, revised November 2007), Chile (May 2009), Viet Nam (May 2009), Food Standards Australia New Zealand (FSANZ) (July 2011), and the Philippines (Manila) WHO Western Pacific Regional Office (WPRO) (July 2011).[125]

3.2.9.3 Labelling

3.105. During the review period, the MFDS introduced a traceability system for infant/baby food and health functional foods in three stages.[126] As the first stage, the MFDS mandated the

[119] USTR (2015); USTR (2016).

[120] USDA Foreign Agricultural Service (2015d).

[121] In Korea, low temperature pasteurization is regarded as 63-65°C for 30 minutes, 72-75°C for 15 seconds or equivalent methods.

[122] Imports of less than 100 kg may also be allowed but: they must undergo sanitary inspection by the MFDS upon the first importation; exemption for the same product from the same manufacturer may be applied thereafter. However, the exemption does not apply for subsequent imports over 100 kg, but the fees incurred from the test (inspection fee) are waived. This measure is intended to prevent manufacturers receiving approval for a small quantity of quality products and benefiting from import clearance for a large quantity that does not comply with the inspection standards.

[123] WTO document WT/TPR/OV/18, 17 November 2015.

[124] WTO online information, "Dispute DS495: Korea – Import Bans, and Testing and Certification Requirements for Radionuclides". Viewed at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds495_e.htm.

[125] KFDA online information. Viewed at: http://www.kfda.go.kr/eng/eng/index.do?nMenuCode=27&searchKeyCode=65&page=1&mode=view&boardSeq=66524.

[126] USDA Foreign Agricultural Service (2015d).

traceability for domestic manufacturers whose annual sales value exceeds ₩5 billion (approx. US$4.3 million) beginning 1 December 2014. From 1 December 2015, this requirement was expanded to those domestic manufacturers whose annual sales value exceeds ₩1 billion; it will be further expanded to business with annual sales of ₩0.1 billion by 1 December 2016, and all businesses by 1 December 2017. Importers will need to establish the traceability system from the entry point of products in Korea throughout their distribution in the country. For infant/baby food importers, as the first stage, the MFDS mandated the traceability for businesses whose annual sales value exceeded ₩1 billion in 2013 (approx. US$ 0.84 million) beginning 4 February 2016; as from 1 December 2016, it will be expanded to those with annual sales from ₩100 million to ₩1 billion in 2013 (approx. US$84,000 to 0.84 million), and to businesses with annual sales of ₩0.1 billion in 2013 (approx. US$84,000) as from 1 December 2017. For health functional food importers, the MFDS mandated the traceability for businesses whose annual sales value exceeded ₩5 billion in 2013 (approx. US$4.2 million) beginning 4 February 2016; as from 1 June 2016, this requirement will be expanded to those with sales of more than ₩1 billion in 2014 (approx. US$0.84 million), and to those with annual sales of more than ₩0.1 billion in 2015 (approx. US$84,000) from 1 June 2017 onwards. The revised National Health Promotion Act that makes it mandatory for tobacco makers to present stronger warning messages and pictures on the packaging of cigarettes was passed on 22 June 2015 and is to take effect on 23 December 2016 after years of controversy.

3.106. Genetically modified corn, soybeans, cotton, rape and sugar beet (including sprouts originating from these items), as well as foods suitable for consumption containing these products and notified as such by the MFDS, remain subject to mandatory GMO labelling requirements.[127] GMO foods for which identity preservation documents or government-issued certificates were submitted are exempted from GMO labelling requirements. On the other hand, concerning food from the United States, Korea accepts a notarized self-declaration, instead of requiring full documentation, to certify products that are exempt from biotechnology requirements. Importers or manufacturers must keep records for up to two years to prove that unlabelled foods subject to GMO labelling requirements are GMO free. On 24 April 2014, the MFDS combined the three existing labelling standards, i.e. the Labelling Standards for Recombinant Food, Guidelines for Labelling of Genetically Modified Agricultural Products, and Labelling Standards in the LMO Act (Section 3.2.9.2.1) to provide standards required for the labelling of biotech crops and food, including processed food products containing corn, soybeans, cotton, canola, and sugar beets with 3% or higher GMO content.[128] While several proposals to expand biotech labelling dating back to 2008 and 2013 are still pending in the National Assembly and/or the Prime Minister's Office, the MFDS announced its plan in early 2015 to expand mandatory biotech labelling to include all products with detectable biotech ingredients. Under the 31 December 2015 revision of the Food Sanitation Act and the Functional Health Foods Act, the scope of the GM labelling requirement was expanded to any food products that contain genetically modified DNA or genetically modified proteins on 3 February 2016, effective as from 4 February 2017. Under the current system, biotech labelling is not required for products that contain biotech ingredients beyond the top five ingredients. On the other hand, highly refined food such as sugars and oils will continue to be exempt from the mandatory biotech labelling requirement as genetically modified DNA and genetically modified proteins are removed during the processing procedures.

3.107. Origin labelling is mandatory for food and many other imports of 674 four-digit tariff lines (2015) (664 in 2011). The use of the term "Assembled in Country X" has been allowed since October 2010. The Korea Customs Service's Origin Mark Registration and Retrieval System enables users to check origin markings by trader or item.

3.2.10 Government procurement

3.108. Korea's government procurement market grew almost steadily from ₩104.4 trillion or 8.9% of GDP (2010) to ₩111.5 trillion (2014) or about 7.5% of GDP.[129] Although government procurement is directed at achieving "value for money", as of 2014, it also focused on: "future-oriented public procurement" promoting the development of new growth-driving industries;

[127] Following the 2013 government reorganization (Section 2.3), the authority for biotech labelling of unprocessed crops was transferred from MAFRA to MFDS without any change in labelling requirements. USDA Foreign Agricultural Service (2015d).

[128] USDA Foreign Agricultural Service (2015d); and USDA Foreign Agricultural Service (2015c).

[129] Public Procurement Service (2015).

"quality-first procurement", *inter alia*, raising quality standards for safety and health-related products and reinforcing action against untruthful contract deliveries; "socially responsible public procurement", allowing easier entry and broader market opportunities for social enterprises, SMEs, and other socially disadvantaged businesses[130]; preparing for "global public procurement" with plans to launch an online global procurement marketplace (Section 3.3.6), and expand its cooperation with foreign public procurement authorities.[131]

3.109. Korea operates international tendering and other procurement procedures in accordance with its commitments under the WTO Plurilateral Agreement on Government Procurement (GPA). As of 14 January 2016, the revised GPA came into force for Korea, thus opening its government procurement market to more international competition. During the review period, its list of public entities subject to GPA provisions was revised on 22 September 2013 and on 8 May 2016, and information on its respective threshold figures in national currency was provided.[132] As from 18 December 2015, the WTO GPA threshold has been ₩210 million, down from ₩250 million (or from SDR 450,000 to SDR 400,000), whereas since the entry into force of the KORUS FTA (15 March 2012, Section 2.6.2), the threshold for goods and services from the United States has remained at ₩100 million.[133] Korea's international tendering system is based on open competitive tendering; according to the authorities, restricted tendering is rarely used (see below).[134] According to the authorities, the value of contracts subject to Korea's WTO Government Procurement Agreement (GPA) commitments dropped to about ₩6.3 billion in 2015 (₩6.7 billion in 2014), equivalent to about 6% of the value of the entire government procurement market. In the case of contracts subject to Korea's WTO GPA commitments, centralized procurement (see below, Public Procurement Service (PPS)) represents 15% of total procurement of GPA-covered entities. No detailed statistical data on the participation of WTO GPA-covered entities in the government procurement market operations were available from the authorities; Korea's only notifications over the past ten-year period were in 2006 (2004 data) and 2011 (2010 data).[135]

Legislation

3.110. During the review period, no substantial changes were made to the main government procurement legislation (Act on Contracts to which the State is a Party, 1995). The legislation covers international and domestic procurement of goods and services, including construction, by all central government agencies. Procurement by local government entities and public entities is regulated by the Act on Contracts to which the Local Government is a Party, and the Act on the Management of Non-Departmental Public Entities. Although purchase of agricultural, fisheries, and livestock products is not subject to international tendering under the GPA, their procurement is covered by the Act on Contracts to which the State is a Party. Procurement from SMEs is covered by the main procurement legislation and the Act on SMEs' Products Promotion and Market Access. The 2005 Act on Encouragement of Purchase of Green Products (known as the Law on the Promotion of Environmentally Friendly Products) requires government agencies and state-owned enterprises (SOEs) to purchase environment-friendly products; as of 2015, it applied to 50 (49 in

[130] The authorities indicated that the term "companies in a disadvantageous position" refers to enterprises owned by women, veterans' service organizations, or social welfare organizations.

[131] Public Procurement Service (2015).

[132] The revision of the list aimed to reflect a reshuffle of organizations, and the actual level of Korea's GPA coverage in the Annex III group (other entities), which includes major Korean SOEs, was expanded to cover additional sub-central government procuring entities under three local governments (Metropolitan Governments of Seoul, Busan and Incheon). WTO documents WT/Let/909-WLI/100, 21 October 2013; WLI/100, 16 December 2015; GPA/134, 16 November 2015; GPA/W/336/Add.6, 29 January 2016; and, WT/Let/1162-WLI/100, 24 May 2016.

[133] Furthermore, Korean procuring entities do not require a United States supplier/bidder to have been previously awarded one or more contracts by a procuring entity in Korea or to have had prior work experience in Korea in order to participate in procurement or be awarded a contract. WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[134] Restricted tendering consists of limited (by invitation) or nominated (by nomination) competitive bidding and private contracts where a specific supplier is used.

[135] At the time of the 2008 TPR, the authorities indicated that more recent data were not available due to institutional change of responsibilities for data collection in this area. At the time of the previous Review, they indicated that data collection was suspended until 2010. According to their 2011 notification, in 2010, contracts subject to Korea's WTO GPA commitments represented 59.4% of total procurement (above the threshold) of GPA-covered entities. In the same year, above-threshold procurement by GPA-covered entities represented 36.8% of Korea's total procurement (excluding defence equipment). WTO documents GPA/84/Add.1, 12 October 2006; and GPA/108/Add.3, 2 December 2011.

2012) central government agencies, 438 (244 in 2012) local government bodies, and 405 (380 in 2012) public institutions and SOEs affiliated with central and local government agencies (893 agencies in total). Although the law makes mandatory the purchase of environmentally friendly products, it provides exceptions for quality and availability reasons, as well as emergency procurement needs. The Monopoly Regulation and Fair Trade Act, which was revised on 16 July 2013 and came into effect on 17 January 2014, enabled the PPS to request the Korea Fair Trade Commission to lodge complaints on alleged violations with the Prosecution (Section 3.4.5.1); in 2014, the PPS set new standards to deal with collusion investigation requests and accusation requests.[136]

3.111. Information on Korea's government procurement framework and operations are available at: the Republic of Korea Government Gazette or its Electronic Gazette (http://gwanbo.moi.go.kr); the Korea Ministry of Government Legislation website (http://www.law.go.kr); and the Korea Online e-Procurement System website (http://www.g2b.go.kr).[137]

Procurement methods

3.112. Contracts are awarded through open tender, unless there are reasons (of "purpose, nature, size, etc. of a contract") for awarding by selective tender or private (limited) tender. According to the authorities, selective tendering and private tendering are allowed in some rare cases (see below); the authorities indicated that the share of open tendering is slightly decreasing, whereas that of selective and private tendering is increasing, e.g. their share of total PPS procurement methods rose from 11.1% (2008) to 15.4% (2015). Although defence procurement is covered by the main procurement legislation (but only partly by Korea's WTO GPA obligations) and, in principle, conducted by open competition, procurement procedures tend to follow defence acquisition management practices, and private tendering is often used. Although private contracts are occasionally used for purchases of goods and services not exceeding ₩50 million (₩200 million for construction works) in accordance with relevant laws, competitive contracting is generally used for such purchases from SMEs. Following a revision of the Enforcement Decree of the Act on Contracts to which the State is a Party, as of 1 January 2014, the amount for direct contracts to firms owned by women and disabled people has been increased.[138] No price preference schemes in favour of SMEs and other socially disadvantaged sectors were introduced or maintained. Korea launched the Network Verification Scheme (NVS) on 1 October 2014. The NVS sets forth new Korea-specific requirements for network equipment such as routers or switches procured by Korean government entities, and requires agencies to submit procured equipment to the National Intelligence Service (NIS) for mandatory testing.[139]

Public Procurement Service (PPS)

3.113. Some government procurement is conducted by the central procurement agency, the Public Procurement Service (PPS). Central government agencies must use the PPS to procure goods and services above ₩100 million (foreign goods and services over US$200,000).[140] Below that threshold, individual government agencies may conduct their own purchasing directly. All other public institutions, including SOEs, may procure goods and services directly or through the PPS. Local governments are authorized to procure goods and services independently and to conduct foreign procurement.[141] Since 2010, local governments have also procured all construction works independently; however, for construction works with an estimated value exceeding

[136] Public Procurement Service (2015).

[137] WTO document GPA/W/324/Add.13, 21 December 2015.

[138] Public organizations subject to the Act had their minimum amount of direct contracting to these firms increased from below ₩20 million to below ₩50 million. For general-purpose construction projects between ₩50 million and ₩100 million, only these firms are allowed to compete in biddings. Following a 17 March 2014 revision of the same Decree, firms led by women and disabled people can compete for direct contracts for technology-based service projects below ₩50 million. Public Procurement Service (2015).

[139] Despite Korea's membership as a certificate producer to the inter-governmental Common Criteria Recognition Arrangement (CCRA), which sets cybersecurity standards for government-procured IT equipment, NIS does not accept CCRA-certified equipment as compliant with the NVS without additional in-country testing. USTR (2015).

[140] A higher threshold of ₩3 billion applies to construction contracts.

[141] Foreign procurement refers to purchase of goods and services that are not domestically produced or supplied, and therefore procured through international tendering in accordance with international commercial practice.

₩10 billion, the PPS reviews the cost calculation basis of the construction budget prior to the tendering procedure, so as to prevent possible budget waste. The PPS's main functions are: supplying goods and services for government use[142]; contracting and managing public works; stockpiling 15 types of essential raw and construction materials to secure price stability and supplies[143]; coordinating and auditing government goods and real estate property management; and operating the Korea Online e-Procurement System (KONEPS). KONEPS has links with 58 external systems including 17 banks, 10 guarantee corporations, 7 construction-related associations, and 6 certified authorities (http://www.pps.go.kr/eng/jsp/koneps/major.eng). The Act on Use and Promotion of Electronic Procurement of 2013 opened KONEPS services to private entities for their procurement needs.[144]

3.114. All bidders wishing to participate in PPS-conducted tenders must register with the PPS. For construction works below ₩30 billion it uses an "eligibility screening system". "Abnormally low or dumping" tenders are rejected.[145] Upon the entry into force of the revised Enforcement Decree of the Act on Contracts to which the State is a Party on 31 December 2015, the lowest bid award system was replaced by the best value award method which is used for contracts exceeding ₩30 billion after conducting a pre-qualification evaluation which is followed by a comprehensive evaluation on the bid price, performance and social responsibility to determine the successful bidder. A pre-qualification system (PQ System) is also used to determine eligible bidders. While the procuring entities may decide to use the PQ system, its utilization is compulsory for construction projects subject to the best value award method. Separate pre-qualification lists are maintained for each construction project, based on objective criteria.[146] Bid results, including tenders, pre-qualification evaluation, and contract awards are released on the KONEPS Internet site (http://www.g2b.go.kr). According to the authorities, there are no special pre-qualification requirements or restrictions imposed on foreign suppliers.

3.115. The PPS handles procurement from SMEs and other socially disadvantaged sectors, such as regional companies and women-owned businesses.[147] The Small and Medium Business Administration (SMBA) provides the list of set-aside products to be procured through competition among SMEs only as an exception under the GPA.[148] The PPS maintains various policies to increase opportunities for SMEs. The PPS's "competitive bidding system restricted by region" and "compulsory joint subcontracting and single source contracting system" expands regional opportunities.[149] Under its 18 August 2010 notice "Competitive Bidding among Joint Ventures of

[142] Defence-related procurement is conducted by the Defence Acquisition Programme Administration.

[143] Each year the Minister of Strategy and Finance determines which essential materials are highly dependent on imports. As of June 2016, the PPS had been designated 6 base metals (aluminium, copper, lead, zinc, tin, and nickel) and 9 rare metals (silicon, cobalt, vanadium, indium, lithium, strontium, manganese, bismuth, and tantalum). These metals are purchased by the PPS using international competitive tenders, and, upon request, the stocks are made available to the private industry, including SMEs, at the prevailing international market price.

[144] Public Procurement Service (2014).

[145] Bids are evaluated based on estimated prices prepared by the PPS. Those that exceed these estimates are precluded, as are bids that fall below a certain level.

[146] Bidding is only open to suppliers that receive a certain pass score in a comprehensive evaluation based on experience, technical capacity, financial status, and credibility (record of the supplier's integrity in abiding by relevant laws).

[147] As of 2015, the approach for defining SMEs was revised from "the production input type" to "the type [of firm] to boost growth and create jobs" and the criterion is now the average sales in the past three years. The average sales criterion is different for each industry. For example, the average sales amount for manufacturing industries such as clothes, bags/shoes, or primary materials is ₩150 billion, whereas for the transportation industry it is ₩80 billion. Until 2014, the definition of an SME differed between sectors; in manufacturing it was a company employing fewer than 300 persons or with paid-up capital of less than ₩8 billion. The authorities indicated that this definition had its limits in grasping the level of a company's output. In particular, the "choosing one among several standards" system in which a company chooses a standard to be used for it to be decided as a SME had led to the Peter Pan Syndrome, in which a company artificially refuses to grow and a grown company continues to be considered as an SME. SMBA online information. Viewed at: http://www.smba.go.kr/eng/smes/scope.do?mc=usr0001146.

[148] The scope of restricted tendering procurement includes five types of technology development products, and products provided by SMEs in four special support regions. The list is renewed every three years, from 2009. There were 204 SME products for set-asides until 2018 (SMBA Notification No. 2015-69).

[149] The competitive bidding system "restricted by region" applies to projects valued up to ₩8.2 billion (₩9.5 billion in 2012), and allows companies located in the construction region to participate in the open competitive tender. The compulsory joint-venture system (up to ₩8.2 billion as from 2016, previously

SMEs" the PPS designated 10 standard items, including ready-mixed concrete, for which only joint ventures with at least 20% ownership by small-sized suppliers may compete.[150]

3.116. To support liquidity, SMEs are entitled to an upfront payment of up to 70% of the value of a government contract.[151] In many cases, SMEs are also entitled to instant payment upon presentation of an accepted invoice – and KONEPS facilitates this payment in four working hours. SMEs are offered loans of up to 80% of the value of a government contract with no other collateral. Additional programmes encourage growth and innovation through the awarding of certificates that allow for preferential purchasing or direct award. Awarded by both the PPS and the SMBA, these programmes include many specific certifications that provide distinct benefits. Excellent Government Supply Product certification, the highest offered, allows direct contracting with any public entity. Between 2011 and 2015, the share of PPS's purchases from SMEs rose from 66.3% to 73.9% of total procurement of goods and services and construction works of the PPS.[152]

3.117. During the review period, the PPS maintained its 2009 Action Plan for Green Purchasing and its 2010 Purchasing Guidelines for the Promotion of Public Purchase of Green Products; these Guidelines specify the scope of green purchasing public organizations, and ensure the effectiveness of green purchasing. To expand demand for green products, as of 2015, 100 items (50 in 2011) highly demanded by public sector entities, such as office machines, recycled products, LED lamps, hybrid vehicles, high efficiency equipment, and synthetic wood were designated by the PPS as Minimum Environmental Standard products. The PPS provides preferential treatment for companies with green construction works in pre-qualification eligibility examination, and it is mandatory for newly constructed government buildings to comply with the Energy Efficiency Grade 1 and Eco-Friendly Design Standard. In 2011 and 2015, the PPS purchased green products accounting for 10.2% and 18.6% of the total value of domestic procurement of goods respectively.

3.118. The PPS handled 30% (33.3% in 2011) of Korea's total domestic and foreign government procurement of goods and services (excluding defence equipment) and construction contracting in 2014.[153] PPS's total annual procurement has grown rapidly, from ₩33.2 trillion in 2011 to ₩37.8 trillion (2013), but in 2014 it fell slightly to the same level as in 2011, of which 66.3% (52.8% in 2011) were public works contracts. Despite action to encourage foreign procurement through collective purchasing of foreign goods, the elimination of reserve deposit requirements for foreign procurement contracts, and the reduction of the documentation burden, foreign suppliers continue to lose ground due to the highly sophisticated and increasingly competitive domestic suppliers of manufactures and construction services.[154] The share of foreign supplies continued to drop steadily, from 1.4% (2011) to 1% of the PPS's total procurement operations in 2014 and 0.9% in 2015, a significant decline compared with 1991-95 (immediately prior to Korea's accession to the GPA), when government procurement of foreign sourced goods by the Office of Supply averaged 9.9% of the agency's purchases.[155] More than 91% of foreign procurement was subject to competitive tendering during the review period. In 2014, foreign supplies involved

₩9.5 billion) requires a bidder to form a joint venture with a company located in the construction region. Both methods apply only to projects whose estimated value does not exceed the WTO GPA threshold.

[150] In April 2016, the 10 designated items were ready-mixed concrete, asphalt concrete, manhole boxes, iron poles for street lighting, stainless water tanks, vinyl insulated wire (2 items), stranded electrical wire (2 items), and reinforced concrete under-drain blocks.

[151] OECD (2016e).

[152] Public Procurement Service (2015).

[153] Public Procurement Service (2015).

[154] Firstly, in 2013, the PPS introduced a pilot programme that allows collective purchasing of foreign procured goods demanded by multiple organizations. In 2014, the programme was expanded to include five items (lab digestion systems, centrifuges, glassware washers, ultra-low-temperature freezers, and gene amplifiers) based on the previous year's purchasing results; as of June 2014, it arranged collective purchasing of these items for 17 agencies including the Ministry of Food and Drug Safety, allowing them to purchase at prices 11% lower than the average budgeted prices. Secondly, the PPS abolished the requirements for a reserve deposit of foreign procurement contracts aimed at guaranteeing quality and faithful implementation of contracts. Thirdly, as of 2014, it raised the bidding amount for benefiting from simplified documentation from US$20,000 to US$40,000. Public Procurement Service (2015).

[155] During the review period, the PPS's foreign procurement peaked in 2011 (₩687.5 billion), and subsequently dropped by 32.6% to rise progressively until 2014; in 2015 it dropped to ₩396.3 billion.

research (47.7%), transport (23%), computer (11.2%), communications (8%) and measuring (7.5%) equipment originating mainly from the Americas (48.1%) and Europe (32.2%).[156]

3.119. The value of transactions conducted through KONEPS rose from ₩63.8 trillion, or 63.9%, of total government procurement in 2011 to ₩72.7 trillion, or 64.3%, of total government procurement in 2013, before dropping to ₩67.3 trillion or 60.4% of total government procurement in 2014. As of 2016, KONEPS was in use by 50,840 public organizations and 329,331 suppliers' businesses representing an increase of 12.8% and 312.2%, respectively, compared to 2012.

3.120. The KONEPS Online Shopping Mall provides a catalogue of more than 360,000 product models with capabilities for purchasers to order directly, and discounted quotations can be requested for orders larger than US$42,400.[157] In 2014, US$13.6 billion were processed as orders through the Online Shopping Mall, representing 60% of PPS purchasing of goods and services. The PPS operates a Multiple Award Schedules (MAS) system of framework agreements, i.e. contracts containing set terms from which individual orders can be placed. As of December 2015, 360,964 items were contracted with MAS, which accounts for 88.1% of total goods registered in KONEPS, totalling US$53.9 million. According to the OECD, framework agreements are an important driver of efficiency in public procurement, allowing for reduced administrative duplication as well as potential savings from centralized purchasing.

3.121. According to a 2015 OECD assessment of the PPS procurement system, KONEPS contributes substantially to the efficiency, effectiveness and integrity of public procurement in Korea.[158] It facilitates competition by lowering barriers to entry for suppliers and other public procurement stakeholders. KONEPS is estimated to generate administrative savings of approximately US$8 billion per year, with more than 80% of these savings accruing to private sector participants. Implementation of MAS contracting offers good practices, particularly in the areas of standardization, efficiency and competition. Offering MAS contracts on a rolling timetable encourages broad participation from suppliers, while standard processes for establishing and ordering from contracts lowers barriers for suppliers of all sizes by clarifying expectations. PPS implementation of secondary policy objectives goes beyond the awarding of contracts to support liquidity and encourage growth among targeted social enterprises.

Other procurement

3.122. As of 2014, some 70.9% (66.7% in 2011) of Korea's procurement market involved procurement directly by public institutions (i.e. outside the PPS's scope).[159]

3.3 Measures Directly Affecting Exports

3.3.1 Registration, documentation, and clearance

3.123. More than 95% of export declarations are submitted electronically to Customs without supporting documents, and accepted automatically by the e-clearance system. Clearance time is under two minutes on average, and export time seven days (lower than the OECD average).[160] As from June 2011, the KCS has prohibited third-party goods from falsely claiming Korean origin; in relation to according preferential tariff treatment, the authorities indicated that during the review period there were cases where the certificate of origin was unduly produced, or where origin requirements were violated without providing any details on specific cases. Action in form of order of correction and fines can be taken against high-risk companies engaging in unloading, transporting and storing merchandise at sea- and air-ports in Korea; no details on such action taken during the review period were available from the authorities. The Government introduced a simplified export declaration process for e-commerce in the second half of 2014 to boost online

[156] Public Procurement Service (2015).
[157] OECD (2016e).
[158] OECD (2016e).
[159] Public Procurement Service (2015).
[160] According to World Bank Doing Business data, exporting a shipment of goods required border and documentary compliance equivalent to 14 hours and US$185, and 1 hour and US$11 (lower than the OECD average except for cost of border compliance) respectively in 2015. World Bank (2016a).

markets.[161] The reform takes into account the nature of e-commerce trade, in which traded goods are small in volume and high in diversity.

3.3.2 Export prohibitions, restrictions, and licensing

3.3.2.1 Export prohibitions

3.124. The negative list of banned exports has not changed during the period under review. Export prohibitions, affecting 11 six-digit HS items, protect animal rights (dog furskins and their products), endangered species (whale meat and its products), and preserve natural resources (uncut pieces of natural granite stones).

3.3.2.2 Export licensing and restrictions

3.125. Sand and gravel-related items are subject to non-automatic licensing to protect natural resources.[162]

3.126. Korea may restrict exports of certain products periodically to ensure adequate domestic supplies, again potentially assisting downstream processing of these products. At the time of the previous Review, and until March 2015, rice was the only product requiring export authorization (termed as "recommendation" by the authorities) (Section 4.2.3.1). Quotas for rice exports were 110,401 tonnes in 2013, 116,505 tonnes in 2014 and 122,610 tonnes in 2015; their utilization levels remained minimal and stood at 3,824 tonnes in 2011, 2,305 tonnes in 2012, 1,754 tonnes in 2013, 1,992 tonnes in 2014, and 348 tonnes in 2015. Quota allocation was on a first come, first served basis. There were no qualification requirements for exporters. Currently there are no quantitative export restrictions for rice or any other agricultural products.

3.127. On 20 July 2015 and 11 March 2016, the MOTIE amended the Regulations on Export Control of Strategic Goods ("Regulations").[163] The 2015 amendment involved the revision of the definition of eligibility for an export licence, the expansion of exemptions from the export licence requirement, and the exemption from the export licence requirement of the transfer of strategic technology to the expatriate employees and executives who have an employment agreement with a Korean entity. The 2016 amendment was to reflect the United Nations Security Council Resolution 2231 relating to transactions with Iran in the export control guidelines. Furthermore, MOTIE revised the list of the National Core Technologies whose export is controlled under the Act on Prevention of Leakage and Protection of Industrial Technology; as of 7 September 2015, a total of 47 categories were listed.

3.3.3 Export subsidies

3.128. Korea does not have export subsidy commitments; during the review period, it continued to use export subsidies for certain farm products under the provisions of Article 9.4 of the WTO Agreement on Agriculture for developing countries but no recent data on the amounts involved were available from the authorities.[164] These subsidies, which were last notified to the WTO Committee on Agriculture in 2010, totalled ₩32.68 billion (2008) and covered fruit, flowers, vegetables, kimchi, ginseng, livestock, grain and processed food, and traditional liquor.[165] The subsidies were used to reduce exporters' marketing costs, and are exempt from WTO reduction

[161] OECD (2016c).

[162] Exports of sand and gravel items require approval by the Korean Aggregate Association. Only sand and gravel that are a by-product of raw ore processing are approved for export. The authorities indicated that that no export quotas for these items were operated during the review period.

[163] TheLegal500 online information. Viewed at: http://www.legal500.com/c/south-korea/developments/30749#sthash.eKgkiKAV.dpuf.

[164] Korea considers that, in line with the 2005 Hong Kong Ministerial Declaration, which stipulates that "Developing country Members will continue to benefit from the provisions of Article 9.4 of the Agreement on Agriculture for five years after the end-date for elimination of all forms of export subsidies" (i.e. 2016), and the 2015 Nairobi Ministerial Declaration, which specifies that they "shall continue to benefit from the provisions of Article 9.4 of the Agreement on Agriculture for five years after the end-date for elimination of all forms of export subsidies (i.e. 2018), it would be entitled to maintain exports subsidies covering marketing and transport costs for agriculture exports listed in paragraphs 9.1 (d) and 9.1 (e) of the Agreement until the year 2023.

[165] WTO documents G/AG/N/KOR/36, 27 February 2007; and G/AG/N/KOR/42, 4 October 2010.

commitments. At the time of the previous Review, the authorities indicated that data on export subsidies from 2008 onwards were to be notified in the course of 2012, though no notification had been submitted as of June 2016; they now intend to notify these subsidies in the course of 2016. Korea does not consider that corporate income tax relief to industries located in FTZs is subject to WTO notification (Section 3.4.3).

3.3.4 Duty and tax concessions

3.129. Raw materials used in exports are exempt from customs duties (Section 3.2.3.5), and a customs drawback scheme provides refunds. The Korea Customs Service operates an Internet drawback system allowing refund requests to be filed online; a real-time electronic treasury transfer system allows the Bank of Korea to make electronic refunds to exporters. Refunds totalled US$3.4 billion (US$4.4 billion in 2011) in 2015 and US$16.5 billion in years from 2012 to 2015, equivalent to about 29% and 30% of tariff revenue, respectively.

3.3.5 Export finance, guarantees, and insurance

3.130. The government-owned Export-Import Bank of Korea (EXIM Bank), classified in 2013 as a "highly indebted" public institution (Section 3.4.4) despite its high marks by international credit rating firms, provides export credit and financial guarantees to support Korean enterprises in conducting overseas business. Project-related guarantees are also provided to foreign buyers in the event of exporters' failure to meet contractual arrangements.[166] The Government ensures the Bank's solvency by covering any net losses beyond reserves; government funding of ₩510 billion in 2014 and ₩130 billion in 2015 helped the Bank accumulate ₩7.7 trillion and ₩8.9 trillion, respectively, in paid-up capital. [167] Direct loans to foreign buyers and export loans to Korean firms, its primary activities, cover mainly capital goods, such as industrial plant, machinery, and ships. Export loans of up to 100% of the contract value (less any required cash payment) are available provided the "minimum foreign exchange earnings ratio" is no less than 25%. Export credits are subject to the minimum commercial interest reference rate (CIRR) and other terms. Korea EXIM Bank support for ship exports meets the requirements of the OECD's Sector Understanding on Export Credits for Ships.[168]

3.131. In 2014, overall export-related loan disbursements involving export promotion loan, growth, project and facilitation tools showed a slight increase of 5.2% from ₩37.8 trillion (US$34.5 billion) in 2013 to ₩39.8 trillion (US$37.8 billion).[169] The industrial plant construction industry accounted for the largest portion of items supported under export credit, with ₩12.7 trillion (US$12 billion, 31.9%), followed by the shipbuilding industry and petrochemical products which received ₩5.5 trillion (US$5.3 billion, 13.9%) and ₩5.1 trillion (US$4.8 billion, 12.8%), respectively in 2014. Under the Interbank Credit Facility offered to creditworthy foreign banks in the form of a credit line that can be utilized for loans to local clients importing Korean goods, the amount disbursed during the year increased by 20.1% to ₩2.2 trillion (US$2.1 billion) in 2014 from ₩1.8 trillion (US$1.7 billion) in 2013. As of 31 December 2014, the total volume of credit lines stood at US$5.8 billion for 34 banks in 17 countries such as the Russian Federation, India, and Uzbekistan. To strengthen the competitiveness of SMEs, in 2014, the Bank continued to expand support mostly provided in the form of comprehensive export loans for SMEs (₩9.3 trillion or US$8.5 billion, 35.3%) and trade finance (₩2.8 trillion or US$2.5 billion, 10.4%). The total loans to SMEs in 2014 amounted to ₩24.4 trillion (US$23.2 billion), accounting for 42.1% of the Bank's total loans, while the total volume of credits, including loans and guarantees, to SMEs represented 33.1% of its total credits. Korea plans to increase export financing by ₩20 trillion to ₩271 trillion in 2016, as well as reform export support programmes in the Korea EXIM Bank, KOTRA and other public institutions to focus more on new product development and market exploration.[170]

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[166] Korea EXIM Bank online information. Viewed at: https://www.koreaexim.go.kr/site/main/index002.

[167] For the past seven years, the Government has continuously made capital injections, doubling up the Bank's paid-in capital amount. Korea EXIM Bank (2015).

[168] Korea has fully implemented the OECD Arrangement as from 31 March 2002 when transitional arrangements expired. Maximum repayment periods are: 12 years for ships, and non-nuclear power plants; 18 years for nuclear power plants; and 5-10 years for other products, pursuant to the OECD Arrangement.

[169] Korea EXIM Bank (2015).

[170] Online Ministry of Strategy and Finance information, "2016 Economic Policies". Viewed at: http://english.mosf.go.kr/popup/23_PolicyFocusBanner/popup.html.

3.132. The state-owned Korea Trade Insurance Corporation (K-sure, previously KEIC), under MOTIE, provides export credit insurance against non-payment risks (Trade Insurance Act, 1968).[171] It promotes exports by insuring against risks that are not privately insurable and, according to the authorities, assists exporters to compete on a level playing field with competitors assisted by government-supported foreign export credits. K-sure supplies export insurance against losses due to political and commercial risks, and whole-turnover insurance policies at a 50% discount to specific policies. It offers 13 different types of export insurance and 2 types of guarantees, but most underwriting takes the form of short-term insurance. The maximum coverage for medium- and long-term export insurance is 100% of the contract value (less any required cash payment) as per OECD Guidelines on Officially Supported Export Credits. The largest beneficiaries remain exporters of major items (e.g. semiconductors, wireless communication, and IT items) and capital goods (e.g. industrial plant, machinery, and vessels). K-sure's underwriting volume rose from ₩202 trillion underwritten in 2012 to ₩204 trillion in 2013, and subsequently dropped to ₩190 trillion in 2014, and ₩168 trillion in 2015.[172] Total exports underwritten by K-sure represented 22% of total exports and 88% of covered short-term insurance. K-sure was planning to provide ₩196 trillion (US$160 billion) worth of trade cover in 2016 to support exports at a time when they were faltering (Section 1.4).[173]

3.3.6 Export promotion and marketing

3.133. Korean exporters benefit from promotional activities of the state-owned Korea Trade and Investment Promotion Agency (KOTRA). With 126 Korea Business Centres in over 86 countries, the agency operates a "business matchmaking" service introducing foreign importers to Korean businesses. KOTRA also organizes or assists with trade missions and exhibitions domestically and overseas, providing SMEs with export-related information and consulting services. Other than supporting the globalization of SMEs, including the establishment of the Global M&A Centre in January 2013 to meet the global increase in cross-border M&A opportunities and to help address the growing interest of Korean SMEs in mergers and acquisitions (M&As), KOTRA also operates as a help centre providing useful information to foreign investors.[174]

3.134. As from 31 December 2015, the Public Procurement Service (Section 3.2.10), has operated and managed The Global Korea Market, an online export promotion tool where government procurement-related products of Korean companies with an excellent domestic government procurement record can also be sold to foreign companies.[175] As of 2015, there were 261 domestic companies under this project.

3.4 Measures Affecting Production and Trade

3.4.1 Taxation[176]

3.135. Total tax revenue as a share of GDP declined and remains relatively low (14% in 2015, Table 1.1). Since 2010, Korea's reliance on indirect taxes was slightly reduced to 40.4% of tax revenues (Table 3.3) due to an increase in corporation tax revenues caused by reduced tax reliefs, an increase in the amount of income tax revenues resulting from a downward adjustment of tax brackets to which the highest tax rate is applicable, the upswing in the real estate markets, a rise in the individual consumption tax revenues from the addition of cigarettes to the list of items subject to this tax, and a decrease in the revenues from VAT and customs duties caused by sluggish imports. VAT remains the main indirect (consumption) tax component, followed by the transportation-energy-environment tax. As a result of a decrease of import volume and the expansion of preferential tariffs coverage, customs duties accounted for 3.9% of total tax revenues in 2015 (Table 3.3). Personal income and corporation taxes are also important sources in total tax receipts. Overall, the tax system, in particular its trade-related part, remains complicated by the

[171] Online K-sure information. Viewed at: http://www.ksure.or.kr/english/index.jsp.

[172] EIU (2015).

[173] *InsuranceAsia News*, "K-Sure to provide US$160bn trade insurance in 2016", 18 February 2016. Viewed at: http://insuranceasianews.com/news/korea-trade-insurance-corp-to-provide-us160bn-trade-insurance-in-2016/.

[174] KOTRA online information. Viewed at: http://english.kotra.or.kr/foreign/biz/KHENKO160M.html?TOP_MENU_CD=INVEST.

[175] Global Korea Market online information. Viewed at: http://www.globalkoreamarket.go.kr/global/portal/aboutGM.do.

[176] For more information on taxes see Ministry of Strategy and Finance (2015).

so-called tax-on-tax (cascading) schemes and various surtaxes. According to the authorities, the Korean tax regime adheres to the globally accepted OECD International Tax Standards on exchange of information.[177]

3.4.1.1 Indirect taxation

3.136. Korea's relatively complex indirect tax structure remains unchanged. It comprises a broad-based VAT, individual consumption (special excise) taxes, and other taxes on liquor, property transactions (stamp tax), and securities transactions. There is also a transportation (energy-environment) tax, education tax, and special tax on rural development. Exports are generally exempt from indirect taxes, except mainly for individual consumption and transportation-energy-environment taxes applied to inputs of petroleum products used in their production, though the amount of paid tax is refundable or deductible. Exports are zero-rated for VAT.

Table 3.3 Structure of Direct and Indirect Tax Revenue, 2008-15

	2008	2009	2010	2011	2012	2013	2014	2015
Total tax revenue (US$ billion)	151.7	128.9	153.7	173.6	180.3	184.4	195.1	192.6
	(% of total)							
Direct taxes	46.8	43.8	43.8	47.0	47.1	47.5	49.0	50.9
Income tax	21.7	20.9	21.1	22.0	22.5	23.7	25.9	27.9
Corporation tax	23.4	21.4	21.0	23.3	22.6	21.7	20.8	20.7
Inheritance tax	1.7	1.5	1.7	1.7	2.0	2.1	2.3	2.3
Indirect taxes	42.9	44.2	46.0	42.9	43.1	43.7	42.6	40.4
Value added tax	26.2	28.6	27.6	27.0	27.4	27.7	27.8	24.0
Transportation tax	7.1	6.1	7.9	6.0	6.8	6.6	6.5	6.5
Customs duties	5.2	5.6	6.0	5.7	4.8	5.2	4.2	3.9
Individual consumption tax	2.7	2.2	2.9	2.9	2.6	2.7	2.7	3.7
Liquor tax	1.7	1.7	1.6	1.3	1.5	1.5	1.4	1.5
Other[a]	10.3	12.0	10.2	10.1	9.8	8.8	8.4	8.8

a Unspecified revenue information.

Source: Data provided by the Ministry of Strategy and Finance.

3.137. The VAT applies to goods and services at a rate of 10%. As from 1 July 2015, the sales of digital services on offshore open market app stores and non-traditional financial services including investment advisory, insurance and pension actuarial services, real estate trust business and investments in real estate and non-financial assets have also been made subject to VAT.[178] Exemptions cover, *inter alia*, unprocessed foodstuffs, anthracite coal (see below), piped water, certain passenger transportation services, social welfare services, books, educational services, and financial and insurance services. The VAT is levied on top of other taxes, including import duties, where applicable.[179]

3.138. The individual consumption (special excise) tax applies to a wide range of goods, including luxury products. Rates vary from 5% on cars of less than 2,000 cc and motor cycles, to 20% (e.g. luxury items including bags (as from 2014)). Flexible rates are used to boost or discourage consumption of certain products to allow efficient management of the economy in case of need of business cycle adjustment, price stabilization, etc. Hybrid cars (from 2009 to 2018) and electric cars (from 2012 to 2017) remain exempt from the individual consumption tax (up to ₩1 million and ₩2 million, respectively). High-energy-consuming home appliances (e.g. air conditioners, refrigerators, televisions, and drum-type laundry machines) have been subject to a 5% rate of individual consumption tax (2010-2015). Individual consumption taxes also apply, in principle, to petroleum products other than petrol and diesel oil that are also subject to a transportation (energy-environment) tax. Produced anthracite coal, a domestically produced item (Section 4.4.3),

[177] WTO document WT/TPR/S/268/Rev.1, 8 November 2012.
[178] EIU (2015).
[179] The VAT base for imports is the c.i.f. price plus customs duties and other taxes, where applicable.

is not subject to this tax. The rate of the tax on bituminous coal was increased twice during the review period.[180]

3.139. The transportation-energy-environment tax law was amended in 2016. Under this third three-year extension of its sunset clause, the transportation-energy-environment tax continues to be levied on gasoline (₩475 per litre) and diesel oil (₩340 per litre) until end-2018 (instead of the individual consumption tax); its rates remain unchanged. As of 2016, the flexible transportation-energy-environment tax framework set on 21 May 2009 continued to apply to gasoline and diesel oil within a 30% range of the statutory tax rates, i.e. ₩529 per litre and ₩375 per litre, respectively. Conditional exemptions apply to petrol and diesel used in the manufacture of medical goods, fertilizers and petro-chemicals, vehicles for disabled persons or rental usage. The liquor tax on alcoholic beverages, i.e. spirits (₩57,000 per kl (₩600 is added for every additional 1% which exceeds 95% of alcohol content)) and liquor (5% (Takju), 30% (Yakju, Cheongju, fruit wine) and 72% (Soju, beer, whisky, brandy, liqueur, etc.)), remains unchanged.

