



Trade Policy Review Body

TRADE POLICY REVIEW

REPORT BY THE SECRETARIAT

REPUBLIC OF KOREA

Revision

This report, prepared for the eighth 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 the Republic of Korea's previous Trade Policy Review in 2016, relatively strong economic fundamentals and solid buffers to external shocks have helped the country maintain macroeconomic stability and ensure the resilience of its export-led economy. Korea was able to weather the COVID-19 pandemic comparatively well, supported by a comprehensive set of fiscal, monetary, financial, and other measures. During the review period, Korea's annual GDP growth peaked at 3.2% (2017) and progressively declined to -0.9% (2020) due to the COVID-19 outbreak, a considerably milder contraction than in most other advanced economies. Annual average GDP growth rate for 2016-20 stood at 2.1%, a further decline compared to previous performances (averaging 2.9% in 2012-15 and 4.6% over 2001-11). Developments in Korea's position among the most competitive economies in the world involved variable labour and total factor productivity (TFP) growth, but also weaknesses in areas where some reforms have been under way. Whereas headline inflation remained below target and dropped progressively to 0.5% (about a fourth of its 2017 peak level) in 2020, the unemployment rate rose slightly (4%) in 2020, reflecting weak private job creation and the impact of the pandemic.

2. During the review period, trade and trade-related structural reforms (e.g. in taxation, competition policy, corporate governance, and the labour market) were undertaken. Reforms were, *inter alia*, focused on supporting income, creating jobs, assisting small and medium-sized enterprises (SMEs) and start-ups, and promoting productivity-boosting innovation, as well as strengthening social safety nets and substantially raising the minimum wage. Since June 2016, the Bank of Korea has progressively cut its policy rate five times from 1.25% to a record-low 0.5% (May 2020). The responsiveness of the floating exchange rate system to economic developments continued reducing external imbalances to levels consistent with Korea's fundamentals. The nominal exchange rate depreciated (2019 and 2020) after a slight appreciation (2016-18) whereas, overall, the effective exchange rate appreciated (except for 2018 and 2019), thus affecting Korea's international competitiveness. Imbalances in the economy – particularly weak domestic demand – led to irregular large current account surpluses below their 2016 level, averaging 4.8% of GDP during 2016-20 compared to 6% over 2012-15. Foreign exchange reserves increased steadily due to continuously increasing returns from the management of reserve assets. Gross external debt increased considerably, by 42.6%, during the period 2016-20 amid, *inter alia*, financial market volatility due to the COVID-19 pandemic and a rise in foreign investment in Korean treasury bonds, compared to a 3.6% rise in 2012-14, followed by a 6.4% drop in 2015.

3. Korea's openness 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, which stood at 69.2% in 2020, though lower than in 2016. International trade and foreign direct investment (FDI) trends reflect the continued importance of Asia-Pacific as Korea's main regional market and FDI supplier. China, the United States, the European Union, and Japan remain its major individual trading partners; furthermore, trade under free trade agreements (FTAs) and regional trade agreements (RTAs) continued to steadily rise during the review period. The FDI regime went through significant changes during the review period with: (i) tax incentives in the form of local tax and import tariff reductions/exemptions and discontinuation of the granting of new corporation tax relief to foreign-invested enterprises as from 2019; (ii) the elimination of foreign investment restrictions on fishing and support air transport activities; and (iii) the main legislation, the Foreign Investment Promotion Act, amended in 2020, now allowing for incentives to be granted for the reinvestment of unused retained earnings. Nonetheless, FDI stock levels remain low compared with those in other OECD countries.

4. Since its previous TPR, Korea has continued to promote a free and open economy based on market principles. As an important step in supporting the development of SMEs, in 2017 the Small and Medium Business Administration was reorganized and expanded into the Ministry of SMEs and Startups. Korea continued its efforts to improve transparency in public administration by implementing participatory budgeting at the national level. Under the Five-year Plan for the Administration of State Affairs, launched in 2017, job creation is considered as the top economic policy priority. In 2019, a vision for an innovative and inclusive nation was announced. Regulatory reforms were conducted to reduce trade and investment barriers by applying regulatory sandboxes, designating regulatory-free special zones, and following the "cost-in, cost-out" approach when introducing new regulations.

5. Korea continued to participate actively in the WTO. In October 2019, Korea committed to not seek special and differential treatment for developing countries in ongoing and future negotiations. During the review period, Korea was involved in seven WTO disputes – four as a complainant and three as a respondent. Korea continued to pursue market opening opportunities through RTAs. Also during the review period, it signed the Regional Comprehensive Economic Partnership (RCEP) Agreement, as well as RTAs with five Central American countries (in force as from 1 March 2021), the United Kingdom (in force as from 1 January 2021), Israel, and Indonesia. These added to the extensive list of its existing RTAs with both large economic blocs and newly emerging markets (Association of South East Asian Nations (ASEAN), Asia-Pacific Trade Agreement (APTA), Australia, Canada, Chile, China, Colombia, the European Free Trade Association (EFTA), the European Union, India, New Zealand, Peru, Singapore, Turkey, the United States, and Viet Nam). Agriculture remains partially covered, and rice excluded, from all RTAs.

6. Since its previous TPR, Korea has maintained its general trade policy thrust, which has remained relatively unchanged though particular emphasis was placed on SMEs and innovation. While no unilateral liberalization has been undertaken, there have been regulatory or institutional developments in certain areas, including trade facilitation, anti-dumping, export control of strategic goods, enterprises in repatriation/re-shoring, standards, sanitary and phytosanitary (SPS) requirements, government procurement, competition policy, and intellectual property rights. COVID-19 circumstances led to the implementation of temporary trade-related measures in certain areas. Some measures continue to protect domestic producers, especially farmers, from foreign competition.

7. The tariff remains one of Korea's main trade policy instruments, and a relatively significant, albeit declining, source of tax revenue. The 2021 customs tariff remains transparent but is relatively complex, involving a multiplicity of rates (88 *ad valorem* duties, and 41 alternate duties) often with small rate differences and some involving decimal points. As a result of changes relating to the implementation of the expansion of the Information Technology Agreement and changes in the tariff nomenclature (from HS12 to HS17), the average applied MFN tariff rate dropped slightly from 14.1% in 2016 to 13.9% in 2021. 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 in 2016, 84.9% of rates remain at 10% or below in 2021 (85.2% in 2016). Tariff rate quotas (TRQs) remain in place under Korea's multilateral agricultural market access commitments, with in-quota rates ranging from zero to 50% (2021), compared with out-of-quota rates of up to 887.4%, and with a decreasing average fill rate of 58% (2020). Other measures (e.g. "autonomous" tariff quotas, usage tariffs, and duty concessions) selectively reduce tariffs on inputs. Bound rates cover 90.7% of Korea's tariff lines, a slight increase due to the nomenclature change; 99.7% of agricultural lines (excluding seaweeds and bait for fishing) and 89.2% of non-agricultural lines (WTO definitions) are covered by tariff bindings. The gap of 4.2 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 (including seasonal and adjustment duties) increased from 145 (at the 6-digit HS level) in 2016 to 184 in 2021.

8. Korea's customs clearance performance remains appreciated at the international level and is considered as the cutting edge of best practice. During the review period, its trade facilitation developments included the full implementation of WTO Trade Facilitation Agreement (TFA) commitments and transparency notifications, the extension of e-clearance examination to all goods imported by authorized economic operators, and the exploration of blockchain technologies. Wide-ranging trade-facilitating initiatives were undertaken to stop the spread of the COVID-19 pandemic and mitigate its damage, including the speeding up of customs clearance, tax relief measures, and the operation of Customs Clearance Support Centers. Regarding customs valuation, Customs introduced services to protect taxpayers' rights to assist them on matters not resolved by tax appeals, and reinforced cooperative schemes on action against tax evasion, encouraging enterprises to be voluntarily tax compliant. RTA/FTA action to help companies, including SMEs, utilize trade preferences subject to diverse and complicated rules of origin was continued.

9. During the review period, rice imports remained tariffed, and the process of modification and rectification of its Schedule of Concessions, now incorporating the relevant TRQ rates (5% in-quota, 513% out-of-quota), was completed. 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. During the review period, recourse to anti-dumping initiation action remained relatively stable, but there has been an increase in the number of definitive measures in place. Korea continued to use anti-dumping provisions, mainly against imports of chemicals, plastics, paper, plywood, and stainless steel originating mostly in Asia. Price-based special safeguard provisions (SSGs) under the WTO Agreement on Agriculture were used on ginseng root and powder, as well as products of red ginseng and wild cultivated ginseng.

10. 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. In response to domestic needs related to the COVID-19 pandemic, Korea introduced a temporary export ban (entirely lifted on 23 October 2020) on surgical and sanitary masks, filtering respirators, and melt blown filters involving domestic supply-linked quantitative restrictions depending on the item. During the review period, no quantitative export restrictions for rice or any other agricultural products were in place. Direct export subsidies were kept in order to reduce marketing costs for certain agricultural products and are to be eliminated by 2023. A drawback scheme continues to provide refunds of border taxes on raw materials used in exports. Internal indirect taxes are reimbursed on exports; no new corporation tax relief to foreign enterprises located in free trade zones has been granted since 2019. Exports continue to benefit from government finance, insurance, and guarantees, as well as the promotional activities provided by state-owned institutions.

11. Measures involving grants, tax concessions, and low-interest loans continued to support production and trade of various agricultural, forestry, fishing, coal mining, renewable energy, the Fourth Industrial Revolution, and manufacturing industries, and to encourage SMEs, innovation, research and development, 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; there has been persisting emphasis on them, including through more favourable incentives in virtually all policy areas (e.g. customs clearance, rules of origin, export promotion, export finance/insurance, taxation, financing, SPS, and public procurement), as well as the COVID-19 response involving direct and indirect tax reductions for certain taxpayer categories. Furthermore, the 2020 Korean New Deal initiative is to pursue job creation and enhancement of competitiveness of the manufacturing sector by increasing public investment in digital and green energy infrastructure. Agriculture continued to receive substantial financial support. Government support of FDI through the operation of foreign investment zones, export-oriented free trade zones, and free economic zones remains. Tax and non-tax benefits for repatriating Korean companies expanded to cover information technology services and information and communications firms; compensation or adjustment support for farmers and manufacturers adversely affected by a bilateral free trade agreement remains in place.

12. During the review period, regulatory and other initiatives were undertaken to, *inter alia*, improve food and drug safety and align domestic standards to international standards. The number of Korean industrial standards slightly increased over the review period, but the actual share of those adopted in mandatory technical regulations is unknown; the share of those harmonized with international standards remains virtually unchanged. Safety control over imported food hazards was reinforced by making Hazard Analysis of Critical Control Point (HACCP) certification mandatory, as well as expanding its coverage and unifying the certification process. As at 2019, Korea fully implemented its "positive list" system (PLS) to all pesticides in agricultural products except for those with domestically set maximum residue limits. A Rapid Clearance System for Planned Import for reliable business operators with a long-time record of safe food imports was introduced in 2019.

13. State involvement in, *inter alia*, agriculture, mining, energy, finance, and transport persists. No major privatization efforts were pursued during the review period, and at the same time, the level of government shareholding at several entities rose for different reasons. The Ministry of Agriculture, Food and Rural Affairs (MAFRA) remains the sole entity responsible for imports of all rice within the tariff quota, and the state-owned Korea Agro-Fisheries and Food Trade Corporation is responsible for some other agricultural items; their operations allowed for important price mark-ups or mark-downs depending on the product. Changes were made to the main government

procurement legislation in areas including contracting, qualification, and conciliation; the small share of foreign supplies remained relatively stable during the review period. Despite the non-utilization of price preference schemes, government procurement is still seemingly used as a policy tool for promoting SMEs, companies in a disadvantageous position (firms owned by women or people with disabilities), regional development, and green purchasing. Most procurement remains decentralized.

14. During the review period, several legislative amendments were undertaken in competition policy necessary for the realization of a fair economy and the promotion of innovation and competition in the age of the Fourth Industrial Revolution, including the complete revision of the Monopoly Regulation and Fair Trade Act. A prohibition on new cross-shareholdings (i.e. circular-shareholding after 2014) between subsidiaries under large business groups, many of which are family controlled (chaebols), led to their reduction, but its impact on preventing market concentration remains unknown. Large corporations and SMEs continued to be encouraged to voluntarily sign agreements on fair trade and shared growth. Price controls remain in place in specific areas. Consumer protection was reinforced by strengthening transparency and law enforcement with respect to products and areas that closely affect consumers, such as daily necessities and e-commerce.

15. Korea's intellectual property rights regime continued to evolve rapidly in response to technology developments and to pursue public policy objectives. Legislation was strengthened, including in the area of penalties, to better protect right holders in several areas; in response to COVID-19 challenges, the deadlines applicable under certain industrial property legislation were extended, and measures were announced to combat a rapidly increasing online distribution of counterfeit products.

16. Agriculture accounts for a small share in GDP (2% in 2020), and 5.4% of total employment. Korea is a land-scarce country with a high population density, and it is a net food importer. The Government uses a wide range of policy tools, both at the border and domestically, to facilitate the country's development and to improve the welfare of rural residents. Policy objectives also include self-sufficiency in food and staples, and targets for rice, barley, grains, livestock products, and forage were maintained. At the border, peak tariffs and the much higher average applied MFN tariff protection for agricultural goods than for non-agricultural goods persist. SSGs affected certain imports of ginseng products. Export approval is required for ginseng seeds and animals. Export subsidies continued to be provided. Domestic support to agricultural production and trade measures continued to make Korean consumers pay much higher prices than the world levels. Tax and non-policy tools including in the form of low or no irrigation water fees, as well as cross-subsidized electricity tariffs, remain in place. Foreign investment in rice growing is prohibited. Eco-friendly agriculture and aquaculture production is encouraged by providing direct payments to certified farms, and by increasing the share of smart fish farm supplies.

17. Korea's fisheries output is increasingly led by aquaculture production in shallow sea areas, whereas fisheries resources in distant and adjacent waters continue to deplete. FDI restrictions on fisheries were removed in 2016, while border protection mainly takes the form of tariffs and adjustment tariffs. The Government continues to fight against illegal, unreported, and unregulated (IUU) fishing, and provides domestic support for vessel decommissioning and fisheries resources management. It also continues to promote the development of sustainable fisheries and aquaculture production.

18. Mining accounts for a tiny share of GDP, and Korea, an energy-intensive country, relies heavily on imported energy, particularly fossil fuels. This high reliance has focused Korea's energy policy on the security of supply. Recently, the Government committed to advance energy transition by increasing the share of renewable electricity to 20% by 2030, and to 30%-35% by 2040, and to gradually phase out coal and nuclear from the energy mix. To reach these targets, the Government lowered the consumption tax and import surcharge on liquified natural gas while raising the tax on coal, and enhanced decarbonization across all energy sectors in line with its Green New Deal. Various measures including financial and technical support and tax credits continue to be applied in support of the sector. Foreign investment in electricity transmission and distribution faces an equity limit of 50%, and the largest shareholder must be Korean. State-owned companies continue to play a major role in the energy sector, and prices are often regulated (coal and electricity).

19. Manufacturing is an important and export-oriented activity (27.2% of GDP in 2020, 91.4% of total merchandise exports in 2020). Korea is one of the main hubs in international manufacturing

production network. The sector remains dominated by large conglomerates, while the labour productivity gap between large firms and SMEs is large. Border measures are confined to tariffs, adjustment duties, and autonomous TRQs, whereas several tax and non-tax incentives continue to be used to pursue policy objectives. Foreign investment in manufacturing in general is allowed. Sector-specific measures include those to promote the purchase of eco-friendly vehicles and the use of information and communication technology (ICT), and to meet environmental requirements set by international organizations in the shipbuilding industry. In line with the Korean New Deal, ICT's role as an important policy tool to facilitate the development of various sectors, and to meet environmental protection targets has been emphasized. Consequently, public investment in, *inter alia*, smart agriculture, smart fish farms, digital and green energy infrastructure, and intelligent transport systems increased.

20. The contribution of services to GDP rose slightly during the review period, from 60.5% in 2016 to 62.3% in 2020. Labour productivity, particularly of traditional services (such as wholesale and retail, and transport and accommodation), is lower than that of manufacturing. Korea has made commitments beyond General Agreement on Trade in Services (GATS) in the context of some of its RTAs. The Government plans to increase subsidies to some services activities (such as transport and tourism). Subsidies have also been allocated to various services sectors to mitigate the impact of the COVID-19 pandemic.

21. The financial services sector maintained its robust growth during the review period, and with government support it managed to weather the challenges posed by the COVID-19 pandemic. Several pieces of legislation were revised to deregulate certain financial services, including those on online investment-linked financing, supervision of electronic financial transactions, data privacy for financial institutions and financial technology (fintech) operators, financial consumer protection, and cybersecurity. Foreign banks operate through locally incorporated subsidiaries, branches, and representative offices, while no foreign equity restrictions exist for insurance companies.

22. Korea ranks high internationally in information and communications services. In 2020, fixed broadband was designated as a universal service. The telecommunications sector remains relatively concentrated with three companies dominating the fixed-line sector, and three dominating the mobile phone services sector; none of them is state owned. Foreign investment remains subject to a ceiling of 49% in facilities-based services, while value-added services are fully open to foreign investment. Several postal services (including letters weighing less than 350 grams and parcels weighing less than 2 kg) are reserved for the state-owned Korea Post. While postal services stagnated, courier services grew quickly.

23. International transport for freight is mainly by sea, whereas for passengers is mainly by air. In 2017, a five-year plan was launched to restructure the maritime transport sector by, *inter alia*, building more ultra large container and eco-friendly ships, and supporting vessels going green. Measures to reduce marine pollution and enhance marine safety and cybersecurity were also adopted. Tax incentives remain available to the maritime sector, and a rescue fund to help shippers manage the difficulties caused by the pandemic was introduced. Foreign ownership of Korean airline operators is limited to less than 50%, and foreign owners must register their aircraft in Korea. Cabotage for air and land transport is not permitted, although for maritime transport some exceptions exist.

24. The distribution and the tourism sectors contracted significantly in 2020 due to the COVID-19 pandemic. The regulatory framework and FDI restrictions for distribution services remain unchanged. As a result of the country's very high Internet penetration rate, e-commerce develops quickly, and, due to COVID-19, it recorded its strongest growth in 2020, reflecting changes in consumption styles. In 2017, the Government relaxed visa rules and included more cultural content into tour programmes, to help the tourism sector cope with its trade deficit challenges. A Tourism 2020 Strategy identified policy tools to address challenges facing the sector. The level of financial support to the tourism sector was raised, and the use of online platforms to improve digital marketing of tourism services was promoted.

25. Korea's economic growth is expected to gradually gain momentum in 2021, although uncertainty surrounding the outlook reflecting external and domestic COVID-19-related risks remains elevated. Notwithstanding the considerable success of its existing buffers and weathering of the pandemic, the economy remains vulnerable to exogenous shocks, such as a persistent slump in world trade, rising protectionism, retreat from multilateralism, geopolitical tensions, and/or

weaker-than-expected global growth, particularly due to Korea's heavy reliance on exports of manufactures produced mostly by a few large business conglomerates. Future prosperity and sustainable growth would depend on the Government implementing TFP-enhancing structural reforms; promoting balanced, private sector-led growth; promoting fair competition between large corporations and smaller firms; fostering innovation, especially in SMEs; and reducing the regulatory burden on firms, especially in the services sector. 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 Korea to continue meeting its broad-based economic and welfare objectives, including inclusive growth and a narrower wealth divide.

1 ECONOMIC ENVIRONMENT

1.1 Main Features of the Economy

1.1. The export-oriented economy of the Republic of Korea, a WTO developing country Member (Section 2.5.1) with a population of 51.3 million (as at March 2021), remains a high-income, highly developed mixed economy dominated by large conglomerates and a global leader in innovation and technology; in 2020, according to IMF and OECD estimates, it was the 4th largest in Asia and the 10th (11th in 2017) largest economy in the world in gross domestic product (GDP) terms, a rise in its global ranking as it fared better than other major economies despite the coronavirus outbreak.¹ According to the Harvard Growth Lab's economic complexity index, in 2019 Korea remained the world's 4th most diverse economy, after Japan, Switzerland, and Germany, the same as in 2016.² Small and medium-sized enterprises (SMEs) continue to play a considerable role in the economy but are affected by higher labour costs, despite government aid and continuous widespread support to help them adjust, raise their competitiveness, and strengthen partnerships with large conglomerates (Sections 2.2, 2.4.1, 2.5.2, 3.1.1.1, 3.1.2, 3.1.3.5, 3.2.4.3, 3.2.5, 3.3.1.1.2, 3.3.1.2.1, 3.3.1.2.2, 3.3.3.1, 3.3.4.1, 3.3.6, and 3.3.7.3).³ Developments in Korea's position among the most competitive economies in the world reflect those of labour productivity growth and, in particular, total factor productivity growth (Table 1.1 and Section 1.2.1) – a key long-term determinant of international competitiveness and domestic living standards, but also weaknesses in several areas where reforms have been under way (Section 1.2.4).⁴ During the review period, growth slowed down and its prospects were hampered by deterioration in external demand, unfavourable demographics, and slowing productivity growth, driven by structural weaknesses as well as the COVID-19 outbreak although contraction in GDP in 2020 was considerably milder than in most other advanced economies, including OECD countries (Table 1.1 and Section 1.2.1).⁵ According to the latest available

¹ Worldometer, *South Korea*. Viewed at: <https://www.worldometers.info/world-population/south-korea-population/>; IMF, *World Economic Outlook Database*. Viewed at: <https://www.imf.org/en/Publications/WEO/weo-database/2020/October/weo-report?c=512,914,612,614,311,213,911,314,193,122,912,313,419,513,316,913,124,339,638,514,218,963,616,223,516,918,748,618,624,522,622,156,626,628,228,924,233,632,636,634,238,662,960,423,935,128,611,321,243,248,469,253,642,643,939,734,644,819,172,132,646,648,915,134,652,174,328,258,656,654,336,263,268,532,944,176,534,536,429,433,178,436,136,343,158,439,916,664,826,542,967,443,917,544,941,446,666,668,672,946,137,546,674,676,548,556,678,181,867,682,684,273,868,921,948,943,686,688,518,728,836,558,138,196,278,692,694,962,142,449,564,565,283,853,288,293,566,964,182,359,453,968,922,714,862,135,716,456,722,942,718,724,576,936,961,813,726,199,733,184,524,361,362,364,732,366,144,146,463,528,923,738,578,537,742,866,369,744,186,925,869,746,926,466,112,111,298,927,846,299,582,487,474,754,698,&ns=NGDPD,&sy=2018&ey=2025&ssm=0&scsm=1&sc=0&ssd=1&ssc=0&sic=0&sort=country&ds=.&br=1>; World Bank, *Atlas of Sustainable Development Goals 2018: The World by Income*. Viewed at: <https://datatopics.worldbank.org/world-development-indicators/images/figures-png/world-by-income-sdg-atlas-2018.pdf>; World Bank, *The World Bank in Republic of Korea*. Viewed at: <https://www.worldbank.org/en/country/korea>; Worldometer, *GDP by Country*. Viewed at: <https://www.worldometers.info/gdp/gdp-by-country/>; and Yonhap News Agency, "S. Korea Estimated to Have Ranked 10th in 2020 Global GDP rankings", 15 March 2021. Viewed at: <https://en.yna.co.kr/view/AEN20210315001000320>.

² World Atlas, *Countries with the Most Diverse Economies*. Viewed at: <https://www.worldatlas.com/articles/countries-with-the-most-diverse-economies.html>; and Atlas of Economic Complexity, *Country & Product Complexity Rankings*. Viewed at: <https://atlas.cid.harvard.edu/rankings>.

³ In 2018, SMEs accounted for 99.9% (same as in 2016) of the number of enterprises, 83.1% (87.9% in 2016) of total employment, 17.4% (37.5% in 2016) of total exports, and 37.8% (51.2% in 2016) of value added in the economy. Ministry of SMEs and Startups. Viewed at: <https://www.mss.go.kr/site/eng/02/1020200000002016111504.jsp#:~:text=SMEs%20play%20an%20important%20role,one%20percent%20of%20added%20value;https://www.kbiz.or.kr/ko/contents/contents.do?mnSeq=32>; and OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

⁴ In 2018, Korea ranked 13th among 140 economies (26th in 2016) in the WEF Global Competitiveness Index. In 2018, it boasted the most optical fibre connections per capita in the world and 96% of the population used the Internet on a regular basis. Korea obtained the Index's best mark on macroeconomic stability and was the world's 6th innovation hub. However, according to the WEF, entrepreneurship is undermined by cultural and sociological factors. Other weak aspects of involved market inefficiencies related to domestic competition and trade barriers, as well as labour market rigidities and conflictual industrial relations. WTO document WT/TPR/S/346/Rev.1, 6 January 2017; and World Economic Forum, *The Global Competitiveness Report 2019*. Viewed at: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.

⁵ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>; IMF, "IMF Staff Completes 2021

data, between 2016 and 2018, income inequality and the poverty gap dropped slightly due to, *inter alia*, several measures in recent years (e.g. minimum wage rise in 2018, 2019, and 2020 (Section 1.2.4.5)); while inequality, as measured by the Gini coefficient, is above the OECD average, the relative poverty rate of the elderly is more than three times the OECD average.⁶ According to the OECD, the COVID-19 crisis would increase inequality, despite income support, job retention measures, and the creation of public jobs for the elderly and other low-income groups.⁷

Table 1.1 Selected macroeconomic indicators, 2016-20

	2016	2017	2018	2019	2020
National accounts (% change, unless otherwise indicated)					
Real GDP (at 2015 prices)	2.9	3.2	2.9	2.2	-0.9
Consumption	3.0	3.1	3.7	3.2	-2.4
Private consumption	2.6	2.8	3.2	2.1	-5.0
Government consumption	4.4	3.9	5.3	6.4	5.0
Gross fixed capital formation	6.6	9.8	-2.2	-2.1	2.6
Exports of goods and non-factor services	2.4	2.5	4.0	0.2	-1.8
Imports of goods and non-factor services	5.2	8.9	1.7	-1.9	-3.3
XGS/GDP (%) (at current market price)	40.1	40.9	41.7	39.3	36.4
MGS/GDP (%) (at current market price)	33.5	36.2	37.3	36.5	32.8
Unemployment rate (%)	3.7	3.7	3.8	3.8	4.0
Productivity (% change)					
Labour productivity	1.6	3.0	1.8	1.0	2.0
Total factor productivity	1.1	0.3	4.2	1.1	..
Prices and interest rates					
Inflation (CPI, % change)	1.0	1.9	1.5	0.4	0.5
Core inflation (excluding food and energy sector)	1.9	1.5	1.2	0.7	0.4
Loans and discounts rate (%)	3.37	3.48	3.66	3.45	2.80
Savings deposit rate (%)	1.48	1.56	1.87	1.75	1.05
Exchange rate					
KRW/USD (annual average)	1,160.5	1,130.8	1,100.3	1,165.7	1,180.1
Real effective exchange rate (% change)	1.5	3.5	-0.5	-5.8	2.7
Nominal effective exchange rate (% change)	2.0	4.1	0.0	-3.9	2.9
Consolidated fiscal balance (% of GDP)					
Consolidated revenue	21.3	22.0	23.1	23.1	23.1
National tax revenue	13.9	14.5	15.5	15.2	14.8
Consolidated expenditure and net lending	20.4	20.7	21.4	23.7	26.8
Central government total debt	34.0	34.2	34.3	36.3	42.4
Saving and investment (% of GDP)					
Gross national savings	36.9	37.1	35.9	34.8	36.2

Article IV Mission to Republic of Korea", 27 January 2021. Viewed at:

<https://www.imf.org/en/News/Articles/2021/01/27/pr2125-korea-imf-staff-completes-2021-article-iv-mission-to-republic-of-korea>.

⁶ As at 2018, Korea's income inequality indicator stood at 0.345 compared to 0.355 in 2016. The Gini coefficient is based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive, and it ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality. Income inequality is relatively high, due to wage dispersion and limited redistribution; a dual labour market (i.e. regular and non-regular workers) and partly related large differences in productivity (Section 1.2.1) between large firms and SMEs, and between industry and services, generate strong wage inequality. Redistribution through taxes and benefits is weaker than in most other OECD countries. As at 2018, its poverty gap stood at 0.342 compared to 0.351 in 2016. The poverty gap is the ratio by which the mean income of the poor falls below the poverty line. The poverty line is defined as half the median household income of the total population. In 2018, the relative poverty rate of the elderly in Korea was 16.7% (17.6% in 2016), well above the OECD average. Korea's relative poverty rate is the third highest OECD-wide, driven by the worst old-age relative poverty rate in the OECD due to limited pension income and low earnings for many of those still working. OECD, *Income Inequality*. Viewed at: <https://data.oecd.org/inequality/income-inequality.htm>; OECD (2019), *Economic Policy Reforms 2019: Going for Growth*. Viewed at: <https://doi.org/10.1787/aec5b059-en>; and OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

⁷ OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

	2016	2017	2018	2019	2020
Gross domestic investment	30.1	32.3	31.5	31.5	31.9
Savings-investment gap	6.7	4.8	4.5	3.4	4.3
External sector (% of GDP, unless otherwise indicated)					
Current account balance	6.5	4.6	4.5	3.6	4.6
Net merchandise trade	7.8	7.0	6.4	4.8	5.0
Merchandise exports	34.1	35.7	36.3	33.7	31.5
Merchandise imports	26.4	28.7	29.9	28.9	26.5
Services balance	-1.2	-2.3	-1.7	-1.6	-1.0
Capital account	-0.0	-0.0	0.0	-0.0	-0.0
Financial account	6.7	5.2	4.4	3.6	4.7
Direct investment	1.2	1.0	1.5	1.6	1.4
Balance-of-payments	0.5	0.3	1.0	0.1	1.1
Terms of trade (2015=100)	101.0	100.6	95.4	91.4	94.9
Merchandise exports ^a (% change)	-5.7	13.4	7.9	-11.1	-7.2
Merchandise imports ^a (% change)	-6.5	18.0	10.6	-7.6	-8.8
Service exports ^a (% change)	-2.8	-5.4	15.6	0.2	-13.2
Service imports ^a (% change)	0.0	12.7	5.2	-1.8	-18.7
International reserves ^b (USD billion, end-period)	371.1	389.3	403.7	408.8	443.1
Foreign exchange reserves (USD billion, end-period)	361.7	379.5	393.3	397.9	430.1
in months of imports of goods and services	8.1	8.7	7.8	7.5	8.2
Total external debt (USD billion; end-period)	382.1	412.0	441.2	470.7	544.9
of which short term	104.8	116.0	125.6	135.5	159.3
Debt-service ratio ^c	9.3	8.2	8.8	9.8	10.9

a Growth rates are based on USD.

b Including foreign exchange reserves, gold, special drawing rights, and IMF Reserve Position.

c Debt service on medium- and long-term debt in percentage of exports of goods and services. 2019 and 2020 figures are estimates.

Note: Based on IMF figures: real effective exchange rate (REER) % change equals -2.1, 3.1, 7.1, -3.8, and -10.2, and nominal effective exchange rate (NEER) % change equals -4.0, 2.3, 1.0, -3.8, and -2.4, respectively, for 2016, 2017, 2018, 2019, and 2020. Both REER and NEER are based on Unit Labour Costs.

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

1.2. Despite Korea's solid fundamentals, supported by robust policy frameworks and a resilient financial system, downside risks to the economic outlook remain relatively unchanged and subject to COVID-19 pandemic developments.⁸ Domestic/endogenous risks to the economy may stem from, *inter alia*, Korea's high reliance on manufacturing export-led growth, the rapidly ageing population, reduction in household incomes, downward pressures on demand and inflation, excessive reliance on monetary easing, and hindered employment creation.⁹ Specialization in a few key industries (e.g. electrical and electronic equipment industry, cars, petrochemicals, and other heavy industrial products) dependent on a few large firms increasingly exposes the economy to domestic and external shocks, as they are highly interconnected with other domestic industries via upstream/downstream linkages and with foreign markets via export/import linkages, thus making Korea vulnerable to lasting disruptions in global value chains (GVCs). A permanent slump in world trade, rising protectionism, retreat from multilateralism, geopolitical tensions, and/or weaker-than-expected global growth could adversely impact exports, further dampen investment, and push up unemployment.¹⁰ According to the IMF, as at 2019, future prosperity depended on policies aimed at

⁸ IMF (2019), *Republic of Korea: Selected Issues*, IMF Country Report No. 19/133. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-Selected-Issues-46891>.

⁹ Korea's population is ageing rapidly, but digitalization could raise productivity; the old-age dependency ratio will be the highest of OECD Member States by 2060. OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

¹⁰ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>; and OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

promoting balanced, private sector-led growth; fostering inclusion; enhancing productivity; promoting fair competition between large corporations and smaller firms; fostering innovation especially in SMEs; and reducing the regulatory burden on firms, especially in the services sector.¹¹ Furthermore, outlook uncertainty reflecting external and domestic COVID-related risks remains elevated; reportedly, in addition, a strong currency and political factors could pose downside risks for growth.¹² According to the IMF, as at 2021, building on the successful response to the COVID-19 shock (Box 1.1), the priorities for the period ahead would be to nurture the ongoing recovery with additional fiscal and monetary policy accommodation, and solidify the foundations for resilient, greener, and more inclusive medium-term growth.

Box 1.1 Korea's response to the COVID-19 challenge

Korea was among the first countries hit by COVID-19. Due to an effective strategy to contain the spread of the virus, as at August 2020 the damage to the economy has been limited and output was shrinking less than in any other OECD country. Prompt and unprecedented wide-ranging action (Table A1.1) was taken to mitigate the pandemic's impact on employment, output, and investment as well as to shore up growth.

Between February and September 2020, fiscal and non-fiscal measures worth KRW 277 trillion (14.4% of GDP) were introduced and raised to attain KRW 310 trillion (16.5% of GDP) as at June 2021 (Table A1.1). They included: (i) four supplementary fiscal stimulus budgets totalling KRW 66.9 trillion (USD 55 billion or about 3.5% of GDP), the third being the largest in the country's history (Section 3.3.1.2); (ii) loans and guarantees of over KRW 200 trillion to households, SMEs, and severely affected industries (Section 3.3.1.2.2); (iii) employment support (e.g. subsidized wages and reduced contributions to the National Health Insurance and Workers Accident Compensation Insurance); (iv) relief checks in form of spending coupons of up to KRW 1 million (USD 814) to all households; (v) a government-sponsored fund of about 2% of GDP to support key industries (e.g. aviation, shipping, shipbuilding, and automobile); and (vi) Bank of Korea policy rate cut and swap agreement with the US Federal Reserve (Section 1.2.3.1). Temporary tax measures included: (i) tax deductions for spending via credit cards, cash, or debit cards, and for expenses paid in traditional markets and public transportation; (ii) consumption tax cut on motor vehicles; (iii) higher income tax credits for SMEs operating in hard-hit regions; (iv) VAT reduction for small proprietors; and (v) VAT exemption for small-revenue taxpayers. Furthermore, other trade-related measures were introduced in areas such as trade facilitation, customs duty concessions, temporary export ban of medical equipment, export credit insurance, price control on healthcare products, and industrial property rights (Sections 3.1.1.1, 3.1.3.5, 3.2.5, 3.3.4.2, and 3.3.7.1).

According to the OECD, as at August 2020 sound public finances provided fiscal space for further measures to prop up the economy if the crisis lingers. On 25 March 2021, a total budget of KRW 19.4 trillion, consisting of a proposed KRW 14.9 trillion supplementary budget and KRW 4.5 trillion of the 2021 original budget, which were to be spent on the COVID-19 support to help small businesses with carrying out operations and retaining employment, was passed.

Source: OECD (2020), *OECD Economic Outlook*, Vol. 2020, Issue 1, No. 107. Viewed at: <https://doi.org/10.1787/0d1d1e2e-en>; OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>; EIU (2020), *Country Commerce: South Korea*. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf; Ministry of Economy and Finance, *2021 Supplementary Budget Proposal*. Viewed at: <https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=5080>.

¹¹ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>; and IMF (2019), *Republic of Korea: Selected Issues*, IMF Country Report No. 19/133. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-Selected-Issues-46891>.

¹² IMF, "IMF Staff Completes 2021 Article IV Mission to Republic of Korea", 27 January 2021. Viewed at: <https://www.imf.org/en/News/Articles/2021/01/27/pr2125-korea-imf-staff-completes-2021-article-iv-mission-to-republic-of-korea>; and Pulse News, "2021 Outlook: Korea's Growth to Fall Under 3% on Pandemic, Political Risks", 17 December 2020. Viewed at: <https://pulsenews.co.kr/view.php?year=2020&no=1295124>.

1.2 Recent Economic Developments

1.2.1 Growth, income, and employment

1.3. During the review period, Korea's annual GDP growth peaked at 3.2% (2017) to progressively decline to -0.9% (2020) due to the COVID-19 outbreak, while its annual average rate for the period 2016-20 stood at 2.1%, a further slowdown compared to the averages of 2.9% in 2012-15 and 4.6% in 2001-11 (Table 1.1).¹³ According to the OECD, the 2017 upturn was led by business investment, a continuing boom in construction, an uptick in world trade, and surging demand for semiconductors, and it was supported by a supplementary budget in mid-2017.¹⁴ According to the IMF, the reasons for the subsequent decline included a deterioration in external demand, a global slowdown in the demand and prices for semiconductors, trade tensions, China's growth slowdown, unfavourable demographics, and slowing productivity (see below).¹⁵ Recognizing the challenging growth environment, a supplementary budget of 0.3% of GDP was approved by vote in August 2019 and fiscal stimulus of about 1.2% of GDP was already planned for 2020.¹⁶ Despite negative growth amid the prolonged COVID-19 pandemic in 2020, according to OECD data, Korea ranked third among major economies after China and Turkey, in terms of economic growth, as a result of rising global demand for semiconductors, high-tech products, and automobiles; resilient investment in machinery and equipment; and expansionary fiscal and accommodative monetary measures (Box 1.1 and Section 1.2.3).¹⁷ Furthermore, the July 2020 Korean New Deal initiative (Sections 1.2.4 and 3.3.1.2.2.2) offers an opportune strategy to develop new growth drivers and achieve greater inclusiveness by increasing public investment in digital and green energy infrastructure.¹⁸ According to the IMF, growth is projected to gradually gain momentum, reaching on a preliminary basis 3% (Bank of Korea) or 3.6% (IMF) in 2021.¹⁹ According to the Bank of Korea (BOK), GDP is expected to record growth of over 3% in 2021, as it is expanding more than expected; the global economy is picking up, exports have constantly been good on the back of IT industry bouncing back, facility investment is improving, and lingering weakness in private consumption is getting better as the social distancing policy is eased.²⁰

1.4. Since 2016, changes in the overall sectoral pattern of Korea's GDP and employment have mainly consisted of the increasing contribution of services – accounting for 62.3% (2020) of economic activity – still well below the OECD average, and a decline in manufacturing (Table 1.2).²¹ Labour productivity in Korea's dualistic economy peaked in 2017 but then dropped only rise again in 2020, whereas the weak total factor productivity (TFP) peaked in 2018 and then slowed, thus

¹³ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

¹⁴ OECD (2018), *OECD Economic Surveys: Korea 2018*. Viewed at: http://dx.doi.org/10.1787/eco_surveys-kor-2018-en.

¹⁵ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>.

¹⁶ OECD (2019), *OECD Economic Outlook*, Vol. 2019, Issue 2, No. 106. Viewed at: <https://doi.org/10.1787/9b89401b-en>.

¹⁷ According to the OECD, the COVID-19 hit to the economy was particularly severe for tourism, travel, hotels, restaurants, culture, petrochemicals, cars, shipping, and shipbuilding. Both disruptions to supply chains and shrinking demand have led to stoppages in some industries and the manufacturing purchasing managers' index in April 2020 fell to its lowest level since 2009. Exports tumbled. OECD (2020), *OECD Economic Outlook*, Vol. 2020, Issue 1, No. 107. Viewed at: <https://doi.org/10.1787/0d1d1e2e-en>; OECD (2019), *OECD Economic Outlook*, Vol. 2019, Issue 2, No. 106. Viewed at: <https://doi.org/10.1787/9b89401b-en>; IMF, "IMF Staff Completes 2021 Article IV Mission to Republic of Korea", 27 January 2021. Viewed at: <https://www.imf.org/en/News/Articles/2021/01/27/pr2125-korea-imf-staff-completes-2021-article-iv-mission-to-republic-of-korea>; and *Korea Herald*, "S. Korea Ranks 3rd in 2020 Economic Growth After China, Norway: OECD", 23 February 2021. Viewed at: <http://www.koreaherald.com/view.php?ud=20210223000773>.

¹⁸ IMF, "IMF Staff Completes 2021 Article IV Mission to Republic of Korea", 27 January 2021. Viewed at: <https://www.imf.org/en/News/Articles/2021/01/27/pr2125-korea-imf-staff-completes-2021-article-iv-mission-to-republic-of-korea>; and IMF (2021), *World Economic Outlook April 2021: Managing Divergent Recoveries*. Viewed at: <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>.

¹⁹ IMF, "IMF Staff Completes 2021 Article IV Mission to Republic of Korea", 27 January 2021. Viewed at: <https://www.imf.org/en/News/Articles/2021/01/27/pr2125-korea-imf-staff-completes-2021-article-iv-mission-to-republic-of-korea>; and Pulse News, "2021 Outlook: Korea's Growth to Fall Under 3% on Pandemic, Political Risks", 17 December 2020. Viewed at: <https://pulsenews.co.kr/view.php?year=2020&no=1295124>.

²⁰ Bank of Korea (2021), *Executive Summary for Monetary Policy Report (March 2021)*. Viewed at: <https://www.bok.or.kr/eng/bbs/E0000628/view.do?nttId=10063407&menuNo=400204>.

²¹ World Bank, *Services, Value Added (% of GDP)*. Viewed at: <https://data.worldbank.org/indicator/NV.SRV.TOTL.ZS>.

slowing the rise of income, well-being, and female employment (Table 1.1); according to the OECD, narrowing the productivity gap requires regulatory reform, particularly in the lagging services sector (e.g. trade, transportation, accommodation, and catering).²² Korea remains deeply integrated in GVCs, particularly for electronic goods; as an export-oriented economy, it is, *inter alia*, vulnerable to lasting COVID-19-related GVC disruptions.²³ According to United Nations Conference on Trade and Development (UNCTAD) estimates, in 2017, Korea ranked 6th (4th in 2010) among the world's 25 top exporting developing economies by GVC participation rate; its GVC participation in exports (58%, mostly upstream) stood below the average of the developed exporting economies (60%) but above the average of developing exporting economies (56%).²⁴

Table 1.2 Basic economic and social indicators, 2016-20

	2016	2017	2018	2019	2020
Real GDP at market prices (KRW trillion, 2015 prices)	1,706.9	1,760.8	1,812.0	1,852.7	1,836.9
Real GDP at market price (USD billion, 2015 prices)	1,470.8	1,557.1	1,646.8	1,589.3	1,556.6
Current GDP at market price (KRW trillion)	1,740.8	1,835.7	1,898.2	1,924.5	1,933.2
Current GDP at market price (USD billion)	1,500.0	1,623.3	1,725.2	1,651.0	1,638.2
GDP per capita at current market price (USD)	29,287.2	31,605.2	33,429.0	31,928.8	31,637.3
GDP by economic activity at constant 2015 prices (% change)					
Agriculture, forestry and fishing	-5.6	2.3	0.2	3.9	-4.0
Mining and quarrying	7.0	-4.0	-7.4	-6.2	-0.2
Manufacturing	2.3	3.7	3.3	1.1	-0.9
Chemicals and chemical products	0.5	3.4	2.5	-0.9	0.7
Computer, electronic and optical products	10.3	4.8	11.4	6.4	3.9
Machinery and equipment	-4.4	22.5	0.7	-0.9	2.2
Transportation equipment	1.6	-8.1	-2.3	1.9	-9.1
Electricity, gas and water supply	-1.2	6.2	-1.7	4.3	4.2
Construction	9.8	5.9	-2.8	-2.6	-1.4
Services	2.9	2.6	3.8	3.4	-1.0
Wholesale and retail trade	2.2	2.6	2.5	3.5	-1.9
Accommodation and food services	4.5	-0.5	4.0	3.6	-16.7
Transport and storage	0.4	2.7	3.7	1.7	-15.1
Finance and insurance	1.9	4.2	5.6	3.4	9.1
Real estate	3.5	2.3	3.2	1.4	1.7
Information and communication	5.3	3.1	4.5	4.6	3.2
Professional, scientific and technical services	1.3	0.5	3.4	2.0	2.3
Business support services	4.1	4.7	4.7	3.7	-5.4

²² Korea's dualistic economy remains characterized by large productivity gaps between manufacturing and services, large and small firms, and regular and non-regular workers contributing to sluggish productivity growth (Sections 1.1 and 1.2.4.5). Productivity is only about half as high as that of OECD countries, while labour inputs are the largest in the OECD, reflecting long working hours. The TFP growth level remained about 65% of that in the United States in 2017. Despite dynamism in digital technologies, Korea's economy-wide productivity is far below the OECD average, thus reflecting several structural features. As in many OECD countries, most jobs created in new SMEs are in low productivity activities (e.g. trade, transportation, accommodation, and food services); in high productivity sectors (e.g. manufacturing), SMEs account for a high share of enterprises and of employment, but are less productive than large firms, and this productivity gap observed across OECD countries is substantially larger in Korea. IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>; OECD (2019), *Economic Policy Reforms 2019: Going for Growth*. Viewed at: <https://doi.org/10.1787/aec5b059-en>; and OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

²³ OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

²⁴ The GVC participation rate indicates the share of a country's exports that is part of a multi-stage trade process. WTO, *Trade in Value-Added and Global Value Chains: Statistical Profiles*. Viewed at: https://www.wto.org/english/res_e/statis_e/miwi_e/countryprofiles_e.htm; and UNCTAD (2018), *World Investment Report 2018 - Investment and New Industrial Policies*. Viewed at: https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

	2016	2017	2018	2019	2020
Public administration and defence	2.7	2.8	3.4	3.9	4.0
Education	1.3	2.0	1.7	1.6	-2.4
Health and social work	7.3	6.4	8.2	9.8	1.3
Culture and other services	3.4	-0.8	2.7	2.9	-18.7
Share of gross value added, current prices (%)					
Agriculture, forestry and fishing	2.0	2.0	1.9	1.8	2.0
Mining and quarrying	0.1	0.1	0.1	0.1	0.1
Manufacturing	28.8	29.5	29.1	27.6	27.2
Chemicals and chemical products	4.6	4.4	4.3	4.3	4.4
Computer, electronic and optical products	6.8	8.2	8.5	7.1	7.0
Machinery and equipment	2.4	2.6	2.5	2.6	2.7
Transportation equipment	3.6	3.0	2.8	3.0	2.8
Electricity, gas and water supply	2.8	2.4	2.0	2.1	2.4
Construction	5.7	6.0	5.9	6.0	6.0
Services	60.5	60.0	60.9	62.4	62.3
Wholesale and retail trade	8.1	8.0	7.9	7.8	7.6
Accommodation and food services	2.5	2.5	2.5	2.7	2.2
Transport and storage	3.7	3.5	3.3	3.5	3.2
Finance and insurance	5.6	5.8	6.0	5.9	6.3
Real estate	8.1	7.9	8.0	8.1	8.3
Information and communication	4.7	4.6	4.6	4.7	5.0
Professional, scientific and technical services	6.0	6.0	6.2	6.5	6.8
Business support services	3.2	3.2	3.4	3.5	3.4
Public administration and defence	6.3	6.4	6.6	6.9	7.3
Education	5.3	5.2	5.2	5.4	5.3
Health and social work	4.3	4.4	4.7	5.1	5.3
Culture and other services	2.6	2.5	2.6	2.6	2.2
Share of sector in total employment					
Agriculture, forestry and fishing	4.8	4.8	5.0	5.2	5.4
Mining and quarrying	0.1	0.1	0.1	0.1	0.0
Manufacturing	17.4	17.1	16.8	16.5	16.3
Electricity, gas, and water supply	0.7	0.7	0.7	0.8	0.8
Construction	7.1	7.4	7.6	7.5	7.5
Services	70.0	69.9	69.8	71.1	70.2
Wholesale and retail trade	14.2	14.2	13.9	13.7	13.1
Accommodation and food service activities	8.7	8.6	8.4	8.6	8.0
Transport and storage	5.4	5.3	5.2	5.3	5.5
Finance and insurance	3.0	3.0	3.1	3.0	2.9
Real estate	1.8	2.0	2.0	2.1	1.9
Information and communication	3.0	2.9	3.1	3.2	3.2
Professional, scientific and technical activities	4.2	4.1	4.1	4.3	4.3
Business support services	5.3	5.1	4.9	4.9	5.0
Public administration and defence; compulsory social security	3.8	4.0	4.1	4.0	4.1
Education	7.1	7.1	6.9	7.0	6.7
Health and social work	7.0	7.2	7.6	8.2	8.7
Culture and other services	6.5	6.5	6.5	6.8	6.7

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

1.5. During the review period, Korea's unemployment rate rose slightly to 4% in 2020 (Table 1.1) as a result, *inter alia*, of weak private job creation particularly in low-productivity sectors and among low-skilled workers, reflecting both the slowing economic momentum and the sharp rise in the

minimum wage in 2018-19 (Section 1.2.4.5), as well as the COVID-19 outbreak.²⁵ The pandemic-related fall in employment affected mostly wholesale and retail trade, accommodation, and food, particularly temporary and daily workers, as well as small business owners.²⁶ According to the authorities, as at February 2021 on a year-on-year basis, 473,000 jobs were lost but losses were slowing due to recovering services.²⁷ As at March 2021 on a year-on-year basis, 314,000 jobs were added as employment in the private sector revitalized while exports and domestic consumption improve.

1.2.2 Prices

1.6. During the review period, headline inflation peaked to 1.9% in 2017, mainly due to an increase in oil and food prices, and then dropped to 0.5% in 2020 led by their fall; it remained below the BOK's 2% target (Section 1.2.3.1).²⁸ Core inflation, which excludes energy and food, dropped steadily and considerably to 0.4%, about one fifth of its 2016 level (Table 1.1). According to the authorities, as at March 2021 on a year-on-year basis, headline and core inflation rose to 1.5% and 0.6%, respectively.²⁹ According to the BOK, consumer price inflation is forecast to rise to 1.3% in 2021, as international oil prices are expected to considerably exceed the 2020 level, whereas core inflation is forecast to increase to 1%.³⁰

1.2.3 Main macroeconomic policy developments

1.2.3.1 Monetary and exchange rate policy

1.7. An accommodative monetary policy has been conducted by the independent Bank of Korea, mainly on the basis of an inflation target set at 2% since 2016-18.³¹ With inflation continuing to undershoot its target since 2016, the BOK cut its policy rate progressively five times from 1.25% (June 2016) to a record-low 0.5% (May 2020); it was raised only twice – to 1.5% (November 2017) and 1.75% (November 2018).³² According to the IMF, monetary policy was appropriately eased in 2020 and has scope for additional support to underpin the recovery and bring inflation closer to the BOK target through a modest further easing.³³

1.8. Korea has maintained its floating exchange rate system, which provides an important buffer against external shocks and facilitates adjustment towards domestic sources of growth, thereby reducing external imbalances to levels consistent with Korea's fundamentals. The authorities adhere to the principle that the exchange rate is determined by the market; the intervention policy in foreign exchange markets remains limited to episodes of disorderly market conditions, and exchange rate flexibility would continue.³⁴ As from the second half of 2018, Korea began to disclose foreign

²⁵ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>.

²⁶ OECD (2020), *OECD Economic Outlook*, Vol. 2020, Issue 1, No. 107. Viewed at: <https://doi.org/10.1787/0d1d1e2e-en>.

²⁷ Ministry of Economy and Finance, "Current Economic Situation, March 2021", 19 March 2021. Viewed at: <https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=5092>.

²⁸ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>.

²⁹ Ministry of Economy and Finance, "Current Economic Situation, March 2021", 19 March 2021. Viewed at: <https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=5092>.

³⁰ Bank of Korea (2021), *Executive Summary for Monetary Policy Report (March 2021)*. Viewed at: <https://www.bok.or.kr/eng/bbs/E0000628/view.do?nttId=10063407&menuNo=400204>.

³¹ In addition to monetary policy, in order to mitigate the rise in inflation, the Government continued 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 3.1.3.3, 3.1.3.8, 3.3.1.1.1, and 3.3.4.2).

³² Trading Economics, *South Korea Interest Rate*. Viewed at: <https://tradingeconomics.com/south-korea/interest-rate>.

³³ IMF, "IMF Staff Completes 2021 Article IV Mission to Republic of Korea", 27 January 2021. Viewed at: <https://www.imf.org/en/News/Articles/2021/01/27/pr2125-korea-imf-staff-completes-2021-article-iv-mission-to-republic-of-korea>.

³⁴ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>.

exchange market intervention data to enhance its foreign exchange policy transparency. Between the second half of 2018 and 2020, Korea sold USD 211.4 billion (on a net basis), including both the spot and forward markets; the net purchase of US dollars by the FX authorities for market stability was USD -1.51 billion.

1.9. During the review period, the nominal KRW/USD exchange rate depreciated (2019 and 2020) after slightly appreciating (2016-18) (Table 1.1); in trade-weighted terms, overall, the effective exchange rate appreciated (except for 2018 and 2019), thus reducing Korea's price competitiveness in international trade. Exchange rate movements were driven by both external and internal factors. External factors included global risk-on, risk-off investment behaviour and policy responses of major countries to address COVID-19. Internal factors included trends in the current account balance following export and import, foreign capital flows, the policy response for tackling COVID-19, and geopolitical risks. According to the IMF, the Korean won has been on a gradual appreciating trend since 2013, and in real effective exchange rate (REER) terms it appreciated by nearly 1% (2018 average compared to 2017 average); in its REER terms during the review period it appreciated (except for 2019 and 2020).³⁵

1.2.3.2 Fiscal policy

1.10. Korea's prudent fiscal policy shifted to an increasingly expansionary, more pro-growth stance to support consumption and investment and cope with the impact of COVID-19 on the economy, a move consistent with utilizing fiscal space when needed while preserving longer-term fiscal sustainability. Consequently, its rising fiscal surplus shifted from a peak of 1.6% of GDP (including social security surplus) in 2018 to deficits of 0.6% in 2019 and 3.7% in 2020 (Table 1.1). According to the OECD, Korea is appropriately using the fiscal space offered by strong public finances, with central government gross debt at 36.3% of GDP in 2019 and 42.4% in 2020, to dampen the impact of the crisis (Box 1.1 and Table 1.1); the budget balance is projected to move from a surplus in 2019 to a deficit of up to more than 3% of GDP in 2020.³⁶ According to the IMF, the 2021 budget has scope for raising targeted transfers to adversely affected workers and firms and accelerating public investment plans to support the recovery; as done in the past, Korea's somewhat higher budgeted deficit could be offset by gradual consolidation in subsequent years.³⁷

1.2.4 Structural policies

1.11. Trade and domestic reform are considered as intrinsically linked. During the review period, policy was, *inter alia*, focused on supporting income, creating jobs, supporting SMEs and start-ups, and promoting productivity-boosting innovation, as well as strengthening social safety nets and substantially raising the minimum wage (Sections 3.2.4.3, 3.3.1.2.2, 3.3.4.1, 3.3.6, and 3.3.7).³⁸ A July 2020 Korean New Deal strategy is to develop new growth drivers in the post-pandemic world and increase inclusiveness (Sections 1.2.1 and 3.3.1.2.2).³⁹ According to the IMF and the OECD, reforms that reduce entry barriers and stimulate competition, especially in the services sector, and tackle remaining rigidities in the labour market (Section 1.2.4.5) could provide a further boost to potential growth; furthermore, policies and structural reforms to promote domestic demand and

³⁵ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>.

³⁶ OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

³⁷ IMF, "IMF Staff Completes 2021 Article IV Mission to Republic of Korea", 27 January 2021. Viewed at: <https://www.imf.org/en/News/Articles/2021/01/27/pr2125-korea-imf-staff-completes-2021-article-iv-mission-to-republic-of-korea>.

³⁸ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>.

³⁹ Government of the Republic of Korea (2020), *The Korean New Deal – National Strategy for a Great Transformation*. Viewed at: <https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=4948#:~:text=The%20Korean%20New%20Deal%2C%20announced,employment%20and%20social%20safety%20net>; IMF, "IMF Staff Completes 2021 Article IV Mission to Republic of Korea", 27 January 2021. Viewed at: <https://www.imf.org/en/News/Articles/2021/01/27/pr2125-korea-imf-staff-completes-2021-article-iv-mission-to-republic-of-korea>.

private investment would contribute to a further reduction of the current account surplus (Section 2.2.5).⁴⁰

1.2.4.1 Tax reform

1.12. During the review period, tax reform in line with policy objectives, including to cope with COVID-19 impact to the economy, was undertaken (Box 1.1, Section 3.3.1, and below).⁴¹ In 2016, it included tax incentives to inject more vitality into the economy (e.g. research and development (R&D), new growth-engine industries, core technology, cultural content such as films and TV dramas, and venture investment); tax system improvements on tax benefits for low- and middle-income households, SMEs, the self-employed and fishers/farmers.; taxation equity enhancement and non-taxation/exemption schemes overhauling in certain areas (e.g. capital gains tax, offshore tax base, and tax package for increasing household incomes); and tax system rationalization under the 2016 tax code revision. In 2017, specific measures were taken as follows: tax support programmes overhauling for creating quality jobs (e.g. Tax Credit for Enterprises Increasing Job Creation tax reduction); rise of tax burdens on high-income earners versus relief for middle-income and working-class people and small-scale business owners; corporate tax rate for large corporations with sufficient funding rise to previous levels; and further rationalization of the tax regime. The 2018 tax reform included: earned income tax credit (EITC) redesign and expansion; tax burdens on real estate ownership rationalization; bigger tax incentives to businesses increasing jobs in designated special areas and reinforcement of tax support for companies starting operations in regions at risk (corporate and individual income tax exemption); and further rationalization of the overall tax regime (e.g. taxes levied on bituminous coals and natural liquefied gas (LNG) adjusted to their environmental costs). The 2019 tax revision highlights were the introduction of tax support programmes to help economic vitality (e.g. production enhancement facilities, public safety facilities, individual consumption tax relief for passenger vehicles, and R&D for new growth and source technologies); upgrading of tax schemes to support the working and middle-income classes, SMEs, and employment (companies hiring local); elevation of tax equity and transparency in tax revenue sources; and further rationalization of the tax regime (e.g. penalties and administrative fines for breaching reporting duties on overseas financial accounts and the tax surcharge verification for stocks of largest shareholders).

1.13. In addition to tax measures during the first half of 2020 (Box 1.1, Table 1.1, and Section 3.3.1.1.2), as at July 2020 several tax reforms aimed at reducing inequality and facilitating economic recovery from the COVID-19 pandemic, including the introduction of a new top tax bracket for personal income and tax relief for smaller companies, were passed.⁴² These reforms were implemented through the passing of amendments to the tax law on 30 November 2020 and enforcement decrees and regulations were promulgated and entered into force in February and March 2021. Regarding the personal tax regime, they introduced a new top tax bracket for annual earnings exceeding KRW 1 billion subject to a new 45% tax rate, compared with the previous 42% rate applied on annual income over KRW 500 million. The introduction of new top bracket for personal income tax was implemented as of 29 December 2020 (revision of Article 55(1) of the Income Tax Act). Regarding companies, there was a broadening of the application of a simplified tax-filing process and introduction of VAT exemptions for businesses with annual sales below KRW 48 million. The VAT-related amendments came into effect on 22 December 2020 (amendment to Article 69(1)). The capital gains tax of 20% on profits of over KRW 50 million from transactions of listed shares, starting from 1 January 2023, was amended on 29 December 2020.

1.14. According to the IMF, in the longer term, tax reforms aimed at promoting innovation and efficiency in resource allocation could further support growth.⁴³ As indicated at the time of the previous review by the IMF, Korea's tax revenue (27.2% of GDP in 2019) remains relatively low compared to that of most OECD countries at similar levels of development, in part reflecting high

⁴⁰ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>; and OECD (2019), *OECD Economic Outlook*, Vol. 2019, Issue 2, No. 106. Viewed at: <https://doi.org/10.1787/9b89401b-en>.

⁴¹ Ministry of Economy and Finance (2020), *Korean Taxation 2020*.

⁴² EIU (2020), *Country Commerce: South Korea*. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

⁴³ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>.

levels of exemptions (Section 3.3.1.1); tax reform focused on broadening the base would reduce policy distortions and improve productivity.⁴⁴ To enhance tax compliance, the authorities expanded the disclosure list of large and habitually delinquent payers (2021), established an exclusive organization for tax delinquency in local tax offices (2020), and encouraged compliance of delinquent payers by reducing the "additional tax to payment defer" rate from 0.03%/day to 0.025%/day (2019).

1.2.4.2 Privatization

1.15. As at the previous Review and despite a commitment to privatization, there has been no progress in this area (Section 3.3.5).