3.140. The securities transaction tax continues to be levied on transfers of shares or stocks of a business entity. The standard rate of 0.5% remains unchanged and applies to the value of securities transferred. Reduced rates of 0.15% (plus 0.15% of special tax for rural development) and 0.3% apply to transactions on the securities market and on the KOSDAQ market, respectively.

3.141. The education tax, levied on banking and insurance services, and all goods subject to the individual consumption tax, the transportation tax, and the liquor tax (excluding spirits, Takju, and Yakju), remains set at: 0.5% of gross receipts for banking and insurance (includes commissions, interest, dividends, and insurance premiums); 30% of the individual consumption tax (15% in the case of kerosene, heavy oil, butane or LPG, and nonanes plus gas (C9+)); 15% of the transportation tax; and, 10% of the liquor tax (30% for liquors taxed at over 70%).

3.142. The special tax for rural development is a surtax levied on income exempted from company and personal tax, on the value of customs duty concessions, and on the amount of individual consumption tax and securities transaction tax.[181] The current rates are: 0.15% for the amount of the securities transaction tax, 10% or 30% (golf courses) for the individual consumption tax, and 20% for exemptions of company and income taxes as well as customs duties. The tax was extended for a third ten-year period on 1 July 2014 and was scheduled to end on 30 June 2024.

3.143. Korea imposes environmental waste charges on certain items that contain harmful substances and are difficult to recycle (Act on Promotion of Saving and Recycling of Resources). The charge is intended to ensure that manufacturers bear the cost of processing waste. It applies equally to imports and domestic goods.[182]

Local taxes

3.144. During the review period, Korea's 11 local taxes remained unchanged. Province and city governments apply a range of indirect taxes, including an acquisition tax, to purchases of real estate, motor vehicles, heavy equipment, and boats. A registration tax is levied on property and motor vehicles, boats, aircraft, and construction machines, as well as certain business registrations and intangible assets, such as transfers of mining, fishing, and intellectual property rights. An

[180] Other products taxed continued to be heavy fuel oil (₩17 per litre), kerosene (₩90 per litre, ₩63 per litre as from 1 July 2014), natural gas (₩60 per kg, ₩42 per kg effective from 1 July 2014), fuel oil (₩17 per litre), LPG-butane (₩275 per kg), LPG-propane (₩20 per kg, ₩14 per kg effective from 1 July 2014), and bituminous coal (effective from 2 February 2016) (₩27 per kg applicable to net calorific value of 5,500 kcal per kg or more, ₩24 per kg applicable to net calorific value of 5,000 kcal to 5,500 kcal per kg or ₩21 per kg applicable to net calorific value of less than 5,000 kcal per kg). Between 1 July 2014 and February 2016, bituminous coal was taxed as follows: ₩19 per kg applicable to net calorific value of 5000 kcal per kg or more, or ₩17 per kg applicable to net calorific value of less than 5000 kcal per kg. Ministry of Strategy and Finance (2015), *Korean Taxation*.

[181] It includes exemptions specified under the Special Tax Treatment Control Law, the Local Tax Law, and the Customs Law. Exemptions under the Company Tax Law, Income Tax Law, and the Foreign Investment Promotion Law are excluded.

[182] The charges are set at, e.g. ₩24.9 per plastic container of insecticide or ₩30.7 if it exceeds 500 ml; and ₩75 or ₩150 per kg of the plastic or synthetic resin used for domestic goods.

automobile tax applies to passenger vehicles (depending upon engine size), buses, and trucks (depending upon carrying capacity). A tobacco consumption tax is levied at various specific rates.

3.4.1.2 Direct taxation

3.145. Personal income tax and corporation tax remain the second- and third-largest single sources of revenue after VAT. Progressive personal income tax rates range from 6% (income of ₩12 million or less) up to 38% (over ₩150 million since 2014, down from to ₩300 million).[183] Certain foreign workers (i.e. labourers hired on a daily basis) are exempt from income tax. Corporation tax rates remain virtually unchanged since 2010. The lower income bracket stands at 10% for income below ₩200 million, 20% for income from ₩200 million to ₩20 billion, and 22% for higher income over ₩20 billion. In 2015, the Corporate Tax Act was amended to introduce a 10% additional levy on corporate income for large companies whose net equity exceeds ₩50 billion and are not classified as SMEs.[184]

3.4.1.3 Tax incentives

3.146. Tax incentives are used extensively as an instrument of industrial policy to encourage investment, especially from overseas, and production of certain goods, including by SMEs (Special Tax Treatment Control Law 1999, STTCL). They cover a range of activities, and include income tax relief (rate reductions, exemptions, credits, special deductions and other concessions), or credits and commodity tax concessions (such as VAT exemptions and zero-rating). Many tax incentives under the STTCL have expiry dates and are extended periodically. Tax incentives were to terminate at end-2003, but at the time of the previous Review many were extended until end 2009, 2010, 2011 or 2012; similarly, as of 2015, many incentives were scheduled to terminate in 2012, 2013, 2014, 2015, 2016 or 2017.[185] According to the authorities, out of 88 (42 in 2012) "non-taxation" and tax reduction/exemption benefits due to expire in 2015, 62 (30 in 2012) were extended while the remainder were abolished or scaled back; 2 (3 in 2012) tax incentives with no expiry date were scaled back or repealed. In determining whether to repeal or scale back a certain tax incentive, factors taken into account included the extent to which the objective had been achieved and whether the benefit was in line with "international standards".

3.147. Associated with the above income tax incentives, Korea had 153 (141 in 2010) tax expenditures under its income taxes in 2014. At the time of the previous Review, the general business incentives category counted for the highest number of tax expenditures followed by specific industry relief.[186] Korea had another 77 (93 in 2010) tax expenditures under other taxes in 2014; the two largest contributing taxes remained the VAT (39 tax expenditures in 2014, 26 in 2010), and the individual consumption tax (13 in 2014) which replaced the securities transaction tax (17 in 2010) in terms of importance. According to government data, rising tax expenditures stood at US$29.6 billion, US$30.9 billion, and US$32.6 billion in 2012, 2013 and 2014, respectively, or 2.3% of GDP over these years; in 2014, the main recipients remained industry, SMEs and energy (30.6%), social welfare (23.4%), agriculture, forestry and fisheries (17.3%), and health (11.6%). The effectiveness of tax incentives, both in terms of meeting specific objectives and impact on the economy's overall efficiency, needs to be reviewed regularly. Forgone tax revenues for fiscal years 2012, 2013, 2014, and 2015 are estimated roughly at US$179.6 billion, US$178.6 billion, US$181.8 billion, and US$192.8 billion, respectively. From 2011 to 2015, an annual report on tax expenditure was published in the Korean language only.

3.148. SMEs continue to benefit substantially from larger tax incentives than those generally available; for example, much larger tax credits for investment in technology and human resource development. As of 2016, they benefited, *inter alia*, from income tax or corporation tax credit for investment in business assets (extended until 31 December 2018); a five-year 50% income tax or

[183] Taxation for higher income (i.e. above ₩12 million) consists of a fixed amount (from ₩0.72 million up to ₩37.6 million (₩90.1 million in 2012) depending on the income scale) plus a percentage on the amount exceeding the lowest value of the tax base.

[184] EIU (2015).

[185] The sunset clauses on most tax incentives took effect in 2009. In creating a new tax incentive, a sunset clause (i.e. phase-out after 2 to 3 years of implementation) is generally included. More information on the type of tax and non-tax incentives in place or due to expire is available in Ministry of Strategy and Finance (2015).

[186] Korea's tax expenditures under the income taxes equalled 1.76% of GDP in 2006; those under other taxes were 0.72% of GDP, of which almost two thirds came under the VAT.

the corporation tax reduction for newly established SMEs in areas other than the Seoul metropolitan area or its adjacent areas (extended until 31 December 2018); and, a special tax incentive for SMEs involving corporation tax or income tax reductions of 10% or 20% (metropolitan area). SMEs receive a 1–3% tax credit for investment in business assets if they maintain status quo employment; this credit was also available to large companies but was abolished in January 2015.

3.149. Several tax credits continue to apply to investment in technology, human resources development and the R&D expenses for growth industries and basic technologies (extended until end-2018). The method by which this tax credit is calculated was amended in 2013; broadly, a firm receives a tax credit equivalent to 40% of its incremental R&D expense in any given year; this tax credit is raised to 50% for an SME.[187] Investments in facilities or equipment to improve productivity or increase safety made before end-2017 receive a 3% tax credit (7% for SMEs). Investment in facilities for the purpose of environmental conservation made before end-2016 receive a 3% (up to 10% for SMEs) tax credit, which may be carried forward five years if unused.

3.150. A concessional income tax rate of 9% (8% in 2012) continues to apply to certain activities to enhance social welfare, including fisheries cooperative associations and the tobacco production association. A 50% tax exemption for forestry income remains in place. Interest income (up to ₩30 million) and partnership dividends (up to ₩10 million) are non-taxable for farmers and fishermen. Primary producers also continue to benefit from zero-rating for VAT on machinery, fertilizer, and pesticides, and on fishing gear, including nets; and exemption of taxes on petroleum products used for auxiliary private power generation for island areas where it is impossible or difficult for a considerable period to supply electricity.

3.151. Under the STTCL, limits on the maximum of cumulative tax incentives apply to some tax reduction or exemption measures, including those claimed under the STTCL. According to the authorities, the upper limit for cumulative tax incentives for domestic investment is 50% of the accumulated investment amount, and the lesser amount between the value derived by multiplying the number of regular workers at the beneficiary company by ₩10 million, and the value equivalent to 20% of the accumulated investment amount.

3.152. Under an amendment to the STTCL, as from January 2013, expatriates have been subject to a flat tax rate of 17% (18.7% after the resident surcharge), compared to a rate of 15% until December 2012, rather than the country's complex income tax regulations (Section 3.4.1.2); from 1 January 2014, any new applicants can avail themselves of the flat tax rate for a maximum of five years.[188]

3.4.2 Financial assistance

3.4.2.1 Loans, guarantees, and other financial measures

3.153. State-owned financial institutions have a major role in assisting Korea's industrial development. State intervention dominates the large venture capital market, which benefits mainly SMEs. Venture capital is invested through venture capital firms (VCFs) and limited partnership funds (LPFs). Since 2005, the Fund of Funds, has invested in LPFs and contributed to the formation of the private venture investment market. As of 2015, the Fund of Funds' assets amounted to ₩2.23 trillion (₩1.36 trillion in 2011), were mostly financed by government funds, and had been invested in six areas (SMEs, culture, movies, futures, patents, and health). The number of venture corporations increased from 24,645 in 2010 to 31,260 in 2015.

3.154. A Korea New Exchange (KONEX) was launched in July 2013 to help SMEs and venture businesses obtain direct financing from the capital market.[189] KONEX increased from 21 listed companies at its start to 89 by end-2015, while market capitalization reached ₩3.7 trillion. The Government announced a strategy in 2015 to revitalize KONEX by encouraging the listing of more start-ups and attracting more venture capital.

[187] EIU (2015).
[188] EIU (2015).
[189] OECD (2016c).

3.155. Two major public institutions, the Industrial Bank of Korea (IBK) and the Korean Development Bank (KDB), play a substantial role in industrial development. In 2015, the KDB aimed at providing financing to industries bearing relatively high risks, and reinforcing the partnership with promising SMEs with cutting-edge technology through innovative financial products, while doing its utmost to act as a market safety net to ensure a stable financing environment for its corporate clients. In principle, the IBK and the KDB are run commercially, but, by owning 100% of the KDB Financial Group, the Government guarantees the KDB's solvency.[190] While the Government has no direct control over their lending programmes, it has injected approximately ₩4.5 trillion since 2004 for recapitalization purposes; no replenishment of losses has been made for the IBK since its establishment. Government funding was provided to KDB for its facility investments and corporate investment promotion programme; it stood at ₩10 billion in 2013, ₩20 billion in 2014, and ₩205.5 billion in 2015. There is concern that the KDB as a state-owned enterprise providing government assistance to local companies could place their competitors at a disadvantage.[191]

3.156. The IBK supports SMEs mainly through low interest loans in line with government policy for working capital for technology development, productivity improvement or automation, constructing facilities, and buying plant and machinery. At March 2016, loans extended to SMEs amounted to ₩128.6 trillion (₩94.5 trillion in 2011), or 77.5% of total IBK loans. Most SME loans are financed by retail banking or DCM (debt capital market) funding, just like other commercial banks in Korea, while some are funded through government-originated loans; as at March 2016, the average interest rate for new loans stood at 3.89%. The IBK does not maximize profits given its public policy role; its financial performance is directly influenced by government policies.[192]

3.157. The KDB provides a broad range of industrial capital, including loans to finance tangible and intangible (e.g. R&D) investments, underwrite corporate mergers and acquisitions, and as operating capital. The KDB offers corporate banking services by extending corporate loans generated through the issuance of industrial finance bonds in the market. The KDB lending rate is ostensibly determined by market principles, and no loans are extended at a preferential rate to firms of a particular industry. Nevertheless, lower interest rates are seemingly available for SMEs willing to relocate production facilities to rural areas (excluding Seoul, Kyeonggi-do, and Chungchong-do) (around 1 percentage point lower than commercial rates) or for regional development purposes.[193] Even when using government funds, the KDB extends loans under the same conditions as commercial banks but focusing on fostering strategic industries. In 2014, KDB loans to SMEs accounted for only 17% of its total corporate loans. In the same year, as a result of improvement in overall income, the KDB recorded a net profit of ₩1.1 trillion, a sharp increase from the net loss of ₩1.5 trillion of 2013 that occurred for the first time in 13 years due to a significant amount of non-performing loans resulting from a recession in the shipbuilding, shipping and construction industries.[194] In 2015, the KDB was faced with a net loss of ₩1.9 trillion, *inter alia*, due to deterioration of interest income, huge bad debt expenses and impairment losses from the recession in the shipping and shipbuilding sectors.

3.158. The Korea Credit Guarantee Fund (KODIT) and Korea Technology Finance Corporation (KOTEC) provide credit guarantees to enable emerging firms, especially SMEs, to gain access to finance. They are commercially run and their operations are conducted according to market principles; however, the Government would cover any losses relating to the operations of the funds. KIBO Technology Fund also administers technology appraisal systems for selecting beneficiaries of various government funds. Under a July-2014 initiative to promote technology-based loans providing greater financing for start-ups without collateral, four institutions, including the Korea Technology Finance Corporation (KTFC), were designated as

[190] As of October 2009, the KDB Financial Group was made up of KDB Bank, Daewoo Securities, KDB Capital, KDB Asset Management and Korea Infrastructure Investments Asset Management (KIAMCO). After the amendment of the KDB Act in May 2014, KDB integrated with KDB Financial Group and Korea Finance Corporation on 31 December 2014 to become more competitive, more sustainable and more global, as well as to better respond to new policy finance demands and changes in the financial industry. KDB Bank (2015).

[191] USTR (2016).

[192] According to the authorities, the IBK is competing with other commercial banks for the same target market with identical funding and operating scheme; SMEs became more dependent on IBK's financing due to the global financial crisis, as private banks reduced their exposure to loans with potentially high risks.

[193] Regional development is promoted by providing loans whose interest is partially covered by local authorities or the bank itself.

[194] KDB Bank (2015).

Technology Credit Bureaus (TCBs), and an Information Providing Service was launched based on the technology-credit appraisal system. According to a government survey, TCB-linked loans reached ₩51.5 trillion (6.7% of bank lending to the corporate sector) in the fourth quarter of 2015.[195] The around-4% average interest rate on TCB-linked loans was lower than the overall average rate of 4.3%.

3.159. According to the OECD, SME policy in Korea is particularly focused on providing financing, given market failures that limit market-based funding.[196] The share of government financing increased from 11.4% (2009) to 14.9% (2013) of total SME financing. Government financing of SMEs amounted to around 6% of GDP, which is high compared to OECD countries such as France and the United States. Moreover, government guarantees amounted to 14.6% of lending to SMEs, one of the highest shares in the OECD. In addition to positive effects such as the improvement of financial performance and reduction of bankruptcy cases, public support through direct credit and guarantees to SMEs has seemingly had negative effects as it, *inter alia*, apparently benefited non-viable SMEs, did not help improve productivity, and provided guarantees to highly rated companies that were more than ten years old crowding out support for start-ups and highly innovative young firms. In line with past OECD recommendations, the Government announced in November 2015 a new policy direction for reducing guarantees to mature SMEs (i.e. more than five years old) to focus more on start-ups and early-stage SMEs, where the difficulty of securing market financing is greatest. In 2015, six SME programmes were eliminated and 13 merged, resulting in budget savings.

3.160. In line with Article 32 of the 2010 Low-Carbon, Green-Growth Framework Act measures to promote green certification entail: extending loans for the purpose of disseminating new renewable energy; providing linkages to the SME policy fund; intensive support for technology guarantees; and, support for export financing and insurance. No data on budgetary outlays disbursed for implementing this initiative and its beneficiaries/participants since 2012 were available from the authorities.

3.4.2.2 Other subsidies

3.161. Korea has notified several direct support programmes to the WTO Committee on Subsidies and Countervailing Measures. Its latest notification, in June 2015, covered the period 2013-14 and indicated that there were 22 subsidy schemes, all of which were also notified in 2013.[197] Grants, tax concessions or concessional loans continue to be used to assist a range of agricultural, forestry, fishing, coal mining, energy, environmental technology R&D, and environmental protection activities. No expiry date was indicated for the notified schemes except for measures relating to vessel decommissioning (until 2018) and tariff reduction on aircraft parts (until 2020 for non-SMEs). A concern was expressed at the WTO's TRIMs Committee of 5 October 2015 relating to Korea's assistance measures for agricultural machinery (Japan); the authorities indicated that these measures have never been implemented.[198]

3.162. During the period under review, sector-specific support measures benefited shipbuilding, automotive, pharmaceutical, and steel-industry activities (Section 4.5). In November 2013, Korea announced a ₩900 billion (€662.4 million) support scheme for the development of the offshore infrastructure sector through public-private partnerships to preserve its status on the global shipbuilding and maritime industry market.[199] This scheme was to favour Korean equipment through various policy means and would rely on the use of the Korea EXIM Bank and K-sure to guarantee orders for the Korean yards (Section 3.3.5).

3.163. Energy subsidization appears to remain in place for the coal industry and electricity production and pricing (Section 4.4.2). Korea has few explicit subsidies for fossil fuels and these subsidies do not protect any important domestic industries; the main subsidy (VAT and individual consumption tax relief, and grants) is for the production of anthracite coal used in the form of charcoal briquettes by low-income households and is to end in 2020 (Section 3.4.1.1). According to the IEA, the overall recovery rate, the unit price as a share of the total unit cost, has fallen from

[195] OECD (2016c).
[196] OECD (2016c).
[197] WTO documents G/SCM/N/253/KOR, 6 November 2013; and G/SCM/N/284/KOR, 6 July 2015.
[198] WTO document WT/TPR/OV/18, 17 November 2015.
[199] European Commission (2014).

93.8% in 2007 to 90.2% in 2010, indicating that electricity prices did not cover costs; this means that there is a direct subsidy in place in the form of the sale of electricity at prices below costs.[200] Furthermore, the electricity price varies widely between sectors, creating significant cross-subsidies between consumers; tariffs for industrial, residential, and commercial consumers remain higher than those for agricultural consumers. According to the authorities, electricity prices should not be seen as a subsidy because the cost recovery rate rose to a reasonable level in 2014; furthermore, as the total unit cost includes the power generation cost and compensation on investment for power supply facilities, the fact that the cost recovery rate is less than 100% does not indicate the existence of a subsidy.[201] No recent data on cost-recovery rates and cross-subsidization were available from the authorities. Korea operates subsidies, loans and tax incentive programmes for the deployment of new and renewable energy.

3.164. Korea continues to heavily subsidize agriculture, especially rice, and the ratio of total support to GDP was estimated at 1.9%, which is much above the OECD average (0.7%) (Section 4.2.2).[202] Following a reduction in 2010, support in 2012-14 increased back to previous levels due to a rebound in domestic rice prices and decreasing world rice prices. Market price support remained dominant; more than 90% of producer support is commodity specific, and concentrates on a small number of products (barley, garlic, red pepper, Chinese cabbage, rice, soybean, milk, beef and veal, pig meat, poultry and eggs). The development of biotech crops is being led by various government agencies, universities and private entities with substantive public funding (Section 4.2.3.3).[203]

3.165. According to Korea's latest WTO notification of December 2014, covering the period 2009-11, the current total aggregate measure of support (AMS) dropped from ₩28.5 billion in 2009 (much below its final bound level of ₩1.49 trillion), in line with WTO provisions and scheduled commitments, to zero in 2011 (i.e. below its *de minimis* level).[204] Barley remained the only item subject to market price support; this support dropped from ₩28.5 billion in 2009 to ₩4.8 billion in 2011. Total domestic agricultural support notified by Korea (including green box, development programmes subject to special and differential treatment, and *de minimis* support not subject to reduction commitments), rose considerably from ₩5.6 trillion in 2008 (₩879 billion excluding green box and S&D assistance) to ₩8.8 trillion in 2011 (₩1.1 trillion excluding green box and S&D assistance) (Table A3.7). In 2011, *de minimis* support included: market price support (barley); other product-specific assistance (e.g. rice deficiency payment of ₩750.1 billion, beef deficiency payment of ₩1.9 billion, and loan interest subsidies for several items); and non-product-specific support of ₩286.5 billion (mainly crop insurance, input subsidies, and subsidies for farm facilities). In 2011, green box support remained more than five times the size of Korea's total product- and non-product-specific AMS.

3.166. Under the Act on Trade Adjustment Assistance (TAA), since April 2007, Korean manufacturers adversely affected by a bilateral free trade agreement may seek compensation from the MOTIE and the MOL (Ministry of Labour) through loans, investments, and job-placement support for workers. Measures to facilitate industry adjustment are adopted if sales or production are reduced by more than 10% (since 2012; reduced from 25% to 20% in 2011) or, considering the operating income, number of employees, operation rate, inventory, etc. of the enterprise, the damage is deemed to amount to more than 10% over an extended period because of import competition. No data on TAA-related support were available from the authorities.

[200] OECD/International Energy Agency (2012).

[201] In addition, the authorities consider that the cost recovery rate in the case of electricity for industrial use is higher than those for other usages, and objective and consistent standards are applied to all calculations of the costs of any usage; therefore, they disagree that a subsidy is being given to this industry. They also indicated that the U.S. Department of Commerce ruled on the US steel industry's complaint against Korea and regarding the request for imposition of countervailing duties on line-pipes by confirming that a subsidy was not provided in the form of the sale of electricity at prices below cost in Korea.

[202] The OECD has been publishing reviews of agricultural policies in Korea, other OECD countries, and some other economies for several years. In these publications, the value of transfers to agricultural producers is measured using the producer support estimate (PSE) and associated indicators. The methodology for calculating these indicators is different from that used to calculate the aggregate measure of support (AMS), and the two sets of data are neither compatible nor comparable. The authorities consider that the level of domestic agricultural support for the purpose of the WTO Trade Policy Review should be calculated in the context of WTO rules described in the Agreement on Agriculture. OECD (2015a).

[203] USDA Foreign Agricultural Service (2015c).

[204] Schedule LX – Republic of Korea (WT/LET/804, 25 July 2011), Part IV, Section I; and WTO document G/AG/N/KOR/53, 20 January 2015.

3.4.3 Foreign investment location incentives

3.167. During the review period, Korea continued to promote or induce FDI (including joint-ventures with domestic investors) with the operation of foreign investment zones (FIZs), export-oriented free trade zones (FTZs), and free economic zones (FEZs) that are divided into complex-type, individual-type and service-type zones (Section 2.6).[205] Their location varies in terms of eligibility for occupation, targeted industries, and investment incentives in form of rent reduction/fixing, corporate/income/acquisition/property tax holidays, customs duty/VAT exemption, and cash grant, depending on their purpose of designation (Table A2.2). The eligibility for and extent of these incentives depends on certain criteria, including the degree of FDI participation.[206] This assistance was notified to the WTO pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures in 2013 and 2015.[207] According to the 2015 WTO notification, the amount of cash grants resulting from this type of support stood at ₩14 billion in 2011, ₩10 billion in 2012, ₩5.8 billion in 2013, and about ₩20 billion in 2014; in addition, according to national statistics, the support in the form of forgone tax revenue from the reduction or exemption of corporation tax for all foreign-invested corporations in FIZs and FEZs stood at ₩170 billion in 2011, ₩80 billion in 2012, ₩44 billion in 2013, and ₩57 billion in 2014.[208] As of end-2015, there were 98 FIZs, 13 FTZs and 8 FEZs; between 2012 and 2014, no new foreign direct investment promoting sites were set except for four new complex-type FIZs (Cheonan, Woljeon, Munmak, and Jincheon-Sansu). As of 2015, total FDI in these zones, where 682 companies employing 149,000 persons operated, amounted to US$14 billion. No data on the share of these zones' contribution to Korea's GDP and total imports/exports were available from the authorities.

3.168. Industrial complexes specializing in parts and materials – a complex-type of FIZ that, in addition to other incentives, benefits from 100% rent reduction (compared to 75% at general complex-type FIZs) – are, *inter alia*, expected to facilitate the introduction of advanced foreign technology in parts and materials (from Japan, Germany, etc.) by inducing foreign investment.[209] At the time of the previous Review, five such complexes operated in Gumi, Pohang, Iksan, and Changwon as well as the Busan-Jinhae FEZ due, *inter alia*, to their proximity to large Korean companies. Targeted industries included display, mobile, electronic materials, electronics, steel, shipbuilding, shipbuilding materials, automotive, machinery, equipment, and chemicals. No similar information for the current review period was available from the authorities.

3.4.4 State-owned enterprises and privatization

3.169. State involvement in the economy (Table 3.4) persists, as the limited privatization efforts during the review period were widely opposed. State-owned enterprises (SOEs) produced 3.2% of GDP in 2013 (UNSNA standard), the same since 2007.[210] At the time of the previous Review, the number of SOEs operating in the country varied depending on the source. According to a 2011 OECD paper, Korea had 59 SOEs in 2009, with assets valued at US$177.6 billion and employing 120,655 persons. This was the highest valuation of SOEs among 27 OECD reporting countries. No recent data were available from the authorities on employment by SOEs (88,000 in 2008) or their assets (US$267 billion in 2008), nor were data relating to their contribution to GDP, their incidence in domestic production and trade (domestic and foreign), losses occurred by their operations, and budget outlays provided to cover them (since 2008).

3.170. The brief push to restart privatization of public services (e.g. Korea Rail), the KDB, the IBK, the Woori Financial Group, and the Incheon International Airport in 2013 led to strikes or criticism from opposition parties and civic groups and the Government appeared to have lost the

[205] Korea Trade-Investment Promotion Agency (2015).

[206] For example, to be eligible to move into a complex-type FIZ, a company should be registered as a foreign-invested company, have a foreign investment ratio of 30% or higher, and operate a business defined under the basic management plan (mostly manufacturing businesses).

[207] WTO documents G/SCM/N/253/KOR, 6 November 2013; and G/SCM/N/284/KOR, 6 July 2015.

[208] National Tax Service online data. Viewed at: http://stats.nts.go.kr/national/major_detail.asp?year=2015&catecode=A12015.

[209] Korea Trade-Investment Promotion Agency (2015).

[210] Asia-Pacific Economic Cooperation Economic Committee (2015).

political appetite amid a faltering economy.[211] The authorities added that the policy stance on the privatization of public services was to reflect the general public's opinion in decision-making.

3.171. Under a 2013 Public Institution Reform Plan, the Government developed measures involving: increased transparency by making information on public institutions' debt burdens and fringe benefit expenditures accessible; reducing the debt level of public institutions below 200% of their total capital by 2017; improving public institutions' management efficiency; and, reducing the pay of public institution executive board members. At a 2014 mid-term evaluation of the reform plans, 18 "highly indebted" and 20 "recklessly managed" public institutions were to reduce debt by ₩110 trillion by 2017 in order to keep the public institution debt ratio under 200%, and were also to cut annual employee benefit expenditures by ₩190 billion.[212] In 2015, a 2nd Round of Public Institution Reform was launched to strengthen public institutions' core functions and improve their productivity in order to provide high quality public services. The Government has been merging similar or overlapping functions, reducing or eliminating projects that do not require the direct involvement of public institutions, and streamlining support divisions that are deemed to be excessive. Human and financial resources that are freed up from these efforts will be redirected toward strengthening public institutions' core functions.

Table 3.4 State involvement in the economy, 2016

Entity	Activity	Degree of state ownership (%)/Situation in privatization programme
GOODS		
Agriculture		
Korea Agro-Fisheries Trade Corp.	Manufacture and export of agricultural products, seafood, and beverages	100% / ..
Mining and energy		
Korea Coal Corp.	Price stabilization; stockpiling coal	100% / ..
Daehan Oil Pipeline Corp. (DOPCO)	Construction and management of oil pipelines; delivery and stockpiling of oil products	9.8% / ..
Korea National Oil Corp.	Domestic and overseas oil exploration and development; export, import stockpiling, transportation; lease, and sales of crude oil and its products	100% / ..
Korea Gas Corp. (KOGAS)	Production and distribution of natural gas; exploration and import/export of natural gas	26.2% / ..
Korea Electric Power Corp.	Power generation; power	51.1% / ..

[211] In April 2014, the Woori group reached an agreement to sell stakes in its brokerage unit and two other assets to NH Financial Group in a bid to make the Government's eventual sale of Woori more attractive. This sale was approved in June 2014. The Government has been trying to sell its 57% stake in the Woori Financial Group, which controls eight subsidiaries including Woori Bank (the second-largest commercial bank), for several years, without success. In July 2015, it was reported that the administration was to break up its majority stake in Woori into parcels of 4–5% to attract buyers, although the response to this proposal has been lukewarm. The Government is planning to initiate the sales procedure as soon as sufficient investment demand is identified. EIU (2015).

[212] The 18 "highly indebted" institutions were: LH, K-Water, KORAIL, Korea Rail Network Authority, Korea Expressway Corporation, Korea Electric Power Corporation, Korea Hydro and Nuclear Power Corporation, Korea South-East Power Co., Korea Southern Power Co., Korea East-West Power Co., Korea Western Power Co., Korea Midland Power Co., Korea Gas Corporation, Korea National Oil Corporation, KORES, Korea Coral Corporation, Korea Deposit Insurance Corporation, and Korea Student Aid Foundation. The 20 "recklessly managed" institutions were: Korea Exchange, Korea Racing Authority, KOSCOM, Export Import Bank of Korea, Kangwon Land, Incheon International Airport, Korea Securities Depository, Korea Gas Technology Corporation, Korea Housing Guarantee Corporation, KOMSCO, Busan Port Authority, Korea Institute of Nuclear Safety, KEPCO Engineering and Construction Company, Pusan National University Hospital, Korea Broadcast Advertising Corporation, Korea District Heating Corporation, Korea Investment Corporation, Korea Trade Investment Corporation, Korea Agro-Fisheries and Food Trade Corporation, and Grand Korea Leisure Co. Ministry Of Strategy and Finance online information, "Public Institution Reform Measures", 11 December 2013. Viewed at: http://english.mosf.go.kr/eco/view.do?bcd=E0004&vbcd=N0001&seq=3470&bPage=1; "Mid-Term Evaluation Reveals Public Institution Debt Reduction Ahead of Schedule", 30 October 2014. Viewed at: http://english.mosf.go.kr/eco/view.do?bcd=E0004&vbcd=N0001&seq=3723&bPage=1; and "Government Announces New Reforms for Public Institutions", 26 May 2015. Viewed at: http://english.mosf.go.kr/eco/view.do?bcd=E0004&vbcd=N0001&seq=3845&bPage=1.

Entity	Activity	Degree of state ownership (%)/Situation in privatization programme
(KEPCO)	transmission and distribution; electricity sales	
Korea District Heating Corp. (KDHC)	Thermal energy supply for space heating, cooling, tap-water heating, and industrial process heating	34.5% / ..
SERVICES		
Financial services		
Industrial Bank of Korea	Specialized bank	50.6% / ..
Korea Deposit Insurance Corp. (KDIC)	Management of deposit insurance funds; risk management; resolution of insolvent financial institutions; management of bankruptcy estates; insolvency-related investigations	100% (Non-capital special corporation) / ..
Korea Development Bank	Development institution	100% / ..
Export-Import Bank of Korea	Development institution	70.5% / ..
Korea Asset Management Corporation (KAMCO)	Collect public funds through resolving non-performing loans acquired by financial institutions, and perform public sale of the assets entrusted by the government agencies and others	56.8% / ..
Korea Housing Finance Corp. (KHFC)	Mortgage securitization and management of housing credit guarantee fund	64.8% / ..
Broadcasting and media		
Korea Broadcasting System	Public broadcasting service	100% / ..
The Seoul Shimmun	Newspaper publishing	30.5% / ..
Transport		
Korea Expressway Corp.	Expressway construction and management	84.1% / ..
Korean Railroad Corp.	Railway operation and maintenance	100% / ..
Busan Port Authority	Management and development of the port	100% / ..
Incheon Port Authority	Management and development of the port	100% / ..
Incheon International Airport Corp.	Incheon International Airport development and operation	100% / ..
Other		
Korea Appraisal Board	Appraisal; real estate consulting; real estate transaction information network	49.4% / ..
Korea Minting and Security Printing Corp. (KOMSCO)	Local currency supply	100% / ..
Korea Land & Housing Corp. (LH)	Acquisition, stockpiling, development, and supply of land, urban development and maintenance, housing construction, supply, and management	87.2% / ..
Korea Housing & Urban Guarantee Corp.	Housing guarantee for tenants and guarantee for construction companies; urban regeneration	55.0% / ..
Korea National Tourism Corp.	Overseas publicity of Korean tourism; managing an overseas marketing network	55.2% / ..
Korea Rural Community Corp.	Contribution to rural economic and social development; development of agricultural land and ground water resources; improvement of rural living environment	100% / ..
Korea Water Resources Corp.	Water supply, and distribution-related works; water quality improvement	91.3% / ..

Entity	Activity	Degree of state ownership (%)/Situation in privatization programme
Korea Labour Welfare Corp.	Implementation of welfare programme for workers; collection of employment insurance premium: collection of industrial accident compensation insurance premium and payment of insurance money	100% / ..
Korea Resources Corp.	Support of domestic mining industry; survey and research of geological structures and mineral deposits; technical and monetary subsidies	100% / ..

.. Not available.

Source: Information provided by the Korean authorities.

3.4.5 Competition and consumer policy

3.4.5.1 Competition policy

Framework

3.172. Responsibility for competition policy rests primarily with the independent Korea Fair Trade Commission (KFTC) which is the only government agency that administers competition law.

3.173. During the review period, the 1980 Monopoly Regulation and Fair Trade Act (MRFTA) was amended in 2013, 2014, and 2016, and several implementing guidelines were issued to finalize major legislative changes necessary for the realization of economic democratization as well as to reflect the actual market situation, adapt regulations to international standards, and to clarify provisions allowing businesses to easily detect whether they are violating the law or not (Section 2.4 and below).[213] The 2013 MRFTA amendments eliminated the KFTC's exclusive right to file criminal complaints (see below), relaxed the requirements for establishing "unfair assistance", imposed additional administrative fines on entities that benefited from "unfair assistance", and prohibited the act of assisting "specially-related parties".[214] Following the 2014 amendments of the MRFTA, it has been prohibited to take retaliatory measures such as suspension of transactions, reduction in supply, and other disadvantageous activities against businesses which, directly or through an affiliated company or another business, report unfair trade activities, apply for dispute mediation, or cooperate with the KFTC. Other amendments made it possible to reward self-reporting of anticompetitive practices and to delay payment of penalty surcharges and allow payment in instalments.[215] The 2014 amendment of the Enforcement Decree of the Monopoly Regulation and Fair Trade Act covered, *inter alia*, modifications to details regarding prohibition on cross-shareholding (i.e. circular-shareholding), the increase in number of instalments relating to the extension of the due date for payment of a penalty surcharge (see below), and the lowering of the mark-up rate of additional return for penalty surcharge by taking into account the recent interest rates of finance companies. The 2016 amendment to the MRFTA strengthened the disclosure duty of the corporate ownership structure of large business groups. Regarding dispute mediation, it allowed the application for mediation to have the effect of interrupting statute of limitations and made the conciliation protocol have the effect of a consent judgment. Furthermore, it improved the leniency programme by limiting the leniency benefits of repetitive cartelists.

3.174. Competition law covers all sectors and all undertakings, including state entities. However, liner shipping conferences are exempted. Voluntary associations established to assist SMEs in the agricultural, forestry, and livestock industries, which meet certain conditions may also be

[213] KFTC online information. Viewed at: http://eng.ftc.go.kr/bbs.do?command=getList&type_cd=62&pageId=0401.

[214] TheLegal500 online information, "South Korea: Major Amendments to Fair Trade Laws", October 2013. Viewed at: http://www.legal500.com/c/south-korea/developments/24339#sthash.KkPYs1Ce.dpuf.

[215] Korea Fair Trade Commission (2016).

exempted, unless they engage in "unfair trade practices or price hikes by unfairly restricting competition".[216]

3.175. Legislation covers all principal competition areas, including horizontal practices (cartels and collusion), vertical constraints, abuse of dominant market position, and mergers. It prohibits: unfair collaborative acts and unfair trade practices; resale price maintenance, unless exempt by the rule of reason; and, abuse of dominant position. An enterprise is presumed to be market-dominant if its market share is at least 50% or where the share of the largest three firms is at least 75%, except for enterprises whose market share is less than 10% or their annual sales or procurement of related goods or services in a relevant market is less than ₩4 billion.[217]

3.176. Mergers to "practically suppress competition" are prohibited, unless parties can prove to the KFTC that the efficiency enhancing effect will exceed the anticompetitive effects or the acquired firm is insolvent. The KFTC may approve a merger subject to certain conditional corrective measures to address anticompetitive concerns, such as limiting the scope of the merged firm's operations. Following the December 2012 amendment of the 2007 KFTC guidelines on mergers and acquisitions (M&As), the criteria to assess dominance (i.e. control over the acquired firm) resulting from a merger or acquisition now consider whether the acquiring firm can influence the targeted firm through agreements with other shareholders (including veto rights). In addition, companies engaged in entirely different businesses are now subject to a simplified review, where regulators assume that unless any specific instance raises concerns, there is no anticompetitive activity being undertaken.[218] Parties must notify proposed mergers to the KFTC if assets or turnover of one party exceed ₩200 billion and those of the other exceed ₩20 billion. A merger involving a large-scale enterprise (assets or turnover above ₩2 trillion) should be notified any time prior to the date of completion of the transaction and the transaction must not be completed until the KFTC finishes the review. The Government launched a plan in 2014 to activate the M&As market by easing restrictions on investors in order to attract potential buyers, providing financial support for sellers and reducing restrictions on M&A procedures and tax disincentives.[219] Between 2012 and 2015, there were 1,825 M&As, of which about 46% involved manufacturing.[220] KFTC has monitored M&As involving foreign enterprises with a turnover over ₩20 billion in Korea since July 2003. The number of notifications concerning M&As involving a foreign company rose from 76 in 2011 to 103 in 2015. Parties to a merger may appeal a decision within 30 days to the KFTC, which has 60 days (extendable to 90 days) to decide.

3.177. During the review period, a prohibition on new cross-shareholding (i.e. circular-shareholding) between subsidiaries under a large business group was introduced and became effective as from July 2014, thus reversing to some extent the emphasis on self-regulation of the market under a 2009 amendment of the MRFTA regulations.[221] Not all circular-shareholdings were banned; those already in place were exempt. Circular-shareholdings, which have greatly decreased even prior to the enforcement of the limitations on new circular-shareholding, continue to decrease after the ban's enforcement. In 2013, 15 business groups held a total of 97,658 circular-shareholdings, but this drastically decreased to 8 business groups and 94 circular-shareholdings in 2015. Circular-shareholding between subsidiaries under a large business group (i.e. not less than ₩5 trillion of total assets) is completely banned under the MRFTA; 65 (55 in 2011) large business conglomerates (see below) were officially designated as large business groups as of 1 April 2016. The merger involving a large enterprise must be notified at any time prior to the date of the completion of the transaction. A financial or insurance company

[216] Conditions include having a goal of mutual cooperation and benefits for small businesses and consumers, and that members are free to enter and exit, and have equal voting rights.

[217] MRFTA Article 4.

[218] EIU, "Mergers", 8 September 2015. Viewed at: http://country.eiu.com/article.aspx?articleid=1523487136&Country=South Korea&topic=Regulation&subtopic=Competition+policy&subsubtopic=Mergers&oid=1473487131&aid=1.

[219] OECD (2016c).

[220] Korea Fair Trade Commission (2015).

[221] This prohibition was the authorities' response to action of a certain large business group that secured fictitious voting rights without an external capital inflow through cross-shareholding and used them to unfairly maintain and strengthen the group owner family's control over the group and for the expedient succession of management rights and support of marginal businesses as well. The ceiling on total investment in other companies (cross-shareholding) implemented for 13 years on large business conglomerates' (many of which are family-controlled (chaebols)) affiliates, had been lifted in March 2009. Instead, large business groups were obliged to disclose information on the general conditions and current status of their stockholding. Korea Fair Trade Commission (2016); WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

belonging to a large business conglomerate is allowed to exercise its voting right for up to 15% of its shares of a domestic non-financial or insurance affiliated company in certain cases, including for the merger of the affiliated company with another company. The KFTC requires large business groups to prepare combined financial statements as well as their normal consolidated financial statements.[222] A combined financial statement puts together balance-sheet accounts or income statement accounts of a related group of entities as a single reporting entity. Foreign-invested companies, as recognized under the Foreign Investment Promotion Act of 1998 (Section 2.6), are exempt from regulations affecting domestic large business groups.

Policy and operational developments

3.178. As of 2014, the KFTC's policy of "creating a fair and lively market based on the principle of economic democratization" sought to: remedy abnormal trade practices; create an innovation-friendly market environment; prevent consumer harm by strengthening its law enforcement with respect to products and areas which closely affect consumers' lives (e.g. daily necessities and e-commerce); create tangible outcomes through flawless implementation of the eight economic democratization tasks passed into law in 2013; and, actively deal with the "globalization of competition law" (cross-border anticompetitive practices).[223]

3.179. Monopoly power seems unchanged and market concentration relatively high. According to KFTC measurements, the market concentration ratio of the top three leading manufacturing companies on a weighted average basis has remained relatively stable from 2009 to 2011, from 67.7% to 67.6%, while the industry concentration ratio rose from 55.8% to 56.1%. On the other hand, 61 large business conglomerates (55 in 2011) and state conglomerates with control on over 1,674 companies (1,618 companies in 2011) were on the KFTC's watch list as of 1 August 2015.[224] When necessary for antitrust purposes, certain enterprises are presumed to be market-dominating if their market share is at least 50% or where the share of the largest three firms is at least 75%, except for enterprises whose market share is less than 10% or their total annual sales or procurement of related goods or services is less than ₩4 billion.

3.180. Despite action taken by the authorities to encourage large corporations and SMEs to voluntarily sign agreements under the 2007 Fair Trade and Mutual Growth Pact between Large Companies and SMEs and efforts of a government-set Korea Commission for Corporate Partnership (KCCP), large business groups are still considered as stifling growth of the country's SMEs in certain activities.[225] Under the Pact, large companies promise fair transactions in subcontracting such as reflection of an increase in the raw material price when determining the unit price of a contract product, increment of the cash payment ratio, shortening of payment terms, etc. In return, SMEs promise to grow together through innovation activities such as the improvement of productivity and technology development for cost savings, process improvement, quality improvement, logistics improvement, etc. The fair trade agreement system is about enhancing the competitiveness of both SMEs and large companies. In 2011, the KCCP issued a list of business sectors where large companies would be excluded in favour of smaller ones, covering 16 goods ranging from everyday items to high-tech products, including tofu, and light-emitting diodes (LEDs, until 2015); the list was expanded to include 73 items as of May 2016. Voluntary fair trade agreements can be signed and the KFTC assesses the execution status of the firms involved and rewards excellent companies with incentives such as an exemption from its investigation. To induce more companies to sign these agreements, the KFTC identified 12 exemplary cases where

[222] EIU (2015).

[223] Economic democratization, which aims to narrow the wealth divide and promote fair competition between conglomerates and smaller companies, was a key election campaign pledge of rival parties during the 2012 presidential election. Abnormal trade practices refer to those undertaken by public enterprises with monopoly power, unfair trades between large and small and medium-sized businesses in the distribution, agency, and subcontract areas, and practices which limit the growth of IT and other new growth industries. Korea Fair Trade Commission (2015).

[224] EIU (2015).

[225] Since December 2010, the KCCP, consisting of representatives from industry and academia, has aimed to broker a broad profit-sharing deal among large and small companies; its mandate was controversial from its inception, coming under criticism from the Federation of Korea Industries (FKI), representing the country's largest companies. Reportedly, major companies use their economic weight and purchasing power to force smaller companies supplying them to accept low margins. WTO document WT/TPR/S/268/Rev.1, 8 November 2012; Yonhap News Agency, "Chaebol's system integrators hike internal deals in 2014", 27 April 2015. Viewed at: http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20150427001051320; EIU (2015).

mutual cooperation resulted in developing technologies, reducing costs, replacing imports and expanding exports, and has pursued multi-faceted campaigns aiming at promoting the signing of the agreement. Between 2013 and 2015, the number of companies signing cooperation agreements increased continuously by an average annual rate of 8-9%, increasing from 177 companies in 2013 to 192 companies in 2014, and 209 companies in 2015. From 2007 to 2014, 817 large companies entered into subcontracting agreements with approximately 182,000 SMEs (based on cumulative number of companies); between 2009 and 2014, 387 large companies were appraised, of which 209 (54%) qualified for a grade of "outstanding" or higher thus receiving incentives such as exemption from KFTC's written surveys.[226]

3.181. Since 2013, big retail groups have been required to close some stores every other Sunday across the country to give smaller competitors opportunities to grow, large chains have been banned from opening mini-markets close to smaller stores without getting the consent of the local community, and franchise companies cannot open new restaurants within 150 metres of existing small restaurants. These regulations have been criticized by large business groups, who claim they benefit foreign firms, which are not bound by the regulations, rather than domestic SMEs.[227]

3.182. In 2014, the KFTC was to strengthen its monitoring and sanctioning of unfair trading behaviours and promote corporate partnerships and mutual cooperation between large companies and SMEs.[228] It was to continue to eradicate problems by intensively checking and correcting unfair subcontracting behaviours such as the non-payment of contract proceeds, and by publicizing more actively successful examples of mutual cooperation between large companies and SMEs.

Enforcement

3.183. Following the June 2013 MRFTA amendments in response to criticism against the KFTC for failing to properly exert its authority, three other organizations, the Board of Audit and Inspection, the Public Procurement Service (Section 3.2.10) and the Small and Medium Business Administration (SMBA), were also enabled to request the KFTC to lodge complaints for alleged violations of the Act from 17 January 2014 onwards.[229] Upon receiving a request from any of these agencies, the KFTC is required to file a complaint with the Prosecutor's Office. Notwithstanding this amendment, entities filing for leniency in cartel cases will remain exempt from criminal prosecution. As of April 2016, the Public Procurement Service and the SMBA had requested the KFTC to refer 12 enterprises to the Prosecution; the KFTC immediately filed criminal complaints with the Prosecution against 10 of them, and decided not to charge the remaining two companies as they applied for leniency and were exempted from criminal charges.

3.184. The KFTC may issue warnings or corrective measures, impose penalty surcharges and fines, and request criminal prosecutions.[230] Between 2012 and 2014, law enforcement continued to be focused on preventing consumer harm in areas closely related to the livelihood of people such as daily necessities and electronic commerce. In 2014, the KFTC handled 4,079 cases allegedly violating laws under its jurisdiction (9 laws including the MRFTA, and laws on consumer protection, subcontracts and franchise transactions), a 10.6% decrease from 2012; the same year it issued voluntary corrections, warnings, or more severe sanctions in 2,435 cases.[231] In the same year, the number of complaints under the MRFTA provisions continued dropping from 1,050 to 857, and related largely to unfair business practices (470), abuse of business position (230), improper concerted act (207), and prohibited acts of trade associations (enterprise organizations) (100). The number of warnings (133) exceeded that of corrective orders (75) and voluntary corrections (54), while fines (52) and surcharges (83) were imposed in a reduced number of cases in 2014. According to the authorities, 62 criminal complaints were filed during the period 2012-14, and corrective recommendations were issued in 27 cases in 2014. Despite a gradual decline in recent years, the cases of unfairly luring customers continued to account for the largest share of law

[226] Korea Fair Trade Commission (2016).

[227] EIU online information, "South Korea – Regulation: Competition policy", 8 September 2015. Viewed at: http://country.eiu.com/article.aspx?articleid=1473487131&Country=South Korea&topic=Regulation&subtopic=Competition+policy&subsubtopic=Overview.

[228] Korea Fair Trade Commission (2016).

[229] EIU (2015); The legal 500 online information. Viewed at: http://www.legal500.com/c/south-korea/developments/24339#sthash.XlDQFSWa.dpuf.

[230] Korea Fair Trade Commission (2016).

[231] Korea Fair Trade Commission (2015).

enforcement under the MRFTA in 2011-14 (955 cases)[232]; other anticompetitive practices were increased complaints over abuse of dominant position (854 cases), refusal to deal/trade (147 cases)[233], interference with the business activities of other companies (114 cases), coercion in commercial dealings (86 cases), transactions based on restrictive conditions (52 cases), and unfair assistance (52 cases).

3.185. Between 2011 and 2014, penalty surcharges were levied on 442 cases; in 2014, the total amount of penalty surcharges rose by 92.2% to ₩804.3 billion, compared to ₩418.4 billion in 2013.[234] Ranking high on the list of high-fine cases were mostly unlawful collusions, including collusion by 28 companies that participated in the bidding for 13 construction sites (₩347.8 billion); 21 construction companies bidding in a turnkey project for the second line of the Inchon Subway (₩132.2 billion); 5 white duplex board manufacturers (₩105.6 billion); and 5 automobile meter manufacturers (₩97 billion).

3.186. The KFTC operates a permanent monitoring system to detect and prevent bid-rigging in the public sector; bid-rigging is defined as a type of illegal cartel conduct. When a central administrative agency, a local municipality, or a corporation in which the State has a shareholding of 50% or more makes a bid for a construction work worth ₩5 billion or for procurement of goods or services worth ₩500 million or more, it is required to submit information on the project bidding to the KFTC. Strict penalties are imposed on bid-riggers, and criminal prosecutions are possible. The maximum surcharge for bid-rigging is 10%. In 2013, a new KFTC division, the Bid Rigging Investigation Division, was created to ensure efficient handling of bid-rigging cases regarding government contracts, so that long pending cases whose period of prescription is soon to end can be settled in time. Between 2011 and 2014, the KFTC uncovered 121 bid-rigging cases, which account for the biggest portion of the offences and are followed by price fixing (80 cases).[235] In 2014, the KFTC uncovered 56 cases of collusion in public bids involving infrastructure projects (e.g. Daegu Metropolitan Transit, the Gyeongin Canal, Busan Subway, and Honam High-Speed Train), and areas affecting people's livelihood (e.g. boilers, rental cars, and unmanned security systems), and levied penalty surcharges totalling ₩769.4 billion.

3.187. Since 2010, the government-funded Korea Fair Trade Mediation Agency has, *inter alia,* carried out assessments of companies participating in the 2001 Compliance Programme (CP), which promotes voluntary compliance with the MRFTA. A corporation that qualifies for grade A or higher benefits from immunity from investigation for a certain period. The reductions in surcharges ranging from 10% to 20% available at the time of the previous Review were abolished in 2014. By December 2015, 636 (475 in 2011) companies were participating in the CP.

3.188. Korea's extraterritorial application of its competition law remains unchanged. The KFTC has jurisdiction to address international cartels exporting to Korea especially in areas such as critical parts and materials that can cause direct and extensive harm to the domestic market.[236] If a cartel is formed inside the country, Korea applies pertinent laws following international norms, regardless of the origin of participants. Also, irrespective of the jurisdiction of a cartel, if such an attempt could have a negative effect on competition in the domestic market, Korea applies the law extra-territorially. In 2014, international cartels were uncovered in the markets for commercial bearings, bearings for steel, and small bearings, and penalty surcharges totalling ₩77.4 billion were levied on nine German and Japanese companies; bearings are a critical component for Korea's major backbone industries, such as automobile, steel, and electronics manufacturing, and their manufacturing is a large equipment-based and technology-intensive industry dominated by a handful of major global companies. The authorities indicated that Korea's extraterritorial application intends to protect competition rather than Korean companies.

[232] "Unfairly luring consumers" is where an enterprise engages in a fraudulent method or transaction disruption by providing unfair benefits or wrong information on goods or services to lure a rival company's customers. The Enforcement Decree defines such behaviour as using unfair benefits, fraudulent methods, and other improper inducements.

[233] The term "refusal to deal" means, *inter alia,* to decline to start a deal, to discontinue a deal, and to limit considerably the quantity or terms and conditions of a deal.

[234] Korea Fair Trade Commission (2016); Korea Fair Trade Commission (2015).

[235] Korea Fair Trade Commission (2016); Korea Fair Trade Commission (2015).

[236] As of 2014, over 60 nations exercised their authority extra-territorially, making extraterritorial application an international norm. Korea Fair Trade Commission (2016).

3.189. During the review period, the KFTC has maintained close cooperation with foreign competition authorities to ensure effective investigation and sanctioning of international cartels as well as to prevent any disadvantages to Korean enterprises in their overseas activities. In addition to the 2009 Korea-EU cooperation agreement on the application and enforcement of competition laws in relation to anticompetitive practices, Korea's RTA/FTAs with Chile (2004), Singapore (2006), EFTA (2006), India (2010), the EU (2011), Peru (2011), the United States (2012), Turkey (2013), Australia (2014), Canada (2015), China (2015), New Zealand (2015), and Viet Nam (2015) contain provisions on competition matters. The KFTC maintains memoranda of understanding on competition policy dialogue, establishing the basis for a formal dialogue on competition law enforcement as well as exchange of information, with the competition authorities of the Russian Federation (1999), Romania (2002), Australia (2002), Latvia (2003), the Commonwealth of Independent States (2003), Mexico (2004), the EU (2004), Turkey (2005), Canada (2006), China (2012), Indonesia (2013), Brazil (2014) and Japan (2014). The KFTC, which participates in the International Competition Network (ICN), continued to provide technical support to developing countries, transition countries, and other countries that are inexperienced in understanding and enforcing competition policies. As of March 2014, 56 workshops, for over 1,400 participants from 35 countries had been held under the OECD-Korea Policy Centre Competition Programme.[237]

3.4.5.2 Price controls and monitoring

3.190. Price controls remain in place in specific areas.[238] The President can order the control of prices on a range of products through "emergency demand and supply adjustment measure" decrees[239]; no such measures have been adopted since 2012. The Government may, when deemed necessary to stabilize the people's livelihood and the national economy, designate a ceiling price on important commodities, rent for real estate, etc., or charges for services.[240] Price controls and monitoring are operated under the Coal Business Law, the Petroleum Business Law, and the MRFTA. According to the authorities, in principle, prices are determined by the market with no intervention from the Government except for in the following exceptional circumstances. First, the Government can approve the price adjustment of public goods or services that are deemed necessary to stabilize the people's livelihood or supplied by a monopoly state-owned provider upon their provider's requests. Second, in case of urgent financial or economic crises or other extraordinary circumstances including natural disasters and emergencies at home or abroad, an emergency demand and supply adjustment measure can be adopted. Third, if necessary, the Government may designate a ceiling price if a commodity's supply condition changes dramatically to stabilize the livelihood of consumers or spur industrial restructuring. Charges on public goods and services may be adjusted by central and regional governments. The central government approves: the wholesale price of coal products used for home heating; the rates for metropolitan region waterworks service (wholesale only) and electricity; fees for telecoms, television services and postal services; and, fares for railway, intercity bus fares, motorway tolls and international airfares. The regional governments are responsible for determining: the retail price of coal products used for home heating; the ticket price of art exhibitions and performances; rates for water and sewage; fares for inner city buses and taxis; entrance fees of local museums and memorials; the price of septic tank cleaning and food garbage bags; and, high school tuition fees.

3.4.5.3 Consumer protection

3.191. Since 2008, the KFTC has been the sole competent authority in consumer policy. It remains in charge of setting the consumer policy plan and monitoring the Korea Consumer Agency. Its jurisdiction covers, *inter alia*, the Framework Act on Consumers, the Product Liability Act, the Consumer's Cooperative Union Act, the Electronic Commerce Act, and the Act on the Regulation of Terms and Conditions. During the review period, it enacted the 2014 Compliance Measures for Mobile Electronic Commerce Businesses regarding the Electronic Commerce Act. The measures aim to ensure that consumers in the rapidly growing mobile e-commerce industry are provided with all the information necessary for making purchasing decisions and that enterprises can easily observe the Act. In addition, they revised the standard adhesion contract in e-commerce to protect online personal information.

[237] OECD/Korea Policy Centre Competition Programme (2014).
[238] WTO document WT/TPR/S/268/Rev.1, 8 November 2012.
[239] Article 6 of the Price Stabilization Act.
[240] Article 2 of the Price Stabilization Act.

3.192. The KFTC establishes a basic master plan for consumer policies every three years, which serve as a baseline for all the central administrative bodies including the KFTC itself, as well as 17 local metropolitan governments, the Korea Consumer Agency, the Korea Financial Supervisory Service and other consumer groups. Its third basic Consumer Policy Master Plan, for the period 2015-17 contains policy goals, *inter alia*, focused on: support and reinforcement of consumer capability in a creative economy; expansion of a safe and credible market environment; and, the setting of a global private/public cooperation system.[241] Parallel imports continued to be accepted as a necessary mechanism to ensure consumer protection from unfair product pricing; parallel imports of genuine products may enter Korea legally, in some circumstances, provided they meet certain requirements (Section 3.4.6.1).[242]

3.193. During the review period, action to prevent consumer harm by strengthening law enforcement with respect to products and areas which closely affect consumer lives such as daily necessities and e-commerce was taken.[243] The KFTC continued imposing sanctions against deceptive practices in the digital content area, including the smartphone application market, digital music and internet protocol television (IPTV), and acts of deliberately withholding information from consumers by providers of postnatal care services and overseas study programmes. Based on injuries-related information collected through organizations such as the Consumer Counselling Centre, fire stations, and hospitals, the Korea Consumer Agency proceeded with actions (such as recommendations of correction, notifications to the authorities concerned, improvement of systems for the enterprises involved) to resolve a total of 373 injuries.[244] As of 2014, the comprehensive online consumer information network, "Smart Consumer", brought together an increased volume of scattered consumer information from 102 websites of 68 institutions in a single space, compared to 40 websites of 22 organizations in 2012. The Consumer-Centred Management (CCM) certification system, which is run by the Korea Consumer Agency, continued to evaluate whether or not an enterprise is conducting all its activities from a consumer's perspective and is consistently improving its management in a consumer-centred way; as of end-2014 there were 130 CCM certified companies, compared to 108 in 2011. Between 2011 and 2014, 4,832 consumer-related complaint cases were dealt with by the KFTC; they related mostly to unfair labelling and advertising, adhesion contracts, and e-commerce issues. In 2014, 1,090 corrective measures mostly related to e-commerce (536), unfair adhesion contracts (265), and fair labelling and advertising (231) were taken; most action was in the form of voluntary correction (821) rather than fines (80), corrective orders (77), warnings (71) or surcharges (5).[245]

3.4.6 Intellectual property rights

3.194. Korea's policy stance remains that consistent protection of intellectual property rights (IPRs) is an important infrastructure for enhancing national and corporate competitiveness in its economy. According to the authorities, Korea's "creative economy", which has formed part of the Government's national agenda for stimulating economic growth since 2013, is closely connected with intellectual property rights.[246] During the review period, legislative amendments in this area, *inter alia*, affected the Patent Act, the Utility Model Act, the Trademark Act, the Design Protection Act, and the Unfair Competition Prevention and Trade Secret Protection Act, and were designed to enhance convenience for applicants and improve the IPR system (Section 3.4.6.1). At the time of the previous Trade Policy Review, a Framework Act on Intellectual Property (IPFA), in force from 20 July 2011, became the basis for setting laws, systems, and policies governing the creation, protection, and use of IPRs including patents, trademarks and copyrights. Under IPFA provisions, a Presidential Council on Intellectual Property (PCIP) was established, on 28 July 2011, to review

[241] Korea Fair Trade Commission (2016).

[242] Parallel imports must meet the following requirements: (i) they must be genuine; (ii) they must be of the same quality as goods sold in Korea; and (iii) the party that placed the trademark on the parallel imports must be the Korean trademark holder or closely related. WTO document WT/TPR/S/268/Rev.1, 8 November 2012; Yonhap News Agency, "Customs clearance to be simplified for products purchased through foreign websites", 9 April 2014. Viewed at: http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20140409000700320.

[243] Korea Fair Trade Commission (2016).

[244] The Consumer Counselling Centre with its network of 1,372 agencies run jointly by the public sector and private consumer groups continues to enable quick responses to consumer complaints; the telephone counselling system allows for efficient counselling services by networking 10 consumer agencies, the Korea Consumer Agency, and 17 metropolitan governments' counsellors. Korea Fair Trade Commission (2016).

[245] Korea Fair Trade Commission (2015).

[246] Korean Intellectual Property Office (2015).

and adjust the Government's key IP policies, as well as to evaluate and monitor the progress of IP. The PCIP formulated, and has been implementing, the First Strategic Plan for National Intellectual Property (2012-16). An Action Plan is formulated every year for implementing its policy objectives; in this regard, the PCIP launched the implementation of a system to advance IP creation, protection and utilization, all of which continue to be a national concern.

3.195. As of April 2016, Korea participated in 19 out of 25 treaties administered by the World Intellectual Property Organization (WIPO) and is a party to the International Convention for the Protection of New Varieties of Plants (UPOV) Convention. During the review period, it expanded its commitments by becoming a party to the Hague Agreement Concerning the International Registration of Industrial Designs, in force as of 1 July 2014, the Marrakesh VIP Treaty, which Korea ratified on 8 October 2015, and the Singapore Treaty on the Law of Trademarks on 1 April 2016, effective as of 1 July 2016.[247] Korea is a signatory to the October 2011 Anti-Counterfeiting Trade Agreement (ACTA) establishing international standards on intellectual property rights enforcement, which has not entered in force so far.[248] The TRIPS Council reviewed Korea's IPR legislation in 2000.

3.4.6.1 Industrial property

3.196. The Korean Intellectual Property Office (KIPO) handles industrial property protection. It examines and registers patents, utility models, industrial designs, trademarks (including service marks) and layout designs of integrated circuits, and develops policies to protect trade secrets. It resolves IPR disputes through "trial decisions" (administrative judgements) of the Intellectual Property Trial and Appeal Board (IPTAB). Trial decisions on patents, utility models, trademarks and industrial designs can be appealed to the Patent Court and subsequently to the Supreme Court. The Patent Court is a court of special jurisdiction that hears appeals from trial decisions of the IPTAB and IPR infringement litigation appeals (Section 3.4.6.3). Korea restricts parallel imports except where specific legal criteria are met (Section 3.4.5.3).[249] Despite the lack of official data on parallel imports, according to a major trading partner, for some brands, at the time of the previous Trade Policy Review, parallel import sales volumes were estimated at 50% to 80% of authorized sales.

3.197. Penal provisions for right infringements of patents, utility models, trademarks and industrial designs remain: imprisonment of up to seven years or a fine of up to ₩100 million; or imprisonment of up to three years or a fine of ₩20 million for falsely indicating such a right or fraudulently obtaining one. Civil remedies include injunctions against further infringement and damages. Provisional measures for preventing infringements are provided in each industrial property act and the Civil Execution Act. Specific criteria exist for increasing or decreasing fines.

3.198. After steady improvements over several years, IPR administration continued to raise its already high efficiency level.[250] The rate of electronic applications ("e-application") made to KIPO has remained among the highest in the world since 2005; in 2015, 96.3% (94.3% in 2009) of all applications were filed online. In 2015, KIPO's first action pendency period (i.e. the time it takes for a new application to receive an initial response) was an average of 10 (18.5 in 2010) months for patent and utility model examinations, and 4.7 (10.6 in 2010) and 4.4 (10 in 2010) months for trademark and design examinations, respectively. In 2015, 101,873 patents; 3,253 utility models; 54,551 industrial designs; and 114,747 trademarks were registered, representing a total increase of 71.5% compared to 2010. According to KIPO, 475,802 IPR applications including patents, utility models, designs, and trademarks were filed in 2015, 28.6% higher than in 2010; 213,694 were patent applications (an 25.6% increase from 2010), 46,421 (21.7%) of which were from non-residents.

[247] The VIP Treaty is to enter into force three months after 20 eligible parties have deposited their instruments of ratification or accession. Korea was the 11th party to ratify this VIP Treaty, and, as of 15 May 2016, a total of 18 parties had ratified or acceded to the Treaty. WIPO online information. Viewed at: http://www.wipo.int/treaties/en/ShowResults.jsp?country_id=95C.

[248] Other ACTA signatories are Australia, Canada, the EU (22 members only), Japan, Mexico, Morocco, New Zealand, Singapore, and the United States. The ACTA can enter into force only upon ratification by six countries; so far only one signatory has done so.

[249] Korea considers that parallel imports promote competition and lower prices. Therefore, it prohibits conduct that unreasonably restricts parallel imports, and treats them as unfair trade practices. Parallel imports infringing trademark rights are banned. WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[250] EIU (2015).

Patent and utility models

3.199. Patent protection under the Patent Act of 1946 (last amended in 2015) is for 20 years from the date of filing (extendable for up to five years for pharmaceuticals and agricultural chemicals undergoing certain market-approval procedures). Both product and process patents may be granted. The grace period for filing is twelve months, and the term of the patent right may be extended when its registration is delayed by more than four years after the filing date, or three years after request for examination when the reason is not attributable to the applicant. Green technology benefiting from government-supported R&D is allowed speedy screening/examination. The document format for patent applications is identical to the United States, Japanese, and the EU model. The KIPO may grant a compulsory non-exclusive licence to work a patent if the holder has not worked it for more than three consecutive years.[251] To date, one compulsory licence has been issued. Under the present legislation (including the Patent Act and the Unfair Competition Prevention and Trade Secrets Protection Act), penalties for patent violations can reach ₩100 million in fines or seven years in prison.

3.200. The 2013 amendments to the Patent Act were, *inter alia*, aimed at: providing greater opportunity for renewing extinguished patent applications or rights; making applications more expedient; expanding the availability of refunds for patent fees (effective as of 1 July 2013); and, submitting applications with specifications in foreign languages through the introduction of foreign language patent applications (as from January 2015).[252] Moreover, as a result of 2014 amendments, as from July 2015, the time period for invoking the grace period, which previously ended at the time of application, has been extended all the way to patent registration, and divisional applications were made possible even after the examiner decides to grant the patent.[253]

3.201. The Utility Model Act (1961, last amended in 2014) protects the shape, structure, or combination of articles/products for ten years from the date of filing the application. The same procedures for establishing patent rights apply to utility models. It is mandatory for utility model applications to disclose information on prior art related to the invention. Submission of claims in foreign languages is allowed. Commercial acts of manufacturing, assigning, leasing or importing a product embodying the utility model are deemed to infringe the exclusive right of the holder or licensee of a registered utility model, and are therefore prohibited.

3.202. The 2013 amendments to both the Patent Act and Utility Model Act allowed for an application date to be acknowledged even if a claim has not yet been submitted, thus providing applicants with means for more quickly acquiring an application date.[254] To ensure accurate examinations on newly introduced foreign language applications, in 2014, the patent and utility model examination guidelines were revised to include, as from January 2015, procedures for correcting mistranslations, translation errors, etc.[255]

Trademarks

3.203. The Trademark Act (1949, last revised in 2013) protects trademarks on goods and services for ten years upon registration, renewable indefinitely for ten-year periods. Following the entry into force of the KORUS FTA, an April 2012 amendment to the Trademark Act allows the trademarking of sounds and scents if they are capable of visual representation.[256] It is also possible to apply for and obtain certification marks that verify the origin, quality or method of production. Trademark registrations may be rejected for a lack of intent to use. In 2013, the Trademark Act was further amended in a holistic manner for the first time in more than 23 years to address prior use of trademarks to, *inter alia*, protect owners of small businesses who had previously been forced to amend their trading names if challenged by new owners of trademarks. Consequently, the 2013 amendments (effective as of 11 June 2014) included measures to stop the

[251] Except for semi-conductor technology, for which this is only possible after four years, and when consultations with the patent holder or exclusive licensee were not possible or did not enable an agreement.

[252] Korean Intellectual Property Office (2014).

[253] Korean Intellectual Property Office (2015).

[254] Korean Intellectual Property Office (2014).

[255] Korean Intellectual Property Office (2015).

[256] EIU, "Protection of intellectual property", 8 September 2015. Viewed at: http://country.eiu.com/article.aspx?articleid=1893487173&Country=South Korea&topic=Regulation&subtopic=Intellectual+property+and+e-commerce&subsubtopic=Protection+of+intellectual+property&oid=1873487171&aid=1.

unjust registration and exercise of trademark rights (such as preventing the acquisition of rights in violation of the principle of good faith), solve the problem of the prior application principle, and crack down on trademark brokers. Under the 2013 amendments, effective as of 6 October 2013, a party that, without bad-faith intent, uses a trademark in its name or any personal identifiers, in accordance with customary practices, will be able to continue doing so as long as such usage started before the application date of a trademark claim. It is now possible for examiners to correct minor errors made by applicants and extend the period of redress from 14 days to 2 months in cases where certain procedures were missed due to unavoidable circumstances.[257] In 2013, the examination standards were revised to allow examiners to investigate, amend, or reject trademarks that are highly likely to disturb market order by mimicking famous trademarks, or that are filed to acquire rights to valuable pre-existing trademarks.[258] The trademark examination standards amendments allowed the rearrangement of the previous legal provisions by classifying them according to "part, chapter, and number" and the updating of other examples and cases, thus ensuring that trademark examination standards are easy to understand and that examinations are conducted in accordance with the fundamental purpose of the trademark system.[259] A new chapter for non-visual trademarks (e.g. sounds and scent marks) was added in the examination standards. As of 2015, KIPO had designated 45,000 (15,000 in 2014) names of goods and services as a reference for applicants in order to increase their convenience and reflect industrial development.

3.204. The Unfair Competition Prevention and Trade Secrets Protection Act prohibits unfairly tarnishing a well-known mark or causing confusion by use of a similar or identical mark, including distributing, importing or exporting such goods. Civil remedies include injunctions to stop improper use, compensation for damages, and restoration of reputation. Penal provisions are up to three years' imprisonment or a fine of up to ₩30 million.

Geographical indications

3.205. The Trademark Act denies application for registration of Geographical Indications (GIs) that are the same or similar to GIs protected under multilateral or bilateral agreements; material used in infringement of GIs and trademarks is confiscated in addition to the equipment and infringing products. Under the Unfair Competition Prevention and Trade Secrets Protection Act, unauthorized use of geographical indications is penalized. Foreign GIs can be registered according to the same procedures and criteria as for domestic goods and are protected under various laws, including the Trademarks Act, and the Unfair Competition Prevention and Trade Secrets Protection Act; they receive the same protection as domestic registered GIs. The Trademark Act bans registration of labels that violate GIs; it also prevents deceptive labelling and advertising, including any vague or false labelling or advertising that may mislead consumers as to the product's origin. The trademark legislation prevents registration of trademarks consisting of a "conspicuous geographical name"; it allows them to be registered as geographical collective marks. The owner of a GI collective mark has the right to use it exclusively and prevent others from using identical or similar signs for identical goods, where it might result in confusion. Imports or exports with false origin indications or infringing GIs are prohibited (Foreign Trade Act).

3.206. The Agricultural and Fishery Product Quality Management Act (2011) specifies GIs for agricultural and fish products. These must be registered with the Geographical Indication Registration Council of the National Agricultural Products Quality Management Service, the Korea Forest Service, or the National Fishery Products Quality Management Service. Using a false mark of a registered GI on agricultural or fishery products is punishable by imprisonment of up to three years or a maximum fine of ₩30 million.

3.207. A trademark containing geographical indications for wines or spirits originating in any WTO Member may not be registered (Trademark Act, Article 7(1)(xiv)). The use of GIs to identify wines or spirits that do not originate in the place indicated is prohibited, even if the true origin is given or the GI uses expressions such as "kind", "type", "style", or "imitation".

[257] Korean Intellectual Property Office (2014).
[258] Korean Intellectual Property Office (2014).
[259] Korean Intellectual Property Office (2015).

Plant variety protection

3.208. Protection for plant varieties is administered by MAFRA. In line with its "2020 Seed Industry Promotion Plan", the Seed Industry Law (1997) was separated into the Seed Industry Law (2013) and the New Varieties of Plants Protection Act (2013) in June 2013; the main changes included the expansion of plant variety under the Act and the increase in the penalty level for the infringers of a plant variety right. Breeders' rights are protected for 20 years from the registration date (25 years for fruit and forest trees).

Industrial designs and layout designs of integrated circuits (topographies)

3.209. Protection under the Design Law (1961, last amended in 2016) is for 20 years (non-renewable) from the filing date and extends to partial designs and typeface. The Act prohibits copying the shape of goods produced by another person. In 2013, the scope of protection was expanded to cover computer generated images as screen savers, websites, icons, and graphic user interfaces that are applied to digital devices such as smart phones, televisions, and computers.[260] Consequently, it has become possible to acquire a wide range of design rights by simply submitting a single application indicating the name of the newly designed product – such as "display panel" or "LCD panel" – without the need for plural designations.

3.210. The registered owner has the exclusive right to work a registered design, commercially and industrially. The design registration system is based on substantive examination; examinations are accelerated for some articles with short life cycles, such as textiles and clothing subject to partial examination which does not examine the novelty requirement. The 2014 complete revision to the Design Protection Act was meant to align it more closely with international standards; it broadened the protection of creative designs by recognizing the need to register component designs and system designs.[261] Under this complete revision, the design creativity requirements have been increased in order to allow examiners to reject applications for designs that mimic well-known forms or shapes.[262] To maximize convenience for applicants, the new rules enable them to apply for as many as 100 designs in a multiple design application, and the grounds for granting re-examination requests were expanded. Applicants may now submit documentation for claims for exception to lack of novelty at the same time as an application for design registration is filed, or a letter of opinion on the notice of the ground for refusal is submitted, or a written answer to a petition for objection to partially-examined design registration is submitted. A time limit (one year from the filing date of the principal design) that applicants must comply with when registering related designs was introduced. Furthermore, special cases and procedures for implementing the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs in Korea were introduced, and the Locarno Agreement Establishing an International Classification for Industrial Designs (the Locarno Classification) was put in place effective as of 1 July 2014. In accordance with the Locarno Classification, the products subject to partial examination (non-substantive examination system (NSES)) are allocated to class 2 for items (clothes and fashion accessories), class 5 (fibre products and sheet fabrics (artificial or natural)), and class 19 (stationery, office goods, artists' and teaching materials); the number of NSES products was reduced from 18 categories (more than 6,200 items (2011)) to 3 categories (about 2,500 items (2015)).

3.211. Layout designs of semi-conductor integrated circuits (topographies) are protected (under the Semiconductor Integrated Circuits Layout Design Act, 1992). The registered owner has the exclusive right of commercial use of layout design. Protection is for 10 years from the registration date (not exceeding 10 years from initial commercial use or 15 years from creation date). Civil remedies include "cease and desist" orders, destruction of offending circuits, damages, and royalties. Penal provisions also apply: up to three years imprisonment and/or a fine of up to

[260] Korean Intellectual Property Office (2014).

[261] However, an application to register such a design is not convertible to an application to cover the entire product, or vice versa. If a set of articles fulfils the requirements for registration as a whole, it will be allowed registration as a set or system design even though individual articles constituting the set are not registered. EIU, "Protection of intellectual property", 8 September 2015. Viewed at: http://country.eiu.com/article.aspx?articleid=1893487173&Country=South Korea&topic=Regulation&subtopic=Intellectual+property+and+e-commerce&subsubtopic=Protection+of+intellectual+property&oid=1873487171&aid=1.

[262] Korean Intellectual Property Office (2015).

₩50 million, for right infringements; and up to one year, or ₩3 million, for falsely marking a circuit as registered or obtaining registration fraudulently.

Trade secrets

3.212. Protection under the Unfair Competition Prevention and Trade Secrets Protection Act (1961) (last amended in 2016) covers information acquired by an "act of improper acquisition" (e.g. theft, deception or coercion), or subsequently used or disclosed secret information; trade secrets are defined as technical or business information useful to business activities. The 2016 amendment alleviated the maintenance requirement for trade secrets from considerable efforts to reasonable efforts. Injunctions may be obtained against disclosure, and damages awarded for infringement. The infringement of trade secrets is a criminal offence, with punitive measures of prison terms and/or fines. Fines are up to ₩50 million for domestic infringement and ₩100 million for international infringement. But if the illegally obtained monetary profit exceeds by 10 times the maximum amount of the fine, the fine can be equivalent to 2-10 times the profit.

3.213. The July 2013 amendments to the Unfair Competition Prevention and Trade Secret Protection Act were aimed at better responding to diverse new types of unfair competition and, *inter alia*, involved: a broader legal basis for punishing acts involving unauthorized use of another person's creative achievements; a legal basis for the Trade Secret Certification Service; regulations for a system compensating the reporting of counterfeit goods; and, the expansion of the legal definition of trade secret possessors from "enterprises" to "individuals".[263] To alleviate the difficulty of authenticating trade secret ownership during infringement litigation as from June 2012, the Trade Secret Protection Centre (http://www.tradesecret.or.kr) has provided useful information for protecting corporate trade secrets; a total of 93,256 cases had been received by the end of December 2015.[264] In addition, a standard management system to provide low-cost management with minimal staff requirements for companies struggling to effectively manage their trade secrets was developed.

3.214. Confidential data submitted to authorities for marketing approval of pharmaceuticals and agricultural chemicals are prohibited from public disclosure unless the authorities see a public interest need (i.e. health, safety, or environmental protection), particularly with respect to pesticides and their ingredients (Agrochemicals Control Act and the Pharmaceuticals Affairs Act). Penalties are up to three years' imprisonment or fines of up to ₩30 million for pharmaceuticals and ₩15 million for agri-chemicals. Unfair commercial use of such data is also prohibited.

3.215. Officials involved in registering layout designs for semi-conductor integrated circuits must maintain confidentiality (Semiconductor Integrated Circuits Layout Design Act). Imprisonment of up to five years or fines of up to ₩50 million apply to those infringing the legislation.

3.4.6.2 Copyright and related rights

3.216. According to the authorities, in order to create a healthy copyright ecosystem in which the establishment of a virtuous cycle of creation-distribution-use will help to realize the Creative Economy, while allowing for comfortable creation, convenient distribution, and free use, the Government set its policy goal as the "creation of a copyright ecosystem promoting balance and coexistence." The Government decided to pursue three main projects: strengthening the copyright protection system; supporting the active use of copyrighted works; and, forming the basis for further development of the copyright industry.[265] In response to changes in the global copyright policy environment, as of 2013, Korea's policy vision of "building a Korea with creative culture through advancement of copyright" was focused on: improving the foundation for use of copyrighted works and their distribution environment; advancing the copyright protection system; cultivating capacity for voluntary respect for copyright; and, enhancing positive perceptions on

[263] KIPO online information. Viewed at: http://kipo.go.kr/kpo/user.tdf?a=user.english.html.HtmlApp&c=91022&catmenu=ek02_06_01.

[264] This service operates by taking the hash values from trade secret e-documents and combining them with authorized time values from trusted third parties, thereby creating time stamps. Time stamps are then registered with the Korea Institute of Patent Information (KIPI) to prove the existence of original copies of trade secrets, and well as their initial dates of possession. KIPO online information. Viewed at: http://kipo.go.kr/kpo/user.tdf?a=user.english.html.HtmlApp&c=91022&catmenu=ek02_06_01.

[265] Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2015).

copyright.[266] In 2013, action was taken to respect the rights of creators and to promote the growth and development of diverse culture industries. Strong copyright protection, including crackdown on illegal reproductions, was enforced (Section 3.4.6.3) while striving to create an optimal environment for fair distribution and utilization of copyrighted works. In 2014, a variety of policies under the theme of "cultural prosperity" to protect the rights of the creator while facilitating the use of the created works were pursued including: the introduction of an open licence system for public copyrighted works; the development of copyright protection technology for the smart device environment; the strengthening of monitoring of illegal websites; and, the improvement of copyright awareness through education and promotion. A 2011 White Paper on Copyright was expected to lay the foundation for building a healthy copyright "ecosystem" bringing Korea a step closer to a country with an advanced and mature copyright system. The Ministry of Culture, Sports and Tourism (MCST) and its Korea Copyright Commission and the government-financed Copyright Protection Centre, an operational body under the Korea Federation of Copyright Organizations, remain in charge of policy formulation and implementation in this area.[267]

3.217. According to the authorities, during the review period, copyright protection was raised to advanced countries' level. Although copyrights need not be registered to obtain protection during the author's life plus 70 years (as from 1 July 2013, previously 50 years), registration offers advantages.[268] The term of protection for the rights of performers and phonogram producers, who have neighbouring rights, was also extended to 70 years after the date of performance or publication, effective as of 1 August 2013. A registered author is the presumed genuine author, and the work is presumed to have been first published on the date reported on the registration. Compulsory/statutory licences (e.g. where the right holder cannot be identified or traced) relating to uses of performances, phonograms, broadcasts and databases may be granted under strict procedural conditions; 22 licences on literary, cinematographic and musical works were granted from 2012 to 2015 compared to 24 from 2008 to 2011. Copyright also applies to "interactive transmissions" for authors. Databases, including compilation of data in machine-readable form, may be protected.

3.218. The Copyright Act was last amended in 2016. Its 2013 amendment, related to permission for reproduction for persons with hearing impairments, and permission to freely use copyrighted public works produced and announced by the State or local governments without obtaining additional approvals, became effective on 1 July 2014.[269] Furthermore, the controversial rate system which charged copyright fees "per subscriber" (the so-called "unlimited flat rate system") was changed to a system that charges fees "per use" (the so-called "usage-based rate system") that entered into force on 1 May 2013. The 2016 amendment to the Act, effective as of 23 September 2016, covers, *inter alia*, the establishment of a Copyright Protection Agency under the MCST, the consolidated collection of royalties or remuneration derived from music performances using phonograms, and the clarification of the definition of a "phonogram" to include a so-called digital phonogram.

3.219. RTA/FTA-driven amendments to the Copyright Act continued to bring improvements to copyright protection. Intellectual property rights provisions are included as a separate part in virtually all RTA/FTAs (except for the Korea–ASEAN FTA) signed between Korea and other countries.[270] Among them, the KORUS, the Korea–EU FTA, the Korea–Australia FTA, the Korea-Colombia FTA, the Korea–China FTA, and the Korea–Viet Nam FTA stipulate a number of TRIPS-Plus provisions that go beyond TRIPS negotiation criteria.

3.220. Copyright cases are handled by ordinary courts. Civil remedies against copyright infringements (including computer programs) include injunctions, destruction of counterfeit products, and damages. Penal provisions of up to five years' imprisonment or a fine of up to ₩50 million also apply for copyright infringements. With heightened public awareness of copyright in recent years, the number of disputes has also been on the rise. In order to resolve such

[266] Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014).

[267] The Copyright Protection Centre is entrusted with: cracking down on illegal reproductions online and offline; the establishment of an IT-based enforcement system; and the implementation of the "Clean Project" aimed at protecting copyright and conducting research and public awareness activities. Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014).

[268] Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014).

[269] Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014).

[270] Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014).

disputes in a fair manner, the MCST runs a wide range of dispute resolution systems.[271] In 2013, a court-connected mediation system was launched to induce parties in a dispute to reach consensus before the case is brought to the court. In 2013, the Seoul Central District Court was the only court applying this court-connected mediation system and, as of September 2014, the Seoul Southern District Court joined the system. Between 2013 and 2015, a total of 446 cases were dealt with and the settlement rates were 40.4% in 2013, 44.9% in 2014 and 28.9% in 2015.

3.4.6.3 Enforcement

3.221. Korea generally provides strong IPR protection and enforcement.[272] Between 2007 and 2013, despite a rise in value terms, its unlicensed software installation rates were estimated to have dropped from 43% (US$549 million) to 38% (US$712 million).[273] As of 2014, the piracy rates for music, films, TV programmes, entertainment software (games) and books were 31.1%, 24.1%, 10%, 13.9%, and 6.8%, respectively. At the time of the previous Review, Korea's counterfeit market was consisted mainly of auto parts, medicines, luxury goods, and fake banknotes; it was estimated to be worth US$14.2 billion, including auto parts and domestically produced "super fakes". No recent appraisal of the counterfeit market was available from the authorities.