1.2.4.3 Competition policy

1.16. During the review period, Korea set out a vision of "Raising the Living Quality of the People through Establishment of a Fair Market Economy" to promote innovation and competition, and undertook several legislative changes to respond to developments in the economic landscape (Section 3.3.4.1.1). Market and industry concentration remains relatively high, and large business and state conglomerates continue to be monitored. A prohibition on new cross-shareholding (i.e. circular shareholding) between subsidiaries under a large business group remains in place to enhance transparency and soundness of corporate ownership and governance (Section 1.2.4.4); however, as indicated by the IMF in 2019, the manufacturing sector continues to be highly concentrated, particularly compared to peers, and tighter vertical and trade linkages have increased the vulnerability of the economy to domestic and external shocks (Section 1.1).⁴⁵ Consequently, promoting competition in certain industries and preventing transfer of dominance between industries through unfair support for affiliates and abuse of superior bargaining position in forward and backward transactions have been priority concerns of competition policy in Korea.

1.2.4.4 Corporate governance and the cost of capital

1.17. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital.⁴⁶ During the review period, changes in this area included elimination of the "shadow voting system" (2018), introduction of an electronic registration securities system (2019), revision of the Financial Services Commission (FSC) posting regulations for the consolidated balance sheets of Korea Exchange (KRX)-listed companies (2018), and publication of the KRX Guidelines on Disclosure of Corporate Governance (2019).⁴⁷ As many companies (especially companies with subsidiaries in China or located in areas under special infectious disease control) would not be able to meet these financial reporting submission deadlines due to the COVID-19 outbreak, the authorities announced to exempt those companies from administrative sanctions for failing to meet the deadline to submit the financial statements and business reports due to COVID-19-related issues; the deadline was extended until 31 August 2020. Despite the drive to reform business practices regarding large business conglomerates, their dominance continues to be reflected in corporate governance and contributes to the so-called "Korea discount" (10%-40% less in 2010), i.e. the amount by which investors undervalue Korean stocks owing to the perceived higher investment risk in Korea compared with that of other countries.⁴⁸ At the time of the previous Review, the authorities considered that this

⁴⁴ OECD, *Revenue Statistics 2020*. Viewed at: [https://www.oecd.org/ctp/revenue-statistics-2522770x.htm#:~:text=Metadata&text=Tax%20to%20GDP%20ratio%3A%20New,of%20GDP%20relative%20to%202018](https://www.oecd.org/ctp/revenue-statistics-2522770x.htm#:~:text=Metadata&text=Tax%20to%20GDP%20ratio%3A%20New,of%20GDP%20relative%20to%202018;); and WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

⁴⁵ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>.

⁴⁶ World Bank Group, *World Bank Group A to Z 2016: Corporate Governance*. Viewed at: http://elibrary.worldbank.org/doi/full/10.1596/978-1-4648-0484-7_corporate_governance.

⁴⁷ Viewed at: <https://practiceguides.chambers.com/practice-guides/corporate-governance-2020/south-korea>.

⁴⁸ As indicated at the previous Review, the prime cause of the discount is more likely to be due to poor corporate governance at the family-run business conglomerates, but also to, *inter alia*, geopolitical risks on 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) (33rd of 180 economies in 2020, and 37th of 167 economies in 2015). According to the Korea Fair Trade Commission (KFTC), as at 2020 the share of owners or immediate family who are listed as members of

causal link is ambiguous. According to a 2019 study, Korean stocks exhibit, on average, a price-earnings (PE) ratio significantly lower (30%) than their global peers from developed and emerging markets as well as stocks from the Asia-Pacific region, and this pervasive phenomenon affects most Korean stocks.⁴⁹ The discount seemingly affects both large conglomerates and non-large conglomerate firms; reportedly, the discount of large conglomerate firms is significantly lower than the discount of other Korean firms, and this may be due to the fact that the former gained an international reputation and visibility that could also lead investors to consider them differently than less-known Korean firms.

1.2.4.5 Labour market policies

1.18. Labour market duality (i.e. regular and non-regular workers) persists but has somewhat mitigated.⁵⁰ Employment protection, involving lay-off costs, remains a key reason for the rise in the share of non-regular workers (i.e. fixed-term, dispatched, and part-time workers) to more than a third of employment.⁵¹ Labour market duality implies that non-regular workers are most vulnerable to shocks like the COVID-19 pandemic.⁵² According to the IMF and the OECD, dualism drives wage inequality, reduces productivity growth by discouraging firm-based training, and has a negative impact on female employment; action to reduce dualism was taken.⁵³ During the review period, Korea used or is considering using a number of policies to support employment, including transfers to SMEs to create or preserve jobs, Active Labor Market Policies (ALMPs), and boosting public employment (Sections 3.2.4.3 and 3.3.1.2).⁵⁴ According to the IMF, measures to enhance flexibility and security (flexicurity) in the labour market to mitigate duality and create jobs in the private sector, as well as linking minimum wage increases to labour productivity growth and phasing out compensatory subsidies to SMEs, are key to boosting potential growth.

1.19. Under the 2003 amendment of the 1997 Labor Standards Act, which is to progressively reduce the statutory weekly working hours from 44 to 40 to better protect workers' right to health and to improve work-life balance, the maximum number of total weekly working hours was reduced from

the board at affiliates of large family-run conglomerates stood at 16.4% (21.7% end-2015), whereas the share of outside directors of large conglomerates stood at 50.9% (49.5% end-2015). WTO document WT/TPR/S/346/Rev.1, 6 January 2017; and Transparency International, *South Korea*. Viewed at: <https://www.transparency.org/en/countries/south-korea>.

⁴⁹ Romain Ducret and Dušan Isakov (2019), *The Korea Discount and Chaebols*, Université de Fribourg Working Papers SES N. 511 XI.2019. Viewed at: https://doc.rero.ch/record/327559/files/WP_SES_511.pdf.

⁵⁰ The authorities indicate that major indicators including the wage level of non-regular workers in small businesses, the share of low-wage workers (the share of workers earning less than two thirds of the median income), and wage quintiles (the average income of the top 20%/bottom 20%) showed signs of improvement.

⁵¹ Regular workers receive high employment protection (e.g. particularly tight restrictions on dismissal) as a result of government policies, business practices, social customs, and labour unions. Consequently, share of non-regular workers increased from 32.8% in August 2016 to 36.3% in August 2020. The authorities indicate that this increase is due to changes in the ILO statistical standards/methodology as of 2019. Statistics Korea, *Supplementary Results of the EAPS*, 29 October 2019. Viewed at: <http://kostat.go.kr/portal/eng/pressReleases/5/5/index.board?bmode=read&aSeq=379554&pageNo=&rowNum=10&amSeq=&sTarget=&sTxt=>.

⁵² OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

⁵³ As at 2019, the authorities aimed to transform the contracts of 205,000 non-regular workers in the public sector to regular status by 2020, as well as expand public sector jobs by 810,000 by 2022, partly by converting non-regular public-sector workers into regular employment. Korea's public employment is only 9% of total employment, far behind the OECD average of 21.3% and, as the population ages, more public service would be needed to improve citizens' welfare. As at the end of December 2020, 199,538 non-regular workers in the public sector were converted to regular workers (i.e. 97.3% of the target figure). The Ministry of Employment and Labour (MOEL) provides a variety of support to the public sector institutions that have yet to complete the regular worker conversion process, including expert consulting service and sharing of best practices. In 2018, the subsidy to firms that convert non-regular workers to regular status was raised from KRW 600,000 per month to KRW 800,000 (USD 741). OECD (2019), *Economic Policy Reforms 2019: Going for Growth*. Viewed at: <https://doi.org/10.1787/aec5b059-en>; and IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>.

⁵⁴ ALMPs are government programmes focused on direct job creation and represent spending equivalent to 0.4% of GDP, close to the OECD average, or more than half of government expenditure on employment support in 2016, a much larger share than the OECD average (13%). IMF (2019), *Republic of Korea: Selected Issues*, IMF Country Report No. 19/133. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-Selected-Issues-46891>.

68 to 52 by lowering the statutory cap on overtime from 28 hours to 12 in 2018, as Korea's average hours worked per employee is the second highest in the OECD and about 19% above the OECD average. This working-hour system is under implementation in a gradual manner; exemptions remain for certain types of transportation services and healthcare.⁵⁵ Under regulations effective as at January 2020, the 52-hour workweek restriction would not apply in cases of safety emergencies, unusual increase in workload, and R&D projects deemed crucial to national competitiveness.⁵⁶ Several measures were taken to tackle income inequality (Section 1.1).⁵⁷

1.20. The minimum wage was raised by 16.4% in 2018, by 10.9% in 2019 (third-highest increase of OECD countries and significantly larger than the expected labour productivity increase), by 2.9% in 2020 and, in the context of the COVID-19 crisis, by 1.5% in 2021; SMEs are affected by higher labour costs, despite subsidies to help them adjust through a Job Stabilization Fund to dampen the impact of the minimum wage increase and preserve some jobs, with a fiscal cost of about KRW 2.5 trillion (0.1% of GDP) in 2018, and KRW 2.9 trillion (0.1% of GDP) expected for 2019. Furthermore, the authorities more than tripled the amount spent on the EITC in 2019 (Section 1.2.4.1). Minimum pensions were increased, while training programmes aimed at older workers in combination with subsidies for those who participate were expanded.⁵⁸ Measures to enhance childcare quality, improve work-life balance, and facilitate return to work after career breaks were taken and are expected to encourage the participation and leadership of women in the labour market.⁵⁹

1.2.5 Balance of payments

1.21. In line with its traditional strategy of encouraging export-led growth based on manufactures, Korea continues to run a surplus in merchandise trade and a deficit in services (Table 1.3). However, since 2016 the merchandise trade surplus has declined progressively to bottom in 2019 before rising slightly, albeit below its previous levels, partly due to sharper decline in exports than imports caused by the COVID-19 pandemic; the deficit in services peaked in 2017, due to a rise in freight charges, and then dropped steadily to below its 2016 level, partly due to the narrowing of the tourism account deficit. Imbalances in the economy – particularly weak domestic demand – led to irregular large current account surpluses below their 2016 level; consequently, the surplus averaged 4.8% of GDP during 2016-20 compared to 6% over 2012-15 (Table 1.1). The overall current account surplus reflects the changes and extent to which gross national saving (36.2% of GDP in 2020) continues to exceed the weakened gross domestic investment (31.9% of GDP), although the gap was reduced over the review period before increasing in 2020 (Table 1.1). According to the BOK, the current account surplus slightly narrowed to USD 7.82 billion in March 2021 as higher oil prices increased the import bill, compared to USD 7.94 billion the previous month.⁶⁰

⁵⁵ To give smaller firms more time to adjust, implementation has been as follows: as from July 2018, to businesses with 300 or more employees and public institutions; as from January 2020, to businesses with 50 to 299 employees; and, as from July 2021, to businesses with 7 to 49 employees. In January 2020, the system was updated to allow overtime work exceeding 12 hours a week after obtaining consent from the workers and an approval from the Minister of Employment and Labour, under special circumstances such as disasters, protection of human life and ensuring safety, unexpected circumstances such as sudden malfunctioning of equipment or facilities, exceptional increase in the workload, and R&D projects deemed crucial to national competitiveness. OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>; and IMF (2019), *Republic of Korea: Selected Issues*, IMF Country Report No. 19/133. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-Selected-Issues-46891>.

⁵⁶ EIU (2020), *Country Commerce: South Korea*. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

⁵⁷ IMF (2019), *Republic of Korea: Staff Report for the 2019 Article IV Consultation*, IMF Country Report No. 19/132. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46890>; and OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

⁵⁸ OECD (2019), *Economic Policy Reforms 2019: Going for Growth*. Viewed at: <https://doi.org/10.1787/aec5b059-en>.

⁵⁹ Korea's female labour force participation is one of the lowest in advanced economies – 20 percentage points below the best performers. The gender employment gap for people aged 15-64 is nearly 18 percentage points, the fourth largest in the OECD, whereas the gender wage gap at about 34% in 2018 was the widest in the OECD (average of about 13%). OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

⁶⁰ *Korea Herald*, "Current Accounts Surplus Slightly Narrows in March", 7 May 2021. Viewed at: <http://www.koreaherald.com/view.php?ud=20210507000426>.

Table 1.3 Balance of payments, 2016-20

(USD million)

	2016	2017	2018	2019	2020
Current account	97,923.7	75,230.9	77,466.5	59,676.1	75,275.7
Goods and services balance	99,123.3	76,858.8	80,717.4	52,966.8	65,755.1
Trade balance	116,461.7	113,592.9	110,086.8	79,812.1	81,945.2
Exports	511,926.1	580,310.2	626,266.5	556,667.9	516,604.1
Imports	395,464.4	466,717.3	516,179.7	476,855.8	434,658.9
Services balance	-17,338.4	-36,734.1	-29,369.4	-26,845.3	-16,190.1
Receipts	94,809.1	89,701.3	103,677.5	103,838.9	90,106.0
Payments	112,147.5	126,435.4	133,046.9	130,684.2	106,296.1
Primary income balance	4,567.1	5,336.9	4,901.9	12,856.0	12,050.3
Credit	26,472.8	29,472.2	34,822.2	41,371.8	35,399.5
Compensation of employees	823.8	682.8	819.6	764.9	779.6
Investment income	25,649.0	28,789.4	34,002.6	40,606.9	34,619.9
Debit	21,905.7	24,135.3	29,920.3	28,515.8	23,349.2
Compensation of employees	1,700.4	1,890.4	1,994.3	1,616.9	1,435.6
Investment income	20,205.3	22,244.9	27,926.0	26,898.9	21,913.6
Secondary income balance	-5,766.7	-6,964.8	-8,152.8	-6,146.7	-2,529.7
Credit	8,742.7	9,706.7	9,476.8	10,428.3	10,593.2
Debit	14,509.4	16,671.5	17,629.6	16,575.0	13,122.9
Capital account	-46.2	-26.8	316.7	-169.3	-339.4
Financial account (including reserves)	99,925.3	84,516.4	76,473.4	59,026.9	77,115.9
Financial account (excluding reserves)	92,310.1	80,159.3	58,977.7	57,560.7	59,724.4
Direct investment	17,785.2	16,156.5	26,037.8	25,604.7	23,256.1
Assets	29,889.5	34,069.4	38,220.4	35,239.0	32,479.7
Liabilities	12,104.3	17,912.9	12,182.6	9,634.3	9,223.6
Portfolio investment	66,970.2	57,853.0	47,420.7	42,377.0	41,494.4
Assets	63,200.3	75,325.7	69,031.4	59,639.4	58,550.4
Equity securities	20,900.3	33,918.5	35,870.0	42,618.9	56,325.5
Debt securities	42,300.0	41,407.2	33,161.4	17,020.5	2,224.9
Liabilities	-3,769.9	17,472.7	21,610.7	17,262.4	17,056.0
Equity securities	13,272.3	8,676.8	-6,302.2	773.3	-15,798.4
Debt securities	-17,042.2	8,795.9	27,912.9	16,489.1	32,854.4
Financial derivatives	-3,440.1	-8,253.3	-1,502.4	6,233.2	4,215.1
Other investment	10,994.8	14,403.1	-12,978.4	-16,654.2	-9,241.2
Assets	11,137.5	14,706.8	-5,367.6	-4,705.6	13,253.4
Trade credits	871.2	3,182.2	1,507.3	-2,717.6	1,187.0
Loans	3,141.2	8,497.9	-2,922.6	3,762.7	3,054.7
Currency and deposits	7,558.2	-545.8	-1,507.9	-4,205.8	5,193.7
Other assets	-433.1	3,572.5	-2,444.4	-1,544.9	3,818.0
Liabilities	142.7	303.7	7,610.8	11,948.6	22,494.6
Trade credits	638.3	1,473.5	769.8	-1,510.3	303.4
Loans	-2,823.1	-4,387.5	8,304.2	7,005.4	16,842.5
Currency and deposits	2,617.5	3,254.7	1,366.6	3,644.4	688.1
Other liabilities	-290.0	-37.0	-2,829.8	2,809.1	4,660.6
Reserve assets	7,615.2	4,357.1	17,495.7	1,466.2	17,391.5
Net errors and omission	2,047.8	9,312.3	-1,309.8	-479.9	2,179.6

Note: Positive figures in financial account represent increases in assets/liabilities, and negative figures represent decreases.

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

1.22. Korea's gross external debt grew considerably, by 42.6%, during the period 2016-20 to USD 544.9 billion (29.2% short-term in 2020, Table 1.1) due to, *inter alia*, the increase of banks' short-term external borrowing resulting from the rise in demand for foreign currency liquidity amid the COVID-19 pandemic and the growing foreign investment in Korea's treasury bonds, compared

to a 3.6% rise in 2012-14 followed by a 6.4% drop in 2015. As a result, according to IMF data, the debt-service ratio rose from 9.3% to 10.9% over the same period. As a percentage of GDP, gross external debt rose by 30.6%, i.e. from 25.5% in 2016 to 33.3% in 2020 (Tables 1.1 and 1.2). According to the authorities, as at the end of 2020, external debt soundness indicators remained stable in the 30% range, as the ratio of short-term external debt to total external debt rose by 1.8 percentage points to 29.2% and the ratio of short-term external debt to foreign exchange reserves increased by 8.1 percentage points to 37%, compared to 2016. As at end of the first quarter of 2021, long-term external debt was on a steady rise, largely driven by Korea's robust economic fundamentals and demand on government bonds, while the overall rate of increase slowed, driven by short-term external debt.

1.23. Since 2016, Korea's foreign exchange reserves have increased steadily by an overall 18.9%, largely due to continuously increasing returns from the management of reserve assets (Table 1.1); in 2020 they were equivalent to 26.4% of GDP, 8.2 months of imports of goods and services, and about three times Korea's short-term external debt. As at end-March 2021, foreign exchange reserves stood at USD 433.2 billion, equivalent to nearly nine months of imports of goods and services. According to the IMF, based on measures of adequacy, Korea's reserves should be enough to buffer against a wide range of possible external shocks.

1.3 Developments in Trade and Investment

1.3.1 Trends and patterns in merchandise and services trade

1.24. 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 the country's trade (exports plus imports) in goods and services to GDP; nevertheless, this ratio continued to drop progressively and significantly from 73.6% in 2016 to 69.2% in 2020 (Table 1.1) partly due to global economic conditions and affecting the volume of trade, compared to the decrease from 109.8% in 2012 to 84.8% in 2015.

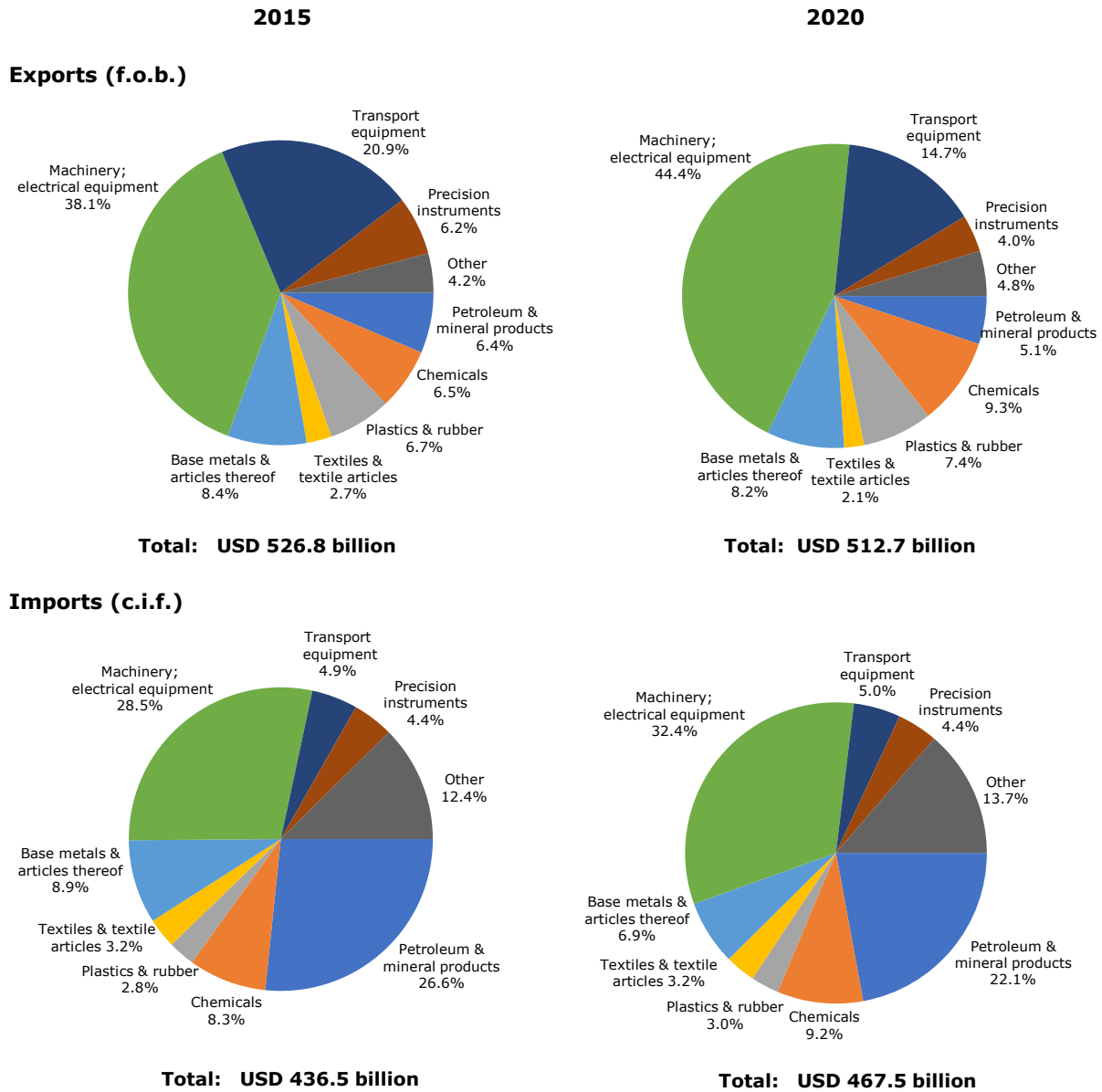
1.25. Since the previous Review, Korea's merchandise trade has remained largely dependent on manufactures (Chart 1.1, and Tables A1.2 and A1.3). As at 2020, the share of machinery and electrical equipment, chemicals, and plastics and rubber in total exports had risen, whereas the share of precision instruments and transport equipment had dropped. Fuels now account for less than one fifth of total imports, whereas agriculture accounts for 7%.

1.26. At the same time, while Korea's merchandise trade with countries in the region remained virtually unchanged for imports, the pattern of exports strengthened the share of Asia-Pacific as a result of increased export values towards Viet Nam (Chart 1.2, Section 2.5.2, and Tables A1.4 and A1.5). Notwithstanding some fluctuation in trade shares, as at 2020 77.4% (69.4% in 2015) of total merchandise trade continued to be conducted with trading partners from the Asia-Pacific Economic Cooperation (APEC) and 17.4% (12.4% in 2015) with ASEAN Members. Reportedly, trade under RTAs rose from 43% (2015) to 72% (2020) of total trade.⁶¹ According to the OECD, the signature and entry in force of several RTAs would increase Korea's market diversification and resilience over time (Section 2.5.2).⁶² Korea's main individual trading partners remain China, the United States, the European Union (EU-27), and Japan.

⁶¹ Between 2016 and 2020, the average RTA utilization rate increased by 17.2% to 74.8%. As at 2020, the individual rates stood as follows: Chile (68.6%), EFTA (80.1), ASEAN (49.2%), India (74.6%), European Union (87.2%), Peru (68.7%), United States (84.4%), Turkey (76%), Australia (80.9%), Canada (95.4%), China (65%), New Zealand (42.8%), Viet Nam (44.6%), and Colombia (47.9%). At the time of the previous Review, RTA utilization rates stood at 78.4% for Chile, 80.5% for EFTA, 38.5% for ASEAN, 43% for India, 80.9% for the European Union, 92% for Peru, 76.4% for the United States, and 70.2% for Turkey; the main reason for non-utilization was lack of knowledge. Korea Customs Service, FTA Portal. Viewed at: <https://www.customs.go.kr/ftaportalkor/cm/cntnts/cntntsView.do?mi=3532&cntntsId=1167>.

⁶² OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

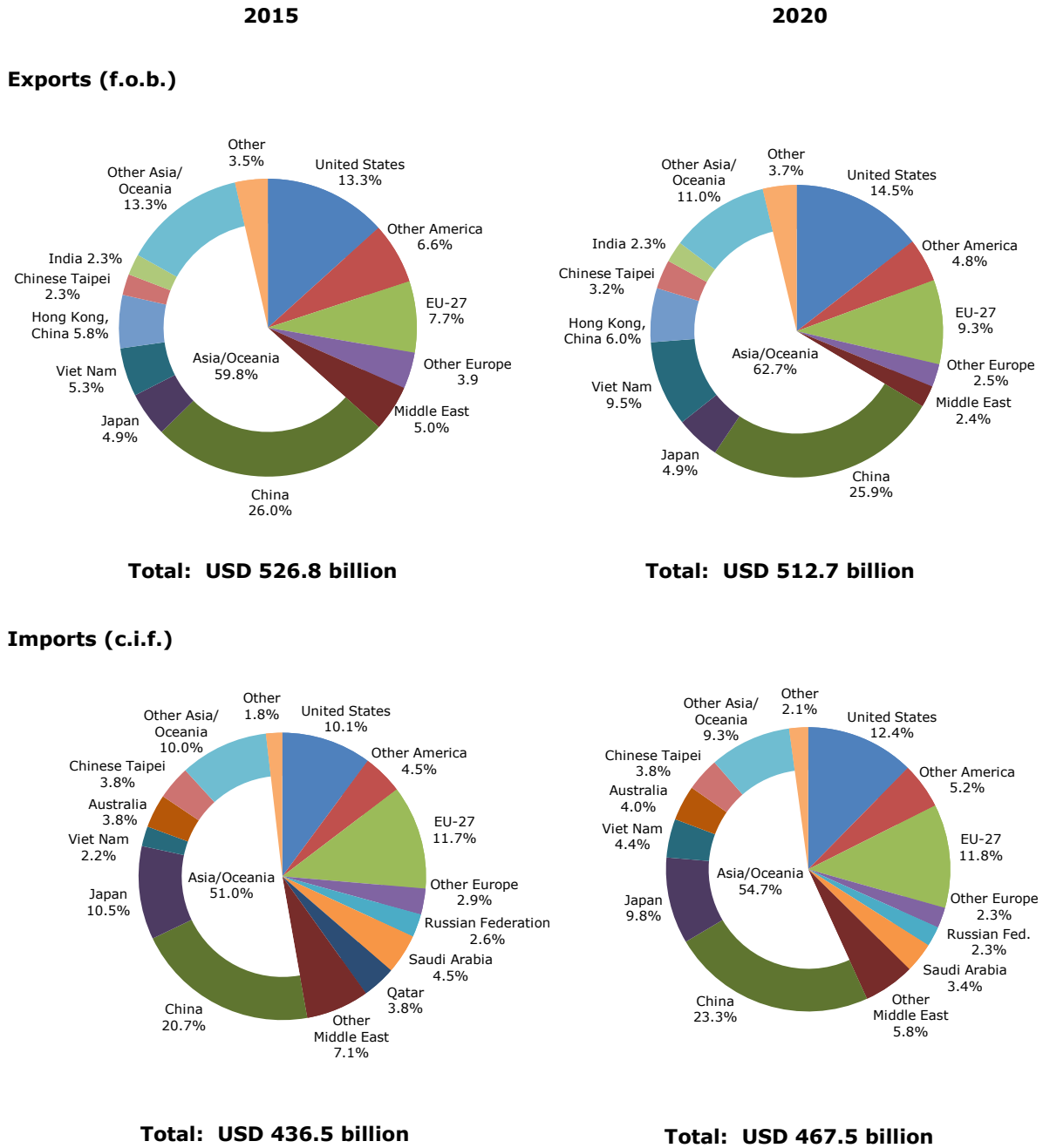
Chart 1.1 Product composition of merchandise trade by main HS section, 2015 and 2020



Source: WTO Secretariat calculations, based on UN Comtrade database.

1.27. During the review period, Korea remained a net importer of services, running a deficit in the services account that peaked at 2.3% of GDP in 2017 and gradually dropped to 1% in 2020 (Section 1.2.5, and Tables 1.1, 1.3, and 1.4). Transportation, travel, and other business services remain the major traded services.

Chart 1.2 Direction of merchandise trade, 2015 and 2020



Source: WTO Secretariat calculations, based on UN Comtrade database.

Table 1.4 Trade in services, 2016-20

	2016	2017	2018	2019	2020
Total credit (USD billion)	94.8	89.7	103.7	103.8	90.1
	(% of total credit)				
Manufacturing services on physical inputs owned by others	2.6	2.5	2.4	1.8	2.3
Maintenance and repair	0.4	0.4	0.5	0.6	0.5
Transportation	28.9	27.6	27.0	26.1	27.9
Passenger	4.3	4.2	4.4	4.4	1.4
Freight	20.8	19.1	18.3	17.1	21.9
Other	3.9	4.3	4.4	4.6	4.6

	2016	2017	2018	2019	2020
Travel	17.8	14.9	17.9	20.1	11.7
Construction	12.4	11.8	13.1	9.3	7.6
Insurance	0.7	1.2	0.8	0.6	0.8
Financial services	1.9	2.5	2.8	3.1	4.4
Charges for the intellectual property	7.3	8.1	7.5	7.5	7.6
Telecommunication, computer and information	3.9	5.1	6.4	7.4	9.3
Telecommunication	0.6	0.6	0.6	0.5	0.6
Computer	2.5	3.3	4.1	4.2	5.6
Information	0.8	1.3	1.6	2.6	3.1
Other business services	21.9	23.7	19.9	21.5	25.9
Research and development	0.9	0.8	0.9	1.1	1.2
Professional and management consulting	2.4	2.7	2.4	2.4	3.1
Other	18.7	20.1	16.7	18.0	21.6
Personal, cultural and recreational services	1.2	1.0	1.1	1.2	1.3
Government goods and services, n.i.e.	1.0	1.1	0.7	0.8	0.8
Total debit (USD billion)	112.1	126.4	133.0	130.7	106.3
	(% of total debit)				
Manufacturing services on physical inputs owned by others	7.3	7.3	7.4	7.3	7.3
Maintenance and repair	0.3	0.4	0.6	0.8	1.2
Transportation	25.6	23.9	22.9	22.0	21.6
Passenger	2.3	2.2	2.2	2.0	0.5
Freight	11.5	12.3	11.6	10.6	11.3
Other	11.8	9.4	9.1	9.5	9.8
Travel	24.3	25.1	26.4	25.1	15.2
Construction	2.0	2.1	2.9	2.2	1.9
Insurance	0.9	1.0	0.5	0.7	1.0
Financial services	1.5	1.5	1.5	1.7	2.1
Charges for the intellectual property	8.4	7.7	7.4	7.6	9.3
Telecommunication, computer and information	2.4	2.7	3.8	4.0	6.3
Telecommunication	0.6	0.6	0.6	0.6	0.7
Computer	1.4	1.8	2.9	2.9	4.8
Information	0.3	0.3	0.3	0.4	0.8
Other business services	25.4	26.5	24.7	26.5	31.8
Research and development	2.7	3.1	3.2	3.8	5.0
Professional and management consulting	4.9	5.4	5.0	4.7	5.1
Other	17.8	18.0	16.5	18.0	21.7
Personal, cultural and recreational services	0.6	0.6	0.6	0.8	0.9
Government goods and services, n.i.e.	1.2	1.3	1.1	1.4	1.3

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

1.3.2 Trends and patterns in FDI

1.28. Korea remains not only a major exporter of goods, but also of capital. FDI outflows (on a balance-of-payments basis) peaked in 2018 and dropped gradually by 15% in 2020 while remaining almost 9% above their 2016 level (Table 1.3). In 2018 and 2019, Korea's multinational enterprises' FDI outflows ranked 9th of those of the top 20 economies, reflecting the continuing global expansion of major Korean multinational enterprises.⁶³ According to OECD data, in 2018 outflows remained largely concentrated in services (mainly finance, insurance, and wholesale and retail trade) and manufacturing activities. At the same time, the main individual destinations were the European Union, the United States, and China, while 15.7% (2018) of total outflows was directed to

⁶³ LG Electronics tripled its non-current assets in North America and Europe through various deals and projects, whereas the IT group SK Holding also increased its foreign assets significantly following efforts to vertically integrate the chipmaking business of its subsidiary SK Hynix and gain market share. UNCTAD (2020), *World Investment Report 2020 – International Production Beyond the Pandemic*. Viewed at: <https://unctad.org/webflyer/world-investment-report-2020>.

ASEAN countries.⁶⁴ Between 2016 and 2018, the FDI outward stock increased steadily by 29.4% (Table 1.5); in 2018, it was estimated at USD 384 billion and allocated to services (mainly finance and insurance, and wholesale and retail trade), manufacturing, and mining and quarrying; its main locations were the United States, China, ASEAN countries, and the European Union.

Table 1.5 Stock of outward foreign direct investment, 2016-18

	2016	2017	2018
Total outward stock (USD million)	296,690.3	343,128.9	384,024.3
	(% of total)		
By sector			
Agriculture, forestry and fishing	0.3	0.3	0.3
Mining and quarrying	11.9	9.9	8.8
Manufacturing	37.4	39.4	35.3
Electricity, gas, steam and air conditioning supply	1.7	1.9	1.9
Water supply	0.0	0.0	0.2
Construction	0.6	0.9	0.9
Services	48.1	47.6	52.7
Wholesale and retail trade, and repairs	16.1	15.8	18.8
Accommodation and food service activities	0.8	0.9	0.7
Transport and storage	1.5	1.2	1.3
Information and communication	1.9	1.9	1.7
Financial and insurance activities	18.3	20.1	22.0
Real estate activities	5.2	5.0	5.5
Other services	4.3	2.7	2.6
By destination			
Netherlands	3.9	2.5	2.2
United Kingdom	1.6	2.2	2.7
Germany	1.1	1.2	1.1
Czech Republic	0.7	0.9	0.8
Ireland	0.4	0.9	0.8
Russian Federation	0.8	0.8	0.8
United States	22.7	23.6	23.6
Cayman Islands	4.2	4.4	4.9
Canada	1.3	1.1	1.1
Brazil	1.9	1.8	1.6
Mexico	0.8	0.9	0.8
Bermuda	-	-	0.2
Australia	3.8	3.2	3.1
China	23.4	22.6	20.2
Hong Kong, China	4.2	3.9	4.0
Viet Nam	4.2	4.6	5.3
Singapore	3.7	4.1	4.2
Japan	1.7	1.6	1.8
Indonesia	2.3	2.1	2.0
India	1.7	1.6	3.2
Malaysia	1.4	1.5	1.4
Philippines	0.8	0.8	0.4
Thailand	1.0	0.9	0.9
Myanmar	0.9	0.9	0.8
Kazakhstan	0.4	0.2	0.3
Other	10.9	11.9	11.5

Source: Data provided by the authorities.

⁶⁴ OECD (2020), *OECD International Direct Investment Statistics 2019*. Viewed at: <https://doi.org/10.1787/g2g9fb42-en>.

1.29. 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 TFP. Korea remains relatively open to FDI and its extensive RTAs (Section 2.5.2) provide a regulatory environment conducive to attracting foreign capital; however, according to the Korea Trade-Investment Promotion Agency's Foreign-invested Company Management Status Survey 2019, rising wages (Section 1.2.4.5) and rigid labour-management relations, as well as difficulties in reflecting opinions on regulatory amendments, obtaining regulatory information, and negative investors' evaluation on Korea's regulatory environment, have seemingly remained as some of the obstacles for investors. The influence of FDI on the local economy has been declining in recent years, largely because flows into less sensitive sectors have already taken place and because domestic companies have been moving production abroad. During the review period, FDI inflows (on a balance-of-payments basis) remained much lower than outflows; between 2012 and 2015 they ranged from 27.3% (2019) to 52.6% (2017) 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 1.2.4.4) and Korea's manufacturing-based industrial structure.⁶⁵ FDI inflows (on a balance-of-payments basis) peaked in 2017 (USD 17.9 billion) and bottomed in 2020 (USD 9.2 billion) (Table 1.3), possibly due to the COVID-19 pandemic uncertainty. Between 2016 and 2018, the FDI inward stock rose progressively by 22.4% to USD 214.7 billion (Table 1.6). As at 2018, it was largely allocated to services (mainly finance and insurance) and manufacturing; it mainly originated in the European Union (26.7%), Japan, and the United States.

Table 1.6 Stock of inward foreign direct investment, 2016-18

	2016	2017	2018
Total inward stock (USD million)	175,349.6	211,961.9	214,698.1
	(% of total)		
By sector			
Agriculture, forestry and fishing	0.1	0.1	0.1
Mining and quarrying	0.0	0.0	0.0
Manufacturing	38.1	37.8	38.2
Electricity, gas, steam and air conditioning supply	0.6	0.5	0.5
Water supply	0.1	0.1	0.1
Construction	0.7	0.8	0.8
Services	60.4	60.7	60.3
Trade and repairs	8.8	9.9	11.3
Accommodation and food service activities	8.3	8.5	7.4
Transport and storage	1.8	1.9	1.4
Information and communication	2.7	3.5	3.6
Financial and insurance activities	30.9	29.1	28.5
Real estate activities	3.9	4.3	5.0
Other services activities	4.0	3.4	3.0
By origin			
EU-27	24.6	28.5	26.7
Netherlands	10.0	13.4	10.1
Germany	4.0	3.9	4.4
Malta	3.4	4.6	4.3
France	2.4	2.5	2.9
Hungary	2.0	1.7	1.8
Ireland	0.5	0.0	0.9
Sweden	1.3	1.1	0.9
Austria	0.3	0.4	0.8
Luxembourg	0.7	0.9	0.6
Japan	24.8	22.4	25.5
United States	18.1	16.0	15.1
United Kingdom	8.0	7.0	7.6
Singapore	6.6	7.1	7.2
China	3.2	2.7	3.8

⁶⁵ The authorities consider ambiguous the reference to the impact of the "Korea discount" factors.

	2016	2017	2018
Hong Kong, China	3.5	3.2	3.3
Switzerland	1.9	2.4	1.8
Cayman Islands	1.0	2.5	1.5
Canada	1.3	1.1	1.1
Malaysia	0.8	0.8	1.1
Saudi Arabia, Kingdom of	1.0	1.2	0.9
Australia	0.3	0.4	0.8
British Virgin Islands	0.9	0.8	0.8
Norway	0.4	0.4	0.3
New Zealand	0.0	0.0	0.2
Other	3.5	3.6	3.2

Source: Data provided by the authorities.

2 TRADE AND INVESTMENT REGIMES

2.1. Since its previous TPR in 2016, the Republic of Korea has continued to target its trade policy at building a free and open economy based on market principles. In 2017, the Small and Medium Business Administration was reorganized and expanded into the Ministry of SMEs and Startups (MSS). Korea continued its efforts to improve transparency in public administration. Under the Five-year Plan for the Administration of State Affairs, launched in 2017, job creation is considered as the top economic policy priority. In 2019, a vision for an innovative and inclusive nation was announced. Regulatory reforms were conducted to reduce trade and investment barriers.

2.2. Korea continued to participate actively in the WTO. In 2019, it committed to not seek special and differential treatment for developing countries in ongoing and future negotiations at the WTO. During the review period, it was involved in seven WTO disputes and made a number of notifications. It continued to pursue market opening opportunities through RTAs. Agriculture remains partially covered, and rice excluded, from all RTAs.

2.3. The foreign direct investment (FDI) regime went through significant changes during the review period. Corporation tax incentives were abolished in 2019; fishing and supporting air transport activities are now allowed with no foreign investment restrictions; and the main legislation, the Foreign Investment Promotion Act, was amended in 2020. Nonetheless, FDI stock remains low compared with that in other OECD countries.

2.1 General Framework

2.4. Since the previous Review, there has been no change to Korea's general constitutional and institutional framework. It is a democratic unitary republic, with a presidential parliamentary system. Under the Constitution¹, the National Assembly exercises legislative power by enacting laws and monitoring state administration, including the control of the Budget. The current 21st National Assembly was formed through elections in April 2020, with 300 members (253 members elected in local constituencies and 47 elected through proportional representation).²

2.5. The executive authority rests with the President and the State Council (Cabinet), which is chaired by the President and comprises the Prime Minister and other members including ministers. The President is directly elected for a five-year term, and cannot be re-elected for a second term. The current President was elected in May 2017. 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 President, the Prime Minister controls the ministries of the Government on his or her behalf. At present, the executive branch of the Government operates 1 boards, 1 agency, 6 offices, 22 ministries, 18 administrations, and 7 committees.³

2.6. Since the previous Review, there has been no change to legislative procedures. Bills may be introduced in the National Assembly by its members, or by the executive branch through relevant ministers. The President must promulgate bills passed by the National Assembly within 15 days, unless he or she vetoes them. Laws and subordinate statutes generally enter into force 20 days after promulgation.

2.7. In descending order of importance, the Constitution is followed by acts and administrative legislation including presidential decrees, ordinances, and administrative rules (such as directives, regulations, and public notices). Treaties concluded and promulgated under the Constitution and generally recognized rules of international law have the same effect as domestic laws. Proposed treaties must be deliberated 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.

2.8. The judicial branch is composed of, *inter alia*, the Supreme Court, appellate courts, district courts, family courts, administrative courts, and the patent court. The Supreme Court Chief Justice

¹ The Constitution was most recently amended in 1987.

² Korea.net, *Executive, Legislature and the Judiciary*. Viewed at: <http://www.korea.net/Government/Constitution-and-Government/Executive-Legislature-Judiciary>.

³ Korea.net, *Executive, Legislature and the Judiciary*. Viewed at: <https://www.korea.net/Government/Constitution-and-Government/Executive-Legislature-Judiciary>.

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.⁴

2.9. In Korea, around 82% of civil cases are e-filed. The World Bank's Doing Business Report stated that (as at 1 May 2019) it took around 290 days and cost 12.7% of the claim to resolve a standard commercial dispute through a local first-instance court. The time is shorter and the cost lower than the OECD averages (589.6 days and 21.5%, respectively).⁵

2.2 Structure of Trade Policy Formulation

2.10. The Ministry of Trade, Industry and Energy (MOTIE) is in charge of formulating and implementing trade and industrial policies. When MOTIE formulates trade policies and makes policy decisions, it consults with relevant stakeholders, including:

- representatives from other government ministries (such as the Ministries of Economy and Finance; Agriculture, Food and Rural Affairs; Justice; and Land, Infrastructure and Transport);
- stakeholders from the private sector (such as the Korea Chamber of Commerce and Industry (KCCI), and the Korea International Trade Association (KITA)); and
- public research institutes including government-funded think-tanks (such as the Korea Institute for International Economic Policy, the Korea Institute for Industrial Economics and Trade, the Korea Development Institute, the Korea Economic Research Institute, and the Korea Rural Economic Institute).

2.11. MOTIE holds Foreign Investment Advisory Council meetings jointly with the Korea Trade-Investment Promotion Agency (KOTRA), and foreign firms may advise the Government on foreign investment policy (Section 2.6).

2.12. In 2017, the Small and Medium Business Administration was reorganized and expanded into the MSS, whose objective is to strengthen the competitiveness and support innovation of SMEs and micro enterprises (Section 3.3.1.2).⁶

2.3 Trade Policy Objectives

2.13. The current Government, inaugurated in May 2017, launched its Five-year Plan for the Administration of State Affairs. It shifted the focus of economic policies from the nation and businesses to individual citizens and households. Job creation is the top priority of economic and social policies. In 2019, the Government declared its vision for an innovative and inclusive nation. The Government is working hard to, *inter alia*, boost corporate vitality through encouraging innovative growth, help increase the number of jobs by channelling more investment into the private sector, and encourage competition to create a fair economy by rectifying unfair trade practices in business sectors.⁷

2.14. Korea's general trade policy objective remains to build a free and open economy. Its policy priorities are: (i) facilitating free and open trade while reinforcing the values of inclusiveness and sustainability; (ii) upholding the rules-based multilateral trading system; and (iii) enhancing transparency and predictability to make Korea more business-friendly.

⁴ Korea.net, *Executive, Legislature and the Judiciary*. Viewed at: <http://www.korea.net/Government/Constitution-and-Government/Executive-Legislature-Judiciary>.

⁵ World Bank (2020), *Doing Business 2020: Comparing Business Regulation in 190 Economies – Economy Profile Korea, Rep.* Viewed at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/k/korea/KOR.pdf>.

⁶ MSS. Viewed at: <https://www.mss.go.kr/site/eng/main.do>.

⁷ Korea.net, *An Economy Pursuing Mutual Prosperity*, 28 June 2019. Viewed at: <http://www.korea.net/Government/Current-Affairs/National-Affairs/view?affairId=882&subId=742&articleId=47691>.

2.4 Trade Laws and Regulations

2.4.1 Regulatory reform

2.15. Product market regulations in Korea are among the most stringent in the OECD. The State's involvement in business operations, barriers in services and network sectors, and barriers to trade and investment is among the highest in OECD countries.⁸ Against this background, Korea has a high-level commitment to regulatory reform. Its ministerial meetings focus on reducing regulatory burdens and creating a more business-friendly environment. The Regulatory Reform Office (RRO) under the Office for Government Policy Coordination plays an oversight and steering role. The Regulatory Reform Committee (RRC), co-chaired by the Prime Minister, reviews all regulatory proposals from central administrative agencies.

2.16. The Government conducted various reforms to reduce regulatory burdens on businesses. Regulatory sandboxes were introduced at the beginning of 2019 in areas such as electronics, energy, fintech, manufacturing, medical, mobility, and telecommunications. Regulatory sandboxes usually refer to live testing of new products or services in a controlled regulatory environment, so that regulators may relax certain regulatory requirements to conduct the test. According to the OECD, applying these sandboxes allows firms to experiment with innovative products and business models without being subject to existing legal requirements.⁹ By the end of August 2021, 509 projects were approved by regulatory sandboxes, and revisions of laws and regulations for 121 of these projects were completed.

2.17. The Government also announced the designation of regulation-free special zones, which allow firms to experiment with innovative technologies in designated areas without restrictions from regulations (for example, digital healthcare in Gangwon, blockchain technology in Busan, and autonomous driving in Sejong). The authorities stated that 28 regulation-free special zones were designated across the country, where 139 special regulatory exceptions were permitted, relating to new businesses or to ensure new technology verification or commercialization.

2.18. The Government continues to adopt a "cost-in, cost-out" (CICO) approach to reduce regulatory burdens. First introduced in 2014, the CICO approach imposes disciplines on regulatory reforms so that 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), and e-RIAs were introduced in 2015. Regulations for the protection of people's lives and safety and regulations required to implement international treaties are exempt from this requirement. As at March 2021, the CICO approach is applied to 30 central administrative agencies.

2.19. In addition, specific initiatives were taken to reduce regulatory burdens and compliance costs for SMEs, which make up around 99% of the total number of enterprises and account for 88% of employment across all industries. Currently 60% of all regulations pertain to SMEs. Regulatory reform priorities for SMEs are set annually by the SMEs Ombudsman, the MSS, and the RRC.

2.20. According to an OECD report, limited regulatory reforms were made regarding National Assembly practices, where approximately 90% of laws are approved.¹⁰ The OECD recommended a more inclusive regulatory system by, *inter alia*, subjecting the National Assembly to public scrutiny, creating a legislative regulatory quality check mechanism for the National Assembly, and asking the Government to submit RIA statements and CICO analyses to the National Assembly so that all relevant information is taken into consideration when reviewing or drafting bills. The authorities stated that the National Assembly is subject to public scrutiny and is contributing to a more inclusive regulatory system through various mechanisms including www.better.go.kr where people can check all drafting bills related to new or strengthened regulations and present their opinions, as well as

⁸ OECD (2020), *Economic Surveys: Korea 2020*. Viewed at: https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-korea_19990707.

⁹ OECD (2020), *Economic Surveys: Korea 2020*. Viewed at: https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-korea_19990707.

¹⁰ This report considers that the lack of legislative quality processes in the National Assembly counters the regulatory practice initiatives established under the executive branch. OECD (2017), *Regulatory Policy in Korea: Towards Better Regulation*, OECD Reviews of Regulatory Reform. Viewed at: <http://dx.doi.org/10.1787/9789264274600-en>.

likms.assembly.go.kr and petitions.assembly.go.kr. Currently the CICO approach does not apply to laws drafted by the National Assembly; it applies only to enforcement decrees drafted by the Government.

2.4.2 Trade-related legislation

2.21. The Foreign Trade Act and the Customs Act remain the main legislation on international trade. The latter was most recently amended in 2020. Its implementing regulations were recently amended as well:

- the Enforcement Decree of the Customs Act (Presidential Decree No. 31454), partially amended on 17 February 2021;
- the Enforcement Regulations of the Customs Act (Ministerial Ordinance No. 842), partially amended on 16 March 2021; and
- the Regulations on Providing Preferential Tariff Treatment to Least Developed Countries (Presidential Decree No. 31662), partially amended on 4 May 2021.

2.22. The main legislation on investment, the Foreign Investment Promotion Act, was most recently amended in 2020 (Section 2.6). The Act on Consumer Protection in Electronic Commerce (Act No. 15141) was partially amended in November 2017. Currently this Act is being reviewed, with its pre-announcement made in March 2021.¹¹

2.4.3 Transparency

2.23. The Government continues to promulgate laws to improve transparency in public administration, such as:

- the Administrative Procedures Act (2017), to ensure fairness, transparency, and credibility in administrative operations to protect citizens' interests;
- the Official Information Disclosure Act (2017), to ensure people's rights to know and secure their participation in state affairs and transparency of the operation of state affairs; and
- the Framework Act on Administrative Regulations (2018), to eliminate unnecessary administrative regulations and to prevent inefficient administrative regulations.¹²

2.24. Korea's national e-government strategies are adopted every five years. The Digital Government Master Plan (2021–2025) aims at building an intelligent data-driven government for Korean citizens.¹³ In addition, the Intelligent Government Master Plan aims to set up a framework for developing and utilizing artificial intelligence (AI) and data for innovation in public administration. Its implementation strategy is reflected in the Data and AI Economy Facilitation Plan¹⁴, which focuses on strengthening data and AI capacities to build a strong foundation to develop a sustainable digital economy.

2.25. The Government provides platforms for e-participation (e-People, also called *Sinmungo*)¹⁵, open data (data.go.kr), i-Ombudsman, and e-procurement (KONEPS).¹⁶ Korea's legal framework for

¹¹ The legislation pre-announcement system is where the Government announces to the public the purpose and main elements of bills that are closely related to the rights or daily lives of people, so as to collect and reflect public opinions.

¹² APEC, *The Final Review of APEC's Progress towards the Bogor Goals*. Viewed at: <https://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits/2020-Bogor-Goals>.

¹³ All documents related to digital government strategy are online, in Korean. Viewed at: <https://mois.go.kr/frt/sub/a06/b04/eqovVision/screen.do>. The Ministry of Interior and Safety (MOIS) is working on the new five-year plan from 2021 to 2025.

¹⁴ Ministry of Science and ICT. Viewed at: <https://english.msit.go.kr/eng/index.do>.

¹⁵ E-People. Viewed at: <https://www.epeople.go.kr/>.

¹⁶ Korean Public Procurement Service, *e-Procurement (KONEPS)*. Viewed at: <https://www.pps.go.kr/eng/index.do>.

e-government focuses on the protection of personal data and information and on digital security and digital identity.¹⁷ National mechanisms such as the Blockchain Technology Diffusion Strategy¹⁸, the Smart City Implementation Strategy¹⁹, and the New Industry and Technology Roadmap²⁰ facilitate the acceleration of new technology development for the benefit of society and public administration.

2.26. Transparency was also enhanced through participatory budgeting, which has existed for more than 20 years at the municipal level. It started to be implemented from 2018 at the national level, where it aims to enhance the transparency of fiscal operations and increase the public's interest in the budget, by allowing people to make budget proposals and participate in the screening and prioritization of proposals.

2.27. In 2005, the National Information Resources Service (NIRS), the world's first pan-governmental data centre, was established to integrate the information of central government institutions. By centralizing information resources once separately managed by individual government departments, the NIRS aims to address challenges associated with the operation of isolated information systems, including the inefficient use of information, duplication in information and communication technologies (ICT) investments, lack of IT expertise, and wide exposure to security risks. Its main functions are:

- integrating, operating, and managing 1,252 digital government services linked to 45 central government institutions; and controlling about 43,664 government information resources including hardware and software. Furthermore, management of the system is automated;
- based on the cloud-first policy, facilitating interdepartmental information sharing and optimizing resource utilization by building a Government-exclusive cloud centre; and
- protecting national information against cyberthreats through an integrated security management system using AI technologies.²¹

2.28. In the past few years, Korea has been increasingly using data-driven policies to complement traditional regulatory tools. For example, its AI service – The Work – helped 2,666 job seekers find relevant job offers that led to employment in the second quarter of 2019.²² Facing the COVID-19 pandemic, the Government has been using digital technologies to contain the spread of the virus and to mitigate the effect of the crisis. Consequently, between May and October 2020 only 10% of businesses in Korea were closed.²³ Korea's AI Open Innovation Hub provides SMEs and start-ups with data, algorithms, and high-performance computing resources to allow them to innovate with AI.

2.29. In addition, all laws and regulations are published online in Korean, mostly translated into English, on the website (www.law.go.kr) of the Ministry of Government Legislation. Legislation affecting foreign trade is published in the Consolidated Public Notice on Guidelines of Exports and Imports.

¹⁷ UN (2020), *2020 United Nations e-Government Survey*. Viewed at: <https://publicadministration.un.org/en/Research/UN-e-Government-Surveys>.

¹⁸ MSIT, in Korean. Viewed at: <https://www.msit.go.kr/bbs/view.do?sCode=user&mId=113&mPid=112&bbsSeqNo=94&nttSeqNo=2940228>.

¹⁹ Smart City Korea, in Korean. Viewed at: <https://smartcity.go.kr/>.

²⁰ ITECH, in Korean. Viewed at: <https://itech.keit.re.kr/index.do>.

²¹ UN (2020), *2020 United Nations e-Government Survey*. Viewed at: <https://publicadministration.un.org/en/Research/UN-e-Government-Surveys>.

²² OECD (2020), *Digital Economy Outlook 2020*. Viewed at: <https://www.oecd.org/publications/oecd-digital-economy-outlook-2020-bb167041-en.htm>.

²³ ITU (2021), *Digital Trends in Asia and the Pacific 2021*. Viewed at: https://www.itu.int/dms_pub/itu-d/opb/ind/D-IND-DIG_TRENDS_ASP.01-2021-PDF-E.pdf.

2.30. As a consequence, Korea topped the OECD Digital Government Index 2019²⁴, and in 2020 it was ranked second by the United Nations in its E-Government Survey.²⁵

2.31. Korea ranked 33rd (of 180 economies) in Transparency International's Corruption Perception Index in 2020, improved from 43th in 2015.²⁶ It has been a party to the United Nations Convention against Corruption since 2008.²⁷

2.32. As in all countries, a lack of transparency, and thus a lack of public accountability, creates scope for administrative discretion and therefore corruption. During the review period, the Government took significant steps to fight corruption by issuing new and amending existing relevant legislation. The Act on Prohibition of False Claims for Public Funds and Recovery of Illicit Profits (Public Funds Recovery Act)²⁸ came into force on 1 January 2020, aimed at recovering illegitimate profits derived from abusive claims for public funds (e.g. subsidies, compensation, and contributions), which amounted to an estimated KRW 252 trillion in 2020. The Act on the Prevention of Corruption and the Establishment and Management of the Anti-Corruption & Civil Rights Commission (ACRC) was most recently amended in December 2019, aimed at reinforcing the protection of whistle-blowers by severely punishing revealing reporter's identity. Before that, the Public Interest Whistle-blower Protection Act, which aims to protect those who report public interest violations in the private sector, was amended in April 2018 to introduce proxy reporting by lawyers, with a view to strengthening confidentiality of whistle-blowers. The Code of Conduct for Public Officials was also comprehensively amended in January 2018, to prevent conflicts of interest. In addition, the Act on Prevention of Conflict of Interest of Public Officials was enacted in May 2021 and is to take into force in May 2022.

2.33. To address potential high-level corruption involving politicians and top private company executives, a Corruption Investigation Office for High-ranking Officials (CIO), an independent anti-corruption investigation agency, was officially set up in January 2021.²⁹ It is authorized to investigate corruption cases involving former and current high-ranking government officials including the President, the Prime Minister, and members of the National Assembly.

2.34. Key domestic institutions to combat corruption and enhance accountability include the ACRC, which is pushing forward anti-corruption reforms with, *inter alia*:

- The Anti-Corruption Policy Consultative Council, which meets to discuss government-wide anti-corruption measures, particularly those urgent and serious corruption issues, and develops its countermeasures to tackle cheating and unfair privileges. The Council is chaired by the President and participated by 15 anti-corruption relevant agencies including the ACRC, Ministry of Justice, Fair Trade Commission, and National Tax Service. It established a Five-Year Comprehensive Anti-Corruption Plan in 2017.
- The Public-Private Consultative Council for Transparent Society, comprising not more than 40 persons from 7 sectors including public, private, and civil societies. It functions as a platform to develop and monitor the anti-corruption agenda, and gather opinions.

2.35. Korea is a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. According to the OECD, Korea's OECD Anti-Bribery Convention enforcement record declined between the 2011 and 2018 assessments. The OECD suggested that coordination mechanisms between Korea's police and prosecutors' offices and reporting requirements of suspected bribery to relevant law enforcement agencies need to be

²⁴ OECD, *Digital Government Index, 2019 Results*. Viewed at: <http://www.oecd.org/gov/digital-government-index-4de9f5bb-en.htm>.

²⁵ UN (2020), *2020 United Nations e-Government Survey*. Viewed at: <https://publicadministration.un.org/en/Research/UN-e-Government-Surveys>.

²⁶ Transparency International, *Corruption Perceptions Index*. Viewed at: <https://www.transparency.org/en/cpi/2020/index/kor>.

²⁷ UNODC, *Signature and Ratification Status*. Viewed at: <https://www.unodc.org/unodc/en/corruption/ratification-status.html>.

²⁸ ACRC, *The Public Funds Recovery Act*. Viewed at: <https://www.acrc.go.kr/en/data/5.Act%20on%20Prohibition%20of%20False%20Claims%20for%20Public%20unds%20and%20Recovery%20of%20Illicit%20Profits.pdf>.

²⁹ OECD (2020), *Economic Surveys: Korea 2020*. Viewed at: https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-korea_19990707.

clarified. On the other hand, the OECD Economic Survey on Korea indicated that high tax transparency helps fight corruption.

2.5 Trade Agreements and Arrangements

2.5.1 WTO

2.36. Korea's trade policies have been reviewed seven times, and the last Review took place in 2016. Korea accords at least MFN tariff treatment to all WTO Members. It is a party to the Information Technology Agreement (ITA), and tariffs on the items covered by ITA II are to be eliminated on 1 January 2023 for Korea.³⁰ Korea ratified the WTO Trade Facilitation Agreement (TFA) on 30 July 2015, and implemented 100% of its Category A commitments.³¹ It is a member of the WTO Committee on Government Procurement, and has been implementing the revised Agreement on Government Procurement (GPA) since 14 January 2016. Korea is also an observer to the WTO Committee on Trade in Civil Aircraft. In October 2019, Korea committed not to seek special and differential treatment for developing countries in ongoing and future negotiations at the WTO.

2.37. The authorities state that, as a strong advocate of the WTO's rules-based multilateral trading system, Korea participates actively in WTO negotiations (in both multilateral and plurilateral formats) and in the WTO's regular work in councils and committees. Korea is also committed to the successful reform of the WTO, and as a member of the Ottawa Group has been actively engaging with other WTO Members to realize this goal.

2.38. Korea is also part of a number of negotiation groups: the Asian Group of Developing Members, the Asia-Pacific Economic Cooperation (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.³²

2.39. Korea stated that it strongly supports the WTO's efforts to enhance the trading capacities of developing countries and LDCs, and makes donations to the Doha Development Agenda Global Trust Fund: by the end of 2020, Korea had donated about CHF 6 million over the past 20 years.³³

2.40. On 5 April 2018, Korea notified the WTO, under Article 12.5 of the Agreement on Safeguards, that it proposed to suspend concessions and other obligations on certain imports from the United States, following the imposition of safeguard duties by the United States on imports of certain large residential washers and parts thereof.³⁴ On 2 April 2019, Korea notified the WTO, under the same Agreement, of proposed suspension of concessions and other obligations on some imports from the European Union, following the imposition by the European Union of definitive safeguard duties on imports of certain steel products.³⁵

³⁰ WTO documents WT/L/956, 28 July 2015; and WT/MIN(15)/26, 16 December 2015; and APEC, *The Final Review of APEC's Progress towards the Bogor Goals*. Viewed at: <https://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits/2020-Bogor-Goals>.

³¹ WTO Trade Facilitation Agreement Database, *Korea, Republic of*. Viewed at: <https://tfadatabase.org/members/korea-republic-of>.

³² WTO, *Groups in the Negotiations*. Viewed at: https://www.wto.org/english/tratop_e/dda_e/negotiating_groups_e.htm#grp023.

³³ WTO, "Korea Donates CHF 350,000 to Enhance Developing Countries' Trading Skills", 3 March 2020. Viewed at: https://www.wto.org/english/news_e/pres20_e/pr852_e.htm.