3.222. Most IPR prosecutions, with the exception of trademarks, require a complaint from the right holder. KIPO can initiate investigations of unfair competition, such as the manufacture, sale, import or export of counterfeit goods (Unfair Competition Prevention and Trade Secrets Protection Act). KIPO reinforced investigations into counterfeit goods that greatly impact people's lives, such as large-scale illegal manufacturing and the distribution of counterfeits related to health and safety, thereby eradicating their distribution channels. Since 2006, KIPO has implemented a reward system to encourage the reporting of counterfeit goods and their distribution.[274] By 2015, there had been 1,294 reported cases with a total of ₩1.9 billion awarded; the seized counterfeit goods were valued at ₩3.15 trillion when matched to the retail prices of the genuine articles. Between 2011 and 2015, the number of arrests increased 2.7-fold and the number of confiscated goods rose 42 fold. Between 2011 and 2015, the Special Judicial Police Force for Trademark Rights arrested 1,625 individuals producing and/or selling counterfeit goods (including clothes, shoes, health foods, and medicines), and a total of 3,294,412 counterfeit items were seized. Through its Online Counterfeit Products Monitoring System action was taken to suspend sales by illegal selling sites, or close down the sites entirely, and online sellers of counterfeit goods were arrested.

3.223. Customs is authorized to investigate, *ex officio,* IPR infringements concerning imports and exports. It can initiate investigations, including of criminal activity, and will suspend release of counterfeit goods that infringe patent, trademark, design, plant variety protection, or copyright rights (Customs Act, Foreign Trade Act, and Customs Clearance Regulation of Counterfeit Goods); the border protection of patent and design rights was initiated as of 1 July 2013. When goods suspected of infringing IPRs are detected in the course of the import/export process, the KCS electronically informs the IPR holders who in return can register their assessment of the case at a customs office online; between 2012 and 2015, there were 6,330 cases of IPR infringement appraised through this system. Right holders may request Customs to suspend the release of suspected counterfeit goods, on payment of collateral of 120% of the dutiable value of the goods. Suspension is for ten days, during which time the applicant must initiate legal action. The KCS withholds clearance of goods suspected of violating intellectual property rights; clearance suspensions fell from cases worth US$729,000 in 2011 to cases worth US$571,000 in 2015. In cooperation with Japanese and Chinese customs authorities, the KCS has implemented the Fake

[271] Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014).

[272] In 2015, Korea ranked 8th in Asia and the Pacific (out of 20 countries) and 38th in the world (out of 129 countries) on the International Property Rights Index which, since 2007, has served as a barometer for the status of property rights across the world and consists of three core components: the legal and political environment; the physical property rights; and, the intellectual property rights. Online information. Viewed at: http://internationalpropertyrightsindex.org/country?s=Korea and http://internationalpropertyrightsindex.org/about. Korea was removed for the first time from the USTR's Special 301 Watch List in 2009 and never inserted again. WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[273] In 2013, Korea was estimated to rank 19th (after Thailand and Australia) out of the top 20 economies in terms of commercial value of unlicensed PC software. Business Software Alliance (2014).

[274] KIPO online information. Viewed at: http://kipo.go.kr/kpo/user.tdf?a=user.english.html.HtmlApp&c=91022&catmenu=ek02_06_01.

Zero Project for exchanging information on counterfeit activities from 2007 to 2011 and its operation is to resume in 2016.

3.224. In 2014 and 2015, KCS border seizures related to counterfeit items and items that violated international intellectual property rights were estimated at ₩516.2 billion and ₩462.4 billion, respectively.[275] At the time of the previous Trade Policy Review, most seizures related to trademark infringement and fake goods included bags, home appliances, Viagra medicine, and watches, as well as labels and moulds bearing forged world-renowned trademarks; the vast majority of these seizures originated in China where Korean producers of counterfeit items had reportedly relocated.[276] No similar information for the current review period was available from the authorities.

3.225. Following the recently concluded RTA/FTAs with major trading partners, such as China and Viet Nam, a comprehensive policy to protect Korean brands (K-brands) in regions where the distribution of counterfeit Korean products is continuously increasing was established in 2014.[277] Its main objectives are as follows: building a system for responding to foreign brokers of Korean trademarks; launching a support centre for crackdowns on imported counterfeit goods jointly engaging industries in recognizing and cracking down on counterfeits; and, enhancing international border measures with foreign customs offices. In early 2016, Korea was to join forces with major trading partners (United States, the EU, Japan) to crack down on the proliferation of counterfeit Korean products by sharing information on counterfeits of K-brand names in global circulation, and if necessary taking joint action to keep those fake products from crossing borders.[278] In an effort to enhance the creation and protection of IPRs owned by Korean industries and put them to use in foreign markets, as of 2015, KIPO operated IP Desks in 11 cities: Beijing, Shanghai, Qingdao, Shenyang, and Guangzhou (China); Bangkok (Thailand); Ho Chi Minh City (Viet Nam); Los Angeles and New York (United States); Frankfurt (Germany); and, Tokyo (Japan). During the review period, Korea (e.g. KIPO) continued to benefit from and actively participate in several international cooperation projects with WIPO, APEC, and leading IPR protection partners (e.g. the EU, Japan, and the United States).[279]

3.226. The MCST may collect, delete or destroy illegally acquired computer programs, and instruct internet service providers to reject, suspend or limit pirated products and services. In an effort to create a "copyright ecosystem of balance and shared prosperity" through the establishment of an airtight copyright protection network, in 2013, the Government expanded investigation into violators of the Copyright Act, while reinforcing online monitoring in vulnerable hours such as night hours and public holidays by expanding the number of online monitoring staff.[280] Action was taken in the form of: expanded operation of the Digital Copyright Evidence Collection & Analysis Investigation Support System[281]; administrative measures against copyright infringement[282]; creation of an environment for fair use of software copyright involving inspection activities against illegal reproduction of software among government and public agencies and SMEs[283]; special investigation into new types of copyright infringements using a torrent program, an online P2P

[275] Yonhap News Agency, "Illegal trade cases top 9 tln won in 2014: report", 17 September 2015. Viewed at: http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20150917001300320.

[276] WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

[277] Korean Intellectual Property Office (2015).

[278] Knockoff Korean goods confiscated by Hong Kong, China customs increased from US$110,000 in 2014 to US$1.44 million in 2015; in 2015, ₩500 million worth of Korean cosmetic counterfeits failed to pass customs inspections in Thailand. Yonhap News Agency, "S. Korea to join forces with big trading partners to crackdown on counterfeits", 24 February 2016. Viewed at: http://english.yonhapnews.co.kr/search1/2603000000.html?cid=AEN20160224009700320.

[279] For more information on the latest international cooperation activities, see Korean Intellectual Property Office (2015); and, Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014).

[280] Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014).

[281] The numbers of digital copyright forensic investigation support cases have steadily increased from 94 cases in 2010 to 291 cases in 2011, 323 cases in 2012 and 372 cases in 2013.

[282] The MCST issued 85,085 recommendations in 2010, followed by 107,724, 250,039, and 170,867 in 2011, 2012, and 2013, respectively.

[283] The rates of illegal software production show steady downwards trends with 0.51% in 2011, 0.24% in 2012, and 0.12% in 2013.

(peer-to-peer) file transmission protocol, and torrent sites, along with webhards (see footnote); and, enhanced response to online/offline copyright infringements.[284]

3.227. In 2013, the Standing Inspection Teams (SITs) under the MCST were incorporated into a Copyright Special Judicial Police (CSJP) that investigates counterfeit computer software, sound recordings, and video movies, including through online activities. Its human resources increased and are assigned to regional offices in major cities (Seoul, Busan, Daejeon, Gwangju and Daegu).[285] Intensive crackdowns on key distribution bases of illegal reproductions, such as the Yongsan Electronics Market, and crackdowns on illegally copied publications (see below) in campus areas ahead of new semesters, were conducted. In addition, the CSJP visited 2,401 SMEs to promote the use of authentic software and prevent illegal software reproduction activities. The same year it performed searches and seizures of 11 server locations for 10 major torrent sites (peer-to-peer file sharing used to distribute data over the Internet) and 15 hosting and domain registration companies. As a result, 12 torrent site operators and 41 persons who uploaded more than 1,000 seed files were prosecuted. Overall, the number of cases of copyright infringers sent to the prosecution by the CSJP significantly rose from 11 persons in 2008 to 312 persons in 2009, 539 persons in 2010, 1,115 persons in 2011, 1,803 persons in 2012, 1,192 persons in 2013, 2,136 persons in 2014, and 1,091 persons in 2015.

3.228. Under the Publishing Industry Promotion Act, the MCST has administrative authority to inspect business establishments, and to seize and order disposal of illegally copied publications. Relatively small fines, of up to ₩3 million, may be levied for refusal to obey such orders. Copyright enforcement activities for illegally copied publications are carried out mainly by the MCST's Copyright Protection Centre (Section 3.4.6.2). Cases of seizure of illegally copied publications online increased from 22,466 in 2011 to 39,033 in 2015, while those of publications offline rose from 489 in 2011 to 510 in 2015.

3.229. During the review period, both KIPO and the MCST, in collaboration with the Korea Customs Service, local governments and non-governmental organizations (NGOs), have concentrated on education and public awareness programmes on the importance of copyright, urged consumers to buy genuine goods, and implemented a wide range of policy measures to alert consumers to the safety issues surrounding counterfeits and trade secret leakage, as well as to nurture a culture that is respectful of IPRs.[286] The public awareness initiatives have been implemented in the form of a range of campaigns, *inter alia*, via various media channels (e.g. televised advertisements, social media), portal websites, and participatory contests. A campaign named "Counterfeits OUT, Originals IN" was launched in 2014. In 2016, the MCST introduced a specialized mark called "Ban-d-C" to be used for public awareness on copyright protection; the mark is to be exploited by various media.

3.230. To improve criminal prosecutions, an IP Right Violation Crimes Investigation Headquarters is in place in the Supreme Public Prosecutor's Office, as well as nationwide crackdown committees. Between 2011 and 2014, trial requests concerning industrial property issues dropped gradually and totalled 60,421 cases; most cases continued to involve patents (58.2%) and trademarks (35.2%) and were mostly requested by Korean holders (55.1%).[287] Between 2011 and 2015, there were 5,283 cases (mostly patent-related) filed at the Patent Court, an appellate-level court, of which 515 were pending (2015).[288] At the time of the previous Trade Policy Review, it seemed that sentences for IP infringements remained lower than international norms, and in particular compared with other countries in Asia and Europe.

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[284] In 2013, online infringement cases were mostly related to cinematographic works (86.4% of cases) and comics (67.6% of articles), whereas offline cases largely involved musical works (41.3% of cases and 98.5% of articles). A "webhard" is a cyber-locker or a cloud-like service where only the users with specific IDs and passwords can upload or download contents. Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014).

[285] Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014).

[286] Ministry of Culture, Sports and Tourism/Korea Copyright Commission (2014); Korean Intellectual Property Office (2015); and, KIPO online information. Viewed at: http://kipo.go.kr/kpo/user.tdf?a=user.english.html.HtmlApp&c=91022&catmenu=ek02_06_01.

[287] KIPO online statistics. Viewed at: http://www.kipo.go.kr/kpo/user.tdf;jsessionid=9863ca6b30d58217d03a1a7f4297a1f88b94ce46e1df.e34RahyTbxmRb40LaxyPahaRaNmKe0?a=user.english.html.HtmlApp&c=97000&catmenu=ek07_03_01.

[288] Patent Court online statistics. Viewed at: http://patent.scourt.go.kr/patent_e/judicial/judicial_02/index.html.

4 TRADE POLICIES BY SECTOR

4.1 Introduction

4.1. In 2015, the Republic of Korea replaced its import quota regime on rice with a tariff quota system, and abolished its rice export quota regime. Other agricultural policies have remained largely unchanged since the previous Review in 2012. Korea is a land-scarce country with a high population density, and is a net food importer. In 2015, agriculture (including forestry and fisheries) contributed to 2.3% of GDP and accounted for 5.2% of total employment. Border protection continued to be the main instrument supporting domestic prices, with tariffs peaking at 887.4%. The average applied MFN tariff protection for agricultural goods reached 60% in 2016, up from 55% in 2012, and is more than nine times the average of non-agricultural goods (6.6%). Tariff quotas are administered by state trading arrangements and industrial associations. Domestic support continues to affect agricultural production and trade, and Korean consumers had to pay much higher prices than the world levels (1.9 times).

4.2. Korea remains a world leading fish producer and consumer. Fish production is not expected to increase due mainly to reductions in fish resources in adjacent waters and constraints in its bilateral and multilateral fishing accords. Border protection measures mainly take the form of tariffs and adjustment tariffs, while domestic support for fishing has been falling. The Government introduced more severe sanctions in 2014 and 2015 to fight against illegal, unreported and unregulated fishing.

4.3. The energy sector has not seen any significant reform since 2012. Korea is an energy-intensive country, with per capita energy consumption three times the world average. Industry remains the largest consumer of energy. Korea relies heavily on imported energy, and energy imports accounted for one third of the import bill. To reduce energy intensity, Korea's energy policy was targeted at energy efficiency, security, and being environmental friendly. To achieve these objectives, various measures including financial and technical support, as well as tax credits, are applied. State-owned companies continue to play a major role, and prices are often regulated (for natural gas and electricity). Agricultural consumers benefit from lower energy prices, reflecting cross-subsidies between consumers.

4.4. The share of manufacturing in GDP fell, while its share in employment increased slightly. The sector is heavily export-oriented, and remains a world leader in steel, automobiles, shipbuilding, and ICT, among others. Manufacturing activities are dominated by large conglomerates, while labour productivity of SMEs is less than one third of that of large firms. Several tax and non-tax incentives continue to be used to facilitate the development of SMEs, while border measures are confined to tariffs, adjustment duties, and autonomous tariff quotas. The simple average applied MFN tariff rate was 11.3% (ISIC 3) on imports of manufacturing products, and the rate was 6.3% on manufacturing excluding food processing products; both are much lower than the rates for agricultural products. Sector-specific supports include those to upgrade the steel industry, and the financing arrangement of the shipbuilding industry.

4.5. Whereas the growth rate of the manufacturing sector slowed during the review period, that of the services sector remained rather stable. The share of services to GDP also remained unchanged (59%). However, labour productivity of the services sector is only half that of the manufacturing sector, reflecting policies favouring the manufacturing sector. Foreign equity restrictions apply to several services sectors, notably facilities-based basic telecommunications, air transport and maritime services. Korea has not revised its GATS commitments, while commitments beyond GATS were undertaken in the context of some RTAs. The Government has been encouraging banks, which had a traditionally close relationship with large conglomerates and their subsidiaries, to shift lending to consumers and SMEs, and to invest overseas. The insurance sector, already large, continued to grow, particularly in retirement saving products reflecting demographic ageing expectations. None of the major players in both the fixed-line and mobile phone markets are state owned. Restrictions are applied on the access of large retailers (super supermarkets) to traditional markets.

4.2 Agriculture and livestock

4.2.1 Main features

4.6. The agriculture sector (including forestry and fisheries) registered positive growth in 2013 (3.1%) and 2014 (3.6%), respectively, before it declined in 2015 (-1.5%) (Table 1.2). Agriculture contributed to 2.3% of GDP in 2015 (down from 2.5% in 2011) and accounted for 5.2% of employment (down from 6.4% in 2011). Korea is a land-scarce country with a high population density. Farmland continued to decline, from 1.73 million hectares in 2012 to 1.68 million hectares in 2015. More than half of the farmland (about 54%) is in rice paddies.[1] Most farms are small family farms: by 1 December 2014, there were 1,121 thousand farm households (a drop of 1.9% from 2013), of which 65% farm on an agricultural area of under 1 hectare.[2]

4.7. Korea is a net agro-food importer, with the share of agro-food imports in total imports around 5%, while that of exports is less than 1%. Korea maintains a trade deficit in most agricultural products. The difference between the world market price and the price paid to farmers is particularly high for pig meat, milk, red pepper, and rice (Table 4.1).

Table 4.1 Output of some major agricultural products, 2011-15

(₩ billion)

	2011	2012	2013	2014	2015
Total value of production (at farm gate)	41,358	44,300	44,609	44,919	44,421
Of which: share of MPS (market price support) commodities (%)	58.8	57.6	61.3	63.0	67.1
Total value of consumption (at farm gate)	59,380	57,717	52,449	54,040	52,414
Consumer NPC (nominal protection coefficient)[a]					
Barley	1.18	1.12	1.22	1.43	1.39
Rice	2.09	2.38	2.49	2.29	1.93
Soybeans	1.80	1.64	1.79	1.46	1.40
Milk	1.77	2.14	1.98	2.08	2.56
Beef and veal	1.45	1.45	1.48	1.47	1.46
Pig meat	2.77	2.09	2.02	1.99	2.59
Poultry meat	1.97	1.67	1.53	1.36	1.37
Eggs	1.14	1.03	1.33	1.45	1.57
Chinese cabbage	1.27	1.27	1.27	1.27	1.27
Garlic	3.69	1.97	1.70	1.71	1.08
Red pepper	5.03	4.08	3.73	2.87	2.32

a Consumer NPC (nominal protection coefficient) is the ratio between the average price paid by consumers at farm gate, and the border price measured at farm gate.

Source: OECD Statistics. Viewed at: http://stats.oecd.org.

4.2.2 Policy developments

4.8. The OECD considers that Korea has gradually reduced its support to agriculture, especially in the last decade, but very modest progress has been made towards more market-oriented policies.[3] Its support levels remain much higher than the OECD average (Section 4.2.2.2). The authorities disagree, and pointed out that the market has been opened and imports have increased substantially in the agriculture sector under many RTAs.

4.9. The agriculture sector is regulated under the Framework Act on Agriculture, Rural Community and Food Industry, which in 2015 was replaced by the Framework Act on Agriculture, Fisheries, Rural Community and Food Industry. Based on the Framework Act, in 2013, a five-year (2013-17) implementation plan – Agriculture and Rural Community and Food Industry Development Plan –

[1] KOSIS online information, *Agricultural land area.* Viewed at: http://kosis.kr/eng/statisticsList/statisticsList_01List.jsp?vwcd=MT_ETITLE&parentId=F#SubCont.

[2] KOSAT online information, *Farm Household Economy – Results of the farm and fishery household economy survey in 2014*. Viewed at: http://kostat.go.kr/portal/eng/pressReleases/2/4/index.board?bmode=read&bSeq=&aSeq=335513&pageNo=1&rowNum=10&navCount=10&currPg=&sTarget=title&sTxt=.

[3] OECD (2016b).

was announced.[4] It aims at increasing the volume-based self-sufficiency ratio of grains (including animal feed) to 30% in 2017, from 23.1% in 2013, via measures such as expanding the agriculture production infrastructure, and encouraging economies of scale for rice production, distribution and consumption.

4.10. The five-year Plan emphasized adding value to agricultural products in an innovative way, and creating jobs by converging agriculture with other industries such as manufacturing, processing, and information and communication technology. Further, in January 2016, MAFRA presented "Measures to boost rural economy and export by transferring agriculture into the 6th industry", to link agricultural manufacturing, distribution, and export, with tourism. Measures proposed include: expanding smart farms[5], revitalizing food manufacturing/processing and the food industry, enhancing distribution efficiency and expanding export, and inviting tourists into rural areas.[6] The authorities indicated that support measures include export subsidies to some agricultural products under Article 9.4 of the Agreement on Agriculture, joint marketing services, and promoting services for local products.

4.11. A number of policy changes were introduced during the review period; in particular, Korea terminated the import-quota-only regime for rice from 1 January 2015, and replaced it with an import tariff of 513%, and reserved the right to use the special agricultural safeguard on imports of rice while maintaining the 408,700 MT quota with an in-quota tariff of 5%.[7]

4.12. Following the amendment of the Law on the Traceability of Cattle and Beef, the Government started to implement a traceability system for pork in December 2014, covering breeding, butchering, packaging, and sales. A traceability system for cattle and beef has been implemented since 2009; the traceability of pork is to enable the authorities to provide customers with information about the location of domestic pork breeders, dates of slaughter, and slaughter inspection results.

4.13. By 2016, the product coverage of the agriculture insurance scheme increased to 66 items (50 crops and 16 types of livestock). The Government participates financially in this scheme to cover part of the losses caused by natural perils. A pilot project of the agricultural revenue insurance scheme was introduced for onions, soybeans and grapes in January 2015 for a period up to December 2017. For farmers farming these products, if their revenue falls below the average revenue for the most recent five years, the Government covers part of the revenue decrease.

4.14. From 2014, the Government began to monitor the status and performance of farmers through a Farm Registration Programme, an integrated database system containing data on each farm such as area of farmland, sales earnings and support payments. This is to avoid fraud with direct payments, and to verify that payments were made to eligible landowners.[8]

4.15. Foreign investment is allowed in the growing of cereal crops and other crops for food, except for rice and barley growing. Foreign investment is allowed for the farming of animals, except farming of beef cattle where a less than 50% foreign equity restriction applies (Table 2.3).

4.2.2.1 Border measures

4.16. Tariffs continue to be the main instrument supporting domestic prices, particularly on rice (Section 4.2.3.1). Other border measures include: import licensing, special safeguard measures, and export subsidies.

4.2.2.1.1 Tariffs and tariff quotas

4.17. MFN tariffs remain high on agricultural products, with the highest rate applying to manioc (887.4%). Alternative duties and possibly prohibitive out-of-quota rates remain in place for many commodities. The average MFN tariff on agricultural products (WTO definition) reached 60% in

[4] OECD (2015a).
[5] Smart farm is an automated farm facility where communication devices and environmental management software are installed, so that the farm can be controlled remotely.
[6] MAFRA online information. Viewed at: http://english.mafra.go.kr/main.jsp.
[7] WTO document G/MA/TAR/RS/396, 30 September 2014.
[8] OECD (2015a).

2016, up from 55% in 2012, mainly as a result of the insertion of 16 tariff lines which are out-of-quota rates for rice and rice products at 513% (Section 3.2.3.1). The simple average MFN tariff for agricultural products remained much higher than the tariff rate for non-agricultural products (6.6%).

4.18. As noted in previous reviews, Korea continues to apply, from time to time, "flexible" tariffs, such as adjustment duties, seasonal tariffs, autonomous tariff quotas, "usage" tariffs, and safeguard and special safeguard duties (Section 3.2.3.3).[9] The Ministry of Strategy and Finance (MOSF) sets "adjustment tariffs" annually. In December 2014, the MOSF announced an updated list of adjustment tariffs and tariff quotas for certain agricultural, forestry and fishery products, effective from 2015 (Section 3.2.3.3, Table A3.3). During the review period, no seasonal tariffs were applied on an MFN basis; rather, they were applied under preferential tariff treatment under some RTAs (Section 3.2.3.3). The Government may also apply "usage" tariff rates on imported inputs in activities such as animal feeding (Section 3.2.3.6).

4.19. Korea applied agricultural tariff quotas (TQs) on 227 ten-digit tariff lines in 2016 (Section 3.2.4.1). In-quota tariffs range from zero to 50%, while out-of-quota rates range from 9% to 887.4% (for manioc). The average fill ratio of TQs was 59.5% in 2015, down from 66.2% in 2011 (Table A3.5). Country-specific quotas on rice were replaced by a global quota on an MFN basis (Section 3.2.6.2). Currently, all tariff quotas are global quotas. Quotas are valid for the whole calendar year, and import permits (valid for either 30 days or 90 days) are required. Tariff quotas are utilized, administered, or allocated by state-trading entities or industry associations. Allocation of tariff quotas to importers may be based on: a first come, first served method; auctioning; allocation to designated agencies; or a combination thereof (Section 3.2.4.1).

4.20. Korea also applies autonomous tariff quotas aiming at, *inter alia*, helping to stabilize prices through increased supply, or increasing the competitiveness of the domestic agriculture and livestock industries, which are facing pressures from Korea's RTA partners (Section 3.2.4.2, Table A3.6).[10] In 2016, the autonomous tariff quotas covered 25 six-digit tariff items for WTO agricultural products. In-quota tariff rates ranged from zero to 10%, whereas out-of-quota rates ranged from 1-30% (Section 3.2.4.2).

4.2.2.1.2 State trading, import quotas and tariffication, import licensing, and SSGs

4.21. Korea notified two state-trading arrangements involving: the Ministry of Agriculture, Food and Rural Affairs (MAFRA) for the importation of rice within the tariff quota, and the Agro-Fisheries & Food Trade Corporation (AT) for the importation of a number of agricultural products (genus *Capsicum*, garlic, onions, sesame seeds, soya beans, green beans, small red beans, buckwheat, and ginger. Private companies are allowed to import part of the quotas through open bidding) (Section 3.2.7).[11]

4.22. Import quotas on rice were terminated in 2014, and were replaced by a tariff-based system.[12] On 18 September 2014, MAFRA issued a press release, announcing the liberalization of its rice market through tariffication. From 1 January 2015, Korea has imposed a tariff of 513% on imports of rice above the quota of 408,700 MT, while the in-quota tariff rate is 5%.[13] At the same time, the Government planned to ban the mixing of domestic and imported rice for sales and distribution. MAFRA still has the exclusive right to import rice within the quota.

4.23. Import licensing procedures are maintained on, *inter alia*, agricultural fertilizers, crop seeds, animals, and animal products, and foods and food additives (Section 3.2.6.1).

[9] See also WTO documents WT/TPR/S/204/Rev.1, 4 December 2008; WT/TPR/S/268/Rev.1, 8 November 2012; WT/TPR/S/S/137, 18 August 2004; WT/TPR/S/73, 28 August 2000; and WT/TPR/S/19, 28 August 1996.

[10] USDA (2016).

[11] WTO documents G/STR/N/15/KOR, 17 October 2014; and G/STR/N/16/KOR, 14 July 2016.

[12] Before 2015, MAFRA had the exclusive right to import rice; according to the authorities, this was to avoid domestic market disturbances caused by a sudden influx of imported rice. Country-specific quotas had previously been given to Australia, China, the United States, and Thailand. Domestic sale prices of rice for households were determined by open auction, while domestic sale prices of rice for processing were determined by MAFRA based on import prices, management costs, domestic consumer prices, consumer preference and the level of demand of processing companies.

[13] WTO document G/MA/TAR/RS/396, 30 September 2014.

4.24. Price-based and volume-based special safeguard (SSGs) measures were imposed on certain items (ginseng, rice, cereal flour and other worked grain) during the review period (Section 3.2.8.2)

4.2.2.1.3 Export restrictions, and export subsidy programmes

4.25. Korea abolished its export restriction on rice in March 2015, as rice exports were too low (Section 3.3.2.2). The authorities stated that currently Korea has no export restriction on its agricultural products.

4.26. The last notification from Korea on its export subsidy programme for certain farm products was in 2010, for the years from 2005 to 2008. In 2008, export subsidies totalled ₩32.68 billion, and covered fruits (₩10.85 billion), flowers (₩5.39 billion), vegetables (₩11.02 billion), kimchi (₩3.03 billion), ginseng (₩0.92 billion), livestock (₩1.26 billion), grain and processed food (₩0.08 billion), and traditional liquor (₩0.13 billion).[14] These subsidies were used to reduce exporters' marketing costs, and are exempt from the WTO reduction commitments.

4.2.2.2 Domestic support

4.27. In 2016, budgetary outlays for agriculture were ₩19.4 trillion, or 5% of total spending (₩19.3 trillion in 2015).[15]

4.2.2.2.1 OECD indicators

4.28. The OECD has been publishing reviews of agricultural policies in Korea, other OECD countries, and some other economies for several years (Section 3.4.2.2). In these publications, the value of transfers to agricultural producers is measured using the producer support estimate (PSE) and associated indicators. The methodology for calculating these indicators is different from that used to calculate the aggregate measure of support (AMS), and the two sets of data are neither compatible nor comparable. The total PSE is: "The annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income. It includes market price support, budgetary payments and budget revenue foregone, i.e. gross transfers from consumers and taxpayers to agricultural producers arising from policy measures based on: current output, input use, area planted/animal numbers/receipts/incomes (current, non-current), and non-commodity criteria."[16] Thus, the PSE includes estimates for the value of transfers provided by market access measures, such as tariffs and tariff quotas, as well as input subsidies, direct payments to producers that are coupled to prices or production, and direct payments decoupled from prices and production.[17]

4.29. According to the OECD, support to agriculture remains high in Korea, and is mostly financed by transfers from consumers. Korea's total support estimate (TSE) – average annual total agricultural support net of specific sectoral budget receipts – was equivalent to 1.8% of GDP, much higher than the OECD average (0.7%).[18] This percentage, however, declined from 1.95% in 2011 to 1.66% in 2015 (Table 4.2). The percentage of producer support estimate (PSE) to gross farm receipts is still almost three times higher than the OECD average[19], although it declined from 53.3% in 2011 to 48.9% in 2015. About 90% of the producer support remains in the potentially most production and trade distorting forms: the level and development of market price support (MPS) reflect border protection on a number of commodities, of which rice is the major contributor. Transfers to specific commodities (as defined by the OECD single commodity transfers (SCT)) ranged from 3.05% (eggs in 2012) to 90.8% (soybeans in 2011) of the commodity gross farm receipts.

[14] WTO document G/AG/N/KOR/42, 4 October 2010.
[15] MOSF online information. Viewed at: http://english.mosf.go.kr/.
[16] OECD (2016b).
[17] OECD (2014a), p. 49.
[18] OECD (2015a).
[19] OECD (2016b).

Table 4.2 Agricultural support by commodity, 2011-15

(₩ billion)

	2011	2012	2013	2014	2015
Total support estimate (TSE)	26,068	26,261	26,884	25,874	25,943
Percentage of TSE to GDP (%)	1.95	1.9	1.88	1.74	1.66
Total PSE	23,261	22,984	23,523	22,930	22,760
Support based on commodity output – MPS	20,940	21,526	21,950	21,313	20,671
Direct payment	2,321	1,458	1,573	1,617	2,088
Percentage PSE to gross farm receipts (%)	53.3	50.2	50.9	49.3	48.9
General services support estimate (GSSE)	2,761	3,229	3,314	2,903	3,144
Consumer support estimate (CSE)	-29,632	-27,678	-24,944	-24,304	-23,557
Total producer SCT (₩ billion)	21,745	21,527	22,024	21,367	..
Share of producer SCT in total PSE (%)	93.4	93.6	93.3	92.6	..
Percentage SCT (%)					
Barley	49.3	47.7	55.3	68.4	68.5
Rice	56.5	58.0	59.9	56.3	49.5
Soybeans	90.8	87.7	88.1	78.6	81.9
Milk	43.8	53.3	49.6	52.0	61.0
Beef and veal	31.2	31.1	32.7	32.2	31.8
Pig meat	63.9	52.3	50.7	49.9	61.5
Poultry meat	49.5	40.3	34.7	26.8	27.4
Eggs	12.7	3.04	24.9	31.5	36.4
Chinese cabbage	21.25	21.25	21.25	21.25	21.25
Garlic	72.9	49.2	41.5	41.9	7.8
Red pepper	80.1	75.5	73.2	65.2	56.9

.. Not available.

Source: OECD Agriculture Statistics. Viewed at: http://stats.oecd.org/BrandedView.aspx?oecd_bv_id=agr-data-en&doi=data-00737-en#.

4.30. Market price support (MPS), which peaked at ₩22 trillion in 2013[20], is implemented through government purchases and public stockholding schemes, supported by trade barriers (Section 4.2.2.1). In the period 2011-14, Korean agricultural commodity prices averaged 1.9 times world levels (consumer nominal assistance coefficient (NAC)), compared to 1.7 times in 2008-10, and total transfers from consumers to producers amounted to an average of ₩19.3 trillion.

4.31. Direct payment programmes have been implemented with different objectives, including early retirement payment, rice income compensation (Section 4.2.3), promotion of environmentally friendly agriculture, maintaining agriculture in less-favoured areas, and rural landscape conservation. The share of direct payment to total PSE fell from about 10% in 2011, to about 9% in 2015 (Table 4.3). General services support reached its peak in 2013; in 2015, it accounted for 12% of TSE.

Table 4.3 Direct payments and general services support, 2011-15

(₩ billion)

	2011	2012	2013	2014	2015
Direct payment	2,321	1,458	1,573	1,617	2,088
Share of direct payment to PSE (%)	10	6.3	6.7	7.1	9.2
Based on input use	589	552	547	554	683
Based on current area planted/animal numbers/receipt/income, production required	1,080	254	300	264	521
Based on non-current area planted/animal numbers/ receipt/income, production not required	653	652	726	798	884
General services support estimate (GSSE)	2,761	3,229	3,314	2,903	3,144
Agricultural knowledge and innovation system	722	756	865	735	799
Inspection and control	170	195	196	195	229
Development and maintenance of infrastructure	1,433	1,617	1,682	1,689	1,754
Marketing and promotion	69	72	65	69	37
Cost of public stockholding	366	589	505	216	325
Percentage GSSE (% of TSE)	10.6	12.3	12.3	11.2	12.1

Source: OECD Agriculture Statistics. Viewed at: http://stats.oecd.org/BrandedView.aspx?oecd_bv_id=agr-data-en&doi=data-00737-en#.

[20] Market price support (MPS) is net of producer levies and excess feed cost.

4.2.2.2.2 WTO notifications

4.32. The last notification made by Korea to the WTO regarding its domestic support to agriculture covers the 2011 calendar year (Section 3.4.2, Table A3.7).[21] According to this notification, trade-distorting support (Amber Box) occupied about 12% of total domestic support in 2011, and market price support measures were used less frequently and applied only to barley in 2011.

4.33. In 2011, Green Box support amounted to ₩7.7 trillion (up from ₩6.8 trillion in 2010); 48% of this was spent on general services (mostly on infrastructural services), 24% for relief from natural disasters, 12.5% for decoupled income support, 6.7% for environmental programmes, 5% for structural adjustment assistance through investment aids, 2.4% for public stockholding for food security purposes, and less than 1% for producer retirement programmes and regional assistance programmes. Product-specific support to barley, potatoes, soybeans, red peppers, garlic, onions, Welsh onions, carrots, apples, pears, Korean citrus, sweet persimmons, ginseng roots, Chinese cabbage, rice, beef, Daikon, flowering plants, and non-product specific AMS, amounted to ₩1.07 trillion.[22] All support was *de minimis,* and took the form of market price support for barley, non-exempt direct payments to rice and beef, and other product-specific support.

4.34. Korea notified its direct support programmes to the WTO Committee on Subsidies and Countervailing Measures, a number of which were provided to the agriculture sector (Section 3.4.2). Its 2015 notification covered the subsidy programmes for the period 2013-14.[23] Grants or concessional loans were the main forms used (Table 4.4).

Table 4.4 Subsidies notified, 2013-14

(₩ million)

Items	Type	2013	2014
Food grain management programme			
Barley	Direct subsidy	n.a.	n.a.
	Loan	10,658	458
	Benefit of loan[a]	97	3.8
	Total (direct subsidy + benefit of loan)	97	3.8
Soybeans	Direct subsidy	34,214	39,270
	Loan	5,120	6,200
	Benefit of loan[a]	46.6	51.5
	Total (direct subsidy + benefit of loan)	34,260.6	39,321.5
Support for marketing and promotion of agricultural and livestock products			
Exporters of fruits, flowering plants, kimchi, vegetables, ginseng, and livestock products	Lump sum transfer (partial support for costs in sorting, packaging, and transporting)	31,053	31,576
Support for livestock products			
Calf breeding stabilization schedule	Direct payment	999	809
Quality improvement programme	Direct payment	839	n.a.
Total		1,838	809

n.a. Not applicable.

a Benefit of loan was estimated based on the difference between the loan rate and the market rate.

Source: WTO document G/SCM/N/284/KOR, 6 July 2015.

4.2.3 Key sub-sectors

4.2.3.1 Rice

4.35. Rice production increased slightly during the review period despite the continuing decrease of its area planted (Table 4.5), reflecting an upward trend of production per cultivated area. Rice consumption continued to drop, as a result of a changing diet and the high domestic price. The authorities disagree, and consider that rice consumption levels are not related to rice price levels.

[21] WTO document G/AG/N/KOR/53, 20 January 2015.
[22] WTO document G/AG/N/KOR/53, 20 January 2015.
[23] WTO document G/SCM/N/284/KOR, 6 July 2015.

Korea remains a net rice importing country. Imported rice represented 9.7% of national consumption in 2015, up from 7.5% in 2012.

Table 4.5 Rice production, 2011-15

	2011	2012	2013	2014	2015
Rice area (1,00 ha)	854	849	833	816	799
Yield (kg/ha)	4,956	4,726	5,085	5,204	5,418
Production (milled, 1,000 MT)	4,224	4,006	4,230	4,241	4,327

Source: USDA (2015), 2015 Rice Production Update. Viewed at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/2015%20Rice%20Production%20Update_Seoul_Korea%20-%20Republic%20of_11-23-2015.pdf.

4.36. Rice remains heavily protected by a combination of border measures and domestic support. Direct involvement in rice (and barley) farming remains closed to FDI. Rice is excluded from the scope of concessions in all RTAs.[24] In 2015, its domestic price was 1.93 times world levels (consumer NPC), up from 1.7 times in 2010, but in a downward trend since 2000. Rice has been one of the most sensitive products, and its import quota regime was replaced by a tariff quota system in 2015 (Sections 3.2.6.2 and 4.2.2). Exports of rice were subject to a quota system until March 2015 (Section 4.2.2.1.3).

4.37. A public stockholding scheme for rice is maintained, which is a purchase and release mechanism to deal with emergency situations such as grain shortages and natural disasters. MAFRA is responsible for public stockholding for rice. The Government purchases domestic paddy rice during harvest season (October-December) and sells it during non-harvest periods, both at the prevailing market prices. Purchase under this scheme ranged between 8.3% and 9.1% of domestic production in 2012-15.

4.38. The rice income compensation scheme, introduced in 2005, includes both fixed and variable payments. Fixed payment for paddy fields was increased from ₩800,000 (US$727) per hectare on average in 2013, to ₩900,000 (US$818) in 2014, and then to ₩1 million (US$909) in 2015. Variable payment is determined according to the difference between a target price and each year's post-harvest price. If the post-harvest price is lower than the target price, farmers receive 85% of the difference, after deduction of the fixed payment. The target price is changed every five years and it is ₩188,000 (US$171) per 80 kilograms of rice from 2013 to 2017, up from ₩170,083 (US$155) before 2012. According to the OECD, the variable payment was not triggered for 2011 and 2012, but was paid in 2014 due to the decrease of the post-harvest price of rice and the increase of the target price in 2013.[25] The rate of the variable payment was ₩4,226 (US$4) per 80 kilograms, amounting to ₩266,238 (US$242) per hectare. In 2014, combined support payment totalled ₩950 billion (compared with ₩617 billion in 2011).

4.2.3.2 Beef

4.39. Consumption of beef continued its upward trend, and imports have been increasing. In 2014, 91% of beef imports came from Australia and the United States, for which the tariff rates are lower than the MFN tariff rates under the RTAs signed (Table 4.6). Korea also signed an FTA with Canada; imports of beef from Canada were suspended temporarily from February 2015 due to a BSE case in Canada but resumed at end-December 2015.

4.40. Assistance to beef (percentage SCT) remained at around 32% from 2011 to 2015. The domestic price of beef was 1.46 times world levels (consumer NPC) in 2015, slightly up from 1.45 times in 2011. Foreign direct investment of less than 50% of investment assets is permitted in cattle-raising and meat wholesale.

[24] USDA (2014).
[25] OECD (2015a).

Table 4.6 Beef production, supply, and demand, 2014-16

(1,000 head), (1,000 MT CWE)

	2014	2015	2016
Total supply	807	776	785
Beginning stocks	80	59	21
Production	335	317	310
Imports	392	400	454
Exports	3	5	5
Total domestic consumption	745	750	755
Ending stocks	59	21	25
Beef	**KORUS FTA**	**Korea–Australia FTA**	**Korea–Canada FTA**
Content of the FTA	Duty phased out in 15 years, plus agricultural safeguard	Duty phased out in 15 years, plus agricultural safeguard	Duty phased out in 15 years, plus agricultural safeguard
MFN tariff 2016 (same as 2012)	40%	40%	40%
Applied duty in 2016	26.6%	32.0%	34.6%

Source: USDA (2015), *Korea – Republic of, Livestock and Products Annual*. Viewed at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Annual_Seoul_Korea%20-%20Republic%20of_9-22-2015.pdf.

4.2.3.3 Biotech crops[26]

4.41. In Korea, only a limited number of food products are made from biotech ingredients, while the bulk of livestock feed is made from biotech and soybean meal. Korea does not commercially produce any biotech crops, and does not export any. Korea imports biotech crops and products for food, feed and processing (Table 4.7); importation is regulated under the Living Modified Organism (LMO) Act, revised in 2012.

Table 4.7 Import of LMO soybean and corn, 2011-15

(1,000 MT)

Classification		2011	2012	2013	2014	2015
Soybean	Food (crushing)	850	897	729	1,021	1,029
Corn	Food	1,025	1,052	918	1,262	1,116
	Feed	5,847	5,779	7,049	8,357	7,935
Oilseeds	Feed	130	146	147	181	156

Note: Statistics are on an import approval basis.

Source: Information provided by the Korean authorities.

4.42. Biotech crops must undergo a food safety assessment and environmental risk assessment (Section 3.2.9.2.1). Several agencies are involved in the assessment process. The Rural Development Administration (RDA) conducts environmental risk assessment, in consultation with the National Institute for Ecology (NIE), the National Fisheries Research & Development Institute (NFRDI), and the Korea Centres for Disease Control & Prevention (KCDC). The Ministry of Food and Drug Safety (MFDS) conducts a safety assessment for food grains containing biotech ingredients.

4.43. The development of biotech crops is being led by various government agencies, universities and private entities. Research is mainly focused on second- and third-generation traits, such as drought and disease resistance, nutrient enrichment, transformation techniques, and gene expression. In May 2015, the RDA released the results of the first phase for the Next Generation Bio-Green 21 Project: with a total investment of ₩271.4 billion (approximately US$236 million), the RDA decoded genomes for nine items including pepper and ginseng, and developed anthracnose resistant pepper and other products between 2011 and 2014. The RDA is to invest another ₩300 billion (US$260 million) by 2020 to commercialize the technology developed by it.

[26] USDA Foreign Agricultural Service (2015c).

4.44. The Science Technology Basic Plan announced by the Ministry of Science, ICT and Future Planning (MSIP) in July 2013 is to continue until 2017. In accordance with the Plan, the Government is to invest ₩9.2 trillion (US$8 billion) in science technology R&D for five years. The MSIP designated 30 focused technologies and genetic resource technologies to develop and commercialize value-added life science resources.

4.45. MAFRA also announced in 2015 its second comprehensive plan to foster agriculture, food industry and science technology, with a focus on developing smart farms, creating high value-added food products, responding to climate change, and commercializing agro-biological resources. In 2014, MAFRA planned to invest a total of US$893 million for R&D, up by 5.9% from 2013, to improve competitiveness and create a new future economic growth engine. To achieve these targets, MAFRA and the RDA continued to carry out: *inter alia*, the development of technology for the agro-biological resource industry, a golden seed project, genome research, and the development of new bio materials. MAFRA and the RDA are also financing a research project to obtain a stable supply of food grains with improved productivity and quality, and are developing biotechnology.