³⁴ The suspension was to come into effect on 7 February 2021, if the United States decided to extend the period of application of its safeguard measures, or following the date of a decision from the WTO Dispute Settlement Body that the safeguard measure imposed by the United States is incompatible with the WTO Agreement on Safeguards, whichever is earlier. The suspension is to continue until the safeguard measure maintained by the United States is lifted. Global Trade Alert, *Republic of Korea: Second Immediate Notification of Suspension of Concessions towards the United States*, 6 April 2018. Viewed at: <https://www.globaltradealert.org/state-act/30786/republic-of-korea-second-immediate-notification-of-suspension-of-concessions-towards-the-united-states>. WTO documents G/L/1223-G/SG/N/12/KOR/2, 6 April 2018; and G/L/1224, G/SG/N/12/KOR/3, 6 April 2018.

³⁵ Korea reserves the right to impose additional duties within 30 days of this notification. The duty is to be in place for a period equal to the duty imposed by the European Union. Global Trade Alert, *Republic of Korea: Immediate Notification of Proposed Suspension of WTO Concessions towards the EU*. Viewed at: <https://www.globaltradealert.org/state-act/36807/republic-of-korea-immediate-notification-of-proposed-suspension-of-wto-concessions-towards-the-eu>. WTO document G/L/1306-G/SG/N/12/KOR/4, 2 April 2019.

2.41. Korea submitted a number of notifications to the WTO during the review period (Table A2.1).

2.42. Between June 2016 and June 2021, Korea was involved in seven disputes at the WTO: four as a complainant³⁶, and three as a respondent.³⁷ It also participated as a third party in 30 cases.³⁸

2.5.2 Regional and preferential agreements

2.43. Korea actively pursues RTAs with its key trading partners. At the regional level, it signed the Regional Comprehensive Economic Partnership (RCEP) Agreement in November 2020, which is not yet ratified. In 2018, it signed an RTA with five Central American countries: Costa Rica, El Salvador, Honduras, Nicaragua, and Panama.³⁹ At the bilateral level, the RTA between Korea and the United Kingdom was signed in August 2019 and entered into force on 1 January 2021.⁴⁰ Korea also concluded negotiations for an RTA with Israel in August 2019, which has not been signed. The RTA between Korea and Indonesia was signed on 18 December 2020, but has not been ratified. The RTA with the United States was amended in 2018.⁴¹ In 2018 and 2019, Korea notified the WTO of proposed suspension of concessions and other obligations on some imports from the United States and the European Union in response to safeguard measures taken by these Members on certain export items (Section 3.1.6.2).

2.44. The authorities confirmed that in all of Korea's RTAs, agriculture remains partly covered, and rice excluded.

2.45. Korea also provides preferential tariff treatment to a limited number of imports from some other developing countries, including those under the Global System of Trade Preferences (GSTP), and those under the GATT Protocol Relating to Trade Negotiations Among Developing Countries (TNDC).⁴² In 2019, annual imports subject to actual preferential rates under these schemes were USD 11.5 million, or 0.23% of total imports under the GSTP, and no imports under the TNDC.

³⁶ On 14 February 2018, Korea requested consultations with the United States concerning certain anti-dumping and countervailing duty measures imposed on products from Korea, and certain laws, regulations, and other measures maintained by the United States with respect to the use of facts available in anti-dumping and countervailing duty proceedings – panel report circulated (DS539). On 14 May 2018, Korea requested consultations with the United States concerning definitive safeguard measures imposed by the United States on imports of certain crystalline silicon photovoltaic products – a panel was established, but has not yet been composed (DS545). On 14 May 2018, Korea requested consultations with the United States concerning definitive safeguard measures imposed by the United States on imports of large residential washers – a panel was composed (DS546). On 11 September 2019, Korea requested consultations with Japan regarding certain measures, including licensing policies and procedures, adopted by Japan allegedly restricting exports of fluorinated polyimide, resist polymers and hydrogen fluoride, and their related technologies destined for Korea. Those products are used primarily in the production of smartphones, TV displays, and semiconductors – a panel was established, but has not yet been composed (DS590). For details on these cases, see WTO, *Republic of Korea and the WTO*. Viewed at: https://www.wto.org/english/thewto_e/countries_e/korea_republic_e.htm.

³⁷ On 18 June 2018, Japan requested consultations with Korea concerning Korea's determination to continue the imposition of anti-dumping duties on stainless steel bars from Japan – Korea notified its decision to appeal the panel report circulated (DS553). On 6 November 2018, Japan requested consultations with Korea concerning the following measures allegedly affecting trade in commercial vessels: (i) corporate restructuring measures to allegedly support Korean shipbuilders; (ii) guarantees and other insurance for financing related to commercial vessel orders placed with Korean shipbuilders; (iii) pre-shipment loans, measures for part of the new shipbuilding programme, and other financing for commercial vessel orders placed with Korean shipbuilders; (iv) alleged eco-ship replacement subsidies; (v) other measures imposed by Korea to allegedly support commercial vessel purchases; and (vi) amendments and other measures – in consultation (DS571). On 31 January 2020, Japan requested, for the second time, consultations with Korea concerning measures allegedly affecting trade in commercial vessels – in consultation (DS594).

³⁸ WTO, *Republic of Korea and the WTO*. 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 July 2016 and January 2021 (DS508-DS560).

³⁹ WTO document WT/REG452/N/1-S/C/N/1054, 16 April 2021.

⁴⁰ WTO document WT/REG431/N/1-S/C/N/1029, 7 January 2021.

⁴¹ WTO document WT/REG311/N/1/Add.1-S/C/N/621/Add.1, 7 March 2019.

⁴² WTO RTA database: <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>.

2.5.2.1 RCEP

2.46. On 15 November 2020, the RCEP Agreement was signed by 15 parties (10 ASEAN Member States and Australia, China, Japan, the Republic of Korea, and New Zealand). The Agreement covers, *inter alia*, trade in goods, trade in services, investment, and e-commerce.

2.47. Korea already has RTAs in force with all RCEP parties except Japan. In most of these existing RTAs, Korea liberalizes more than under the RCEP Agreement. The authorities indicate that Korean economic efficiency is expected to increase, as well as bilateral investment, as a consequence of market liberalization to Japan under the RCEP Agreement.

2.48. Regarding trade in goods, Korea committed to reduce or eliminate tariffs with a 20-year transition period (35 years for imports from China). It has one tariff reduction/elimination schedule for ASEAN, and separate schedules for non-ASEAN Member States. Products that are excluded from liberalization for Korea include eggs, honey, products of the milling industry, and vegetables.⁴³ Rice is not covered in Korea's tariff reduction/elimination schedule.

2.49. Regarding trade in services, Korea follows a negative list approach to schedule its specific commitments. Unbound sectors include postal and courier services, primary and secondary education, broadcasting, health-related and social services, recreational and cultural and sporting services, internal waterways and space transport services, and sanitation and similar services. Air services and financial services remain largely unbound, with broad reservations. Compared with its commitments under the GATS, Korea's commitments under the RCEP Agreement are broader, as they also include full commitments in almost all construction and related services, and more commitments in eight new subsectors including rail and pipeline transport, higher and adult education, and real estate services.

2.50. In addition, a ratchet mechanism contained in the RCEP Agreement locks any unilateral liberalization in trade in services in the future.⁴⁴ For Korea, which follows a negative list approach, any amendments that decrease the restrictiveness of a non-conforming measure (in the case of a negative list) are automatically incorporated into the RCEP Agreement.

2.51. Regarding investment, all parties to the RCEP Agreement, including Korea, use a negative list to schedule their sector-specific commitments in this area.

2.52. The provisions on electronic commerce mainly cover:

- promoting wider use of e-commerce by assisting SMEs to overcome obstacles in the use of e-commerce, identifying areas of cooperation to help the parties implement or enhance their e-commerce legal framework, and sharing information, experiences, and best practices in the development of e-commerce;
- facilitating trade by promoting paperless trading and the e-submission of trade documents, and making trade administration documents available online; and
- protecting consumers and their online personal information.

2.53. The parties also agreed that they will maintain the current practice of not imposing customs duties on electronic transactions among themselves, which shall not preclude them from maintaining any internal duties.

2.54. The RCEP Agreement is to enter into force for those signatory States that have deposited their instrument of ratification, acceptance, or approval 60 days after the date on which at least six ASEAN signatories and three non-ASEAN signatories have deposited their instrument of ratification, acceptance, or approval with the Depository. Currently, Korea is examining the Agreement and its impact assessment. After that, the Agreement is to be submitted for presidential approval, and then for ratification at the National Assembly.

⁴³ Korea's tariff schedule is available online at: <https://www.fta.go.kr/rcep/doc/2/>.

⁴⁴ RCEP Agreement, Articles 8.7 and 8.8.

2.5.2.2 RTA with five Central American countries

2.55. The RTA between Korea and the five Central American countries was signed on 21 February 2018. The RTA with Honduras and Nicaragua went into force on 1 October 2019, with Costa Rica on 1 November 2019, with El Salvador on 1 January 2020, and with Panama on 1 March 2021.

2.56. The Agreement contains, *inter alia*, provisions on national treatment and market access for goods, rules of origin and origin procedures, customs administration and trade facilitation, sanitary and phytosanitary measures, technical barriers to trade, trade remedies, investment, trade in services, temporary entry for businesspeople, electronic commerce, intellectual property rights, labour, environment, transparency, cooperation, competition policy, institutional provisions, dispute settlement, and exceptions. The end of implementation period is 2039. The parties are currently preparing to notify to the WTO.

2.5.2.3 RTA with the United Kingdom

2.57. In January 2021, Korea notified, together with the United Kingdom, the WTO that the two parties signed an RTA, which entered into force on 1 January 2021.⁴⁵ It was signed in August 2019 when the United Kingdom was preparing to leave the European Union. This RTA is based on the one between Korea and the European Union, to provide continuity and "remove Brexit uncertainty".⁴⁶

2.58. The United Kingdom's previous preferential trading relationship with Korea was governed by the RTA between Korea and the European Union. The bilateral Korea–United Kingdom RTA establishes a free trade area for trade in goods and for trade in services, as well as commitments on, *inter alia*, technical barriers to trade, sanitary and phytosanitary measures, customs and trade facilitation, protection of intellectual property rights, government procurement, competition and transparency provisions, trade and sustainable development provisions, and dispute settlement and mediation mechanisms.

2.5.3 Preferential trade arrangements

2.59. Korea has been providing duty-free market access for imports from 46 UN-defined least developed countries (LDCs). According to UN Comtrade data, in 2020, 0.55% of Korea's total merchandise imports came from these LDCs.

2.60. Korea is eligible for trade preferences under the GSP scheme of Australia because of its developing country status.⁴⁷

2.61. It used to be eligible for trade preferences under the GSP schemes of Armenia, Kazakhstan, and the Russian Federation. However, on 5 March 2021, EAEU Members (Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, and the Russian Federation) decided to revise their list of developing and LDC countries. Six months after the official publication of this revised list, Korea will no longer be eligible for EAEU tariff preferences.

2.5.4 Other agreements and arrangements

2.5.4.1 Asia-Pacific Economic Cooperation (APEC)

2.62. APEC's trade efforts focus on its 21 member economies meeting unilateral targets for liberalization and for better quality measures in a broad range of areas, covering customs procedures and standards to subsidies and contingency measures.⁴⁸ Korea's latest IAP (Individual Action Plan) on the assessment of achievements of the Bogor Goals, which is a roadmap (updated every

⁴⁵ WTO document, WT/REG431/N/1, S/C/N/1029, 7 January 2021.

⁴⁶ BBC, *UK and South Korea Sign "Continuity" Trade Agreement*, 22 August 2019. Viewed at: <https://www.bbc.com/news/business-49430207>.

⁴⁷ WTO PTA database. Viewed at: <http://ptadb.wto.org/Country.aspx?code=410>.

⁴⁸ APEC's 21 member economies are: Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; the Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; the Philippines; the Russian Federation; Singapore; the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei); Thailand; the United States; and Viet Nam.

two years) containing APEC Members' intended actions in 15 policy areas to achieve APEC's liberalization goals, was done in 2020.⁴⁹ It recorded progress made by Korea in the following areas:

- As at 1 July 2019, 90% of Korea's tariff lines under the ITA II were eliminated, and Korea plans to eliminate all tariffs covered by the ITA II by 1 January 2023.
- Korea has been negotiating with China in the areas of trade in services and investment since 2017, and launched negotiations in same areas with the Russian Federation in 2019.
- The Foreign Investment Promotion Act was amended in January 2020 so that foreign-invested companies are eligible for tax reductions if they reinvest domestic reserves (Section 2.6).

2.63. Korea also plans to make further improvements in standards and conformance, customs procedures, government procurement, deregulation and regulatory review, implementation of WTO obligations, and mobility of businesspeople.

2.5.4.2 Asia-Europe Meeting (ASEM)

2.64. The ASEM is an intergovernmental process established in 1996 to foster dialogue and cooperation between Asia and Europe. The ASEM Summit is a biennial meeting addressing political, economic, financial, social, cultural, and educational issues of common interest, among the 53 partners: 30 European and 21 Asian countries, the European Union, and the ASEAN Secretariat.⁵⁰

2.65. In 2016, ASEM leaders reiterated their commitment to enhance inter-regional trade and investment flows, so as to deepen economic integration between Asia and Europe. In 2018, leaders reaffirmed their strong support for preserving and strengthening the rules-based multilateral trading system centred on the WTO. They reconfirmed the conclusions of the 7th ASEM Economic Ministers' Meeting (ASEM EMM7), which was held in Seoul, Korea, in 2017.⁵¹ Leaders underlined their joint commitment to open, free, and non-discriminatory trade as a prerequisite for long-term growth and prosperity. They reiterated the need to further strengthen and reform the WTO to help it meet new challenges and to improve its transparency, monitoring, dispute settlement mechanisms, and rulemaking functions. They committed to ensure free and open trade on a level-playing field and fight all forms of protectionism, including unilateral protectionist measures and unfair trade practices. Leaders underlined the importance of implementing and enforcing obligations under the WTO by its Members, including the ongoing work to implement its TFA.

2.5.4.3 Trade with the Democratic People's Republic of Korea

2.66. According to the 1992 Agreement on Reconciliation, Non-Aggression and Exchange and Cooperation⁵², Korea always regards trade with the Democratic People's Republic of Korea as intra-Korean commerce, thus such trade is exempt from tariffs, although approval (indicating the kind of product, the type of transaction, and the settlement method) must be obtained from the Minister of Unification.

2.67. Nonetheless, trade with the Democratic People's Republic of Korea has been prohibited since 2010, and the Gaeseong Industrial Complex (located in the Democratic People's Republic of Korea) has been closed since 10 February 2016.

⁴⁹ APEC, *The Final Review of APEC's Progress towards the Bogor Goals*. Viewed at: <https://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits/2020-Bogor-Goals>.

⁵⁰ ASEM, *Fostering Dialogue & Cooperation Between Asia and Europe*. Viewed at: <https://www.aseminfoboard.org/about/overview>.

⁵¹ ASEM, *7th ASEM Economic Ministers' Meeting (ASEM EMM7)*. Viewed at: <https://www.aseminfoboard.org/events/7th-asem-economic-ministers-meeting-asem-emm7#:~:text=The%207th%20ASEM%20Economic%20Ministers,September%202017%20in%20Seoul%2C%20Korea>.

⁵² Korea.net, *Inter-Korean Exchange and Cooperation*. Viewed at: <https://www.korea.net/AboutKorea/Inter-Korean-Relations/Inter-Korean-Exchanges-Cooperation>.

2.6 Foreign Direct Investment

2.6.1 Overview

2.68. During the review period, Korea's FDI system went through significant reforms in the areas of incentives and restricted sectors. In particular, corporation tax reductions and exemptions were abolished in 2019; foreign-invested companies may still benefit if they applied for these tax incentives on or before 31 December 2018.⁵³ Korea's main legislation governing foreign investment – the Foreign Investment Promotion Act – was most recently amended in December 2020 (by Act No. 17653, which entered into force on 1 January 2021), so that the Government may grant FDI incentives for reinvestment of unused retained earnings, which were previously not recognized as FDI.⁵⁴ In addition, when foreign-invested companies fail to comply with contractual terms, the amendment contains provisions to terminate their contracts, and to strengthen follow-up management of private contracts on national and public-owned property. In 2020, Korea also tightened its FDI review mechanism for foreign investment where there is high possibility of leakage of core national technologies.⁵⁵

2.69. Other legislation on FDI includes:

- Act on the Designation and Management of Free Trade Zones;
- Financial Investment Services and Capital Markets Act;
- Foreign Exchange Transactions Act;
- Foreigner's Land Acquisition Act;
- Restriction of Special Taxation Act, and its Enforcement Decree and Enforcement Rules; and
- Special Act on the Designation and Management of Free Economic Zones.

2.70. A number of regulations also govern foreign investment: Regulations on Foreign Investment, promulgated by MOTIE on 6 July 2018; Consolidated Public Notice for Foreign Investment, promulgated by MOTIE on 7 February 2021; and Regulations on Tax Abatement or Exemption for Foreign Investment, promulgated by the Ministry of Economy and Finance on 4 April 2017.

2.71. The institutional framework for FDI promotion consists mainly of:

- MOTIE, which is in charge of policy-making;
- the Foreign Investment Committee, which is in charge of policy coordination;
- KOTRA and its main arm, InvestKorea, which implements FDI-related policies; and
- local governments, as well as relevant agencies and various zones, which designate foreign investment promotion offices to provide support for foreign investment.⁵⁶

2.72. Under KOTRA, the Office of the Foreign Investment Ombudsman (OFIO) (and its grievance resolution body) handles specific grievances encountered by foreign investors in Korea. The number of cases handled by the OFIO reached 357 in 2020 (462 in 2015).

⁵³ KOTRA (2020), *Doing Business in Korea 2019*. Viewed at: <https://news.kotra.or.kr/user/reports/kotranews/20/usrReportsView.do?reportsIdx=10424>.

⁵⁴ APEC, *The Final Review of APEC's Progress towards the Bogor Goals*. Viewed at: <https://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits/2020-Bogor-Goals>.

⁵⁵ UNCTAD, *Investment Policy Monitor*, February 2021. Viewed at: https://unctad.org/system/files/official-document/diaepcbinf2021d2_en.pdf.

⁵⁶ InvestKorea, *Intro to InvestKorea*. Viewed at: <https://www.investkorea.org/ik-en/index.do#>.

2.73. The authorities indicate that Korea seeks to improve its domestic industry structure by attracting FDI in new growth engines and high-tech industries, while focusing on boosting technology transfer. The Government aims to promote Korea as a global hub, where foreign-invested companies build their regional headquarters and R&D centres, and where domestic production infrastructure is being expanded to core materials and components in key industries.

2.74. Foreign investors must inform KOTRA, or foreign exchange banks, of their investment decisions. Approval from the Government is required only for investment in financial services or the defence industry.⁵⁷ In accordance with the Banking Act, the Insurance Business Act, and the Financial Investment Services and Capital Markets Act, foreign financial institutions must be approved by the Financial Services Commission (FSC). Land acquisition by foreigners is governed by the Foreign Investment Promotion Act, the Act on Report on Real Estate Transactions, Etc., and the Foreign Exchange Transactions Act. The authorities state that regulations and limitations on the acquisition, usage, and development of land are applied uniformly to both Koreans and foreign nationals.

2.75. On 5 August 2020, amendments to the Enforcement Decree of the Foreign Investment Promotion Act entered into force. The amendments allow the competent Minister or the heads of the relevant agencies to require the Foreign Investment Committee to review a foreign investment project where there is a "high" possibility of leakage of core national technologies⁵⁸, and where a foreigner's acquisition of *de facto* control over the management of an existing domestic company may threaten national security.⁵⁹

2.76. According to the World Bank's Doing Business 2020 report, Korea ranked 5th of 190 countries (4th of 189 countries in 2016) in overall terms of the ease of doing business.⁶⁰ It was 2nd in the areas of getting electricity and enforcing contracts, and performed well in resolving insolvency (11th) and dealing with construction permits (12th). It was ranked 33rd in starting a business, 36th in terms of trading across borders, 40th in terms of registering property, and 67th in terms of getting credit.

2.6.2 FDI restrictions

2.77. Restrictions apply on foreign investment where it: (i) threatens the maintenance of national security and public order; (ii) has harmful effects on public hygiene or environmental preservation or is against Korean morals and customs; and (iii) violates the Acts and subordinate statutes of the Republic of Korea. As prescribed by the Regulations on Foreign Investment and the Integrated Public Notice of Foreign Investment, of 1,196 categories of businesses under the Korean Standard Industrial Classification (KSIC), foreign investment is not permitted in 61 categories, including public administration, diplomacy, and national defence (unpermitted category of business). This is 1 category more than the 2016 level (60 categories); the authorities indicate that this is due to reclassification of the categories in 2016.

2.78. Foreign investment is partially permitted in 29 categories (restricted category of business) (Table 2.1). Compared with the previous Review, the two significant changes to the list are:

- Fishing has been allowed with no foreign investment restrictions since 2016; and
- Supporting air transport activities, including aircraft maintenance, repair, and overhaul, are now allowed with no foreign investment restrictions, and the previous foreign equity cap at 50% was removed from 30 March 2017.

⁵⁷ Where a foreign investor intends to make foreign investment in a defence industry company, the foreign investor must obtain permission in advance from MOTIE, which then must consult with the Ministry of National Defence before determining on the permission.

⁵⁸ Core national technologies are defined by the Act on the Prevention of Divulgence and Protection of Industrial Technology.

⁵⁹ UNCTAD, *Investment Policy Monitor*, February 2021. Viewed at: https://unctad.org/system/files/official-document/diaepcbinf2021d2_en.pdf.

⁶⁰ World Bank (2020), *Doing Business 2020: Comparing Business Regulation in 190 Economies – Economy Profile: Korea, Rep.* Viewed at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/k/korea/KOR.pdf>.

Table 2.1 FDI restricted sectors, 2021

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)
Manufacture of inorganic chemicals and inorganic chemical products, and manufacture of base metal products	Allowed, excluding the manufacture and supply of fuel for nuclear power generation
Electricity	
Hydroelectric, thermoelectric, solar, and other power generation (except for nuclear power generation)	Foreign nationals may purchase from the Korea Electric Power Corporation (KEPCO) no more than 30% of all domestic power generation facilities Only applicable when foreigners purchase power generation facilities from KEPCO (including its subsidiaries)
Transmission, distribution, and selling of electricity	Less than 50% foreign equity, and the largest shareholder is Korean (limited to voting stocks and including voting stock equivalents) Selling of electricity is defined under the Electric Utility Act
Waste collection, disposal, and material recovery	Allowed, except for disposal of radioactive waste as stipulated in Article 9 of the Radioactive Waste Management Act
Wholesale trade and commission trade	Allowed, except for wholesale of meat (less than 50% foreign equity)
Water transport	Sea water transport: allowed Costal water passenger/freight 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
Air transport	Less than 50% foreign equity
Publishing activities	
Publishing of newspapers	Less than 50% foreign equity (less than 30% foreign equity for daily newspapers)
Publishing of magazines and periodicals	Less than 50% foreign equity
Broadcasting	
Programme distribution (programme providing businesses defined under the Broadcasting Act)	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: (1) for programme providers, except for general service programming or specialized programming of news reports or product presentation and marketing; (2) according to the free trade agreement (FTA) between Korea and the United States, Canada, the European Union, and Australia
Cable networks	No more than 49% foreign equity for System Operator (SO); no more than 20% foreign equity for cable Relay Operator (RO)
Broadcasting via satellite and other broadcasting	No more than 49% foreign equity (no more than 20% foreign equity for Internet multimedia broadcasting content providers for general programming or specialized programming of news reports) No foreign equity restriction: (1) for Internet multimedia broadcast services, except for general service programming, specialized programming of news reports, or product presentation and marketing; (2) according to the FTA between Korea and the United States, Canada, the European Union, and Australia
Wire communications/wireless and satellite communications	Allowed provided that the sum of stocks (limited to voting stocks and including voting stock equivalents, such as depository receipts and investment shares) owned by foreign investors (including deemed foreign corporations ^a) is no more than 49% of the total number of outstanding stocks (In the case of KT, a foreign investor cannot be the largest shareholder unless their shares are less than 5%) No foreign equity restriction on companies not operating against public interest, and under the FTA between Korea and the United States, Canada, the European Union, and Australia

Sector/business	FDI limitation
Other electronic communications	Same as the limitations for wire communications, but no limits for value-added telecommunication business
News-providing services	Less than 25% foreign equity
Financial institutions	Allowed, except for the National Agricultural Cooperative Federation (Finance) under the National Agricultural Cooperative Act, and the National Federation of Fisheries Cooperatives (Finance) under the Fisheries Cooperatives Act

- a A "deemed foreign corporation" is a corporation whose largest shareholder is a foreign investor (including affiliated persons in accordance with Article 9.1.1 of the Financial Investment Services and Capital Markets Act) holding at least 15% of the total number of outstanding stocks in the corporation.

Source: Information provided by the authorities.

2.6.3 FDI incentives

2.79. The Government continues to use various incentives, in the form of tax incentives, cash grants, and industrial site support, to attract foreign investment. Since the previous Review, significant changes have been introduced to the incentives, in particular, corporation tax reductions and exemptions for foreign investment were abolished from 2019. Other changes include the revision to the cash grant schemes, and cancellation of the designation of Saemangeum Area as a free economic zone.⁶¹

2.6.3.1 Tax incentives

2.80. Since 2019, tax incentives have taken the form of local tax and import tariff reductions/exemptions, which are provided for limited periods and on an MFN basis (Table 2.2). Corporation tax incentives apply only to those foreign-invested enterprises that applied for them on or before 31 December 2018.⁶²

Table 2.2 Summary of FDI tax incentives, 2021

Tax incentives	Business	Reduction period and details
Local tax (acquisition tax and property tax (property tax on land and buildings))	Deliberated and voted upon by each committee for companies in the new growth driver industry ^a , and businesses in individual-type foreign investment zones (FIZs)	Full exemption for five years from the date the business commenced, and 50% for two years thereafter
	Companies and project entities in FIZs (complex-type), free economic zones (FEZs), Jeju Investment Promotion Zone, enterprise city development zone, Saemangeum Area, etc.	Full exemption for three years from the date the business commenced, and 50% for two years thereafter
Exemption of tariffs, individual consumption tax, VAT, etc.	Capital goods imported by a foreign-invested company with a foreign or domestic means of payment it obtained as equity investment from a foreign investor Capital goods that are imported by a foreign investor as an object of investment	Tariff; individual consumption tax; VAT

- a "New growth driver industry" refers to the following categories: future vehicles, intelligent information, next-generation software and security, content, next-generation electronic information device, next-generation broadcasting and telecommunication, bio and health, new energy business and environment, composite and integrated materials, robotics, and aerospace.

Source: Restriction of Special Taxation Act, Article 121; and information provided by the authorities.

⁶¹ KOTRA (2020), *Doing Business in Korea 2019*. Viewed at: <https://news.kotra.or.kr/user/reports/kotranews/20/usrReportsView.do?reportsIdx=10424>.

⁶² For details of these corporation tax incentives, see WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

2.81. In accordance with local governments' ordinances, the period of local tax reduction may be extended up to 15 years, and the reduction ratio may be increased.

2.6.3.2 Cash grants

2.82. According to KOTRA, cash grants to foreign-invested enterprises were revised in 2019.⁶³ The Government expanded eligibility for cash grants to high-tech industries, in accordance with the Industrial Development Act (Article 5) and the Public Notice No. 2019-121 by MOTIE, released on 26 July 2019 (enforced in 2020).

2.83. Before the revision, the central and local governments provided cash grants for companies that operate in certain industries and that promote FDI and contribute significantly to the national economy. These industries include those using new growth-engine technologies, manufacturing materials and components, creating large-scale employment, and establishing R&D centres or regional headquarters. To be eligible for cash grants, a foreign investor must own at least 30% of the equity.⁶⁴

2.6.3.3 Industrial site support

2.84. Under the industrial site support system, foreign investment zones (FIZs) designated by the Foreign Investment Promotion Act, free trade zones (FTZs) under the Act on Designation and Management of Free Trade Zones, and free economic zones (FEZs) prescribed by the Special Act on Designation and Management of Free Economic Zones are operated to attract foreign investment (Table 2.3).

Table 2.3 Industrial sites for foreign investors, 4th Quarter 2020

Industrial site system		Designated region	No. of locations
Foreign investment zone (FIZ)	Complex-type	Cheonan Industrial Complex Cheonan Industrial Complex No. 5 Chungju Industrial Complex Daebul Industrial Complex Dalseong Industrial Complex Dang-dong Industrial Complex Gumi Industrial Complex ^a Gwangyang-Sepoon Industrial Complex Iksan Food Cluster Inju Industrial Complex Jangan High-Tech Industrial Complex No. 1 & No. 2 Jincheon-Sansu Industrial Complex Jisa Industrial Complex Munmak Industrial Complex Ochang Industrial Complex Oseong Industrial Complex Sacheon Industrial Complex Songsan 2 Industrial Complex ^b Songsan 2-1 Industrial Complex ^b Songsan 2-2 Industrial Complex ^b Woljeon Industrial Complex Changwon Industrial Complex (parts) Gumi Industrial Complex (parts) ^a Iksan Industrial Complex (parts) Mieum Industrial Complex in Busan (parts) Pohang Industrial Complex (parts) Daejeon International Science Business Belt	28
	Individual-type	Manufacturing industry (68 companies), service industry (10 companies)	78
	Service-type	Intuitive Surgical Korea, ABiotech, Boeing Korea Engineering & Technology Center (Seoul)	3

⁶³ KOTRA (2020), *Doing Business in Korea 2019*. Viewed at: <https://news.kotra.or.kr/user/reports/kotranews/20/usrReportsView.do?reportsIdx=10424>.

⁶⁴ KOTRA (2020), *Doing Business in Korea 2019*. Viewed at: <https://news.kotra.or.kr/user/reports/kotranews/20/usrReportsView.do?reportsIdx=10424>.

Industrial site system		Designated region	No. of locations
Rental complex for foreign-invested companies in Gyeonggi Province	Chupal Industrial Complex Eohyeon-Hansan Industrial Complex Hyeongok Industrial Complex Poseung Industrial Complex		4
Free trade zone (FTZ)	Industrial complex-type	Daebul FTZ, East Sea FTZ, Gimje FTZ, Gunsan FTZ, Masan FTZ, Ulsan FTZ, Yulchon FTZ	7
	Ports and airports-type	Busan Port Dangjin-Pyeongtaek Port Gwangyang Port Incheon Port Pohang Port Incheon International Airport	6
Free economic zone (FEZ) ^c	Busan-Jinhae FEZ, Chungbuk FEZ, Daegu-Gyeongbuk FEZ, East Coast FEZ, Gwangyang Bay Area FEZ, Incheon FEZ, Gyeonggi FEZ, Gwangju FEZ, Ulsan FEZ newly designated in 2020		9

- a Gumi Industrial Complex and Gumi Industrial Complex (parts) are different regions.
b Songsan 2 Industrial Complex, Songsan 2-1 Industrial Complex, and Songsan 2-2 Industrial Complex are different regions.
c From April 2018, the Saemangeum-Gunsan FEZ is no longer a FEZ. It was merged into the Saemangeum Project Area.

Source: Information provided by the authorities.

2.85. Tax incentives granted by these zones to foreign-invested enterprises vary (Table 2.4). Foreign-invested businesses may benefit from non-tax incentives, including, *inter alia*, cash grants, provision of infrastructure facilities, foreign education facilities and research facilities, rent reduction or exemptions, eased labour regulations, and free foreign exchange transactions.

Table 2.4 Foreign investment location tax incentives, 2021

Classification	Foreign investment zone (FIZ)		Free trade zone (FTZ)	Free economic zone (FEZ)
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
Designating authority	Mayor or provincial governor		Minister of MOTIE	Minister of MOTIE
Managing authority	State industrial complexes: Industrial complex management authorities Others: Mayor or provincial governor		Minister of Trade, Industry & Energy	Free Economic Zone management authority
Types of companies	Foreign-invested company	Foreign-invested company	Domestic company, and foreign-invested company	Domestic company, and foreign-invested company
Occupancy requirement	Foreign investment ratio of 30% or higher, investment of KRW 100 million or more Businesses accompanying new growth-engine industry technology, high-tech manufacturing, R&D industry, logistics industry	FDI requirements: • Manufacturing: USD 30 million or more • Tourism: USD 20 million or more • Logistics: USD 10 million or more • R&D: USD 2 million or more (employing 10 or more researchers)	• Manufacturing: export 50% or more • Wholesale: export and import 50% or more • Integrated logistics businesses	Developers: foreign investment USD 30 million or more, foreign investment equity ratio of 50% or higher, total investment of USD 500 million or more

Classification	Foreign investment zone (FIZ)		Free trade zone (FTZ)	Free economic zone (FEZ)
Requirements for tax reduction	<ul style="list-style-type: none"> • Manufacturing: USD 10 million or more • Logistics: USD 5 million or more 	Identical to occupancy requirements above	<ul style="list-style-type: none"> • Manufacturing: USD 10 million or more • Logistics: USD 5 million or more 	<ul style="list-style-type: none"> • Manufacturing, tourism: USD 10 million or more • Logistics, medical institution: USD 5 million or more • R&D: USD 1 million or more (employing 10 or more researchers)
Local tax	For up to 15 years		For up to 15 years	For up to 15 years
Customs duty	Exempted for five years from the day on which imported capital goods have been declared		Customs duty exempted on the imports of machinery or parts for industrial facilities, raw materials, construction materials, and other goods necessary for accomplishing the purpose of business	Customs duty on imported capital goods exempted for five years

Source: Information provided by the authorities.

2.6.4 Other

2.86. Korea is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA) and the International Convention on the Settlement of Investment Disputes between States and Nationals of other States (ICSID Convention), and is party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). It abides by OECD Codes of Liberalization of Capital Movements and of Current Invisible Operations, and the National Treatment Instrument.

2.87. According to the UNCTAD website, Korea has 105 bilateral investment treaties (BITs), 89 of which are in force. During the review period, the BITs with Armenia (3 October 2019), Myanmar (31 October 2018), Cameroon (13 April 2018), and Kenya (3 May 2017) went into force. Korea signed a BIT with Uzbekistan on 19 April 2019, which has not yet entered into force.⁶⁵ Many of Korea's RTAs also contain investment provisions.⁶⁶

2.88. As at March 2021, 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 94 countries. Among them, nine have entered into force since 2016: Brunei Darussalam; Cambodia; Ethiopia; Georgia; Hong Kong, China; Kenya; Tajikistan; Turkmenistan; and Serbia.

2.89. The authorities indicate 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.

⁶⁵ UNCTAD, *Investment Policy Hub – Korea, Rep. of*. Viewed at: <https://investmentpolicy.unctad.org/international-investment-agreements/countries/111/korea-republic-of>.

⁶⁶ UNCTAD, *Investment Policy Hub – Korea, Rep. of*. Viewed at: <https://investmentpolicy.unctad.org/international-investment-agreements/countries/111/korea-republic-of>.

3 TRADE POLICIES AND PRACTICES BY MEASURE

3.1. Since the previous Trade Policy Review, the general thrust of the Republic of Korea's trade policy has remained relatively unchanged. The tariff remains one of Korea's main trade policy instruments, and a relatively significant, albeit declining, source of tax revenue. The 2021 customs tariff remains transparent but relatively complex, involving a multiplicity of rates. The average applied MFN tariff dropped slightly from 14.1% in 2016 to 13.9% in 2021. Peak *ad valorem* rates also remained unchanged and concentrated in agricultural items. Korea has bound rates on 90.7% of its tariff lines and has continued to use this gap between the average bound and applied MFN tariff rates to apply higher duties (e.g. adjustment duties) termed "flexible tariffs". Tariff rate quotas (TRQs) remain in place under Korea's multilateral agricultural market access commitments, and other measures continue to selectively reduce tariffs on inputs.

3.2. During the review period, trade facilitation developments included initiatives to mitigate the damage from the COVID-19 pandemic. Regarding customs valuation, Customs introduced services to protect taxpayers' rights and reinforced cooperative schemes against tax evasion. Rice imports remained tariffed. Import licensing requirements covered numerous tariff items, and prohibitions were maintained. During the review period, recourse to anti-dumping initiation action remained relatively stable. Price-based special safeguard provisions (SSGs) under the WTO Agreement on Agriculture were used.

3.3. Korea retained the option to restrict or monitor certain exports to ensure adequate domestic supplies; in response to COVID-19 pandemic needs, a temporary export ban on certain health items was implemented. Direct export subsidies remained in place to reduce marketing costs for certain agricultural products. A drawback scheme continued to provide refunds of border taxes on raw materials used in exports, whereas internal indirect taxes on exports are reimbursed. Corporation tax relief to foreign investment enterprises located in free trade zones (FTZs) was eliminated for applicants as from 2019. Exporters continue to benefit from finance, insurance, and guarantees provided by state-owned institutions.

3.4. Measures involving grants, tax concessions, and low-interest loans continued to support production and trade of various agricultural, forestry, fishing, coal mining, renewable energy, Fourth Industrial Revolution, and manufactured products, and to encourage SMEs, innovation, research and development (R&D), environmental protection, and FDI activities. Regulatory and other initiatives to, *inter alia*, improve food and drug safety, as well as to align domestic standards to international standards, were undertaken. Control over imported safety food hazards was reinforced; the shift to a "positive list" system (PLS) to all pesticides in agricultural products except for those with domestically set maximum residue levels (MRLs) was completed. State involvement in the economy persists. Changes were made to the main legislation of government procurement, which is still seemingly used as a policy tool. Several legislative amendments were undertaken in competition policy. A prohibition on new cross-shareholding between subsidiaries under large business groups remained in place, while large corporations and SMEs continued to be encouraged to voluntarily sign agreements on fair trade and shared growth. Price controls remain in place in specific areas. Consumer protection transparency and enforcement were reinforced. Korea's intellectual property rights (IPRs) regime continued to evolve rapidly, and legislation was strengthened; action was taken in response to COVID-19 challenges in this area.

3.1 Measures Directly Affecting Imports

3.1.1 Customs procedures, valuation, and requirements

3.1.1.1 Procedures

3.5. Import declarations must be made by the owner of goods, a licensed customs broker, a customs brokers' corporation, or a corporation for handling clearance under the Licensed Customs Broker Act.

3.6. Customs clearance, including declaration procedures, and cargo management systems remain 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 2016.¹ In 2020, the KCS's single window system was linked to 29 agencies (40 in 2016) (handling 90% (88% at end-2015) of total import verification in 2020) responsible for approving certain imports subject to requirements that need to be verified electronically.² The number of items requiring such clearance-related checks under Article 226 of the Customs Act and another 38 laws (same as at previous TPR) increased from 5,566 10-digit HS items in 2016 to 6,152 in 2020. 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. In 2021, cargo management and import declarations remain 100% paperless.

3.7. 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.³ 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. 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% (same as in 2016) of Extensible Markup Language (XML) documents used within the KCS's network are based on WCO DM 3.0. Business support centers have operated at six main customs offices since 2015; they provide personalized consultations for any difficulties arising within the RTA/FTA utilization process as well as post-management company assistance (Section 3.1.3.7).⁴ As from March 2018, the KCS has operated FTA Portal (<https://www.customs.go.kr/enportal/main.do>) to support SMEs which cannot afford to visit customs offices for consultation in utilizing FTAs; this service supported 385,833 businesses in 2020, and their exports to FTA partner countries decreased by 3.9% year-on-year.⁵

3.8. As at March 2021, customs declarations were processed within 1.5 hours, compared to 2.0 hours on average in 2015; the drop was due to expanding the application of electronic customs clearance utilizing artificial intelligence (AI) on low-risk cargo since 2019.⁶ Prior-entry import declarations are allowed (up to five days for sea and one day for air). Virtually all imports (99% in March 2021, about 96% in 2016) are now cleared after being taken into a bonded area; the average clearance time from port entry to release from a bonded warehouse was 1.4 days in March 2021, down from 1.9 days in May 2016. The KCS prides itself on the world's fastest turnaround in

¹ 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), Cameroon (2015), Ethiopia (2017, 2019), Ghana (2018), Algeria (2018), Tajikistan (2019), and Paraguay (2020). The UNI-PASS system has been operated with its 4th generation system as from April 2016. Under the Smart clearance system, the Smart customs administrations use mobile devices (e.g. small computing device) to provide their services to the public. WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

² 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 seemingly remain among the agencies that joined the system.

³ More information about this system is available in WTO documents WT/TPR/S/268/Rev.1, 8 November 2012 and WT/TPR/S/346/Rev.1, 6 January 2017. There is considerable impetus in regional and international fora for greater connectivity between countries and regions and across continents. The ratification of the Protocol on the Legal Framework to Implement the ASEAN Single Window (ASW) (PLF) has enabled the Live Operation of the ASW between Indonesia, Malaysia, Singapore, Thailand, and Viet Nam since 1 January 2018, which was followed by Brunei Darussalam, Cambodia, Lao People's Democratic Republic, Myanmar, and the Philippines in 2019. Viewed at: <http://asw.asean.org/about-asw>.

⁴ 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, and performing comprehensive audits.

⁵ KCS, *Yes FTA Mobile Consulting Service, Notice*, 8 March 2018. Viewed at: <https://www.customs.go.kr/engportal/na/ntt/selectNttInfo.do?mi=7329&bbsId=1682&nttSn=42238>.

⁶ According to World Bank Doing Business data, in 2019 importing a shipment of goods required border and documentary compliance equivalent to six hours and USD 315, and one hour and USD 27, respectively, same as in 2015. World Bank (2020), *Doing Business 2020: Comparing Business Regulation in 190 Economies – Economy Profile: Korea, Rep.* Viewed at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/k/korea/KOR.pdf>.

processing shipments, claiming that the average time for customs clearance for imports is less than 1.5 hours (less than two minutes for export clearance) (Section 3.2.1).⁷ During the review period, the KCS conducted time release studies with computerized systems in line with the WCO's guidelines. A cargo selectivity system automatically selects high-risk cargo for documentary and possibly physical inspection; in the period 2011-15, an annual average of 3% of customs clearance cases were subject to physical inspection. The KCS operates, on request, an "on-dock" immediate clearance system with clearance and inspection implemented on dock, if the total goods are shipped in one container with one owner of goods at the major ports of Busan, Incheon, Gwangyang, and Pyeongtaek.

3.9. Clearance continues to proceed 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) clearance (e.g. document audits and physical inspections).⁸ Since 2009, an Authorized Economic Operator (AEO) Programme has been in place for nine types of entities: exporters, importers, customs brokers, warehouse operators, bonded transporters, freight forwarders, sea carriers, air carriers, and ground handlers.⁹ As from October 2017, the electronic clearance examination has been operational for all goods imported by AEO companies.¹⁰ As of 2020, under the Enforcement Rule on the Authorization and Management of Authorized Economic Operators (AEO Enforcement Rule), 832 certified entities (815 in 2016), consisting of 143 importers, 275 exporters, 309 logistics, and 105 brokers, were qualified for special treatment in customs procedures, including fewer physical inspections, exemption from customs audit, and fewer administrative fines.¹¹ In 2020, 26% (same as in 2015) of imports entered under the AEO system. Korea continued to expand its AEO-related mutual recognition arrangements (MRAs); as at June 2021, 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); the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei) (22 December 2015); Thailand (27 December 2016); Australia (6 July 2017); United Arab Emirates (6 July 2017); Malaysia (16 October 2017); Peru (14 December 2017); Uruguay (15 December 2017); Kazakhstan (22 April 2019); Mongolia (30 September 2019); and Indonesia (6 February 2020). According to the KCS, MRA benefits for 286 (300 in 2018) importers and exporters in 2019 amounted to USD 385.8 million (USD 357.7 million in 2018) and, *inter alia*, related to faster clearance and duty payment for the former and lower inspection fee in overseas customs territory for the latter.

3.10. Since July 2014, a *de minimis* clearance requirement for consumption goods purchased online and priced at USD 150 (as from December 2015) or lower has been in place and the goods have been exempt from documentation and taxation requirements; for goods bought from United States websites, the cap is raised to USD 200 under the KORUS FTA. To ensure consumer safety, foodstuff subject to inspection quarantine requirements and certain medication are not eligible for the simplified process; they involve goods deemed inappropriate by the head of a customs office. Procedures for customs clearance of e-commerce merchandise depends on the transportation means.¹² If an express cargo company transports and takes in the goods, the customs clearance procedure for express cargo is applied. If the goods are taken in through the post office, the customs clearance procedure for postal items is applied. If a general transportation company transports and takes in the goods, the general import clearance procedures apply. Of the 4.07 million e-transactions

⁷ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

⁸ High-risk cargo remains 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.

⁹ 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.

¹⁰ WTO document WT/TPR/OV/21, 27 November 2018.

¹¹ WTO Trade Facilitation Agreement database. Viewed at: <https://tfadatabase.org/members/korea-republic-of/experience-sharing>.

¹² KCS, *Customs Clearance Procedures for Overseas Purchases*. Viewed at: <https://www.customs.go.kr/english/cm/cntnts/cntntsView.do?mi=8067&cntntsId=2741>.

in 2020 (11.2 million in 2013), 64% (34% in 2013) benefited from the simplified clearance procedure.

3.11. Under the KCS's 2020 Future Customs Administration Strategy, action is envisaged in areas including the innovation of customs administration, the reinforcement of cooperation among customs border agencies, the prevention of tax avoidance-related fraudulent practices and goods prohibited, the nurture of customs experts, and the preparation for the unification era. Under the KCS's 2015 Future Customs Administration Strategy for the medium and long-term, action was envisaged in 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.¹³

3.12. Korea ratified the WTO Trade Facilitation Agreement (TFA) on 30 July 2015 and had it fully implemented by 22 February 2017.¹⁴ As at January 2021, Korea submitted its implementation-related (ABC) notification – designating all provisions contained in Articles 1-12 of the TFA under Category A – and its transparency notification under Articles 1.4, 10.4.3, 10.6.2, and 12.2.2.¹⁵ Korea acceded to the revised Kyoto Convention (International Convention on the Simplification and Harmonization of Customs Procedures) in February 2003, subject to certain reservations at the time of the previous Review; the Convention took effect in February 2006.¹⁶ No information on whether these reservations were lifted or whether any new international arrangements have been signed since 2016 was available from the authorities.

3.13. To further facilitate trade, since August 2018 the KCS has implemented a number of pilot projects using blockchain technology (e.g. certificate of origin and e-commerce).¹⁷ In addition, as at May 2021 the establishment of a new UNI-PASS platform based on blockchain technology to strengthen data accuracy, process reliability, promptness, and efficiency was under consideration.

3.14. Trade-facilitating efforts to stop the spread of COVID-19 and mitigate the damage caused by the pandemic have been undertaken by the KCS through actions to speed up customs clearance and address clearance difficulties, tax benefits for exporters and importers, collaboration with other agencies to speed clearance of protective face masks, implementation of special clearance procedures on personal effects, and the preparation of a UNI-PASS Emergency/Crisis Response Manual.¹⁸ The KCS established and operated Customs Clearance Support Centers for COVID-19 at major Customs offices across the country, focused on safeguarding the global supply chain by facilitating the movement of inbound and outbound raw materials for importers and exporters. A

¹³ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

¹⁴ WTO Trade Facilitation Agreement database. Viewed at: <https://tfadatabase.org/members/korea-republic-of>.

¹⁵ Category A: provisions that the Member will implement by the time the Agreement enters into force. WTO documents WT/PCTF/N/KOR/1, 4 June 2014; G/TFA/N/KOR/1, 24 July 2017; and G/TFA/N/KOR/1/Rev.1, 10 July 2020.

¹⁶ 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.

¹⁷ Blockchain technology may prevent forgery and falsification of documents and simplify the issuance procedures. These projects include: (i) public-private maritime export logistics consortium led by SAMSUNG SDC Co. and the KCS exploring the use of blockchain technology-based platform to share logistics documents among various actors; (ii) export/import clearance project (led by SAMSUNG SDS Co. and KNET Co. consortium) allowing participants to share export/import documents in real time and add them on the ledger; (iii) development of a platform for e-commerce transactions to enable real-time information sharing between e-commerce, transport companies, and the KCS; and (iv) establishing automatic cross-border data exchange – e.g. certificates of origin – between Customs administrations. WCO, "Korea Pilots Blockchain Technology as It Prepares for the Future", *WCO News*, No. 88, February 2019, pp. 32-35. Viewed at: https://maq.wcoomd.org/uploads/2019/02/WCONews88_UK.pdf.

¹⁸ Specific trade-facilitating measures included: (i) acceptance of a copy instead of the original document of the certificate of origin to impose preferential tariffs; (ii) omission of document screening and visit inspection in the process of issuing certificates of origin; (iii) inclusion of surgical and protective masks, hand sanitizers, and thermometers in the list of tariff exemptions for self-use of small quantities of goods; and (iv) minimization of customs clearance procedures for protective masks imported for the purposes of relief, donation, and free distribution to employees by companies. WTO documents G/TFA/W/24, 29 September 2020 and WT/TPR/OV/23, 30 November 2020; and KCS, *Measures Taken by KCS to Minimize the Impact of the COVID-19*, 21 April 2020. Viewed at: <https://www.customs.go.kr/english/na/ntt/selectNttInfo.do?mi=8016&bbsId=1744&nttSn=10052422>.

24/7 customs clearance system has provided speedy clearance for sanitary products, medical devices/equipment, and raw materials imports for the sound operation of domestic manufacturers. To address delays at airports and seaports, cargo was allowed to be transported directly to manufacturing plants without entry into the terminal upon arrival so as to cope with delayed unloading and shortage of storage space at airports and seaports due to concentration of imports. The KCS adopted a series of tax relief measures for companies importing raw materials for domestic production that include extension of payment of duties, instalment payment of duties, and duty drawback on the same day of application (Section 3.2.4.2). Meanwhile, the KCS took steps to mitigate customs investigations, foreign exchange inspections, and origin verification of the companies above to the extent possible.

3.15. Korea's trade facilitation efforts remain appreciated at the international level, and the KCS is considered to be at the cutting edge of international best practice.¹⁹ According to World Bank Doing Business data, in 2020 Korea ranked 36th among 190 economies (31st of 189 economies in 2016) in ease of trading across borders, while gains from its trade facilitation by 2020 were estimated at 2.18% of GDP (USD 29 billion) and 8.18% of exports (USD 52 billion).²⁰ According to the OECD trade facilitation indicators, as of 2019, Korea matched or exceeded best performance across the more than 160 participating countries in the areas of information availability, involvement of trade community, advance rulings, fees and charges, simplification and harmonization of documents, automation of border processes, streamlining of procedures, internal border agency cooperation, cross-border agency cooperation, governance, and impartiality. Between 2017 and 2019, performance improved in the areas of involvement of the trade community and advance rulings.²¹ The 2019 OECD appraisal indicated that possible improvements could involve the availability of comprehensive information about applicable fees and charges, the percentage of procedures expedited electronically, the expansion of the use of pre-arrival processing of goods and of post-clearance audits, and the expansion of the use of AEO programmes.

3.16. 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.²² When a dispute occurs, the KCS Tariff Classification Committee, consisting of experts from the public and private sectors, makes the final decision. Whenever necessary, the Committee requests an opinion from the WCO Secretariat or its Harmonized System Committee through the Ministry of Economy and Finance (MOEF); since 2017 the number of advance rulings in this area increased rapidly, with over 29,425 advance rulings issued in total, compared to over 28,178 in the entire period between 2012 and 2016.

3.17. The KCS continues to provide prompt responses to enquiries made online and maintain a Roadmap for Integrity. A Customs Irregularities Reporting Centre is in place, and the Cyber Center for Reporting Corruption advises customs staff and other stakeholders to report customs irregularities to the KCS website. Reporting of corruption is received at the Cyber Center for Reporting Corruption via websites, etc., and the received reports are swiftly processed and handled. To eradicate acts of corruption, various policies are implemented, including dissemination of corruption cases and training.

3.18. Seized items at customs offices continue to be liquidated through electronic bids (i.e. general competitive bidding, designated competitive bidding), negotiated contract, auction, or outsourcing. Seized items still include gold, jewellery, cosmetics, clothes, liquors, and watches.

3.1.1.2 Customs valuation

3.19. According to the authorities, Korea's customs valuation legislation (subsection 2 of the Customs Act 1949) is in line with the WTO Customs Valuation Agreement. Imports are valued at

¹⁹ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

²⁰ World Bank (2020), *Doing Business 2020: Comparing Business Regulation in 190 Economies – Economy Profile: Korea, Rep.* Viewed at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/k/korea/KOR.pdf>; World Economic Forum (2014), *The Global Enabling Trade Report 2014 – Insight Report*. Viewed at: http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2014.pdf; and WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

²¹ OECD trade facilitation indicators identify areas for action and enable the potential impact of reforms to be assessed. OECD, *Trade Facilitation*. Viewed at: <https://www.oecd.org/trade/topics/trade-facilitation/>.

²² WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

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 has been effective since 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 in 2020 (same as in 2016) 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.²³

3.20. 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 the valuation of second-hand imports 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). 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.

3.21. During the review period, the Customs Act was last revised on 22 December 2020 and came into effect on 1 January 2021. In 2020, the MOEF prepared a plan to rewrite the existing regulations of the Customs Act. The plan would focus on simplifying existing terms, particularly those related to customs clearance and trade; incorporating the matters on the rights and duties of taxpayers and people into the Customs Act; and rewriting existing customs rules and regulations for clarity and better understanding in light of the increased use of the small and individual customs clearances using digital technologies.²⁴

3.22. Between 2016 and 2020, KRW 172.2 billion was collected on undervalued imports, compared to KRW 99.4 billion in the period 2012-15. The 2007 SIREN, a KCS early warning system to block undervalued imports of agricultural goods, plants, and fishery products, remains in place. Based on the result, undervalued products go through audit, while normal products are cleared promptly. SIREN seems to have increased tax revenue and prevented undervalued products.

3.23. 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 .0025% for each day 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. Penalties 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.

3.24. Administrative adjudication may be appealed to the KCS, the National Tax Tribunal, or the Board of Audit and Investigation. In this case, the Customs Appeal Committee, comprising five KCS internal staff members and six external experts, decides after an in-depth examination. A lawsuit may be filed against its decisions. In 2020, with the aim to protect taxpayers' rights and help taxpayers with problems that have not been resolved through tax appeals, the KCS introduced a taxpayer's advocate service, including a taxpayer's advocate officer and a taxpayer's advocate commission, effective from 1 July 2020.²⁵

²³ 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.

²⁴ Pricewaterhouse Coopers, *Samil Commentary: Korean Tax Update*, 15 June 2020. Viewed at: https://www.pwc.com/kr/ko/publications/samil-commentary/samilcommentary_jun2020_en.pdf.

²⁵ The taxpayer's advocate commission is an independent body within the KCS and comprises a taxpayer's advocate officer and private sector's representatives with tax expertise. The advocate service allows taxpayers to request the advocate's assistance in claiming remedies for infringed taxpayer's rights when the

3.25. To narrow the gap between transfer pricing and customs valuation, Korea maintains some cooperative schemes whereby it carries out stringent enforcement action against tax evasion of any form, while encouraging enterprises to be voluntarily tax compliant. These schemes include: (i) Advance Customs Valuation Arrangement (ACVA); (ii) Advance Tax-Duty Harmonization Scheme; (iii) Post Tax-Duty Harmonization Scheme; and (iv) provisional value declaration for a compensating adjustment (launched in 2017).²⁶

3.1.2 Rules of origin

3.26. Preferential rules of origin apply to imports under preferential trading arrangements and RTAs/FTAs, and such application increases the complexity of implementing preferential tariffs.²⁷ Korea considers that rules should be transparent and promote trade and investment. 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).²⁸ Vessels catching fish must be registered in the exporting country and have at least 60% domestic equity. Under the Asia-Pacific Trade Agreement (APTA), eligible imports are subject to APTA preferential rules of origin.

3.27. All of Korea's RTAs/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 RTAs/FTAs allow exporters to use a "build-up" or a "build-down" method on a selective basis; for example, the Korea-Peru, Korea-Colombia (in force as of 15 July 2016), and Korea-Central America (in force as of 1 November 2019) FTAs provide 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.²⁹ A number of clothing items are subject to specific-process rules. In addition to the "build-up" and "build-down" methods, based on the value of non-originating materials, the Korea-United States FTA also provides 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.³⁰ 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.³¹ Under the Korea-United Kingdom FTA – based on the European Union-Korea Agreement – some product-specific rules of origin require, *inter alia*, a change in tariff classification or a change in tariff

infringement is caused by unfair treatment and conduct of customs administration during the course of customs clearance, customs duty assessment and collection, customs audits, etc. Viewed at: https://www.pwc.com/kr/ko/publications/samil-commentary/samilcommentary_jul2020_en.pdf.

²⁶ WCO (2018). *Guide to Customs Valuation and Transfer Price*. Viewed at: <http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/key-issues/revenue-package/wco-guide-to-customs-valuation-and-transfer-pricing.pdf?la=en>.

²⁷ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

²⁸ A list of products considered as wholly produced or obtained is available under Article 5 of Presidential Degree No. 27759. Viewed at: <https://www.law.go.kr/LSW/eng/engLsSc.do?menuId=2#liBgcolor0>.

²⁹ Build-down method is based on: (i) RVC = (Adjusted Value - Value of Non-Originating Materials)/Adjusted Value X 100; or (ii) 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. Korea-Peru FTA. Viewed at: http://www.sice.oas.org/TPD/PER_KOR/PER_KOR_Texts_e/03A_KPFTA_Rules_of_Origin_Annex_3A_Part_II.pdf; Korea-Colombia FTA. Viewed at: http://www.customs.go.kr/download/ftaportalkor/_down/trty/03%20Rules%20of%20Origin_PSR%20and%20Gaesong_Final_Kor.pdf; and Korea-Central America FTA. Viewed at: http://www.customs.go.kr/download/ftaportalkor/_down/trty/han_ma_10_eng.pdf.

³⁰ 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-United States RTA/FTA on HS 2002 was changed to HS 2012 as of 1 January 2014. WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

³¹ Korea-Canada FTA, Chapter 3. Viewed at: <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/korea-coree/fta-ale/03.aspx?lang=eng>.

classification complemented by a value-added rule setting a maximum ex-works value that non-originating materials should not exceed.³²

3.28. The KCS continues 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, the KCS operates a system – launched in 2010 – whereby an exporter with the capability to prove the country of origin of its products is designated as an approved exporter.³³ Korea operates FTA-PASS (launched on 7 September 2010) for origin determination and management purposes; it also made the FTA-PASS connectable to UNI-PASS (Section 3.1.1.1) 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, a self-origin management solution programme, which determines the origin status of goods has been distributed online, free of charge, since September 2010. Since October 2010, it has operated a website (<https://www.origin.or.kr>) that provides access to information and data about all RTAs/FTAs concluded so far. Efforts to raise public awareness are made through seminars, workshops, contests, and RTA/FTA-related courses.³⁴

3.29. 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 origin for certain live animals is the territory where they were bred for over six (bovine) or two (swine) months.³⁵

3.1.3 Tariffs

3.30. Since January 2017, Korea has used the 2017 version of the Harmonized System of Tariff Classification (HS), at present consisting of 12,242 10-digit lines (1 line fewer than in 2016). 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 3.1.3.3) under procedures involving the relevant ministries and interested parties, including the MOEF, the Customs and Tariff Deliberation Committee, the State Council, and the National Assembly. Its basic/general structure has remained unchanged since 2016.

3.31. 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 APTA (Bangkok Agreement), RTA/FTAs, and least developed countries (Sections 2.5.2 and 3.1.3.7). The WTO bound rates are also contained in the tariff.

3.1.3.1 Applied MFN rate

3.32. The tariff structure has changed little since the last Review. The 2021 simple average (unweighted) MFN decreased slightly to 13.9% (14.1% in 2016) (Table 3.1 and Chart 3.1), mainly as a result of the implementation of commitments relating to the expansion of the Information Technology Agreement.³⁶ Tariff protection varies substantially across and within sectors, averaging 60.4% for agricultural products (60.0% in 2016) and 6.3% for industrial goods (6.6% in 2016) in

³² Korea-United Kingdom FTA. Viewed at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/830523/UK_Korea_Free_Trade_Agreement_v2.pt3.pdf; and WTO document WT/REG296/1/Rev.1, 31 August 2012.

³³ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

³⁴ 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/346/Rev.1, 6 January 2017.

³⁶ 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 Korea's alternate tariffs, in cases where the "whichever is the greater" rate applies, will slightly understate tariff protection when the alternate specific rate is operative. Higher adjustment tariffs are also excluded.

2021 (WTO definitions).³⁷ Average tariffs are higher for vegetable products (HS Section 2), at 107.9% (Chart 3.1). Manufacturing tariffs are higher for footwear and headgear (HS Section 12) at 10.1%, and for textiles and articles (HS Section 11) at 9.7%. 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. According to the authorities, agricultural tariffs, including out-of-quota duties, are maintained in line with corresponding international and domestic laws, taking market conditions into account.

Table 3.1 Tariff structure, 2016 and 2021

(%, unless otherwise indicated)

	MFN applied		Final bound ^a
	2016	2021	
Bound tariff lines (% of all tariff lines)	90.1	90.7	90.7
Simple average rate	14.1	13.9	18.1
HS Chapters 01-24	51.3	50.7	66.9
HS Chapters 25-97	6.4	6.0	9.2
WTO agricultural products	60.0	60.4	69.0
WTO non-agricultural products	6.6	6.3	8.8
Duty-free tariff lines (% of all tariff lines)	15.9	19.6	17.4
Simple average of dutiable lines only	16.8	17.3	22.4
Tariff quotas (% of all tariff lines)	1.9	1.9	1.9
Non- <i>ad valorem</i> tariffs (% of all tariff lines)	0.8	0.7	0.9
Domestic tariff "peaks" (% of all tariff lines) ^b	2.7	2.8	2.0
International tariff "peaks" (% of all tariff lines) ^c	10.7	11.0	18.5
Coefficient of variation	4.1	4.2	3.2
Nuisance applied rates (% of all tariff lines) ^d	1.9	2.0	1.9
Total number of tariff lines	12,243	12,242	12,242
Duty-free rates	1,952	2,403	2,132
<i>Ad valorem</i> rates (>0%)	10,197	9,751	8,856
Alternate rates	93	88	116
Specific rates	1	0	0
Unbound	n.a.	n.a.	1,138

n.a. Not applicable.

a Bound rates are based on the 2021 tariff schedule. Calculations are based on 11,104 bound tariff lines, including partially bound tariff lines.

b Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate.

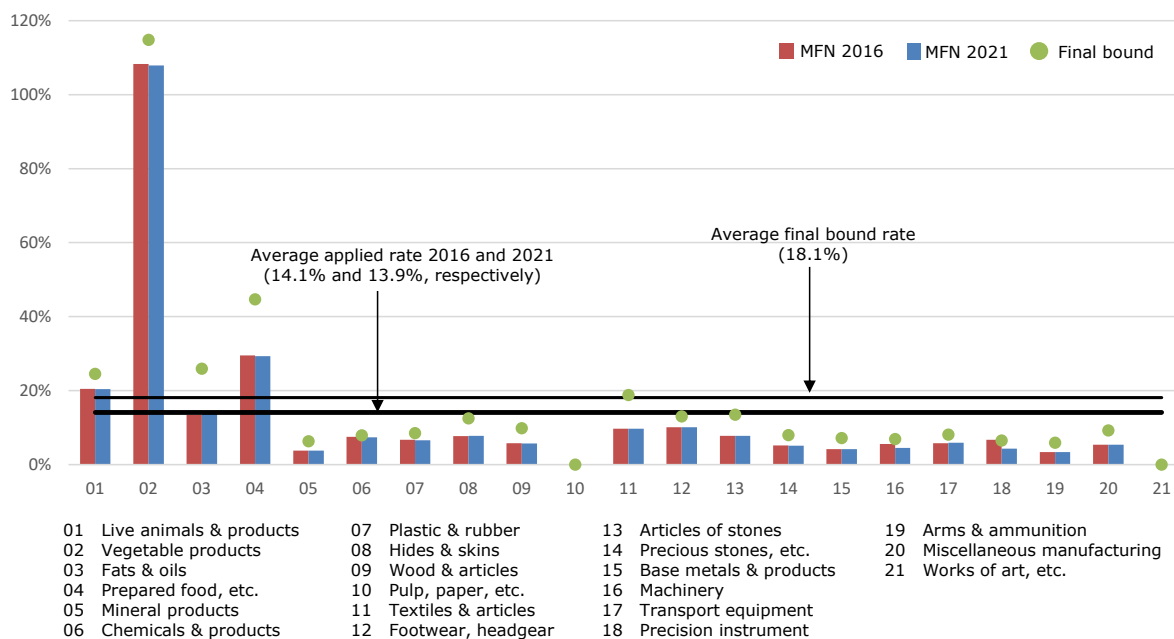
c International tariff peaks are defined as those exceeding 15%.

d Nuisance rates are those greater than zero, but less than or equal to 2%.

Note: The 2016 and 2021 tariffs are based on the HS12 and HS17 nomenclature, respectively. Calculations are based on national tariff line level (10-digit), excluding in-quota rates and including *ad valorem* equivalents (AVEs) for non-*ad valorem* rates provided by the authorities. In 2016, of 94 non-*ad valorem* rates, 64 AVEs are provided based on 2014 import data. In 2021, of 88 non-*ad valorem* rates, 62 AVEs are provided based on 2019 import data. 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.

³⁷ 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).

Chart 3.1 Average applied MFN and bound tariff rates, by HS section, 2016 and 2021

Note: Calculations for averages exclude in-quota tariff rates and include AVEs, as available. In case of unavailability of AVEs, the *ad valorem* part of alternate rates is included. Only HS Sections 03, 12, 14, 19, and 21 are fully bound. Final bound rates are based on the 2021 tariff schedule.

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

3.33. Over 99% of tariffs are levied at *ad valorem* duties, and therefore transparent. There are some 129 (130 in 2016) different rates (88 *ad valorem* duties and 41 alternate duties) of which about 39 *ad valorem* tariffs (i.e. excluding the *ad valorem* part of alternate rates) involve decimal rates³⁸; alternate duties apply to 0.7% of total tariff lines (88). Tariff rates continue to range from zero to 887.4% (Table A3.1). Almost 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 different rates and removing decimal rates.

3.34. 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; the specific duty on recorded video tapes in place in 2016 was replaced by a zero rate (Table A3.2). They apply either the greater (agricultural products) or the lower (other items) 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.³⁹ According to calculations by the authorities, in 2021 the *ad valorem* equivalents (AVEs) of the specific part of alternate duties could range from zero (e.g. cinematographic film, sweet peppers, garlic, chestnuts shelled, jujubes, ginger, pine nuts in shell, soybeans, and raw silk) to 374% (ginger), and most of them were lower than the *ad valorem* component of the alternate duty (Table A3.2). These alternate duties form part of Korea's WTO tariff binding commitments.⁴⁰ Alternate duties also apply to 43 agricultural tariff lines as out-of-quota

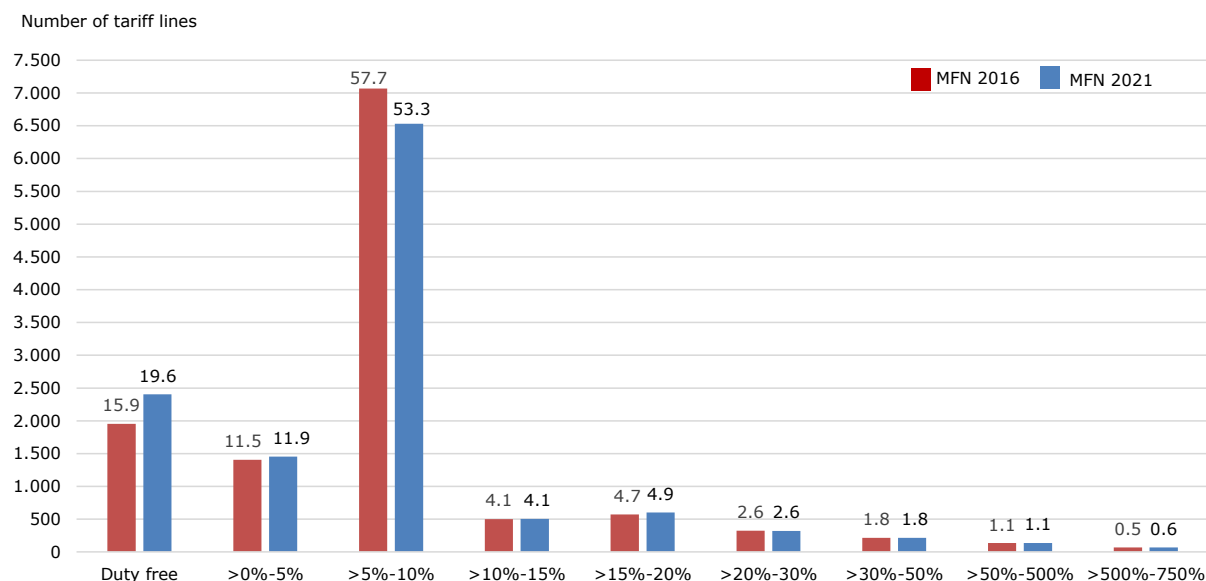
³⁸ Excluding tariff quotas and alternate tariffs, Korea's tariff rates still range from zero to 72%, and have around 42 rates, often with very small rate differences and decimal rates. For example, there are 20 *ad valorem* rates of 10% or below, and around 34% and 11% of tariff lines have a rate of 8% and 6.5%, respectively.

³⁹ The authorities indicate that they continue without specific regulations on the application of the higher or the lower component of alternate duties for manufacturing items; therefore, taxpayers may freely choose the component to apply.

⁴⁰ AVEs were calculated on the specific duty components of 62 of 88 10-digit tariff lines subject to alternate duties. In 5 cases (involving carrots, oak (two tariff lines) and ling chiu mushrooms, and 1 tariff line under cinematographic film (HS Code 3706105020)), the AVE of the specific duty component was higher than the *ad valorem* part of the alternate rate, whereas 53 AVEs were lower and 4 were equal to it (Table A3.2). These calculations are based on the 2019 import value and volume supplied by the authorities.

duties; they involve very high minimum *ad valorem* rate components peaking at levels such as 566.8% on pine nuts, 611.5% on jujubes, and 630% on sesame seeds (Section 3.1.3.8.1).

Chart 3.2 Distribution of MFN tariff rates, 2016 and 2021



Note: Figures above the bars refer to the percentage of total lines. Calculations exclude in-quota rates and include AVEs, as available. In case of unavailability of AVEs, the *ad valorem* part of alternate rates is included.

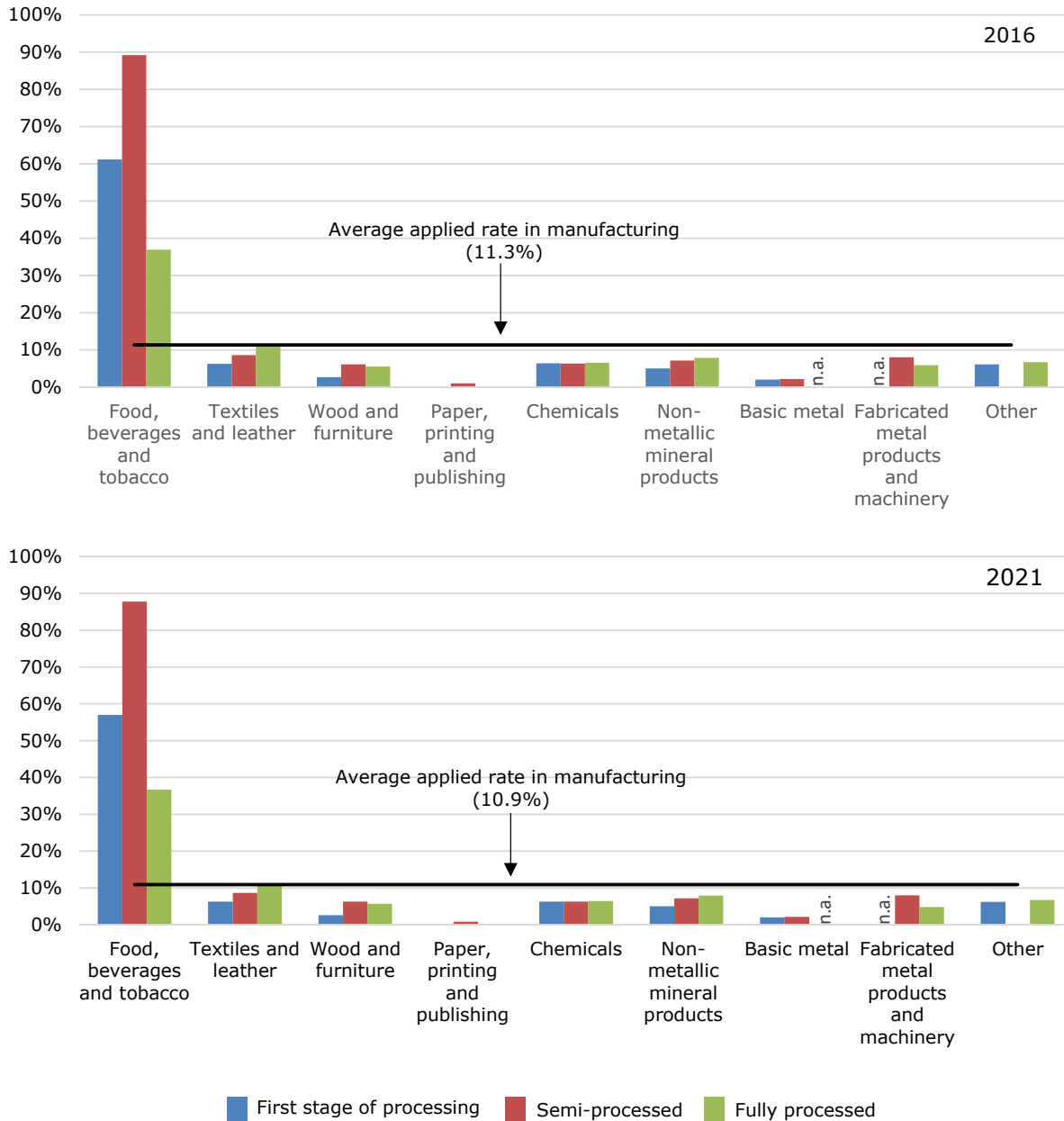
Source: WTO Secretariat calculations, based on data provided by the authorities.

3.35. In the Doha Development Agenda (DDA) negotiations, Korea supported the elimination of non-*ad valorem* duties to some extent.⁴¹

3.1.3.2 MFN tariff dispersion and escalation

3.36. As at the previous Review, indicators of tariff dispersion and escalation showed little change during the review period (Table 3.1 and Chart 3.3).

⁴¹ At the time of the 2008-12 review period, the authorities indicated that non-*ad valorem* duties would be removed to a large extent from Korea's tariff schedule if agreed at the DDA negotiation.

Chart 3.3 Tariff escalation by 2-digit ISIC industry, 2016 and 2021

n.a. Not applicable.

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

3.1.3.3 "Flexible" tariffs

3.37. Korea continues to apply temporary MFN duties (termed "flexible" tariffs).⁴² The flexible tariffs mechanism includes not just the adjustment and seasonal duties (see below), but also autonomous tariff quotas and "usage" tariffs, as well as safeguard and special safeguard duties (Sections 3.1.3.8.2 and 3.1.6.2).⁴³ The system allows the increase or decrease of certain tariffs at the authorities' discretion, providing considerable scope to encourage or discourage imports of

⁴² Pursuant to Articles 51 through 75 (except for Article 73) of the Customs Act (on anti-dumping duties, countervailing duties, seasonal duties, adjustment duties, etc.). KCS, *Guide to Customs Declarations* (2015). Viewed at: http://customs.go.kr/download/report_guidance_booklet_eng.pdf.

⁴³ Autonomous tariff quotas are also referred to as flexible tariffs and are discussed in Section 3.2.4.2. WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

particular items to stabilize prices, protect local producers, ensure a steady supply, and implement other industrial policy. 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 vulnerable domestic industries; the situation remains unchanged. Furthermore, at the time of the previous Review, to help offset a rise in costs for farmers, the Government offered lower import duties on animal feed.

3.38. The number of items covered by flexible tariffs increased from 145 (HS six-digit level) in 2016 to 184 in 2021. According to the authorities at the time of the previous Review, the leading principle of flexible tariffs was to maintain their application to a minimum as prescribed by the law. The Government intended to reduce or gradually remove these tariffs in line with the reduction of tariff rates resulting from DDA and RTA negotiations.

Adjustment duties

3.39. 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 MOEF in accordance with the request from the relevant government authorities.

3.40. In 2021, adjustment duties applied to 19 six-digit tariff items (or 14 different types of product), covering mainly certain fish and seafood, rice preparations, sauces, plywood, and naphtha, compared to 18 six-digit tariff items (or 13 different types of product) in 2016 (Table A3.3).⁴⁴ *Ad valorem* adjustment duties now range from 0.5% on naphtha to 50% on steamed or boiled rice, compared to general rates ranging from 8% (e.g. rice, plywood, and 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 four six-digit tariff lines in 2021. Several products subject to adjustment duties, such as certain fish and plywood items, remain unbound; adjustment duty rates for the four bound items are below their binding level. In 2017, the adjustment tariff for frozen saury was lowered from 28% to 26% in consideration of increased demand for fish bait.⁴⁵ In 2021, this tariff was adjusted to 24%, considering the outbreak of COVID-19 and domestic and international market situations.

Seasonal duties

3.41. As at the previous TPR, the authorities indicate that no seasonal duties were applied on an MFN basis during the review period. Preferential tariff treatment of certain agricultural items under the RTAs/FTAs with Chile, the European Union, 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–European Union 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–United States FTA, in addition to oranges and grapes, seasonal preferential duties have applied to potatoes for chipping 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, oranges, mandarins, grapes, and kiwis from Australia since 2014 under the Korea–Australia FTA. Furthermore, the seasonal duties have been levied on grapes under the Korea–Colombia FTA since it entered into force in 2016. Most recently, under the Korea–United Kingdom FTA, seasonal duties have been applied to grapes and oranges since 1 January 2021.

3.1.3.4 Bound tariff

3.42. Korea bound rates at 90.7% (2021 tariff schedule) of all tariff lines in the Uruguay Round, covering 99.7% of agricultural tariff lines (excluding seaweeds and bait for fishing) and 89.2% of

⁴⁴ Naphtha/natural gas liquid was added to the list, while croakers, limited to *sciaenidae* and excluding yellow corvina and yellow croaker, were removed.

⁴⁵ USDA Foreign Agricultural Service (2018), *2018 Korea's Adjustment and Quota Tariffs Schedule*, GAIN Report Number KS1805, 30 January. Viewed at: https://kr.usembassy.gov/wp-content/uploads/sites/75/KS-1805-2018-Koreas-Adjustment-and-Quota-Tariffs-Schedule_1-30-2018.pdf.

industrial tariff lines (WTO definitions). On a tariff classification basis, 79.9% of agricultural tariff lines (HS Chapters 01-24) and 93% of industrial lines (HS Chapters 25-97) are bound.

3.43. The simple average bound tariff rate rose slightly during the review period due to nomenclature change (Table 3.1); as of 2009, all Uruguay Round commitments were fully implemented and those related to the Declaration on the Expansion of Trade in Information Technology Products as of 1 July 2021.⁴⁶ Following the past "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 69.0% and 8.8%, respectively (in 2021). The overall gap between the simple average MFN applied and bound rates stands at 4.2 percentage points (4.4 in 2016). The gap is 8.6 percentage points for rates affecting agricultural items (WTO definition). Korea uses this scope mainly to raise MFN tariffs annually by applying higher adjustment duties (Section 3.1.3.3) on a number of products to temporarily protect domestic producers.

3.44. 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 2012 and HS 2017 nomenclatures in its Schedule of Tariff Concessions.⁴⁷ Since 1 January 2012, Korea has benefited from collective waivers for the introduction of HS 2012 changes in its Schedule of Tariff Concessions.⁴⁸ Since 1 January 2017, Korea has benefited from the collective waivers for the introduction of HS 2017.⁴⁹

3.1.3.5 Duty concessions/exemptions

3.45. The application of import duty relief through duty concessions and exemptions granted by the MOEF for various purposes, such as industrial development (Articles 88-109 of the Customs Act), has not changed since the previous Review. The Customs Act also allows duty-free imports of aircraft parts and semiconductor manufacturing equipment not produced domestically. The revenue forgone from import duty relief was USD 1 billion (equivalent to 12% of total tariff revenue) in 2015; no recent data were available from the authorities (with resulting revenue forgone amounting to KRW 117 billion in 2018, up from KRW 70.8 billion in 2014).⁵⁰

COVID-19-related measures

3.46. In an effort to fight the shortage of personal protective equipment (PPE) supply caused by the COVID-19 pandemic, Korea temporarily eliminated import tariffs on surgical and sanitary masks and melt blown filters (HS 6307.90.90, 5603.12.10, 5603.12.90, and 5603.92.00).⁵¹ In addition, in April 2020, the Government deferred taxes on crude oil imports for three months to help refiners and other buyers weather a slump in fuel demand.⁵² Also, the KCS introduced the measure for the deferment of customs duty payment from 6 February 2020 to support businesses that suffer liquidity shortages amid the COVID-19 economic crisis. The deferment measure allows companies to delay the payment of customs duties by suspending the customs authorities' collection or enforcement procedures, such as demands for duty payment or seizure in relation to overdue customs duties.

⁴⁶ WTO document G/MA/TAR/RS/433, 27 May 2016.

⁴⁷ Modifications and rectifications to Schedule LX resulting from the HS 2002 and HS 2007 changes became effective as of 1 July 2011 and 5 November 2015 (pursuant to the Committee on Market Access approval on 7 July 2015), respectively. WTO documents WT/L/808, 16 December 2010; WT/Let/804, 25 July 2011; and WLI/100, 23 November 2015.

⁴⁸ WTO documents WT/L/998, 12 December 2016; WT/L/1028, 1 December 2017; WT/L/1050, 13 December 2018; WT/L/1084, 12 December 2019; and WT/L/1106, 21 December 2020.

⁴⁹ WT documents WT/L/999, 12 December 2016; WT/L/1029, 1 December 2017; WT/L/1051, 13 December 2018; WT/L/1085, 12 December 2019; and WT/L/1107, 21 December 2020.

⁵⁰ WTO documents G/SCM/N/343/KOR, 22 July 2019 and G/SCM/N/284/KOR, 6 July 2015.

⁵¹ WTO document G/MA/W/147, 14 April 2020.

⁵² Import taxes for April, May, and June 2020 would be postponed, giving crude processors financial relief amid the current collapse in demand. The tax is KRW 16/litre (USD 2.09/barrel), a potentially significant savings for an industry that is facing negative profit margins on refined fuels. MOTIE expected the tax deferral to save Korea's oil importers about KRW 900 billion over the three months. Companies that buy oil from suppliers outside the Middle East already receive rebates as high as KRW 16/litre on their import taxes, as part of government efforts to diversify supplies. Argus, "South Korea Defers Crude Import Taxes to Aid Refiners", 8 April 2020. Viewed at: <https://www.argusmedia.com/en/news/2094571-south-korea-defers-crude-import-taxes-to-aid-refiners>.

The KCS extended the time limit for customs duties paid without security (up to a maximum of 12 months).

3.1.3.6 "Usage" tariff rates

3.47. Imported inputs for specified end-uses may be exempt from tariffs under the "usage" tariff rates scheme (Article 83 of the 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 3.1.3.5 and 3.3.1). 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.

3.1.3.7 Tariff preferences

3.48. 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 RTAs/FTAs (e.g. 2.5% for imports from the United States, 6.1% from Colombia, 2.9% from the European Union, 5.4% from ASEAN, and 5% from Viet Nam), the APTA (13.3%), and LDC trading partners (7.8%) remained considerably below the 13.9% 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 2.5.2 and Table 3.2). Since its last 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 2.5.3 and Table 3.2). The Minister of Economy 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 (<https://www.customs.go.kr/ftaportalkor/ad/ftaCnvn/txrtInfo.do?mi=3526>). RTAs signed with the European Union (in force since January 2011) and the United States (renegotiated agreement in force since January 2019) have led to a substantial elimination of tariffs; however, the Government continues to use "adjustment tariffs" according to a schedule published at the start of each year to manage imports of specific items, largely to prevent dumping and protect domestic producers.⁵³

Table 3.2 Summary analysis of the preferential tariff, 2021

	Total			WTO agriculture		WTO non-agriculture	
	Average (%)	Duty-free rates ^a (%)	Coverage ^b (%)	Average (%)	Duty-free rates ^a (%)	Average (%)	Duty-free rates ^a (%)
MFN	13.9	19.6		60.4	5.4	6.3	22.0
Regional Agreements							
APTA ^c	13.3	19.6	21.1	59.9	5.4	5.7	22.0
APTA for Bangladesh	12.7	26.8	26.5	59.5	7.6	5.0	30.0
APTA for Lao PDR	12.7	26.8	26.5	59.3	7.8	5.0	29.9
ASEAN	5.4	91.1	78.2	35.8	68.4	0.4	94.8
Bilateral Agreements							
Australia FTA	5.9	89.9	78.5	40.9	45.9	0.1	97.0
Canada FTA	5.0	91.2	78.3	35.0	54.5	0.1	97.3
Central America FTA							
Costa Rica	8.3	80.8	75.9	54.4	19.3	0.8	90.9
El Salvador	8.8	79.5	75.8	56.4	17.0	0.9	89.8
Honduras	8.4	80.5	75.4	55.1	19.2	0.8	90.5
Nicaragua	8.4	80.5	75.8	54.7	19.3	0.8	90.5
Panama	9.1	79.4	75.9	57.6	16.6	1.1	89.8
Chile FTA	7.0	95.8	76.2	49.3	70.6	0.0	100.0 ^d
China FTA	8.7	61.0	72.7	52.2	25.6	1.6	66.8
Colombia FTA	6.1	88.8	78.9	41.6	49.1	0.2	95.3
EFTA FTA							

⁵³ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

	Total			WTO agriculture		WTO non-agriculture	
	Average (%)	Duty-free rates ^a (%)	Coverage ^b (%)	Average (%)	Duty-free rates ^a (%)	Average (%)	Duty-free rates ^a (%)
Iceland	8.2	88.5	73.2	58.1	21.1	0.1	99.5
Norway	8.3	88.2	71.7	58.4	18.9	0.1	99.5
Switzerland	8.3	87.9	70.4	58.2	17.3	0.1	99.5
EU FTA ^e	2.9	97.8	79.8	20.5	84.9	0.0	99.9
India FTA	8.1	86.7	72.0	54.6	34.5	0.5	95.2
New Zealand FTA	6.5	89.9	78.2	45.5	44.7	0.1	97.3
Peru FTA	3.9	97.2	79.4	27.5	80.4	0.0	99.9
Singapore FTA	7.4	89.2	70.0	47.4	66.0	0.8	93.0
Turkey FTA	8.2	85.0	72.9	55.5	24.0	0.4	95.0
United Kingdom FTA ^e	2.9	97.8	79.8	20.5	84.9	0.0	99.9
United States FTA	2.5	97.8	80.0	17.8	85.5	0.0	99.9
Viet Nam FTA	5.0	94.7	78.9	34.2	73.4	0.2	98.2
TNDC	13.9	19.6	0.1	60.0	5.4	6.3	22.0
GSTP	13.9	19.6	0.1	60.0	5.4	6.3	22.0
LDC	7.8	89.9	70.3	51.4	59.3	0.7	94.9

a Duty-free lines as a percentage of total tariff lines.

b Per cent of total number of lines. Only rates that are lower than the corresponding MFN rate are taken into account.

c Preferential rates under the APTA are applicable to China, Sri Lanka, Bangladesh, India, and Lao People's Democratic Republic.

d Two tariff lines under fishery products have a duty rate >0%.

e As at 1 July.

Note: Calculations are based on national tariff line level (10-digit), excluding in-quota rates and 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.

3.1.3.8 Tariff quotas

3.1.3.8.1 Agricultural tariff quotas

3.49. Korea applied TRQs, under its multilateral agricultural market access commitments, on 229 10-digit tariff items (including rice as from 2015 (Sections 3.1.5.2 and 4.1.2.1.1)) in 2021 (Table A3.4), the same number as in 2015 and 2016. 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, and 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 58% in 2020 (59.5% in 2015). Fill ratios were low for several product groupings (Table A3.5). As indicated by the authorities at the time of the previous Review, the consistently large unfilled share of TRQs 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, or sanitary measures related to the outbreak of diseases in exporting countries. They also indicated that the fill rate of TRQ products allocated through state trading or auctioning (see below) is much higher (88% in 2020, compared to 78% in 2015) than the level attained under the first-come, first-served allocation method (29% in 2020, compared 42% in 2015). Other reasons for low fill rates in 2020 are decreased domestic demand due to COVID-19 and substitution by FTA duty exemptions. Moreover, when certain TRQ volume is below domestic demand, the MAFRA increases TRQ import volume by expanding quotas; as of 2021, 15 products (17 in 2015) were imported at a much higher level than originally committed, and in volume terms, 2,639,727 tonnes (5,069,283 tonnes in 2015) of additional TRQ products entered the Korean market.

3.50. Tariff quotas continue to be administered or allocated by 24 different organizations as of 2021 (same as in 2016), including ministries, state trading entities (such as the Korea Agro-Fisheries and Food Trade Corporation (aT) commissioned by MAFRA), 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 producers' associations include members that process foodstuff imported under tariff quotas. Credible import administration would require that directly interested parties are not directly involved in controlling imports. As at the time of the previous TPR, 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.

3.51. Mechanisms used for quota allocation (depending on the product) include auctioning, allocation to designated agency, real demand allocation⁵⁴, and a combination thereof. State trading enterprises impose additional mark-ups on top of the in-quota tariff on various items (Section 3.3.5.1). 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 indicate that, as of 2021, as in 2016, 2 items (rice and sesame seeds) were state traded, 2 items (chestnuts and ginseng) were auctioned, 49 items (including maize, barley, and ginger) were allocated on a real demand basis, and 10 (11 in 2016) other items (including potatoes and onion) were allocated through state trading and other methods.

3.1.3.8.2 Autonomous tariff quotas

3.52. 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.⁵⁵ In 2020, these TRQs covered 134 six-digit tariff items (including 4 additional sub-items under the same tariff line) (116 in 2016), of which 114 items were quota-free; in 2021, they covered 150 six-digit tariff items, of which 124 items were quota-free.

3.53. To increase the competitiveness of the domestic agricultural and livestock industries, in 2018 Korea voluntarily announced duty-free MFN TRQs for the feed grain complex, made up of 19 commodities (as of June 2021) including corn, soymeal, barley, and oats.⁵⁶ In 2020, Korea proceeded with listing 17 import-depending feeding commodities (19 commodities in 2017), including maize (corn), soymeal, barley, and oats.⁵⁷ The tariff quotas were reduced for whey, manioc chips for spirits, barley, maize, soybeans, fodder roots, lactose, wheat, and soybean-oil cake, and they were increased for sugar, beet-pulp for mushroom farming, and other preparations.⁵⁸ 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.

⁵⁴ 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.

⁵⁵ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

⁵⁶ USTR (2020), *2020 National Trade Estimate Report on Foreign Trade Barriers*. Viewed at: https://ustr.gov/sites/default/files/2020_National_Trade_Estimate_Report.pdf.

⁵⁷ Cane molasses for food and oil cake of cotton seeds were removed from the list.

⁵⁸ Reduced for whey (from 25,000 MT to 22,000 MT), for manioc chips for spirits (from 135,300 MT to 118,000 MT), for barley (from 50,000 MT to 40,000 MT), for maize (from 10,000,000 MT to 9,200,000 MT), soybeans (from 1,500,000 MT to 1,200,000 MT), for fodder roots and other vegetables (from 1,217,000 MT to 600,000 MT), lactose and lactose syrup (from 8,700 MT to 6,500 MT), wheat (56,000 MT to 30,000 MT), soybean-oil cake (from 2,451,000 MT to 2,450,000 MT); increased for sugar (from 85,000 MT to 98,000 MT), beet-pulp for mushroom farming (from 20,000 MT to 25,000 MT), and other preparations for a kind used in animal feeding (from 6,000 MT to 9,000 MT). USDA Foreign Agricultural Service (2017), *2017 Korea's Adjustment and Quota Tariffs Schedule*, GAIN Report Number KS1704. Viewed at: https://kr.usembassy.gov/wp-content/uploads/sites/75/2017/02/KS-1704-2017-Koreas-Adjustment-and-Quota-Tariffs-Schedule_2-6-2017.pdf; and USDA Foreign Agricultural Service (2020), *2020 Korea's Adjustment and Quota Tariffs Schedule*, GAIN Report Number KS2020-0003. Viewed at: <https://www.fas.usda.gov/data/south-korea-2020-koreas-adjustment-and-quota-tariffs-schedule>.

3.1.4 Other charges affecting imports

3.54. A surcharge levied on petroleum imports (Petroleum Business and Alternative Fuel Business Act, 1977, last amended by Act No. 15179, 12 December 2017) continues to provide funds to ensure adequate supply and price stability.⁵⁹ The surcharge on crude oil remains at KRW 16 per litre, and Korea's refiners get a similar amount of rebate on oil product exports.

3.55. The Government continues to promote oil imports from the Americas, Africa, and Europe, including the Russian Federation (Section 4.3). In 2019, the Government extended freight incentives in the form of a rebate on surcharges on imported oils for refiners buying crude oil from regions other than the Middle East for three years until the end of 2021.⁶⁰ Surcharges on non-Middle East oil imports are lower to offset their higher transport costs. Korea continued efforts to reduce the country's reliance on Middle East crude imports by compensating refiners that import from farther away than the Middle East for a part of additional costs; budgetary outlays relating to these costs amounted to KRW 193 billion in 2020 (KRW 47 billion in 2015).⁶¹

3.1.5 Import prohibitions, restrictions, and licensing

3.1.5.1 Prohibitions

3.56. Korea prohibits certain imports (prohibition except under defined conditions), mainly to protect human, animal, and plant life and health; safeguard the environment; and comply with other international commitments. These product categories include: (i) narcotics, psychotropic drugs, cannabis, and precursors; (ii) defence materials; (iii) certain chemicals; and (iv) pollutants.⁶² Korea does not maintain any trade embargoes with other countries. Between 2017 and 2020, there was no trade with the Democratic People's Republic of Korea.⁶³

3.57. Korea has maintained certain import bans on the importation of food products from Japan since the 2011 Fukushima Daiichi Nuclear Power Plant accident (Section 3.3.3.2); WTO dispute settlement proceedings, initiated by Japan on 21 May 2015, were finalized in 2019.⁶⁴

3.1.5.2 Quotas

3.58. Following the January 2015 rice market liberalization through tariffication, during the review period the regime in place continued to operate through a tariff rate quota of 5% (408,700 tonnes per year) and a virtually prohibitive 513% out-of-quota duty (see below and Sections 3.1.3.8, 4.1.2.1.1, and 4.1.3.1).⁶⁵ After five years of bilateral negotiations, in January 2020, Korea concluded

⁵⁹ As one of the world's largest importers of oil and liquefied natural gas Korea is likely to remain vulnerable to unexpected shifts in global energy prices. EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf; Petroleum and alternative fuel business act (Article 18). Viewed at: https://elaw.klri.re.kr/eng_mobile/viewer.do?hseq=46333&type=part&key=31.

⁶⁰ Platts, "South Korea to grant freight incentives for non-Middle East crude purchases until 2021", 7 May 2019. Viewed at: <https://www.spglobal.com/platts/en/market-insights/latest-news/shipping/050719-south-korea-to-grant-freight-incentives-for-non-middle-east-crude-purchases-until-2021>.

⁶¹ According to the authorities, compensatory rebates are determined as the smallest of the two amounts, i.e. the World scale/Actual Freight difference and total rebates-including exports, etc.-should this be under KRW 16 per litre, which is surcharge levied on every crude oil imports. In 2017, producers across the Middle East supplied around 74% of crude oil flows to Korea, this share dropped to 68% in 2018 and to 64% in 2019. IHS Markit, *Crude Oil Trade: South Korea importing more U.S. barrels, mitigating potential disruption through the Strait of Hormuz*, 16 January 2020. Viewed at: <https://ihsmarkit.com/research-analysis/crude-oil-trade-south-korea-importing-more-us-barrels.html>, and WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

⁶² WTO documents G/MA/QR/N/KOR/2, 31 October 2019 and G/MA/QR/N/KOR/3, 13 October 2020.
⁶³ Trade with the Democratic People's Republic of Korea requires approval from the Ministry of Unification; bilateral trade was prohibited by the Republic of Korea as of 24 May 2010, except for goods manufactured in the Kaesong (Gaeseong) Industrial Complex (located in the Democratic People's Republic of Korea) until its closure on 10 February 2016. WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

⁶⁴ Detailed information on the dispute may be viewed at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds495_e.htm. Korean Broadcasting System. Viewed at: https://world.kbs.co.kr/service/news_view.htm?lang=e&Seq_Code=156172.

⁶⁵ As it was indicated at the time of the previous TPR by the authorities, this out-of-quota rate was calculated in conformity with the principles of the WTO Agreement on Agriculture. The authorities consider that this rate is not virtually prohibitive. WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

the process of modification and rectification of its Schedule of Concessions (Section 3.1.3.4), which now incorporates the TRQ on rice imports, and received consent from WTO Members.⁶⁶ MAFRA has been the only organization in charge of importing and managing minimum market access (MMA) commitments on rice since 1995 (Section 3.3.5.1); its agency, aT, is in charge of rice trading.⁶⁷ 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 by MAFRA.⁶⁸ Annual rice imports under the MMA commitments stood at 408,700 tonnes; actual imports rose from to 449,355 tonnes in 2018 to 449,666 in 2019.⁶⁹

3.59. According to data provided by the authorities, the cost of rice producers' protection in terms of consumer burden, i.e. the ratio of the domestic price compared to the international price, rose from 1.94 in 2015 to 2.52 in 2019. At the time of the previous TPR, 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; most of the imported rice is in-quota.⁷⁰

3.1.5.3 Licensing

3.60. During the review period, the legislative framework in this area was expanded and revised.⁷¹ Import approval or authorization continues to be governed by the Foreign Trade Act and 64 other laws (56 in 2016).⁷² The MOTIE regularly updates the Export-Import Notice that lists items under import restriction; as of April 2021, the only item on the list remained aircraft parts. MOTIE also updates the Consolidated Public Notice containing all export and import certification requirements. Import licensing procedures are maintained to: (i) protect public morals; (ii) protect human, animal, and plant life and health, hygiene, and sanitation; (iii) protect aquatic animal and aquatic plant health; (iv) safeguard the environment; (v) protect national security; and (vi) comply with international commitments.⁷³ In 2016, these requirements covered some 3,000 six-digit HS tariff items, including petroleum, liquefied petroleum gas (LPG), agricultural fertilizers, crop seeds, animals and animal products, nuclear materials, narcotics, foods and food additives, foreign publications, firearms, and explosives; no recent data were available from the authorities.

⁶⁶ WTO document WT/Let/1461, 24 January 2020.

⁶⁷ According to Korea's latest WTO notifications on state trading, domestic sales by MAFRA (i.e. imported rice) represented 0.69%, 1.20%, 1.39%, and 1.46% of national consumption in 2016, 2017, 2018, and 2019, respectively. A global tariff quota allocated on an MFN basis according to Korea's schedule (WTO document G/MA/TAR/RS/98, 6 January 2005) has been in place since 2015. WTO documents G/STR/N/16/KOR, 14 July 2016; G/STR/N/17/KOR, 9 July 2018; G/STR/N/18/KOR, 12 October 2020; and WT/TPR/S/346/Rev.1, 6 January 2017.

⁶⁸ Imported table rice reaches consumers through trade marketing routes, wholesalers, and dealers. In 2015, 592 companies participated 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.

⁶⁹ WTO documents WT/TPR/S/268/Rev.1, 8 November 2012; WT/TPR/S/346/Rev.1, 6 January 2017; G/STR/N/15/KOR, 17 October 2014; G/STR/N/16/KOR, 14 July 2016; G/STR/N/17/KOR, 9 July 2018; and G/STR/N/18/KOR, 12 October 2020.

⁷⁰ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

⁷¹ New regulations included Special Act on the Safety of Products for Children; Energy Use Rationalization Act; Special Act on Imported Food Safety Control; Hygiene Products Control Act; Act on Registration, Evaluation, etc. of Chemicals; Persistent Organic Pollutants Control Act; Act on Chemical Products and Biocides; Act on Protective Action Guidelines Against Radiation in the Natural Environment; and Plant Protection Act. WTO document G/LIC/N/3/KOR/13, 2 December 2020.

⁷² WTO document G/LIC/N/3/KOR/13, 2 December 2020.

⁷³ With respect to international commitments, Korea is a participant in the following conventions and treaties: Kimberley Process; Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade; Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal; Stockholm Convention on Persistent Organic Pollutants (POPs); Montreal Protocol on Substances that Deplete the Ozone Layer; Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances; Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES); the Chemical Weapons Convention; the Biological Weapons Convention; and the Nuclear Non-proliferation Treaty.

3.61. The export control system on strategic items that also have import-related implications was modified by revising the Foreign Trade Act and related regulations (i.e. the Regulations on Export Control of Strategic Goods) in September 2019 and June 2020 (Section 3.2.3.2).⁷⁴

3.62. Implementation of Korea's import approval and authorization regime is the responsibility of 15 ministries and/or agencies, an increase from 13 in 2016 due to the reorganization and restructuring of some agencies.⁷⁵ As indicated by the authorities at the time of the previous Review, import licence applications are screened or checked in a "fair" manner.

3.63. During the review period, Korea submitted 39 notifications on new laws and regulations, as well as two Replies to the Questionnaire on Import Licensing Procedures (for 2019 and 2020) to the WTO Committee on Import Licensing.⁷⁶

3.1.6 Anti-dumping, countervailing, and safeguard measures

3.64. According to Korea's last WTO notification on laws and regulations, the main legal framework governing contingency measures remained virtually unchanged since March 2011.⁷⁷ Contingency (trade remedy) measures remain authorized under the Customs Act (last amended in 2020) and the Act on the Investigation of Unfair International Trade Practices and Remedy Against Injury to Industry (2001) (last amended in 2017), and implemented under their Enforcement Decrees last amended in 2020 and 2016, respectively.⁷⁸ The revision of the Enforcement Decree of the Customs Act, in force as of 1 January 2021, involved the strengthening of the procedural interest protection of parties, supplementing the investigation procedure, and amending the industry injury investigation procedures.

3.65. Korea's RTAs haven specific trade remedies provisions. At the time of the previous Review, five of its RTAs contained a specific trade remedies chapter in which the parties' WTO rights and obligations on the application of safeguard, anti-dumping, and countervailing measures were preserved.⁷⁹ Certain provisions requiring clarification included: (i) the possibility of excluding imports of products covered under the relevant bilateral agreement from the application of safeguard measures⁸⁰; (ii) the provision of written notice of an application for anti-dumping measures⁸¹, or anti-dumping and countervailing measures, prior to the initiation of an investigation⁸²; (iii) the possibility of holding a meeting or consultations prior to the initiation of an anti-dumping and countervailing measure investigation⁸³; (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 exporters⁸⁴; (v) the consideration of

⁷⁴ Under the previous rules, all 29 signatories to the four major export controls systems on strategic goods, including the Wassenaar Arrangement, that were classified as "Region A" countries benefited from simplified export screening, while other countries were classified as "Region B." Under the revised rules, Region A has been divided into A1 and A2, the latter referring to countries that do not run their systems in line with the principles of the four major systems, despite being signatories to such agreements. Exports from A2-listed countries need to receive comprehensive or separate authorization every three years in principle, which represents a tightening of regulations that effectively relegates them to a level on par with Region B. *The Hankyoreh*, "Despite S. Korea's New Export Controls, Both Sides Should Still Seek Dialogue", 13 August 2019. Viewed at: http://english.hani.co.kr/arti/english_edition/english_editorials/905599.html.

⁷⁵ The relevant changes included: (i) name changes (Ministry of Government Administration and Home Affairs into Ministry of the Interior and Safety; Ministry of Health and Welfare into Ministry of Food and Drug Safety; National Tax Administration into Ministry of Economy and Finance); and (ii) new ministries (Ministry of Oceans and Fisheries; Nuclear Safety and Security Commission). WTO document G/LIC/N/3/KOR/13, 2 December 2020.

⁷⁶ WTO documents G/LIC/N/3/KOR/12, 20 December 2019 and G/LIC/N/3/KOR/13, 2 December 2020.

⁷⁷ WTO document G/ADP/N/1/KOR/6, 23 March 2011.

⁷⁸ Korea Trade Commission, *Customs Act*. Viewed at: <https://www.ktc.go.kr/en/pageLink.do?link=/contents/en/EG25110>.

⁷⁹ Korea-Australia FTA, Articles 6.5 and 6.8(1); Korea-Canada FTA, Articles 7.1(1) and 7.7(1)(a); Korea-China FTA, Articles 7.5 and 7.7; Korea-New Zealand FTA, Articles 7.6 and 7.7(1); Korea-Viet Nam FTA, Articles 7.5 and 7.6(1); and WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

⁸⁰ Korea-Australia FTA, Article 6.5; Korea-Canada FTA, Article 7.1(1); Korea-New Zealand FTA, Article 7.6; and Korea-Viet Nam FTA, Article 7.5.

⁸¹ Korea-Australia FTA, Article 6.9(1); and Korea-New Zealand FTA, Article 7.8(1).

⁸² Korea-Canada FTA, Article 7.7(2); Korea-China FTA, Article 7.8; and Korea-Viet Nam FTA, Article 7.7.

⁸³ Korea-Canada FTA, Article 7.7(2); Korea-China FTA, Article 7.8; and Korea-Viet Nam FTA, Article 7.7.

⁸⁴ Korea-Australia FTA, Article 6.10; Korea-Canada FTA, Article 7.7(4); Korea-China FTA, Article 7.9; Korea-New Zealand FTA, Article 7.9; and Korea-Viet Nam FTA, Article 7.8.

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 review⁸⁵; (vi) the application of the *de minimis* dumping margin threshold set out in Article 5.8 of the Anti-Dumping Agreement in new shipper reviews⁸⁶; 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.⁸⁷

3.66. 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 the domestic industry. The decision on the imposition of anti-dumping and countervailing duties is taken by the MOEF.

3.1.6.1 Anti-dumping and countervailing measures

3.67. During the review period, recourse to anti-dumping initiation action remained relatively stable, but there has been an increase in the number of definitive measures in place.⁸⁸ Between 2016 and 2020, Korea initiated 24 anti-dumping investigations (20 in 2011-15) involving, *inter alia*, ethyl acetate (China, India, Japan, and Singapore), PET film (China and India), oriented polypropylene film (China, Indonesia, and Thailand), uncoated paper (Brazil, China, and Indonesia), glassine paper (China, Chinese Taipei, Italy, and Japan), plywood (China, Malaysia, and Viet Nam), coniferous wood plywood (China), structural steel sections (China), stainless steel bar (India, Japan, and Spain), stainless steel plate (Japan), and presensitized aluminium plate for offset printing (China).⁸⁹ As of 30 March 2021, 39 anti-dumping measures (32 in 2015) were in force mainly on PET film (5 cases), stainless steel bar (5 cases), ethyl acetate (4 cases), ethanolamine (4 cases), oriented polypropylene film (3 cases), coated printing paper (3 cases), ferro-silico-manganese (3 cases), butyl glycol ether (2 cases), plywood (2 cases), ceramic tile (1 case), coniferous wood plywood (1 case), float glass (1 case), structural steel sections (1 case), stainless steel plate (1 case), galvanized low-carbon steel wires (1 case), presensitized aluminium plate for offset printing (1 case), and valves for pneumatic transmissions (1 case). As of 31 December 2020, action affected mostly products originating in Asia (32, mainly China (11), Japan (6), India (4), Thailand (3), Malaysia (2), and Chinese Taipei (2)), and to a lesser extent the European Union (Finland, France, Italy, and Spain (4)) and the United States (2).⁹⁰ Virtually all final measures consisted of definitive duties (except for two undertakings). Between 2016 and end-December 2020, Korea completed 32 sunset reviews, 27 of which resulted in the extension of measures; 7 measures were terminated without a review.⁹¹

3.68. Korea has been a respondent in two WTO dispute settlement cases in this area. Regarding the case on Korea's anti-dumping duties on valves for pneumatic transmission (pneumatic valves) raised by Japan, on 12 April 2018, the panel report was circulated to Members and was appealed by Japan and cross-appealed by Korea; on 10 September 2019, the Appellate Body report was circulated to Members and on 28 May 2020 Korea informed the WTO of its compliance in this dispute.⁹² On 18 June 2018, Japan requested consultations with Korea concerning Korea's determination to continue the imposition of anti-dumping duties on stainless steel bars from Japan, based on the conclusion of the third sunset review of anti-dumping duties on stainless steel bars

⁸⁵ Korea-China FTA, Article 7.12; and Korea-Viet Nam FTA, Article 7.9.

⁸⁶ Korea-China FTA, Article 7.14.

⁸⁷ Korea-Canada FTA, Article 7.8; Korea-China FTA, Article 7.15; and Korea-Viet Nam FTA, Article 7.11.

⁸⁸ With 155 cases initiated between 1995 and 2020, Korea remained the world's 12th major user of anti-dumping measures. WTO, *Anti-dumping Initiations by Reporting Member 01/01/1995-31/12/2020*. Viewed at: https://www.wto.org/english/tratop_e/adp_e/AD_InitiationsByRepMem.pdf.

⁸⁹ WTO documents G/ADP/N/335/KOR, 28 May 2020; G/ADP/N/342/KOR, 6 October 2020; and G/ADP/N/350/KOR, 22 April 2021.

⁹⁰ WTO documents G/ADP/N/342/KOR, 6 October 2020 and G/ADP/N/350/KOR, 22 April 2021.

⁹¹ WTO documents G/ADP/N/286/KOR, 28 September 2016; G/ADP/N/294/KOR, 15 February 2017; G/ADP/N/300/KOR, 17 August 2017; G/ADP/N/308/KOR, 12 April 2018; G/ADP/N/314/KOR, 4 October 2018; G/ADP/N/322/KOR, 8 April 2019; G/ADP/N/328/KOR, 22 October 2019; G/ADP/N/335/KOR, 28 May 2020; G/ADP/N/342/KOR, 6 October 2020; and G/ADP/N/350/KOR, 22 April 2021.

⁹² WTO, *DS504: Korea – Anti-Dumping Duties on Pneumatic Valves from Japan*. Viewed at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds504_e.htm.

from Japan, India, and Spain.⁹³ A panel was established on 29 October 2018; China, the European Union, India, Kazakhstan, the Russian Federation, Chinese Taipei, and the United States reserved their third-party rights. On 21 January 2019, the Director-General composed the panel, which issued its final report to the parties on 30 November 2020.⁹⁴

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

3.1.6.2 Safeguards

General

3.70. Safeguard measures, including provisional measures, may be applied when 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.⁹⁵ Safeguard measures apply for up to four years (200 days if provisional), but may be extended by four years subject to a further review.⁹⁶ Since the previous Review, no safeguard measures have been applied. However, on 5 April 2018, Korea notified the WTO, under Article 12.5 of the Agreement on Safeguards, that it proposed to suspend concessions and other obligations on certain imports from the United States, following the imposition of safeguard duties on imports of certain large residential washers and parts thereof by the United States.⁹⁷ Furthermore, on 2 April 2019, Korea notified the WTO under the same Agreement of proposed suspension of concessions and other obligations on some imports from the European Union, following the imposition of definitive safeguard duties on imports of certain steel products by the European Union.⁹⁸

Sector-specific

3.71. During the review period, Korea had a more focused recourse to the special safeguard (SSG) provisions under Article 5 of the WTO Agreement on Agriculture compared to its last Review. 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 MOEF through a ministerial ordinance, at the request of MAFRA. Korea reserved the right to apply SSG provisions to 124 agricultural 10-digit tariff items (as of 2011), but so far they have been applied to a small subset 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.⁹⁹ Between

⁹³ WTO, *DS553: Korea – Sunset Review of Anti-Dumping Duties on Stainless Steel Bars*. Viewed at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds553_e.htm.

⁹⁴ WTO, *DS553: Korea – Sunset Review of Anti-Dumping Duties on Stainless Steel Bars*. Viewed at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds553_e.htm.

⁹⁵ Law No. 6417, Article 17, in WTO document G/SG/N/1/KOR/5, 26 October 2001.

⁹⁶ Law No. 6417, Article 19.5, in WTO document G/SG/N/1/KOR/5, 26 October 2001.

⁹⁷ The suspension was to come into effect on 7 February 2021, if the United States decided to extend the period of application of its safeguard measures, or following the date of a decision from the WTO Dispute Settlement Body that the safeguard measure imposed by the United States is incompatible with the WTO Agreement on Safeguards, whichever is earlier. The suspension is to continue until the safeguard measure maintained by the United States is lifted. Global Trade Alert, *Republic of Korea: Second Immediate Notification of Suspension of Concessions towards the United States*, 6 April 2018. Viewed at: <https://www.globaltradealert.org/state-act/30786/republic-of-korea-second-immediate-notification-of-suspension-of-concessions-towards-the-united-states>. WTO documents G/L/1223-G/SG/N/12/KOR/2, 6 April 2018; and G/L/1224-G/SG/N/12/KOR/3, 6 April 2018.

⁹⁸ Korea reserves the right to impose additional duties within 30 days of this notification. The duty is to be in place for a period equal to the duty imposed by the European Union. Global Trade Alert, *Republic of Korea: Immediate Notification of Proposed Suspension of WTO Concessions towards the EU*, 2 April 2019. Viewed at: <https://www.globaltradealert.org/state-act/36807/republic-of-korea-immediate-notification-of-proposed-suspension-of-wto-concessions-towards-the-eu>. WTO document G/L/1306, G/SG/N/12/KOR/4, 2 April 2019.

⁹⁹ The Special Safeguard Tariff Schedule covered 22 10-digit items eligible for price-based action and 22 for volume-based action in 2012 and 2013, 18 10-digit items eligible for price-based action in 2014, and

2016 and 2020, solely price-based SSG measures only on ginseng, also affected at the previous review, were implemented; more specifically, they applied to ginseng root (raw ginseng/other) (HS 1211.20.1190) in 2016, 2017, 2018, 2019, and 2020, as well as ginseng powder (red ginseng/other) (HS 1211.20.2290) and other products of red ginseng (HS 2106.90.3029) in 2018, and wild cultivated ginseng (HS 1211.20.1291) in 2020.¹⁰⁰

3.2 Measures Directly Affecting Exports

3.2.1 Customs procedures and requirements

3.72. More than 95% of export declarations are submitted electronically to Customs without supporting documents and are accepted automatically by the e-clearance system.¹⁰¹ The KCS boasts the world's fastest turnaround in processing shipments, claiming that the average time for customs clearance for exports is less than two minutes (less than 1.5 hours for import clearance) (Section 3.1.1.1).¹⁰²

3.73. Third-party goods are prohibited from falsely claiming Korean origin. A simplified export declaration process for e-commerce remains in place. Since 14 October 2020, the KCS has operated a declaration system that converts the express cargo outbound manifest into a simplified export declaration based on shipping information; KCS has been promoting the utilization of this system via corporate consulting and public relations activities.¹⁰³

3.2.2 Taxes, charges, and levies

3.74. No export taxes, charges, or levies are applied by Korea (Sections 3.1.3.5, 3.2.4.2, and 3.3.1.1.1).

3.2.3 Export prohibitions, restrictions, and licensing

3.2.3.1 Prohibitions

3.75. During the review period, the negative list of banned exports remained unchanged. Pursuant to Korea's WTO notification, export prohibitions, affecting 11 six-digit HS items, are in place to, *inter alia*: protect animal rights (e.g. dog fur skins and their products); protect human, animal, plant life or health (e.g. whale meat and its products, defence materials, and narcotics and drugs); and preserve natural resources (e.g. uncut pieces of natural granite stones).¹⁰⁴ Korea also prohibits

38 10-digit items eligible for price-based action and 27 for volume-based action in 2015 and 2016, as compared to 33 10-digit items in 2008, 29 in 2009, 25 in 2010, and 23 in 2011 eligible for price-based action only.

¹⁰⁰ At the previous Review, volume-based SSGs on cereal flour and other worked grain had been used. WTO documents G/AG/N/KOR/59, 20 March 2017; G/AG/N/KOR/69, 16 October 2019; G/AG/N/KOR/70, 16 October 2019; and G/AG/N/KOR/76, 6 October 2020.

¹⁰¹ All customs declarations should be made in accordance with the relevant laws – the Customs Act and the Foreign Trade Act.

¹⁰² According to World Bank Doing Business data, exporting a shipment of goods required border and documentary compliance equivalent to 13 hours and USD 185, and 1 hour and USD 11 (lower than the OECD average except for time and cost of border compliance), respectively, in 2020. World Bank (2020), *Doing Business 2020: Comparing Business Regulation in 190 Economies – Economy Profile: Korea, Rep.* Viewed at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/k/korea/KOR.pdf>; and EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

¹⁰³ WTO document WT/TPR/S/346/Rev.1, 6 January 2017; OECD (2020), *OECD Economic Surveys: Korea 2020*, 11 August. Viewed at: https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-korea_19990707; and WCO, "Supporting E-commerce: Korea Customs Service's Strategy", *WCO News*, No. 78, October 2015. Viewed at: <http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/activities-and-programmes/ecommerce/wco-news/supporting-e-commerce-korea-customs-services-strategy-wco-news-78-october-2106.pdf?db=web>.

¹⁰⁴ Korea notified export prohibitions for whale meat and its products, uncut pieces of natural granite stones, dog fur skins and their products, objects over 50 years old and recognized valuable; conditional prohibitions (prohibition except under defined conditions) apply to narcotics and drugs, defence materials, certain chemicals, and pollutants (for pollutants both conditional prohibition and non-automatic import licensing apply) under the Foreign Trade Act (Article XI) and Notification of Export and Import. WTO documents G/MA/QR/N/KOR/2, 31 October 2019; and G/MA/QR/N/KOR/3, 13 October 2020.

exports of books, videos, records, and other similar goods that interfere with constitutional and public order and public safety, and corrupt public morals; goods that infringe upon IPRs; goods containing confidential government information or that are utilized in intelligence operations; and counterfeit, forged, or copied currencies, bonds, and securities.¹⁰⁵

3.76. In response to domestic needs related to the global outbreak of COVID-19 pandemic, Korea introduced a temporary export ban (entirely lifted on 23 October 2020) on surgical and sanitary masks, filtering respirators and melt blown filters in accordance with Article XI:2(a) and Article XX(b) of the GATT.¹⁰⁶ These prohibitions were initially imposed for the period from 6 March to 31 May 2020 to prevent a critical shortage of PPE; they were lifted as of 23 October 2020. As production volume increased, the prohibition was gradually replaced by a prohibition except under defined conditions. As of 18 June 2020, Korea lifted the restriction on filtering respirator producers and those who have concluded contracts with the producers for the purpose of exportation and allowed to export up to 30% of the total daily production volume of filtering respirators. Later this measure was revised and, as of 12 July 2020, filtering respirators were allowed for exportation on the condition that producers' monthly export volume does not exceed 50% of the monthly average production volume of the domestic filtering respirators in the last two months, unless it is for government-approved humanitarian purposes. Similarly, with the stabilization of mask supply, exports of surgical and anti-droplet masks were allowed on identical conditions as of 15 September 2020.¹⁰⁷

3.77. The export ban on melt blown filters was extended until 5 August 2020. As of 6 August 2020, producers and those who have concluded contracts with the producers for the purpose of exportation have been allowed to export only melt blown filters for filtering respirators on the condition that their monthly export volume does not exceed 15% of the monthly average production volume of the melt blown filters in the last two months. A producer who wants to export melt blown filters for filtering respirators in excess of the allowable amount must obtain prior approval from the Minister of Trade, Industry and Energy according to the relevant regulation. Exports of melt blown filters for surgical masks and Spunbond Meltblown Spunbond (SMS) filters have been prohibited until 22 October 2020. Also all overseas shipments of surgical, sanitary, and anti-droplet masks for humanitarian purposes were allowed to be exported after consulting with MOTIE and obtaining approval from the Ministry of Food and Drug Safety (MFDS).¹⁰⁸

3.2.3.2 Restrictions and licensing

3.78. As per Korea's notifications to the WTO in 2020, sand and gravel-related items, endangered species, waste, and persistent organic pollutants remain subject to non-automatic licensing to protect natural resources and human, animal, and plant life and health.¹⁰⁹

3.79. Approval from competent institutions is required for the export of goods under the Directive on the Designation of Goods Subject to Customs Confirmation of Clearance Requirements and Methods of the Confirmation under Article 226 of the Customs Act or goods subject to export control

¹⁰⁵ Securix Strategic Trade Solutions. *Export Regulations in South Korea*, fourth quarter 2018. Viewed at: http://securustrade.com/wp-content/uploads/2018/10/SECURUS_South-Korea-Export-Regulations_2018Q4.pdf.

¹⁰⁶ WTO documents G/MA/QR/N/KOR/2/Add.2, 22 June 2020 and G/MA/QR/N/KOR/2/Add.3, 20 July 2020.

¹⁰⁷ WTO documents G/MA/QR/N/KOR/2/Add.1, 14 April 2020; G/MA/QR/N/KOR/2/Add.1/Corr.1, 22 June 2020; G/MA/QR/N/KOR/2/Add.2, 22 June 2020; and G/MA/QR/N/KOR/2/Add.5, 6 October 2020; EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf; Global Trade Alert, *Republic of Korea: Temporary Export Restriction on Filtering Respirators*. Viewed at: <https://www.globaltradealert.org/intervention/80430/export-quota/republic-of-korea-temporary-export-restriction-on-filtering-respirators>; and Global Trade Alert, *Republic of Korea: Blanket Export Ban on Surgical Face Masks*, 6 March 2020. Viewed at: <https://www.globaltradealert.org/state-act/43513/republic-of-korea-blanket-export-ban-on-surgical-face-masks>.

¹⁰⁸ WTO document G/MA/QR/N/KOR/2/Add.4, 31 August 2020.

¹⁰⁹ 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 indicate that no export quotas for these items were operated during the review period. WTO documents G/MA/QR/N/KOR/2, 31 October 2019 and G/MA/QR/N/KOR/3, 13 October 2020.

under Article 19 of the Foreign Trade Act or other relevant laws. These goods include ginseng seeds, goods subject to foreign exchange control, and animals.¹¹⁰

3.80. Korea may restrict exports of certain products periodically to ensure adequate domestic supplies, again potentially assisting downstream processing of these products. During the review period, no quantitative export restrictions for rice or any other agricultural products were in place, as Article 2-2 of the Implementing Regulation of the Grain Management Act and a related notification requirement were repealed in March 2015. Until that time, rice was the only product requiring export authorization (termed a "recommendation" by the authorities).