4.46. In February 2015, the NIE was designated as the natural environmental risk assessment agency. The NIE also carries out consultation review of LMO food, feed and processing to assess the impact on the natural ecosystem, and monitors the contamination of imported LMOs in Korea.

4.3 Fisheries

4.3.1 Overview

4.47. Korea remains a leading fish producer and consumer in the world. Its seafood production increased from 3.1 million metric tons in 2013, to 3.3 million metric tons in 2015. In 2014, production from distant waters increased by 19% from 2013, while production from adjacent waters was up 2.7%.[27] Reflecting reductions in fish resources in adjacent waters, the enforcement of exclusive economic zones by Korea's neighbouring countries, and constraints built into bilateral and multilateral fishing accords, fish production in Korea is not expected to increase significantly in the future. The Government has been making efforts to boost aquaculture production in the shallow sea areas.

4.48. Korea is also a major consumer of fish, and annual per capita seafood consumption in Korea was 54.7 kg in 2013, much higher than the world average (Table 4.8). Major sources of imports include China, the Russian Federation, Viet Nam, and the United States. Major export destinations were Japan, China, the United States, and Thailand.

Table 4.8 Seafood trade data, 2011-15

	2011	2012	2013	2014	2015
Supply					
Production (1,000 MT)	3,256	3,183	3,135	3,295	3,331
Imports (1,000 MT)	4,846	4,829	5,387	5,231	5,504
Inventory (1,000 MT)	6.7	7.5	19.4	24.2	24.1
Imports (US$ million)	4,191	3,975	3,895	4,506	4,556
Demand					
Domestic consumption (1,000 MT)	3,813	4,024	3,642	..	..
Exports (1,000 MT)	687	708	687	702	651
Carry over (1,000 MT)	639	877	1,214	..	..
Exports (US$ million)	2,308	2,361	2,151	2,067	1,924
Self-sufficiency ratio	81%	74.8%	76.8%	..	..
Per capita consumption (kg/year)	58.1	54.2	54.7	..	..

.. Not available.

Source: Ministry of Oceans and Fisheries (MOF).

[27] USDA (2015).

4.49. Fisheries are regulated by the Ministry of Oceans and Fisheries (MOF), created in 2013, which is responsible for providing a fully integrated approach to all marine issues.[28] The Korea Fisheries Resources Agency (FIRA) was established in 2011, targeting at recovering and managing fisheries resources in a more systematic manner. It aims to create productive and healthy oceans by restoring and enhancing fisheries resources and the marine ecosystem. Over the 2009-15 period, 9,144 hectares of marine forest were created and the target of the FIRA is to create 54,000 hectares of marine forest by 2030.

4.50. The FIRA monitors the total allowable catch (TAC) data, which is applied to offshore and coastal fishing. It established 392,424 MT as the TAC for 2015 (down by 5.5% from the previous year), covering 11 species: mackerels, Jack mackerels, red snow crabs, snow crabs, purplish Washington clams, pen shells, horned turban, blue crabs, squid, sailfin sandfish, and mottled skate. 60% of the TAC quotas are allocated to fishermen in proportion to the catch in the three most recent years and the gross tonnage of fishing vessels, and the rest on a "first come, first served" basis. Quotas are transferable but not tradable.

4.51. The number of fishing vessels has been decreasing, reflecting the reduction in fishery resources. The Government has continued to downsize the Korean fishing fleet. In 2014, the number of fishers, the number of fish farmers, the total number of fishing vessels, and the total tonnage of the fleet decreased by 2.8%, 7.3%, 4%, and 3.6%, respectively, from the previous year.

4.52. Efforts have been made to restore fishery resources by regulating bycatch and strengthening TAC. Bycatch, including instalment of bycatch reduction devices, is governed by Article 41 of the Fisheries Act, and Article 27 (2) of the Enforcement Ordinance of the same Act. Bycatch of TAC-covered species by vessels subject to the TAC system is deducted from allocated quotas. The TAC-covered species are required to be landed at designated landing points, monitored by the FIRA, and relevant vessels must make TAC catch reports.

4.3.2 Border policy

4.53. Fish and fisheries products are subject to tariffs ranging from 0 to 35%, with a simple average applied tariff rate of 16.9% in 2016 (Table A3.1) (compared to tariffs ranging from 0-40%, with a simple average applied rate of 17.1% in 2012). Adjustment tariffs ranging from 22-35% are maintained for seven fish species that are not subject to tariff bindings in the WTO. The fishery traceability scheme has expanded to include more than 30 major species (from 18 species in 2011).

4.54. Foreign investment in coastal and offshore fishing ventures is generally limited to less than 50%. Permission from local government is required for coastal fishing. There has been no foreign investment in fishing since 2012. Vessels from China and Japan are allowed to fish in Korea's waters, and Korean vessels operate in foreign waters under similar bilateral agreements with China, Japan, Kiribati, Papua New Guinea, the Russian Federation, Solomon Islands, and Tuvalu. Quotas for foreign vessels are renewed annually, in consideration of fish stock developments.

4.3.3 Domestic support

4.55. The Government continued to provide financial support to the fisheries sector, although the financial support has been decreasing: from ₩151 billion in 2011, to ₩82 billion in 2014. Korea notified that support was given in the form of grants or low interest loans (Table 4.9), in accordance with the Fisheries Act, the Distant Water Fisheries Development Act, or the Act on Structural Improvements and Support for Domestic Fisheries.

4.56. Korea has been participating in the WTO Negotiating Group on Rules, including negotiations on disciplines in fisheries subsidies.

[28] OECD (2015e).

Table 4.9 Fisheries subsidies, 2011-14

(₩ million)

Item	Type	2011	2012	2013	2014
Support for fishing activities					
To relieve financial burden and support stable fishing operations. Terms of the loan: one year loan at an annual interest rate of 3%.	Lump sum transfer Loan Benefit of loan[a]	n.a. 1,686,333 52,363	n.a. 1,814,048 50,743	n.a. 1,916,814 41,513	n.a. 1,978,786 36,565
	Total (lump sum transfer + benefit of loan)	52,363	50,743	41,513	36,565
Support to aquaculture fishery development					
To aquaculture fishermen. Terms of the grant: 30-50% of business expenses. Terms of the loan: 2-10 years loan at an annual interest rate of 1-4%.	Lump sum transfer Loan Benefit of loan[a]	15,026 6,929 249	24,115 3,560 60	16,150 7,231 1,058	22,593 4,581 2,583
	Total (lump sum transfer + benefit of loan)	15,275	24,175	17,208	25,176
Support for replacement and modernization of old distant-fishing vessels and its equipment					
To ensure navigation safety. 3-year grace period and 7-year repayment at an annual interest rate of 3%.	Lump sum transfer Loan	n.a. 29,662	n.a. 20,451	n.a. 40,500	n.a. 27,772
	Benefit of loan[a]	504	347	n.a.	n.a.
	Total (lump sum transfer + benefit of loan)	504	347	n.a.	n.a.
Support for vessel decommissioning					
To maintain fleet size at a sustainable level for coastal and offshore fishery resources. 100% grant to coastal fishermen and 80% grant to offshore fishermen. To be continued provisionally until 2018.	Lump sum transfer Loan Benefit of loan[a]	37,214 n.a. n.a.	29,795 n.a. n.a.	24,886 n.a. n.a.	20,529 n.a. n.a.
	Total (lump sum transfer + benefit of loan)	37,214	29,795	24,886	20,529
Support for management of distant water fisheries					
To compensate for the difference between market interest rate, and the loan interest rate, for distant-water fisheries operators or overseas resource development companies.	Lump sum transfer Loan Benefit of loan[a]	4,834 n.a. n.a.	4,622 n.a. n.a.	n.a. 2,530 n.a.	n.a. 2,372 n.a.
	Total (lump sum transfer + benefit of loan)	4,834	4,622	n.a.	n.a.

Item	Type	2011	2012	2013	2014
Support for fishery products processing development[b]					
	Lump sum transfer	40,498	42,605	n.a.	n.a.
	Loan	20,640	23,976	n.a.	n.a.
	Benefit of loan[a]	519	467	n.a.	n.a.
	Total (lump sum transfer + benefit of loan)	41,017	43,072	n.a.	n.a.
Total		**151,207**	**152,754**	**83,607**	**82,270**

n.a. Not applicable.

a The benefit of the loan is estimated based on the difference between the loan rate and the market rate.

b Support for fishery products processing development was discontinued in 2013.

Source: WTO document G/SCM/N/284/KOR, 6 July 2015; and information provided by the Ministry of Oceans and Fisheries.

4.3.4 IUU fishing

4.57. To fight against IUU (illegal, unreported and unregulated) fishing, the Government amended the Distant Water Fisheries Development Act in 2014 and 2015, which introduced more severe sanctions on IUU fishing:

a. an imprisonment of up to five years;

b. a criminal fine of up to five times the wholesale value of illegal catches, or a criminal fine of at least ₩500 million, whichever is higher;

c. mandatory installation of a vessel monitoring system (VMS) on all distant fishing vessels and carrier vessels;

d. pre-authorization requirements for transhipment; and

e. monitoring of all distant water fishing vessels.

4.58. A Fisheries Monitoring Centre was established and started operation in March 2014.

4.4 Energy

4.59. Korea is an energy-intensive nation. In 2013, Korea ranked 8th globally in terms of primary energy consumption, with a 1.9% share of the world's entire energy consumption, at 13,541 Mtoe (tonnes of oil equivalent). Energy consumption per capita in Korea is almost three times as high as the world average, and higher than the OECD average. Industry remains the largest consumer and its share in final consumption has remained around 54%. The power sector was the second-largest consuming sector, accounting for 38% of total energy consumption in 2013.

4.60. Korea relies heavily on imported energy: 95.2% of its total energy consumption in 2014 was imported, and US$174 billion was spent on importing energy, accounting for 33% of the import bill and making Korea the fourth-largest energy importer in the world.[29] In 2014, the main energy sources were petroleum (37%), coal (30%), LNG (17%), and nuclear energy (12%).

4.61. Energy Vision 2030 aimed at reducing energy intensity, with three basic directions: energy security, energy efficiency, and environmental friendliness. In 2008, the Basic Energy Law was enacted, in accordance with which the Basic National Energy Plan 2008-2030 established Korea's energy efficiency objective: to reduce energy intensity. In 2013, the second Energy Master Plan 2013-35 was announced, aiming at reducing energy consumption by 13% by 2035, through measures in areas such as demand management, establishment of a generation system, environment protection and public safety, energy security and stable supply. The overall energy

[29] IEA PowerPoint presentation. Viewed at: https://www.ief.org/_resources/files/events/korean-energy-day/mr.-shim-jae-hyuns-presentation.pdf.

saving goal for 2035 is nearly 34 Mtoe: 47% in industry (16 Mtoe), 36% in the transport sector (12 Mtoe), 13% in the residential and commercial sector (4 Mtoe), and 4% in the public sector (1.3 Mtoe). The Government plans to rely more on environmentally friendly new and renewable energy such as photovoltaic energy and wind power energy (increasing their share from 3.9% in 2014 to 11% by 2035), and reduce its reliance on fossil fuels.

4.62. To reach the target, the Government is to follow the following steps: improving energy efficiency and reducing energy consumption; increasing the supply of clean energy and reducing the use of fossil fuels; boosting the green energy industry; and ensuring that Korean citizens have access to affordable energy.

4.63. The energy efficiency programmes are implemented by the Korea Energy Agency (KEA), created under the Rational Energy Utilization Act. Businesses that invest in energy-saving technologies are entitled to financial and technical support, and tax credits (up to 6% of the investment cost). Large energy consumers must conduct energy audits every five years, while up to 70% of the audit costs for small- and medium-sized enterprises (under 10 ktoe/year) are subsidized. Industries investing in CHP (combined heat and power) plants for their own heat supply are entitled to tax reductions.

4.64. Factories consuming more than 2 Ktoe, and operating in four sectors (paper, petrochemical, food, electrical and electronics) may participate in the Energy Saving Partnership Programme (ESP), which aims to share new energy saving technologies within the industry. In 2015, a total of 102 companies were involved in this programme, saving 64 Ktoe of energy.

4.65. The Ministry of Trade, Industry and Energy (MOTIE) is in charge of energy policy development and implementation. Energy-related environmental policy is overseen by the Ministry of Environment. The Korea Electricity Commission (KOREC) is the electricity supply regulator. In addition, a number of SOEs play an active role in the energy sector, such as the Korea National Oil Corporation (KNOC), the Korea Gas Corporation (KOGAS), and the Korea Electric Power Corporation (KEPCO). Reportedly, the Government is considering partially privatizing KEPCO and KOGAS.[30]

4.66. Korea does not have any cross-border gas pipelines, cross-border oil pipelines, or cross-border electricity transmission lines.

4.4.2 Hydrocarbons

4.4.2.1 Oil

4.67. Korea imports 99% of its crude oil requirements. Imports of oil came largely from the Middle East (82.3% of total crude imports in 2015, down from 87% in 2011), with another 10.4% from Asia, 5% from the Russian Federation, and 2.4% from the United Kingdom. Diversification of crude oil supply has been encouraged by the Government, through subsidizing up to 100% of the additional transport cost of importing crude oil from non-Middle East countries (Section 3.2.5).

4.68. Less than 0.1% of total demand for oil is realized through domestic production. The Korea National Oil Corporation (KNOC), a state-owned enterprise, dominates the upstream oil market. It is responsible for domestic and overseas exploration, development and production of oil and natural gas.

4.69. In 2016 (same as in 2012), imported crude oil is subject to a tariff of 3% and refined products to tariffs of zero (such as naphtha and natural liquid gas), 3%, 5%, 7%, and 8% (such as greases and waxes), which is intended to encourage domestic refining. In 2016, autonomous tariff quotas are applied to the imports of petroleum oils and oils obtained from crude bituminous minerals (HS 270900) (Table A3.6):

a. For manufacturing naphtha: an in-quota rate of 0.5% is applied to imports within 200 million bbl, with an out-of-quota rate of 3%;

[30] *Chosun Ilbo*, "Korea to Privatize Power Grid", 15 June 2016. Viewed at: http://english.chosun.com/site/data/html_dir/2016/06/15/2016061501198.html.

b. For manufacturing propane or butanes: an in-quota rate of 2% is applied to imports within 30,000 bbl, with an out-of-quota rate of 3%.

4.70. In addition to a tariff, a surcharge (₩16 per litre on crude oil) is levied on petroleum imports.

4.71. Until end-2018, a transportation-energy-environment tax continues to be levied on gasoline (₩475 per litre) and diesel oil (₩340 per litre), instead of the individual consumption tax (Section 3.4.1.1). As of 2016, flexible transportation-energy-environment tax rates were applied to gasoline and diesel oil within a 30% range of the statutory tax rates, i.e. ₩529 per litre and ₩375 per litre, respectively. Conditional exemptions apply to petrol and diesel used in the manufacture of medical goods, fertilizers and petro-chemicals, vehicles for disabled persons or rental usage.

4.72. Demand for crude oil remained relatively flat during the review period, and is forecasted to gradually decrease. Over half of the oil (58%) is used in the industry sector, while the transport and transformation/energy sector accounted for 33% and 1.6% of oil demand, respectively.

4.73. Korea is a net exporter of refined products, and its main export markets are Singapore (16%), China (15%), Australia (12.2%), and Japan (12%). Four private refining companies dominate the downstream market: SK Innovation, GS Caltex, Hyundai Oilbank, and S-Oil (whose controlling shareholder is the Saudi Aramco). Korea has five refineries, two of which are owned by SK Innovation, while the other three are each owned by the other three refining companies. They also dominate the retail market: in 2015, among the 12,398 fuel stations, 87% were owned by four refineries.

4.74. Daehan Oil Pipeline Corporation (DOPCO) is the major oil pipeline company, responsible for operating the nationwide oil pipeline system consisting of six oil pipelines. DOPCO is jointly owned by: SK Innovation (41%), GS Caltex (28.62%), S-Oil (8.87%), Hyundai Heavy Industries (6.39%), Korean Air (3.1%), and the Korean Government (9.76%).

4.75. According to the IEA, import and export restrictions on oil and oil products were removed, and prices were fully liberalized. The oil sector is subject to the regulation of the Fair Trade Commission, and the IEA considered that there were technically no non-market barriers to entry into the Korean refining and retail markets by new competitors, or to their accessing the DOPCO pipelines on a commercial basis.[31]

4.4.2.2 Natural gas

4.76. Natural gas accounted for 16.9% of total primary energy supply, and 22% of electricity generation in 2015. Korea imports 99.7% of its demand for LNG. The Korea Gas Corporation (KOGAS) is the largest single buyer of LNG in the world, importing 95% of Korea's total gas imports.[32] LNG comes mainly from Qatar (38%), Oman (12%), Indonesia (11%), and Malaysia (11%). Domestic gas production is negligible. Korea National Oil Corporation (KNOC) started its commercial gas production in July 2004, and production is expected to be terminated in 2019.

4.77. In 2016 (same as in 2012), autonomous tariff quotas, which give concessional tariff treatment for imports of inputs, are applied to liquefied natural gas (HS 271111, 271121): an in-quota rate of 2% is applied to all imports, instead of a general rate of 3% (Table A3.6).

4.78. KOGAS imports LNG either through long-term contracts at a rate indexed to crude oil prices, or through the spot market. Ten companies such as POSCO, SK E&S, and KOMIPO, have been able to obtain licences to import gas for their "own use". There are seven LNG receiving terminals in Korea: 4 owned by KOGAS, 1 by POSCO, 1 jointly owned by SK E&S and GS Energy (Boryung, to be operational from late 2016), and 1 under construction. KOGAS is the only wholesaler and is also the TSO (transmission system operator) of gas in Korea. KOGAS is listed on the Korean Stock Exchange, and its owners include the central government (26.15%), KEPCO (20.47%), local governments (7.93%), and the Treasury (5.07%).

[31] IEA (2013).
[32] IEA (2013).

4.79. KOGAS supplied natural gas to 31 private city gas companies for retail distribution, and to 39 power generating plants (owned by 23 power producers) at the end of 2015. The Fair Trade Commission has recommended that the Government slowly open up the country's gas import and distribution market, as the gas prices for the industrial sector in Korea tend to be more expensive than those in other OECD countries. The authorities stated that gas price is high as Korea imports virtually all of its gas demand, and gas can only be imported by ships, not pipelines.

4.80. Wholesale prices are regulated by MOTIE, while retail prices are regulated by local governments (Section 3.4.5.2). The wholesale gas price is composed of raw material cost plus a supply margin:

a. Raw material costs include the cost of LNG, gas transportation expenses, insurance premiums and taxes, and import tariffs;

b. Supply margins include the supply cost of KOGAS (i.e. depreciation, labour costs, and general and administrative expenses), plus returns based on the assets used in the distribution of natural gas.

4.81. The retail price is composed of the wholesale price and retail supply cost. The raw material costs are adjusted every two months if the fluctuation in raw material costs exceeds 3%. The supply margin is adjusted every year. KOGAS submits a report to MOTIE whenever the cost is adjusted to obtain its approval. In 2013, the IEA suggested that the Government set up a sector regulator to examine the potential for introducing market-based tariffs. The authorities stated that gas price is strictly determined in accordance with the Government's guideline, and the Government inspects and supervises it through independent accounting firms. Thus the authorities are not considering setting up a separate institution for tariff regulation.

4.82. The Government has been making efforts to increase competition in the gas sector since 1999. Measures adopted by the Government include introducing an open-access policy in December 2007 to give direct importers improved access to the KOGAS transmission network and LNG facilities. However, according to the IEA report, third-party access to the transmission network, LNG storage facilities and import terminals which KOGAS owns and operates is still limited. The authorities indicated that the transmission network is operated as r-TPA (regulated third-party access), while the LNG terminal is operated as n-TPA (negotiated third-party access). The Government has deregulated a number of areas for direct importers, such as the registration conditions, and the resale of their unused LNG to overseas market, among others.

4.4.3 Electricity

4.83. Electricity consumption per capita in Korea was more than three times as high as the world average, and almost 38% higher than the OECD average in 2013.[33] Total electricity consumption kept growing. In 2015, electricity was generated from coal (40%), nuclear power (31%), natural gas (22%), oil (2%), and renewables (3.5%). It is mostly used in industry (57%), commercial and public services (21%), and the residential sector (14%). Korea's rate of transmission and distribution losses is among the lowest in the world (3.6% in 2015).

4.84. The Korean Electricity Commission (KOREC) is the sector regulator, responsible for overseeing matters related to granting licences to market participants, restructuring the power sector, approving electricity tariffs, and acting as an arbitrator in cases of conflict between electricity companies and consumers. Competition-related matters (such as monopoly behaviour and unfair business practices) are regulated by the Fair Trade Commission (FTC). The FTC and the KOREC have memoranda of understanding on their respective roles and functions in the electricity sector.

4.85. The Korea Electric Power Corporation (KEPCO), a government-owned corporation, dominates the electricity sector. As of 8 March 2016, the Government holds 18.2% of KEPCO's equity, Korea Development Bank holds 32.9%, National Pension Corporation 6.9%, foreign investors 31.9%, and Korean investors the remaining 10.1%. In 2001, KEPCO was split into six competing generating companies, one of the six – Korea Hydro and Nuclear Power (KHNP) –

[33] ABB (2013).

owns all the hydro and nuclear assets in Korea. All six companies remain state owned, despite the Government's efforts to privatize them. In 2011, the Government designated these six companies as "market-oriented public enterprises", with an intention for them to compete for efficiency.

4.86. KEPCO generates about 82% of electricity in Korea, and the rest is generated by some independent (gas-fired) power producers (IPPs). KEPCO purchases all power generated through the Korea Power Exchange (KPX), and then supplies power to consumers. KEPCO owns and operates the national power grid, and all distribution networks. Foreign nationals may purchase from KEPCO no more than 30% of all domestic power generation facilities. Foreign investment in transmission and distribution of electric power faces an equity limit of 50%, and the largest shareholder must be Korean (Table 2.3).

4.87. The KPX is a state-owned electricity pool, which is compulsory to all generators (above 20 MW) with a few exceptions. KPX charges an electricity trading fee to cover the operating expenses. Electricity tariffs are set by the KPX, and electricity market operating rules approved by MOTIE. Korea introduced separate zonal prices in 2010, i.e. when purchasing power, IPPs were paid a marginal cost-based price (i.e. the bid price of the most expensive generator), except for nuclear and coal. For power generated by nuclear and coal, the tariff was a set base-load price, which was lower than the cost-based marginal price.[34] The Government introduced a fuel cost pass-through system in 2011, but abolished it in 2014.

4.88. In addition, tariffs for industrial, residential, and commercial consumers are higher than those for agricultural consumers, indicating that agricultural consumers are subsidized by other consumers in Korea.

4.89. Fees are charged on the consumption of electricity (3.7% of the consumption bill), to finance the Electric Basis Fund. This Fund was set up in 2001 after the Power Industry Structure Reorganization to achieve public objectives and to build infrastructure for sustainable growth of the power industry. Subsidies are given to, *inter alia*, the diffusion of electricity generated by renewable energy, the maintenance of the stability between electricity demand and supply, and R&D activities. The source of the fund includes interest accrued from surplus funds, surcharges and transaction fees for REC (renewable energy certificates).

4.4.4 Coal

4.90. Coal is the cornerstone of the power system in Korea, accounting for 31% of total primary energy supply, and 40% of electricity generation. Almost all coal used in Korea is imported, and imports come mainly from Australia, Indonesia, and the Russian Federation, followed by China and South Africa. Korea is the third-largest importer of coal in the world, after Japan and China.

4.91. Korea also has about 1.4 billion tonnes of coal resources. It has five coal mines, three of which are operated by the state-owned Korea Coal Corporation (KCC). Production of coal is subsidized in Korea, and the cost of production is higher than the cost of imports. Subsidies for coal production, ranging from ₩151.8 billion in 2012 to ₩236.5 billion in 2014 and then falling to ₩215 billion in 2015, are to be terminated by 2020. Subsidies are mainly used for the production of coal, and its use in the form of charcoal briquettes by low-income households, covering briquette manufacturers, industrial accident insurance premiums, and school expenses for children of mine workers. However, as these subsidies tend to distort resource allocation and encourage excessive consumption of coal, the Government may consider other measures to support low-income groups. The Government provides support to a part of heating cost to low-income groups.

4.92. Coal imports are duty free. Bituminous coal, with smoke, is subject to a VAT at a rate of 10%, and an individual consumption (special excise) tax with the rates raised in February 2016 (Section 3.4.1.1), while anthracite coal (no smoke) is exempted from both taxes.

4.5 Manufacturing

4.93. The growth rate of the manufacturing sector slowed, from 6.5% in 2011 to 1.3% in 2015, and the share of manufacturing in GDP fell from 31.4% to 29.5% during the same period,

[34] WTO (2012).

although its share in total employment increased slightly (Table 1.2). The manufacturing sector remains an export-oriented sector, accounting for 86% of total merchandise exports in 2014 (Table A1.1). In terms of the shipment value, heavy industry accounted for 86% of the total manufacturing sector, and the light industry accounted for 14%.[35] Important industries include: ICT, automobiles, steel, general purpose machinery, shipbuilding, and petrochemistry.

4.94. MOTIE has a number of initiatives to promote the development of the manufacturing sector, such as the "Industry Innovation 3.0", the "Industry Initiatives for the Creative Economy", the "Second Basic Plan for Intelligent Robot Development (2014-18)", the "Development Plan for Printed Electronic Industry", and the "Industrialization of bio- and nano-technology".[36] The authorities stated that important measures adopted include promoting R&D investment, reducing and removing regulatory barriers, supplying smart manufacturing systems (smart factory) to improve productivity of SMEs, and developing a standards and certification system for new technology.

4.95. Foreign investment in manufacturing in general is allowed, except for the manufacture and supply of fuel for nuclear power generation (Table 2.3). The authorities stated that there are around 3,500 foreign-invested companies in the manufacturing sector in Korea.

4.96. The simple average applied MFN tariff rate was 11.3% (ISIC 3) on imports of manufacturing products, and the rate was 6.3% on manufacturing excluding food processing products (Table A3.1). Adjustment duties protect one industrial item – plywood, at 10% instead of 8% (Table A3.3). In 2016, autonomous tariff quotas, allowing concessional tariff treatment for imports of inputs, were applied to, *inter alia*, sugar, manioc chips, silk yarn, and petroleum oil (Section 3.2.4.2, Table A3.6).

4.97. The manufacturing sector has been dominated by large business conglomerates. The labour productivity gap between large firms and SMEs (defined as companies with less than 300 workers) is big: output per worker in SMEs was only 30.5% of that of large firms (Sections 1.2.1 and 1.3.3).[37] To facilitate the development of SMEs, several tax and non-tax incentives in several policy areas were used (Sections 3.2.10, 3.3.5, 3.3.6, 3.4.1, 3.4.2, and 3.4.5.1).

4.5.1 Steel

4.98. Steel production has been, in general, growing during the review period (except in 2013), as a result of continued expansion of production facilities and a rapid increase in demand (Table 4.10).[38] In 2015, Korea was the sixth-largest steel producer in the world, and steel produced by Korea accounted for 4.4% of the world's crude steel production. Steel is intensively used in the manufacturing and export sectors. Exports surpassed imports from 2011. Major steel consumers in Korea are: construction (accounting for 29% of the country's total demand for steel), automobiles (31%), and shipbuilding (21%).

Table 4.10 World market share in the iron and steel industry, 2010–14

(1,000 tonnes)

	2010	2011	2012	2013	2014
Worldwide production	1,433,433	1,538,003	1,560,131	1,650,354	1,670,145
Production in Korea	58,914	68,519	69,073	66,061	71,543
Korea's share of the world market (%)	4.1	4.5	4.4	4.0	4.3

Source: World Steel Association, *Steel Statistical Yearbook 2015*. Viewed at: https://www.worldsteel.org/dms/internetDocumentList/bookshop/2015/Steel-Statistical-Yearbook-2015/document/Steel%20Statistical%20Yearbook%202015.pdf.

4.99. There have been no major changes to the government policy on the iron and steel sector since 2012. According to information provided by the authorities, demand for steel, as well as

[35] Statistics Korea (2015), *Explore Korea through Statistics 2014*. Viewed at: http://kosis.kr/ups3/upload/101/IC/Explore%20Korea2014/EBook.htm.

[36] MOTIE online information. Viewed at: http://english.motie.go.kr.

[37] OECD (2016c).

[38] Statistics Korea (2015), *Explore Korea through Statistics 2014*. Viewed at: http://kosis.kr/ups3/upload/101/IC/Explore%20Korea2014/EBook.htm.

imports, fell to its lowest point in 2013 but picked up again in 2014. The share of imports from China increased from less than half, to more than 60% of total steel imports in Korea (Table 4.11).

Table 4.11 Steel developments, 2011-15

(MMT)

	2011	2012	2013	2014	2015
Domestic demand for steel	56.4	54.1	51.8	55.5	55.8
Total imports	23.1	20.7	19.4	22.7	22.1
Imports from China	10.2	10.2	9.9	13.4	13.7

Source: Information provided by the authorities.

4.100. Steel production is concentrated, with the largest two steel makers, POSCO and Hyundai Steel, accounting for 84% of total steel production. In 2016, import tariffs on iron and steel range from zero to 8%, the same as in 2012. Most tariff lines have their duty rates at zero, while the 8% tariff rate applies to some articles of iron and steel.

4.101. There are about 300 foreign-invested companies in the metal products sector.

4.102. The Government has been providing funds to raise the competitiveness of the steel sector in producing high-end products: 30 steel products are selected over a period of 10 years (3 products per year). Financial support of ₩100 billion is to be provided until 2019, with the aim of manufacturing the world's best eco-friendly smart steel plates under the World Premier Materials project.[39] To establish a "green steel industry", the Government is to provide ₩150 billion, representing 60% of the firm's total R&D costs (possibly from 2012) for eight years, to develop CO_2-free technologies for the iron and steel sector.

4.5.2 Automotive

4.103. Korea remains the world's fifth-largest automobile producer, after China, the United States, Japan and Germany. The majority of vehicles produced in Korea are exported (Table 4.12). Major export markets are: North America (50%), the EU (18%), the Middle East (13%), and Central and South America (8%).

Table 4.12 Automobile supply and demand, 2010-13

(1,000 cars)

		2010	2011	2012	2013
Production	Passenger cars	3,866	4,222	4,167	4,123
	Commercial vehicles	406	435	395	398
	Total	4,272	4,657	4,562	4,521
Domestic consumption	Passenger cars	1,218	1,211	1,176	1,137
	Commercial vehicles	248	263	235	246
	Total	1,465	1,475	1,411	1,383
Export	Passenger cars	2,611	2,981	3,013	2,948
	Commercial vehicles	161	171	158	141
	Total	2,772	3,152	3,171	3,089
Import	Passenger cars	100	113	149	186
	Commercial vehicles	4	5	5	5
	Total	105	118	154	191

Source: Statistics Korea (2015), *Explore Korea through Statistics 2014*. Viewed at: http://kosis.kr/ups3/upload/101/IC/Explore%20Korea2014/EBook.htm.

4.104. Imports of automobiles increased during the review period, although they remained much smaller than export volumes. According to the Explore Korea through Statistics 2014, this was caused by validation of RTAs, particularly the one with the EU. The authorities indicated that annual import volumes of automobiles from the EU increased from 62,281 in 2010 to 231,514 in 2015.

[39] WTO (2012).

4.105. The automotive industry is concentrated, with the three largest manufacturers: Hyundai, GM Korea (formerly Daewoo), and Kia, collectively accounting for about 90% of total production of automobiles. There are about 270 foreign-invested companies in Korea's motor vehicles and parts sector. GM Korean is 82.98% owned by foreign investors including General Motors and SAIC Motor Corporation, while Renault Samsung is 79.9% owned by Renault. Mahindra & Mahindra's share in Ssangyong Motors rose from 70.04% in 2011 to 72.85% in 2015.

4.106. In 2016 (same as in 2012), the customs tariff is 8% on passenger vehicles (HS 8703) and averages 9.7% on commercial vehicles.[40] The tariff rates are the same for new vehicles as for used cars, although a special customs valuation procedure is used for the imports of used vehicles.

4.107. The individual consumption tax, which is a special excise tax, applies to cars:

a. 5% on cars, with a temporary tax cut to 3.5% from 27 August 2015 to end-June 2016, to boost consumer spending;

b. Exempted on mini cars (less than 1,000 cc);

c. Reduced on hybrid cars (maximum ₩1 million, until 2018), and electric cars (maximum ₩2 million, until 2017).

4.108. The Government has implemented some tax and other incentives for the automobile sector during the review period, to boost consumption. For example, for cars of more than 2,000 cc, individual consumption tax was lowered from 10% in 2011 to 5% in 2015, and then to 3.5% from 27 August 2015 to June 2016; for other cars, the individual consumption tax was lowered from 5% to 3.5% from 27 August 2015 to June 2016; for hybrid cars, individual consumption tax, education tax, and acquisition tax were reduced (until 2018), and urban rail bond or community development bond purchase were exempted; for electric cars, both individual and education tax were reduced (until 2017), acquisition tax was reduced (until 2018), and urban rail bond purchase was exempted.

4.109. To facilitate the development of "green cars" including electric vehicles (EVs), the Government plans to increase the number of public fast charging stations (building 1,400 units of EV charging stations by 2020 through public-private collaboration), diversify charging type and method, develop infrastructure for the construction of hydrogen filling stations, provide incentives (₩27.5 million per vehicle) to FCEVs (fuel cell electric vehicles), and encourage automakers to lower prices for FCEVs (by ₩85 million in 2015, and by ₩64 million in 2018).

4.5.3 Shipbuilding

4.110. Korea is the second-largest shipbuilder in the world, after China. The number of ships built in both Korea, and the world, started to decline from 2011 (Table 4.13). Shipbuilding orders decreased by 38% in 2012, to 7,172,000 CGT.[41] The shipbuilding industry contributed to 1.8% of GDP in 2012, down from 1.9% in 2010 and 2011.[42]

Table 4.13 Shipbuilding trends, 2010-14

(1,000 GT)

	2010	2011	2012	2013	2014
Korea	31,698	35,850	31,383	24,504	22,455
World	96,433	101,845	95,271	70,480	64,442

Source: Statistics Korea (2015), *Explore Korea through Statistics 2014*. Viewed at: http://kosis.kr/ups3/upload/101/IC/Explore%20Korea2014/EBook.htm; and information provided by the authorities.

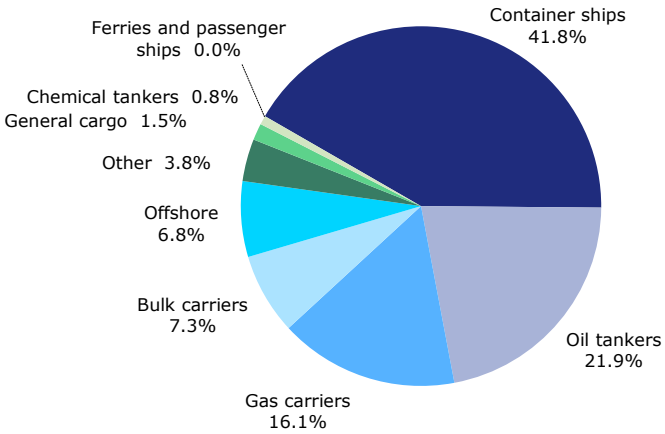
[40] The import tariff rate is zero for HS 870410 (dumpers for off-highway use), and is 10% for the other commercial vehicles (HS 8704).

[41] Compensated Gross Tonnage (CGT) is an indicator of the amount of work that is necessary to build a given ship and is calculated by multiplying the tonnage of a ship by a coefficient, which is determined according to type and size of a particular ship.

[42] OECD (2015f).

4.111. Reflecting competition from China, shipbuilders in Korea have moved towards more specialized higher value-added ships, such as container ships and oil tankers (Chart 4.1). The average vessel value in Korea was twice that of the global average in 2014.[43]

Chart 4.1 Deliveries of newly built vessels, 2014



Source: UNCTAD, *Review of Maritime Transport 2015*. Viewed at: http://unctad.org/en/PublicationsLibrary/rmt2015_en.pdf.

4.112. The shipbuilding industry is concentrated: by 2013, out of a total of 80 shipbuilding companies in Korea, 9 were large companies and the other 71 were SMEs. The three largest shipbuilders dominate the industry, accounting for 80% of the market share: Hyundai Heavy Industries (HHI) (also the world's largest shipbuilder), Samsung Heavy Industries (SHI), and Daewoo Shipbuilding & Marine Engineering (DSME).

4.113. The Government considered that the increased presence of government and government agencies in shipbuilding was based on market transactions, and would be temporary.[44] Currently, the Korean Development Bank (KDB), the Financial Services Commission (FSC), the Korea Finance Corporation (KOFC), the Export-Import Bank of Korea (KEXIM), and the National Pension Service (NPS) all hold significant shares of major shipbuilding companies (Table 4.14).

Table 4.14 Top five shareholders of listed shipbuilding companies, 2014

	Investor No. 1	Investor No. 2	Investor No. 3	Investor No. 4	Investor No. 5
HHI	Jeong (Mong Jun)	Hyundai Mipo Dockyard Co. Ltd.	National Pension Service (NPS)	Asan Social Welfare Foundation	Hyundai Heavy Industries Co. Ltd. employees
% share	10.15	7.98	6.09	2.53	1.55
DSME	KDB	FSC	NPS	Samsung Asset Management Co. Ltd	BlackRock Institutional Trust Company, N.A.
% share	31.46	12.15	9.11	1.34	1.01
SHI	Samsung Electronics Co. Ltd.	NPS	Mirae Asset Global Investment Co. Ltd.	Samsung Life Insurance Co. Ltd.	Korean Investment Management Co. Ltd.
% share	17.62	6.05	5.0	3.52	2.4
STX	KDB	NongHyup Bank	KOFC	KEXIM	Woori Bank
% share	35.97	25.10	17.50	13.50	10.69
Hanjin HI	Jo (Nam Ho)	J.P. Morgan Asset Management (Hong Kong) Ltd.	Dimensional Fund Advisors L.P.	Kim (Yeong Hye)	Jo (Won Guk)
% share	46.50	3.71	1.31	0.64	0.61

[43] OECD (2015f).
[44] OECD (2015f).

	Investor No. 1	Investor No. 2	Investor No. 3	Investor No. 4	Investor No. 5
Hyundai Mipo	Hyundai Samho Heavy Industries Co. Ltd.	NPS	Mirae Asset Global Investment Co. Ltd.	Hyundai Mipo Dockyard Company Ltd. Employees	BlackRock Institutional Trust Company, N.A.
% share	45.21	7.38	1.4	1.28	1.08

Source: OECD (2015), *Peer Review of the Korean Shipbuilding Industry and Related Government Policies*, 13 January 2015.

4.114. The Government is trying to maintain a level playing field between public and private entities, giving particular attention to SMEs. SMEs may be able to play a bigger role as suppliers in the value chain of large shipbuilding companies; at the same time, some parts of the shipbuilding and marine equipment industry are clearly more efficient with a larger scale.

4.115. In 2016 (same as in 2012), tariff protection for ships ranges from zero to 8%, with a simple average of 3.6%:

a. tariff rate of zero for HS 8901 (cruise ships, excursion boats, ferry-boats, cargo ships, barges and similar vessels for the transportation of persons or goods);

b. tariff rate of zero for HS 8902 (fishing vessels; factory ships and other vessels for processing or preserving fishery products);

c. tariff rate of zero for HS 8906 (other vessels, including warships and lifeboats other than rowing boats);

d. tariff rate of 5% for HS 8904 (tugs and pusher craft);

e. tariff rate of 5% for HS 8905 (light vessels, fire-floats, dredgers, floating cranes and other vessels the navigability of which is subsidiary to their main function; floating docks; floating or submersible drilling or production platforms); and

f. tariff rate of 8% for HS 8903 (yachts and other vessels for pleasure or sports; rowing boats and canoes).

4.116. The authorities indicated that the Government is currently reviewing the policy related to the restructuring of the shipbuilding sector.

4.117. The authorities indicated that there are about 270 foreign-invested companies in Korea's shipbuilding sector.

4.118. Ship financing is provided mainly through two state-owned export credit agencies: K-sure under the MOTIE, and Korea EXIM-Bank under the MOSF. K-sure mainly deals with export credit insurance (covering lender's losses against buyer's non-payment on loans), while Korea EXIM-Bank handles export credit loans (direct loans to ship owners, or to ship yards for the funds needed to produce vessels). In 2014, the shipbuilding industry received ₩5.5 trillion (US$5.3 billion), or 13.9% of the total export credit provided by Korea EXIM-Bank (Section 3.3.5). Korea also announced in November 2013 a ₩900 billion support scheme, for the development of basic research and human resources.

4.119. Financing arrangements provided for shipping services are likely to increase demand for vessels, while the increase in government exposure to the industry, via ownership and export credit policies, increases the risk to the Government's finances in cases of worsening performance of the shipbuilding industry.[45] It seems that private financial institutions have been playing an increasingly important role in the shipbuilding industry, either through equity positions, or as key creditors.[46]

[45] OECD (2015f).
[46] OECD (2015f).

4.5.4 ICT industry

4.120. The information and communications industry is another growth engine for Korea's economy. In 2015, value added produced in the ICT sector accounted for about 10% of GDP. It exported US$173 billion, accounting for 32.8% of total merchandise exports (Table 4.15). In 2015, the export value of Korea's ICT products accounted for 7.1% of the global market, ranking Korea the third-largest ICT exporter in the world, after China and the United States.

Table 4.15 Supply-demand trends in the ICT industry

	2010	2011	2012	2013	2014	2015
GDP (real, ₩ million)	1,265,308	1,311,893	1,341,966	1,380,833	1,426,972	1,464,244
ICT industry (real, ₩ million)	109,430	125,672	129,521	138,037	148,056	148,437
Share in GDP (%)	8.6	9.6	9.7	10	10.2	10.1
Total merchandise exports (US$ million)	466,384	555,214	547,870	559,632	572,665	526,757
Exports of ICT products (US$ million)	153,941	156,617	155,236	172,683	176,233	172,866
Share of ICT exports to total merchandise exports (%)	33	28.2	28.3	30.9	30.8	32.8
Total merchandise imports (US$ million)	425,212	524,413	519,584	515,586	525,515	436,499
Imports of ICT products (US$ million)	75,619	81,539	77,954	81,804	88,168	91,329
Share of ICT imports to total merchandise imports (%)	17.8	15.5	15	15.9	16.8	20.9

Source: IT Statistics of Korea. Viewed at: http://www.itstat.go.kr.