3.81. As Korea is a member of all four major international export control systems (Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies (WA), the Missile Technology Control Regime (MTCR), the Nuclear Suppliers Group (NSG), the Australia Group (AG)), exports of military items, nuclear-related items, and dual-use items for international peace and security require approval. They include certain electronics; specified computers and related equipment; telecommunication and information security systems; sensors and lasers; navigation and avionics systems; and marine, aerospace, and propulsion systems.¹¹¹ Export approval from the Minister of Trade, Industry and Energy is also required for specific chemicals and biological agents, as Korea is a member of the Chemical Weapons Convention and the Biological Weapons Convention.¹¹²

3.82. According to the authorities, with a view to complying with the basic principles of the international export control system as well as strengthening export controls, MOTIE modified the export control system on strategic items by revising the Foreign Trade Act and related regulations (i.e. the Regulations on Export Control of Strategic Goods) in September 2019 and June 2020. First, the revised regulations subdivided the regions exporting strategic items from the previous A and B into A-1, A-2, and B; the purpose of this revision was to enhance export controls for countries with which there are difficulties in international coordination (e.g. countries operating systems against the basic principles of international export control systems). When it comes to documents that exporters are required to submit when applying for export approval, three types of documents are required for economies designated as A-1, five for those at A-2, and seven for those at B. In addition, the period required to process an individual export approval is 5 or fewer days for A-1 economies, and 15 or fewer days for both A-2 and B. Second, the modifications clarified certain matters relating to Catch-All controls. Third, with a view to improving the quality of self-classification (accuracy, etc.), the completion of pre-training courses became mandatory when an entity makes a self-classification. The authorities indicate that, the same as other major countries with an export control system, Korea categorizes countries into export regions and differentiates the review period, necessary information, required documentation, etc. In this context, following the September 2019 revision, national categories became more diversified, and countries were reclassified. Korea conducts strict reviews for all countries, but the review period and required documentation differ according to the category where the country is classified. Companies affected by these recent regulatory changes are not predetermined; the authorities provided information and guidelines on these changes beforehand to companies exporting strategic items so that they proceed smoothly and without unnecessary difficulties in their operations. At the time of the previous Review, the Regulations' amendments had involved, *inter alia*: the revision of the definition of eligibility for an export licence; the expansion of exemptions from the export licence requirement; 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; and the list of the National Core Technologies whose export is controlled under the Act on Prevention of Leakage

¹¹⁰ KCS, *Export Declaration Guideline*. Viewed at:

<https://www.customs.go.kr/english/cm/cntnts/cntntsView.do?mi=8056&cntntsId=2732>.

¹¹¹ Export laws and regulations include Public Notice on Trade of Strategic Goods and Technologies; Safety Management of Guns, Swords, Explosives, Etc. Act; Defence Acquisition Program Act; Prohibition of Chemical and Biological Weapons Act; Chemicals Control Act; Narcotics Control Act; Plant Protection Act; and Wildlife Protection and Management Act. Securus Strategic Trade Solutions, *Export Regulation in South Korea*, fourth quarter 2018. Viewed at: http://securustrade.com/wp-content/uploads/2018/10/SECURUS_South-Korea-Export-Regulations_2018Q4.pdf.

¹¹² Act on the Control of the Manufacture, Export and Import, etc. of Specific Chemicals and Chemical Agents for the Prohibition of Chemical and Biological Weapons, Article 11. Korean Law Information Center. Viewed at: <https://www.law.go.kr/LSW/eng/engLsSc.do?menuId=2#liBgcolor0>.

and Protection of Industrial Technology. As of 2015, a total of 47 technology categories were listed; no recent data were available from the authorities.

3.2.4 Export support and promotion

3.2.4.1 Subsidies

3.83. 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.¹¹³ Despite their intention at the time of the previous Review, the authorities notified to the Committee on Agriculture pending export subsidy data (2009-13) in 2017 rather than in 2016, as well as relatively recent export subsidy data (2014-17) in 2019.¹¹⁴ These subsidies totalled KRW 32.92 billion (2015), KRW 36.72 billion (2016), KRW 39.6 billion (2017), KRW 26.52 billion (2018), and KRW 34.41 billion (2019), and they continued to cover fruit, flowers, vegetables, kimchi, ginseng, livestock, grain and processed food, and traditional liquor. The subsidies were used to reduce exporters' marketing/logistics costs in accordance with the Framework Act on Agriculture, Rural Community, and Food Industry (Article 59), and are exempt from WTO reduction commitments. Corporate income tax relief to industries located in export-oriented FTZs was eliminated in 2019 (Sections 2.6.3.1 and 3.3.1.2.2.2); nevertheless, firms having applied for it on or before 31 December 2018 may still benefit.

3.2.4.2 Duty and tax concessions

3.84. Raw materials used in exports are exempt from customs duties (Section 3.1.3.5), and a customs drawback scheme provides refunds. The KCS 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 USD 2.2 billion, equivalent to about 24% of tariff revenue in 2020 (down from USD 3.4 billion, equivalent to 29% of tariff revenue in 2015).

3.2.4.3 Promotion and marketing

3.85. Korean exporters continue to benefit from promotional activities of the state-owned Korea Trade and Investment Promotion Agency (KOTRA). With 127 (126 in 2016) Korea Business Centers (KBCs) in 84 countries, the agency operates a "business matchmaking" service introducing foreign importers to Korean businesses.¹¹⁵ KOTRA also organizes or assists with trade missions and exhibitions domestically and overseas, providing SMEs with export-related information and consulting services. During the review period, in response to internal and external challenges calling for further innovation, its resources focused on full support for SMEs to explore overseas market opportunities, global job creation, diversification of exporting goods and markets, and identification of new overseas expansion opportunities.¹¹⁶ The buyKOREA (www.buyKOREA.org) tool, operated by KOTRA, is a global B2B powerhouse that connects international buyers and Korean suppliers; it allows overseas buyers to send inquiries and make online purchases with a credit card (KOPS) or PayPal for over 270,000 Korean products.

3.86. The Public Procurement Service (PPS) (Section 3.3.6.3) continued to operate and manage the Global Korea Market, the online export promotion tool in place since 31 December 2015 where government procurement-related products of Korean companies with an excellent domestic

¹¹³ Korea considers that, in line with the 2005 Hong Kong [China] 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 developing country Members "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 export subsidies covering marketing and transport costs for agriculture exports listed in paragraphs 9.1(d) and 9.1(e) of the Agreement until 2023.

¹¹⁴ WTO documents G/AG/N/KOR/58, 6 January 2017; G/AG/N/KOR/65, 4 July 2019; G/AG/N/KOR/66, 4 July 2019; G/AG/N/KOR/67, 4 July 2019; G/AG/N/KOR/68, 4 July 2019; G/AG/N/KOR/78, 9 April 2021; and G/AG/N/KOR/79, 9 April 2021.

¹¹⁵ KOTRA. Viewed at: <https://www.kotra.or.kr/foreign/main/KHEMU1010M.html>.

¹¹⁶ KOTRA, *CEO's Message*. Viewed at: <https://www.kotra.or.kr/foreign/kotra/KHENKT010M.html>.

government procurement record (Government Performance Assured Companies (G-PASS)) can also be sold to foreign companies. G-PASS firms may participate in PPS-hosted events such as overseas exhibits and public procurement conferences, and be provided with services of online promotion and information on overseas procurement markets for five years (extended through re-examination). In 2020, there were 832 domestic companies (261 in 2015) under this project.

3.2.5 Export finance, insurance, and guarantees

3.87. The government-owned Export-Import Bank of Korea (EXIM Bank) (Section 3.3.5), a recipient of high marks by international credit rating firms, provides export credit and financial guarantees to support Korean enterprises in conducting overseas business.¹¹⁷ Project-related guarantees are also provided to foreign buyers in the event of exporters' failure to meet contractual arrangements. The Government ensures the EXIM Bank's solvency by covering any net losses beyond reserves; between 2016 and 2020, the EXIM Bank accumulated KRW 12.45 trillion in paid-up capital with the Government funding a total of KRW 1.90 trillion, and has been profitable except for 2016 when it registered a KRW 1.47 trillion loss. Direct loans to foreign buyers and export loans to Korean firms, its primary activities, cover mainly capital goods, such as industrial plants, 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. The EXIM Bank's support for ship exports meets the requirements of the OECD's Sector Understanding on Export Credits for Ships.¹¹⁸

3.88. Overall, export-related loan disbursements involving export promotion loan, growth, project, and facilitation tools showed a decrease of 18.5% from KRW 35.7 trillion (USD 30.8 billion) in 2016 to KRW 29.1 trillion (USD 25.0 billion) in 2019.¹¹⁹ The shipbuilding industry accounted for the largest portion of supported items with KRW 5.4 trillion (USD 4.6 billion, 16.4%), followed by the plant construction industry and petrochemical products with KRW 3.6 trillion (USD 3.1 billion, 12.4%) and KRW 4.1 trillion (USD 3.6 billion, 14.2%), respectively, in 2019. 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 rose from USD 1,697 million in 2016 to USD 1,943 million in 2019, whereas the amount disbursed in 2020 was slightly lower at USD 1,915 million. By end-2019, the total volume of credit lines extended under the Interbank Credit Facility stood at USD 7,620 million made available to 28 banks in 11 countries, as compared to USD 8,519 million to 39 banks in 18 countries in 2016. In 2020, despite the challenges posed by the COVID-19 pandemic, credit lines with 14 banks in 10 countries totalling USD 2,700 million were newly established; consequently, the total volume of credit lines established stood at USD 8,040 million with 34 banks in 14 countries by the end of 2020. To strengthen the competitiveness of SMEs, the EXIM Bank continued to expand support, mostly provided in the form of comprehensive export loans for SMEs and trade finance. The total of loans to SMEs in 2019 amounted to KRW 25.8 trillion (USD 22.1 billion), accounting for 50.1% of the EXIM Bank's total loans, compared to KRW 22.2 trillion (USD 19.1 billion) and 39.1% in 2016, while the total volume of credit, including loans and guarantees, to SMEs of KRW 26.8 trillion represented 44.7% of the EXIM Bank's total credit, compared to KRW 23.7 trillion and 34.3% in 2016.

3.89. The state-owned Korea Trade Insurance Corporation (K-SURE, previously KEIC), under MOTIE, continues to provide export credit insurance against non-payment risks (Trade Insurance Act, 1968), and during the review period emphasis was placed on SME support (see below).¹²⁰ K-SURE promotes exports by insuring against risks that are not privately insurable and, according to the authorities, seeks to foster a level-playing field for official support, in order to encourage competition among exporters based on quality and price of exported goods and services. K-SURE supplies export insurance against losses due to political and commercial risks, and whole-turnover

¹¹⁷ Korea EXIM Bank. Viewed at: <https://www.koreaexim.go.kr/site/main/index002>.

¹¹⁸ Korea has fully implemented the OECD Arrangement as from 31 March 2002 when transitional arrangements expired. Maximum repayment periods remain 12 years for ships, and non-nuclear power plants; 18 years for nuclear power plants; and 8.5-10 years for other products, pursuant to the OECD Arrangement.

¹¹⁹ Korea EXIM Bank (2017), *Annual Report 2016 – Adding Value for Shaping the Future*. Viewed at: <https://www.koreaexim.go.kr/site/program/board/basicboard/list?boardtypeid=82&phototype=list&menuid=002001006004>; and Korea EXIM Bank (2020), *Annual Report 2019 – We Finance Global Korea*. Viewed at: <https://www.koreaexim.go.kr/site/program/board/basicboard/list?boardtypeid=82&phototype=list&menuid=002001006004>.

¹²⁰ K-SURE. Viewed at: <https://www.ksure.or.kr/en/index.do>.

insurance policies at a 50% discount to specific policies. It continues to offer 13 different types of export insurance and 2 types of guarantees with most underwriting remaining in the form of short-term insurance. The maximum coverage for medium- and long-term export insurance is, in principle, 85% of the export contract value as per OECD Guidelines on Officially Supported Export Credits. During the review period, K-SURE, *inter alia*: introduced Export Safety Net Insurance (2016), Power Plus+ Insurance (2017), and contract-based Export Credit Guarantee (Pre-shipment) and Export Credit Guarantee (Negotiation) (2019); opened new representative offices (in Mexico City and Dubai (2016), Chengdu (2018), and Hanoi (2019)); reached KRW 47.9 trillion (2017) and KRW 52 trillion (2018) in support for SMEs; opened a Trade Sure Consulting Center for supporting SMEs' exports (2018); and opened an online K-SURE Research Center offering information on overseas companies, industries, and countries (2018).¹²¹ In response to the expected decline in exports in 2020 due to the outbreak of the COVID-19 pandemic, K-SURE was focused on reinforcing support for advancement into new markets and innovative industries, strengthening the competitiveness of SMEs, implementing fintech infrastructure, and improving customer satisfaction. K-SURE's underwriting (business) volume bottomed to KRW 144.8 trillion and gradually rose to KRW 155.8 trillion in 2019 without attaining its 2014 level; the SME support share to the volume rose steadily from 28.3% in 2016 to 36.1% in 2019. Total exports underwritten by K-SURE represented 21.7% (22% in 2016) of total exports and 91% (88% in 2016) of covered short-term insurance.

3.3 Measures Affecting Production and Trade

3.3.1 Incentives

3.3.1.1 Taxation¹²²

3.90. Total national tax revenue as a share of GDP rose and remains relatively low (15.3% in 2019, Table 1.1). Korea's reliance on indirect taxes was steadily reduced to 33% of tax revenues (Table 3.3) due to an increase in direct tax revenues caused by rising income tax levels. Income (since 2015) and corporation (since 2018) taxes became the main sources of tax receipts, followed by the VAT, which remains the main indirect 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, the share of customs duties declined considerably to 2.4% of total tax revenues in 2020 (Table 3.3). Overall, the tax system, in particular its trade-related part, remains complicated by the so-called tax-on-tax (cascading) schemes and various surtaxes. As indicated by the authorities at the time of the previous Review, the Korean tax regime adheres to the globally accepted OECD International Tax Standards on exchange of information.¹²³

3.3.1.1.1 Indirect taxation

3.91. 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. Exports are zero-rated for VAT.

Table 3.3 Structure of direct and indirect tax revenue, 2012-20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total tax revenue (USD billion)	180.2	184.4	195.1	192.6	209.1	234.7	266.8	251.7	242.0
	(% of total)								
Direct taxes	47.1	47.5	49.0	50.9	51.9	53.2	55.5	55.9	53.5
Income tax	22.5	23.7	25.9	27.9	28.2	28.3	28.8	28.5	31.3
Corporation tax	22.6	21.7	20.8	20.7	21.5	22.3	24.2	24.6	18.7

¹²¹ Korea Trade Insurance Corporation (2020), *Annual Report 2019 - Turning Challenges into Opportunities*. Viewed at: <https://www.ksure.or.kr/en/company/annualRptListInq.do>.

¹²² For more information on taxes, see MOEF (2020), *Korean Taxation 2020*. Viewed at: <https://english.moef.go.kr/sh/searchList.do?range=anywhere&searchTerm=taxation>.

¹²³ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Inheritance tax	2.0	2.1	2.3	2.3	2.2	2.6	2.5	2.8	3.5
Indirect taxes	43.1	43.7	42.6	40.5	40.1	39.2	36.7	36.3	33.0
Value added tax	27.4	27.7	27.8	24.9	25.5	25.3	23.8	24.1	21.8
Transportation tax	6.8	6.6	6.5	6.5	6.3	5.9	5.2	5	4.7
Customs duties	4.8	5.2	4.2	3.9	3.3	3.2	3.0	2.7	2.4
Individual consumption tax	2.6	2.7	2.7	3.7	3.7	3.7	3.6	3.3	3.1
Liquor tax	1.5	1.5	1.4	1.5	1.3	1.1	1.1	1.2	1.0
Other ^a	9.8	8.8	8.4	8.6	8.0	7.6	7.8	7.8	13.5

a Unspecified revenue information.

Source: Data provided by the authorities.

3.92. The VAT applies to goods and services at a rate of 10%, which was below the 19.3% average OECD VAT/GST standard as of 1 January 2019.¹²⁴ 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 businesses, and investments in real estate and non-financial assets, are also subject to VAT. Exemptions cover, *inter alia*, unprocessed foodstuff, agricultural products, livestock products, marine products, and forest products produced in Korea but not used for food; 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.¹²⁵

3.93. The individual consumption (special excise) tax continues to apply to a wide range of goods. Rates vary from 5% on cars of more than 1,000 cc and motorcycles with engine displacement in excess of 125 cc to 20% (e.g. on luxury items including bags (as from 2014)). Flexible rates (see below) are temporarily used to boost or discourage consumption of certain products to allow efficient management of the economy in case of the need to adjust the business cycle, price stabilization, fiscal stimulus, etc. Hybrid (from 2009 to 2021) and electric cars (from 2012 to 2022) remain exempt from the individual consumption tax (up to KRW 1 million and KRW 3 million, respectively). Individual consumption taxes in form of specific rates also apply, in principle, to cigarettes, petroleum products other than gasoline, and diesel oil that are subject to a transportation (energy-environment) tax (see below) until end-2021.¹²⁶ Anthracite coal, a domestically produced item (Section 4.3), is not subject to this tax. Conditional exemptions apply, *inter alia*, to oil and its products used for aircraft; deep sea fishing vessels, or vessels in international navigation; medical use; manufacture of medical goods; fertilizers, agricultural chemicals, or raw materials for the petrochemical industry; and certain automobiles (e.g. purchased by people with disabilities, used exclusively for the purpose of transportation of patients and rental business purpose). To mitigate the negative impact of the pandemic, the individual consumption tax on motor vehicles was cut by 70% from March to June 2020 without further extension; nevertheless, a 3.5% flexible rate (up to KRW 1 million) has applied from July 2020 to June 2021.¹²⁷

3.94. The transportation-energy-environment tax law was last amended on 1 January 2019. Under this fourth three-year extension of its sunset clause, the transportation-energy-environment tax

¹²⁴ OECD (2020), *Consumption Tax Trends – Korea*. Viewed at:

<https://www.oecd.org/tax/consumption/consumption-tax-trends-korea.pdf>.

¹²⁵ The VAT base for imports is the c.i.f. price plus customs duties and other taxes, where applicable.

¹²⁶ As at 2020, the rates stood at kerosene KRW 90 per litre (KRW 63 per litre effective from 1 July 2014); heavy fuel oil KRW 17 per litre; propane gas KRW 20 per kg for domestic and commercial use (KRW 14 per kg effective from 1 July 2014); butane gas KRW 275 per kg (flexible rates KRW 275 per kg); natural gas (including a liquified form) KRW 12 per kg, KRW 60 per kg (for other than that for power generation purposes (flexible rates of KRW 42 per kg)), and KRW 8.4 per kg (for integrated energy suppliers, new and renewable energy suppliers, and persons setting up electric installations for private use); bituminous coal for electric power generation (effective from February 2018) KRW 49 per kg applicable to net calorific value of 5,500 kcal per kg or more, and KRW 46 per kg applicable to net calorific value of not less than 5,000 kcal per kg and less than 5,500 kcal per kg, and KRW 43 per kg applicable to net calorific value of less than 5,000 kcal per kg; and KRW 594 per 20 cigarettes. MOEF (2020), *Korean Taxation 2020*. Viewed at: <https://english.moef.go.kr/sh/searchList.do?range=anywhere&searchTerm=taxation>.

¹²⁷ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

continues to be levied on gasoline (KRW 475 per litre) and diesel oil (KRW 340 per litre) until end-2021 (instead of the individual consumption tax); its rates remain unchanged. As of 2021, 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. KRW 529 per litre and KRW 375 per litre, respectively. Conditional exemptions under the individual consumption tax apply to gasoline and diesel for certain use.

3.95. The liquor tax on alcoholic beverages was slightly changed. As at 2021, its rates were as follows: spirits (KRW 57,000 per kl (KRW 600 is added for every additional 1% that exceeds 95% of alcohol content)), beer (KRW 830,300 per kl, until February 2021; KRW 834,400 per kl, after March 2021) and Takju (KRW 41,700 per kl, until February 2021; KRW 41,900 per kl after March 2021); and liquor (30% (Yakju, Cheongju, and fruit wine) and 72% (Soju, whisky, brandy, liqueur, etc.)). Inflation-linked tax rates for Takju and beer released from breweries for sale or declared for import after 1 March 2021 are determined by applying a specific formula.¹²⁸

3.96. The securities transaction tax continues to be levied on transfers of shares or stocks of a business entity. The standard rate is being slightly reduced (0.45% in 2020, 0.43% from 2021 to 2022, 0.35% as from 2023) and applies to the value of securities transferred.¹²⁹ Until 2020, temporary tax rates of 0.1% for Securities Market-listed stocks, 0.25% for KOSDAQ-listed stocks, 0.1% for Korea New Exchange (KONEX)-listed stocks, and 0.25% for KOTC-listed stocks may be applied if deemed necessary to boost the capital market. Between 2021 and 2022, these temporary tax rates would be at 0.08% for Securities Market-listed stocks, 0.23% for KOSDAQ-listed stocks, 0.1% for KONEX-listed stocks, and 0.23% for KOTC-listed stocks, and as from 2023 they would be further reduced.

3.97. The education tax, levied on banking and insurance services and on 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 nonane plus gas (C9+)); 15% of the transportation tax; and 10% of the liquor tax (30% for beer, distilled liquor, and other liquors taxed at over 70%).

3.98. The special tax for rural development, 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, remains unchanged.¹³⁰ It continues to be levied at the following rates: 0.15% for the value the securities transferred (only securities market-listed stocks), 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 10-year period on 1 July 2014 and is scheduled to end on 30 June 2024.

3.99. 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.¹³¹

Local taxes

3.100. During the review period, Korea's 11 local taxes remained unchanged. An acquisition tax on purchases of and a property tax on real estate, motor vehicles, heavy equipment, and boats remained in place. A registration and licence tax continues to be 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 IP rights. An automobile tax on passenger

¹²⁸ The formula for these rates is as follows: base rate as of 31 December of the previous year × (1 + increase rate of consumer prices in the previous year announced by the Commissioner of Statistics Korea).

¹²⁹ EY, *Korea Announces 2020 Tax Reform Proposals*, 4 August 2020. Viewed at: https://www.ey.com/en_gl/tax-alerts/korea-announces-2020-tax-reform-proposals.

¹³⁰ 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.

¹³¹ At the time of the previous Review, the charges were set at e.g. KRW 24.9 per plastic container of insecticide or KRW 30.7 if the container exceeds 500 ml; and KRW 75 or KRW 150 per kg of the plastic or synthetic resin used for domestic goods.

vehicles (depending upon engine size), buses, and trucks (depending upon carrying capacity) remains in place. A tobacco consumption tax is levied at various specific rates. Other such taxes include local education, income, and consumption taxes.

3.3.1.1.2 Direct taxation

3.101. Personal income tax and corporation tax turned into the first- and second-largest single sources of revenue (Table 3.3). Progressive personal income tax rates and base were partly revised in 2018. As at May 2021, they consisted of eight (previously six) brackets and ranged from 6% (income of KRW 12 million or less) to KRW 384.6 million plus 45% of the excess over KRW 1 billion (income over KRW 1 billion). The new brackets aimed to improve income redistribution, reduce inequality, and facilitate economic recovery from the COVID-19 pandemic.¹³² To mitigate the negative impact of the COVID-19 pandemic on individuals, between April and end-July 2020 individual taxpayers were allowed to deduct from taxable income up to 80% of spending using credit cards, cash, or debit cards, or expenses paid in traditional markets and public transportation; the deduction was reduced to a maximum 15% for credit cards, 30% for cash and debit cards, and 40% for spending in traditional markets and public transport from July to end-2020.¹³³ Foreign workers can avail themselves of a flat 19% tax rate (plus a 1.9% surcharge). Foreigners beginning work between 2017 and 2021 may elect to use the flat rate for their first five consecutive years in the country.¹³⁴ At present the flat tax is not meant to apply to foreign workers arriving after 2021, although this may be extended in future years. Foreigners, apart from foreign engineers, who use the flat tax are not eligible for any other income deductions, exemptions, or credits. Foreign engineers who started work prior to 31 December 2021 are entitled to a 50% reduction on their income tax for five years.

3.102. Corporation tax brackets and rates were slightly changed in 2018. Four (previously three) brackets have been in place: 10% for KRW 200 million or less; 20% for income between KRW 200 million and KRW 20 billion; 22% for income between KRW 20 billion and KRW 300 billion; and the new rate of 25% for income over KRW 300 billion. Since 2018, a 20% additional levy could apply on corporate income for large companies (whose net equity exceeded KRW 50 billion and are not classified as SMEs) until December 2022.¹³⁵ In July 2020, corporation tax regime reform, including the broadening of the application of a simplified tax-filing process and the introduction of VAT exemptions (Section 3.3.1.1.1) for businesses with annual sales below KRW 48 million and a 20% capital gains tax on profits of over KRW 50 million from transactions of listed shares (as from 2023) to reduce inequality and facilitate economic recovery from the COVID-19 pandemic, was under consideration.¹³⁶ Following a December 2020 VAT law amendment, the application of the simplified tax-filing process was expanded from businesses with annual sales below KRW 48 million to KRW 80 million as from 2021; among businesses subject to a simplified tax-filing process, VAT duty exemptions were also expanded from businesses with annual sales below KRW 30 million to KRW 48 million as from 2021.

¹³² Taxation for higher income (i.e. above KRW 12 million) consists of a fixed amount (depending on the income scale) plus a percentage on the amount exceeding the lowest value of the tax base; the percentage components are 6%, 15%, 24%, 35%, 38%, 40%, and 42%, and a resident surcharge of 10% is also levied on income tax liability, thus raising these rates to 6.60%, 16.5%, 26.4%, 38.5%, 41.8%, 44%, and 46.2%, respectively. At the time of the previous Review in 2016, personal income tax rates were up to 38% plus a fixed amount of KRW 37.6 million (for income over KRW 150 million. EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

¹³³ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

¹³⁴ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

¹³⁵ Reportedly, the levy applies when the percentage of retained earnings used to fund dividend payments, payroll increases, and facility investments falls below 70% (Method A). Companies can also choose to use a 15% threshold instead, which applies only to dividend payments and payroll increases; the levy would be applicable if the percentage of retained earnings used to fund dividend payments and payroll increases (but not facility investments) fell below 15% (Method B). Companies are free to switch between the two methods. Companies choosing Method A should maintain it for three tax years. Those choosing Method B should maintain it for one tax year. EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

¹³⁶ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

3.3.1.2 Tax and non-tax incentives

3.103. Korea continued to support production and trade-related activities through numerous tax and non-tax incentives with, *inter alia*, persisting emphasis on SMEs through more favourable incentives including preferential treatment in public procurement and COVID-19 response action as well as the establishment of the Ministry of SMEs and Startups (MSS) in 2017 (Table A1.1 and Sections 1.1, 1.2.1, 1.2.4.1, 1.2.4.5, 2.3, and 3.3.6).¹³⁷ During the review period, Korea notified some activity-specific support programmes to the WTO Committee on Subsidies and Countervailing Measures. Its latest notification, in June 2019, covered the period 2017-18 and indicated that there were 24 subsidy schemes, virtually all of which were also notified in 2017. There were four new schemes (i.e. Support for Management of Fisheries, Support for Fisheries Resources Management, New Hydrogen Fuel Cell Vehicle Distribution, and Development of Core Technology in Industrial Fields), and two were eliminated (i.e. Support for Fishing Activities and (Forestry) Board Assistance Programme).¹³⁸ Grants, concessional loans, and one tariff reduction 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 2023), tariff reduction on aircraft parts (until 2025 for non-SMEs), and development of core technology in industrial fields (until 2019).

3.3.1.2.1 Tax incentives

3.104. During the review period, in addition to customs duties and tax concessions on imports (Section 3.1.3.5), numerous and complex tax incentives continued to be 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), which was last amended in 2021). 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 expire within one to five years, unless they are extended periodically. Originally tax incentives were to terminate at end-2003, but many were extended until end-2009, 2010, 2011, or 2012; similarly, as of 2015, many incentives scheduled to terminate between 2012 and 2017 were extended.¹³⁹ As at end-2020, many incentives were to terminate in 2019, 2020, 2021, and 2022. According to the authorities, of 54 (88 in 2016, 42 in 2012) "non-taxation" and tax reduction/exemption benefits due to expire in 2020, 43 (62 in 2015, 30 in 2012) were extended, while the remainder were abolished or scaled back. In determining whether to repeal or scale back a certain tax incentive, factors considered continued to include the extent to which the objective had been achieved and whether the benefit was in line with "international standards".

¹³⁷ Korea is the OECD country with the largest share of firms with less than 250 employees; furthermore, the share of employees in micro firms with less than 9 employees is also one of highest among OECD economies. Between 2015 and 2018, SMEs accounted for 99.9% of all companies (12.7% rise in number of firms) and 83.1% of employment (6.7% increase in employees) in Korea. The concentration of SMEs in labour-intensive sectors makes them the main source of job creation. As at 2017, Korea had in place 288 central government programmes and over 1,000 programmes at the local government level to support SMEs. In 2017, central government spending on such programs was estimated at around 0.8% of GDP. Support to SMEs through credit guarantees at 3.8% of GDP in 2016 was the second largest of OECD economies (Section 3.3.1.2.1). The BOK (Bank of Korea) and the FSS (Financial Supervisory Service) have the same definition of SMEs: a SME is an establishment with total assets less than KRW 500 billion whose average sales or annual sales meet the amounts set per activity under the Article 2 of the Framework Act on Small and Medium Enterprises and Article 3 of its enforcement decree. IMF (2019), *Republic of Korea: Selected Issues*, Country Report No. 19/133. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/13/Republic-of-Korea-Selected-Issues-46891>; OECD, *Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard: Korea*. Viewed at: <https://www.oecd-ilibrary.org/sites/9fd590e7-en/index.html?itemId=/content/component/9fd590e7-en>; and MSS, *Statistics*. Viewed at: <https://www.mss.go.kr/site/eng/02/2020400000002019110624.jsp>.

¹³⁸ The authorities indicate that a new notification was to be submitted by June 2021, but this was not the case by the end of that month. WTO documents G/SCM/N/315/KOR, 6 July 2017 and G/SCM/N/343/KOR, 22 July 2019.

¹³⁹ In creating a new tax incentive, since 2009 a sunset clause has generally been included. More information on the type of tax and non-tax incentives in place or due to expire is available in MOEF (2020), *Korean Taxation 2020*. Viewed at: <https://english.moef.go.kr/sh/searchList.do?range=anywhere&searchTerm=taxation>.

3.105. Associated with the above income tax incentives, Korea had 135 tax expenditures (153 in 2014, 141 in 2010) under its income taxes in 2020. At the time of the 2012 Review, the general business incentives category counted for the highest number of tax expenditures followed by specific industry relief.¹⁴⁰ Korea had another 81 tax expenditures under other taxes in 2020; the two largest contributing taxes remained the VAT (40 tax expenditures in 2020), and the individual consumption tax (20 in 2020), which replaced the securities transaction tax (3 in 2020) in terms of importance. Korea had another 81 tax expenditures under other taxes in 2020 (77 in 2014, 93 in 2010); the two largest contributing taxes remained the VAT (40 tax expenditures in 2020, 39 in 2014, and 26 in 2010), and the individual consumption tax (20 in 2020, 13 in 2014), which replaced the securities transaction tax (3 in 2020, 17 in 2010) in terms of importance.

3.106. According to government data, rising tax expenditures stood at USD 32.3 billion, USD 35.1 billion, USD 39.9 billion, USD 42.5 billion, and USD 45.7 billion in 2016, 2017, 2018, 2019, and 2020, respectively, or 2.4% of GDP over these years. In 2020, the main recipients remained social welfare (35.1%); industry, SMEs, and energy (25.0%); agriculture, forestry, and fisheries (11.5%); and health (13.7%).¹⁴¹ 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. Since 2011, an annual report on tax expenditure has been published in the Korean language only.

3.107. SMEs continue to benefit substantially from larger tax incentives than those generally available (see also below) – for example, much larger tax credits for investment in technology and human resource development. As of 2021, they continued to benefit, *inter alia*, from income tax or corporation tax credit for investment in business assets (extended until 31 December 2021), a five-year 50% income tax or the corporation tax reduction for newly established SMEs in areas other than the Seoul metropolitan area or its adjacent areas (extended until 31 December 2021), and a special tax incentive for SMEs involving corporation tax or income tax reductions of 10% or 20% (metropolitan area) and 5% to 30% (non-metropolitan area) (extended until 31 December 2022). SMEs now receive 10% (wage reduction) and 15% (wage compensation) tax credits (previously 1%-3%) for maintaining status quo employment and job sharing. In 2017, enterprises enhancing the quality of jobs have been granted reinforced tax benefits, namely, expansion of tax incentives for SMEs increasing wages or changing the employment status of their workers from temporary to permanent, extension of tax support periods for SME employees, and more tax reduction for companies shortening their working hours.

3.108. Several tax credits continue to apply to, *inter alia*, investment in technology, human resources development, and the R&D expenses for new growth industries/engines and basic technologies (extended until 31 December 2021), as well as for job creation. Investments in facilities or equipment to improve productivity or increase safety continue to receive 1% (3% for middle-market enterprises and 7% for SMEs) and 1% (5% for middle-market enterprises and 10% for SMEs) of the investment amount (extended until 31 December 2021) as tax credit, respectively; in 2020, these rates were increased temporarily. Investment in facilities for the purpose of environmental conservation continues to receive a 3% (5% in the case of middle-market enterprises and 10% for SMEs) tax credit (extended until 31 December 2021), which may be carried forward five years if unused. An additional 4%-8% tax credit (depending on size and location) for creating new jobs capped at KRW 4 million per new employee for large companies and at KRW 12 million for SMEs (outside the Seoul metropolitan area) has been in place since 2018. SMEs that rehire female employees who have been out of the workforce for a period of time are also eligible for a tax credit for a period of two years. Between 2015 and end-2022, a 15%-30% temporary tax credit on any increases in corporate payroll is in place, provided that companies do not reduce the number of full-time employees over that period.¹⁴²

¹⁴⁰ 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.

¹⁴¹ At the time of the previous Review, tax expenditures stood at USD 29.6 billion, USD 30.9 billion, and USD 32.6 billion in 2012, 2013, and 2014, respectively, or 2.3% of GDP over these years; in 2014, the main recipients were industry, SMEs, and energy (30.6%); social welfare (23.4%); agriculture, forestry, and fisheries (17.3%); and health (11.6%). Tax expenditures can be measured via the revenue forgone, the revenue gain, and outlay equivalence approaches. Viewed at: <https://treasury.gov.au/sites/default/files/2019-03/ch3-3.pdf>.

¹⁴² EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

3.109. 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 (extended until 31 December 2022). A 50% tax exemption for forestry income expired in 2018. Interest income (up to KRW 30 million in payment amount) and partnership dividends (up to KRW 10 million in payment amount) 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 from exemption of taxes on petroleum products, *inter alia*, supplied directly to the Central Federation of Fisheries Cooperatives used for auxiliary private power generation for island areas where it is impossible or difficult for a considerable period to supply electricity, to the Korea Shipping Association for use by passenger boats operated in coastal waters, as well as for public transportation (buses) operating on natural gas.

3.110. 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 limit was revised in 2018 and is an aggregate of the upper limit for cumulative tax incentives for domestic investment, which is 50% of the accumulated investment amount, and the amount between the value derived by multiplying the number of regular workers at the beneficiary company by KRW 15 million.

3.111. Expatriates remain subject to a flat income tax rate rather than the country's complex income tax regulations (Section 3.3.1.1.2). Under an amendment to the STTCL, as from 2017, services provided by foreign executives or employees (excluding labourers hired on a daily basis) have been subject to a flat tax rate of 19%, compared to 17% (18.7% after the resident surcharge) since 2013 and 15% until December 2012. Provisions relating to tax exemption, deduction, reduction, or tax credit are not applicable. However, as from 2020, foreign engineers prescribed by the Presidential Decree may be entitled to a tax exemption on 70% (previously 50%) of their income tax on earned income derived from services to a national within Korea for the first three (previously two) years since the first date on which the foreign engineer concerned offered his services in the country; a 50% exemption rate is applied from the following month to the next two years.

3.112. During the first half of 2020, several temporary tax relief measures aimed at coping with the negative impact of the COVID-19 pandemic were introduced (Box 1.1, and Sections 1.2.4.1, 3.3.1.1.1, and 3.3.1.1.2).¹⁴³ They involved personal income tax spending-related deductions (April to June 2020), corporation tax reductions and early tax refunds (equal to the amount of suffered deficits) for SMEs (first half of 2020), VAT reduction for small proprietors (fiscal year 2020), VAT exemption for small-revenue taxpayers (fiscal year 2020), and reductions on the individual consumption tax on motor vehicles (March to June 2020).

3.3.1.2.2 Non-tax incentives

3.3.1.2.2.1 Access to finance

3.113. State-owned financial institutions retain a major role in assisting Korea's industrial development. State intervention dominates the large venture capital market, which benefits mainly SMEs. Since 2005, the government-backed Korea Fund of Funds has invested in limited partnership funds (LPFs) and contributed to the formation of the private venture investment market. As of February 2021, its assets amounted to USD 6.4 billion (KRW 7.0 trillion) (KRW 2.23 trillion in 2015, KRW 1.36 trillion in 2011), were mostly financed by government funds, and had been invested in several areas (SMEs, cultural industries, movies, intellectual property (IP), broadcasting, telecommunications, and environmental industries).¹⁴⁴ The number of venture corporations increased from 31,260 in 2015 to 39,511 in 2021. The Korea Fund of Funds' Innovation Venture Capital Fund planned to raise KRW 10 trillion (of which KRW 3.7 trillion from the Government) over the next three years, beginning in 2018.¹⁴⁵

¹⁴³ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf and <http://english.korcham.net/nChamEng/Service/Publications/appl/02Detail.asp>.

¹⁴⁴ Korea Venture Investment Corp., *Korea Fund of Funds*. Viewed at: https://www.kvic.or.kr/en/business/business1_1.

¹⁴⁵ OECD, *Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard: Korea*. Viewed at: <https://www.oecd-ilibrary.org/sites/9fd590e7-en/index.html?itemId=/content/component/9fd590e7-en>.

3.114. The KONEX continued to help SMEs and venture businesses obtain direct financing from the capital market. In January 2019, the Financial Services Commission (FSC) disclosed policy measures to revitalize KONEX so as to function as a financing vehicle of start-ups and an effective divestiture tool for venture capitalists.¹⁴⁶ As at 31 December 2020, KONEX had increased to 143 listed companies (89 in 2015), and market capitalization had reached KRW 5.6 trillion (KRW 3.7 trillion in 2015).

3.115. Two major public institutions, the Industrial Bank of Korea (IBK) and the Korea Development Bank (KDB), continued to play a substantial role in financing industrial development. In principle, the IBK and the KDB remain commercially run, but by owning 100% of the KDB Financial Group, the Government guarantees the KDB's solvency. While the Government has no direct control over the banks' lending programmes, it has injected approximately KRW 11 trillion (KRW 6 trillion until 2015) since 2004 for the purpose of capital increase, of which KRW 5 trillion since 2016; no replenishment of losses has been made for the IBK since its establishment.¹⁴⁷

3.116. 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.¹⁴⁸ With market share of SME loans at 23.1% in 2020, it remains the leader in SME finance; in 2020, loans extended to SMEs amounted to KRW 186.8 trillion (KRW 134.4 trillion in 2016), or (80.0% in 2020) of total IBK loans.¹⁴⁹ Most SME loans are financed by retail banking or debt capital market (DCM) funding, just like other commercial banks in Korea, while some are funded through government-originated loans; as at 2020, the average interest rate for new loans stood at 3.02% (3.89% in 2016). The IBK does not maximize profits given its public policy role; its financial performance is directly influenced by government policies.

3.117. The KDB continued to ensure a constant and reliable supply of funds for industries, with a particular focus on SMEs and micro enterprises (MEs), as well as the industries of the future. It 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 provide operating capital. It offers corporate banking services by extending corporate loans generated through the issuance of industrial finance bonds in the market. No loans are extended at a preferential rate to firms of a particular industry. Nevertheless, lower interest rates (around 1 percentage point lower than commercial rates) are seemingly available to SMEs willing to relocate production facilities to rural areas (excluding Seoul, Gyeonggi-do, and Chungcheong-do) or for regional development purposes.¹⁵⁰ Its Mutual Growth Fund is aimed at joint growth shared between large companies and SMEs and MEs in a win-win cooperation (i.e. whereby large firms are provided loans to be spent on ordering goods/services from SMEs); in 2019 the development of regional economies and the growth of innovative companies were encouraged by establishing a fund that supports cooperation between local MEs and innovative SMEs and start-ups.¹⁵¹ In 2019, KDB partnered with the country's top seven venture capital firms to launch the "Mega-7 Club", a joint investment council aimed at helping Korean companies grow into global unicorns. The same year, it supplied funds totalling KRW 72.9 trillion, of

¹⁴⁶ Korean LII, *KONEX*. Viewed at: <http://koreanlii.or.kr/w/index.php/KONEX?ckattempt=1>.

¹⁴⁷ Replenishment of losses can be made under Article 43 of the Small and Medium Business Bank Act.

¹⁴⁸ In 2019, the IBK On-Lending Fund financed SMEs with the desirable growth potential in future/new growth engine businesses, export industries, those headquartered in regional areas, start-up and venture business support, and the establishment of smart factories. As at end-2019, its balance reached KRW 6.2 trillion. The IBK Overseas On-Lending Fund financed SMEs that possessed experience in offshore projects with export/import performances; as at end-2019, KRW 2.5 trillion had been provided. The IBK SME Startup and Promotion Fund financed SME start-ups, restarters, and those who are in the market of building new growth drivers based on the recommendation of the Small & Medium Business Corporation. IBK (2020), *Annual Report 2019 – Connect to the Future*. Viewed at: https://www.banktrack.org/download/annual_report_2018_102/191001_koreadevelopmentbankannualreport2018.pdf.

¹⁴⁹ IBK (2020), *Annual Report 2019 – Connect to the Future*. Viewed at: https://www.banktrack.org/download/annual_report_2018_102/191001_koreadevelopmentbankannualreport2018.pdf.

¹⁵⁰ Regional development is promoted by providing loans whose interest is partially covered by local authorities or the bank itself.

¹⁵¹ Under the Mutual Growth Funds facility, KDB's own financial resources are added to deposits from large companies to provide SME and ME suppliers with loans with competitive interest rates. KDB manages 17 mutual growth funds (11 in 2016) worth KRW 734 billion in partnership with 11 large companies and 5 MEs benefiting 238 companies as of the end of 2019 (217 in 2016). KDB (2020), *2019 Annual Report*. Viewed at: https://www.banktrack.org/download/annual_report_2019_93/kdb_ar_20191.pdf.

which 65.4% was provided to SMEs and MEs; a total of KRW 5.4 trillion was provided to 333 companies through its Corporate Investment Support Program, which supports SMEs and MEs in their green and workplace safety investments.¹⁵² In 2019, KDB's on-lending programme supplied a total of KRW 7.6 trillion to 7,397 qualified SMEs and MEs, 41.1% of which was directed to companies with low credit ratings and 63.9% was provided with maturities of three years or longer, thus helping them gain a competitive edge. Nevertheless, in 2019 KDB's corporate loans were mainly directed to large enterprises (80.4%) and the rest to SMEs. KDB recorded a net profit of KRW 279 billion in 2019, KRW 427 billion less than the previous year, as operating income decreased due to a reduction in net interest income and an increase in general and administrative expenses.

3.118. On 27 May 2020, the EXIM Bank announced it would be increasing its investment through a "win-win" loan scheme (see above) in the domestic shipbuilding industry by USD 971 million (KRW 1.2 trillion), taking the total investment for 2020 up to USD 4.21 billion (KRW 5.2 trillion).¹⁵³ The authorities indicate that this a small part of the Bank's financial portfolio in the shipbuilding sector.

3.119. The Korea Credit Guarantee Fund (KODIT) and Korea Technology Finance Corporation (KOTEC) continue to provide credit guarantees to enable emerging innovation firms, especially SMEs, to gain access to finance. They are commercially run, and their operations are conducted according to market principles; however, capital funds are raised through contributions from the Government, financial institutions, etc., and the Government would cover any losses relating to the operations of the capital funds.¹⁵⁴ The supply of all technology appraisal guarantees depends upon technology ratings by KODIT's future growth evaluation system, i.e. Future Growth Potential Rating System, and KOTEC's technology appraisal system, i.e. the KIBO Technology Rating System (KTRS). The number of firms receiving KOTEC's technology appraisal guarantee services continued to grow – from 71,285 in 2016 to 78,244 in 2018 to 83,875 in 2020.¹⁵⁵ During the review period, KODIT set start-ups, exports, major industries, the Fourth Industrial Revolution industries, and job creation as "priority sectors" to comply with government policies. It offers underwriting of up to 95% of an IP valuation amount for lending or securitization, while the cost of the valuation activity is partly subsidized by the Korean Intellectual Property Office (KIPO) (Section 3.3.7.1), and the valuation work itself is done by others such as KODIT and the Korea Invention Promotion Association (KIPA).¹⁵⁶ In 2019 KODIT provided KRW 49.1 trillion (USD 42.4 billion) in credit guarantees, a KRW 2 trillion (USD 1.9 billion) increase over the previous year; it also underwrote KRW 20.1 trillion (USD 17.4 billion) in credit insurance.¹⁵⁷ In 2020 KODIT provided KRW 65.4 trillion (USD 58.5 billion) in credit guarantees, a KRW 16.3 trillion (USD 14.6 billion) increase over the previous year; it also underwrote KRW 20.4 trillion (USD 18.2 billion) in credit insurance. In 2019, KODIT provided KRW 1.7 trillion (USD 1.5 billion) in primary collateralized bond obligations (P-CBO) guarantees to SMEs and financially strapped middle-market and large enterprises affected by the COVID-19 pandemic. By easing the eligibility requirements for credit insurance, it planned to promptly underwrite enterprises incurring losses due to the COVID-19 outbreak, thus helping prevent their risk of insolvency. In 2020, KODIT provided KRW 6.7 trillion (USD 6 billion) in P-CBO guarantees to SMEs and financially strapped middle-market (middle-standing) and large enterprises affected by the COVID-19 pandemic. KOTEC has mainly focused on supporting the sectors related to the non-face-to-face and digital economies in DNA (Data, Network, AI) + BIG3 (bio/health, non-memory semiconductor, future car), the Fourth Industrial Revolution, and smart manufacturing. In 2020, it provided KRW 3.75 trillion in technology appraisal guarantee to SMEs hit hard by COVID-19. In addition, the Government sets an annual total risk target to manage the soundness

¹⁵² KDB (2020), *2019 Annual Report*. Viewed at:

https://www.banktrack.org/download/annual_report_2019_93/kdb_ar_20191.pdf.

¹⁵³ Global Trade Alert, *Republic of Korea: Eximbank Announces Increased Support of Almost \$1bn for Domestic Shipbuilders*, 27 May 2020. Viewed at: <https://www.globaltradealert.org/state-act/45614/republic-of-korea-eximbank-announces-increased-support-of-almost-1bn-for-domestic-shipbuilders>.

¹⁵⁴ Between 2016 and 2020, KOTEC lost an annual average of KRW 172 billion in its operations, and received average annual government contributions of KRW 156 billion to compensate for the losses.

¹⁵⁵ Kim Bo-eun, "KOTEC's Tech Rating System Gains Global Recognition", *The Korea Times*, 27 March 2019. Viewed at: [https://www.koreatimes.co.kr/www/biz/2020/08/488_266053.html#:~:text=In%202005%2C%20KOTEC%20developed%20its,Technology%20Rating%20System%20\(KTRS\).&text=The%20system%20assesses%20commercial%20viability,assets%20owned%20by%20SME%20clients](https://www.koreatimes.co.kr/www/biz/2020/08/488_266053.html#:~:text=In%202005%2C%20KOTEC%20developed%20its,Technology%20Rating%20System%20(KTRS).&text=The%20system%20assesses%20commercial%20viability,assets%20owned%20by%20SME%20clients).

¹⁵⁶ OECD, *Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard: Korea*. Viewed at: <https://www.oecd-ilibrary.org/sites/9fd590e7-en/index.html?itemId=/content/component/9fd590e7-en>.

¹⁵⁷ KODIT (2020), *2019 Annual Report*. Viewed at: https://www.kodit.co.kr/annualMgt/annual_20200706182206.pdf.

of the fund, recognizes risk factors early through regular monitoring and early warning models, and prepares for future insolvency through pre-emptive follow-up management.

3.120. According to OECD data, the share of government guaranteed loans to all loans to SMEs dropped slightly from 10.3% (2016) to 9.7% (2018); direct government loans to SMEs rose from KRW 4.551 trillion (2016) to KRW 4.666 trillion (2017) before dropping to KRW 4.415 trillion (2018) or 0.6% of all outstanding business loans to SMEs and then rose to KRW 4.358 trillion (2019) and KRW 6.29 trillion (2020).¹⁵⁸ The FSC financial policy roadmap for 2019 provided for KRW 4.6 trillion in government-backed loans and loan guarantees for small and medium-sized shipbuilders and equipment and auto parts manufacturers; a financial support programme of KRW 15 trillion over the next three years to support SMEs' investment in equipment, environmental safety facilities, and business reshuffling; and financing mechanisms to enable start-ups and SMEs to borrow or raise funds based on their growth potential.

3.121. On 31 March 2020, the EXIM Bank (Section 3.2.5) announced that it would expand funding for domestic SMEs struggling with the negative economic effects of the COVID-19 pandemic through an extra USD 162 million (KRW 200 billion) preferential loan programme.¹⁵⁹ Through this loan programme (i.e. SME Speed-Up Loan Program), the EXIM Bank has been able to promptly provide financing to SMEs efficiently through a streamlined process; no further information was available on the concessional terms of these loans. As of 2020, the number of beneficiaries was 139.

3.122. 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 and renewable energy, providing linkages to the SME policy fund, intensive support for technology guarantees, and support for export financing and insurance. As at end-2020, new technology appraisal guarantees of KRW 885.5 billion were provided to 1,470 leading green-growth industry companies.

3.3.1.2.2.2 Other support

Sector-specific

3.123. In light of the COVID-19 pandemic circumstances, certain manufacturing activities, including medical supplies, mobile telephone distribution and telecommunication equipment, and 5G network infrastructure, have benefited from additional support. Under the Enforcement Decree of the Medical Devices Industry Act, in force as from 1 May 2020, medical supply manufacturing companies that maintain a certain level of R&D spending have been approved to sign up for a "certification of innovation" and benefit from preferential participation in national projects, etc. Also, under the same Act, basis for the benefits such as exemptions when constructing R&D facilities in areas other than those that are designated for such usages, and various tax privileges for innovative medical device companies, were established.¹⁶⁰ According to the MOEF minutes of the 1 April 2020 Crisis Management Policy meeting containing several measures aimed at supporting domestic businesses' capacity, a provision for USD 344 million (KRW 420 billion) to SME mobile telephone distribution stores and telecommunication equipment construction companies and a commitment to increase investment in 5G network infrastructure providers, from USD 2.21 billion to USD 3.29 billion (KRW 2.7 trillion to KRW 4 trillion) for first half of 2020, were envisaged.¹⁶¹

¹⁵⁸ OECD, *Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard: Korea*. Viewed at: <https://www.oecd-ilibrary.org/sites/9fd590e7-en/index.html?itemId=/content/component/9fd590e7-en>.

¹⁵⁹ Global Trade Alert, *Republic of Korea: National Eximbank Announces Extra \$162m of COVID-19 Support Funding for SMEs*, 5 April 2020. Viewed at: <https://www.globaltradealert.org/state-act/45612/republic-of-korea-national-eximbank-announces-extra-162m-of-covid-19-support-funding-for-smes>.

¹⁶⁰ Innovative medical supply manufacturers are categorized as "innovation pioneer firms" or "innovation take-off firms". Innovation pioneer firms are companies with R&D investment proportion of at least 6% of total sales. Innovation take-off firms are companies with total sales of at least KRW 50 billion and R&D spending of over KRW 3 billion or 8% of total sales. These companies can be granted a certification of innovation by the Ministry of Health and Welfare. Reportedly, experts anticipate that the enforcement decree will speed up the development and globalization of Korea's medical supply manufacturers. Viewed at: <http://english.korcham.net/nChamEng/Service/Publications/appl/02Detail.asp>.

¹⁶¹ To resolve the financial difficulties of SME mobile telephone distribution stores and telecommunication equipment construction companies, Korea's major telecom companies (SKT, KT, and LGU+) provided support for rental fees and operation cost of distribution stores and postponement of interest

3.124. A July 2020 Korean New Deal initiative (Sections 1.2.1 and 1.2.4) to invest KRW 160 trillion (USD 133 billion) over 2020-25 based on two main policies, the Digital New Deal (KRW 58.2 trillion) and the Green New Deal (KRW 73.4 trillion), aimed to bolster job creation and enhance the competitiveness of the domestic manufacturing sector by increasing public investment in digital and green energy infrastructure.¹⁶² It aims to also to strengthen the employment and social safety net (KRW 28.4 trillion) by, *inter alia*, expanding unemployment insurance coverage to all forms of employment. Local governments and the private sector would contribute KRW 25.2 trillion and KRW 20.7 trillion, respectively, while the Central Government would cover the remaining amount. The initiative includes projects for expanding the integration of 5G and AI into industries, promoting remote working in SMEs, promoting prospective businesses to lead the green industry, establishing low-carbon and green industrial complexes, promoting renewable energy use and supporting a fair transition, and expanding the supply of electric and hydrogen vehicles. Under the Digital New Deal initiative, several support measures, including vouchers, funds, grants, and guarantees, for four sectors (strengthening the DNA (Data, Network, AI) ecosystem, digitalizing educational infrastructure, nurturing the contactless industry, and digitalizing social overhead capital) are envisaged.

3.125. During the review period, sector-specific support measures benefited the shipbuilding, automotive, and Fourth Industrial Revolution industries (above and Sections 3.3.1.2.2.2, 4.3.2, 4.4, and 4.5.4.1).

3.126. Energy subsidization appears to remain in place for the coal industry and electricity production and pricing (above and Section 4.3). 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 was to end in 2020, but this has not been the case (Section 3.3.1.1.1). As at the time of the previous Review, the authorities indicate that electricity prices should not be seen as a subsidy because the cost recovery rate stood at 106.7% in 2016, 101.1% in 2017, 94.1% in 2018, 93.1% in 2019, and 100.5% (preliminary) in 2020. Furthermore, as the total unit cost included 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. In addition, the electricity price continued to vary widely between sectors, thus creating cross-subsidies between consumers. Tariffs for industrial, residential, and commercial consumers remained considerably higher than those for agricultural consumers, standing at KRW 107.35 per kWh, KRW 107.89 per kWh, KRW 131.60 per kWh, and KRW 48.45 per kWh, respectively, in 2020. Subsidies for promotion of solar panels and other renewable energy sources to support the shifting away from nuclear and fossil fuel have been on the rise, from KRW 0.51 trillion in 2016 to KRW 0.5 trillion in 2017, KRW 0.6 trillion in 2018, and KRW 0.64 trillion in 2019 on the basis of government budget expenditure. According to another source, these amounts were much higher at KRW 1.79 trillion in 2016, KRW 2.06 trillion in 2017, and KRW 2.6 trillion in 2018.¹⁶³ Subsidies under a renewable energy certificate (REC) system that requires a power generator to buy the certificate from the private power market when it fails to meet a quota requirement for power generation using renewable sources have been in place.

repayment on mobile telephone accounts payable and early payment of construction costs, maintenance expenses, and supplies for construction companies, as well as a low-interest loan, with an aim to pursue win-win cooperation between conglomerates and SMEs. They provided KRW 420 billion in the form of support for operating expenses and low-interest loans to pursue this partnership during the COVID-19 crisis. Furthermore, major telecom companies (SKT, KT, LGU+, and SKB) increased their capital expenditure (CAPEX) for telecommunication infrastructure, such as 5G base stations, to provide greater business opportunities to SME telecommunication construction and equipment companies. Global Trade Alert, *Republic of Korea: MOEF Holds Third "Crisis Management Policy" Meeting, Announcing Increased Targeted Government Support*, 1 April 2020. Viewed at: <https://www.globaltradealert.org/state-act/45609/republic-of-korea-moef-holds-third-crisis-management-policy-meeting-announcing-increased-targeted-government-support>.

¹⁶² Government of the Republic of Korea (2020), *The Korean New Deal – National Strategy for a Great Transformation*, July 2020. Viewed at: [https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=4948#:~:text=The%20Korean%20New%20Deal%2C%20announced,employment%20and%20social%20safety%20net](https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=4948#:~:text=The%20Korean%20New%20Deal%2C%20announced,employment%20and%20social%20safety%20net;); and EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

¹⁶³ Baek Sang-kyung and Minu Kim, "Korea's Renewable Energy Subsidy Hits \$2.29 bn Last Year", *Pulse News*, 11 March 2019. Viewed at: <https://pulsenews.co.kr/view.php?year=2019&no=145510>.

3.127. Korea continues to heavily subsidize agriculture with support levels remaining well above the OECD average and the potentially most distorting forms of assistance predominate.¹⁶⁴ Producer support estimate (PSE) as a share of gross farm receipts stood at 47.9% in 2017-19, compared to an OECD average of 17.6%. Market price support (MPS) remained the dominant component of the PSE, accounting for 89% of PSE over the same period. Budgetary payments to general services directed at the sector as a whole (general services support estimate (GSSE)) averaged 14% of total support (total support estimate (TSE)) in 2017-19; its main elements remain expenditure on infrastructure (62% of GSSE), while government funding for the agricultural knowledge and innovation system accounted for 18%. Total budgetary support estimate (TBSE) dropped slightly from 0.4% (2018) to 0.3% (2019) of GDP.

3.128. According to Korea's latest WTO notifications of April 2021, covering the period 2016-18, the current total aggregate measure of support (AMS) rose from KRW 748.38 billion in 2016 to KRW 1,489.78 billion in 2017 and dropped to KRW 2.91 billion in 2018 (remaining below its final bound level of KRW 1.49 trillion), in line with WTO provisions and scheduled commitments.¹⁶⁵ Soybeans remained the only item subject to MPS; this support rose from KRW 7.26 billion (2016) to KRW 33.27 billion (2017) and dropped to KRW 8.82 billion (2018). Total domestic agricultural support (including Green Box, development programmes subject to special and differential (S&D) treatment, and *de minimis* support not subject to reduction commitments), rose from KRW 8.6 trillion (KRW 1.37 trillion excluding Green Box and S&D assistance) in 2016 to KRW 9.1 trillion (about KRW 1.4 trillion in 2018 excluding Green Box and S&D assistance) (Table A3.7). In 2018, *de minimis* support included MPS (soybeans), other product-specific assistance (e.g. rice deficiency payment of KRW 539.3 billion, milk deficiency payment of KRW 15.0 billion, and loan interest subsidies for numerous items), and non-product-specific support of KRW 789.4 billion (mainly crop insurance, direct payments, and self-help fund raising). In 2018, Green Box support remained over five times (virtually the same as in 2016) the size of Korea's total product- and non-product-specific AMS.

Foreign investment location incentives

3.129. 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 FTZs, and free economic zones (FEZs) that are divided into complex-type, individual-type, and service-type zones (Section 2.6.3). The Korea Industrial Complex Corporation (KICOX), which administers state industrial complexes, also helps foreign investors find factory sites and obtain building and related permits.¹⁶⁶ Investors are eligible for tax, cash grant, and industrial site support. Locations vary in terms of eligibility for occupation, targeted industries, and investment incentives in form of rent reduction/fixing, acquisition/property tax holidays, customs duty/VAT exemption, and cash grant, depending on their purpose of designation. Corporate tax incentives apply only to those foreign-invested enterprises that applied for them on or before 31 December 2018. This assistance, 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, was not contained at the June 2019 notification (Section 3.3.1.2).¹⁶⁷ The amount of cash grants resulting from this type of support stood at KRW 6,051 million in 2016, KRW 4,126 million in 2017, KRW 6,000 million in 2018, and KRW 6,018 million in 2019; in addition, 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 KRW 72 billion in 2016, KRW 74 billion in 2017, KRW 114 billion in 2018, and KRW 77 billion

¹⁶⁴ 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 (2020), *Agricultural Policy Monitoring and Evaluation 2020: Korea*. Viewed at: <https://www.oecd-ilibrary.org/sites/6f3ac4dd-en/index.html?itemId=/content/component/6f3ac4dd-en>.

¹⁶⁵ Schedule LX – Republic of Korea (WTO document WT/LET/804, 25 July 2011), Part IV, Section I, and WTO documents G/AG/N/KOR/80, 26 April 2021; G/AG/N/KOR/81, 26 April 2021; and G/AG/N/KOR/82, 26 April 2021.

¹⁶⁶ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

¹⁶⁷ Korea did not consider that corporation tax relief to industries located in FTZs was subject to WTO notification. WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

in 2019. As of 2020, there were 113 FIZs (98 in 2015), 13 FTZs (same as in 2015), and 7 FEZs (8 in 2015); between 2016 and 2020, five new FDI-promoting sites were set.¹⁶⁸ As of 2020, total FDI in these zones, where 925 companies (682 in 2015) employing 197,000 persons (149,000 in 2015) operated, amounted to USD 4.5 billion (USD 2 billion in 2015).

Other

3.130. Under the 2013 Act on Assistance to Korean Off-Shore Enterprises in Repatriation (amended by Act No. 17731, 22 December 2020, the so-called "U-Turn" companies enjoy various tax and non-tax benefits. Corporation and income taxes are cut in proportion to the decrease in sales of overseas operations for five to seven years, and plant and equipment investment is subsidized. SMEs can enjoy employment incentives for two years. Companies can also be subject to preferential guarantee limits from trust guarantee funds, technology guarantee funds, and trade guarantee funds, while receiving construction subsidies for building smart factories. Under the 2019 amendment of the Act, support was extended to IT services and information and communications firms. Companies based outside metropolitan areas are eligible to rent cuts for long-term leases (of 50 years) and permission to implement private contracts. To accommodate firms applying for U-Turn qualifications, "One-Stop" services to aid receiving and transporting application forms have been provided since 2019 by KOTRA.

3.131. Under the Act on Trade Adjustment Assistance (TAA), since April 2007, Korean manufacturers adversely affected by a bilateral FTA have been able to seek compensation from MOTIE and the MOEL (Ministry of Employment and 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, and inventory of the enterprise, the damage is deemed to amount to more than 10% over an extended period because of import competition.

3.3.2 Standards and other technical requirements

3.3.2.1 Standards, testing, and certification

3.132. During the review period, the institutional setting in this area remained unchanged.¹⁶⁹ The Korean Agency for Technology and Standards (KATS), under MOTIE, develops, manages, and implements Korean Industrial Standards (KS), based on the Framework Act on National Standards and the Industrial Standardization Act, jointly with nine ministries including the Ministry of Science and ICT (MSIT), Ministry of Environment (MOE), and Ministry of Oceans and Fisheries (MOF). KATS, the official enquiry point on industrial products under the WTO Agreement on Technical Barriers to Trade (TBT Agreement), is in charge of planning and coordinating national standards policy; MAFRA's Quarantine Policy Division is the enquiry point on agricultural products. 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.¹⁷⁰ Other bodies performing standards-related work include the Korea Research Institute of Standards and Science (KRISS) (responsible for metrology), affiliated with the National Research Council of Science and Technology under the MSIT as from July 2017 (previously with the Ministry of Education, Science and Technology), and the Telecommunications Technology Association (TTA), an agency affiliated with the MSIT, which is responsible for group standards for telecommunications, IT, radio

¹⁶⁸ Invest Korea, *Foreign-Invested Company Priority Zones*. Viewed at: <https://www.investkorea.org/ik-cntnts/i-371/web.do>.

¹⁶⁹ At the time of the previous Review, Korea faced huge testing and certification demand, and its testing and certification agencies appeared to lag behind their counterparts overseas (e.g. BV of France, SGS of Switzerland, and Intertek of the United Kingdom), *inter alia*, in terms of brand power and service diversity. According to the authorities, speedy and inexpensive services were provided, and there was a high level of digitalization and the ability to respond quickly to market changes. No information is available on the current state of play in terms of delays and action taken to improve overall capabilities in this area since 2016. WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

¹⁷⁰ The KSA maintains a KS Certification Support Centre and a Global Standardization Support Centre. KSA, *CEO Message*. Viewed at: https://eng.ksa.or.kr/ksa_english/5953/subview.do.

communications, and broadcasting.¹⁷¹ The National Standards Council reviews general plans for the introduction of national standards and coordinates the standards-related activities of the different ministries.

3.133. Standard development remains government-led and a significant element of Korea's industrial policy. Under the inter-ministerial fourth National Standards Plan (2016-20), key policy goals included the development of standards for new growth-engine activities for improving people's daily life and the eradication of redundant certification systems. The Plan aimed to advance the national standards system, strengthen the standard technology infrastructure, promote active participation in international standardization activities, and assist the private sector in increasing its capacity to develop standards.¹⁷² A fifth National Standards Plan will be established in the second quarter of 2021. During the review period, KATS implemented standardization strategies required for competitiveness in emerging industries and adaption to technological changes of the Fourth Industrial Revolution; efforts for KS to be reflected in the fields of the Fourth Industrial Revolution, such as a smart factory, a smart city, the Internet of Things (IoT), and big data, were undertaken.

3.134. Under the Framework Act on Administrative Regulations (last amended by Act No. 16954, 4 February 2020), a regulatory impact analysis (RIA), including a cost-benefit analysis, has been required since 1997, prior to introducing a new regulation or reinforcing existing regulations.¹⁷³ The RIA continues to be carried out by three divisions of ministries in different fields. KATS, as one of them, is implementing a technical regulatory impact assessment (TRIA) aiming to comprehensively review costs, advantages, impacts, and compatibility of regulations for technical regulation issues. In 2020, of 79 cases suggested for adjustment 72% were adjusted, compared to 102 and 52% in 2015.

3.3.2.2 Voluntary, compulsory, national, and aligned standards

3.135. 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)). The KCSs, set on the basis of the Framework Act on Broadcasting and Communications Development and operated by the MSIT, are "consolidated" into KSs. Seven ministries and two agencies (the MSIT; the MOE; MAFRA; the MOEL; the Ministry of Land, Infrastructure and Transport; the MOF; MFDS; the Korea Forest Service; and the Korea Meteorological Administration) continue to participate in the development of KSs. KATS performs the role of general management and adjustment in developing and operating standards in each sector and cooperating with each government ministry; as of 2020, it transferred 3,867 KSs, such as food products, medical devices, wood, and paper, to the seven ministries.¹⁷⁴ As from 2008, KATS has progressively been transferring its standards development role to the Cooperation Organization for Standards Development (COSD), thus enhancing private-led standards development. All categories of KSs have been entrusted to the COSD, covering more than 90% of KSs.¹⁷⁵

3.136. KATS prepares the roadmap for standardization and carries forward standard development in connection with government policies and R&D. In 2016, KATS was to proceed with national standards coordination projects in the fields of smart factory, smart health, next-generation steel, next-generation material, and wearable smart equipment. In practice, projects in the field of smart cities, autonomous vehicles, and AI/big data were carried out during the review period.

3.137. As of 2016, about 15% of all KSs (3,072) were contained in 5,470 technical regulations issued by 19 government ministries. No recent data were available from the authorities.

¹⁷¹ KRISS also manages the National Center for Standard Reference Data (NCSR). 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.

¹⁷² Between 2016 and 2019, Korea made 314 proposals for new international standards at ISO (247) and IEC (67), compared to 236 in 2010-13. KATS, *Annual Report 2018*. Viewed at: <https://www.kats.go.kr/en/content.do?cmsid=543&mode=view&page=&cid=21289>; and KATS, *Annual Report 2019*. Viewed at: <https://www.kats.go.kr/en/content.do?cmsid=543&mode=view&page=&cid=21768>.

¹⁷³ 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).

¹⁷⁴ KATS, *Standards*. Viewed at: <https://www.kats.go.kr/en/content.do?cmsid=533>.

¹⁷⁵ KATS, *Standards*. Viewed at: <https://www.kats.go.kr/en/content.do?cmsid=533>.

3.138. As at 2020, 20,916 KSs had been adopted (20,495 in 2016) and mainly allocated as follows: chemicals, textiles, and ceramics (4,564, 21.8%); machinery (3,206, 15.3%); electricity (3,733, 17.8%); metal, mining, and construction (2,310, 11%); transportation machines, shipbuilding, and the aerospace industry (1,456, 7%); IT (1,811, 8.7%); and food, environment, etc. (1,339, 6.4%). Roughly 3% (same as in 2016) of KSs have been established without any reference to international standards. As at 2020, 20,280 (97%) of KSs had been harmonized with corresponding international standards, compared to 19,880 (97%) in 2016. Non-harmonized standards, i.e. those that are either unique to Korea, with no corresponding international norm (e.g. for kimchi and domestic services for customers), or cannot be harmonized because of their link to other domestic regulations, remain in place.¹⁷⁶ In 2020, approximately 67% (66% in 2016) of all KSs were subject to international ISO/IEC harmonization.

3.139. In 2020, Korea maintained bilateral MOUs with 76 agencies (42 in 2016) from 41 countries (31 in 2016) for mutual cooperation in global standardization activities, exchange of technical information related to standards and conformity assessment, organization of standardization meetings, operation of joint education programmes, and exchange of experts.¹⁷⁷

3.3.2.3 Food, health-related, and other measures

3.140. Legislative responsibility for food safety and quality remains divided between several ministries. MFDS regulates food safety (including foods of plant, animal, and aquatic origin), whereas MAFRA deals with animal and plant health (including import quarantine measures for animal, livestock products, and plants). The MOF deals with aquatic health including import quarantine measures for live aquatic animals and their products. Safety of foods, pharmaceuticals, medical devices, and cosmetics is governed by MFDS, whose main role is to protect public health and safety, including the safety of food such as agricultural, fishery, and livestock products. MFDS, with its six regional offices, and the National Institute of Food and Drug Safety Evaluation 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 (Sections 3.3.2.6 and 3.3.3.1). Standards and specifications for meat, dairy, and egg products are handled by MFDS, whereas quarantine standards for animals and animal products are handled by MAFRA (Section 3.3.3.2).

3.141. MFDS 2020 policy objectives involved communication and cooperation with all stakeholders, support to innovative growth by reforming regulations, making Korea a global powerhouse in food and drug safety (Section 3.3.3), and preparation for the future through pre-emptive R&D.¹⁷⁸ Shifting from product-centred to people-centred approaches, MFDS in 2020 pursued the following objectives: enhancing food safety for betterment of the public health, creating an environment for safer use of drug and medical devices, and introducing food and drug safety measures that are innovative yet resonate with people.

3.142. During the review period, several initiatives were undertaken to, *inter alia*, improve drug safety and align with international standards.¹⁷⁹ The entire Korean Pharmacopoeia was amended to reflect international standards and new technologies; furthermore, in November 2019, an integrated information system ranging from licensing of medical devices based on standard codes to their distribution and usage was established. In 2019, MFDS prepared 19 guidelines and guidances,

¹⁷⁶ No information on developments on "Korea specific" standards was available from the authorities at the 2016 Review. At the time of the 2012 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. WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

¹⁷⁷ KATS, *MoU Activities*. Viewed at: <http://www.kats.go.kr/en/content.do?cmsid=408>.

¹⁷⁸ MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

¹⁷⁹ MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

including the "Questions and answers (Q&As) for structure and content of clinical study results" based on International Council on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH) guidelines; while in 2020, MFDS prepared a total of 13 guidelines and guidances including the "Guideline on Clinical Evaluation of Cardiovascular Safety" based on the ICH guidelines. Fifty-one subjects of its Good Review Practices Manuals of Policies and Practices (GRPMaPP) were newly prepared or revised to improve predictability and consistency of the clinical study process. MFDS continues to develop and revise guidelines regarding drug evaluation (e.g. implementing ICH guidelines) to harmonize with international standards. In 2019, the preliminary registration of overseas manufacturing facilities of pharmaceuticals, etc. and on-site inspection were strengthened to enable systematic and effective post-management of the facilities on par with those of domestic pharmaceuticals for which inspection was enhanced to prevent potential hazards. MFDS registered overseas manufacturing facilities and in 2019, inspected 20 facilities where potential risks were found in evaluation.¹⁸⁰ The safety in biopharmaceuticals, such as vaccines and cells, was enhanced. MFDS registered Korean drugs with the EU Whitelist (7th country doing so) in May 2019, signed the Korea-Switzerland Mutual Trust Agreement (December 2019), and maintained a national bidding grade in Viet Nam (July 2019).

3.143. Imports of pharmaceuticals continue to require a free sale certificate, issued by an authority of the exporting country (the Medical Device Act Enforcement Regulations, revised as of May 2009). Any person intending to import medical devices or pharmaceuticals must obtain an item-specific approval from, or file a notification with, 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 Regulation on Safety of Pharmaceuticals.¹⁸¹ Manufacturers must submit detailed data on certain active pharmaceutical ingredients under MFDS's Drug Master File.

3.144. Imported biological drugs remains subject to batch release testing by MFDS, even if the drugs have already been tested and released by the manufacturer and the health authority of the country of origin. The authorities indicate that the same rules and regulations continue to be 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 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 now takes up to 14.3 months or 430 days (17 months or 510 days in 2016) from the date of application for MFDS approval by a device manufacturer to the date when MFDS approval is granted and the product is launched onto the market: approval continues to take 80 days; health technology assessment takes 250 days (280 in 2016); and as from 2017 listing the product for reimbursement takes 100 days (150 in 2016).¹⁸²

3.145. Cosmetics are regulated by MFDS and fall under two categories: "functional" cosmetics and regular cosmetics.¹⁸³ Functional cosmetics include whitening, anti-wrinkle, and sunscreen and tanning products. MFDS reviews only functional cosmetics for pre-market approval. For all other regular cosmetics, the Korea Pharmaceutical Traders Association (KPTA) has been authorized by

¹⁸⁰ The legal framework for implementing overseas inspection required the passing of the Pharmaceutical Affairs Act, 11 December 2018, and the amendment of subordinate instruments (Regulation on Safety of Drugs, etc., 6 December 2019) that define criteria and procedures for concrete enforcement.

¹⁸¹ Most regulations in this area are harmonized with the International Conference on Harmonization (ICH) guidelines. Since March 2016, MFDS has participated in ICH as an observer and later became a regulatory member.

¹⁸² Yet, in the case of the health technology related to in-vitro diagnostic tests or genetic tests, the result of the assessment shall be notified within 140 days after receipt of an application, subject to a one-time extension of 110 days if additional examination is required or any other unavoidable circumstances exist.

¹⁸³ In 2020, Korea was among the world's 10 largest cosmetics markets, removed from the 8th position by India in 2018. According to 2021 revenue projections, it is to drop to the 12th position, representing nearly 1.8% of the global market and worth USD 1.6 billion (USD 1.4 billion in 2016). International Trade Administration, *South Korea: Cosmetics*. Viewed at: <http://www.export.gov/southkorea/doingbusinessinkorea/leadingsectorsforusexportsinvestment/cosmetics/index.asp>; Cosmetic Obs, *COVID-19: Overview of the South Korean Cosmetic Market*, 14 April 2020. Viewed at: <https://cosmeticobs.com/en/articles/cosmetics-news-7/covid-19-overview-of-the-south-korean-cosmetic-market-5253>; and Statista, *Cosmetics: South Korea*. Viewed at: <https://www.statista.com/outlook/70010000/125/cosmetics/south-korea>.

MFDS to review and certify import permission requests submitted by the Korean importer. MFDS administers registration requirements on imported and domestically produced functional cosmetics. Importers must conduct "self-regulated" quality inspections for each product type to ensure conformity with the cosmetic standards and test methods.¹⁸⁴ MFDS determines compliance of cosmetic manufacturers to Cosmetic Good Manufacturing Practices (CGMP) through inspection and evaluation prior to awarding them with the certification; as of end-December 2020, 165 companies were registered as CGMP-compliant firms.¹⁸⁵ Cosmetics importers are required to file a customs report to, and obtain prior approval from, the 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 overseas are not considered as such in Korea; reportedly, this makes it hard to harmonize regulations with other countries. Depilatory and hair dye products were placed under the category of cosmetics pursuant to the amendment of the Enforcement Rule of the Cosmetics Act on 12 January 2017, enforced from 30 May 2017. Among industrial or uncontrolled products, the chemicals directly used on the human body, such as cosmetic soaps (solid soaps) for cleaning the human body, instant hair thickeners, and hair removal wax, were placed under the category of cosmetics by the amendment of the Enforcement Rule of the Cosmetics Act on 31 December 2018, enforced from 31 December 2019.¹⁸⁶

3.146. During the review period, further action was taken in the areas of registering and notification of toxic chemicals. The amendments of the 2015 Act on Registration and Evaluation, etc. of Chemical Substances (AREC or K-REACH), which went into effect on 1 January 2019, brought a significant deviation from the regulatory mechanisms outlined in the previous version.¹⁸⁷ They provide existing substances (≥ 1 t/a) with the corresponding grace period – from 2021 to 2030 – according to manufacturing or importing quantity if their pre-registration is made before 30 June 2019. All new chemical substances are required to be registered. Pre-registration of existing chemical substances (≥ 1 t/a) before 30 June 2019 has been necessary to be eligible for the corresponding grace period. All new chemical substances are required to be registered. However, new chemical substances (< 100 kg/a) only require notification rather than registration. AREC requires manufacturers and importers of chemical substances to register or notify it before manufacture or import. Concerns relating to the lack of guidance around implementation, the insufficient time for companies to implement the requirements, and AREC's lack of protection for confidential business information have been raised (Section 3.3.2.5).¹⁸⁸

3.147. The Chemicals Control Act (CCA), which protects public health and prevents environmental harm caused by chemical substances by strengthening the criteria for the handling and management of chemicals, previously managed under the Toxic Chemicals Control Act (TCCA), was amended in and enforced from 2015. Several additional revisions of the amended CCA were enforced from April 2021.¹⁸⁹ It now requires that business places handling hazardous chemicals shall prepare and implement a chemical accident prevention management plan, comply with standards of handling facility, undergo regular inspections, and fulfil other obligations such as business permission and regular education programs. MFDS's Standards & Specifications for Equipment and Container/Packaging (Packaging and Container Code) provides general standards for equipment, containers, and packaging for food products and specifications for individual packaging materials.¹⁹⁰

¹⁸⁴ WTO document WT/TPR/S/268/Rev.1, 8 November 2012.

¹⁸⁵ MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

¹⁸⁶ MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

¹⁸⁷ REACH24H, *K-REACH*. Viewed at: <https://www.reach24h.com/en/service/chemical-service/k-reachact-on-registration-and-evaluation-etc-of-chemical-substances.html>.

¹⁸⁸ USTR (2020), *2020 National Trade Estimate Report on Foreign Trade Barriers*. Viewed at: https://ustr.gov/sites/default/files/2020_National_Trade_Estimate_Report.pdf.

¹⁸⁹ REACH24H, *Korea CCA (Chemical Control Act)*. Viewed at: <https://www.reach24h.com/en/service/chemical-service/korea-cca-chemical-control-act-compliance.html>.

¹⁹⁰ USDA Foreign Agricultural Service, *Food and Agricultural Import Regulations and Standards, Country Report: Korea, Republic of*, GAIN Report Number KS2020-0081. Viewed at: <https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Food%20and%20Agri>

In 2019, the MOE published partial amendments to the Rule of the Act on the Promotion of Saving and Recycling of Resources to promote recycling and reduce unnecessary waste. These amendments require packages to be evaluated, graded, and labelled for the recyclability of packaging materials.

3.3.2.4 Conformity assessment

3.148. KATS remains 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, calibration, and medical testing laboratories, as well as the Korea Accreditation System (KAS), which accredits product certification bodies. Accreditation accords with internationally recognized standards. As of end-March 2021, there were 613 testing laboratories (496 in 2016), 260 calibration laboratories (212 in 2016), 12 medical testing laboratories accredited by KOLAS (6 in 2016), and 23 product certification bodies accredited by KAS (20 in 2016).¹⁹¹

3.149. Korea maintains a single national integrated certification mark, the Korea Certification (KC) mark, which has been fully implemented since January 2011. The KC mark and the corresponding KC certificate are valid for 730 different products, such as automotive parts, machines, and many electronic products.¹⁹² This test mark confirms that the product meets the relevant Korean Safety Standard, called K Standard. K Standard requirements are often similar to the respective IEC Standard (Standard of International Electrotechnical Commission).

3.150. The 4th Comprehensive Plan on Quality Management for 2016-20 consisted of four main projects: fundamental establishment on smart quality management, global trend on quality management, capability reinforcement for enhancing quality management of small and medium-sized manufacturing companies, and advancement of quality management infrastructure.

3.151. Certification authorities are encouraged to negotiate MRAs with foreign counterparts. KOLAS is a signatory to the International Laboratory Accreditation Cooperation (ILAC) Multilateral Recognition Arrangement (MLA) for testing, calibration, and medical testing; as of March 2021, 103 accreditation bodies from 105 economies had signed the ILAC MRA MLA. KAS is a signatory to the International Accreditation Forum (IAF) MLA for product certification. The Korean Accreditation Board (KAB) is a signatory to the IAF MLA for management systems certification and certification of persons. KOLAS, KAS, and KAB are the signatories to the APAC (Asia-Pacific Accreditation Cooperation) MRA. The main scope of KOLAS under the APAC MRA is testing, calibration, and medical testing, while the main scope of KAS is product certification, and those of KAB are management systems certification and certification of persons. Korea is also a member of the Asia-Pacific Economic Cooperation (APEC) MRA on Conformity Assessment of Telecommunications Equipment (Phases I and II) and of Part I of the APEC Electrical MRA; it does not intend to participate in Parts II and III of the latter. It joined the MRA on Conformity Assessment of Electrical and Electronic Equipment in 2015.

3.152. Korea maintains an APEC-TEL MRA Phase I with Canada (1997), the United States (2005), Viet Nam (2006), and Chile (2007) on recognition of test results for telecommunications equipment and Phase II with Canada (2017) on recognition of certification results for telecommunications equipment; RTAs with the European Union (2011) and the United Kingdom (2021) with provisions on recognition of conformity assessment for electronics equipment; and an MRA with Singapore (2006) on electrical and electronic appliances under the Korea–Singapore RTA. Under the Industrial Technology Innovation Promotion Act, the New Excellent Product (NEP) certification system continues to cover products manufactured with new technologies developed first in Korea or improved with innovative technologies.¹⁹³ The certificate is valid for three years. NEP-certified products receive government support to expand sales channels and accelerate technology development. NEP-certified products receive an additional qualification point in procurement by

[cultural%20Import%20Regulations%20and%20Standards%20Country%20Report_Seoul_Korea%20-%20Republic%20of_12-31-2020.](#)

¹⁹¹ KOLAS, *Calibration*. Viewed at: https://www.knab.go.kr/en/Calibration_Search.do.

¹⁹² MPR International – Korea Certification, *What Is KC Certification for South Korea?* Viewed at: <https://www.korea-certification.com/en/kc/what-is-kc-certification/>.

¹⁹³ KOITA, *Awards & Certifications*. Viewed at: <http://eng.koita.or.kr/activities/activities/awardcertification.asp>.

government and public organizations. According to the authorities, the NEP system does not affect international trade.

3.153. MFDS facilitates food imports through the "authorization of foreign testing laboratories" system, which covers inspection agencies authorized by the Government of the exporting countries and MFDS; it includes 60 agencies in 8 countries. As of 31 December 2020, the total number of agencies classified by categories were as follows: food (163 including 60 foreign institutions and 25 statutory institutions), livestock (80 including 26 statutory institutions), pharmaceuticals (47 including 24 statutory institutions), cosmetics (41 including 24 statutory institutions), medical devices (14 including 1 statutory institution), and sanitary goods (36 including 24 statutory institutions).¹⁹⁴ Test results issued by foreign agencies are recognized by MFDS, and therefore, relevant imports are exempt from laboratory inspection when they are imported for the first time to Korea. Korea has not joined the APEC MRA on Conformity Assessment of Foods and Food Products.

3.154. Under the Act on the Management and Support for the Promotion of Eco-Friendly Agriculture/Fisheries and Organic Foods (New Organic Act) (last amended by Act No. 18026, 13 April 2021), as from 2 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 National Agricultural Products Quality Management Service (NAQS).¹⁹⁵ As of December 2020, 29 Korean certifying agencies (15 in 2015) and 2 foreign certifying agencies (4 in 2015) were accredited by MAFRA's NAQS for certification of organic processed food products.¹⁹⁶ Korea maintains a zero-tolerance policy for the inadvertent presence of biotech content in processed organic products (Sections 3.3.2.6 and 3.3.3.1); for any organic products that test 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. In lieu of certification by accredited certifying agents, the Act allows MAFRA to have an equivalency agreement on processed organic products with foreign trade partners; two bilateral equivalency arrangements (Korea–United States (2014), Korea–European Union (2015)) allow for processed food products certified as organic in the United States, the European Union, or Korea to be sold as organic in any of the three markets without having to go through another costly certification process under the importing country's standards.

3.3.2.5 Transparency

3.155. 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 2016 and 12 February 2021, Korea made 348 new notifications (281 in 2012-15), of which 323 were regular, under the WTO TBT Agreement; the majority remained under Article 2.9 of the Agreement, and in 83.3% of the notified cases (91.1% in 2012-15) the timeliness of the submission allowed for a comment period of 60 days or more, while in only 9% of cases (11% in 2012-15) the period was less than 45 days.¹⁹⁷ 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.¹⁹⁸ KATS runs a TBT Notifications Alert Service,

¹⁹⁴ MFDS (2020), *White Paper 2020*, 29 April. Viewed at:

https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

¹⁹⁵ The certification for organic produce is classified into two categories: organic and no-pesticide. For livestock products, two categories of certification are available: organic and no-antibiotic.

¹⁹⁶ USDA Foreign Agricultural Service, *Food and Agricultural Import Regulations and Standards, Country Report: Korea, Republic of*, GAIN Report Number KS2020-0081. Viewed at: https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20Country%20Report_Seoul_Korea%20-%20Republic%20of_12-31-2020.

¹⁹⁷ Since 2015, Korea has used the online TBT notification submission system to submit all notifications of Technical Regulations and Conformity Assessment Procedures. WTO documents G/TBT/39/Rev.1, 24 May 2017; G/TBT/40, 12 March 2018; G/TBT/42, 25 February 2019; G/TBT/44, 19 February 2020; and G/TBT/45, 18 February 2021.

¹⁹⁸ Korean Network on World TBT, *TBT Central Secretariat – Introduction*. Viewed at: <https://www.knowtbt.kr/main.do?menuNo=2001110&nttId=null>.

which transmits TBT notifications to stakeholders by email and encourages them to submit their comments.

3.156. 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. ballast water, textile products for infants, warning on alcoholic beverages drinking, package recycling, energy efficiency management equipment, household chemical and biocidal products, and wood products).¹⁹⁹

3.3.2.6 Labelling and packaging

3.157. MFDS continues to develop labelling standards for food including livestock products, while regional offices inspect imported foods and enforce labelling requirements upon arrival; provincial authorities verify labelling of domestic and imported goods in the marketplace.²⁰⁰ All imported food products are required to carry legible Korean language labels. Labelling requirements include nutritional labelling, voluntary colour-coded labelling, high caffeine content labelling for liquid products, functional food labelling, liquor labelling, country of origin labelling (COOL) (by MAFRA), and genetically modified (GM) labelling for unprocessed agricultural products and processed food (see below).²⁰¹

3.158. Beef retailers and distributors remain required to keep track of all transactions from the importing stage to the final retail level.²⁰² A traceability system for infant/baby food, health functional food, and milk formula is also required. In December 2019, MFDS introduced a four-part traceability system for food for pregnant/lactating woman, special medical-purpose food, and weight-control food depending on the annual sales value; its fourth phase covering all manufacturers of these products is to be implemented in December 2021.²⁰³ Importers are required to establish a traceability system from the point when imported products arrive in Korea throughout distribution.

3.159. GM corn, soybeans, cotton, rapeseed, sugar beets, and alfalfa (including sprouts originating from these items), as well as foods suitable for consumption containing these products and notified as such by MFDS, remain subject to mandatory GMO labelling requirements. GMO foods for which identity preservation documents or government-issued certificates were submitted are exempted from GMO labelling requirements. 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 must keep records for up to two years to prove that unlabelled foods subject to GMO labelling requirements are GMO free. The Living Modified Organisms (LMO) Act (Section 3.3.3.1) continues 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. In 2017, MFDS implemented new biotech labelling

¹⁹⁹ Historically, Korean measures are frequently subject to TBT STCs. Overall, from 1995 to 2020, 130 STCs (7 new in 2016-20) were raised against Korean measures before the TBT Committee. As at its previous Review, Korea remains the 4th WTO Member most subject to STCs discussed in the Committee, only behind the European Union, China, and India or the United States depending on the year. WTO documents G/TBT/39/Rev.1, 24 May 2017; G/TBT/40, 12 March 2018; G/TBT/42, 25 February 2019; G/TBT/44, 19 February 2020; and G/TBT/45, 18 February 2021.

²⁰⁰ MFDS, *Food Labeling System*. Viewed at: https://www.mfds.go.kr/eng/wpge/m_14/de011005I001.do; and USDA Foreign Agricultural Service, *Food and Agricultural Import Regulations and Standards, Country Report: Korea, Republic of*, GAIN Report Number KS2020-0081. Viewed at:

https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20Country%20Report_Seoul_Korea%20-%20Republic%20of_12-31-2020.

²⁰¹ The Act on Origin Labelling of Agricultural and Fishery Products was last partially amended by Act No. 16119, 31 December 2018 and enforced from 1 July 2019.

²⁰² USDA Foreign Agricultural Service, *Food and Agricultural Import Regulations and Standards, Country Report: Korea, Republic of*, GAIN Report Number KS2020-0081. Viewed at:

https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20Country%20Report_Seoul_Korea%20-%20Republic%20of_12-31-2020.

²⁰³ Tingmin Koe, "Special Purpose Foods Law: South Korea's Third Phase of Mandatory Traceability Programme Kicks in this December", *NutraIngredients-Asia*, 10 February 2021. Viewed at:

<https://www.nutraingredients-asia.com/Article/2021/02/10/Special-purpose-foods-law-South-Korea-s-third-phase-of-mandatory-traceability-programme-kicks-in-this-December>.

requirements that expanded mandatory labelling to all detectable products.²⁰⁴ Soy, corn, cotton, canola, sugar beets, alfalfa, and any newly approved GM crops or food products containing these crops are subject to the biotech labelling requirement. If detectable biotech DNA is present in the final product, biotech labelling is required. If an imported product arrives without appropriate supporting documents or a test certificate, it can either be labelled as GM food or tested by MFDS-accredited laboratories in Korea prior to customs clearance. If the product tests negative, it may be exempt from biotech labelling. In 2020, MFDS planned to introduce a use-by-date labelling system that informs consumers of a safe consumption period (instead of sell-by date of food) and submit the draft of the amendment to the Act on Labelling and Advertising of Foods to the National Assembly.²⁰⁵

3.160. Origin labelling remains mandatory for food and many other imports of 681 four-digit tariff lines (674 in 2015) in 2021. The use of the term "Assembled in Country X" has been allowed since October 2010. The KCS's Origin Mark Registration and Retrieval System enables users to check origin markings by trader or item.

3.161. MFDS's Packaging and Container Code provides general standards for equipment, containers, and packaging for food products and specifications for individual packaging materials.²⁰⁶ In 2019, the MOE published partial amendments to the Rule of the Act on the Promotion of Saving and Recycling of Resources to promote recycling and reduce unnecessary waste. These amendments require packages to be evaluated, graded, and labelled for the recyclability of packaging materials.

3.3.3 Sanitary and phytosanitary requirements

3.3.3.1 Food standards-setting framework

3.162. Korea's regulatory system takes into account the opinions of consumers and industry, and reflects them in the decision-making process.²⁰⁷ The main laws affecting food standards and specification are the Food Sanitation Act (last amended by Act No. 16431, 30 April 2019), the Food Code, and the Food Additive Code. Since 2008, a Food Safety Policy Committee has comprehensively revised and coordinated 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, and 2015-16) to carry out food safety control schemes to prevent hazardous food at all stages of the food chain from production to distribution. Under the amended Special Act on Imported Food Safety Control, published on 7 April 2020, MFDS applies mandatory Hazard Analysis of Critical Control Point (HACCP) certification to imported foods prescribed by Ordinance of the Prime Minister in an effort to enhance control over imported food hazards. This requirement applies to the foreign food facilities that manufacture food products and that are highly likely to incorporate hazardous substances or be contaminated during raw material storage or the manufacturing.²⁰⁸

²⁰⁴ MFDS, *Food Labeling System*. Viewed at:

https://www.mfds.go.kr/eng/wpge/m_14/de0110051001.do; and USDA Foreign Agricultural Service, *Food and Agricultural Import Regulations and Standards, Country Report: Korea, Republic of*, GAIN Report Number KS2020-0081. Viewed at:

https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20Country%20Report_Seoul_Korea%20-%20Republic%20of_12-31-2020.

²⁰⁵ MFDS (2020), *White Paper 2020*, 29 April. Viewed at:

https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

²⁰⁶ USDA Foreign Agricultural Service, *Food and Agricultural Import Regulations and Standards, Country Report: Korea, Republic of*, GAIN Report Number KS2020-0081. Viewed at: https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20Country%20Report_Seoul_Korea%20-%20Republic%20of_12-31-2020.

²⁰⁷ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

²⁰⁸ "Imported foods prescribed by Ordinance of the Prime Minister" refers to kimchi among kimchi products, a subcategory of pickled foods or boiled foods in accordance with Article 3 (3) Foods Subject to Certification of the Enforcement Rule of the Special Act on Imported Food Safety Control which came into effect with promulgation as of July 1, 2021. Viewed at:

https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

3.163. The responsibility of implementing the HACCP programme and the recall systems for food, livestock, and dairy products remains under MFDS. During the review period, the programme's coverage and implementation continued to rise. In 2020, the HACCP system was expanded to cover up to about 87.5% of all processed foods (86.5% in 2019).²⁰⁹ The number of HACCP-certified businesses increased significantly from 13,991 firms in 2015 to 17,152 in 2017 and 21,665 in 2020 (7,685 food; 13,980 livestock). MFDS blanket inspections without notice on companies requiring HACCP compliance showed an increasing non-conformity rate that stood at 8.4% for the period January-December 2020 (4.4% in 2018). In order to secure efficiency of HACCP-related tasks, on 13 February 2017 MFDS established the Korea Institute for Food Safety Management Accreditation (KIFSMA) by integrating HACCP certification organizations for foods and livestock products that had been individually operated; this development also addressed inconveniences of businesses by unifying the HACCP certification process. In 2020, MFDS planned to support expenses (KRW 6 billion) for the setting of a smart HACCP system in connection with the MSS Smart Factory Project by signing an MFDS-MSS MOU for building 60 smart factories.²¹⁰ In addition, 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 (see below).

Maximum residue levels (MRLs)

3.164. MFDS remains responsible for regulating pesticide residues in foodstuff, in accordance with the MRLs set in the Food Code and the Regulation on Pesticide and Veterinary Drug Residue and applied for both domestic and foreign products.²¹¹ The authorities indicate that MRLs are established based on the scientific residue data. Korea maintains three categories of MRLs in its Food Code: (i) national MRLs based upon domestic registration; (ii) import tolerances based upon residue data from a third country; and (iii) several thousand temporary MRLs set for a smooth implementation of the Positive List System (PLS) (see below).²¹² The temporary MRLs would be deleted after the end of 2021, unless national MRLs or import tolerances are set by that time.²¹³ As of December 2020, MFDS had set MRLs for 516 pesticides in agricultural products compared to 454 in June 2016. The Food Code also listed MRLs for 101 pesticides (82 in 2016) and 212 veterinary drugs in meat, fish, eggs and milk products (185 in 2016).²¹⁴ In addition to the Food Code, MFDS maintains an MRLs database (Pesticide Residue Database) for agricultural products, in Korean with English subtitles.

²⁰⁹ In 2017 when pesticide-contaminated eggs were detected, MFDS established an edible egg packaging system and designated it as a mandatory requirement to conform to HACCP standards so as to enhance sanitation quality of the egg distribution and management system. Mandatory application of HACCP on processed meat product businesses dealing with ground processed meat (such as hamburger patties) is being enforced from 2018 to 2024 in multiple phases based on annual sales. The scope of mandatory HACCP certification was expanded (December 2014-December 2020) to eight food items including kids' favourite foods. MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

²¹⁰ MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

²¹¹ In addition to MFDS, MAFRA and the MOE continue to handle pesticide-related matters. The Rural Development Administration (RDA) remains responsible for pesticide registration, MAFRA's NAQS is responsible for testing pesticide levels in agricultural products, and the MOE for testing pesticide levels in water and soil.

²¹² USTR (2020), *2020 National Trade Estimate Report on Foreign Trade Barriers*. Viewed at: https://ustr.gov/sites/default/files/2020_National_Trade_Estimate_Report.pdf.

²¹³ According to the authorities, at present if MRLs are not established on certain agricultural products in the Korean Food Code, uniform MRLs of 0.01 mg/kg will be adapted. At the time of the previous Review, it was indicated that if an MRL was established in the Food Code for a pesticide in a particular agricultural product, other tolerance levels, such as CODEX, were not accepted. However, for pesticides where tolerance levels had not been established in the Korean Food Code, the following rules applied: the CODEX standards set for a particular agricultural product (excluding crop groupings) in question should apply; if the previous provision was not applicable, the lowest residue limit for the pesticide in question for a similar agricultural product should apply; and if both previous provisions were not applicable, the lowest of the residue limits of the pesticide for any agricultural crop applied.

²¹⁴ USDA Foreign Agricultural Service, *Food and Agricultural Import Regulations and Standards, Country Report: Korea, Republic of*, GAIN Report Number: KS2020-0081. Viewed at: https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20Country%20Report_Seoul_Korea%20-%20Republic%20of_12-31-2020.

3.165. As from 1 January 2019, MFDS fully implemented the PLS that to all pesticides in agricultural products except for those with MRLs set in Korea.²¹⁵ In addition, to minimize possible damage from non-standardized pesticides, MFDS set 5,320 MRLs for 314 pesticides that are needed at home and abroad; the limits were set at a level considered safe for the human body. Under the PLS, Korea would no longer allow imports of food containing agro-chemical residues unless the substance has been approved for the commodity in question and an MRL has been established. Korea implemented the PLS for tropical fruits, oilseeds, and tree nuts in December 2016.

3.166. Korea plans to introduce a PLS for veterinary drugs in fish and five livestock products, including beef, pork, chicken, egg, and milk, which is to be implemented as from 2024. In 2019, the first stage in laying the ground for a PLS on residues present in livestock/fishery products was launched. Prior to implementing this PLS, the default MRL for antimicrobials that have no MRL set in the Korea Food Code is to be lowered from 0.03 mg/kg to 0.01 mg/kg as from 2022; Korea maintains import tolerances based on residue data from exporting countries to help them export livestock/fishery products to Korea.²¹⁶ To push ahead with the PLS for residues in livestock/fishery products, MFDS also operated a Pan-Ministry Council on the Safe Control of Residues, consisting of nine agencies, including MAFRA.

Food additives

3.167. All food additives require prior approval. Food importers have to provide lists of all food ingredients and additives to MFDS and the Animal and Plant Quarantine Agency (QIA) (Section 3.3.3.2) for customs clearance; the ingredient content ratio (mixture ratio of materials) is not required. As of December 2020, Korea had a positive list of 619 approved food additives (605 in 2015). During the review period, Korea integrated chemical synthetics and natural additives into food additives and reorganized the classification system with 32 uses. Food additives and related items are now grouped into 2 categories (previously 3): food additives (619 items) and mixed substances (7 categories of mixture of approved additives).²¹⁷ Most additives and/or preservatives are approved and tolerance levels are established on a product-by-product basis, therefore tolerances can vary from product to product. 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.²¹⁸ Getting a new additive added to the approved list usually takes a year or more. In 2019 MFDS established a rule for banning direct consumption of food additives to prevent safety accidents, amended the definition of natural flavours, allowed gilt for external decoration of food, expanded the standards for the sorbic acid or sorbate routinely utilized in mayonnaise, established the scope and use standards for food additives available for culturing microbes, and eased requirements for

²¹⁵ MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

²¹⁶ More specifically, MFDS enlarged the list of "substances that shall not be detected in food" (from 18 to 25 types) to prevent unsafe veterinary drugs with carcinogenicity or genetic toxicity from being used in food, enhanced a uniform detection limit relevant to antibiotics with no limit from 0.03 mg/kg to 0.01 mg/kg to ensure consumer safety by preventing consequences such as antibiotics resistance resulting from misuse and abuse, set MRLs for 17 veterinary drugs under use approval and 14 pesticide ingredients that tend to be unintentionally present through feeds at a level safe for the human body, and created a list of substances exempt from MRLs (veterinary drugs of 177, pesticides of 61). MFDS (2020), *White Paper 2020*, 29 April. Viewed at:

https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

²¹⁷ USDA Foreign Agricultural Service, *Food and Agricultural Import Regulations and Standards, Country Report: Korea, Republic of*, GAIN Report Number KS2020-0081. Viewed at: https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20Country%20Report_Seoul_Korea%20-%20Republic%20of_12-31-2020.

²¹⁸ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

safety data submission while applying for new designation of food additives (e.g. enzymes) made using those microbes.²¹⁹

3.168. A 2009 system of managing safety of original equipment manufacturing (OEM) food imports in the *Food Sanitation Act* mandates OEM food importers to perform on-the-spot inspection and self-quality control for OEM food products.²²⁰ OEM product importers are subject to on-site sanitation audits of foreign food facilities/establishments conducted by imported food sanitation audit institutions according to the sanitation inspection standards prescribed by MFDS. 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 gained.

Genetically modified products and LMOs

3.169. During the review period, legislation on the marketing of genetically modified agricultural products (GMAPs) remained unchanged and continues to apply equally to domestic and imported GMAPs. The 2008 Act on Transboundary Movement of Living Modified Organisms (LMO Act) implements 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 revised in December 2017 and became effective in December 2018, to amend the scope of "Contained Use" to expand from GM microorganisms to GMOs (including animals and plants); in December 2018, the Enforcement Decree, the Enforcement Regulations, and the Consolidated Notice were revised simultaneously to reflect the revised LMO Act. The LMO Act was last revised in December 2018 to improve the composition of the Bio-Safety Commission and became effective in June 2019.

3.170. Food safety and environmental risk assessments (ERAs) are mandatory on biotechnology crops and LMOs. As indicated by the authorities at the previous Review, 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. The authorities consider that the approval procedure is legitimate and does not lead to unnecessary delays. MFDS remains responsible for risk assessment for human health of food-related GMAPs. It has authority to conduct mandatory safety assessments to evaluate GMOs in products used for human consumption. The Rural Development Administration (crop cultivation environment), the National Institute of Ecology overseen by the MOE (natural ecosystem), and the National Fisheries Research and Development Institute (marine ecosystem) are responsible for ERAs. In accordance with the LMO Act, MFDS conducts risk assessment for human health on food, and the Korea Centers for Disease Control and Prevention (KCDC) carries out the same on feed for industrial use. As indicated at the previous Review, the authorities consider that there were neither overlaps of data requirements nor unnecessary delays in the LMO food-approval process. As of 31 December 2020, 193 GMAP applications were submitted, and 178 events (corn (92), cotton (30), beans (29), canola (17), potato (4), sugar beets (1), and alfalfa (5)) were approved; in addition, GM microorganisms (7) and food additives derived from GM microorganisms (26) were approved for food safety.²²¹ So far, no GM crops have been grown in Korea and, therefore, the process for crop and food-approval has been applied only to imported products. By 31 March 2021, MAFRA had completed 169 applications for review of environmental risks of LMOs for industrial use in agroforestry and livestock sectors, including soybeans (29), maize (87), cotton (31), canola (17), and alfalfa (5).

²¹⁹ MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

²²⁰ OEM food products refer to imported foods, food additives, health functional foods, and processed livestock products manufactured or processed by overseas contractors and labelled with an importer's brand. Agricultural and forestry products are excluded.

²²¹ MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

3.171. Korea implements the Advance Informed Agreement Procedure for the first intentional transboundary movement of an LMO for intentional introduction into the environment of a country, as well as labelling requirements for GMOs and LMOs (Section 3.3.2.6).

3.3.3.2 Quarantine regulations

3.172. During the review period, the main laws on quarantine requirements for imports (and exports), the Plant Protection Act (last amended by Act No. 16784, 10 December 2019), the Contagious Animal Disease Prevention Act (last amended by Act No. 17653, 22 December 2020), and the Aquatic Creatures Disease Control Act (last amended by Act No. 17036, 18 February 2020) were revised. SPS measures are taken mainly against diseases that are foreign/unknown to Korea and that are subject to strict domestic control measures. Animal and plant quarantine and inspection continue to be handled by the Animal and Plant Quarantine Agency (APQA) under MAFRA, and fisheries by the National Fishery Products Quality Management Service (NFQS) under the MOF.

3.173. 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 for planting from countries with prohibited quarantine pests, such as *Citrus huanglongbing* (greening) disease and *Radopholus similis*, etc., are also prohibited or restricted.

3.174. Animal and animal products are subject to inspection and quarantine. Document and organoleptic inspections 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 African swine fever (ASF). 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 highly pathogenic avian influenza (HPAI) are banned, but those of poultry meat that is heat-processed to inactivate the HPAI virus are allowed. Suspension of imports because of an ASF outbreak in several countries was also enforced during the review period. The comprehensive list of all HPAI-, ASF-, and bovine spongiform encephalopathy (BSE)-related import suspensions by product and origin is available on the APQA website (https://www.qia.go.kr/english/html/Animal_livestock/02AnimalLivestock_quar_ins_info_eng.jsp). Cheese imports must meet Korea's pasteurization requirements.²²²

3.175. In May 2019, Korea lifted import restrictions on beef from the Netherlands and Denmark in place since 2000 in response to the outbreak of BSE in Europe; applications from some other EU Member States concerning the lifting of these restrictions are being considered.²²³

3.176. As of June 2021, Korea maintained the import restriction on Japanese foods, such as fishery products from Fukushima, and planned a pan-government response in preparation for circumstances like contaminated water released into the sea from the Fukushima nuclear plant.²²⁴ Following the disaster at the Fukushima nuclear plant, since March 2011 Korea has prohibited imports of 27 agricultural products from 14 prefectures that were under distribution restriction in Japan (Section 3.1.5).²²⁵ Since May 2011, 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 proving that the food products in question were not contaminated. In April 2011, Korea imposed an import ban on 50 fishery products from 8 prefectures (Aomori, Chiba, Fukushima, Gunma, Ibaraki, Iwate, Miyagi, and Tochigi) that were under distribution restriction in Japan. Following the discovery of continuing leakages of contaminated water, in September 2013 Korea implemented temporary measures including testing requirements; in 2013, it also extended this import ban to all Japanese fishery products from the eight prefectures, and the ban remains in

²²² In Korea, pasteurization temperature is regarded as 63°C-65°C for 30 minutes, 72°C-75°C for 15 seconds or equivalent methods.

²²³ OECD (2020), *Agricultural Policy Monitoring and Evaluation 2020*. Viewed at: <https://doi.org/10.1787/928181a8-en>.

²²⁴ MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

²²⁵ The items subject to this action included rice, tea, spinach, mushrooms, chestnuts, kiwi, leafy greens, and bamboo shoots. WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

place. Some of these measures led to a WTO dispute settlement case in 2015 that was settled as of 30 May 2019.²²⁶

3.177. During the review period, the demand for simplifying sanitary conditions for import has increased in the wake of growing multilateral trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).²²⁷ In November 2019, MFDS introduced a Rapid Clearance System for Planned Import, allowing reliable business operators with a long-time record of importing food safely with no record of non-compliance to pass the customs clearance procedure immediately after import declaration; in 2020, 72 planned import items of 23 firms were to benefit from this facility. As from April 2020, rapidly blocking customs clearance of food (and medicine) by linking information on hazardous products with the KSA's Integrated Risk Management-PASS (IRM-PASS) has been possible. Furthermore, in 2019, MFDS introduced an Inspection Order System for the Distribution Stage, requiring business operators to voluntarily examine distributed food imports that may pose harm and prove the safety of their products; orders to inspect distributed barley bud powder products (content more than 50%) with many non-conformity records at the customs clearance stage were issued.

3.3.3.3 Transparency

3.178. Between January 2016 and 17 February 2021, 227 notifications (161 in 2012-June 2016) were submitted under the WTO Agreement on Sanitary and Phytosanitary Measures (SPS Agreement). This number includes 177 regular notifications, 7 emergency notifications, and 43 addenda/corrigenda. Korea maintains MOUs on food safety and quality standards with China's General Administration of Quality Supervision, Inspection and Quarantine (signed October 2003, revised December 2013), Chile (June 2006), Viet Nam (May 2018), Food Standards Australia New Zealand (FSANZ) (July 2011), and the Philippines (Manila) WHO Western Pacific Regional Office (WPRO) (July 2011, revised June 2016).

3.3.4 Competition policy and price controls

3.3.4.1 Competition policy

3.3.4.1.1 Policy, institutional, and regulatory framework

3.179. With the advent of new competition law issues in the age of the Fourth Industrial Revolution in 2018, the Korea Fair Trade Commission (KFTC) set out a vision of Raising the Living Quality of the People through Establishment of a Fair Market Economy for realizing a fair economy and promoting innovation and competition.²²⁸ Under the vision, the KFTC pursued five policy tasks: (i) create a foundation for fair trade between large enterprises and SMEs by greatly bolstering protection for disadvantaged parties in subcontract, distribution, and franchise sectors; (ii) prevent abuse of dominant position by large enterprise groups; (iii) promote innovation-driven growth; (iv) protect consumers' rights and interests; and (v) revise the Monopoly Regulation and Fair Trade Act (see below) to establish a market order suitable for the economic environment in the 21st century.

3.180. Responsibility for competition policy continues to rest primarily with the independent KFTC, which is the only ministerial-level government agency that administers competition law. It consists of a Secretariat responsible for formulating competition policies and investigating cases, and a

²²⁶ WTO, *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.

²²⁷ MFDS (2020), *White Paper 2020*, 29 April. Viewed at: https://www.mfds.go.kr/eng/brd/m_60/view.do?seq=74498&srchFr=&srchTo=&srchWord=&srchTp=&itm_seq_1=0&itm_seq_2=0&multi_itm_seq=0&company_cd=&company_nm=&page=8.

²²⁸ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

Commission responsible for deliberating and making decisions on competition and consumer protection issues (Section 3.3.4.3).²²⁹

3.181. In 2020, the KFTC reviewed 815 bills (302 in 2018) containing newly created or reinforced regulations and determined 18 of them (15 in 2018) to be anti-competitive. Of these 18 bills, 14 were revised to remove or improve on the newly created or reinforced regulations contained therein (77.8% of opinions accepted).²³⁰

3.182. To respond to the changes in the economic landscape, fair economy, and innovative growth, legislation was amended during the review period. The main legislation, the 1980 Monopoly Regulation and Fair Trade Act (MRFTA), has been amended seven times since 2016. Since 2017, the KFTC pushed ahead with the complete revision of the MRFTA to update the law according to environmental changes and times. Its complete revision passed the National Assembly twice in April 2020 (the part related to procedures) and in December 2020 (the rest of the amendments). In accordance with MRFTA amendments allowing the KFTC to *ex officio* request for dispute mediations with certain unfair trade practices to the Dispute Mediation Committee, promulgated on 18 September 2018 and which went into effect on 19 March 2019, amendments to the Enforcement Decree of the MRFTA, including the revised procedures for making an *ex officio* request for dispute mediations and prior notification procedures for imposing enforcement fines, entered into effect the same date.²³¹ MRFTA amendments passed in April 2020, to be enforced by mid-2021, seemingly enhanced the rights of defendants, improved due process, and increased the transparency of proceedings by the KFTC; the statute of limitations also was shortened, except for cartels.²³² A second 2020 MRFTA amendment, passed on 9 December 2020, to be enforced within one year of the date of its promulgation, i.e. 2021, addressed, *inter alia*, reinforcement of cartel regulation on information exchange, expansion of entities subject to the private profit-taking regulation, strengthening of regulation on the shareholding ratio of the holding company, permission of general holding companies to hold capital venture companies (CVC), easing of regulations on venture holding companies, stipulation of public notice related to foreign affiliates, supplementation of the merger report threshold (see below), increase of the upper limit of fines, implementation of an individual's claim for injunctive relief, modification of provisions on criminal penalty, and creation of a corporation's obligation to submit evidence in a lawsuit for damage claim.²³³ According to the KFTC, this amendment is to remove the blind spot of regulation, and increase the deterrence of violation, while reinvigorating venture investment and enhancing procedural rights of investigated companies.

3.183. Amendments to the Rules on the KFTC's Committee Operation and Case Handling Procedure, ensuring stronger examinees' right to defence and effectiveness in handling cases, were implemented on 27 December 2019.²³⁴ Amendments to the merger review guidelines (implemented as of 27 February 2019), which clarified the criteria for assessing market definition, market concentration, and anti-competitive effects, made it more effective to review the anti-competitive effects, for instance, resulting from acquisitions of potential competitors in innovation-based industries. In December 2020, the KFTC enacted the Guidelines on Access to Evidence and established an evidence room for restricted access to evidence, in which the respondent's legal

²²⁹ Eileen Jaiyoung Shin, Suruyn Kim, and Ji Hyun Yu, "The Pharmaceutical Intellectual Property and Competition Law Review: South Korea", *The Law Reviews*, 5 October 2020. Viewed at: <https://thelawreviews.co.uk/title/the-pharmaceutical-intellectual-property-and-competition-law-review/south-korea>; and KFTC, *Who We Are*. Viewed at: <https://www.ftc.go.kr/eng/contents.do?key=493>.

²³⁰ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²³¹ OECD (2020), *Annual Report on Competition Policy Developments in Korea - 2019*. Viewed at: [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/AR\(2020\)19&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/AR(2020)19&docLanguage=En).

²³² Defendants now may have access to all data, such as evidence against them, except when the information is protected by trade secrets or laws. After a hearing has begun, investigators are now prohibited from conducting dawn raids or collecting further evidence unless requested or approved by the KFTC case team. EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

²³³ Lee & Ko, *Bill to Amend the Monopoly Regulation and Fair Trade Act Passed by the National Assembly*, 22 December 2020. Viewed at: <https://www.legal500.com/developments/thought-leadership/bill-to-amend-the-monopoly-regulation-and-fair-trade-act-passed-by-the-national-assembly/>.

²³⁴ OECD (2020), *Annual Report on Competition Policy Developments in Korea - 2019*. Viewed at: [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/AR\(2020\)19&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/AR(2020)19&docLanguage=En).

counsel can access the trade secrets of a third party adopted as evidence of a disposition. This system will help the KFTC protect trade secrets and ensure the respondent's right to access evidence data, while still guaranteeing the effective exercise of defence rights.

3.184. Competition law covers all sectors and all undertakings, including state entities. However, liner shipping conferences are exempted. Activities of undertakings meeting certain conditions can be exempted from prohibitions specified in the competition law. For example, a collective agreement on a rate or a trade term among liner shipping service providers can be exempted from the competition law under certain conditions (e.g. negotiating fully with their customers, reporting an agreement in advance to the MOF, and allowing individual service providers to leave the agreement freely). Also, activities of a voluntary association (e.g. in the agricultural, forestry, and livestock industries, and consumer protection) that meet certain conditions may also be exempted, unless they constitute unfair trade practices or unfairly restricting competition resulting in price increases.²³⁵

3.185. 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 KRW 4 billion.²³⁶

3.186. Mergers to "practically suppress competition" are prohibited, unless parties can prove to the KFTC that the efficiency-enhancing effect will exceed the anti-competitive effects or the acquired firm is insolvent. The KFTC may approve a merger subject to certain conditional corrective measures to address anti-competitive concerns, such as limiting the scope of the merged firm's operations. The criteria to assess dominance (i.e. control over the acquired firm) resulting from a merger or acquisition 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 subject to a simplified review, where regulators assume that, unless any specific instance raises concerns, there is no anti-competitive activity being undertaken. Parties must notify proposed mergers to the KFTC if assets or turnover of one party exceed KRW 300 billion and those of the other exceed KRW 30 billion. A merger involving a large-scale enterprise (assets or turnover above KRW 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. Between 2016 and 2020, there were 3647 mergers and acquisitions (M&As) (1,825 in 2012-15), of which about 35% involved manufacturing (46% in 2012-15). KFTC monitored M&As involving foreign enterprises with a turnover of more than KRW 30 billion in Korea. The number of notifications concerning M&As involving a foreign company decreased from 156 in 2016 to 133 in 2020. In 2020, the KFTC reviewed 865 merger cases (up by 99 from 2019), of which 732 cases were mergers by domestic companies, mostly conglomerate mergers followed by horizontal and vertical mergers, while 133 cases were mergers involving foreign companies. Fifteen cases were reviewed under the in-depth investigation for their potential anti-competitiveness, and the KFTC concluded that four cases had competitive concerns.²³⁷ Parties to a merger may appeal a decision within 30 days to the KFTC, which has 60 days (extendable to 90 days) to decide.

3.187. A prohibition on new cross-shareholding (i.e. circular shareholding) between subsidiaries under a large business group, effective as from July 2014, remains in place. In 2015, 11 business groups held 459 circular shareholdings, but this decreased to 4 business groups and 16 circular shareholdings in 2020. Circular shareholding between subsidiaries under a large business group (i.e. not less than KRW 5 trillion of total assets) is banned under the MRFTA; 64 large business conglomerates (61 in 2015) (see below) were officially designated as large business groups as of

²³⁵ Conditions include being established to assist small enterprises or consumers, 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.

²³⁶ MRFTA, Article 4.

²³⁷ OECD (2020), *Annual Report on Competition Policy Developments in Korea – 2019*, 31 August 2020.

Viewed at:

[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/AR\(2020\)19&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/AR(2020)19&docLanguage=En).

May 2020.²³⁸ According to the KFTC, the number of circular shareholdings among large business groups dropped from 483 in 2014 to 13 in 2019. 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 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; however, pursuant to the revision of the MRFTA (see above), exercise of voting rights for a merger between affiliates would be prohibited as from 2022. The KFTC requires large business groups to prepare combined financial statements, as well as their regular consolidated financial statements. 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.

3.3.4.1.2 Operational developments

3.188. Monopoly power seemingly remains unchanged and market concentration relatively high. The market concentration ratio of the top three leading companies on a weighted average basis remained relatively stable from 2016 to 2017, from 62% to 62.6%, while the industry concentration ratio rose from 49.8% to 50.6%. On the other hand, 64 large business conglomerates (61 in 2015) and their affiliates with control over 2,284 companies (1,696 companies in 2015) were on the KFTC's watch list as of 2010. 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 KRW 4 billion.

3.189. Despite past action to encourage large corporations and SMEs to voluntarily sign agreements under a 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. They have resisted efforts to increase competition and have been consolidating their ownership structures, thereby reinforcing their influence as they seemingly control (directly or indirectly) nearly the entire supply chain in virtually every industry.²³⁹ 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, and shortening of payment terms. 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, and logistics improvement. The fair trade agreement system is about enhancing the competitiveness of both SMEs and large companies. As of June, 2021, a KCCP list of business sectors where large companies would be excluded in favour of smaller ones covered 1 good (feed-oil) and 4 services (wholesale egg business, stationery retail, car rental business, and Maintenance Construction Hoist rental business), compared to 73 goods (ranging from everyday items to high-tech products, including tofu, and light-emitting diodes) in 2016.²⁴⁰ 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. Between 2016 and 2020, the number of companies signing cooperation agreements increased by an average annual rate of 10%, increasing from 220 companies in 2016 to 343 companies in 2020. From 2016 to 2020, 1,442 large companies entered into subcontracting agreements with approximately 299,000 SMEs (based on cumulative number of companies); between 2016 and 2020, 858 large companies were appraised, of which 420 (49%) qualified for a grade of "outstanding" or higher, thus receiving incentives such as exemption from KFTC's *ex officio* investigation.

3.190. As from 2017, the KFTC developed general plans for the franchise, distribution, subcontracting, and agency sectors, and took strict actions against unfair price reduction by principal

²³⁸ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

²³⁹ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

²⁴⁰ A KCCP list of business sectors where large companies would be excluded in favour of smaller ones is designated on the premise of an agreement between large and small businesses. It has a maximum duration of six years. KCCP recommends to large companies the restraint of entry, the restraint of expansion, the reduction, and their transfer from the list of business sectors.

contractors and forced purchase by franchisors and distributors.²⁴¹ To prevent abuse of dominant position by large enterprise groups, the KFTC strictly enforced the relevant law against fraudulent pursuit of private interests and unfair support, and induced voluntary changes from large enterprise groups by continuing to communicate with the business community to induce voluntary improvement of the ownership and governance structures and practices.

3.191. In 2019, the KFTC conducted market analysis on agricultural products distribution and the broadcasting media industry to examine the current status of the market and relevant institutions, and to come up with measures to stimulate competition.²⁴² The market analysis on the oligopolistic wholesale market for agricultural products shows that it is necessary to promote competition in the field of agricultural products distribution and to improve regulations for shippers and consumers. The current situation of the Korean market shows that, unlike in other countries, Over-The-Top (OTT) services are less likely to replace or threaten the existing broadcasting services. In 2020, the KFTC conducted market analysis on the wholesale distribution of marine products and the vocational education industry based on ICT to monitor the current status of such markets and market participants and develop measures for improving policy to promote competition.

3.3.4.1.3 Enforcement

3.192. The Board of Audit and Inspection, the Public Procurement Service (Section 3.3.6.3), and the MSS may also request the KFTC to lodge complaints for alleged violations of the MRFTA. Upon receiving a request from any of these agencies, the KFTC is required to file a complaint with the Prosecutor's Office. Entities filing for leniency in cartel cases will remain exempt from criminal prosecution. Between 2016 and 2020, the PPS and the MSS requested the KFTC to refer 39 enterprises (12 as of 2016) to the Prosecution; the KFTC immediately filed criminal complaints with the Prosecution against 35 of them (10 as of 2016), and decided not to charge the remaining 4 companies (2 as of 2016), as they applied for leniency and were exempted from criminal charges.