4.121. Korea's ratio of R&D investment in ICT equipment to total business expenditure on R&D (BERD) is high among OECD countries: in 2013, ICT R&D investment accounted for more than half of BERD in Korea (54%), the second highest among OECD economies.[47] The share of ICT patents in all the applications filed by Koreans with the Patent Cooperation Treaty (PCT) between 2010 and 2012 reached 47.8%, the highest in the OECD countries. The rankings of Korea in terms of technology cooperation between companies, and in terms of technology transfers between companies and universities, have improved: Korea was ranked 25th and 17th respectively among 60 countries in 2015, up from 39th and 29th respectively, in 2014.[48]

4.122. Korea is a participant in the WTO Information Technology Agreement (ITA). Tariffs on ICT products are all zero. There is no foreign investment restriction in the ICT sector.

4.123. The Ministry of Science, ICT and Future Planning announced a plan called "K-ICT Strategy" to make fundamental improvements to the ICT industry and enhance global cooperation. The Plan facilitates joint research among industries, academia and research institutes; fosters global convergence clusters in six major domains (transportation, energy, tourism, cities, education, and healthcare); removes burdensome regulations; and carries out large-scale demonstration projects to demonstrate the benefits of the IoT (internet of things), the cloud, information security, big data, and 5G, among others.

4.6 Services

4.6.1 Features

4.124. During the review period, while the growth rates of the manufacturing sector declined, those of the services sector remained rather stable (about 3% annually from 2011 to 2015)

[47] Korea Information Society Development Institute (2016).
[48] Korea Information Society Development Institute (2015); and Korea Information Society Development Institute (2016).

(Table 1.2). The share of services to GDP increased slightly, from 59.1% in 2011 to 59.7% in 2015, while its share in total employment increased slightly as well, from 68.9% to 69.8%. The largest contributor to gross value added within services remains wholesale and retail trade, followed by real estate and leasing, business activities, and public administration and defence.

4.125. Labour productivity of the services sector, although higher than that of the agriculture sector, remains at about half of that of the manufacturing sector and is far below the OECD average (86%). The OECD suggested that to develop the services sector, the first priority was to level the playing field between services and manufacturing, by eliminating policies favouring manufacturing, such as lower tax rates.[49] These policies have led resources flowing away from services to the manufacturing sector.

4.126. During the review period, exports of non-factor services rose from US$91 billion in 2011, to US$112 billion in 2014, and fell to US$98 billion in 2015 (Table 1.3). The main destinations of services exports are China, the United States, and Japan.[50] Imports of services rose from US$103 billion in 2011 to US$114 billion in 2015, leading to an increased services trade deficit (from US$12 billion in 2011 to US$16 billion in 2015). Transportation and travel are the main traded services.

4.127. Korea submitted its revised conditional offer concerning services in 2005,[51] and has not made any new offers since then. Its GATS commitments cover 98 of the 155 sectors.[52] Foreign equity limitations of 49% on commercial presence are scheduled for facilities-based basic telecommunication services. Specific national treatment limitations and/or additional commitments relate to accounting (auditing and book-keeping services), taxation, and architectural services. Foreign professionals in law and architecture can provide a limited range of services with approval of their qualification. Access to other services is mostly liberalized, except for certain sectors that retain regulatory measures (including educational services), and others that are subject to foreign equity ceilings (including aircraft rental and credit information services) (Section 2.7).

4.128. At the regional level, Korea already adopted services liberalization commitments under the FTAs with: ASEAN, Chile, EFTA, the EU, India, Peru, Singapore, and the United States. During the review period, six RTAs entered into force; among them, five contain services liberalization commitments (with Australia, Canada, China, New Zealand, and Viet Nam). One RTA signed, but not yet in force, also contains services commitments (with Colombia) (Section 2.6).

4.6.2 Financial services

4.129. Korea's financial services sector performed well during the review period, and reached a growth rate of 6.3% in 2015 (much higher than the growth rate of the services sector – 2.8%). The contribution from financial and insurance services to GDP continued to drop, from 6.4% in 2011 to 5.5% in 2015 (Table 1.2). It accounted for about 3.3% of total employment in 2014. The financial sector includes banks, and non-bank financial institutions including insurance companies (Table 4.16).

4.130. The Financial Services Commission (FSC) and its executive body, the Financial Supervisory Service (FSS), continue to regulate the financial services sector. The FSC is in charge of financial policies and supervision of financial institutions, while the FSS regulates financial markets and institutions under the direction and supervision of the FSC. The Securities and Futures Commission (SFC) within the FSC supervises and regulates the securities and futures markets.

4.131. The financial services sector is regulated under the Financial Holding Companies (FHCs) Act of 2009, the Financial Investment Services and Capital Markets Act, and the Banking Act. The FSC is in the process of revising the Banking Act, to increase the ownership ceiling to 50% for internet-only banks, and to lower the minimum capital level to ₩25 billion for internet-only banks.

[49] OECD (2014).
[50] WTO online information, "Services Profile: Korea". Viewed at: http://stat.wto.org/ServiceProfile/WSDBServicePFView.aspx?Language=E&Country=KR.
[51] WTO document TN/S/O/KOR/Rev.1, 14 June 2005.
[52] WTO document GATS/SC/48, 15 April 1994.

Table 4.16 Structure of the financial system, 2011 and 2015[a]

Institutions	No. of establishments		Assets (₩ billion)		Loans and discounts (₩ billion)	
	2011	2015	2011	2015	2011	2015
Banks	55	56	2,162,404	2,709,032	1,229,585	1,589,088
Commercial banks	50	51	1,547,829	1,837,716	880,147	1,032,497
Nationwide	7	6	1,219,238	1,389,968	765,235	859,743
Regional	6	6	135,415	187,294	86,931	124,165
Foreign bank branches	37	39	193,176	260,454	27,981	48,588
Specialized banks[b]	5	5	614,575	871,316	419,438	556,591
KDB	1	1	148,931	255,931	77,404	118,962
Korea EXIM	1	1	55,133	81,890	46,277	67,655
IBK	1	1	185,976	233,862	124,597	158,172
Non-bank financial institutions	1,253	1,211	868,015	1,305,885	213,368	306,422
Mutual savings banks	93	79	60,193	40,192	41,020	32,181
Credit unions	960	910	49,603	65,820	30,823	43,582
Specialized credit financial companies[c]	64	78	158,763	203,167	39,375	49,970
Life insurance companies	23	25	442,652	724,901	69,996	114,497
Non-life insurance companies	30	31	123,358	226,057	22,309	49,957
Asset management companies	82	87	3,889	4,952	-[d]	-[d]
Korea Securities Finance Corporation	1	1	29,587	40,796	9,845	16,235
Total[e]	1,308	1,267	3,030,419	4,014,917	1,512,953	1,895,510

a End of period figures.
b These are: the Korea Development Bank (KDB), the Export-Import Bank of Korea (KEXIM), the Industrial Bank of Korea (IBK), the National Agricultural Cooperative Federation, and the National Federation of Fisheries Cooperatives.
c These are credit card companies, leasing companies, instalment financing companies, and venture capital finance companies.
d The authorities stated that AMCs do not provide loans to the market.
e Does not include other quasi-non-bank financial institutions such as securities companies, investment advisory companies, futures companies, postal savings, etc.

Source: Financial Supervisory Service.

4.132. The Korean financial system is dominated by 9 financial holding companies (FHCs) (7 bank holding companies, 1 securities holding company, and 1 insurance holding company), constituting about 40% of financial sector assets. The FHCs have 77% of their consolidated assets in banking, accounting for about 68% of the banking sector assets. The financial companies under the bank holding companies are operating in almost all segments of the financial sector.

4.133. Foreign investment is allowed in financial institutions, except for special banks (Table 2.3). Foreign financial institutions accounted for about 11% of the financial sector assets. Foreign banks operate in Korea through locally incorporated subsidiaries, branches, and representative offices. There are 41 foreign-owned banks – 2 subsidiaries and 39 branches – from 16 countries making up about 14% of the banking sector. In the insurance sector, 12 insurance companies' subsidiaries from 5 countries make up 10% of the domestic insurance sector. In the securities sector, 21 foreign companies from 10 countries make up about 6% of the securities sector's assets. Non-financial companies' ownership in any commercial bank is restricted to 4% (15% for regional banks). This limit may be increased to 10% for special cases, if approved by the FSC.

4.134. The Korea Deposit Insurance Corporation provides protection of up to ₩50 million (US$42,000) per deposit in the event of a financial-institution failure. It is also the Government's bail-out agency, having injected ₩111 trillion into the financial system between November 1997 and September 2015. As at September 2015, ₩55 trillion had been recovered.

4.135. The Korea Credit Information Services (KCIS) was launched in January 2016. It consolidated credit information of the banking, financial investment, insurance and credit card industries, and provides information to financial institutions. Through consolidating information that had been previous managed separately, the KCIS improved the ability of insurance companies to detect insurance fraud. Also, by providing statistics on credit information, such as big data, to financial companies, including Fin-Tech (financial technology) start-ups, the KCIS enables companies to analyse the market trend and develop new financial products.

4.6.2.1 Banking

4.6.2.1.1 Structure and ownership

4.136. By the end of 2015, Korea has 56 banks, of which 51 were commercial banks and 5 were specialized banks. Among the 51 commercial banks, 6 were nationwide banks, 6 regional banks, and 39 foreign bank branches.

4.137. The commercial banking sector remains dominated by nationwide banks, which held 75.6% of the assets of commercial banks in 2015. Foreign banks accounted for about 14% of the assets, and regional banks 10.2%. Foreign holdings in Korean commercial banks have risen (Table 4.17).

Table 4.17 Government and foreign ownership of commercial banks, December 2015

(%)

Commercial bank	Type of ownership	
	Government	Foreign
A. Nationwide banks		
Woori (formerly Hanvit Bank)	KDIC (51.06) National Pension Fund (4.33)	Foreigners (20.36)[a]
SC Bank Korea	-	Standard Chartered NEA Limited (100)
Kookmin	-	KB Financial Group (100)
Shinhan[b]	-	Shinhan Financial Group (100)
Citibank Korea	-	COIC (Citibank Overseas Investment Corporation) (99.98)
KEB Hana	-	Hana Financial Group (100)
B. Local banks		
Daegu	-	DGB Financial Group (100)
Busan	-	BNK Financial Group (100)
Kwangju	-	JB Financial Group (56.97) Foreigners (5.90)[c]
Jeju[b]	-	Shinhan Financial Group (68.88) Foreigners (3.51)[d]
Jeonbuk	-	JB Financial Group (100)
Kyongnam	-	BNK Financial Group (100)

a The number of foreign stockholders: 801.
b Shinhan (100%) and Jeju (68.88%) are owned by the Shinhan Financial group.
c The number of foreign stockholders: 208.
d The number of foreign stockholders: 17.

Source: Information provided by the Korean authorities.

4.138. There are five specialized banks in Korea: the Korea Development Bank (KDB), the Export-Import Bank of Korea (KEXIM), the Industrial Bank of Korea (IBK), the National Agricultural Cooperative Federation, and the National Federation of Fisheries Cooperatives. Among these five, the KDB and the KEXIM are fully government-owned banks. The National Agricultural Cooperative Federation is now commercially operating (from 2012), but is still classified as a specialized bank according to the FSC. Privatization efforts of the KDB were suspended in 2013, when the Government prepared measures to consolidate the KDB and the KoFC (Korea Finance Corporation), to re-establish it as a financial policy institution. The IBK, which specializes in providing loans to SMEs, was initially offered to the public in 1994 on the KOSDAQ market, when the Government's ownership was reduced from 99.9% to 64.5%. As of 2015, the Government owns 50.6% of IBK's shares.

4.139. There have been no changes to foreign investment restrictions in the banking sector since the previous review. Prudential requirements are the same for domestic and foreign financial institutions, and are in accordance with internationally accepted standards. A foreign bank branch locating in Korea must:

a. have permission from its own regulatory authority and conduct banking business at home under appropriate supervision;

b. be from a reputable foreign bank;

c. have the necessary expertise in international banking business;

d. have proper risk-management procedures, a viable and sound business plan, and be able to supply the FSC with data needed for supervision; and

e. have core operational funds of ₩3 billion at the time of establishment.[53]

4.140. Since 2009, a private "bad-debt" bank – United Asset Management – has been in operation to buy and resell toxic assets. The Korea Asset Management Corporation – a public asset management company – is another major "bad-bank" operator, and there are a number of private firms operating in the market for non-performing assets. To enhance financial soundness in the banking sector, the Korea Asset Management Corporation has purchased ₩16,141 billion of impaired loans from financial institutions since 2012.

4.141. The banking sector is facing pressures from the country's changing economic environment. Interest rates are low: the sector's net interest margin (NIM) fell to 1.56% in the third quarter of 2015 after four 25-basis-point interest-rate cuts by the BOK since August 2014 (Section 1.3.1). Korea's banks have had traditionally close relationships with large conglomerates and their subsidiaries, thus the Government has been encouraging banks to shift lending to consumers and SMEs, as part of the efforts to diversify the economy. The authorities stated that banks needed to change their business approach, given a potential reduction of NIM (net interest margin) resulting from low interest rates and low growth trends in the economy. The Government has been placing greater autonomy and responsibility on banks.

4.142. The Government has been encouraging banks to invest overseas: in July 2014, the FSC announced a policy package allowing banks, insurance companies, and brokerages to diversify into each other's territory in overseas markets, despite the domestic regulations that strictly divide lines between different sectors. At the end of 2015, there were 44 subsidiaries and 69 branches of Korean banks operating abroad, up from 41 and 63 respectively at end-2013, with assets increasing from US$77.8 billion to US$88.1 billion during the same period.

4.6.2.1.2 Profitability and non-performing loans

4.143. From December 2013, Korea began introducing Basel III capital-adequacy regulations for banks. Banks are required to meet detailed capital-adequacy ratios for each tier of capital: at least 3.5% of risk-weighted assets as common-equity capital and 4.5% as tier-1 capital. These ratios increased to 4.5% and 6% respectively in January 2015. From January 2016, banks are required to hold a capital conservation buffer, initially set at 0.625% (to rise to 2.5% by 2019). Korean banks remain well capitalized: local banks' tier-1 capital and common-equity capital ratios were well above the Basel III requirements (Table 4.18). In December 2015, the FSC and the FSS designated a number of banks as "domestic systematically important banks (D-SIBs)", in line with the Basel Committee on Banking Supervision's framework for dealing with D-SIBs. These banks are: Hana Financial Group, Shinhan Financial Group, KB Financial Group, Woori Bank, and NH Financial Group.

[53] This core operational fund is similar to the minimum capital requirement, and it has not changed since the previous Review in 2012.

Table 4.18 Banking indicators[a], 2010-15

(%)

	2010	2011	2012	2013	2014	2015
Capital adequacy ratio	14.6	14.0	14.3	14.5	14.0	13.9
Tier-1 capital ratio	11.6	11.1	11.1	11.8	11.4	11.3
Return on assets	0.5	0.7	0.5	0.2	0.3	0.2
Net interest margin	2.3	2.3	2.3	1.9	1.8	1.6

a Includes nationwide commercial banks, regional banks, and specialized banks.

Source: IMF (2015), *Republic of Korea: 2015 Article IV Consultation—Staff Report: Press Release and Statement by the Executive Director for the Republic of Korea*, IMF Country Report No. 15/130. Viewed at: https://www.imf.org/external/pubs/cat/longres.aspx?sk=42952.0; and information provided by the Korean authorities.

4.144. According to the IMF, the aggregate bank non-performing loan (NPL) ratio increased in 2013, although from a low level, driven by a rise in NPLs to large companies in the shipbuilding and construction sectors.[54] The ratio of loans classified as sub-standard or below (SBLs) – substandard, doubtful, or presumed loss – reached its peak in 2010 and 2013, and fell in 2014 and 2015 (Table 4.19).

Table 4.19 Substandard and below loans, 2009-15

(% of total loans)

	2009	2010	2011	2012	2013	2014	2015
Commercial banks	1.2	1.9	1.3	1.3	1.7	1.4	1.1
Specialized banks	1.4	2.0	1.5	1.4	1.9	1.8	2.9
Mutual savings banks	9.3	10.8	16.4	19.8	21.7	15.7	10.2
Credit unions	3.7	3.7	3.6	4.2	4.6	3.5	2.4

Source: IMF (2015), *Republic of Korea: 2015 Article IV Consultation—Staff Report: Press Release and Statement by the Executive Director for the Republic of Korea*, IMF Country Report No. 15/130. Viewed at: https://www.imf.org/external/pubs/cat/longres.aspx?sk=42952.0; and information provided by the Korean authorities.

4.6.2.1.3 Non-banking

4.145. Non-bank financial institutions refer to mutual savings banks (MSBs), specialized credit financial business companies, credit unions, and agricultural, fishery and forestry cooperatives. Mutual savings banks are small-scale deposit taking institutions. Specialized credit financial business companies comprise credit card companies, instalment financing companies, leasing companies, and new technology venture capital companies.

4.146. From 2011 to 2015, the number of non-bank financial institutions dropped, while the value of total assets increased by 50% (Table 4.16). Both the number and the asset value of MSBs went down (reflecting recessions in the real estate market as MSBs have a large volume of project financing), while both increased for credit specialized financial companies (from higher credit card sales and automobile leasing). Regarding credit unions, the number of establishments was reduced by 5%, but the asset value was increased by 30% (reflecting merger and voluntary dissolution, and the increased influx of deposits).

4.147. By the end of 2015, a total of 56 securities companies were in operation in Korea, with aggregate assets increasing from ₩270.5 trillion in 2013, to ₩344.4 trillion in 2015. Among them, 21 were foreign-owned securities companies: 11 subsidiaries and 10 branches. There were 87 asset management companies: 65 domestic and 22 foreign. Net profit of AMCs more than doubled, up from ₩219 billion in 2011 to ₩490 billion in 2015. There were also six futures companies, with aggregate assets of ₩3.8 trillion by the end of 2015 (up by 47.5% from 2014). When seeking to set up a securities or an asset management company in Korea, a foreign entity is subject to the same requirements as domestic firms, such as: sound and feasible business planning, sound balance sheet, sufficient human and physical resources for investor protection and a system for preventing conflict of interest.

[54] IMF (2015).

4.6.2.2 Insurance

4.6.2.2.1 Recent developments

4.148. Korea has a large insurance sector, and ranks high in the world in terms of insurance penetration. In 2015, Korea's insurance sector was ranked the eighth-largest in the world in terms of the total premium (₩195.6 trillion or US$145 billion). Insurance penetration was 11.3%, the 4th in the world, and insurance density was US$3,163 per person, the 19th in the world. Korea has the third-largest insurance sector in Asia, after Japan and China.

4.149. During the review period, the insurance sector continued to grow, particularly in retirement saving products reflecting demographic aging expectations. As at June 2015, Korea had 56 insurance companies – 25 life insurance and 31 non-life insurance companies (Table 4.16). The authorities stated that, among all the insurance companies, 27 are foreign invested. The aggregate assets reached ₩951 trillion at the end of 2015, an increase of ₩88.6 trillion from 2014.

4.150. The insurance market is concentrated: the top five insurers have a market share of 61% in the life sector, and 73% in the non-life sector. Local companies dominate the industry, with foreign-owned ventures playing mostly secondary roles. In 2015, the share of foreign firms was 15.9% in the life insurance sector, and the share of foreign non-life insurers was 3.2%. As of April 2016, Korea had 10 re-insurance companies.

4.151. A 2016 EIU report considered that the rapidly aging population in Korea meant that the industry's pool of future customers is limited.[55] Large insurance companies already began to look for growth in overseas markets. Domestically, insurance companies also look to new business areas such as medical insurance and retirement products, which offer growth potential.

4.6.2.2.2 Regulatory framework

4.152. The insurance sector is regulated mainly under the Insurance Business Act (recently amended in 2014 and 2016), the Commercial Act (most recently amended in 2014), and subordinate statutes such as: the Enforcement Decree of the Insurance Business Act, the Enforcement Rules of the Insurance Business Act, the Regulation on Supervision of Insurance Business, and the Detailed Regulations on Supervision of Insurance Business.[56] The authorities stated that amendments to the Insurance Business Act were mainly to strengthen protection of consumers through, for example, streamlining insurance policy registration procedures, and incorporating the provision on insurance policy cancellation into the Insurance Business Act (previously this provision was contained in the Detailed Regulations on Supervision of Insurance Business), so that insurance contracts' cancellation became easier. The section related to insurance services in the Commercial Act was amended in 2014, covering, *inter alia*:

a. A requirement for insurers to explain insurance contract provisions to policyholders;

b. Extension of the cooling-off period; and

c. Introduction of new insurance policies such as guarantee insurance and disease insurance.

4.153. The FSC and the FSS are responsible for supervising the insurance industry, and the FSC delegates supervision and inspection activities to the FSS. The Korea Deposit Insurance Corporation (KDIC) maintains a policy holder protection fund against insurance failure. KDIC is an integrated insurance protection body that insures insurers, banks, financial investment businesses and mutual savings banks. The KDIC finances its deposit insurance fund with contributions from insured financial institutions, based on which it performs its functions including paying-out of deposit insurance (Section 4.6.2). The Korea Insurance Development Institute (KIDI) calculates

[55] EIU (2016).
[56] KIDI online information. Viewed at: https://www.kidi.or.kr/eng/other/laws_regulations.asp.

and provides reference rates and statistical analysis to insurers and regulators based on data collected from member companies.[57]

4.154. The bancassurance market, under the Insurance Business Act, allows insurance companies to sell policies through banking channels. Life and non-life insurance is strictly divided: life insurance companies are not allowed to provide non-life insurance business, and vice versa.

4.155. The Government announced an insurance industry deregulation package in October 2015, containing deregulation in areas from product development, marketing and pricing, to asset management and financing. According to the package, insurers have much greater autonomy over insurance products, insurance premiums and interest rates. As part of this initiative, ex-ante review (file & use) of insurance products was replaced by an ex-post reporting (use & file) requirement. In addition, the standard interest rate system was abolished, to allow greater autonomy over insurance premiums and interest rates while leaving the private sector to draft standard policy provisions.

4.156. There are no foreign equity restrictions. Insurance companies, both domestic and foreign, must maintain funds of at least ₩30 billion to do business in Korea. This requirement changed to ₩3 billion for insurance branches. If insurers seek to handle not all but certain insurance products, they need to maintain funds of at least ₩5 billion, pursuant to presidential decree.

4.6.3 Communications and postal services

4.6.3.1 Communications

4.157. The growth rate of the information and communications sector slowed down from 5.7% in 2011 to 2.3% in 2015. It contributed to 3.8% of GDP in 2015, and accounted for about 3% of total employment (Table 1.2). Korea has high IT rankings internationally. In 2015, Korea was ranked first out of 166 economies in the ITU's ICT Development Index, after ranking second in 2014.[58] This is because of Korea's early adoption of information technology, a strong and innovative IT industry, high levels of education, government awareness of and support for ICT projects, and an ICT culture (a high degree of ICT awareness and an eagerness to adopt new technologies).[59] According to the World Economic Forum, Korea was ranked 12th in its networked readiness index 2015, among 148 countries in the world.[60]

4.158. Korea launched the LTE services (long term evolution) in 2011, and has been expanding it in the country. LTE (and LTE advanced) traffic accounted for 77% of total mobile-communication traffic in 2014, up from 9.5% in 2012, reflecting Korea's rapid switch to LTE networks.[61] The new technologies contributed to improving the speed and quality of networks, rather than expanding the subscriber base, as the mobile-broadband penetration rate was already high (97.7% in 2010).

4.159. Over the review period, fixed-line penetration went down, while mobile phone penetration continued to be over 100%, reaching 115% in 2014 (Table 4.20). Fixed wired broadband subscriptions continued to increase, while the percentage of individuals using the Internet increased from an already high base (83.7% in 2011) to 84.3% in 2014.

Table 4.20 Selected telecommunications indicators, 2011-15

	2011	2012	2013	2014	2015
Fixed (number)	29,468,502	30,099,175	30,333,077	29,481,226	28,882,783
Fixed (per 100 inhabitants)	60.5	61.4	61.6	59.5	..
Mobile (number)	52,506,793	53,624,427	54,680,840	57,290,356	58,935,081
Mobile (per 100 inhabitants)	107.7	109.4	111.0	115.7	..
Fixed (wired) broadband subscriptions (number)	17,859,522	18,252,661	18,737,514	19,198,934	20,024,419

[57] KIDI online information. Viewed at: http://www.kidi.or.kr/eng/chairman/message.asp.
[58] ITU (2015).
[59] ITU (2015).
[60] WEF (2015b).
[61] MSIP and KISA (2014), *Korea Internet White Paper*. Viewed at: http://isis.kisa.or.kr/eng/ebook/EngWhitePaper2014.pdf.

	2011	2012	2013	2014	2015
Fixed (wired) broadband subscriptions (per 100 inhabitants)	36.7	37.3	38.0	38.8	..
Percentage of individuals using the Internet	83.8	84.1	84.8	84.3	..

.. Not available.

Source: ITU World Telecommunication/ICT Indicators Database. Viewed at: http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx; and information provided by the Korean authorities.

4.160. There are three main providers of fixed-line telecommunications services: Korea Telecom (KT), SK Broadband, and LG U+. They provide local, national, and international telephony services. KT is the dominant carrier, accounting for more than 80% of the local market, and 78.9% of the long-distance market. Some other smaller companies also provide national long-distance services and international services. The mobile phone sector has three main suppliers: SK Telecom, KT, and LG U+; in 2015 their market shares were 49.1%, 30.6%, and 20.3%, respectively.[62] The shares of foreign participation are listed in Table 4.21, while none of these companies are state owned.

Table 4.21 Ownership structure of major telecom operators, December 2015 and May 2016

Company	Market share (%, as at December 2015)		State participation	Foreign participation
	Fixed line	Mobile phone	(% of shares, as at 18 May 2016)	
Korea Telecom	80.5	30.6	None	49.0[a]
SK Telecom	n.a.	49.1	None	40.24
LG U+	3.1	20.3	None	36.46
SK Broadband	16.4	n.a.	None	..

n.a. Not applicable.
.. Not available.

a Korea's GATS commitments on KT said that it would not be more than 33% foreign owned, i.e. not subject to the normal 49% foreign equity restriction for other infrastructure-based suppliers. However, this policy was changed and foreign participation reached 49%.

Source: Korea Communications Commission, and the MSIP.

4.161. Licensing and pricing of the telecommunications market is the responsibility of the Ministry of Science, ICT and Future Planning (MSIP). The Korean Communications Commission (KCC) under the President's Office is the regulatory entity responsible for the promotion of fair competition and consumer protection in the telecommunication market. KCC is also responsible for arbitration in disputes between carriers, and between carriers and users. In 2015, 63 arbitration cases were submitted to the KCC for arbitration (up from 15 submissions in 2012, 12 in 2013, and 16 in 2014). Among the 63 cases, 42 were dropped, 15 were dismissed, and 6 cases were admitted or denied by the KCC.

4.162. The main legislation governing the information and communications sector comprises:

a. the Telecommunications Basic Act (providing the basic telecommunications policy framework);

b. the Telecommunications Business Act (regulating the telecommunications sector); and

c. the Telecommunications Business Act Enforcement Decree of 2010 (providing the standards for wholesale providers and their mandatory services for the implementation of a wholesale system, and requirements for services resellers).

[62] Several mobile virtual network operators (MVNOs) are also providing mobile telephone services; however, their market shares are not significant.

4.163. Licensing requirements are set out in the Telecommunications Business Act, which was most recently amended in 2013.[63] Foreign investment in basic telecommunication services is subject to a ceiling of 49%, while non-infrastructure based (resale) services and value-added telecom services are fully open to foreign investment. The authorities stated that, for basic telecommunication services, foreign corporations from certain RTA partners and which had passed the public interest review, are not subject to this investment restriction. The MSIP may prohibit a foreign shareholder from becoming the largest individual shareholder (5% or more of shares) in KT.

4.164. As regards audiovisual services, no more than 20% foreign equity is allowed for Internet multimedia broadcast service which provides general service programming or specialized programming of news reports (Table 2.3).

4.165. Universal service is a basic telecommunication service that is provided to all users at an appropriate rate anytime, anywhere through, *inter alia*, fixed-line, or service rate reduction for low-income groups. All telecommunication carriers have the obligation to provide universal service in Korea, or compensate any losses caused by the provision of such service; the MSIP may exempt carriers from this obligation. The authorities stated that in practice, there are companies exempt from this obligation.

4.166. The MSIP evaluates annually market competition in each service segment, and designates the services and service suppliers requiring price approvals. KT, in the local fixed-line telephone market, and SK Telecom, in the mobile phone market, were subject to price approval by the MSIP. Price changes are approved within 30 days, with a possibility of a one-time extension. Telecommunication tariffs that do not require MSIP approval need to be notified to the MSIP.

4.167. To prevent mobile business operators from engaging in illegal mobile phone subsidy competition, the MSIP and the KCC enforced the Mobile Device Distribution Improvement Act in October 2014. According to this Act, mobile business operators must disclose the price and subsidies of their mobile devices, and to those who do not receive subsidies, mobile business operators must provide a discount rate corresponding to the subsidy. After the enactment of the Act, greater competition pushed the three mobile phone operators to release new policies in rates and services that involved scrapping membership fees (ST), removing agreement and termination fees (KT), or lowering full retail price of the iPhone 6 (LG U+).[64] Household communication expenses continued to drop, reflecting a drop in the factory prices of mobile devices, the release of more budget-price devices, competition in rates, and more rational consumption patterns. The average monthly communication expenses fell from ₩152,792 in 2013, to ₩150,350 in 2014 and ₩147,725 in 2015.

4.168. The MSIP formulates the scope of interconnection agreements, and sets interconnection charges based on a long-run incremental cost methodology. Operators must conclude an agreement within 90 days of receiving a request from another operator.

4.169. In 2012, Korea revised its privacy law to require data breach notification, with further revisions in 2014 to increase data breach fines and allow individuals to claim statutory compensation. Korea's privacy laws also include the Act on Promotion of Information and Communication Network Utilization and Information Protection, and the Personal Information Protection Act; the latter has a general notification requirement in the event of a data breach.[65] These privacy laws apply to all telecom-related areas, including Internet services, telecommunication services, data services, and coverage of data breaches by computer services. Personal information is defined as any information related to persons (privacy, address, etc.). Following this, in March 2016, Korea introduced punitive damages of up to 3 times the amount of damages in the Network Act in order to strengthen the remedy for data breach victims.

[63] Telecommunications Business Act. Viewed at: http://www.moleg.go.kr/english/korLawEng?pstSeq=47567.

[64] KCC (2015).

[65] OECD (2015b).

4.6.3.2 Postal services[66]

4.170. Korea Post's postal services have been growing at a rate of 3.5% in 2013 and 4.3% in 2014, before it contracted by 2.9% in 2015. Postal services face competition from express/courier services, which have been growing at an average annual rate of 14.5% from 2004 to 2015.

4.171. Korea Post is the national operator of postal businesses in Korea, in accordance with rules and regulations including the Postal Service Act. Korea Post does not assume regulating functions except acceptance of business registration for letter delivery.

4.172. Some postal services are reserved for Korea Post: delivery of letters if the weight of each letter is not more than 350 grams and the postage charge for each such letter does not exceed ten times the ordinary postal charge prescribed by presidential decree. Registered letters dispatched by a state agency or local government are also reserved for Korea Post. Apart from these reserved services, postal services are open to domestic competition. According to the Foreign Investment Promotion Act, postal business is not open to foreign investment.

4.173. Universal postal service, reserved for Korea Post, is defined as:

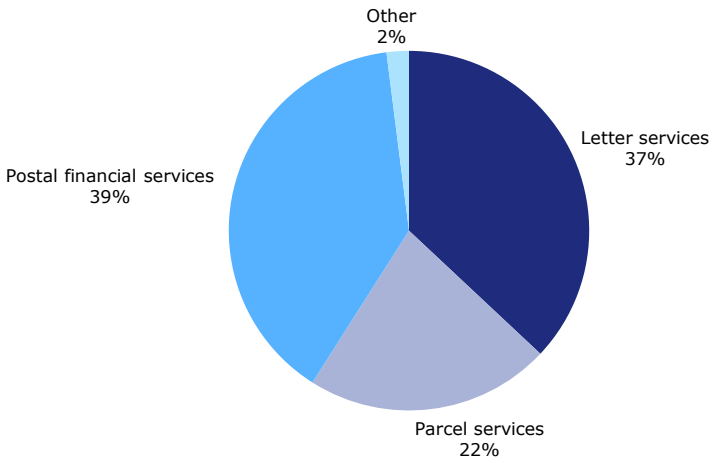
a. Letters weighing below two kilograms per item;

b. Parcels weighing below 20 kilograms per item;

c. Mail items with value added features including recorded items of the above categories.

4.174. Korea Post sets postal rates, in consultation with the Ministry of Strategy and Finance. Consultation is not required for postal rates for domestic and international parcels, Express mail services and postal money orders. The authorities indicated that in 2015, Korea Post made a profit with 39% of its income linked to postal financial services and 37% to letter services (Chart 4.2).

Chart 4.2 Postal services, 2015



Source: Information provided by the authorities.

4.6.4 Transport services

4.175. While seaborne transport is used mainly for cargo and freight, air dominates the international transport of passengers. Around 95% of international tourists come to Korea by air, thus an increase in air routes and seat supply is important for the promotion of tourism in Korea. Road dominates domestic transport. Both road and air transportation are subject to competition laws, while the international liner transport segment of maritime transport is exempt.

[66] UPU online information, "Status and Structures of Postal Entities: Korea (Rep.)". Viewed at: http://www.upu.int/fileadmin/documentsFiles/theUpu/statusOfPostalEntities/korEn.pdf.

4.6.4.1 Maritime transport

4.176. According to UNCTAD data, in 2015, Korea had the world's sixth-largest fleet in deadweight terms (4.62% of total dwt) consisting of 80.2 million tonnes (1,618 vessels), of which 80% (in terms of total tonnage, 843 vessels) were foreign flagged.[67] The maritime transport sector continued to grow: according to ISL (Institute of Shipping Economics and Logistics) figures, the country's merchant fleet capacity changed from 51 million gross tonnes in 2011, to 82 million gross tonnes in 2015. The sector remains concentrated: the five largest operators controlling 55.2% of the market in 2015, up from 53% in 2011.

4.177. The maritime sector is regulated by the Ministry of Oceans and Fisheries, under the Maritime Transport Act, which was amended to include the reinforcement of ship safety management following the Sewol Ferry Disaster in 2014. Registration requirements for general carriers include capital stock of ₩1 billion or more, and carrier cargo capacity of 10,000 tonnes or more.

4.178. Foreign investors face a 50% equity limit in maritime transport, and must enter into joint ventures with domestic shipping companies. Cabotage is reserved for Korean vessels, except transportation between the Democratic People's Republic of Korea and the Republic of Korea: foreigners may participate in goods and passenger transport between the Democratic People's Republic of Korea and the Republic of Korea, as a minority joint-venture partner with a firm of the Republic of Korea.

4.179. As in the previous Review, foreign carriers have national treatment at Korean ports and in the ship registration process. The captain and chief engineer of a Korean-flagged vessel must be of Korean nationality. For specifically designed vessels, the number of foreigners allowed on board is limited to six; these vessels include those transporting materials that significantly affect the national economy or national security, e.g. military supplies, petroleum, LNG, coal, etc.

4.180. According to UNCTAD's Liner Shipping Connectivity Index (LSCI), which aims at capturing an economy's level of integration into the existing liner shipping network by measuring liner shipping connectivity, Korea ranks fourth (after China; Singapore; and Hong Kong, China).[68] The LSCI is generated from five components: the number of ships; their total container-carrying capacity; the number of companies providing services with their own operated ships; the number of services provided; and the size (in TEUs) of the largest ship deployed. Liner shipping companies are exempted from competition laws, and their concerted actions are allowed.

4.181. The Government continued to make efforts to develop Korea as a logistics and shipping hub for North East Asia. To reach these objectives, various tax incentives have been used. For example, the voluntary tonnage tax system (TTS) continued to be applied to shipping companies.[69] The TTS is based on the net tonnage of individual vessels. Under the TTS, qualified shipping companies may divide their income into shipping income and non-shipping income. The mandatory period for application of the TTS is five years, and companies that opt for it must pay it even when they experience operating losses. When the operation profits are generated, the TTS allows for a lower effective tax rate than the corporate income tax system. 70 companies participated in this system in 2015.

4.182. International vessels registered under the Minister of Oceans and Fisheries, and having one of the ports in Jeju-do designated as a port of shipment, benefit from tax breaks relating to the acquisition, registration and property taxes.

4.183. The Ministry of Oceans and Fisheries administers ports. Ports are state-owned and facilities are provided free of rent to the Korea Container Terminal Authority, which in turn rents port facilities to private terminal operators. Container throughput reached 25.7 million TEU in 2015, up from 21.6 million TEU in 2012.[70] Transhipment cargoes reached 10,719,000 TEU in 2015, up from 6,641,000 TEU in 2011. Busan is the largest port in Korea, and the ninth-largest in the world. Its berth productivity increased from 80 container moves per ship/per hour on all vessel sizes in 2012,

[67] UNCTAD (2015a).
[68] UNCTAD (2015a).
[69] Ministry of Strategy and Finance (2012).
[70] UNCTAD (2015a).

to 102 in 2014.[71] Most maritime auxiliary services, including tug services, freight forwarding, and maintenance and repair services are provided by the private sector; pilots must be Korean.

4.184. The Government is in the process of expanding port infrastructure to facilitate the transport of import and export cargo. It has been promoting public-private partnership as one of the means for the early supply of port infrastructure, notably at Busan, Incheon, Pyeongtaek-Dangjin, Ulsan, and Gwangyang, as they were developed and operated by private funds. For 31 trading ports, non-profitable facilities such as seawall, dredging, shore protection, and hinterland transportation are provided by the Government, while profitable facilities such as container terminals are privately operated.

4.185. Port charges remain moderate compared with other ports in the region. Port charges include those for vessels (port dues, berth hire, anchorage, and laid-up charges), cargo (wharfage, demurrage), passenger terminal rental charges, and exclusive usage charges (warehouse and yard).[72] The authorities indicated that the port facility usage fee in Korea is about half that in Japan and China. Port charges for imports and exports are the same.

4.6.4.2 Air transport

4.186. In terms of aircraft movements, the number of passengers and the volume of freight, international scheduled flights have been growing faster than the domestic sub-sector (Table 4.22).

Table 4.22 Air transport, 2011-15

	2011	2012	2013	2014	2015
International scheduled flights					
Aircraft movements	267,022	298,517	320,302	349,006	372,752
Passengers	41,413,167	46,046,712	48,692,732	54,498,445	59,467,874
Freight (kg)	2,912,838	2,984,302	3,082,960	3,269,230	3,355,255
Domestic scheduled flights					
Aircraft movements	147,213	148,765	155,952	165,102	179,336
Passengers	20,357,717	20,526,700	21,471,586	23,845,607	27,453,933
Freight (kg)	275,431	256,975	246,314	275,964	284,360

Source: Korea Civil Aviation Development Association, *Aviation Statistics 2015*.

4.187. Air transport is regulated under the Aviation Act, by the Ministry of Land, Infrastructure and Transport. The current aviation policy aims at: building Korea as an aviation powerhouse leading the pan Pacific region; expanding the number of cities and international routes to make Korea the largest air transport hub in Asia; expanding the international aviation network by negotiating with countries in America and Africa, and pursuing open skies agreements with the EU and ASEAN; promoting open skies agreements with Asian countries; increasing the supply capacity of low cost carrier services; and establishing the second Area Control Centre by 2017.[73]

4.188. In 2014, Korea ranked the world's sixteenth- and the fourth-largest country in terms of air passenger traffic and freight traffic respectively. Korea has eight national flag carriers: two full service carriers (Korean Air and Asiana Airlines), and six low cost carriers (Jeju Air, Air Busan, Jin Air, Eastar Jet, t'way, and Air Seoul), and a cargo carrier Air Incheon. All airlines are privately owned.

4.189. International air services are governed by bilateral air services agreements (ASAs), and Korea has signed bilateral ASAs with 94 countries (92 in 2011), including open skies agreements. Information on 60 of the ASAs is contained in the Table A4.1. Most ASAs date back nearly 20 years and score an Air Liberalization Index (ALI) of under 10 (out of a possible maximum of 50).[74] This

[71] UNCTAD (2015a).

[72] Busan Agency online information. Viewed at: http://www.busanagency.kr/html/portcharge.html.

[73] Ministry of Land, Infrastructure and Transport (MOLIT) online information. Viewed at: http://english.molit.go.kr/USR/sectoral/m_29572/dtl.jsp.

[74] ALI index is a synthetic measure of the openness of a given ASA devised by the WTO Secretariat for the purposes of the GATS-mandated Review of the Annex on Air Transport Services. The value of the ALI ranges between 0 for very restrictive agreements, and 50 for very open ones. For more information, see WTO document S/C/W/270/Add.1.

is largely a reflection of the absence of any 7th freedom or cabotage traffic rights, of a withholding clause based on "substantial ownership and effective control" and of fairly restrictive pricing and capacity clauses in those agreements. Notable exceptions are the ASAs concluded with the United States and with Japan (which score an ALI of 28 and 26.5, respectively), essentially because of the inclusion of more liberal pricing and capacity provisions.

4.190. Incheon International Airport is Korea's major gateway; there are another 14 local airports. It is operated and managed by the Incheon International Airport Corporation, a government-owned entity. It is a global hub connecting 186 cities in 54 countries. According to the Korea Office of Civil Aviation (KOCA) under the Ministry of Land, Infrastructure and Transport (MOLIT), once the third phase expansion project is completed by 2017, Incheon airport is expected to emerge as a stronger hub airport for northeast Asia, handling over 62 million passengers and 5.8 million tonnes of cargo annually.[75]

4.191. There has been no privatization of the airports in Korea since 2012. All local airports remain managed and operated by the Korea Airports Corporation, a government-owned entity.

4.192. Cabotage is reserved for domestic carriers. There have been no changes to the framework regulating foreign participation in the air transport sector. Foreign ownership of Korean airline operators is limited to less than 50%, and operators must register their aircraft in Korea. Foreign investment in air transport supporting activities is allowed, except for aircraft maintenance, repair and overhaul, where foreign investment is limited to less than 50% (Table 2.3). National carriers may have their aircraft repaired/maintained abroad, but only by those overseas mechanics with Designated Overseas Maintenance Mechanic Certificates. There is no monopoly computer reservation system (CRS) provider, nor an obligation to use a certain CRS supplier. Self-handling, mutual handling and/or third-party handling are allowed, and there are no limits to the number of ground-handling suppliers at major airports.

4.193. Take-off and landing slots are allocated in the order of priority, according to slots retained from the previous season for scheduled air services, slots used for scheduled air services in the previous equivalent and non-equivalent season, and new slots requested for scheduled and non-scheduled air services. The landing charge at Incheon Airport is: ₩8,600 per tonne for international routes, and ₩3,000 per tonne for domestic routes.