3.193. The KFTC may issue warnings or corrective measures, impose penalty surcharges and fines, and request criminal prosecutions. It investigates and addresses various kinds of unfair trade practices, such as abuse of dominance by dominant enterprises. As from November 2019, the KFTC has launched and operated the special ICT Task Force to strengthen expertise in law enforcement against abuse of dominance and practices restricting innovation in key ICT sectors, such as platform, mobile, semiconductor, and IPRs. As at 2018, the KFTC strictly monitored the abuse of monopolistic positions and technology by large enterprises. It also discovered and took actions against the abuse of monopolistic positions in the pharmaceutical, bio, and insurance sectors, including interference with business activities in the medical equipment after-sale service market by Siemens, and the exclusion of competitors from the aviation insurance/reinsurance markets by Korean Reinsurance Company. Moreover, it did the same for the abuse of SME technologies by large enterprises in the machinery and electronics sectors.²⁴³ In 2019, the KFTC handled 3,063 cases allegedly violating laws under its jurisdiction (10 laws including the MRFTA, and laws on consumer protection, subcontracts, and franchise transactions), a 24.9% decrease from 2014; the same year, it issued voluntary corrections, warnings, or more severe sanctions in 1,728 cases, a 29% decrease from 2014. Also in the same year, the number of complaints under the MRFTA provisions dropped from 867 to 569, and such complaints related to unfair business practices (208 cases), improper concerted acts (184 cases), prohibited acts of trade associations (enterprise organizations) (72 cases), and M&As (20 cases). The number of severe sanctions more than a warning under the MRFTA was 233, while fines (66) and surcharges (69) were imposed in a reduced number of cases in 2019. According to the authorities, 290 criminal complaints were filed during the period 2016-19, and corrective orders were issued in 1,048 cases. The cases of improper concerted acts account for the largest share of law enforcement under the MRFTA in 2016-19 (992 cases). Unfair trade practices take up the second largest share of the cases related to the MRFTA handled during 2016-19, totalling 956 cases; these

²⁴¹ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²⁴² OECD (2020), *Annual Report on Competition Policy Developments in Korea – 2019*, 31 August 2020. Viewed at: [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/AR\(2020\)19&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/AR(2020)19&docLanguage=En).

²⁴³ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

practices include abuse of business position (429 cases), unfair inducing (116 cases), refusal to deal/trade (77 cases)²⁴⁴, unfair assistance (64 cases), and interference with the business activities of other companies (55 cases).

3.194. Between 2016 and 2019, penalty surcharges were levied on 592 cases. In 2019, there were 151 penalty surcharges imposed, a 16.5% decrease from 2018 (181 cases). Also in 2019, the total amount of penalty surcharges stood at KRW 127.3 billion. In 2018, the cases with the largest surcharges were unfair cartel conduct by seven steelmakers (KRW 114.3 billion), by six aluminium condenser manufacturers and sellers, and by seven tantalum condenser manufacturers and sellers (KRW 35.8 billion each); and provision of unfair support to affiliates of LS Group (KRW 26 billion).²⁴⁵ In 2019, the cases with the largest surcharges were unfair joint activities of three ready-mixed concrete cooperatives in Daejeon, Sejong, and South Chungcheong Provinces (KRW 14.7 billion), the unfair joint practices of four operators involved in bidding for exclusive line projects in the public sector (KRW 13.3 billion), and the unfair joint practices of seven operators involved in bidding for import of transportation services ordered by eight local governments and the aT (KRW 12.7 billion).²⁴⁶

3.195. The KFTC operates a permanent monitoring system to detect and prevent bid-rigging (a type of illegal cartel conduct) in the public sector. 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 construction work worth KRW 5 billion or for procurement of goods or services worth KRW 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%. A KFTC division, the Bid Rigging Investigation Division, ensures 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 2016 and 2020, the KFTC uncovered 356 bid-rigging cases, which account for the biggest portion of the offences and were followed by price fixing (70 cases). Bid-rigging cases during this period represented a 90.3% increase compared to 2011-15 (187 cases). Bid-rigging cases in 2018 stood at 139 cases, accounting for the highest portion of the violation, followed by 17 cases of price cartels. The KFTC discovered and sanctioned the enterprises that attempted to maintain monopoly through bid-rigging for the waterworks and dam maintenance and repair contracts awarded by public corporations.

3.196. The government-funded Korea Fair Trade Mediation Agency continued to, *inter alia*, carry 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. In 2018, three Franchise Dispute Mediation Councils were set up in Seoul, Incheon, and Gyeonggi-do; another Council was established in Busan in 2020.²⁴⁷ In addition, mediation protocols now carry the same effect as settlements in court, which means a franchisee can file a request for compulsive execution with a court against a franchisor who refuses to comply with the protocol, without filing a separate lawsuit. By 2020, 702 companies (636 in 2015) were participating in the CP.

3.197. Korea's extraterritorial application of its competition law remains unchanged; as indicated by the authorities at the time of the previous Review, extraterritorial application intends to protect competition rather than Korean companies. 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.²⁴⁸ 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

²⁴⁴ The term "refusal to deal" means, *inter alia*, to decline to start a deal, discontinue a deal, or limit considerably the quantity or terms and conditions of a deal.

²⁴⁵ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²⁴⁶ The amount of fines for each of these cases is before applying the reduction with the leniency programme.

²⁴⁷ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²⁴⁸ Over 60 nations exercise their authority extraterritorially, making extraterritorial application an international norm.

competition in the domestic market, Korea applies the law extraterritorially. In 2017, the KFTC decided to impose remedies on 10 automobile shipping companies for colluding to fix prices and divide the market, and levied a penalty surcharge of KRW 43 billion in total, while referring 8 of them for prosecution. In addition, in 2018, the KFTC discovered that nine Japanese condenser manufacturers and sellers colluded to raise and maintain the supply prices of aluminium and tantalum condensers, and imposed corrective orders and KRW 35.8 billion in penalty surcharges; it also referred four corporations and one individual for prosecution.²⁴⁹

3.198. During the review period, the KFTC held bilaterals with foreign competition authorities to strengthen international cooperation.²⁵⁰ In 2018, these bilaterals were with the European Union and the United States, as well as several Asian countries including China, Japan, Malaysia, the Philippines, and Viet Nam. The KFTC maintains MOUs 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 European Union (2004), Turkey (2005), Canada (2006), Indonesia (2013), Brazil (2014), Japan (2014), the United States (2015), and China (2019). In addition to the 2009 Korea-European Union cooperation agreement on the application and enforcement of competition laws in relation to anti-competitive practices, Korea's RTAs/FTAs with Chile (2004), Singapore (2006), the European Free Trade Association (2006), India (2010), the European Union (2011), Peru (2011), the United States (2012), Turkey (2013), Australia (2014), Canada (2015), China (2015), New Zealand (2015), Viet Nam (2015), Colombia (2016), the RCEP (2020), the United Kingdom (2021), and Panama-Costa Rica-Honduras-El Salvador-Nicaragua (2021) contain provisions on competition matters (Section 2.6.2). As a founding member of the International Competition Network (ICN), the KFTC led discussions on technical assistance and competition advocacy.²⁵¹ Under the OECD-Korea Policy Centre Competition Programme, five workshops were held on various competition law enforcement issues, including the innovation and competition in the taxi and ride-sharing service market, improvement of efficiency of public medical services, and improvement and international harmonization of leniency programs and consumer-oriented corrective measures.²⁵²

3.3.4.2 Price controls and monitoring

3.199. During the review period, the main legislation in this area, the Price Stabilization Act and its Enforcement Decree (last amended in December 2016), remained unchanged.²⁵³ The President can order the control of prices on a range of products through "emergency demand and supply adjustment measure" decrees; measures were taken to stabilize the prices of masks that were lacking due to COVID-19 in 2020 (see below).²⁵⁴ 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, or charges for services.²⁵⁵ Price controls and monitoring are operated under the Coal Business Law, the Petroleum and Alternative Fuel Business Law, and the Electricity Business Act.

3.200. Price controls remain in place in specific areas. As indicated by the authorities at the time of the previous Review, 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

²⁴⁹ Between April 2002 and December 2019, the penalty surcharges imposed on the international cartels by the KFTC equalled KRW 890.5 billion on enterprises across 23 countries. KFTC (2020), *Annual Report 2020*.

²⁵⁰ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²⁵¹ In 2018, the ICN had a total membership of 139 competition authorities from 126 countries.

²⁵² KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²⁵³ Statutes of the Republic of Korea. Viewed at: https://elaw.klri.re.kr/eng_mobile/viewer.do?hseq=41794&type=sogan&key=5.

²⁵⁴ Price Stabilization Act, Article 6.

²⁵⁵ Price Stabilization Act, Article 2.

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 gas products used for home heating; the rates for metropolitan region waterworks service (wholesale only) and electricity; fees for telecoms, television services, and postal services; fares for railway, intercity bus fares, motorway tolls, and international airfares; medical expenses eligible for health insurance coverage; education; and childcare. Regional governments are responsible for determining the retail price of gas 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 for local museums and memorials; and the price of septic tank cleaning and food garbage bags.

3.201. Since May 2017, under the New and Renewable Energy (Renewable Portfolio Standard (RPS)), and the Renewable Fuel Mix Standard (RFS) Management and Operation Guidelines promulgated by MOTIE, a fixed-price contract system has been implemented in parallel with the spot market trading system to reduce volatility risks associated with movements in the price of RECs and the system marginal price (SMP) on the spot market, with the objective of promoting investment in new and renewable energy projects (photovoltaic energy sources).²⁵⁶

3.202. Korea's 2006 PLS for new drugs allows only for cost-effective drugs to be listed in the national drug formulary and reimbursed at a premium.²⁵⁷ Since May 2015, exemptions from economic-efficiency analysis (cost-effectiveness analysis) regarding reimbursement appropriateness have been in place for anti-cancer drugs and rare disease treatments, where there are no alternative treatments and producing evidence is challenging due to the small number of patients. In October 2020, this exemption scheme was expanded to tuberculosis treatments, anti-microbial drugs, and emergency antidotes. Nevertheless, evidence-based evaluations seemingly lower access to novel drugs that are essential to patients but cannot be subjected to a cost-effectiveness analysis because of challenges in producing clinical evidence and high costs that may not necessarily be reimbursed by insurance.²⁵⁸ On 7 July 2016, Korea enacted provisions for innovative pharmaceutical companies to apply for premium pricing for innovative products. Reportedly, although amendments made in December 2018 removed discriminatory elements of the premium pricing system, the revisions to the programme's criteria by the Ministry of Health and Welfare (MOHW) also substantially narrowed the programme's scope in a manner that may dramatically limit the ability of any company, foreign or domestic, to qualify for premium pricing.²⁵⁹ The authorities indicate that the revision of the premium pricing system was put together on the basis of sufficient opinions from relevant associations, and several applications had been submitted and evaluated since its implementation.

3.203. During the review period, emergency measures were imposed under Article 6 of the Price Stabilization Act, in response to the COVID-19 pandemic, and such measures were implemented on some basic healthcare products.²⁶⁰ In addition to export restrictions (Section 3.2.3.1), as from 1 June 2020, 60% of domestically produced filtering respirators were provided under the public mask rationing system, compared to the original 80%; as at 18 June 2020, the ratio decreased to 50%, and public rationing ended on 12 July 2020.²⁶¹ In order to combat illegal distribution of certain health products, between 12 February and 11 July 2020 the sale and production of filtering

²⁵⁶ Chinpyo Park and Robert Dooley, "Electricity Regulation in South Korea: Overview", *Thomson Reuters Practical Law*, 1 February 2019. Viewed at: [https://uk.practicallaw.thomsonreuters.com/w-019-2523?transitionType=Default&contextData=\(sc.Default\)&firstPage=true](https://uk.practicallaw.thomsonreuters.com/w-019-2523?transitionType=Default&contextData=(sc.Default)&firstPage=true).

²⁵⁷ The PLS for new drugs is aimed to allow for more rational management of drug expenditure. Seung-Lai Yoo, Dae-Jung Kim, et al. (2019), "Improving Patient Access to New Drugs in South Korea: Evaluation of the National Drug Formulary System", *International Journal of Environmental Research and Public Health*, Vol. 16(2), 21 January.

²⁵⁸ A health technology assessment (HTA) and a post-listing pricing control system to reduce prices through various mechanisms, even after a drug is listed, have been implemented. Sungju Kim and Jong Hyuk Lee (2020), "Price-Cutting Trends in New Drugs after Listing in South Korea: The Effect of the Reimbursement Review Pathway on Price Reduction", *Healthcare*, Vol. 8(3), 26 July.

²⁵⁹ USTR (2020), *2020 National Trade Estimate Report on Foreign Trade Barriers*. Viewed at: https://ustr.gov/sites/default/files/2020_National_Trade_Estimate_Report.pdf.

²⁶⁰ Do-Hoon Woo, "Korea's Tariff & Trade Policy Responses to Mitigate Impact of COVID-19", *Chambers and Partners*, 6 April 2020. Viewed at: <https://chambers.com/articles/korea-s-tariff-trade-policy-responses-to-mitigate-impact-of-covid-19>.

²⁶¹ MFDS, *Latest COVID-19 News*. Viewed at: mfds.go.kr

respirators and hand sanitizers had to be reported to the MFDS. Sales of masks needed to be reported until 22 October, and production of masks needed to be reported until 11 May 2021.²⁶² Furthermore, to mitigate the shortage of filtering respirators, price controls were imposed.²⁶³

3.3.4.3 Consumer protection

3.204. 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 Act on the Consumer Protection in Electronic Commerce (E-Commerce Act), the Compliance Measures for Mobile Electronic Commerce Businesses, the Act on the Regulation of Terms and Conditions, and the Act on Fair Labelling and Advertising. In 2018, amendments to the Standard for Resolution of Consumer Disputes focused on areas related to people's livelihoods; in 2020, modifications were made in sectors such as travel, aviation, and accommodation to smoothly resolve penalty disputes caused by the COVID-19 pandemic. A triple damages provision was proposed to the Product Liability Act, and a new provision on expedited processing of dispute mediation was introduced to the Framework Act. The E-Commerce Act was also amended on 12 June 2018 to include a new provision on recurring acts and a new provision on administrative fines.²⁶⁴ Adjustments were made to the regulation in order to provide important product information, such as shipping costs and safety precautions when using e-commerce, and in 2018, a triple damages provision was adopted into the Product Liability Act. Laws protecting digital privacy, including the Act on Promotion of Information and Communication Network Utilization and Data Protection (Network Act of 2001), the Personal Information Protection Act (PIPA of 2011), and the Act on the Use and Protection of Credit Information (wholly amended in 2009), were amended in January 2020, and most of the amendments took effect in August 2020.²⁶⁵ This unified system entails that consumers do not only enjoy protection but are also able to exercise sovereignty.²⁶⁶

3.205. The KFTC establishes a basic master plan for consumer policies every three years, which serves as a baseline for all the central administrative bodies including the KFTC itself, as well as 17 local metropolitan governments, the Korea Consumer Agency, and other consumer groups. During the review period, its fourth Master/Framework Plan 2018-20 contained five policy goals including Preemptive Securing of Consumer Safety under the vision of Fostering a Fair and Consumer-Centered Market Environment, and outlined the consumer safety tasks for 17 ministries and 16 upper-level local governments.²⁶⁷ The fifth Master/Framework Plan 2021-23 contains five policy goals including Enhanced and Effective Safety for Consumers and Strengthening Consumer Capabilities during the Digital Transition under the vision of Fostering a Fair and Win-Win Market Environment Led by New Consumers in the Digital Era, and outlined the consumer safety tasks for 17 ministries and 16 upper-level local governments. 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 3.3.7.1).²⁶⁸ In recognizing the role of local governments in promoting

²⁶² MFDS, *Latest COVID-19 News*. Viewed at: [mfds.go.kr](https://www.mfds.go.kr).

²⁶³ E. Tammy Kim, "How South Korea Solved Its Face Mask Shortage", *New York Times*, 1 April 2020. Viewed at: <https://www.nytimes.com/2020/04/01/opinion/covid-face-mask-shortage.html>; Jung Min-kyung, "South Korean Government Takes Full Control of Face Mask Supply, Bans Exports", *Korea Herald*, 5 March 2020. Viewed at: <http://www.koreaherald.com/view.php?ud=20200305000730>; and Amihai Glazer, "Price Controls Don't Work – But Mask Rationing Is the Exception That Proves the Rule", *The Conversation*, 24 April 2020. Viewed at: <https://theconversation.com/price-controls-dont-work-but-mask-rationing-is-the-exception-that-proves-the-rule-136595>.

²⁶⁴ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²⁶⁵ EIU (2020), *Country Commerce: South Korea*, August. Viewed at: https://country.eiu.com/FileHandler.ashx?issue_id=1090089892&mode=pdf.

²⁶⁶ KFTC, *Publications*. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=524&bbsId=BBSMSTR_00000002406&bbsTyCode=BBST11.

²⁶⁷ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²⁶⁸ 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

consumers' rights and interest, the KFTC spent KRW 445 million in subsidies for providing consumer counselling services at the local consumer centres of 16 upper-level local governments. A further KRW 446 million in subsidies was spent on 20 programmes selected through public tender.

3.206. In 2018, the KFTC launched the Integrated Consumer Support System or Haengbok Dream, a single window where consumers can find customized information for each stage of consumption and seek remedies. The Enforcement Decree of the Framework Act was thereby amended to establish criteria for the outsourcing of Haengbok Dream operations. Within one year of its launch, Haengbok Dream had reached 1.4 million users; it brought together scattered consumer information from 102 websites of 68 organizations.²⁶⁹ In 2020, Haengbok Dream provided recall and certification information of 26 organizations and also an integrated window of 69 organizations for remedy of consumer damage. In addition to the development of promotional material, in 2018 the KFTC organized 564 consumer education workshops for 17,000 members of vulnerable groups, while in 2020, 486 workshops were organized for 10,603 members of vulnerable groups.²⁷⁰

3.207. To ensure efficient prevention and remedy of consumer damage, the KFTC operates the Consumer Counselling Center (CCC) and the Consumer-Centered Management (CCM) Certification Program.²⁷¹ In 2020, the CCC received 709,714 calls and scored a response rate of 88.3% in its effort to provide consumer damage remedies, compared to 792,446 calls and a rate of 85.2% in 2018. The CCM, run by the Korea Consumer Agency and certified by the KFTC, 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 2021, the CCM accounted for 185 CCM-certified enterprises, compared to 130 in 2014 and 170 in 2019.²⁷²

3.208. During the review period, action to prevent consumer harm by strengthening law enforcement with respect to products and areas that closely affect consumers' lives, such as daily necessities and e-commerce, was taken. In the period 2016-19, 538 terms and conditions reviews were conducted by the KFTC, of which 55 resulted in the issuance of corrective measures and 442 in voluntary correction.²⁷³ Service businesses amounted to 60.9% of these rectification cases.²⁷⁴ Sanctions were also imposed in 767 unfair labelling and advertising cases. Violation against the E-Commerce Act resulted in 76 corrective orders, 286 warnings, and 133 voluntary corrections.²⁷⁵

3.3.5 State trading, state-owned enterprises, and privatization

3.3.5.1 State trading

3.209. The State continues to participate in a wide range of trade and/or trade-related activities (Section 3.3.5.2). According to Korea's latest WTO notifications on state trading (see below), since 2016, two government agencies (MAFRA and the aT) have remained 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 3.1.5.2).²⁷⁶ Since 1995, MAFRA has

imports must be the Korean trademark holder or closely related. WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

²⁶⁹ Viewed at: www.consumer.go.kr.

²⁷⁰ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²⁷¹ The CCC 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.

²⁷² KFTC, *Consumer Policy*. Viewed at: <https://www.ftc.go.kr/eng/contents.do?key=3056>.

²⁷³ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²⁷⁴ These businesses were in the field of telecommunications, electricity, travel, transport, sports, and health.

²⁷⁵ KFTC (2019), *Annual Report 2019*, October. Viewed at: https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_00000002404&bbsTyCode=BBST11.

²⁷⁶ 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).

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 aT are, *inter alia*, aimed at stabilizing the domestic market for some other agricultural items. Since 2016, MAFRA has remained the sole importer of rice, while aT undertook some imports of other agricultural items; all agricultural items were subject either to important mark-ups or to a lesser extent to mark-downs.²⁷⁷

3.210. During the review period, Korea maintained its record on WTO notification of state trading by making two submissions in July 2018 and October 2020, covering activities in the period 2016-19.²⁷⁸ No written questions 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.

3.3.5.2 State involvement in the economy and privatization

3.211. State involvement in the economy persists, as a result of the limited privatization efforts during the review period; at the same time, the level of government shareholding at several entities rose for different reasons (Table 3.4). State-owned enterprises (SOEs) remain active in areas such as agriculture, mining and energy, financial services, transport, broadcasting, and media. As of 2020, 36 SOEs employed 150,721 people; the total assets of 36 SOEs were KRW 615.7 trillion.²⁷⁹ According to an Asian Development Bank Institute (ADBI) Working Paper, as of January 2019, 339 institutions designated as public institutions under the 2007 Act on the Management of Public Institutions (AMPI) provided basic goods and services needed for daily life, including electricity, gas, roads, airports, ports, finance, medical and social welfare services, four major insurance policies, safety-related public inspections, and R&D.²⁸⁰ As of 2020, there were 340 public institutions, 36 SOEs (self-generating revenue $\geq 50\%$), and 95 quasi-government organizations ((self-generating revenue $< 50\%$), including 13 fund management-type institutions and 82 commissioned service-type institutions). As of 2020, the budget for government support for public institutions was KRW 100.6 trillion, accounting for 18.4% of the total government budget of KRW 546.9 trillion, compared to KRW 77 trillion, accounting for 15.9% of the total government budget of KRW 485.1 trillion in 2019.

3.212. During the review period, the sole partial privatization achievement related to the Woori Bank in November 2016; although the Government planned to sell its remaining 18% stake in Woori Financial Group during 2020-22, the process stalled amid the COVID-19 pandemic.²⁸¹ At the time of

²⁷⁷ Between 2016 and 2019, the share of sales of aT to national domestic consumption of items concerned varied, e.g. up to 63.4% for soybeans, 72.6% for small red beans, 48.7% for green beans, 34.9% for buckwheat, 4.7% for genus *Capsicum*, 3.3% for garlic, 1.6% for onions, 39.5% for sesame seeds, and 0.5% for potatoes. Considerable mark-ups (average representative domestic sales price higher than average import price) affected soybeans (up to 63.1%), small red beans (up to 57.6%), green beans (up to 177%), buckwheat (up to 190.8%), onions (up to 9.3%), and sesame seeds (up to 86.6%). Mark-downs (average representative domestic sales price lower than average import price) affected garlic (down to 55.3%) and potatoes (down to 34.6%). Mark-ups of up to 63.2% were imposed on semi-milled or wholly milled (non-glutinous) rice (HS 1006.30.1000), whereas mark-downs down to 43.1% affected husked (brown, non-glutinous) rice and semi-milled or wholly milled rice (glutinous), whether or not polished or glazed (HS 1006.20.1000 and HS 1006.30.2000). As indicated by the authorities at the time of the previous Review, the mark-up for imported table rice is not predetermined 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 documents G/STR/N/17/KOR, 9 July 2018 and G/STR/N/18/KOR, 12 October 2020.

²⁷⁸ WTO documents G/STR/N/17/KOR, 9 July 2018 and G/STR/N/18/KOR, 12 October 2020.

²⁷⁹ According to a 2011 OECD paper, Korea had 59 SOEs in 2009, with assets valued at USD 177.6 billion and employing 120,655 persons. This was the highest valuation of SOEs among 27 OECD reporting countries.

²⁸⁰ Jungsoo Park, et al. (2019), *Is the Management Evaluation System of State-Owned Enterprises in the Republic of Korea a Good Tool for Better Performance?* ADBI Working Paper Series, No. 1055, December 2019. Viewed at: <https://www.econstor.eu/bitstream/10419/222822/1/1686372124.pdf>.

²⁸¹ The Government invested about KRW 12 trillion in public funds to normalize management in the process of clearing up the insolvency of five financial companies, including Woori Financial Group, and has recovered public funds through the resale of acquired shares. The authorities indicated that Woori Financial Group has never been a public institution under the relevant law, meaning that the Government holds shares of private financial companies temporarily as a result of investing funds. Therefore, they consider that Woori Financial Group is not related to privatization of public entities. EIU (2020), *Country Commerce: South Korea*,

the previous Review, plans to restart privatization of public services (e.g. the KDB, the IBK, Woori Financial Group, and Incheon International Airport) had stalled.²⁸² Furthermore, a 2013 Public Institution Reform Plan involved actions for 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 executive board members of public institutions. According to the authorities, the debt ratio of public institutions has been stable and dropped from 157.3% in 2017 to 152.4% in 2020.

Table 3.4 State involvement in the economy, 2021

Entity	Activity	Degree of state ownership (%) / Situation in privatization programme
GOODS		
Agriculture		
Korea Agro-Fisheries and Food Trade Corp. (aT)	Manufacture and export of agricultural products, seafood, and beverages	100% / ..
Mining and energy		
Korea Coal Corp.	Price stabilization; stockpiling coal	100% / ..
Korea Resources Corp.	Support of domestic mining industry; survey and research of geological structures and mineral deposits; technical and monetary subsidies	100% (99.9% Government, 0.14% KDB) /..
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. (KEPCO)	Power generation; power transmission and distribution; electricity sales	51.1% (18.2% Government, 32.9% KDB) /..
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 (IBK)	Specialized bank	59.5% (50.9% in 2016, ownership increase mainly due to government capital injections to enhance the policy role in SME lending and COVID-19 loan purposes KRW 225 billion in 2019, KRW 1,269 billion in 2020) /..
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 (KDB)	Development institution	100% / ..
Export-Import Bank of Korea	Development institution	68.7% (72.9% in 2016, ownership decline mainly due to KDB's in-kind contribution of approximately KRW 1.2 trillion in 2017 to comply with prudential standards and practices on capital adequacy) /..

August. Viewed at: <https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3017/korea-republic-of-korean-government-sells-its-29-7-stake-in-woori-bank>

²⁸² WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

Entity	Activity	Degree of state ownership (%) / Situation in privatization programme
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	77.0% (56.8% in 2016, increase due to January 2021 in-kind contribution of KRW 650 billion to improve its financial soundness and support businesses affected by COVID-19) /..
Korea Housing Finance Corp. (KHFC)	Mortgage securitization and management of housing credit guarantee fund	68.7% (64.8% in 2016, increase due to government investment of KRW 90 billion in 2018, KRW 90 billion in 2019, and KRW 50 billion in 2021) /..
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	87.7% (84.1% in 2016, increase due to government matching in construction investment projects) /..
Korean Railroad Corp.	Railway operation and maintenance	100% / ..
Busan Port Authority (BPA)	Management and development of the port	87.3% (100% in 2016, decline due to government investment of its shares to the Korean Ocean Business Corporation (KOBC)) / ..
Incheon Port Authority (IPA)	Management and development of the port	80.7% (100% in 2016, decline due to government investment of its shares to KOBC) / ..
Incheon International Airport Corp.	Incheon International Airport development and operation	100% / ..
Other		
Korea Real Estate Board (previously 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	88.6% (87.2% in 2016, increase due to the construction and purchase of public rental housing projects) / ..
Korea Housing & Urban Guarantee Corp.	Housing guarantee for tenants and guarantee for construction companies; urban regeneration	70.3% (55.0% in 2016, increase due to rise in supply of guarantees for government trusts) / ..
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	93.8% (91.3% in 2016, gradually increase of government contribution) / ..
Korea Post	Postal service, postal banking and insurance services	100% / ..

.. Not available.

Source: Information provided by the Korean authorities.

3.3.6 Government procurement

3.213. Korea's government procurement market (goods, services, and construction) grew almost steadily from KRW 116.9 trillion or 6.7% of GDP (2016) to KRW 123.4 trillion (2018) or 6.5% of

GDP to an estimated KRW 134.98 trillion (May 2019) or 7% of GDP.²⁸³ Although government procurement is directed at achieving value for money, it also remains focused on future-oriented public procurement; technology innovation; quality-first procurement; socially responsible public procurement allowing easier entry and broader market opportunities for social enterprises, SMEs, and other socially disadvantaged businesses; and preparing for global public procurement.²⁸⁴ As part of its post-pandemic strategy, Korea planned to put in place flexible procurement procedures for publicly funded projects to provide intensified support to small businesses negatively affected by the pandemic, and to intensify investment in Innovation Procurement. Since 2020, Korea has implemented the regime to buy innovative products so that the products can account for 1% of the total goods purchased through government procurement. In this context, the PPS (Section 3.3.6.3) conducted a project to purchase prototypes of innovative products to help them get into wider markets. In addition, an E-innovation Procurement Marketplace (<http://ppi.g2b.go.kr>), established in 2020, has also been in operation.

3.214. Korea operates international tendering and other procurement procedures in accordance with its commitments under the WTO Plurilateral Agreement on Government Procurement (GPA).²⁸⁵ During the review period, its WTO GPA threshold for goods and services for central government entities (SDR 130,000) was reduced from KRW 210 million (2017-18) to KRW 200 million (2019-20) and then returning to KRW 210 million (2021-22).²⁸⁶ Under the KORUS FTA, Korea's central government entities' threshold for goods and services from the United States has remained at KRW 100 million.²⁸⁷ Korea's international tendering system remains based on open competitive tendering; as the authorities indicated at the time of the previous Review, restricted/limited tendering is rarely used (see below).²⁸⁸ In 2018, the value of contracts subject to Korea's GPA commitments stood as follows: central government entities' international tendering was KRW 4.2 trillion (KRW 4.4 trillion in 2017) and limited tendering was KRW 6.3 billion or 8.5% of the value of the entire government procurement market; and for other entities (SOEs) it was KRW 9.2 trillion (KRW 14.5 trillion in 2017) or 7.4% of the value of the entire government procurement market.²⁸⁹ In the case of contracts subject to Korea's WTO GPA commitments, centralized procurement (see below on the PPS) represented 14.1% (15% in 2015) of total procurement of GPA-covered entities in 2020.

3.3.6.1 Legislation

3.215. During the review period, changes were made to the government procurement legislation. The 1995 Act on Contracts to Which the State Is a Party (last amended by Act No. 17816, 5 January 2021) covers international and domestic procurement of goods and services, including construction, by all central government agencies. Amendments that entered into force on 20 March 2018 involved the method of contracting, agreement on dispute resolution methods, state contract disputes conciliation, competition among tenders eligible for preferential purchase, and dispute resolution through arbitration or conciliation by the State Contract Disputes Conciliation Committee.²⁹⁰ Amendments enforced from 27 May 2020 related to, *inter alia*, principles of contracting, preparation of estimated price, determination of successful tenderer in competitive tendering procedure, and adjustment of contract amount according to other modifications of terms and conditions of a

²⁸³ PPS, *Procurement Policy and Statistics*. Viewed at:

<https://www.pps.go.kr/kor/content.do?key=00159#none>; and Statista, *Value of Public Procurement Market in South Korea from 2014 to May 2019*. Viewed at: <https://www.statista.com/statistics/1128501/south-korea-value-of-public-procurement-market/>.

²⁸⁴ PPS (2020), *Innovation for the Future and Better Service – 2019 Annual Report*, 9 June. Viewed at: <https://www.pps.go.kr/eng/bbs/list.do?key=00798#none>; and WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

²⁸⁵ The original WTO Agreement on Government Procurement (GPA) came into force in Korea on 1 January 1997 and the revised GPA on 14 January 2016.

²⁸⁶ WTO documents GPA/W/336/Add.6/Rev.1, 13 January 2017; GPA/THR/KOR/1, 1 February 2019; and GPA/THR/KOR/2, 8 January 2021.

²⁸⁷ Furthermore, Korean procuring entities do not require a US 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/346/Rev.1, 6 January 2017.

²⁸⁸ Restricted tendering consists of limited (by invitation) or nominated (by nomination) competitive bidding and private contracts where a specific supplier is used.

²⁸⁹ WTO documents GPA/STAT(17)/KOR/1, 6 June 2019 and GPA/STAT(18)/KOR/1, 5 November 2020.

²⁹⁰ Act No. 15219, 19 December 2017. Viewed at: <https://www.law.go.kr/LSW/eng/engLsSc.do?menuId=1&query=contract&y=33&x=22#liBgcolor0>.

contract.²⁹¹ The latest amendment to the Government Procurement Act, passed on 17 January 2017 and enforced from 18 July 2017, was made for giving the PPS clear grounds for investigation into unfair procurement practices for demand commodities.²⁹² 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.

3.216. Procurement by local government entities and public entities is regulated by the Act on Contracts to Which the Local Government Is a Party (last amended in 2020), and the Act on the Management of Non-Departmental Public Entities. The partial amendment to the Act on Contracts to Which the Local Government Is a Party, enforced from 24 December 2018, included issues such as the restriction on qualifications for participation of persons who have evaded taxes in tendering, new insertion of conciliation and arbitration as methods of dispute settlement, extension of contract period and adjustment of contract price due to grounds such as typhoons, restrictions on qualifications for participation of unjust enterprisers in tendering, as prescribed by Presidential Decree, and legal training of civilians who perform public duties as public officials in applying penalty provisions.²⁹³

3.217. Procurement from SMEs remains covered by the main procurement legislation and the Act on Facilitation of Purchase of Small and Medium Enterprise-manufactured Products and Support for Development of Their Markets; its company classification criteria seemingly raises concern.²⁹⁴ 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 SOEs to purchase environmentally friendly products; as of 2021, it applied to 47 central government agencies (45 in 2015), 243 local government bodies (243 in 2015), 151 public enterprises, 96 local public enterprises, 95 quasi-governmental organizations (Section 3.3.5.2), 17 education authorities, 6 other special corporations, 35 local medical centers, and 218 other public institutions (in total 849 agencies in 2021 and 765 in 2015).²⁹⁵ 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.

3.218. The MRFTA enables the PPS (see below) to request the KFTC to lodge complaints on alleged violations with the Prosecution (Section 3.3.4.1).

3.219. Information on Korea's government procurement framework and operations is available on the websites of the Korean Law Information Center (<http://gwanbo.go.kr>), the Korea Ministry of Government Legislation (<http://www.law.go.kr>), and the Korea Online e-Procurement System (<http://www.g2b.go.kr>).

²⁹¹ Act No. 16578, 26 November 2019, Partial Amendment. Viewed at: <https://www.law.go.kr/LSW/eng/engLsSc.do?menuId=1&query=contract&y=33&x=22#liBgcolor0>.

²⁹² Act No. 14526, 17 January 2017, Partial Amendment. Viewed at: <https://www.law.go.kr/LSW/eng/engLsSc.do?menuId=1&query=contract&y=33&x=22#liBgcolor1>.

²⁹³ Act No. 16042, 24. December 2018, Partial Amendment. Viewed at: <https://www.law.go.kr/LSW/eng/engLsSc.do?menuId=1&query=contract&y=33&x=22#liBgcolor3>.

²⁹⁴ Reportedly, the Act categorizes companies by size, with multinationals frequently labelled as "large" (regardless of their actual size) simply by virtue of them being foreign-based or multinational, while local companies get categorized as "small" or "medium." As such, "large" foreign companies are only able to bid on (the rare) projects larger than USD 220,000, while most local companies can bid on the majority of projects available. Similarly, it appears that the Software Industry Promotion Act restricts bids for certain government contracts for software services to SMEs, leaving multinationals out of the government procurement process. USTR (2020), *2020 National Trade Estimate Report on Foreign Trade Barriers*. Viewed at: https://ustr.gov/sites/default/files/2020_National_Trade_Estimate_Report.pdf.

²⁹⁵ In 2017, green product procurement over the total expenditure was 47.5%, for which total expenditure on green products amounted to KRW 3.3 trillion; the same year, 97.4% of the 910 government agencies fulfilled that obligation. UN Environment Programme and Korea Environmental Industry and Technology Institute (2019), *Green Public Procurement in the Republic of Korea: A Decade of Progress and Lessons Learned*. Viewed at: https://www.oneplanetnetwork.org/sites/default/files/green_public_procurement_in_the_republic_of_korea-a_decade_of_progress_and_lessons_learned.pdf, and its website: <https://www.oneplanetnetwork.org/resource/green-public-procurement-republic-korea-decade-progress-and-lessons-learned-0>; and Green Finance Platform. Viewed at: <http://greenfinanceplatform.org>.

3.3.6.2 Procurement methods

3.220. Under the Act on Contracts to Which the State Is a Party, contracts are awarded in close connection with the utilization of public procurement for industrial policy objectives through four methods: (i) open competition bidding; (ii) limited competition bidding; (iii) selective competition bidding; and (iv) direct contracting.²⁹⁶ Open competition bidding is the principal method used, and the other types are allowed only when specific legal requirements are met; however, the limited or no competition methods total the highest share, reflecting the importance posed by Korea on government procurement as a policy tool.²⁹⁷ Between 2016 and 2019, the share of open competition bidding rose from 32.3% in 2016 to 35.9% in 2019, whereas the share of limited competition decreased from 48.8% to 43.6%. At the same period, the share of selective competition bidding remained stable at 0.2%, whereas the share of direct contracting increased from 18.7% to 20.3%. 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 selective competition tendering is often used. Although direct contracts are occasionally used for purchases of goods and services not exceeding KRW 50 million (KRW 200 million for construction works) in accordance with relevant laws, competitive contracting is generally used for such purchases from SMEs. The amount for direct contracts to firms owned by women and people with disabilities remained unchanged.²⁹⁸ No price preference schemes in favour of SMEs and other socially disadvantaged sectors were introduced or maintained.

3.3.6.3 Public Procurement Service (PPS)²⁹⁹

3.221. Korea has been increasingly focused on centralized procurement (see below).³⁰⁰ A substantive part of procurement for the Central Government, local governments, and public enterprises is conducted by the central procurement agency, the PPS. Central government agencies must use the PPS to procure goods and services at KRW 100 million or above; the threshold for foreign goods and services remains at over USD 200,000.³⁰¹ 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; for construction works with an estimated value exceeding KRW10 billion, the PPS reviews the cost calculation basis of the construction budget prior to the tendering procedure, so as to prevent

²⁹⁶ The authorities indicate that public procurement methods are chosen in accordance with the Act on Contracts to Which the State Is a Party. Open competition bidding is to be made in principle. However, if deemed necessary, given the purpose, nature, and size of a contract, tenders involving limited and/or selective competition and direct contracting are also made available. The authorities also indicate that although some methods are selected for industrial purposes, other limited tendering methods on construction contracting are used by considering the severity of construction works. Furthermore, direct contracting and limited competition-based bidding are also used in cases of more than two failed biddings, and natural disasters and the like. Dae-in Kim (2021), *Korean Public Procurement Law*, Korea Legislation Research Institute, January. Viewed at: https://www.researchgate.net/publication/348618992_Korean_Public_Procurement_Law.

²⁹⁷ For example, limited-competition bidding is allowed for the manufacturing and purchase of articles designated and noticed by the Minister of SMEs and Startups according to the Act on Facilitation of Purchase of Small and Medium Enterprise-manufactured Products and Support for Development of Their Markets. Direct contracting is allowed when any product certified for performance under the Act on Facilitation of Purchase of Small and Medium Enterprise-manufactured Products and Support for Development of Their Markets is purchased from an SME.

²⁹⁸ Public organizations subject to the Act have their maximum amount of direct contracting to these firms at below KRW 50 million. For general-purpose construction projects between KRW 50 million and KRW 100 million, only these firms are allowed to compete in biddings. Firms led by women and people with disabilities can compete for direct contracts for technology-based service projects below KRW 50 million.

²⁹⁹ More information on PPS activities, requirements, and procedures is available in WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

³⁰⁰ Centralized procurement has merits of forming economies of scale and reinforcing the expertise of contracting officials, but it is more susceptible to large-scale corruption. Decentralized procurement is more likely to satisfy demand, as procurement occurs close to consumers but can make it difficult to prevent corruption as a wider range of agencies need to be monitored for anti-corruption. Dae-in Kim (2021), *Korean Public Procurement Law*, Korea Legislation Research Institute, January. Viewed at: https://www.researchgate.net/publication/348618992_Korean_Public_Procurement_Law.

³⁰¹ A higher threshold of KRW 3 billion applies to construction contracts. PPS (2019), *2018 Annual Report*, 10 May. Viewed at: <https://www.pps.go.kr/eng/bbs/list.do?key=00798#none>.

possible budget waste.³⁰² The PPS's main functions remain supplying goods and services for government use³⁰³, contracting and managing public works, stockpiling 15 types of essential raw and construction materials to secure price stability and supplies³⁰⁴, coordinating and auditing government goods and real estate property management, and operating the Korea Online e-Procurement System (KONEPS).

3.222. All bidders wishing to participate in PPS-conducted tenders must register with the PPS. For construction works below KRW10 billion, it uses an eligibility screening system. "Abnormally low or dumping" tenders are rejected.³⁰⁵ The best value award method is used for contracts exceeding KRW 10 billion after conducting a pre-qualification evaluation 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.³⁰⁶ Bid results, including tenders, pre-qualification evaluation, and contract awards are released on the KONEPS site (<http://www.g2b.go.kr>). As indicated by the authorities at the time of the previous Review, there are no special pre-qualification requirements or restrictions imposed on foreign suppliers.

3.223. The PPS handles procurement from SMEs and socially disadvantaged sectors, such as regional companies, women-owned businesses, businesses owned by persons with disabilities, and social enterprises.³⁰⁷ The MSS (previously the Small and Medium Business Administration (SMBA) (Sections 3.3.1.2 and 3.3.3.1)) provides the list of set-aside products to be procured through competition from SMEs only as an exception under the GPA.³⁰⁸ 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" expand regional opportunities.³⁰⁹ Under its 18 August 2010 notice Competitive Bidding among Joint Ventures of 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.³¹⁰ In particular, since 2018 the MSS has purchased technology development products developed by SMEs in priority from public institutions/organizations, and launched the Technology Development Product Priority

³⁰² 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.

³⁰³ Defence-related procurement is conducted by the Defence Acquisition Programme Administration.

³⁰⁴ Each year the Minister of Economy and Finance determines which essential materials are highly dependent on imports. As of June 2016, the PPS had designated six base metals (aluminium, copper, lead, zinc, tin, and nickel) and nine 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. The nine types of rare materials are stockpiled by the PPS and are to be managed by the SOE Korea Resources Corporation (Section 3.3.5.2) as from 2022. In addition, 150 million face masks were stockpiled in case of a resurgent and prolonged pandemic, along with designation of the masks as goods for emergent supply control on 24 April 2020.

³⁰⁵ 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.

³⁰⁶ 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).

³⁰⁷ As of 2015, the approach for defining SMEs was 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 KRW 150 billion, whereas for the transportation industry it was KRW 80 billion.

³⁰⁸ 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 onwards. There were 204 SME products for set-asides until 2018 (SMBA Notification No. 2015-69).

³⁰⁹ In 2016, the competitive bidding system "restricted by region" applied to projects valued up to KRW 8.2 billion, and allowed companies located in the construction region to participate in the open competitive tender. The compulsory joint-venture system (up to KRW 8.2 billion as from 2016) required a bidder to form a joint venture with a company located in the construction region. Both methods applied only to projects whose estimated value does not exceed the WTO GPA threshold.

³¹⁰ 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.

Purchase System to support innovative SMEs and start-ups with marketing during the initial stages and expansion of their business.³¹¹

3.224. To support liquidity, SMEs remain entitled to an upfront payment of up to 70% of the value of a government contract. 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.

3.225. In order to protect SMEs and the socially underprivileged, the Government sets (and operates) the public procurement goals of recommended purchasing ratio of public institutions/organizations – such as 50% from SMEs, 10% of technology development products, 5% from female-owned businesses, and 1% from businesses owned by persons with a disability. In 2020, 79.8% (73.7% in 2016) of total PPS procurement contracts for goods, services, and construction works were awarded to SMEs followed by innovative technology development products at 14.7% (see above), products created by women-owned businesses at 8.6%, and products created by businesses owned by people with a disability at 1.6%.³¹²

3.226. 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, which were revised in 2019 to include provisions for lump-sum contracts. To expand demand for green products, as of 2020, 109 items (100 in 2015) highly in demand by public-sector entities, such as previously used office machines, recycled products, LED lamps, hybrid vehicles, high-efficiency equipment, synthetic wood, and renewable energy facilities, 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. In 2017, the PPS purchased green products accounting for 25.7% (18.6% in 2015) of the total value of domestic procurement of goods.³¹³

3.227. The PPS handled 33.5% (30% in 2016) of Korea's total domestic and foreign government procurement of goods and services (excluding defence equipment) and construction contracting in 2019.³¹⁴ Its total annual procurement grew steadily from KRW 35 trillion in 2016 to KRW 45.2 trillion in 2019; it remained dominated by goods and construction works and related services at 58.3% and 28.9%, respectively, in 2019. The share of foreign supplies remained low, ranging from 1.2% to 1.5% (2017) of the PPS's total procurement operations, 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. During the review period, more than 92.5% of foreign procurement (91.8% in 2015) was subject to competitive tendering.³¹⁵ In 2019, foreign supplies involved research (62%), transport (17.6%), computer (11.4%), communications (1.2%), medical (4.1%), and measuring (3.7%) equipment, originating mainly in Europe (33.7%) and the Americas (30.6%) (Americas (48.1%) and Europe (32.2%) in 2014).

3.228. KONEPS remains a primary electronic system for procurement services; its services are open to private entities for their procurement needs. As at 2019, the KONEPS Online Shopping Mall provided a catalogue of 535,725 product models (367,243 in 2016) with capabilities for purchasers to order directly, and discounted quotations can be requested for orders larger than KRW 50 million

³¹¹ MSS, "2018 Pilot Purchase Plan for Products with SME-Developed Technologies", 10 May 2018. Viewed at: <https://www.mss.go.kr/site/eng/ex/bbs/View.do?cbIdx=244&bcIdx=1006273>.

³¹² PPS (2020), *Innovation for the Future and Better Service – 2019 Annual Report*, 9 June. Viewed at: <https://www.pps.go.kr/eng/bbs/list.do?key=00798#none>.

³¹³ UN Environment Programme (2017), *Comparative Analysis of Green Public Procurement and Ecolabelling Programmes in China, Japan, Thailand and the Republic of Korea: Lessons Learned and Common Success Factors*. Viewed at: <https://wedocs.unep.org/bitstream/handle/20.500.11822/33377/CAGPP.pdf?sequence=1&isAllowed=y>.

³¹⁴ Dae-in Kim (2021), *Korean Public Procurement Law*, Korea Legislation Research Institute, January. Viewed at: https://www.researchgate.net/publication/348618992_Korean_Public_Procurement_Law.

³¹⁵ The authorities indicate that the reason for the then high share of foreign supplies was that those supplies were made on foreign loans. Since 1995, when Korea got out of the recipient status, with no more foreign supplies on overseas loans, foreign supplies have given way to domestic supplies due to R&D and technological innovation invested in by domestic companies.

(KRW 100 million for goods directly manufactured by SMEs) (USD 42,400 in 2016).³¹⁶ In 2019, KRW 19.6 trillion (KRW 14.4 trillion in 2016) were processed as orders through the Online Shopping Mall, representing 43.4% of PPS's total procurement (41% in 2016). The PPS continued to operate a Multiple Award Schedules (MAS) system of framework agreements, i.e. contracts containing set terms from which individual orders can be placed. As of 2020, 557,499 items (360,964 in 2015) were contracted with MAS, accounting for 85% (88.1% in 2015) of total goods registered in KONEPS, totalling KRW 14.7 trillion (USD 53.9 million in 2015). As from 2016, the PPS's Venture Nara platform has given start-ups and ventures that do not meet KONEPS requirements the opportunity to participate in the government procurement market; its targets were particularly start-ups and ventures offering innovative technology products.³¹⁷ In 2018, at least 19 start-ups and ventures were able to advance further in the government procurement market through registration with the KONEPS Online Shopping Mall. As at end-2019, a total contract value of KRW 49 billion was reached through Venture Nara, which had registered 7,064 products from 1,118 start-ups and ventures.³¹⁸ In an effort to keep KONEPS up to date, in 2018 PPS initiated the Inno-KONEPS project (also referred to as the next-generation KONEPS), which would offer multiple functionalities using the latest ICT innovations such as AI and big data. A preliminary feasibility test was concluded in 2019, and the Information System Master Plan (ISMP) was to be finalized in 2020 so as to be fully functional in 2024.³¹⁹

3.229. As at March 2021, KONEPS had links with 225 external systems (194 in 2016), including 5 (banks same as in 2016), 23 guarantee corporations (21 in 2016), 8 construction-related associations (same as in 2016), 5 industrial associations (4 in 2016), 10 credit rating authorities (10 in 2016), 5 certified authorities (same as in 2016), and 5 e-signature authorities (same as in 2016). The value of transactions conducted through KONEPS rose from KRW 78.1 trillion, or 66.8%, of total government procurement in 2016 to KRW 102.8 trillion, or 76.2%, of total government procurement in 2019, of which 44.7% was centrally procured.³²⁰ KONEPS was in use by 57,734 public organizations and 434,062 suppliers in 2019, representing an increase of 10.6% and 24.7%, respectively, compared to 2016.

3.230. Reportedly, centralized procurement has proven to be beneficial in Korea in making public procurement more transparent and efficient by establishing an E-Procurement System, mainly led by the PPS, and allowing various procuring entities to use it. However, it seems that there are concerns about the purchase price via the PPS and the level of commission paid by procuring entities to the PPS.³²¹ 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.³²² According to the 2019 OECD Government at a Glance report, KONEPS provides the highest connectivity to external databases, as it is interconnected to over 200.³²³ So far, KONEPS has been exported to seven countries, including Viet Nam and Costa Rica. Between 2021 and 2023, the PPS would have to rebuild the current KONEPS into Inno-KONEPS based on digital technologies (e.g. cloud, big data, and AI) to reduce overlapped operation and waste in public funds, as well as to

³¹⁶ PPS (2020), *Innovation for the Future and Better Service – 2019 Annual Report*, 9 June. Viewed at: <https://www.pps.go.kr/eng/bbs/list.do?key=00798#none>.

³¹⁷ OECD, Observatory of the Public Sector Innovation, 'VENTURE NARA' Cyber Shopping Mall for Start-Up and Venture Compan[ies], Viewed at: <https://oecd-opsi.org/innovations/venture-nara-cyber-shopping-mall-for-start-up-and-venture-company/>.

³¹⁸ PPS (2020), *Innovation for the Future and Better Service – 2019 Annual Report*, 9 June. Viewed at: <https://www.pps.go.kr/eng/bbs/list.do?key=00798#none>.

³¹⁹ PPS (2020), *Innovation for the Future and Better Service – 2019 Annual Report*, 9 June. Viewed at: <https://www.pps.go.kr/eng/bbs/list.do?key=00798#none>.

³²⁰ PPS (2020), *Innovation for the Future and Better Service – 2019 Annual Report*, 9 June. Viewed at: <https://www.pps.go.kr/eng/bbs/list.do?key=00798#none>.

³²¹ The authorities indicate that the PPS has run the procurement price report centre for price management of the KONEPS Online Shopping Mall, giving rewards for reporting unfair procurement practices and intensifying investigation into procurement practices disturbing the fairly set procurement price system. In addition, a revolving fund is built out of commissions to make payments for suppliers on behalf of public agencies on the demand side. Commission is also spent for stockpiling to support SMEs and stabilizing prices. Dae-in Kim (2021), *Korean Public Procurement Law*, Korea Legislation Research Institute, January. Viewed at: https://www.researchgate.net/publication/348618992_Korean_Public_Procurement_Law.

³²² WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

³²³ OECD (2019), *Government at a Glance 2019*, 14 November. Viewed at: <https://doi.org/10.1787/8ccf5c38-en>.

enhance public access to procurement information by integrating respective procurement systems of local governments into Inno-KONEPS.

3.231. In 2019, 66.5% of Korea's procurement market involved procurement directly by public institutions (i.e. outside the PPS's scope), compared to 70% in 2016.³²⁴

3.3.7 Intellectual property rights

3.232. Korea's IP regime, an important infrastructure for enhancing national and corporate competitiveness, has continued to evolve rapidly in response to technology developments and the pursue of public policy objectives. According to the authorities, by progressing into the creative and innovation era of the Fourth Industrial Revolution, IPRs are rapidly becoming an essential component of society.³²⁵ During the review period, Korea maintained its international IPR and innovation rankings.³²⁶ Trade receipts (charges for the use of IP, exports) from IP royalties and licensing fees grew steadily from USD 4.3 billion in 2013 to USD 6.9 billion in 2016 to USD 7.7 billion in 2019, thus narrowing significantly the trade deficit in the IP area and recording a trade surplus in copyright.³²⁷

3.233. Under the 2011 Framework Act on Intellectual Property (IPFA), a Presidential Council on Intellectual Property (PCIP) to review and adjust the key IP policies, as well as to evaluate and monitor the progress of IP, remains in place. Its December 2016 Second National Intellectual Property Master Plan (2017-21) set forth the policy direction and strategic goals under the vision of "securing IP national competitiveness to lead the 4th Industrial Revolution".³²⁸ Its implementation is to provide advancement of the IP system and economic ripple effects, such as generation of KRW 7,725.1 billion, added value of KRW 3,601.7 billion, and employment of 79,076. In 2019, the Plan's six key directions were: (i) creation of IP-based jobs; (ii) strong IP for preparation of the Fourth Industrial Revolution and creation of new industries; (iii) enhancement of IP capabilities and establishment of a process order for growth of start-up companies and SMEs; (iv) creation of a foundation for a copyright ecosystem corresponding to the digital environment; (v) reinforcement of global IP capabilities; and (vi) spread of a culture of respect for IP. The direction of Korea key policies changed to IP creation focused on quality rather than quantity; expansion of IP transactions, IP finance, and IP service areas centred on the private sector; and strengthened protection of IP. For 2021, the five major areas of strategy are: (i) converting IP into assets based on market analysis; (ii) strengthening SME start-up growth, and protection; (iii) supporting domestic IP to enter the global market; (iv) creating an ecosystem of fairness and coexistence corresponding to the digital environment; and (v) establishing an IP field centred around people and culture. Furthermore, between 2016 and 2020, the total amount of IP-backed financing transactions rose by 257% to KRW 2.64 trillion (USD 18.35 billion).³²⁹

3.234. As of February 2021, Korea continued to participate in 20 of 25 treaties administered by the World Intellectual Property Organization (WIPO) and is a party to the International Convention for

³²⁴ Dae-in Kim (2021), *Korean Public Procurement Law*, Korea Legislation Research Institute, January. Viewed at: https://www.researchgate.net/publication/348618992_Korean_Public_Procurement_Law.

³²⁵ Korean Intellectual Property Office (2020), *Annual Report 2019*. Viewed at: https://www.kipo.go.kr/en/HtmlApp?c=60114&catmenu=ek07_01_01_19.

³²⁶ According to the WEF's 2019 Global Competitiveness Report, in 2019 Korea ranked 13th of 141 economies and had progressed two ranks compared to 2018; it was a world leader in the criterion of macroeconomic stability and IP-intensive information and communications technology adoption. According to the 2020 Global Innovation Index, in 2020 Korea ranked 2nd in the Asia-Pacific region and 10th of 131 economies for the first time; it is the second Asian country to have entered the top 10 countries group and ranked 3rd in gross expenditure in R&D. World Economic Forum (2019), *The Global Competitiveness Report 2019*. Viewed at: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf; Soumitra Dutta, Bruno Lanvin, and Sacha Wunsch-Vincent (2020), *Global Innovation Index 2020: Who Will Finance Innovation?*, 13th ed., Cornell University, INSEAD, WIPO. Viewed at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2020.pdf.

³²⁷ WTO Data portal. Viewed at: <https://data.wto.org/>; and Ministry of Culture, Sports and Tourism, "The Copyright Trade Balance in the First Half of 2020 Records the Highest Surplus Ever of Approx. KRW 1.2 Trillion", 20 September 2020. Viewed at: <http://www.mcst.go.kr/english/ministry/press/pressView.jsp?pSeq=7>.

³²⁸ Presidential Council on Intellectual Property (2020), *2019 Annual Report on Intellectual Property Enforcement in Korea*. Viewed at: <https://www.ipkorea.go.kr/Eng/2019.pdf>.

³²⁹ IP-backed financing consists of loans guaranteed by IP, loans collateralized by IP, and IP-based investments. Presidential Council on Intellectual Property (2020), *2019 Annual Report on Intellectual Property Enforcement in Korea*. Viewed at: <https://www.ipkorea.go.kr/Eng/2019.pdf>.

the Protection of New Varieties of Plants (UPOV) Convention.³³⁰ Korea is a signatory to the October 2011 Anti-Counterfeiting Trade Agreement (ACTA) establishing international standards on IPR enforcement, which has not entered in force so far.³³¹

3.235. During the review period, Korea's active participation in the TRIPS Council included IP-Plug (2015), Inclusive Innovation and MSME Growth (2017), The Societal Value of IP in the New Economy – IP Improving Lives (2018), Public-Private Collaborations in Innovation (2019), IP Commercialization (2019), and Intellectual Property and Innovation (2020). The TRIPS Council reviewed Korea's IPR legislation in 2000. Recent amendments to the Patent Act (Act No. 14112), the Trademark Act (Act No. 11690), the Enforcement Decree of the Patent Act (Presidential Decree No. 24491), the Administrative Procedures Act, the Copyright Act (Act No. 14634), and the Enforcement Decree of the Copyright Act (Presidential Decree No. 28251) were notified to the TRIPS Council between 2019 and 2021 (Sections 3.3.7.1 and 3.3.7.2).³³²

3.236. Virtually all of Korea's RTAs (except for the Korea-ASEAN FTA) contain IPR chapters (Section 2.6.2). Those with Australia, Canada, Central America, China, Colombia, the European Union, New Zealand, Peru, the United Kingdom, the United States, and Viet Nam protect IPR beyond the TRIPS Agreement.³³³ Chapter 11 of the RCEP Agreement contains IP-related provisions aimed at harmonizing IPR protection among the parties to the Agreement (Section 2.5.2.1).

3.3.7.1 Industrial property

3.237. The KIPO continues to handle industrial property protection. It examines and registers patents, utility models, industrial designs, trademarks (including service marks), and layout designs of integrated circuits, and it 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 (Section 3.3.7.3). Korea restricts parallel imports except where specific legal criteria are met (Section 3.3.4.3).³³⁴ Despite the lack of official data on parallel imports, according to a major trading partner, for some brands, at the time of the previous Review, parallel import sales volumes were estimated at 50% to 80% of authorized sales; no recent data were available from the authorities.

3.238. In response to the challenges posed by the COVID-19 pandemic, as of 31 March 2020 KIPO extended *ex officio* twice (1-30 April 2020 and 2-31 May 2020) the deadlines applicable under the Patent Act, the Utility Model Act (Article 15(2) of the Patent Act would apply *mutatis mutandis*), the Design Protection Act, and the Trademark Act.³³⁵ However, the period for possible disputes between parties was excluded from the *ex officio* extension. Furthermore, as from 19 March 2020 KIPO has operated a COVID-19 Patents Information Navigation to facilitate online access to IPRs that can help

³³⁰ Korea acceded to the Beijing Treaty on Audiovisual Performances on 22 April 2020, which entered in force for Korea on 22 July 2020. WIPO IP portal, *WIPO-Administered Treaties: Contracting Parties: Republic of Korea*. Viewed at: http://www.wipo.int/treaties/en/ShowResults.jsp?country_id=95C.

³³¹ Other ACTA signatories are Australia, Canada, the European Union (22 member States 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.

³³² WTO documents IP/N/1/KOR/7-IP/N/1/KOR/P/8, 18 November 2019; IP/N/1/KOR/8-IP/N/1/KOR/P/9, 12 December 2019; IP/N/1/KOR/11-IP/N/1/KOR/T/5, 24 January 2020; IP/N/1/KOR/10-IP/N/1/KOR/P/11-IP/N/1/KOR/E/10, 24 January 2020; IP/N/1/KOR/9-IP/N/1/KOR/P/10, 24 January 2020; IP/N/1/KOR/12-IP/N/1/KOR/E/11, 12 February 2021; IP/N/1/KOR/14-IP/N/1/KOR/C/6, 25 February 2021; and IP/N/1/KOR/13-IP/N/1/KOR/C/5, 25 February 2021.

³³³ Ministry of Culture, Sports and Tourism, Korea Copyright Commission, and Korea Copyright Protection Agency (2018), *2018 Annual Report on Copyright in Korea*. Viewed at: <https://www.copyright.or.kr/eng/activities/annual-report/index.do>.

³³⁴ 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/346/Rev.1, 6 January 2017.

³³⁵ KIPO (2020), *Official Notice of 2nd Ex-officio Extension for Designated Periods Due to the Effects of the COVID-19*, Public Notice No. 2020-98, 28 April 2020. Viewed at: https://www.kipo.go.kr/en/BoardApp/UEngBodApp?c=1003&board_id=kiponews&catmenu=ek06_01_01&seq=1695.

fight against COVID-19.³³⁶ It provides patent information categorized under protection/prevention, diagnosis/testing, treatment/vaccine, waste disposal, and others, and the patent documentation is available online.