4.6.4.3 Land transport

4.194. Domestic transport of passenger and freight is dominated by road (in 2013, 87.5% for passenger and 90.8% for freight), followed by railways (12.3% for passenger and 2.3% for freight).

4.195. Road transport is regulated by the Ministry of Land, Infrastructure and Transport (MOLIT). Currently Korea has over 106,414 km of road, with 32 expressways and 51 national highways. Road transport operators must comply with an economic needs test to obtain licences. The Government encourages private investment in road construction, through build-transfer-operate (BTO) contracts.

4.196. Railway transport is regulated under the Railroad Enterprise Act, by the Rail Policy Bureau within the MOLIT. Train fare changes (including freight rates) must be notified to the MOLIT. Railway network operation is managed by the Korea Rail Corporation (Korail), a state-owned corporation. The Korea Railway Network Authority, a state monopoly and owner of the high-speed railways, is responsible for railway construction activity.

4.197. All railway operators must be licensed, by the MOLIT, and meet the requirements listed in the Railroad Enterprise Act. Foreign enterprises may supply rail transport services for routes built since 1 July 2005, on the condition that they comply with an economic needs test and the licensing requirements stipulated in the Railroad Enterprise Act. There are three private companies in the rail transport sector.

[75] KOCA (2012).

4.6.5 Distribution services

4.198. The distribution services (wholesale and retail trade) contributed to 8.3% of GDP in 2015, and accounted for almost 15% of total employment (Table 1.2). Its growth rate went down, from 6.5% in 2011 to 3% in 2015.

4.199. The distribution sector is regulated under the Distribution Industries Development Act, enacted in 1997 and most recently amended in 2015. According to the amendment, local government may order hypermarkets and SSMs (super supermarkets) to restrict business hours or suspend a business day or two days in a month to preserve the tradition and history of the local distribution industry, and to protect employees' rights and health.

4.200. The distribution sector is also subject to the competition policy and consumer protection legislation (Section 3). The authorities indicated that there have been no anti-competition cases in the distribution sector since 2012.

4.201. Foreign entry in trading activities is allowed, except: pharmaceuticals, medical, and functional goods; firearms, explosives, and swords; works of art and antiques; and operation of distribution services at public wholesale markets for agricultural, fishery, and livestock products. Foreign participants are accorded national treatment.

4.202. The MOTIE regulates the distribution services sector: any person (domestic or foreign) intending to open a large store or a SSM in any traditional commerce preservation area must register with the local government before commencing their business. A licence is not required. Restrictions are applied on the access of large retailers (super supermarkets) to traditional markets. Local governments may enact ordinances to limit access by large retailers and SSMs to traditional markets within a 500 m radius. A 2011 amendment to the Act increased the area of limited SSM access to a maximum radius of 1 km, and the validity of the restrictive rules was extended from 3 to 5 years. This regulation is valid until 2020, according to an amendment in 2015.

4.6.6 Tourism[76]

4.6.6.1 Recent developments

4.203. Tourism plays an increasingly important role in Korea's economy, accounting for 5.8% of GDP in 2014. The total number of employees in the tourism industry (both direct and indirect) was estimated to be 1.6 million, or around 7% of total employment. Accommodation and food service activities accounted for 2.7% of GDP in 2015 and 8.4% of employment (Table 1.2).

4.204. Tourism income was US$18.1 billion in 2014, up by 24% from that of 2013. Tourism expenditure was US$19.8 billion, and the tourism deficit was US$1.7 billion, the lowest since 2009. Tourism income has been rising, because of the increased shopping activities by inbound tourists. The OECD estimated that the effect on production due to the tourism expenditure of international tourists was US$38.6 billion in 2014, creating 520,000 jobs.

4.205. The number of international visitors to Korea reached 14.2 million in 2014, up by 16.6% from that of 2013, but then dropped to 13.23 million in 2015 owing to an MERS outbreak (Table 4.23). Among all the inbound visitors, 43% (6.1 million) came from China, followed by Japan (16%, 2.3 million visitors). The average expenditure of foreign tourists visiting Korea was US$1,606 per person.

[76] OECD (2016d).

Table 4.23 Tourism enterprises (2014) and employment (2010-14)

	Number of establishments	Number of persons employed				
		2010	2011	2012	2013	2014
Tourism industries	20,769	186,395	204,579	229,658	227,135	230,334
Accommodation services	1,278	60,402	62,783	70,803	63,899	67,465
Food and beverage serving industry	5,014	36,725	39,715	41,576	42,150	39,506
Travel agencies and other reservation services	12,854	49,928	59,287	69,990	70,574	69,400
Sports and recreation	946	28,321	30,156	33,690	36,421	36,633
Other	677	11,018	12,638	13,599	14,092	17,330
Tourism flows ('000)						
Inbound tourism						
Total international arrivals		8,798	9,795	11,140	12,176	14,202
Outbound tourism						
Total international departures		12,488	12,694	13,737	14,846	16,081
Domestic tourism						
Total domestic trips		168,148	156,594	213,468	231,035	227,100
Overnight visitors		92,174	71,622	92,289	99,667	98,521
Same-day visitors		75,974	84,972	121,180	131,868	128,579
Nights in all types of accommodation		263,633	201,976	244,102	257,852	269,268

Source: OECD Tourism Statistics.

4.6.6.2 Regulatory framework

4.206. The tourism sector is regulated by the Ministry of Culture, Sports and Tourism (MCST), and its Tourism Policy Office. In accordance with the Framework Act on Tourism, the MCST operates and manages a Tourism Promotion and Development Fund. Sources of the Fund include government funds, profits from the casino industry, a departure tax on Korean tourists going abroad, and profits from fund operation. The Fund is used for: constructing and repairing tourism facilities; securing and repairing transportation; constructing and repairing infrastructure of tourism related businesses; subsidizing corporations in charge of examination and research of tourism policies; and other tourism promotion activities. Total expenditure of the Fund reached US$857.7 million in 2014 (excluding operating costs). Of this, 56% was allocated to loans supporting the expansion of tourism facilities and the operation of tourism enterprises, and 44% was allocated to support the tourism promotion infrastructure (US$67.1 million), the tourism industry promotion activities (US$99.9 million), and projects to attract foreign tourists (US$205.6 million).

4.207. The Government set the following objectives to enhance tourism competitiveness and create jobs: develop a unique Korean-style tourism, establish advanced policies and infrastructure systems, conduct strategic marketing management, enhance tourism service quality, facilitate development and investment in human resources, and increase demand for domestic tourism. More specifically, the Government has been focusing on: supporting the destination branding of major local tourism products, exempting visa fees and facilitating multiple entry visas, increasing air connectivity, implementing differentiated regional marketing strategies, marketing the Pyeongchang Winter Olympics 2018, improving policies on shared accommodation, and strengthening interpretation of tour guides.

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5 APPENDIX TABLES

Table A1.1 Merchandise exports by group of products, 2011-14

	2011	2012	2013	2014
Total exports (US$ billion)	555.2	547.9	559.6	573.1
	(% of total)			
Total primary products	14.1	14.9	13.8	13.3
Agriculture	2.3	2.3	2.1	2.1
Food	1.1	1.2	1.1	1.1
Agricultural raw material	1.2	1.1	1.0	0.9
Mining	11.8	12.6	11.6	11.2
Ores and other minerals	0.3	0.2	0.2	0.2
Non-ferrous metals	2.0	1.9	1.8	1.8
Fuels	9.6	10.5	9.7	9.2
334 Petroleum oils, other than crude	9.1	10.0	9.1	8.6
Manufactures	85.3	84.4	85.9	86.4
Iron and steel	5.7	5.5	4.8	5.1
Chemicals	10.9	11.2	11.8	11.8
5112 Cyclic hydrocarbons	1.4	1.7	1.9	1.9
5751 Propylene polymers or of other olefins	0.7	0.7	0.8	0.8
Other semi-manufactures	3.9	4.2	4.1	4.2
Machinery and transport equipment	54.1	52.5	54.6	55.0
Power generating machines	0.7	0.9	0.7	0.7
Other non-electrical machinery	7.1	7.3	7.3	7.5
7284 Machinery and appliances for particular industries, n.e.s.	1.1	0.9	1.1	1.1
7232 Mechanical shovels, etc., self-propelled	0.8	0.9	0.7	0.7
Office machines & telecommunication equipment	17.3	16.4	18.2	19.0
7764 Electronic integrated circuits and microassemblies	7.1	7.5	8.4	9.0
7649 Parts and accessories for apparatus of division 76	3.2	2.7	3.5	3.7
7643 Radio or television transmission apparatus	2.7	2.2	2.4	2.2
7599 Parts and accessories of 751.1, 751.2, 751.9 and 752	0.9	0.6	0.8	1.0
7763 Diodes, transistors, etc.	0.9	0.9	0.9	0.8
Other electrical machines	5.7	6.9	7.6	6.9
7788 Electrical machinery and equipment, n.e.s.	0.7	1.1	1.3	1.0
7781 Batteries and electric accumulators, and parts	0.9	0.9	0.8	0.8
7722 Printed circuits	0.6	0.8	0.9	0.8
7787 Electrical machines/apparatus with individual functions, n.e.s.	0.4	0.5	0.8	0.7
7731 Insulated wire, cable etc.; optical fibre cables	0.6	0.7	0.6	0.7
Automotive products	12.5	13.1	13.3	13.2
7812 Motor vehicles for the transport of persons, n.e.s.	7.4	7.7	7.9	7.8
7843 Other motor vehicle parts and accessories of 722, 781 to 783	3.9	4.1	4.3	4.2
Other transport equipment	10.8	8.0	7.5	7.8
7932 Ships, boats, etc. (excl. pleasure craft, tugs, etc.)	6.9	5.6	4.4	3.8
7935 Special purpose vessels; floating docks	2.9	1.3	2.0	2.8
Textiles	2.2	2.2	2.2	2.1
Clothing	0.3	0.3	0.4	0.4
Other consumer goods	8.1	8.4	8.1	7.9
8719 Liquid crystal devices, n.e.s.; lasers (excl. laser diodes)	5.0	5.0	4.5	4.3
Other	0.6	0.6	0.3	0.3
Gold	0.6	0.6	0.2	0.2

Source: UNSD, Comtrade database (SITC Rev.3).

Table A1.2 Merchandise imports by group of products, 2011-14

	2011	2012	2013	2014
Total imports (US$ billion)	524.4	519.6	515.6	525.6
	(% of total)			
Total primary products	48.6	50.1	48.7	47.2
Agriculture	6.6	6.4	6.5	6.7
Food	4.8	4.8	4.9	5.1
Agricultural raw material	1.8	1.6	1.6	1.5
Mining	42.0	43.7	42.2	40.6
Ores and other minerals	6.1	5.6	4.9	4.8
2815 Iron ores and concentrates, not agglomerated	1.9	1.6	1.5	1.5
2831 Copper ores and concentrates	1.1	0.9	0.8	0.7
2882 Other non-ferrous base metal waste and scrap, n.e.s.	0.6	0.6	0.6	0.6
2823 Other ferrous waste and scrap	0.8	0.8	0.7	0.5
Non-ferrous metals	2.7	2.3	2.3	2.3
6841 Aluminium and aluminium alloys, unwrought	0.6	0.6	0.6	0.6
6821 Copper anodes; alloys; unwrought	0.7	0.6	0.5	0.6
Fuels	33.1	35.8	35.0	33.4
3330 Crude oils of petroleum and bituminous minerals	19.2	20.8	19.3	18.1
3431 Natural gas, liquefied	4.5	5.3	5.9	6.0
334 Petroleum oils, other than crude	4.2	4.9	5.6	5.6
3212 Other coal, whether or not pulverized, not agglomerated	3.1	2.8	2.3	2.1
Manufactures	51.0	49.5	51.0	52.4
Iron and steel	4.9	4.1	3.7	4.0
6732 Flat, hot-rolled products, iron/steel, not clad/plated/coated	0.9	0.7	0.4	0.5
Chemicals	9.1	9.1	9.1	9.0
5429 Medicaments, n.e.s.	0.4	0.5	0.5	0.5
Other semi-manufactures	3.5	3.6	3.7	3.7
Machinery and transport equipment	25.4	24.6	26.1	27.0
Power generating machines	0.8	0.8	1.2	1.0
Other non-electrical machinery	6.7	6.4	6.4	6.7
7284 Machinery and appliances for particular industries, n.e.s.	2.4	1.9	1.6	1.9
Office machines & telecommunication equipment	9.9	9.3	10.0	11.0
7764 Electronic integrated circuits and microassemblies	4.8	4.9	5.4	5.7
7649 Parts and accessories for apparatus of division 76	0.8	0.6	0.8	1.3
7763 Diodes, transistors, etc.	0.8	0.9	0.9	0.8
Other electrical machines	4.3	4.5	5.0	4.3
7731 Insulated wire, cable etc.; optical fibre cables	0.5	0.5	0.5	0.5
Automotive products	1.9	1.9	2.1	2.5
7812 Motor vehicles for the transport of persons, n.e.s.	0.7	0.9	1.1	1.5
7843 Other motor vehicle parts and accessories of 722, 781 to 783	0.8	0.7	0.7	0.7
Other transport equipment	1.8	1.7	1.5	1.5
Textiles	1.1	0.9	1.0	1.0
Clothing	1.2	1.2	1.5	1.6
Other consumer goods	5.8	6.0	5.9	6.2
8719 Liquid crystal devices, n.e.s.; lasers (excl. laser diodes)	0.6	0.6	0.5	0.6
Other	0.4	0.4	0.3	0.3
Gold	0.3	0.3	0.3	0.3

Source: UNSD, Comtrade database (SITC Rev.3).

Table A1.3 Merchandise exports by destination, 2011-14

	2011	2012	2013	2014
Total exports (US$ billion)	555.2	547.9	559.6	573.1
	(% of total)			
America	18.2	18.3	18.5	19.4
United States	10.2	10.7	11.1	12.3
Other America	8.1	7.5	7.4	7.1
Mexico	1.8	1.7	1.7	1.9
Brazil	2.1	1.9	1.7	1.6
Europe	11.5	10.2	10.2	10.7
EU-28	10.2	9.1	8.8	9.1
Germany	1.7	1.4	1.4	1.3
United Kingdom	1.0	0.9	0.9	1.1
The Netherlands	0.8	0.9	1.0	0.9
EFTA	0.3	0.3	0.4	0.4
Other Europe	0.9	0.8	1.0	1.2
Turkey	0.9	0.8	1.0	1.2
Commonwealth of Independent States (CIS)	2.6	2.9	2.8	2.5
Russian Federation	1.9	2.0	2.0	1.8
Africa	3.3	2.6	2.7	2.6
Middle East	5.2	5.8	5.0	5.2
Saudi Arabia	1.3	1.7	1.6	1.4
United Arab Emirates	1.3	1.3	1.0	1.3
Asia/Pacific	59.1	60.3	60.7	59.7
China	24.2	24.5	26.1	25.4
Japan	7.1	7.1	6.2	5.6
Hong Kong, China	5.6	6.0	5.0	4.8
Singapore	3.8	4.2	4.0	4.2
Viet Nam	2.4	2.9	3.8	3.9
Chinese Taipei	3.3	2.7	2.8	2.6
India	2.3	2.2	2.0	2.2
Indonesia	2.4	2.5	2.1	2.0
Australia	1.5	1.7	1.7	1.8
Philippines	1.3	1.5	1.6	1.8
Marshall Islands	1.3	0.7	1.3	1.4
Thailand	1.5	1.5	1.4	1.3
Malaysia	1.1	1.4	1.5	1.3
Other	0.1	0.0	0.0	0.0
Memorandum				
APEC	69.9	72.3	72.9	72.5
ASEAN	12.9	14.4	14.7	14.8

Source: UNSD, Comtrade database.

Table A1.4 Merchandise imports by origin, 2011-14

	2011	2012	2013	2014
Total imports (US$ billion)	524.4	519.6	515.6	525.6
	(% of total)			
America	13.6	13.1	12.5	13.1
United States	8.5	8.4	8.1	8.7
Other America	5.1	4.7	4.4	4.5
Canada	1.3	1.0	0.9	1.0
Brazil	1.2	1.2	1.1	0.9
Europe	10.2	11.4	12.3	13.1
EU-28	9.0	9.7	10.9	11.9
Germany	3.2	3.4	3.8	4.1
United Kingdom	0.7	1.2	1.2	1.4
France	1.2	0.9	1.2	1.3
Italy	0.8	0.9	1.0	1.2
EFTA	1.0	1.5	1.2	1.1
Other Europe	0.2	0.2	0.2	0.1
Commonwealth of Independent States (CIS)	2.3	2.4	2.4	3.3
Russian Federation	2.1	2.2	2.2	3.0
Africa	1.3	1.5	1.7	2.2
Middle East	22.5	24.2	23.9	22.0
Saudi Arabia	7.1	7.6	7.3	7.0
Qatar	4.0	4.9	5.0	4.9
Kuwait	3.2	3.5	3.6	3.2
United Arab Emirates	2.8	2.9	3.5	3.1
Iraq	1.7	2.0	1.8	1.3
Asia/Pacific	50.0	47.4	47.2	46.3
China	16.5	15.5	16.1	17.1
Japan	13.0	12.4	11.6	10.2
Australia	5.0	4.4	4.0	3.9
Chinese Taipei	2.8	2.7	2.8	3.0
Indonesia	3.3	3.0	2.6	2.3
Singapore	1.7	1.9	2.0	2.2
Malaysia	2.0	1.9	2.2	2.1
Viet Nam	1.0	1.1	1.4	1.5
Thailand	1.0	1.0	1.0	1.0
India	1.5	1.3	1.2	1.0
Memorandum				
APEC	61.8	59.0	58.5	59.4
ASEAN	10.1	10.0	10.3	10.2

Source: UNSD, Comtrade database.

Table A2.1 Notifications to the WTO, June 2012-19 July 2016

Agreement/Article	Requirement	Symbol and date of latest notification
Agreement on Agriculture		
Article 18.2	Domestic support (DS:1)	G/AG/N/KOR/53, 20/01/2015
Article 18.2	Market access, administration of tariff and other quota commitments (MA:1)	G/AG/N/KOR/51, 09/01/2015
Article 18.2	Market access, imports under tariff quotas (MA:2)	G/AG/N/KOR/50, 09/01/2015 G/AG/N/KOR/48, 28/02/2013
Article 18.3	New or modified domestic support measures exempt from reduction (DS:2)	G/AG/N/KOR/52, 19/01/2015
Articles 5.7 and 18.2	Market access, special safeguard (MA:5)	G/AG/N/KOR/55, 18/07/2016 G/AG/N/KOR/49, 08/01/2015 G/AG/N/KOR/47, 25/01/2013
Article 5.7	Market access, special safeguard (MA:3)	G/AG/N/KOR/54, 08/07/2016
General Agreement on Trade in Services		
Article V:7(a)	Notification of regional trade agreement	S/C/N/855, WT/REG367/N/1, 04/01/2016 S/C/N/789, WT/REG362/N/1, 20/01/2015 S/C/N/786, WT/REG359/N/1, 22/12/2014
Article III.4 and/or IV:2(1)	Contact enquiry points	S/ENQ/78/Rev.16, 22/04/2016
GATT 1994		
Article XXIV:7(a)	Notification of regional trade agreement	S/C/N/861, WT/REG371/N/1, 10/03/2016 S/C/N/854, WT/REG370/N/1, 02/03/2016 S/C/N/855, WT/REG367/N/1, 04/01/2016 S/C/N/789, WT/REG362/N/1, 20/01/2015 S/C/N/786, WT/REG359/N/1, 22/12/2014 WT/REG339/N/1, 1/05/2013
Agreement on the Implementation of Article VI of the GATT 1994 (anti-dumping)		
Article 16.4	Anti-dumping actions (ad hoc)	G/ADP/N/282, 23/02/2016 G/ADP/N/281, 21/01/2016 G/ADP/N/279, 18/01/2016 G/ADP/N/277, 15/10/2015 G/ADP/N/270, 16/04/2015 G/ADP/N/268, 20/02/2015 G/ADP/N/266, 18/12/2014 G/ADP/N/263, 15/10/2014 G/ADP/N/254, 17/02/2014 G/ADP/N/250, 15/11/2013 G/ADP/N/247, 13/09/2013 G/ADP/N/239, 18/02/2013 G/ADP/N/232, 10/08/2012 G/ADP/N/229, 13/06/2012
	Anti-dumping actions (taken within the preceding 6 months)	G/ADP/N/280/KOR, 06/04/2016 G/ADP/N/272/KOR, 19/10/2015 G/ADP/N/265/KOR, 09/02/2015 G/ADP/N/259/KOR, 10/09/2014 G/ADP/N/252/KOR, 04/03/2014 G/ADP/N/244/KOR, 02/08/2013 G/ADP/N/237/KOR, 04/02/2013 G/ADP/N/230/KOR, 06/08/2012
GATT 1994		
Article XVII:4(a)	State trading activities	G/STR/N/16/KOR, 14/07/2016 G/STR/N/15/KOR, 17/10/2014 G/STR/N/14/KOR, 14/09/2012
Agreement on Import Licensing		
Article 7.3	Replies to questionnaire	G/LIC/N/3/KOR/11, 30/10/2015
Decision on Notification Procedures for Quantitative Restrictions		
G/L/59	Quantitative restrictions	G/MA/QR/N/KOR/1, 29/10/2012
Agreement on Rules of Origin		
Paragraph 4 of Annex	Preferential rules of origin	G/RO/N/138, 11/04/2016

Agreement/Article	Requirement	Symbol and date of latest notification
II		G/RO/N/136, 11/04/2016 G/RO/N/133, 02/10/2015 G/RO/N/104, 19/09/2013
Agreement on Subsidies and Countervailing Measures		
Article XVI:1, Article 25	Subsidies	G/SCM/N/284/KOR, 06/07/2015 G/SCM/N/253/KOR, 06/11/2013
Services LDC waiver		
WT/L/847	Preferential treatment to services and services suppliers of LDCs	S/C/N/808, 13/07/2015
Agreement on Sanitary and Phytosanitary Measures		
Article 7, Annex B	Sanitary/phytosanitary regulations	G/SPS/N/KOR/524-540, 2016 G/SPS/N/KOR/489-523, 2015 G/SPS/N/KOR/465-488, 256/R2, 2014 G/SPS/N/KOR/436-464, 2013 G/SPS/N/KOR/415 - 435, 2012
Agreement on Technical Barriers to Trade (latest document)		
Article 10.7	Notification of agreement reached by Members on issues related to technical regulations, standards or conformity assessment procedures	G/TBT/10.7/N/127, 23/09/2015
Article 2.9	Technical regulations	G/TBT/N/KOR/660, 12/07/2016
Articles 2.9 and 5.6	Proposed amendments to laws and regulations	G/TBT/N/KOR/658, 07/07/2016
Article 5.6	Proposed amendments to laws and regulations	G/TBT/N/KOR/659, 07/07/2016
Agreement on Trade Facilitation		
WT/L/911	Category A commitments	WT/PCTF/N/KOR/1, 04/06/2014
Agreement on Trade-Related Aspects of Intellectual Property Rights		
Article 63.2	Notification of laws	IP/N/1/KOR/6, 30/09/2014 IP/N/1/KOR/P/7, 30/09/2014 IP/N/1/KOR/5, 24/02/2014 IP/N/1/KOR/C/4/Rev.1, 24/02/2014

Source: WTO Secretariat.

Table A2.2 Foreign investment location incentives, as of 2016

(1) Comparison of FIZ, FTZ and FEZ

Classification	Foreign investment zone (FIZ)		Free trade zone (FTZ)		Free economic zone (FEZ)
	Complex type	Individual type	Industrial complex type	Airport/seaport or logistics type	
Governing law	Foreign Investment Promotion Act		Act on the Designation & Management of Free Trade Zones		Special Act on the Designation & Management of Free Economic Zones
Purpose of designation	Foreign capital inducement, transfer of advanced technologies, job creation		Foreign capital inducement, trade promotion, regional development	Foreign capital inducement, development of international logistics base	Foreign capital inducement, international competitiveness enhancement, and balanced regional development
Location	Inside industrial complexes	No limitations	Areas near airports or seaports, industrial complexes	Airports or seaports, logistics complexes, cargo terminals	Areas near international airports and seaports
Characteristics	Lease-only complexes	Individual business establishments are designated	Customs-free zone		Comparable to special administrative zones (cooperatives of municipal governments) * Approx. 65 to 200 million m^2
Designating authority	Mayor or provincial governor * Foreign Investment Committee's deliberation required		Minister of Trade, Industry & Energy		Minister of Trade, Industry & Energy * Foreign Investment Committee's deliberation required
Managing authority	State industrial complexes: Industrial complex management authorities Others: Mayor or provincial governor		Minister of Trade, Industry & Energy		Free Economic Zone management authority
Eligibility for move-in	Foreign investment ratio of 30% or higher •Manufacturing, logistics, etc. •Foreign investment equal to or more than the price of the leased land should be executed within five years from the contract date	FDI requirements: •Manufacturing: US$30 million or more •Tourism: US$20 million or more •Logistics: US$10 million or more •R&D: US$2 million or more (10 or more researchers holding a master's degree or higher with three or more years' experience)	•Export-oriented domestic or foreign businesses •Foreign-invested businesses •Wholesale businesses mainly for import/export •Integrated logistics businesses		•Foreign-invested businesses •Manufacturing, logistics, hospitals, education facilities, foreign broadcasting, financial service institutions, etc.

Classification	Foreign investment zone (FIZ)		Free trade zone (FTZ)		Free economic zone (FEZ)
	Complex type	Individual type	Industrial complex type	Airport/seaport or logistics type	
Requirements for tax reduction	•Manufacturing: US$10 million or more •Logistics: US$5 million or more	Identical to designation requirements above	Identical to those applicable to complex-type foreign investment zones (Article 121, Restriction of Special Taxation Act)		•Manufacturing, tourism: US$10 million or more •Logistics, medical institution: US$5 million or more
Taxes reduced	•Corporate tax and income tax: for 5 years •Local tax: For up to 15 years	•Corporate tax and income tax: For seven years •Local tax: For up to 15 years	•Corporate tax and income tax: For five years (100% for the first three years, 50% for the remaining two years) •Local tax: Up to 15 years, determined by ordinances		•Corporate tax and income tax: For five years (Seven years when qualified as an individual-type foreign investment zone) •Local tax: Up to 15 years
	Corporate tax and income tax reduced for seven years (100% for the first five years, 50% for the remaining two years) irrespective of the region in the case of industry supporting service businesses and businesses accompanying high technology				
Customs duty reduction	Exempted for five years from the day on which imported capital goods have been declared	Customs duty withheld (imported goods, capital goods)	Customs duty on capital goods exempted for five years		
Rent	Approximately 10/1,000 of the site value (Specified in the basic administration plan)		Approximately 10/1,000 of the site value (Determined by the managing authority after consultation with the Ministry of Strategy and Finance)		Approximately 10/1,000 of the site value (Determined by the managing authority)
Rent reduction rate	Businesses accompanying advanced technology investing US$1 million or more: 100% reduction •General manufacturing businesses investing US$5 million or more: 75% reduction (100% reduction in the case of industrial complexes specializing in parts and materials) •Manufacturing businesses investing US$2.5 million or more and employing 200 workers or more: 100% exemption	100% exempted in the case of state-owned properties	Generally, land rent is 100% exempted for companies with foreign investment of US$10 million or more; companies with foreign investment of US$1 million and foreign investment ratio of 30% or more; and companies accompanying advanced technology investing US$500,000 or more		Determined by the managing authority based on ordinances (50%-100% reduction)

Classification	Foreign investment zone (FIZ)		Free trade zone (FTZ)		Free economic zone (FEZ)
	Complex type	Individual type	Industrial complex type	Airport/seaport or logistics type	
	•Manufacturing businesses investing US$2.5 million or more and employing 150 workers or more: 90% reduction •Manufacturing businesses investing US$2.5 million or more and employing 70 workers or more: 75% reduction				

(2) Tax reduction: National tax (corporate tax and income tax) and local tax (acquisition tax and property tax)

Eligibility	Tax reduction method		
	Reduced tax	Reduction period	Investment requirements
•Businesses accompanying advanced technology and industry supporting service businesses •Companies in individual-type foreign investment zones	•National tax (Corporate tax and income tax) * Local tax (acquisition tax and property tax): Up to 15 years	•Reduced for seven years - For five years: 100% - The following two years: 50%	•Advanced technologies: None •Industry: - Manufacturing: US$30 million or more - Tourism: US$20 million or more - Logistics: US$10 million or more - R&D: US$2 million or more, 10 or more employees holding a master's degree or higher
•Companies in complex-type foreign investment zones •Companies in free economic zones •Companies in free trade zones •Companies in enterprise city development zones		•Reduced for five years - For three years: 100% - The following two years: 50%	•Manufacturing: US$10 million or more •Tourism: US$10 million or more •Logistics: US$5 million or more •R&D: US$1 million or more •Enterprise cities: US$10 million or more
•Free economic zone development project entities •Enterprise city development project entities •Jeju Investment Promotion Zone development project entities	•National tax (corporate tax and income tax)	•Reduced for five years - For three years: 100% - The following two years: 50%	•US$30 million or more •Foreign investment share of 50% or more, total project amount of US$500 million or more

(3) Exemption of customs duty, etc. (Article 121-3, Restriction of Special Taxation Act)

Eligibility	Tax exemption method		
	Exempted tax	Exempted period	Eligible capital goods
• Businesses accompanying advanced technology and industry supporting service businesses • Companies in individual-type foreign investment zones	• Customs duty • Special excise tax • Value added tax	Capital goods that completed import declaration within five years from signing the move-in contract	Capital goods imported through investment by acquisition of new shares As free trade zones are customs-free zones, customs duties are withheld for imported foreign goods and customs duties are refunded for domestic goods

Eligibility	Tax exemption method		
	Exempted tax	Exempted period	Eligible capital goods
• Companies in complex-type foreign investment zones • Companies in free trade zones • Companies in free economic zones	• Customs duty		

(4) Financial (location) support

Governing law	•Article 14 of the Foreign Investment Promotion Act •Article 6 of the guidelines on funding local governments' foreign investment attraction activities
Eligible businesses	•Businesses with foreign investment ratio of 30 percent or higher or businesses whose largest shareholder is a foreigner
Support ceiling	•The maximum amount of funds provided for the central or local government's foreign investment attraction activities is: - The amount equal to 50 percent of the targeted FDI amount; or - The amount equal to 25 percent of the sum of the FDI amount and the reinvested earned surplus amount (The foreign investment ratio should remain at 25% or higher)
Support provided	Details
(i) Provision of land for lease* ① Land purchase	Provision of land for lease through designation and purchase of foreign investment zones, etc. Sharing of land purchase costs: •Seoul metropolitan area: 30% by the central government, 70% by the local government •Areas outside the Seoul metropolitan area: 60% by the central government, 40% by the local government
② Rent reduced (state-owned properties) * The lease period can be renewed by up to 50 years	Eligibility / Rent reduction rate*
	Individual-type foreign investment zones: 100% exempted Businesses accompanying high technology investing US$1 million or more: Complex-type investment zones 100%; Industrial complexes 50% General manufacturing businesses investing US$5 million or more: Complex-type investment zones 75%; Industrial complexes 50% Parts and materials businesses investing US$5 million or more: Complex-type foreign investment zones (specializing in parts or materials) 100% * Rent reduction for government properties is determined by municipal ordinances.
(ii) Subsidy for difference of sale price	The difference is subsidized when land owned by the central or local government, government-invested agencies or individuals is sold below the land development cost - The subsidies vary based on municipal ordinances
(iii) Rent subsidized	When land owned by the central or local government, government-invested agencies or individuals is leased to foreign invested businesses at a reduced rental rate, the difference between the reduced rent and the original rent is subsidized

(5) Other support
- Appointment of a Project Manager
- Cash subsidy for employment or education/training
- Exemption from mandatory employment of people of distinguished service to the State
- Exemption from traffic inducement dues for facilities or buildings in foreign investment zones

Source: Korea Trade-Investment Promotion Agency (2015), *Doing Business in Korea*, 24 September.

Table A3.1 Tariff summary, 2016

	Number of lines	Average (%)	Range (%)	Coefficient of variation (%)	Duty free (%)
Total	**12,243**	**14.1**	**0-887.4**	**4.1**	**15.9**
HS 01-24	2,103	51.3	0-887.4	2.5	2.5
HS 25-97	10,140	6.4	0-754.3	2.1	18.7
By WTO category					
WTO agricultural products	1,726	60.0	0-887.4	2.4	5.5
Animals and products thereof	210	21.6	0-89.1	0.7	4.8
Dairy products	54	61.4	8-176	0.7	0.0
Fruit, vegetables, and plants	490	78.7	0-887.4	2.2	0.2
Coffee and tea	53	51.4	2-513.6	2.6	0.0
Cereals and preparations	215	153.0	0-800.3	1.6	0.5
Oils seeds, fats, oil and their products	162	38.4	0-630	3.0	2.5
Sugars and confectionary	34	18.0	3-243	2.3	0.0
Beverages, spirits and tobacco	106	31.0	8-270	0.9	0.0
Cotton	10	0.0	0-0	0.0	100.0
Other agricultural products, n.e.s.	392	29.3	0-754.3	2.8	17.6
WTO non-agricultural products	10,517	6.6	0-50	0.7	17.7
Fish and fishery products	540	16.9	0-35	0.3	1.3
Minerals and metals	1,793	4.8	0-8	0.7	25.9
Chemicals and photographic supplies	2,364	5.7	0-50	0.4	7.1
Wood, pulp, paper and furniture	651	2.8	0-13	1.3	57.9
Textiles	1,013	8.7	0-13	0.3	1.6
Clothing	321	12.5	8-13	0.1	0.0
Leather, rubber, footwear and travel goods	367	8.7	0-16	0.4	1.4
Non-electric machinery	1,286	5.8	0-13	0.6	24.3
Electric machinery	697	5.5	0-13	0.7	30.3
Transport equipment	304	6.0	0-10	0.6	21.7
Non-agricultural products, n.e.s.	1,057	6.1	0-13	0.5	21.6
Petroleum	124	5.5	0-8	0.4	1.6
By ISIC sector					
ISIC 1 - Agriculture, hunting and fishing	867	53.6	0-800.3	2.6	12.2
ISIC 2 - Mining	199	2.4	0-8	0.7	22.6
ISIC 3 - Manufacturing	11,176	11.3	0-887.4	4.0	16.1
Manufacturing excluding food processing	9,834	6.3	0-754.3	1.4	18.0
Electrical energy	1	5.0	5	0.0	0.0
By stage of processing					
First stage of processing	1,546	41.2	0-887.4	3.1	14.3
Semi-processed products	3,868	9.2	0-800.3	4.6	15.4
Fully processed products	6,829	10.8	0-800.3	3.1	16.6
By HS section					
01 Live animals and products	762	20.5	0-243	1.0	2.8
02 Vegetable products	690	108.3	0-887.4	1.9	4.2
03 Fats and oils	108	13.4	2-630	4.5	0.0
04 Prepared food, beverages and tobacco	543	29.5	0-754.3	2.4	0.6
05 Mineral products	392	3.8	0-8	0.6	12.0
06 Chemicals and products thereof	2,299	7.5	0-754.3	3.6	7.6
07 Plastics, rubber, and articles thereof	377	6.7	0-8	0.2	1.3
08 Raw hides and skins, leather, and its products	242	7.7	0-16	0.6	11.6
09 Wood and articles of wood	316	5.8	0-10	0.5	12.0
10 Pulp of wood, paper and paperboard	288	0.0	0-0	0.0	100.0
11 Textiles and textile articles	1,289	9.7	0-51.7	0.4	2.2
12 Footwear, headgear, etc.	100	10.1	8-13	0.2	0.0

	Number of lines	Average (%)	Range (%)	Coefficient of variation (%)	Duty free (%)
13 Articles of stone, plaster, cement	345	7.8	0-8	0.1	0.3
14 Precious stones and metals, pearls	118	5.2	0-8	0.5	4.2
15 Base metals and articles thereof	1,037	4.2	0-8	0.9	39.7
16 Machinery, electrical equipment, etc.	2,064	5.6	0-13	0.6	27.2
17 Transport equipment	333	5.8	0-10	0.6	24.0
18 Precision equipment	563	6.7	0-8	0.4	13.7
19 Arms and ammunition	81	3.4	0-8	1.2	58.0
20 Miscellaneous manufactured articles	281	5.4	0-13	0.7	32.7
21 Works of art, etc.	15	0.0	0-0	0.0	100.0

Note: Including AVEs, as available, provided by the authorities. In case of unavailability of AVEs the *ad valorem* part of alternate rates is included.

Source: WTO Secretariat calculations, based on data provided by the authorities.

Table A3.2 Non-*ad valorem* applied tariffs and *ad valorem* equivalents of their specific duty component

HS code[a]	Description	MFN 2016[b]	AVE
0301929090	Other	22% or ₩1,531/kg	27.0%
0301994090	Other	28% or ₩2,052/kg	28.2%
0306263000	Shrimps and prawns, salted or in brine	35% or ₩236/kg	-
0306273000	Shrimps and prawns, salted or in brine	35% or ₩236/kg	35.0%
0409000000	Natural honey	243% or ₩1,864/kg	11.1%
0703101000	Onions	135% or ₩180/kg	70.4%
0703201000	Fresh peeled garlic	360% or ₩1,800/kg	360.0%
0703209000	Fresh garlic other than peeled	360% or ₩1,800/kg	210.1%
0706101000	Carrots	30% or ₩134/kg	29.2%
0709592000	Oak mushrooms	40% or ₩1,625/kg	41.7%
0709601000	Sweet peppers (bell type)	270% or ₩6,210/kg	-
0709609000	Fruits of the genus *Capsicum* or of the genus *Pimenta*	270% or ₩6,210/kg	-
0711901000	Garlic	360% or ₩1,800/kg	-
0711905091	Fruits of the genus *Capsicum* or of the genus *Pimenta*	270% or ₩6,210/kg	0.0%
0712200000	Onions	135% or ₩180/kg	126.6%
0712319000	Mushrooms other than cultivated	30% or ₩1,218/kg	-
0712320000	Wood ears (*Auricularia* spp.)	30% or ₩1,218/kg	29.7%
0712330000	Jelly fungi (*Tremella* spp.)	30% or ₩1,218/kg	30.0%
0712391020	Oak mushrooms	40% or ₩1,625/kg	40.5%
0712391030	Ling chiu mushrooms	30% or ₩842/kg	29.8%
0712391090	Other mushrooms	30% or ₩1,218/kg	26.4%
0712901000	Garlic	360% or ₩1,800/kg	296.1%
0712902010	Bracken	30% or ₩1,807/kg	30.2%
0712902030	Welsh onions	30% or ₩1,159/kg	30.0%
0712902040	Carrots	30% or ₩864/kg	31.1%
0712902094	Flowering ferns	30% or ₩1,446/kg	29.9%
0714201000	Fresh sweet potatoes	385% or ₩338/kg	-
0802410000	Chestnuts in shell	219.4% or ₩1,470/kg	50.0%
0802420000	Chestnuts shelled	219.4% or ₩1,470/kg	0.0%
0802901010	Pine nuts in shell	566.8% or ₩2,664/kg	0.0%
0802901020	Pine nuts shelled	566.8% or ₩2,664/kg	298.0%
0802902010	Gingko nuts in shell	27.0% or ₩803/kg	30.1%
0802902020	Gingko nuts shelled	27.0% or ₩803/kg	27.0%
0810903000	Jujubes, fresh	611.5% or ₩5,800/kg	0.0%
0813402000	Jujubes, dried	611.5% or ₩5,800/kg	3.2%
0904210000	Fruits of the genus *Capsicum* or of the genus *Pimenta*, dried	270% or ₩6,210/kg	206.8%
0904220000	Fruits of the genus *Capsicum* or of the genus *Pimenta*, dried	270% or ₩6,210/kg	312.1%
0910111000	Ginger, fresh or chilled	377.3% or ₩931/kg	234.2%
0910112000	Ginger, dried	377.3% or ₩931/kg	377.2%
0910119000	Ginger, other than fresh, chilled or dried	377.3% or ₩931/kg	-
0910121000	Ginger, fresh or chilled	377.3% or ₩931/kg	0.0%
0910122000	Ginger, dried	377.3% or ₩931/kg	279.8%
0910129000	Ginger, other than fresh, chilled or dried	377.3% or ₩931/kg	377.2%
1003102000	Unhulled barley	324% or ₩326/kg	0.0%
1003103000	Naked barley	299.7% or ₩361/kg	0.2%
1003902000	Unhulled barley	324% or ₩326/kg	0.0%
1003903000	Naked barley	299.7% or ₩361/kg	0.1%
1201101000	Soya beans for bean sprouts	487% or ₩956/kg	5.0%
1201109000	Other soya beans	487% or ₩956/kg	0.0%
1201901000	Soya beans for soya beans oil and oil cake	487% or ₩956/kg	0.0%
1201902000	Soya beans for feeding	487% or ₩956/kg	0.0%

HS code[a]	Description	MFN 2016[b]	AVE
1201903000	Soya beans for bean sprouts	487% or ₩956/kg	4.7%
1201909000	Other soya beans	487% or ₩956/kg	7.5%
1207400000	Sesame seeds	630% or ₩6,660/kg	43.0%
1207991000	Perilla seeds	40% or ₩410/kg	40.0%
1515500000	Sesame oil and its fractions	630% or ₩12,060/kg	166.1%
1902192000	Chinese vermicelli	26% or ₩206/kg	26.0%
2306901000	Oil cake of sesame seeds	63% or ₩72/kg	30.8%
3706101000	Cinematographic film	₩195/m or 6.5	-
3706102000	Cinematographic film	₩4/m or 6.5	-
3706103010	Cinematographic film	₩26/m or 6.5	-
3706103020	Cinematographic film	₩468/m or 6.5	-
3706103030	Cinematographic film	₩78/m or 6.5	-
3706104000	Cinematographic film	₩26/m or 6.5	2.7%
3706105010	Cinematographic film	₩1,092/m or 6.5	-
3706105020	Cinematographic film	₩182/m or 6.5	11.3%
3706106010	Cinematographic film	₩1,560/m or 6.5	-
3706106020	Cinematographic film	₩260/m or 6.5	0.0%
3706901000	Cinematographic film	₩9/m or 6.5	-
3706902000	Cinematographic film	₩5/m or 6.5	-
3706903010	Cinematographic film	₩26/m or 6.5	-
3706903020	Cinematographic film	₩468/m or 6.5	-
3706903030	Cinematographic film	₩78/m or 6.5	0.0%
3706904000	Cinematographic film	₩26/m or 6.5	-
3706905010	Cinematographic film	₩25/m or 6.5	-
3706905020	Cinematographic film	₩8/m or 6.5	0.9%
3706906010	Cinematographic film	₩1,092/m or 6.5	-
3706906020	Cinematographic film	₩182/m or 6.5	0.0%
3822003058	Diagnostic or laboratory reagents	₩182/m or 6.5	-
3822003059	Diagnostic or laboratory reagents	₩4/m or 6.5	-
3822003060	Diagnostic or laboratory reagents	₩26/m or 6.5	-
3822003061	Diagnostic or laboratory reagents	₩468/m or 6.5	-
3822003062	Diagnostic or laboratory reagents	₩78/m or 6.5	-
3822003063	Diagnostic or laboratory reagents	₩1,092/m or 6.5	-
3822003064	Diagnostic or laboratory reagents	₩1,560/m or 6.5	-
3822003065	Diagnostic or laboratory reagents	₩260/m or 6.5	-
3822003066	Diagnostic or laboratory reagents	₩8/m or 6.5	-
3822003067	Diagnostic or laboratory reagents	₩25/m or 6.5	4.8%
5001000000	Silk-worm cocoons suitable for reeling	51% or ₩5,276/kg	2.0%
5002001020	Raw silk (not thrown)	51.7% or ₩17,215/kg	0.0%
5002001030	Raw silk (not thrown)	51.7% or ₩17,215/kg	0.0%
5002001040	Raw silk (not thrown)	51.7% or ₩17,215/kg	0.0%
5002001050	Raw silk (not thrown)	51.7% or ₩17,215/kg	0.0%
8523292231	Recorded video tape	₩20/min (at standard speed)	0.0%

Note: AVEs are calculated using 2014 import data.

a Based on the 2016 tariff schedule in HS 12 nomenclature.
b Whichever is the greater for agricultural items; whichever is the lower for manufacturing products.

Source: Information provided by the Korean authorities.

Table A3.3 Adjustment tariff, 2015 and 2016

HS	Description	General (%)	2015 (%)	2016 (%)
0301.92	Eels (*Anguilla* spp. excluding glass eels, and young eels for aquaculture)	10	22% or ₩1,531/kg whichever is greater	22% or ₩1,531/kg whichever is greater
0301.99	Sea-bream (excluding fry (for aquaculture))	10	28% or ₩2,052/kg whichever is greater	28% or ₩2,052/kg whichever is greater
0301.99	Sea bass (excluding fry (for aquaculture))	10	28	28
0303.67 0303.69	Alaska pollack (excluding its fin, head, tail, stomach, other fish offal)	10	22	22 28
0303.89	Saury, of which the total length exceeds 22 cm from head to tail, excluding horn fish	10	28	35% or ₩236/kg whichever is greater
0303.89	Croakers, limited to sciaenidae, excluding yellow corvina and yellow croaker	10	28	22
0306.26 0306.27	Shrimps and prawns, salted or in brine	20	35% or ₩236/kg whichever is greater	40% or ₩1,625/kg whichever is greater 26% or ₩206/kg whichever is greater
0307.49	Squid, excluding cuttlefish, arrow squid, loligo and fish surimi	10	22	50
0709.59 0712.39	Oak mushrooms	30	40% or ₩1,625/kg whichever is greater	45 35
1902.19	Chinese vermicelli	8	26% or ₩206/kg whichever is greater	10
1904.90	Rice in grain form, not containing cocoa, steamed or boiled	8	50	0.5
2103.20 2103.90	Sauces, preparations therefore and mixed seasonings of the following: Containing 20% or above of *Capsicum* or garlic or onion or ginger, or containing 40% or above of any mixture of these	8	45	22% or ₩1,531/kg whichever is greater 28% or ₩2,052/kg whichever is greater
2103.90	Gochujang	8	35	28
2103.90	Maejoo	8	13% or ₩52/kg whichever is greater	22
4412.31 4412.32 4412.39 4412.99	Plywood, veneered panels and similar laminated wood, of a whole thickness not less than 6 mm, with each ply not exceeding 6 mm thickness	8	10	28

Source: Data provided by the Korean authorities.

Table A3.4 Tariff quotas on agricultural products, 2015 and 2016

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
0102211000	Cattle: Pure-bred breeding animals (for milk)	0	89.1	1,067 heads
0102212000	Cattle: Pure-bred breeding animals (for meat)	0	89.1	1,067 heads
0102219000	Cattle: Pure-bred breeding animals (other)	0	89.1	1,067 heads
0102310000	Pure-bred breeding animals	0	89.1	1,067 heads
0102901000	Pure-bred breeding animals	0	89.1	1,067 heads
0103100000	Live swine: pure-bred breeding animals	0	18	1,850 heads
0105111000	Live poultry: weighing not more than 185 g: fowls of the species *Gallus domesticus*: pure-bred breeding animals	0	9	461,000 birds
0105941000	Live poultry: weighing not more than 2000 g: fowls of the species *Gallus domesticus* turkeys: pure-bred breeding animals	0	9	461,000 birds
0402101010	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight not exceeding 1.5%	20	176	1,034 tonnes
0402101090	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight not exceeding 1.5%	20	176	1,034 tonnes
0402109000	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight not exceeding 1.5%	20	176	1,034 tonnes
0402211000	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight exceeding 1.5%	40	176	573 tonnes
0402219000	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight exceeding 1.5%	40	176	573 tonnes
0402290000	Milk and cream: in powder, granules or other solid forms, of a fat content, by weight exceeding 1.5%	40	176	573 tonnes
0402911000	Other milk and cream not containing added sugar or other sweetening matter	40	176	130 tonnes
0402919000	Other milk and cream not containing added sugar or other sweetening matter	40	176	130 tonnes
0402991000	Other milk and cream	40	176	130 tonnes
0402999000	Other milk and cream	40	176	130 tonnes
0403901000	Butter milk	20	89	1,034 tonnes
0404101011	Whey: powder (for feeding)	20	49.5	54,233 tonnes
0404101019	Whey: powder (other)	20	49.5	54,233 tonnes
0404101091	Whey: other (For feeding)	20	49.5	54,233 tonnes
0404101099	Whey: other	20	49.5	54,233 tonnes
0404102111	Modified whey: lactose removed (for feeding)	20	49.5	54,233 tonnes
0404102119	Modified whey: lactose removed (other)	20	49.5	54,233 tonnes
0404102121	Modified whey: demineralized (for feeding)	20	49.5	54,233 tonnes
0404102129	Modified whey: demineralised (other)	20	49.5	54,233 tonnes
0404102131	Modified whey: whey protein concentrates (for feeding)	20	49.5	54,233 tonnes
0404102139	Modified whey: whey protein concentrates (other)	20	49.5	54,233 tonnes
0404102191	Modified whey: other (for feeding)	20	49.5	54,233 tonnes

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
0404102199	Modified whey: other	20	49.5	54,233 tonnes
0404102910	Other modified whey (for feeding)	20	49.5	54,233 tonnes
0404102990	Other modified whey (other)	20	49.5	54,233 tonnes
0405100000	Butter	40	89	420 tonnes
0405900000	Other fats	40	89	420 tonnes
0408991000	Eggs of fowls of the species *Gallus domesticus*	30	41.6	19,515.8 tonnes
0409000000	Natural honey	20	243% or ₩1,864 per kg[b]	420 tonnes
0506902000	Powder of bones	5	25.6	467.6 tonnes
0511999010	Silkworm eggs	8	18	9,500 boxes
0602201000	Apple trees	8	18	145,200 trees
0602202000	Pear trees	8	18	145,200 trees
0602203000	Peach trees	8	18	145,200 trees
0602206000	Citrus trees	8	18	145,200 trees
0602909030	Mulberry trees	8	18	1,402,700 trees
0701100000	Potatoes: seeds	0	304	1,898 tonnes
0701900000	Potatoes: other than seeds	30	304	18,810 tonnes
0703101000	Onions	50	135% or ₩180 per kg[b]	20,645 tonnes
0703201000	Garlic: peeled	50	360% or ₩1,800 per kg[b]	14,467 tonnes
0703209000	Garlic: other than peeled	50	360% or ₩1,800 per kg[b]	14,467 tonnes
0709601000	Sweet peppers (bell type)	50	270% or ₩6,210 per kg[b]	7,185 tonnes
0709609000	Other pepper	50	270% or ₩6,210 per kg[b]	7,185 tonnes
0711901000	Garlic - provisional preserved	50	360% or ₩1,800 per kg[b]	14,467 tonnes
0711905091	Fruits of the genus *Capsicum* or other genus *Pimenta* - provisionally preserved	50	270% or ₩6,210 per kg[b]	7,185 tonnes
0712200000	Onions - dried	50	135% or ₩180 per kg[b]	20,645 tonnes
0712901000	Garlic	50	360% or ₩1,800 per kg[b]	14,467 tonnes
0712902091	Sweet corn for seeds	0	370	247 tonnes
0712902092	Sweet corn other than those for seeds	3	370	6,102.1 tonnes
0713311000	Beans	30	607.5	14,694 tonnes
0713319000	Beans	30	607.5	14,694 tonnes
0713321000	Small red beans	30	420.8	14,694 tonnes
0713329000	Small red beans	30	420.8	14,694 tonnes
0714101000	Fresh manioc	20	887.4	50,000 tonnes
0714102010	Dried manioc	20	887.4	50,000 tonnes
0714102020	Dried manioc	3	887.4	1,000 tonnes
0714102090	Dried manioc	20	887.4	50,000 tonnes
0714103000	Chilled manioc	20	887.4	50,000 tonnes
0714201000	Sweet potatoes - fresh	20	385% or ₩338 per kg[b]	18,535 tonnes
0714202000	Sweet potatoes - dried	20	385	18,535 tonnes
0714203000	Sweet potatoes - chilled	20	385	18,535 tonnes
0714209000	Sweet potatoes - frozen	20	385	18,535 tonnes
0714309000	Yam (*Discorea* spp./other)	20	385	326.7 tonnes

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
0714409000	Taro (*Colocasia* spp./other)	20	385	326.7 tonnes
0714509000	Yautia (*Xanthosoma* spp./other)	20	385	326.7 tonnes
0714909090	Other roots and tubers	20	385	326.7 tonnes
0802410000	Chestnuts in shell	50	219.4% or ₩1,470 per kg[b]	2,170 tonnes
0802420000	Chestnuts - shelled	50	219.4% or ₩1,470 per kg[b]	2,170 tonnes
0802901010	Pine nuts in shell	30	566.8% or ₩2,664 per kg[b]	52.9 tonnes
0802901020	Pine nuts shelled	30	566.8% or ₩2,664 per kg[b]	52.9 tonnes
0805100000	Oranges	50	50	57,017 tonnes
0805201000	Korean citrus	50	144	2,097 tonnes
0805209000	Other citrus	50	144	2,097 tonnes
0805502020	Citrus latifolia	50	144	2,097 tonnes
0805900000	Other citrus	50	144	2,097 tonnes
0810903000	Jujubes	50	611.5% or ₩5,800 per kg[b]	259.5 tonnes
0813402000	Jujubes	50	611.5% or ₩5,800 per kg[b]	259.5 tonnes
0902100000	Green tea	40	513.6	7.8 tonnes
0902200000	Green tea	40	513.6	7.8 tonnes
0904210000	Fruits of the genus *Capsicum* or *Pimenta* (dried/neither crushed nor ground)	50	270% or ₩6,210 per kg[b]	7,185 tonnes
0904220000	Fruits of the genus *Capsicum* or *Pimenta* (crushed or ground)	50	270% or ₩6,210 per kg[b]	7,185 tonnes
0910111000	Ginger (neither crushed nor ground/fresh or chilled)	20	377.3% or ₩931 per kg[b]	1,860 tonnes
0910112000	Ginger (neither crushed nor ground/dried)	20	377.3% or ₩931 per kg[b]	1,860 tonnes
0910119000	Ginger (neither crushed nor ground/other)	20	377.3% or ₩931 per kg[b]	1,860 tonnes
0910121000	Ginger (crushed or ground/fresh or chilled)	20	377.3% or ₩931 per kg[b]	1,860 tonnes
0910122000	Ginger (crushed or ground/dried)	20	377.3% or ₩931 per kg[b]	1,860 tonnes
0910129000	Ginger (crushed or ground/other)	20	377.3% or ₩931 per kg[b]	1,860 tonnes
1002100000	Rye for seed	3	108.7	1,327.3 tonnes
1003101000	Malting barley (seed)	30	513	30,000 tonnes
1003102000	Unhulled barley (seed)	20	324% or ₩326 per kg[b]	23,582 tonnes
1003103000	Naked barley (seed)	20	299.7% or ₩361 per kg[b]	23,582 tonnes
1003109000	Other barley (seed)	20	299.7% or ₩361 per kg[b]	23,582 tonnes
1003901000	Malting barley (other)	30	513	30,000 tonnes
1003902000	Unhulled barley (other)	20	324% or ₩326 per kg[b]	23,582 tonnes
1003903000	Naked barley (other)	20	299.7% or ₩361 per kg[b]	23,582 tonnes
1003909000	Other barley (other)	20	299.7% or ₩361 per kg[b]	23,582 tonnes
1004100000	Oats for seed	3	554.8	597.3 tonnes
1005100000	Maize (corn) for seed	0	328	247 tonnes
1005901000	Maize (corn) for feeding	1.8	328	6,102.1 tonnes

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
1005902000	Maize (corn) - popcorn	1.8	630	6,102.1 tonnes
1005909000	Maize (corn) - other	3	328	6,102.1 tonnes
1006100000	Rice in the husk (paddy or rough)	5	513	408,700 tonnes
1006201000	Husked (brown) rice (non-glutinous)	5	513	408,700 tonnes
1006202000	Husked (brown) rice (glutinous)	5	513	408,700 tonnes
1006301000	Semi-milled or wholly milled rice (non-glutinous)	5	513	408,700 tonnes
1006302000	Semi-milled or wholly milled rice (glutinous)	5	513	408,700 tonnes
1006400000	Broken rice	5	513	408,700 tonnes
1007100000	Grain sorghum	3	779.4	13.7 tonnes
1008100000	Buckwheat	3	256.1	1,328 tonnes
1008201000	Foxtail millet for seed	3	18	0.4 tonnes
1008400000	Fonio (*Digitaria* spp.)	3	800.3	1,328 tonnes
1008500000	Quinoa (*Chenopodium quinoa*)	3	800.3	1,328 tonnes
1008600000	Triticale	3	800.3	1,328 tonnes
1008900000	Other cereals	3	800.3	1,328 tonnes
1102901000	Barley flour	20	260	23,582 tonnes
1102902000	Rice flour	5	513	408,700 tonnes
1102909000	Other flour	5	800.3	14.7 tonnes
1103110000	Groats and meal of wheat	5	288.2	14.7 tonnes
1103130000	Groats and meal of maize (corn)	3	162.9	6,102.1 tonnes
1103191000	Groats and meal (barley)	20	260	23,582 tonnes
1103192000	Groats and meal of oats	5	554.8	14.7 tonnes
1103193000	Groats and meal (rice)	5	513	408,700 tonnes
1103199000	Groats and meal: other	5	800.3	14.7 tonnes
1103201000	Pellets of wheat	5	288.2	14.7 tonnes
1103202000	Pellets (rice)	5	513	408,700 tonnes
1103203000	Pellets (barley)	20	260	23,582 tonnes
1103209000	Other pellets	5	800.3	14.7 tonnes
1104120000	Rolled or flaked grains of oats	5	554.8	14.7 tonnes
1104191000	Rolled of flaked (rice)	5	513	408,700 tonnes
1104192000	Rolled of flaked (barley)	20	233	23,582 tonnes
1104199000	Rolled or flaked grains - other	5	800.3	14.7 tonnes
1104220000	Other worked grains: of oats	5	554.8	14.7 tonnes
1104230000	Other worked grains: of maize (corn)	3	167	6,102.1 tonnes
1104291000	Other worked grains: of coicis semen	5	800.3	14.7 tonnes
1104292000	Other worked grains (barley)	20	126	23,582 tonnes
1104299000	Other worked grains: of other	5	800.3	14.7 tonnes
1105100000	Flour, meal and powder of potatoes	5.4	304	10 tonnes
1105200000	Flakes, granules and pellets of powder	5.4	304	10 tonnes
1107100000	Malt, not roasted	30	269	40,000 tonnes
1107201000	Malt, smoked	30	269	40,000 tonnes
1108110000	Wheat starch	8	50.9	227.4 tonnes
1108121000	Maize (corn) starch: for food	1.8	226	6,102.1 tonnes
1108129000	Maize (corn) starch: of other	1.8	226	6,102.1 tonnes
1108130000	Potato starch	8	455	45,692 tonnes
1108141000	Manioc starch: for food	9	455	2,400 tonnes
1108149000	Manioc starch: of other	9	455	2,400 tonnes
1108191000	Starches of seed potato	11	241.2	4,376 tonnes

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
1108199000	Other starches	8	800.3	227.4 tonnes
1108200000	Inulin	8	800.3	227.4 tonnes
1201101000	Soya beans (seed/for bean sprouts)	5	487% or ₩956 per kg[b]	1,032,152 tonnes
1201109000	Soya beans (seed/other)	5	487% or ₩956 per kg[b]	1,032,152 tonnes
1201901000	Soya beans (other/for soya bean oil and oil cake)	5	487% or ₩956 per kg[b]	1,032,152 tonnes
1201902000	Soya beans (other/for feeding)	5	487% or ₩956 per kg[b]	1,032,152 tonnes
1201903000	Soya beans (other/for bean sprouts)	5	487% or ₩956 per kg[b]	1,032,152 tonnes
1201909000	Soya beans (other/other)	5	487% or ₩956 per kg[b]	1,032,152 tonnes
1202301000	Groundnuts (seed/in shell)	40	230.5	4,907.3 tonnes
1202302000	Groundnuts (seed/shelled)	24	230.5	4,907.3 tonnes
1202410000	Groundnuts (other/in shell)	40	230.5	4,907.3 tonnes
1202420000	Groundnuts (other/shelled)	24	230.5	4,907.3 tonnes
1207400000	Sesame seeds	40	630% or ₩6,660 per kg[b]	6,731 tonnes
1211201100	Ginseng root (raw ginseng/wood-cultivated ginseng)	20	222.8	56.8 tonnes
1211201190	Ginseng root (raw ginseng/other)	20	222.8	56.8 tonnes
1211201211	Ginseng root (white, major roots)	20	222.8	56.8 tonnes
1211201219	Ginseng root (white, other)	20	222.8	56.8 tonnes
1211201291	Ginseng root (white, major roots)	20	222.8	56.8 tonnes
1211201299	Ginseng root (white, other)	20	222.8	56.8 tonnes
1211201311	Ginseng root (red, major roots)	20	754.3	56.8 tonnes
1211201319	Ginseng root (red, other)	20	754.3	56.8 tonnes
1211201391	Ginseng root (red, major roots)	20	754.3	56.8 tonnes
1211201399	Ginseng root (red, other)	20	754.3	56.8 tonnes
1211202210	Ginseng powder	20	754.3	56.8 tonnes
1211202220	Ginseng powder	20	754.3	56.8 tonnes
1211202290	Ginseng powder	20	754.3	56.8 tonnes
1211209100	Other ginseng	20	754.3	56.8 tonnes
1211209200	Other ginseng	20	754.3	56.8 tonnes
1211209900	Other ginseng	20	754.3	56.8 tonnes
1214901000	Fodder roots	5	100.5	32,133.3 tonnes
1214909090	Other forage products	5	100.5	32,133.3 tonnes
1302191210	Saps and extracts of red ginseng	20	754.3	56.8 tonnes
1302191220	Saps and extracts of red ginseng	20	754.3	56.8 tonnes
1302191290	Saps and extracts of red ginseng	20	754.3	56.8 tonnes
1515500000	Sesame oil and its fraction	40	630% or ₩12,060 per kg[b]	668 tonnes
1702111000	Lactose	20	49.5	9,400 tonnes
1702191000	Lactose	20	49.5	9,400 tonnes
1702901000	Artificial honey	20	243	6 tonnes
1806902290	Other (containing cocoa/other/mixed and doughs for preparation of baker's wares of heading 19.05)	5	513	408,700 tonnes
1806902999	Other (containing cocoa/other/other)	5	513	408,700 tonnes
1901201000	Rice flour (mixes and doughs for the preparation of baker's wares of heading	5	513	408,700 tonnes

HS Code	Description	In-quota rate (%)	Out-of-quota rate (%)	Quota levels[a]
	19.05)			
1901209000	Other (mixes and doughs for the preparation of baker's wares of heading 19.05)	5	513	408,700 tonnes
1901909091	Other food preparations of goods (rice flour)	5	513	408,700 tonnes
1901909099	Other food preparations of goods (other)	5	513	408,700 tonnes
2008119000	Other groundnuts (other prepared or preserved)	40	63.9	4,907.3 tonnes
2106903021	Red ginseng tea	20	754.3	56.8 tonnes
2106903029	Other products of red ginseng	20	754.3	56.8 tonnes
2207109010	Fermented alcohol for manufacture of liquors	30	270	10,333,800 litres
2301101000	Flour, meals and pellets, of meat or meat offal	5	9	3,210 tonnes
2306901000	Oil cake of sesame seeds	3	63% or ₩72 per kg[b]	212 tonnes
2308009000	Other vegetable materials of a kind used in animal feeding	5	46.4	32,133.3 tonnes
2309901091	Preparations of a kind used in animal feeding	4.2	71	627 tonnes
2309902010	Preparations of a kind used in animal feeding	5	50.6	4,171.4 tonnes
2309902020	Preparations of a kind used in animal feeding	5	50.6	4,171.4 tonnes
2309902099	Preparations of a kind used in animal feeding	5	50.6	4,171.4 tonnes
2309909000	Preparations of a kind used in animal feeding	5	50.6	4,171.4 tonnes
3301904520	Oleoresin extracts of red ginseng	20	754.3	56.8 tonnes
3505103000	Roasted starches	8	685.7	45,692 tonnes
3505104010	Pre-gelatinized or swelling starch: for food	8	385.7	45,692 tonnes
3505104090	Pre-gelatinized or swelling starch: of other	8	385.7	45,692 tonnes
3505105010	Etherified or esterified starches: for food	8	385.7	45,692 tonnes
3505105090	Etherified or esterified starches: of other	8	385.7	45,692 tonnes
3505109010	Other modified starches: for food	8	385.7	45,692 tonnes
3505109090	Other modified starches: of other	8	385.7	45,692 tonnes
3505201000	Starch glues	8	201.2	45,692 tonnes
3505202000	Dextrin glues	8	201.2	45,692 tonnes
3505209000	Other glues	8	201.2	45,692 tonnes
5001000000	Silkworm cocoons suitable for reeling	2	51% or ₩5,276 per kg[b]	1,143 tonnes
5002001020	Raw silk more than 20 decitex	8	51.7% or ₩17,215 per kg[b]	2,254 tonnes
5002001030	Raw silk more than 20 decitex	8	51.7% or ₩17,215 per kg[b]	2,254 tonnes
5002001040	Raw silk more than 20 decitex	8	51.7% or ₩17,215 per kg[b]	2,254 tonnes
5002001050	Raw silk more than 20 decitex	8	51.7% or ₩17,215 per kg[b]	2,254 tonnes

a Quota levels correspond to the total volume/quantity available to items under the same product group, e.g. the quota for live bovine animals is 1,067 per head rather than 1,067 per each HS ten-digit item. These product groups are found in WTO document G/AG/N/KOR/50, 9 January 2015.

b Whichever is the greater.

Source: Data provided by the Korean authorities.

Table A3.5 Fill ratios for main agricultural tariff-rate quotas, 2015

(%)

Commodity grouping	TRQ fill ratio	Reason for low TRQ fill ratio
Live bovine animals	0	Lack of demand
Live swine for pure-bred breeding	0	Increase in imports from RTA/FTA partners
Fowls for pure-bred breeding	0	Increase in imports from RTA/FTA partners
Skim milk powder	84.2	n.a.
Whole milk powder	78.7	Decrease in domestic demand
Evaporated milk	14.8	n.a.
Whey	37.7	Increase in imports from RTA/FTA partners
Butter	99.5	n.a.
Bird's eggs	0	Lack of demand
Natural honey	90.2	n.a.
Powder of bones	0	Lack of demand due to BSE
Silkworm eggs	0	Lack of demand
Apple, pear, peach and citrus trees	0	Lack of demand
Mulberry trees	0	Lack of demand
Potatoes for seed	0	Lack of demand
Other potatoes	24.4	Lack of demand
Onions	100	Lack of demand
Garlic	100	Increase in domestic production
Red peppers	13.9	Decrease in domestic demand and increase in imports of substituting items
Beans (red and green)	100	n.a.
Manioc	100	n.a.
Manioc pellets	0	Increased imports of substituting items
Sweet potatoes	0.9	Import ban by plant protection act
Roots and tubers	83.3	n.a.
Chestnuts	74.6	n.a.
Pine nuts	100	Lack of demand
Oranges	17.9	Increase in imports from RTA/FTA partners
Korean citrus	21.5	Lack of demand and increase in imports of substituting items
Jujubes	3.5	Lack of demand
Green tea	66.7	Lack of demand
Ginger	98.1	n.a.
Rye for seed	100	n.a.
Ginseng	0	Lack of demand and international price increase
Malting barley	100	n.a.
Barley	100	n.a.
Oats for seed	100	n.a.
Corn	100	n.a.
Rice	100	n.a.
Grain sorghum for seed	60.5	Lack of demand
Foxtail millet for seed	0	Lack of demand
Buck wheat	94	n.a.
Other processed cereals	78.6	n.a.
Flour of potatoes	100	n.a.
Malt	100	n.a.
Wheat starch	100	n.a.
Potato starch	100	n.a.
Manioc starch	100	n.a.
Sweet potato starch	100	n.a.
Soybeans	100	n.a.
Groundnuts	100	n.a.
Maize for seed	100	n.a.
Sesame seeds	84.5	n.a.
Forage products	100	n.a.
Sesame oil	20.6	Lack of demand
Lactose	67.5	n.a.
Artificial honey	99	n.a.
Undenatured ethyl alcohol	80.7	n.a.
Flour of meat	6.7	Lack of demand due to BSE
Oil-cake	34	Increase in international price
Other mixed feeds	100	n.a.

Commodity grouping	TRQ fill ratio	Reason for low TRQ fill ratio
Supplementary feeds	100	n.a.
Silk-worm cocoons	0.1	Lack of demand
White silk	12.4	Lack of demand

n.a. Not applicable.

Source: The Korean authorities.

Table A3.6 Republic of Korea's autonomous tariff quotas in 2016

HSK	Item	Description	General (%)	In-quota (%)	Quota
030192	Eels (*Anguilla* spp.)	Young eels (exceeding 0.3 g and not exceeding 50 g per unit, for aquaculture)	5.0	3.0	All imported
040410 040410	Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter	For feeding	20.0 40.0	0.0 4.0	25,875 MT 10,000 MT
071410	Manioc (cassava)	Chips for alcoholic beverages	20.0	0.0	100,000 MT
071410	Manioc (cassava)	Pellets for feeding	7.0	0.0	900,000 MT
100390	Unhulled barley	For feeding	5.0	10.0	300,000 MT
100490	Oats	For feeding	3.0	1.0	800,000 MT
100590	Maize (corn)	For feeding	3.0	0.0	4,000 MT
120190	Soya beans	For soya beans oil and oil cake	3.0	25.0	30,000 MT
120729	Cotton seeds	For feeding	2.0	0.0	50,000 MT
121410 121490	Alfalfa	For feeding	1.0 1.0	0.0 0.0	65,000 MT 9,010,000 MT
121490 230800	Fodder roots	For feeding	20.0 5.0	1.0 25.0	1,250,000 MT 150,000 MT
151800	Animal or vegetable fats and oils and their fractions, boiled, oxidized, dehydrated, sulphurized, blown, polymerized by heat in vacuum or in inert gas or otherwise chemically modified, excluding those of heading 15.16; inedible mixtures or preparations of animal or vegetable fats or oils or of fraction of different fats or oils of this Chapter, not elsewhere specified or included	For feeding (excluding dehydrated castor oil and epoxidized soya-bean oil)	5.0		
170191 170199	Sugar		30.0 30.0	0.0 5.0	1,000,000 MT 125,000 MT
170211 170219	Lactose and lactose syrup	For feeding	20.0 20.0	 0.0	160,000 MT
170310 170390	Molasses resulting from the extraction or refining of sugar	For feeding	3.0 3.0	4.0 0.0	10,000 MT All imported
230230	Bran, sharps and other residues, whether or not in the form of pellets, derived from the sifting, milling or other working of cereals or of leguminous plants	Of wheat, for feeding	2.0		
230320 230320	Beet-pulp, bagasse and other waste of sugar manufacture	For feeding For mushroom cultivation	5.0 5.0	0.0	660,000 MT
230330	Brewing or distilling dregs and waste	For feeding	2.0	0.0	50,000 MT
230400	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soyabean oil.	For feeding	1.8	5.0	90,000 MT
230610 230610	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of vegetable fats or oils, other than those of heading 23.04. or 23.05	Of cotton seeds, for feeding Of cotton seeds, for mushroom cultivation	2.0 2.0	 0.0	 4,930 MT

HSK	Item	Description	General (%)	In-quota (%)	Quota
230800	Vegetable materials and vegetable waste, vegetable residues and by-products, whether or not in the form of pellets, of a kind used in animal feeding, not elsewhere specified or included	For feeding	5.0		
230800		For mushroom cultivation	5.0	0.0	235,000 MT
230990	Preparations of a kind used in animal feeding	Milk preparation for feeding (excluding dog or cat food, put up for retail sale)	5.0		
270900	Petroleum oils and oils obtained from bituminous minerals, crude	For manufacturing naphtha	3.0	5.0	168,000 kl
270900	Petroleum oils and oils obtained from bituminous minerals, crude	For manufacturing propane or butanes	3.0	0.0	175,000 MT
271111	Natural gas	Liquefied	3.0	0.0	200,000 MT
271121		In gaseous state	3.0	0.0	500,000 MT
271112	LPG	Propane	3.0	0.0	2,700,000 MT
271113		Butanes	3.0	0.0	97,500 MT
283620	Disodium carbonate	For manufacturing panel glass	3.0	0.0	100,000 MT
282550	Materials for manufacturing agricultural chemicals	Registered material under the Agricultural Chemicals Management Act	2.0	0.0	100,000 MT
282741			2.0	0.0	125,000 MT
283325			2.0	0.0	3,680 MT
290930			2.0	0.0	210,000,000 BBL
291470			2.0	0.0	33,000,000 BBL
291539			8.0	2.0	All imported
291619			8.0	1.0	All imported
291620			2.0	0.0	All imported
291631			2.0	0.0	All imported
291639			2.0	0.0	All imported
291830			2.0	1.0	5,000 MT
291899			2.0	4.0	20,000 MT
291990			2.0	1.0	
292011			2.0	1.0	
292019			2.0	1.0	
292090			2.0	1.0	
292142			2.0	1.0	
292143			2.0	1.0	
292149			2.0	1.0	
292250			2.0	1.0	
292412			8.0	1.0	
292419			2.0	1.0	
292421			2.0	1.0	
292429			2.0	1.0	
292519			2.0	1.0	
292529			2.0	1.0	
292690			2.0	1.0	
292800			2.0	1.0	
293020			2.0	1.0	
293030			8.0	1.0	
293090			2.0	1.0	
293190			2.0	1.0	
293219			2.0	1.0	
293220			2.0	1.0	
293299			2.0	1.0	
293311			2.0	1.0	
293319			2.0	1.0	

HSK	Item	Description	General (%)	In-quota (%)	Quota
293329			2.0	1.0	
293339			2.0	1.0	
293349			2.0	1.0	
293359			2.0	1.0	
293369			2.0	1.0	
293379			8.0	1.0	
293399			2.0	1.0	
293410			2.0	1.0	
293420			2.0	1.0	
293499			2.0	1.0	
293500			2.0	1.0	
294120			2.0	1.0	
294190			2.0	1.0	
340213			2.0	1.0	
380891			2.0	1.0	
380892			2.0	1.0	
380893			8.0	1.0	
382490			2.0	1.0	
292221	8-amino-1-naphthol-3, 6-disulphonic acid (H acid) and its salts		3.0		
320411	Preparations based on disperse dyes (press cake)		4.0		
320411	Disperse dyes		8.0		
390110	Polyethylene	Excluding of pulp	8.0		
390120			8.0	2.0	
410411	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared.		3.0		
410419			3.0	1.0	
410441			3.0	1.0	
410449			3.0	1.0	
500200	Raw silk (not thrown)		3.0		
500400	Silk yarn (other than yarn spun from silk waste) not put up for retail sale		3.0		
500500	Yarn spun from silk waste, not put up for retail sale		3.0		
520533	Cotton yarn; Multiple (folded) or cabled yarn; Measuring per single yarn less than 232.56 decitex but not less than 192.31 decitex (exceeding 43 metric number but not exceeding 52 metric number per single yarn)	Unbleached or not mercerized	8.0		
848630	Dry etchers for manufacturing flat panel displays		5.0		
848630			8.0	0.0	
848630	Deposition machines for manufacturing flat panel displays	Operated by physical method	5.0		
848630			8.0		
848630	Deposition machines for manufacturing flat panel displays	Operated by chemical method	5.0	1.0	600,000 MT
848630			8.0	3.0	140,000 MT
848630	Ion implanters for manufacturing flat panel displays		8.0		

Source: Data provided by the Korean authorities.

Table A3.7 Domestic agricultural support notified to the WTO, 2011

(₩ billion)

		Below *de minimis* level of 10%[a]
Product specific AMS	**786.41**	
Barley[b]	4.81	Yes
Potato	0.20	Yes
Soybean	0.14	Yes
Red pepper	3.99	Yes
Garlic	4.48	Yes
Onions	4.39	Yes
Welsh onions	0.62	Yes
Carrots	0.14	Yes
Apple	3.84	Yes
Pear	3.32	Yes
Korean citrus	1.31	Yes
Sweet persimmons	0.46	Yes
Ginseng roots	3.34	Yes
Chinese cabbage	2.40	Yes
Rice	750.14	Yes
Beef	1.90	Yes
Daikon	0.70	Yes
Flowering plants	0.23	Yes
Non-product specific AMS	**286.49**	
Subsidy for farm facilities	2.45	
Input subsidies	113.95	
Loan programme	13.66	
Crop insurance	129.18	
Other	27.25	
Total AMS	**1,072.90**	
Green box assistance	**7,724.41**	
Research	171.54	
Pest and disease control	309.58	
Training services	36.39	
Extension and advisory services	19.32	
Inspection services	37.16	
Marketing and promotion services	51.80	
Infrastructural services	3,068.27	
Public stockholding for food security purposes	184.92	
Decoupled income support	966.64	
Payments for relief from natural disasters	1,860.53	
Structural adjustment assistance provided through producer retirement programmes	59.28	
Structural adjustment assistance provided through investment aids	393.95	
Environmental programmes	516.08	
Regional assistance programmes	48.95	
S&D assistance	**1.57**	
Investment subsidies generally available for agriculture	1.57	
Total notified assistance	**8,798.88**	

a Based on 2011 value of production.
b Market price support.

Source: WTO document G/AG/N/KOR/53, 20 January 2015.

Table A4.1 Republic of Korea's Air Transport Agreements, 2016

Partner	Date	Entry into force	5th[1]	7th[2]	Cabotage[3]	Coop[4]	Designation[5]	Withholding[6]	Pricing[7]	Capacity[8]	Stat[9]	ALI
Algeria	18.01.2005		N	N	N	N	M	SOEC	DA	PD	Y	4.0
Argentina	09.09.1996		N	N	N	N	M	SOEC	DA	PD	Y	4.0
Australia	04.03.2004	04.03.2004	Y	N	N	Y	M	SOEC	DA	PD	Y	13.0
Austria	01.10.1996		Y	N	N	N	S	SOEC	DA	PD	Y	6.0
Bangladesh	13.02.1979		N	N	N	N	S	SOEC	DA	B1	Y	4.0
Belgium	20.10.1975		N	N	N	N	S	SOEC	DA	PD	Y	0.0
Brazil	11.08.1992	31.05.1995	Y	N	N	N	M	SOEC	DA	PD	Y	10.0
Brunei Darussalam	05.08.1992		N	N	N	N	M	SOEC	DA	B1	Y	8.0
Cambodia	10.04.2001		N	N	N	N	M	SOEC	DA	B1	Y	8.0
Canada	25.02.2015	25.02.2015	Y	N	N	N	S	SOEC	DA	PD	Y	6.0
Chile	11.05.2001	01.06.2006	Y	N	N	N	M	SOEC	DA	PD	Y	10.0
China	31.10.1994		N	N	N	N	M	SOEC	DA	PD	Y	4.0
Czech Republic	26.10.1990		N	N	N	N	M	SOEC	DA	B1	Y	8.0
Djibouti	12.06.1979	13.06.1980	N	N	N	N	S	SOEC	DA	B1	Y	4.0
Ethiopia	02.07.2010		N	N	N	Y	M	SOEC	N/A	PD	Y	7.0
Finland	20.07.2005		N	N	N	Y	M	SOEC	DA	PD	Y	7.0
France	15.01.1981		N	N	N	N	S	SOEC	N/A	PD	Y	0.0
Gabon	18.11.1982	22.09.1984	N	N	N	N	S	SOEC	DA	PD	Y	0.0
Germany	07.03.1995		N	N	N	N	M	SOEC	CoO	PD	Y	7.0
Hong Kong, China	29.03.1996		N	N	N	N	M	PPoB	DA	PD	Y	12.0
India	16.03.1992		Y	N	N	N	M	SOEC	DA	PD	Y	10.0
Iraq	29.05.1985		Y	N	N	N	S	SOEC	DA	PD	Y	6.0
Israel	15.12.1994		Y	N	N	N	S	SOEC	DA	B1	Y	10.0

Partner	Date	Entry into force	5th[1]	7th[2]	Cabotage[3]	Coop[4]	Designation[5]	Withholding[6]	Pricing[7]	Capacity[8]	Stat[9]	ALI
Japan	22.12.2010		Y	N	N	Y	M	SOEC	ZP	FD	Y	26.5
Jordan	14.05.1978		Y	N	N	N	S	SOEC	DA	PD	Y	6.0
Kenya	13.01.1981		N	N	N	Y	M	SOEC	N/A	B1	Y	11.0
Kuwait, the State of	13.10.1981		Y	N	N	N	S	SOEC	DA	PD	Y	6.0
Liberia, Republic of	13.06.1978		N	N	N	N	S	SOEC	DA	PD	Y	0.0
Luxembourg	27.09.2000	21.05.2003	N	N	N	N	M	SOEC	DA	B1	Y	8.0
Macao, China	03.04.1997		N	N	N	N	M	PPoB	DA	B1	Y	16.0
Malaysia	18.06.1984		Y	N	N	N	M	SOEC	DA	B1	Y	14.0
Maldives	27.06.1990		Y	N	N	N	S	SOEC	DA	O	Y	12.0
Mexico	03.01.2003		Y	N	N	Y	M	SOEC	DA	PD	Y	13.0
Morocco	01.06.2000		N	N	N	N	M	SOEC	DA	PD	Y	4.0
Mongolia	23.10.1991		N	N	N	Y	M	SOEC	N/A	PD	Y	7.0
Myanmar	28.01.1978		Y	N	N	N	S	SOEC	DA	PD	Y	6.0
Netherlands	24.06.1970		Y	N	N	N	S	SOEC	DA	PD	N	7.0
New Zealand	10.05.1993	20.08.1993	Y	N	N	N	M	SOEC	DA	B1	Y	14.0
Nigeria	24.07.1985		N	N	N	N	S	SOEC	DA	PD	Y	0.0
Oman	05.05.1983		Y	N	N	N	S	SOEC	DA	PD	Y	6.0
Panama	28.12.1979	14.10.1982	Y	N	N	N	S	SOEC	DA	PD	Y	6.0
Philippines	22.07.1969		Y	N	N	N	S	SOEC	DA	PD	N	7.0
Qatar	27.11.2005		N	N	N	N	M	SOEC	DA	O	Y	6.0
Russian Federation	13.03.2003		N	N	N	N	M	SOEC	DA	PD	Y	4.0
Saudi Arabia, Kingdom of	12.11.1976		Y	N	N	N	S	SOEC	DA	B1	Y	10.0
Seychelles	15.07.2010		N	N	N	Y	M	SOEC	N/A	PD	Y	7.0
Singapore	09.12.1994		Y	N	N	N	M	SOEC	DA	B1	Y	14.0

Partner	Date	Entry into force	5th[1]	7th[2]	Cabotage[3]	Coop[4]	Designation[5]	Withholding[6]	Pricing[7]	Capacity[8]	Stat[9]	ALI
South Africa	07.07.1995		N	N	N	N	M	SOEC	DA	PD	Y	4.0
Spain	21.06.1989	14.01.1991	N	N	N	N	S	SOEC	DA	PD	Y	0.0
Sudan	25.10.1991		N	N	N	N	M	SOEC	DA	PD	Y	4.0
Sri Lanka	20.01.1978		Y	N	N	N	S	SOEC	DA	B1	Y	10.0
Switzerland	15.12.1975		Y	N	N	N	S	SOEC	DA	B1	Y	10.0
Chinese Taipei	01.09.2004		N	N	N	Y	M	SOEC	N/A	PD	Y	7.0
Thailand	26.05.1970		Y	N	N	N	S	SOEC	DA	PD	Y	6.0
Tunisia	24.11.1994	06.02.1995	N	N	N	N	M	SOEC	DA	B1	Y	8.0
Ukraine	16.12.1996		N	N	N	N	M	SOEC	DA	PD	Y	4.0
United Kingdom	29.06.2001		Y	N	N	N	M	SOEC	DA	B1	Y	14.0
United States of America	09.06.1998		Y	N	N	Y	M	SOEC	DD	FD	N	28.0
Uzbekistan	06.06.1994		N	N	N	N	M	SOEC	DA	PD	Y	4.0
Zimbabwe	19.10.2015		N	N	N	Y	M	SOEC	N/A	PD	Y	7.0

Note:
1 Fifth freedom rights.
2 Seventh freedom rights.
3 Cabotage rights.
4 Clauses on cooperation between airlines e.g. code-sharing.
5 Designation: single by an "S", multiple by an "M".
6 Type of withholding clause: SOEC - Substantial Ownership and Effective Control, PPoB - Principal Place of Business, N/A - not available.
7 Type of pricing clause: DA - Double Approval, DD - Double Disapproval, CoO - Country of Origin, ZP - Zone Pricing, FP - Free Pricing, N/A - not available.
8 Type of capacity clause: PD - Pre Determination, B1 - Bermuda I, FD - Free Determination, O - other, N/A - not available.
9 If an exchange of statistics is foreseen by the agreement.

Source: Prepared by the WTO Secretariat, based on information from the Korean authorities.