3.239. IPR administration continued to raise its already high-efficiency level. The rate of electronic applications (e-application) made to KIPO has remained among the highest in the world since 2005; in 98.2 % in 2020 (96.3% in 2015) of all applications were filed online. In 2020, 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 11.1 months (10.0 in 2015) for patent and utility model examinations, and 8.7 months (4.7 in 2015) and 4.4 months (same as in 2015) for trademark and design examinations, respectively. In 2020, 134,766 patents (101,873 in 2015), 2,056 utility models (3,253 in 2015), 50,694 industrial designs (54,551 in 2015), and 116,153 trademarks (114,747 in 2015) were registered, representing a total increase of 10.7% compared to 2015. According to KIPO, 557,256 IPR applications (475,802 in 2015), including patents, utility models, designs, and trademarks, were filed in 2020, 17.1% higher than in 2015; 226,759 were patent applications (213,694 in 2015, a 6.1% increase), 46,282 (46,421 in 2015), or 20.4% (21.7% in 2015), of which were from non-residents.

3.240. In 2020, KIPO hosted the 20th Trilateral Intellectual Property Offices (TRIPO) Heads Meeting, i.e. KIPO, the China National Intellectual Property Administration (CNIPA), and Japan Patent Office (JPO), where it was discussed how to share information about their ongoing or planned cooperation programs or initiatives for ASEAN countries and pursue collective efforts towards developing a joint cooperation to assist countries in reforming their IP laws and enforcing the IP-related provisions of the RCEP Agreement.³³⁷ Since the start of their cooperation in 2001, the three offices sought to share IP practices and harmonize their IP systems, thus enhancing the level of IP protection. This led to an increase of their global patent filings share, from around 42% in 2001 to about 60% in 2019, and global trademark applications from 20.20% to 57.2% in those same years.

3.241. Penal provisions involving imprisonment or fines for right infringements of patents, utility models, trademarks, and industrial designs were revised as follows: imprisonment of up to number of seven years or a fine of up to KRW 100 million compared to imprisonment of up to seven years or fine up to KRW 100 million in 2016; or imprisonment of up to number of three years or a fine of up to KRW 30 million compared to imprisonment of up to three years or a fine of KRW 20 million for falsely indicating such a right or fraudulently obtaining one in 2016. 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.

3.3.7.1.1 Patent and utility models³³⁸

3.242. Patent protection under the Patent Act of 1946 (last amended in 2020) 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 12 months, and the term of the patent right may be extended when its registration is delayed by more than 4 years after the filing date, or 3 years after request for examination when the reason is not attributable to the applicant. Green technology is allowed speedy screening/examination. 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.³³⁹ During the review period, no compulsory licence was issued; to date, one compulsory licence has been issued.

³³⁶ KIPO, *COVID-19 Patents Information Navigation*. Viewed at: https://www.kipo.go.kr/ncov/index_e.html.

³³⁷ KIPO, *Heads of KIPO, CNIPA and JPO Join Hands for ASEAN Cooperation*, 11 December 2020. Viewed at: https://www.kipo.go.kr/en/BoardApp/UEngBodApp?c=1003&board_id=kiponews&catmenu=ek06_01_01&seq=1706.

³³⁸ More information on application, examination, and registration requirements and procedures is available in WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

³³⁹ Except for semiconductor 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. The authorities indicated that a non-exclusive compulsory licence may be granted upon request by least

3.243. The 2019 amendments to the Patent Act and related rules seemingly reinforced patent holders' protection. The method for calculating and awarding damages was substantially changed; now the damages claimed can go beyond "ordinarily expected" royalties to an amount that is "reasonably expected".³⁴⁰ This allows for more compensation of patent owners. Moreover, in case of intentional infringement of patent rights, the courts can award compensation up to three times the recognized amount of damages. The accused infringer would have to present specific details on his or her use of the technology to the court in order to deny infringement allegations, which would relieve the burden of proof on the right holder.

3.244. Amendments to the Patent Attorney Act (1961, last amended in 2020) provided for new penalties. The act of accepting or mediating the lending of a patent attorney qualification certificate is punishable by up to five years imprisonment or a KRW million fine.

3.245. The Utility Model Act (1961, last amended in 2019) continues to protect the shape, structure, or combination of articles/products for 10 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.

3.246. During the review period, KIPO implemented policies aimed at encouraging the use of patent data in the R&D process. Between 2019 and 2020, it expanded drastically the implementation of KIPO's IP-R&D Plan, aiming to improve the efficiency of R&D projects and secure core technologies.³⁴¹ This plan consists of expanding IP-R&D programs in public R&D projects, supporting IP-R&D customized to each stage of growth of business, and strengthening the foundation for IP-R&D proliferation in industry, academia, and research. Furthermore, in 2019 KIPO restructured its patent examination management structure in five of its bureaus.³⁴² To improve patent examination capabilities, it established a new Convergence Technology Examination Bureau dedicated to the examination of technologies related to the Fourth Industrial Revolution, big data, and bio-health.

3.247. KIPO is a member of the Five IP offices (IP5), an international patent cooperation framework that intends to eliminate the unnecessary duplication of work between offices while enhancing patent examination efficiency via the Patent Prosecution Highway (PPH); as at 2020, the PPH regrouped 34 countries.³⁴³ In October 2020, the IP5 agreed to extend the implementation of the IP5 PPH until 5 January 2023.

3.248. According to WIPO data, between 2016 and 2019 total patent applications rose by 4.9%; in 2019, Korea ranked 4th worldwide with 218,975 applications, of which 78.84% were from resident applicants.³⁴⁴ With 7,779 resident patent applications per unit of USD 100 billion GDP, it continued

developed countries for the import of pharmaceuticals; also, the Government may non-commercially practice a patented invention due to a national or dire emergency, or for the public interest.

³⁴⁰ Korean Intellectual Property Office (2020), *Annual Report 2019*. Viewed at: https://www.kipo.go.kr/en/HtmlApp?c=60114&catmenu=ek07_01_01_19.

³⁴¹ Korean Intellectual Property Office (2020), *Annual Report 2019*. Viewed at: https://www.kipo.go.kr/en/HtmlApp?c=60114&catmenu=ek07_01_01_19.

³⁴² These offices are the Patent Examination Policy Bureau, the Convergence Technology Examination Bureau, the Electricity & Communications Examination Bureau, the Chemical & Biotechnology Examination Bureau, and the Machinery & Metals Examination Bureau. KIPO (2020), *Annual Report 2019*. Viewed at: https://www.kipo.go.kr/en/HtmlApp?c=60114&catmenu=ek07_01_01_19.

³⁴³ The IP5 is composed of KIPO, the JPO, the CNIPA, the United States Patent and Trademark Office (USPTO), and the European Patent Office (EPO). The PPH participants are Australia, Austria, Canada, China, Colombia, Denmark, Eurasia, the EPO, Estonia, Finland, Germany, Hungary, Iceland, Israel, Japan, Mexico, New Zealand, Norway, Peru, the Philippines, Poland, Portugal, the Russian Federation, the Kingdom of Saudi Arabia, Singapore, Spain, Sweden, Chinese Taipei, the United Kingdom, the United States, and Viet Nam; its three new participants (as from 2016) are Brazil, Chile, and Malaysia. The PPH is a patent filing system in which when the office of first filing has assessed the patentability of a patent application the office of second filing offers an accelerated examination to the applicant. KIPO, *Patent Prosecution Highway*. Viewed at: https://www.kipo.go.kr/en/HtmlApp?c=100016&catmenu=ek02_02_03; KIPO (2020), *Annual Report 2019*. Viewed at: https://www.kipo.go.kr/en/HtmlApp?c=60114&catmenu=ek07_01_01_19; and KIPO, *IP5 Cooperation*. Viewed at: https://www.kipo.go.kr/en/HtmlApp?c=100015&catmenu=ek02_02_02.

³⁴⁴ WIPO (2020), *World Intellectual Property Indicators 2020*. Viewed at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2020.pdf.

to file the greatest number of patent applications worldwide; it also retained the lead resident applications per million of population. At the global scale, it was positioned 5th for applications filed abroad, with 76,824 equivalent patent applications.³⁴⁵ In 2019, KIPO reduced its stock of pending patent applications by 31.9%, and issued the registration of its second millionth patent, thus becoming the 7th country in the world to reach that milestone.³⁴⁶

3.3.7.1.2 Trademarks³⁴⁷

3.249. The Trademark Act (1949, last amended in 2020) protects trademarks on goods and services for 10 years upon registration, renewable indefinitely for 10-year periods. As of 2020, KIPO had designated 56,000 names of goods and services (45,000 in 2015) as a reference for applicants in order to increase their convenience and reflect industrial development.

3.250. During the review period, the amendments to the Act (entirely amended by Act No. 14033, 29 February 2016) were aimed at revising the non-use cancellation of the registered mark, the prior registration or application evaluation, and penalties. When a registered trademark has not been used for three consecutive years, any third party may seek to cancel it on the grounds of non-use. A legal standing for the third party is no longer required. Concerning the evaluation of prior registration, the timing to judge whether a later-applied trademark violates the preregistered trademark changed from the application date of the later trademark to the date of determining its registrability; this amendment was aimed at avoiding a rejection of the junior application even if the senior application is removed as the senior mark existed at the time of filing of the junior application. Finally, the penalty for perjury is punishable by imprisonment with up to five years' labour or a fine of KRW 50 million. False indication and fraud are punishable by imprisonment with up to three years' labour or a fine of KRW 30 million.

3.251. Amendments to the Act enforced from 20 October 2020 would allow the courts to award higher compensation for intentional trademark infringement, revise the calculation of damages based on royalties, and increase the maximum statutory awards.³⁴⁸ The amendment allowed a claim for a "reasonably expected" amount of damages of trademark infringement that is beyond the calculation of "ordinarily expected" royalties. The maximum amount courts can award was increased from KRW 50 million to KRW 100 million. Courts would be able to award up to triple the amount of confirmed damages in case of intentional trademark infringement.³⁴⁹ The basis for damage computation changed from royalties that are ordinarily expected to royalties that are reasonably expected.³⁵⁰ This amendment aims to address the issue of awarding insufficient damages and should allow trademark holders to receive higher compensation.

3.252. 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 KRW 30 million.

3.253. According to WIPO data, between 2016 and 2019 total trademark applications rose by 22.6%; in 2019, Korea ranked 9th worldwide in trademark application (class count) and 18th regarding applications filed abroad.³⁵¹

³⁴⁵ Applications at regional IP offices are equivalent to multiple applications in countries that are members of the organizations establishing those offices. WIPO (2020), *World Intellectual Property Indicators 2020*. Viewed at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2020.pdf.

³⁴⁶ KIPO (2020), *Annual Report 2019*. Viewed at: https://www.kipo.go.kr/en/HtmlApp?c=60114&catmenu=ek07_01_01_19.

³⁴⁷ More information on application, examination, and registration requirements and procedures is available in WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

³⁴⁸ Lee & Ko, *Korea Introduces New Law Strengthening Protection Against International Infringement of IP Rights*, 27 October 2020 Viewed at: <https://www.legal500.com/developments/thought-leadership/korea-introduces-new-law-strengthening-protection-against-intentional-infringement-of-ip-rights/>.

³⁴⁹ Trademark Act, Article 110(7), enforced from 20 October 2020.

³⁵⁰ Trademark Act, Article 110(4), enforced from 20 October 2020.

³⁵¹ Resident application class counts are those adjusted with regard to GDP or the size of population. WIPO (2020), *World Intellectual Property Indicators 2020*. Viewed at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2020.pdf.

Geographical indications

3.254. Geographical indications (GIs) remain protected under the Trademark Act, the Agricultural and Fishery Products Quality Control Act, and the Unfair Competition and Trade Secrets Protection Act; no changes were made to the GI-related provisions of this regulatory framework during the review period.³⁵² The Trademark Act and the Fishery Products Quality Control Act protect GIs that are registered and provide a registration process, while the Unfair Competition and Trade Secrets Protection Act protects unregistered GIs when their protection under the Trademark Act or the Agricultural and Fishery Products Quality Control Act has become ineffective.

3.255. The Trademark Act denies application for registration of 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 as are the equipment and infringing products. Under the Unfair Competition Prevention and Trade Secrets Protection Act, unauthorized use of GIs is penalized. Foreign GIs can be registered according to the same procedures and criteria as for domestic goods and are protected under various laws; 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).

3.256. 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 NAQS, the Korea Forest Service, or the NFQS. 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 KRW 30 million.

3.257. A trademark containing GIs 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".

3.3.7.1.3 Plant variety protection

3.258. Protection for plant varieties is provided under the Patent Act and the New Varieties of Plants Protection Act (2012, last amended in 2019). Breeders' rights are protected for 20 years from the registration date (25 years for fruit and forest trees). Protection is administered by MAFRA and the MOF. The registration of plant varieties remains entrusted to the Korea Seed and Variety Service (KSVS) for agricultural plants, MAFRA's National Forest Seed Variety Center (NFSV) for forest plants, and the MOF's National Institute of Fisheries Service (NIFS) for aquatic plants. The breeder must apply for a plant variety protection under the KSVS's Plant Variety Protection System. A plant variety must fulfil the test of novelty, distinctness, uniformity, stability, and denomination to be registered and protect the breeder's rights. The 2019 amendments to the Act provided for the punishment of perjury with sentences of less than five years' imprisonment or a fine of less than KRW 50 million, instead of less than five years' imprisonment or a fine of less than KRW 10 million in terms of regulation efficiency.

3.259. The amendments to the New Varieties of Plants Protection Act aimed at revising penalties. The penalty for perjury now involves up to 5 years' imprisonment or a fine of KRW 50 million. The penalty for false indication consists of up to 3 years' imprisonment or a fine of KRW 30 million.

3.260. Since the last Review, plant variety protection has been strengthened; in 2019, with 695 applications and 5,694 plant variety titles (9,217 and 6,537, respectively, in 2016) in force, the

³⁵² Korean Legislation Research Institute (2014), *A Study on Geographical Indication Under FTAs and Its Domestic Implementation*. Viewed at: <https://www.klri.re.kr/eng/publication/1420/view.do>.

KIPO was positioned 8th worldwide in plant variety applications.³⁵³ In 2020, there were 12,151 applications and 8,620 entitled breeder's rights.

3.261. As from 2018, a Genetic Resource Information Center has operated and a special judicial police (Section 3.3.7.3) was expanded to crack down on violations of breed protection rights and protect the development of new plant varieties in response to new international norms concerning biological and genetic resources, such as the Nagoya Protocol.³⁵⁴

3.3.7.1.4 Industrial designs and layout designs of integrated circuits (topographies)³⁵⁵

3.262. Protection under the Design Protection Act (1961, last amended in 2019) remains 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. The registered owner has the exclusive right to work a registered design, commercially and industrially. Amendments during the review period were aimed at extending the grace period for design application, easing proof of priority, and revising penalties (see below). A design would not lose novelty if the design application is filed within one year of the date on which an identical or similar design was filed. The grace period was extended from six months to one year. Applicants can use WIPO's Digital Access Service to submit priority documents to confirm a foreign priority application.

3.263. Amendments, enforced from 20 October 2020, provide that the penalty for perjury would be punishable by up to five years' imprisonment with labour or a fine of KRW 50 million. The penalty for false indication and fraud would be punishable by up to three years' imprisonment with labour or a fine of KRW 30 million.³⁵⁶ Similar to the Patent Act amendments, these amendments adopt punitive awards up to the triple amount of damages in case of intentional design infringement, as well as the standard of reasonably expected royalties for damage computation.³⁵⁷

3.264. Layout designs of semiconductor integrated circuits (topographies) remain 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 KRW 30 million, for right infringements; and up to one year of imprisonment, or a fine of KRW 10 million, for falsely marking a circuit as registered or obtaining registration fraudulently.

3.265. According to WIPO data, between 2016 and 2019 total industrial design applications rose by 0.3%; in 2019, KIPO ranked 3rd in industrial design applications counts (38.7% non-resident) and Korea was positioned 1st in resident design count per million of population.³⁵⁸

3.3.7.1.5 Trade secrets³⁵⁹

3.266. Protection under the Unfair Competition Prevention and Trade Secrets Protection Act (1961) (last amended in 2019) and related rules cover 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. Under amendments during the review period, the definition of trade secret infringement activities ("subject to reasonable efforts to maintain its secrecy") was broadened so as to consider

³⁵³ WIPO (2020), *World Intellectual Property Indicators 2020*. Viewed at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2020.pdf.

³⁵⁴ Presidential Council on Intellectual Property (2020), *2019 Annual Report on Intellectual Property Enforcement in Korea*. Viewed at: <https://www.ipkorea.go.kr/Eng/2019.pdf>.

³⁵⁵ More information on application and registration requirements and procedures is available in WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

³⁵⁶ Lee & Ko, *Korea Introduces New Law Strengthening Protection Against International Infringement of IP Rights*, 27 October 2020. Viewed at: <https://www.legal500.com/developments/thought-leadership/korea-introduces-new-law-strengthening-protection-against-intentional-infringement-of-ip-rights/>.

³⁵⁷ Design Protection Act, Articles 53(2), 115(7)-(8), and 115(4), enforced from 20 October 2020.

³⁵⁸ WIPO (2020), *World Intellectual Property Indicators 2020*. Viewed at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2020.pdf.

³⁵⁹ More information on application and registration requirements and procedures is available in WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

as trade secrets the secret information that has been hidden with a lack of reasonable effort ("managed as a secret"); this change allowed protection of trade secrets without the need for excessive effort.³⁶⁰

3.267. Furthermore, amendments during the review period were also aimed at allowing courts to award compensation up to three times the damages incurred in case of intentional infringement of trade secrets, introducing better protection against the theft of ideas and new penalty provisions.³⁶¹ The use of another person's technical or business ideas with economic value in the process of negotiating or conducting transactions, such as a business proposal, auction, and public offering, is considered an act of unfair competition and may subject the offender to administrative or civil liability. The penalty for the use of trade secrets was strengthened and would be punishable by up to 15 years' imprisonment or a fine of KRW 1.5 billion. At the time of the previous Review, fines were up to KRW 50 million for domestic infringement and KRW 100 million for international infringement, but if the illegally obtained monetary profit exceeded by 10 times the maximum amount of the fine, the fine could be equivalent to 2-10 times the profit.

3.268. Confidential data submitted to authorities for registration 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 Pharmaceuticals Affairs Act). Penalties are up to three years of imprisonment with labor or fines of up to KRW 30 million for pharmaceuticals and for agri-chemicals. Unfair commercial use of such data is also prohibited.

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

3.270. As from 2015, KIPO has operated a trade secret management system aimed at supporting businesses to manage their trade secrets.³⁶² Government experts provide advice to businesses aimed at improvement measures and verification of their implementation so as to help them pre-emptively block unauthorized trade secret disclosure. In 2019, the Trade Secret Protection Center (<http://www.tradesecret.or.kr>), in place since 2012, undertook consultations with 101 companies, an increase of 30 companies compared to the previous year, to help establish a trade secret management system that suits their size and status. Between 2016 and 2019, online and offline consultations related to trade secrets increased almost five-fold to 798 (822 in 2018); in addition, in 2019, trade secrets protection consulting and legal advice on leakage dispute stood at 101 and 30, respectively. In 2020, a new in-depth consulting system was implemented where an expert would directly visit a business for eight weeks and help establish a trade secret management system. As a result of supporting 50 businesses, the capacity of establishing a trade secret management system increased about 32%. Moreover, trademark management systems were provided to 101 businesses, online and offline counselling related to trade secret was provided 860 times, and legal counsel on trade secret leakage disputes was carried out 30 times. Also, considering the COVID-19 crisis, the offline format of the trade secret protection training was modified to be an online seminar, and education video content was produced for businesses to utilize as a resource for their internal training (the videos have been published on KIPO's website).

3.3.7.2 Copyright and related rights

3.271. To create a healthy copyright ecosystem where the establishment of a virtuous cycle of creation-distribution-use would help to realize the Creative Economy, since 2018 Korea's policy goal has been the "Creation of a Copyright Ecosystem Promoting Balance and Coexistence" through four main projects: (i) strengthening the rights and interests of creators and preparing a fair and just rewards system; (ii) preparing a foundation to vitalize a fair copyright distribution system; (iii) strengthening responses to domestic and overseas copyright infringement and raising

³⁶⁰ Presidential Council on Intellectual Property (2020), *2019 Annual Report on Intellectual Property Enforcement in Korea*. Viewed at: <https://www.ipkorea.go.kr/Eng/2019.pdf>.

³⁶¹ KIPO (2020), *Annual Report 2019*. Viewed at: https://www.kipo.go.kr/en/HtmlApp?c=60114&catmenu=ek07_01_01_19.

³⁶² WTO document WT/TPR/S/346/Rev.1, 6 January 2017; Presidential Council on Intellectual Property (2020), *2019 Annual Report on Intellectual Property Enforcement in Korea*. Viewed at: <https://www.ipkorea.go.kr/Eng/2019.pdf>.

pan-national awareness; and (iv) strengthening international competitiveness of cultural service copyright.³⁶³ To pre-emptively and proactively respond to the changing environment, set up a stable copyright ecosystem, and support development of relevant industries, Korea created a copyright policy vision in 2020 (Copyright Vision 2030) with the goal of being a "Copyright Powerhouse Where Culture Drives Economy" through four core tasks: (i) create a foundation for copyright conducive to the era of the Fourth Industrial Revolution; (ii) forge an environment for fair and transparent use and distribution; (iii) tighten the response to copyright infringement; and (iv) strengthen infrastructure for protection of works overseas.

3.272. The Ministry of Culture, Sports and Tourism (MCST) and its Korea Copyright Commission (KCC), as well as the Korea Copyright Protection Agency (KCOPA), which is a non-classified public institution under the MCST founded in 2016, remain in charge of policy formulation and implementation in this area.³⁶⁴

3.273. During the review period, the main copyright protection framework remained virtually unchanged (see below). Although copyrights do not need to be registered to obtain protection during the author's life plus 70 years, registration offers advantages. The term of protection for the rights of performers and phonogram producers, who have neighbouring rights, also remains at 70 years after the date of performance or publication. 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; 653 such licences on literary, cinematographic, and musical works were granted from 2016 to 2020, compared to 24 from 2012 to 2015. Copyright also applies to "interactive transmissions" for authors. Databases, including compilation of data in machine-readable form, may be protected.

3.274. The amendments to the Copyright Act (1957, last amended in 2019) and related rules allowed a compensation group to use remuneration left undistributed from three to five years from the date of the public announcement of the remuneration distribution. This undistributed remuneration can be used only for specific purposes with MCST approval, for example, for education or copyright protection projects. In addition, the amendments provide that a certain part of undistributed remuneration shall be accumulated to pay remuneration to a rights holder, when information about him or her is verified. Furthermore, they require a certain percentage of the undistributed remuneration to be deposited for public purposes to enable payment to the right copyright holders after five years.

3.275. RTA/FTA-driven amendments to the Copyright Act continued to bring improvements to copyright protection that go beyond TRIPS negotiation criteria (see above).

3.276. Regarding copyrights, Korea recorded the highest number of films and videos deposited in legal deposits with 18,591 items worldwide in 2019.³⁶⁵ In addition, with 331,937 registrations, it was the second country with the most registered ISBN identifiers in 2019.³⁶⁶

3.277. 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 KRW 50 million also apply for copyright infringements. With heightened public awareness of copyright in recent years, the number of disputes is also on the rise. In order to resolve such disputes in a fair manner, the MCST runs a wide range of dispute resolution systems. Since 2013, a court-connected mediation system has been in place to induce parties in a dispute to reach consensus before the case is brought to the court. The Seoul Central District Court (since 2013) and the Seoul Southern District Court (since September 2014) were the only courts applying this

³⁶³ Korea Copyright Commission (2019), *2018 Annual Report on Copyright in Korea – Korea Copyright White Paper*, December. Viewed at: <https://www.copyright.or.kr/eng/activities/annual-report/index.do>.

³⁶⁴ KCOPA supports the establishment of policies and effective law enforcement regarding copyright protection and performs activities to handle domestic and overseas copyright infringement.

³⁶⁵ WIPO (2020), *World Intellectual Property Indicators 2020*. Viewed at: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2020.pdf.

³⁶⁶ An ISBN is a permanent international standard book identifier assigned to individual publications. According to ISBN data, Korea has the second biggest publishing market in the world.

court-connected mediation system until the Seoul Eastern District Court and the Seoul Western District Court made MOUs for the court-connected mediation system in 2018. Between 2016 and 2019, 554 cases (496 in 2013-15) were dealt with, and the settlement rates were 42.2% in 2016, 46.0% in 2017, 19.8% in 2018, and 30.5% in 2019, compared to 40.4% in 2013, 44.9% in 2014, and 28.9% in 2015.

3.3.7.3 Enforcement

3.278. Korea continues to generally provide strong IPR protection and enforcement.³⁶⁷ Between 2013 and 2017, its unlicensed software installation rates were estimated to have dropped from 38% (USD 712 million) to 32% (USD 598 million).³⁶⁸ Reportedly, IP-related concerns relate to, *inter alia*: counterfeit transshipments, especially via small express-shipped parcels; GIs; and a lack of deterrent-level civil and criminal penalties for IP violations.³⁶⁹ A survey about illegal media consumption conducted in 2019 showed that 24% of respondents pirated media two or three times a week; overall, the survey results showed that 57.1% of respondents illegally consumed media at least once a week.³⁷⁰ In 2018, the piracy rates for music, films, TV programmes, entertainment software (games), and books were 19.3%, 21.1%, 7.7%, 7.9%, and 6.5%, respectively; in the past, Korea's counterfeit market consisted mainly of auto parts, medicines, luxury goods, and fake banknotes, and no recent data were available from the authorities for this Review.

3.279. 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, and 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. As a result of the 2018 amendment to the Persons Executing the Duties of Judicial Police Officers and the Scope of their Duties Act (Judicial Police Duty Act), the scope of duties for KIPO special judicial police management has been expanded, as of March 2019, to include infringements of patent right, trade secrets, and design rights, as well as product form imitation under unfair competition activities, from previously limited scope covering trademarks and the confusion of the product subject under unfair competition activities.³⁷¹ Since 2006, KIPO has implemented a reward system to encourage the reporting of counterfeit goods and their distribution. By 2020, there had been 1,644 reported cases (1,294 by 2015) with a total of KRW 24.1 billion (KRW 1.9 billion by 2015) awarded; the seized counterfeit goods were valued at KRW 4 trillion when matched to the retail prices of the genuine articles. Between 2016 and 2020, the number of arrests increased by 76% and the number of confiscated goods rose by 23%. Between 2016 and 2020, the Special Judicial Police arrested 2,445 individuals producing and/or selling counterfeit goods (including clothes, shoes, health foods, and cosmetics), and a total of 8.8 million counterfeit items were seized. Through the Online Counterfeit Products Monitoring System, action continued to be taken to suspend sales by illegal sites, or close down the sites entirely, and online sellers of counterfeit goods were arrested.

³⁶⁷ In 2020, Korea ranked 8th in Asia and the Pacific (of 20 countries) and 31st (38th in 2015) in the world (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, physical property rights, and IPRs. Property Rights Alliance (2020), *International Property Rights Index 2020*. Viewed at: <https://www.internationalpropertyrightsindex.org/>; and *About the Property Rights Alliance*. Viewed at: <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.

³⁶⁸ According to the Business Software Alliance's (BSA) Global Software Survey 2018, in 2017, this rate was the 5th lowest in Asia-Pacific, and well below the regional average of 57%, but above top performers Australia (18%), Japan (16%), and New Zealand (16%). BSA (2018), *BSA Global Software Survey: Software Management: Security Imperative, Business Opportunity*, June. Viewed at: https://gss.bsa.org/wp-content/uploads/2018/05/2018_BSA_GSS_Report_en.pdf.

³⁶⁹ USTR (2020), *2020 National Trade Estimate Report on Foreign Trade Barriers*. Viewed at: https://ustr.gov/sites/default/files/2020_National_Trade_Estimate_Report.pdf.

³⁷⁰ Statista, *Distribution of People Who Pirated Media in South Korea in 2019, by Frequency*, April 2020. Viewed at: <https://www.statista.com/statistics/1133719/south-korea-media-piracy-by-frequency/#:~:text=A%20survey%20about%20illegal%20media,at%20least%20once%20a%20week>.

³⁷¹ Presidential Council on Intellectual Property (2020), *2019 Annual Report on Intellectual Property Enforcement in Korea*. Viewed at: <https://www.ipkorea.go.kr/Eng/2019.pdf>.

3.280. In October 2020, KIPO announced Measures to Prevent Online Counterfeits to more effectively combat the rapidly increasing online distribution of counterfeit products due to the COVID-19 pandemic while minimizing damage to consumers; the number of reports concerning online counterfeits increased by 150% year-on-year (2019-2020) following the increase in online shopping.³⁷² Offline enforcement personnel are temporarily handling online monitoring, whereas the Special Judicial Police are directly investigating mass distributors and frequent sellers of counterfeit products, reinforcing investigative manpower, and promoting the advancement of investigation techniques, such as digital forensics. A damages compensation system, under which online open market platforms compensate for damage resulting from the purchase of counterfeit products first and then claim indemnity from the individual seller, has been established.

3.281. Customs is authorized to investigate, *ex officio*, IPR infringements concerning imports and exports. It can initiate investigations, including of criminal activity, and would 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). 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 2016 and 2020, 15,845 cases of IPR infringement (6,330 in 2012-15) were appraised through this system. Right holders may request the KCS to suspend the release of suspected counterfeit goods, on payment of collateral of 120% of the dutiable value of the goods. The KCS withholds clearance of goods suspected of violating IPRs; clearance suspensions rose from a total of 320 cases in 2016 to 354 in early 2021. In cooperation with Japanese and Chinese customs authorities, the KCS implemented the Fake Zero Project for exchanging information on counterfeit activities from 2007 to 2011, and its resumption was agreed in October 2015; its 8th working group is to be held in Korea.

3.282. According to the 2019 KCS report, there were 30,856 seizures in 2019, a 41% decrease compared with the previous year, which represented a 313% increase from 2016.³⁷³ Trademark infringement-related cases continued to make up 88.8% of the seizures, and postal items and express cargo made up the largest number of cases, as well as the largest share by weight. Seizures of shoes and watches increased, and most seized items continued to originate in China (88.7% in 2019, 92.9% in 2018), where Korean producers of counterfeit items (e.g. bags, home appliances, machinery, watches, footwear, general merchandise, toys/stationery, exercise equipment, and wearing apparel/textiles) had reportedly relocated. A significant increase in seizures was largely due to the operation of "the system of Postal Items disposal infringing upon intellectual property rights" as from 26 November 2018, as well as its improved ability to inspect smaller postal items due to collaboration between the Trade Related IPR Protection Association (TIPA) and Incheon Airport International (Postal) Customs Office.

3.283. The 2014 comprehensive policy to protect Korean brands (K-brands) in regions where the distribution of counterfeit Korean products is increasing remains in place. Its main objectives are 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 an effort to enhance the creation and protection of IPRs owned by Korean industries and put them to use in foreign markets, as of April 2021, KIPO operated IP Desks in 15 cities (11 in 2015): Beijing, Shanghai, Qingdao, Shenyang, and Guangzhou (China); Bangkok (Thailand); Ho Chi Minh City (Viet Nam); Los Angeles and New York (United States); Frankfurt (Germany); Tokyo (Japan); Hong Kong, China; New Delhi (India); Jakarta (Indonesia); and Manila (the Philippines). In 2020, KIPO enhanced functions and expertise by establishing a new overseas IP centre in Manila and promoting specialized projects that address each type of dispute in different countries and expanded its efforts to protect K-brands in the ASEAN region.³⁷⁴ In cooperation with the Ministry of Foreign Affairs, the Ministry of Industry, and the Supreme Prosecutors' Office (SPO),

³⁷² Jae-Sang Lim, "KIPO Measures to Prevent Online Counterfeits", 18 January 2021. Viewed at: <https://www.internationallawoffice.com/Newsletters/Intellectual-Property/South-Korea/NAM-NAM/KIPO-measures-to-prevent-online-counterfeits>.

³⁷³ KCS (2019), *2018 Annual Statistical Report: Intellectual Property Rights Seizures*. Viewed at: http://customs.go.kr/download/IPRS_2018_eng.pdf; and Kim & Chang, *Huge Increase in Counterfeit Seizures in Korea Due to Improved Inspection of Small Postal Items*, 12 February 2020. Viewed at: https://www.ip.kimchang.com/en/insights/detail.kc?sch_section=4&idx=20796.

³⁷⁴ Presidential Council on Intellectual Property (2020), *2019 Annual Report on Intellectual Property Enforcement in Korea*. Viewed at: <https://www.ipkorea.go.kr/Eng/2019.pdf>.

KIPO formed a joint task force to respond to companies that copy Korean products and pursued local resolution through country-specific fact-finding efforts and enforcement requests. During the review period, Korea (e.g. KIPO) expanded cooperation with international organizations, including the WTO, WIPO, and APEC, to lead IP-related issues on the global stage.³⁷⁵

3.284. 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. During the review period, responsiveness to copyright infringements was reinforced. The Copyright Special Judicial Police (CSJP) aim to respond immediately to online and offline illegal reproduction of copyrights (see below). Regarding online copyright infringement, as of 2016 the KCOPA (Section 3.3.7.2) tracked and acted against the first distributor of an illegal reproduction on Torrent.³⁷⁶ The MCST maintains overseas offices in Bangkok (Thailand), Manila (Philippines), Hanoi (Viet Nam), and Beijing (China) that provide measures against copyright infringement rectification in response to illegal distribution and copyright infringement of Korean contents in foreign countries. In May 2018, the Government announced "measures to prevent copyright infringement through overseas sites", a collaboration between the MCST, the Korea Communications Commission, and the National Police Agency. They planned investigations of overseas sites, launched copyright protection campaigns, and blocked access to certain websites, so as to stop the distribution of illegal reproductions and expand enforcement. As a result, in 2019 the Government managed to block 20 sites and arrested 19 operators of 9 websites.

3.285. The CSJP, with regional offices in major cities (Seoul, Busan, Daejeon, Gwangju, and Daegu), continued to investigate counterfeit computer software, sound recordings, and video movies, including through online activities. Copyright infringement cases forwarded by the CSJP stood at 378 cases in 2016, 536 in 2017, 671 in 2018, and 762 in 2019.³⁷⁷ In 2019, 707,746 items (of which 98.8% were music) of illegal reproductions in 455 cases were collected and disposed, compared to 7,816,798 items and 1,818 cases in 2017. The number of pirated video/music products among the illegal materials collected and disposed significantly has declined since 2017, as use of reproductions is being diversified and users switched from CD/DVD formats to downloading digital files or streaming in offline illegal markets. The KCOPA promoted 553 forensic inspections on digital copyright infringement in 2019, compared to 464 in 2016. In 2018, it conducted planned investigations on illegal cartoon-sharing sites with the MCST and blocked 11 sites and arrested 5 site operators. It tried to interrupt encroachment of legal markets by massificating overseas copyright infringement sites. Furthermore, it expanded a forensics assistance system to protect copyright by arresting operators of the sites Night Rabbit and Torrent Kim. It also conducted forensic inspections on copyright infringement for 70 accounts that habitually uploaded software crack versions and non-partnered illegal reproductions on Webhard to prevent copyright infringement on diverse distribution routes by improving the illegal software eradication effect and encouraging the use of genuine content. The joint planned investigation between the MCST and the Korean National Police Agency (18 regional police) targeted illegal websites that moved servers overseas to avoid domestic crackdowns and distributed the illegal copies, blocked major infringing websites, such as Marumaru 2 and Childish Adult.com, and cooperated in arresting illegal website operators. In 2019, MCST also conducted forensic inspections on copyright infringement for 52 accounts that habitually uploaded non-partnered illegal reproductions on Webhard to enhance the eradication effect of illegal reproductions from Webhard and to encourage the use of genuine content. As such, it prevented copyright infringements in diverse distribution channels.

3.286. Under the Copyright Act, the MCST has administrative authority to inspect business establishments, and to seize and order the disposal of illegally copied publications. Relatively small fines, of up to KRW 3 million, may be levied for the refusal to obey such orders. Copyright enforcement activities for illegally copied publications are carried out mainly by the KCOPA. Cases of seizure of illegally copied publications online increased from 8,308 in 2017 to 8,855 in 2018, while those of publications offline declined from 510 in 2015 to 302 in 2018.

³⁷⁵ Presidential Council on Intellectual Property (2020), *2019 Annual Report on Intellectual Property Enforcement in Korea*. Viewed at: <https://www.ipkorea.go.kr/Eng/2019.pdf>.

³⁷⁶ Ministry of Culture, Sports and Tourism, Korea Copyright Commission, and Korea Copyright Protection Agency (2018), *2018 Annual Report on Copyright in Korea*. Viewed at: <https://www.copyright.or.kr/eng/activities/annual-report/index.do>.

³⁷⁷ Ministry of Culture, Sports and Tourism, Korea Copyright Commission, and Korea Copyright Protection Agency (2018), *2018 Annual Report on Copyright in Korea*. Viewed at: <https://www.copyright.or.kr/eng/activities/annual-report/index.do>.

3.287. During the review period, both KIPO and the MCST, in collaboration with the KCS, local governments, and non-governmental organizations (NGOs), continued to concentrate on education and public awareness programmes, urged consumers to buy genuine goods, and implemented a wide range of policy measures to alert consumers to the safety issues surrounding counterfeits and nurture a culture that is respectful of IPRs.³⁷⁸ KIPO has selected and managed a general IP advancement school programme since 2017. In 2020, KIPO selected 14 universities from a pool of all the 4-year universities nationwide, to provide regular IP courses, and offer convergence education. Furthermore, KIPO has held invention promotion events, such as invention competitions and invention festivals through local governments, to continuously raise awareness of IP among the public, businesspeople, and local government officials, and it operated IP managers' clubs and local government policy councils to create an environment that reinforces voluntary cooperation. Nationwide industrial property awareness campaigns were increased, and 40 were held between 2016 and 2019; KIPO and its affiliate, the Korea Intellectual Property Protection Agency (KOIPA), held a nationwide tour to promote protection of IP for general consumers and sellers. In addition, KIPO tried to strengthen communication with online community users through blogs and social media; in the period 2016-19, the number of blog visitors rose to 2,527,917. In 2019, various media, such as public transportation means, radio broadcasting, Internet, and social media, were used to promote the IPR dispute settlement system; there were 282 public advertisements between 2016 and 2019. The MCST and the KCC continued to offer Hands-on Copyright Classes; between 2016 and 2019, there was an annual average of 293 classes enrolling 235 teachers and 11,256 students. Furthermore, the MCST expanded its Visiting Courses on Copyright (adults), Copyright for Artist and Copyright (Public) course, and its online copyright education courses tailored to the needs of various target audiences. In 2019, the MCST undertook, *inter alia*, a total of 2,746 cases (3,704 in 2016) of large-scale preventive/advisor campaigns for SMEs in conjunction with enforcement activities on pirated materials (e.g. software). In 2019, in order to strengthen capabilities of customs officers, the KCS conducted 14 training sessions on identifying genuine and fake products by brands at 8 customs offices for 512 customs officers.

3.288. Between 2015 and 2020, trial requests concerning industrial property issues increased to 63,430 (54,172 in 2011-14) cases; most cases continued to involve patents (53%) and trademarks (41%) and were mostly requested by Korean holders (66%). Between 2016 and 2019, there were 3,564 cases (5,270 in 2011-15) cases for revocation of trial decision (mostly patent-related) filed at the Patent Court (Section 3.3.7.1), an appellate-level court, of which 3,545 were handled. The average time for handling cases of rose from 204 to 237 days for revocations and from 137 to 286 days for civil appeals, whereas the cases in which at least one party was a foreigner dropped from 301 (2018) to 190 (2019).³⁷⁹ At the time of the previous Review, it seemed that sentences for IP infringements remained lower than international norms, and in particular compared with other countries in Asia and Europe. The authorities indicate that, in the case of other countries, there is a distinction between similar and identical infringement, whereas in Korea, they are penalized under the same sentencing, thus making them hard to compare.

³⁷⁸ More information on the numerous activities in this area is available at Presidential Council on Intellectual Property (2020), *2019 Annual Report on Intellectual Property Enforcement in Korea*. Viewed at: <https://www.ipkorea.go.kr/Eng/2019.pdf>.

³⁷⁹ Patent Court of Korea, *Statistics*. Viewed at: http://patent.scourt.go.kr/patent_e/judicial/judicial_02/index.html.

4 TRADE POLICIES BY SECTOR

4.1. The Republic of Korea is a land-scarce country with a high population density, and it is a net food importer. Agriculture accounts for a small share in GDP (2% in 2020). Despite this, the Government has been using a wide range of policy tools, both at the border and domestically, to facilitate its development and to improve the welfare of rural residents. At the border, tariffs peak at 887.4%, and the average applied MFN tariff protection for agricultural goods is much higher than for non-agricultural goods. Tariff rate quotas (TRQs), state trading arrangements, special safeguard (SSG) measures, export approval requirements, and export subsidies all continue to be applied. Korea committed to eliminate its export subsidies by 2023, in line with the 2015 Nairobi Ministerial Declaration. Domestic support continues to affect agricultural production and trade, and Korean consumers pay much higher prices than world levels. Other support in the form of tax and non-tax policy tools continue to be used. Foreign investment in rice and barley growing is prohibited, and rice is excluded from all of Korea's RTA concessions.

4.2. Korea is a net fish importer. Its fisheries resources in distant and adjacent waters continue to deplete. The Government has been promoting the development of aquaculture production in shallow sea areas. Foreign direct investment (FDI) restriction on fisheries was removed in 2016, while border protection mainly takes the form of tariffs and adjustment tariffs. The Government continues to fight against illegal, unreported, and unregulated (IUU) fishing.

4.3. Mining accounts for a tiny share of GDP, and Korea relies heavily on imported energy, particularly fossil fuels. Korea remains an energy-intensive country. The Government is committed to advance the country's energy transition by increasing the share of renewable electricity to 20% by 2030, and to 30%-35% by 2040, to gradually phase out coal and nuclear from the energy mix, while significantly improving energy efficiency, and fostering the hydrogen industry. State-owned companies continue to play a major role in the energy sector. Prices are often regulated (for coal and electricity), while cross-subsidization continues.

4.4. Manufacturing remains an important activity and is heavily export-oriented (91.4% of total merchandise exports in 2020). The sector is dominated by large conglomerates, and the concentration rate is high. The labour productivity gap between large firms and small and medium-sized enterprises (SMEs) remains large. Several tax and non-tax incentives continue to be used to facilitate the development of the Fourth Industrial Revolution, other manufacturing activities, and SMEs. Foreign investment in manufacturing in general is allowed, while border measures are confined to tariffs, adjustment duties, and autonomous TRQs. Sector-specific measures include those to promote the purchase of eco-friendly vehicles, use information and communication technologies (ICT), and meet environmental requirements set by international organizations in the shipbuilding industry.

4.5. During the review period, ICT was emphasized, as requested in the Korean New Deal, as an important tool for the Government to employ to facilitate the development of various sectors, and to meet its environmental protection targets. Korea committed, under the Paris Agreement, to limit its emissions of carbon dioxide equivalent. Various support has been provided to help the economy, which is facing difficulties caused by the COVID-19 pandemic.

4.6. During the review period, the contribution of services to GDP rose slightly, and Korea's trade deficit persists. Labour productivity of the services sector remains lower than that of the manufacturing sector. FDI restrictions remain in some services activities, mainly due to national security reasons, such as civil aviation, some broadcasting services, and certain types of banks. Notably, from 2017, foreign investment in supporting air transport activities, including aircraft maintenance, repair, and overhaul, is allowed, and the previous foreign equity cap at 50% was removed.

4.7. The financial services sector grew robustly despite the pandemic. Notable developments include the application of digital technologies, including the setting up of Internet banks and the opening of digital insurers. The Government continues to encourage banks, which had a traditionally close relationship with large conglomerates and their subsidiaries, to shift lending to consumers and SMEs, and to invest overseas. Korea ranks high in information and communications services. The major players in both the fixed-line and mobile phone markets are not state owned. Korea continues its efforts to make the country a global maritime power hub. The aviation sector was affected

significantly by the COVID-19 pandemic. Cabotage for air and land transport is not permitted, although some exceptions exist for maritime transport. Distribution services contracted in 2020, and their regulatory framework and FDI constraints remain unchanged. E-commerce recorded the strongest growth in 2020, reflecting changes in consumers' lifestyles due to COVID-19, which accelerated the adoption of online shopping. A Tourism 2020 Strategy identified policy tools to address challenges facing the sector. Tourism subsidies were raised, and online platforms are used to improve digital marketing.

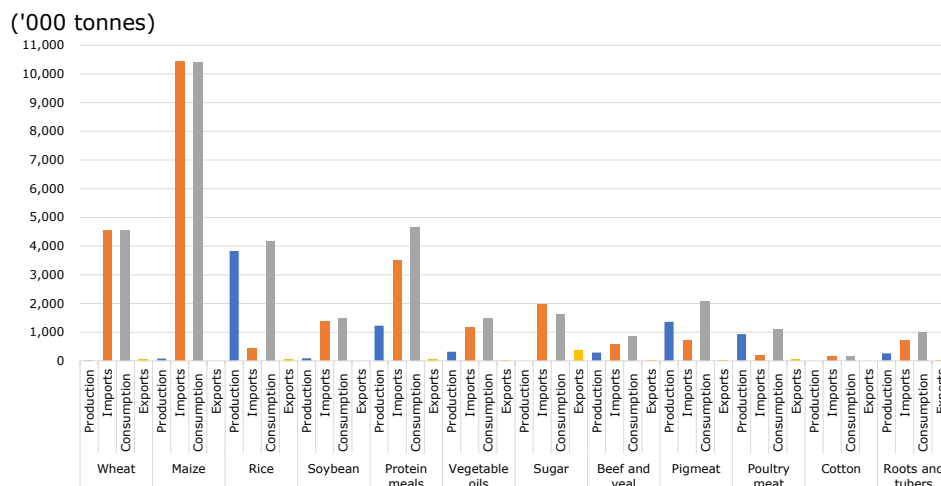
4.1 Agriculture and Livestock

4.1.1 Main features and recent developments

4.8. The agriculture sector (including forestry and fisheries) recovered from a contraction in 2016 (-5.6%), and registered positive growth in 2017-19 (2.3%, 0.2%, and 3.9%, respectively) (Table 1.2). However, it declined again in 2020 (-4% in 2020). Agriculture contributed to 2% of GDP in 2020 (same as in 2016) and accounted for 5.4% of employment (up from 4.8% in 2016). Although labour productivity in agriculture remains low compared with that in other sectors, the authorities state that it has been increasing over the past years. Not only is Korea a land-scarce country, but its farmland also continued to decline, from 1.68 million hectares in 2015 to 1.57 million hectares in 2020, with more than half (53%) of the farmland in rice paddies.¹ Most farms are small family farms: at 1 December 2019, there were 1,007,000 farm households (a drop of 1.3% from 2018), of which 70% are on an agricultural area of under 1 hectare.²

4.9. Korea is a net importer of agricultural products (WTO definition). According to UN Comtrade data, in 2020, it imported USD 28.5 billion in agricultural products (6.1% of total merchandise imports), and it exported USD 7.4 billion (1.4% of total merchandise exports). Korea maintains a trade deficit in most agricultural products. Self-sufficiency levels vary depending on the product category. On the one hand, in 2020, almost all of its domestic consumption of wheat, maize, sugar, and cotton was imported. Imports accounted for a large share of the domestic consumption of soybeans (94%), vegetable oils (79%), protein meals (75%), roots and tubers (74%), and beef and veal (67%). On the other hand, imports accounted for only 10% of the domestic consumption of rice, 18% of poultry meat, and 34% of pig meat (Chart 4.1).

Chart 4.1 Korean major agricultural products: production, consumption, and trade, 2020



Note: Data for 2020 are provisional.

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

¹ Korean Statistical Information Service (KOSIS), *Agricultural Land Area*. Viewed at: https://kosis.kr/eng/statisticsList/statisticsListIndex.do?menuId=M_01_01&vwcd=MT_ETITLE&parmTabId=M_01_01&statId=1999011&themaId=#SelectStatsBoxDiv.

² Statistics Korea (KOSAT), *Agriculture, Forestry, and Fishery Survey in 2019*. Viewed at: <http://kostat.go.kr/portal/eng/pressReleases/2/4/index.board>.

4.1.2 Policy, institutional, and regulatory developments

4.10. The agriculture sector is regulated under the Framework Act on Agriculture, Rural Community and Food Industry, No. 17618 of 2020. The Act introduces basic policy directions: ensuring a stable supply of agricultural products and sustainable development of agriculture; promoting the development of agricultural and rural communities; and developing local agriculture and improving the welfare of rural residents.

4.11. The Act mandates the MAFRA to draw up an Agricultural and Rural Community and Food Industry Development Plan every five years. The 2013-17 plan emphasized adding value to agricultural products in an innovative way and improving agricultural productivity by integrating agriculture with other industries, including manufacturing, processing, and ICT. The current five-year plan, for 2018-22, emphasizes enhancing food safety and strengthening the income safety net for farmers. It aims to reduce the income gap between agricultural and non-agricultural sectors, improve living conditions in rural areas, achieve balanced development between agricultural production and environmental conservation, and strengthen the competitiveness and growth of agriculture by enhancing agricultural productivity.

4.12. To achieve these policy objectives, Korea plans to strengthen its agricultural innovation capacity to produce environmentally friendly and safe foods. Key policies include introducing environmental compliance conditions to direct payments and a new agricultural environment preservation programme. The Government also aims to improve the environmental performance of livestock production by supporting the modernization of cattle sheds, and to revitalize the rural economy by promoting the return of people to rural areas to engage in agriculture.

4.13. The Act requires the Plan to set self-sufficiency targets in food and staples every five years, and action plans for their achievement. The targets cover calorie-based self-sufficiency and volume-based self-sufficiency in rice and barley, grains, livestock products, and forage. The target of the volume-based self-sufficiency ratio of grains (including animal feed) is set at 27.3% in 2022. The authorities indicate that main measures adopted to achieve these targets include conservation and expansion of agricultural production infrastructure, and encouraging economies of scale in crop production, distribution, and consumption.

4.14. There has been no change to foreign investment restrictions in the agriculture sector. Foreign investment is allowed in:

- the growing of cereal crops and other crops for food, except for rice and barley; and
- the farming of animals, except farming of beef cattle and meat wholesale where a less than 50% foreign equity restriction applies.

4.15. Korea has been using a wide range of policy tools, both at the border and domestically, to facilitate the development of the agricultural sector (see below). According to the OECD, Korea's level of support to agricultural producers, although still well above the OECD average, gradually decreased during the last two decades, reflecting continued efforts towards market-oriented reforms. However, the OECD considers that the potentially most distorting forms of support predominate (Section 4.1.2.2).³ The authorities disagree, and indicate that Korea's trade-distorting support (Amber Box) accounted for only 15% of the total domestic support and Green Box support was provided much more (84%) than trade-distorting support.

4.1.2.1 Border measures

4.16. Tariffs continue to be the main instrument supporting domestic prices, particularly on rice (Section 4.1.3.1). Other border measures include import licensing, SSG measures, and export subsidies.

³ OECD (2020), *Agricultural Policy Monitoring and Evaluation 2020*. Viewed at: <https://doi.org/10.1787/928181a8-en>.

4.1.2.1.1 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 (Section 3.1.3). The average MFN tariff on agricultural products (WTO definition) reached 60.4% in 2021, slightly higher than that in 2016 (60%). The simple average MFN tariff for agricultural products remained much higher than the tariff rate for non-agricultural products (6.3%).

4.18. Korea continues to occasionally apply "flexible" (temporary) tariffs, such as adjustment duties, seasonal tariffs, autonomous TRQs, "usage" tariffs, and safeguard and SSG duties (Section 3.1.3.3).⁴ Adjustment tariffs applied to 19 6-digit tariff items (or 14 different types of product) in 2021, including 4 agricultural items such as rice preparations and sauces. 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 3.1.3.3). The Government may also apply "usage" tariff rates on imported inputs for activities such as animal feeding (Section 3.1.3.6).

4.19. Korea applied agricultural TRQs on 229 10-digit tariff lines in 2021, 2 more than in 2016 (due to split of tariff lines following a nomenclature change) (Section 3.1.3.8). 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 TRQs was 58% in 2019 (Table A3.5), down from 59.5% in 2015.⁵ All TRQs are global quotas, except rice. On 1 January 2020, Korea set the annual rice TRQ at 408,700 tonnes with an in-quota tariff rate of 5% and an out-of-quota tariff rate of 513%. Of the total TRQ of 408,700 tonnes, more than 95% is allocated to five countries: China (157,195 tonnes), the United States (132,304 tonnes), Viet Nam (55,112 tonnes), Thailand (28,494 tonnes), and Australia (15,595 tonnes). The remaining 20,000 tonnes are global quotas.

4.20. Quotas are valid for the whole calendar year, and import permits (valid for either 30 days or 90 days) are required. TRQs are utilized, administered, or allocated by different organizations including ministries, state trading entities, or producer associations. Allocation of TRQs to importers may be based on auctioning, allocation to designated agencies, real demand allocation (on a first-come, first-served basis), or a combination thereof (Section 3.1.3.8).

4.21. Korea also applies autonomous TRQs aiming at, *inter alia*, helping to stabilize prices through increased supply, and increasing the competitiveness of the domestic agriculture and livestock industries (Section 3.1.3.8 and Table A3.6). In 2021 (Table A3.6), the autonomous TRQs covered 21 6-digit tariff items for WTO agricultural products (down from 25 in 2016). In-quota tariff rates ranged from zero to 10%, whereas out-of-quota rates ranged from 1%-30%.

4.1.2.1.2 State trading, import licensing, and special safeguards

4.22. Korea notified two state trading arrangements involving:

- MAFRA for the importation of rice within the TRQ; and
- the Korea Agro-Fisheries & Food Trade Corporation (aT) for the importation of genus *Capsicum*, garlic, onions, sesame seeds, soybeans, green beans, small red beans, buckwheat, and potatoes (Section 3.3.5).⁶

4.23. For buckwheat, onion, garlic, green beans, small red beans, potatoes, and genus *Capsicum*, private companies are allowed to import part of the TRQs through open bidding, which refers to "public auction" where goods are sold to a participating company offering the highest price during the auction. For soybeans, potatoes, onion, garlic, and genus *Capsicum*, part of the TRQ is allocated to private companies on a first-come, first-served basis.

4.24. Korea has prohibited the importation of food products from Japan since the 2011 Fukushima Daiichi Nuclear Power Plant accident (Section 3.1.5.1). Import licensing procedures are maintained

⁴ 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/137, 18 August 2004; WT/TPR/S/73, 28 August 2000; and WT/TPR/S/19, 28 August 1996.

⁵ WTO documents G/AG/N/KOR/56, 20 July 2016 and G/AG/N/KOR/77, 12 October 2020.

⁶ WTO document G/STR/N/18/KOR, 12 October 2020.

on, *inter alia*, agricultural fertilizers, crop seeds, animals and animal products, and foods and food additives (Section 3.1.5.3). In May 2019, Korea lifted import restrictions on beef from the Netherlands and Denmark. These restrictions had been in place since 2000, in response to the outbreak of bovine spongiform encephalopathy (BSE) in Europe.⁷ Applications from some other EU Member States concerning the lifting of these restrictions are being considered.

4.25. Korea reserved its right to apply SSG measures (both price-based and volume-based) to 124 agricultural 10-digit tariff items. During the review period, price-based SSGs applied to ginseng root (2017-19), ginseng powder (2018), other products of red ginseng (2018), and raw ginseng (2016) (Section 3.1.6.2).⁸

4.1.2.1.3 Export restrictions and export subsidy programmes

4.26. The rice export recommendation programme was abolished in March 2015.

4.27. Approval from competent authorities is required for the exportation of ginseng seeds and animals (Section 3.2.3.2). According to the authorities, this is to protect and conserve biological variety and diversity under the Act on the Protection of New Varieties of Plants and the Act on the Preservation, Management and Use of Agro-fishery Bioresources.

4.28. In January 2021, a group of nearly 80 WTO Members, including Korea, issued a joint statement pledging not to impose export restrictions on foodstuffs purchased by the UN's World Food Programme (WFP) for humanitarian aid.⁹

4.29. The last notification from Korea on its export subsidy programme for certain farm products was in 2021, for 2019. In 2019, export subsidies totalled KRW 34.41 billion, and covered fruits (KRW 5.08 billion), flowers (KRW 0.39 billion), vegetables (KRW 20.54 billion), kimchi (KRW 2.13 billion), ginseng (KRW 0.71 billion), livestock (KRW 3.31 billion), processed food (KRW 1.98 billion), and traditional liquor (KRW 0.27 billion).¹⁰ These subsidies were used to reduce exporters' marketing costs, and are exempt from the WTO reduction commitments.

4.30. The authorities state that exporters' logistics costs are covered by the Government to assist the exportation of agricultural products, in accordance with the Framework Act on Agriculture, Rural Community, and Food Industry (Article 59). Korea committed to eliminate its export subsidies by 2023, in line with the 2015 Nairobi Ministerial Declaration.¹¹

4.1.2.2 Domestic support

4.31. Korea provides domestic support to the agriculture sector. Main indicators measuring the level of support include those calculated by the OECD, such as the total support estimate (TSE), and the aggregate measure of support (AMS) notified to the WTO. The methodologies for calculating these indicators are different, and the data sets are neither compatible nor comparable.

4.32. The budgetary outlay also contains information on budgetary spending on agriculture. In the 2021 budget proposal, the Government proposed budgetary spending of KRW 22.4 trillion, or 4% of total spending (KRW 19.4 trillion in 2016), for agriculture, forestry, fisheries, and food.¹²

4.1.2.2.1 OECD indicators

4.33. The OECD's TSE indicator contains support to producers individually (producer support estimates (PSEs)), support to producers collectively (general services support estimates (GSSEs)), and transfers from taxpayers to consumers, i.e. one component of the support (or burden) to

⁷ OECD (2020), *Agricultural Policy Monitoring and Evaluation 2020*. Viewed at: <https://doi.org/10.1787/928181a8-en>.

⁸ WTO documents G/AG/N/KOR/76, 6 October 2020; G/AG/N/KOR/70, 16 October 2019; G/AG/N/KOR/69, 16 October 2019; and G/AG/N/KOR/59, 20 March 2017.

⁹ WTO document WT/L/1109, 21 January 2021.

¹⁰ WTO document G/AG/N/KOR/79, 9 April 2021.

¹¹ WTO document WT/MIN(15)/45-WT/L/980, 21 December 2015.

¹² Ministry of Economy and Finance, *2021 Budget Proposal*. Viewed at: <https://english.moef.go.kr/pc/selectTbPressCenterDtl.do?boardCd=N0001&seq=4967>.

consumers (consumer support estimates (CSEs)). According to the OECD, Korea's support to agriculture remains well above the OECD average. Its TSE was equivalent to 1.5% of GDP in 2019, the same as in 2016 but still much higher than the OECD average (0.6%)¹³ (Table 4.1).

Table 4.1 Agricultural support by commodity, 2016-19

(USD million)

	2016	2017	2018	2019
Total value of production (at farm gate)	40,734	42,605	45,493	43,253
Total value of consumption (at farm gate)	51,857	54,907	64,066	60,635
Total PSE	18,995	21,498	24,043	20,831
Support based on commodity output – MPS ^a	16,851	18,583	21,794	18,920
Direct payment	2,144	2,915	2,249	1,911
Based on input use	466	545	651	634
Based on current area planted/animal numbers/receipt/income, production required	920	1,596	813	542
Based on non-current area planted/animal numbers/receipt/income, production not required	758	774	785	736
Percentage of PSE to gross farm receipts (%)	44.3	47.2	50.4	46.1
General services support estimate (GSSE)	3,563	3,571	3,768	3,661
Agricultural knowledge and innovation system	864	646	683	617
Inspection and control	267	290	355	318
Development and maintenance of infrastructure	2,149	2,290	2,327	2,221
Marketing and promotion	43	38	40	37
Cost of public stocking	240	306	364	467
Percentage GSSE (% of TSE)	15.8	14.2	13.5	14.9
Consumer support estimate (CSE)	-21,025	-23,654	-29,692	-26,474
Transfers to producers from consumers	-16,214	-17,831	-21,329	-18,412
Other transfers from consumers	-4,842	-5,859	-8,400	-8,097
Transfers from taxpayers	31	35	37	35
Percentage CSE (%)	-40.6	-43.1	-46.4	-43.7
Total support estimate (TSE)	22,590	25,105	27,849	24,528
Percentage of TSE to GDP (%)	1.5	1.5	1.6	1.5
Transfer from consumers	21,057	23,689	29,730	26,509
Transfer from taxpayers	6,375	7,274	6,520	6,116
Budget revenues	-4,842	-5,859	-8,400	-8,097
Total budgetary support estimate (TBSE)	5,739	6,521	6,055	5,608
Percentage TBSE to GDP (%)	0.4	0.4	0.4	0.3

a Market price support (MPS) is net of producer levies and excess feed cost.

Source: OECD Agriculture Statistics. Viewed at: http://stats.oecd.org/BrandedView.aspx?oeecd_bv_id=agr-data-en&doi=data-00737-en#.

4.34. To compare the degree of support to producers across countries, the OECD calculates the share of gross farm receipts (including market revenue) that is coming from support policies, i.e. PSE over gross farm receipts (%PSE). In 2019, producer support as a share of gross farm receipt (%PSE) reached 46% in Korea, much higher than the OECD average of 17.6%.¹⁴

4.35. Market price support (MPS) predominates support to producers. Producer support may take the form of an increased output price (MPS), or a direct payment (payment based on, *inter alia*, input use, area planted, and animal numbers).¹⁵ On the one hand, during the period 2017-19, prices received by farmers were on average 80% higher than world market prices. The share of MPS increased from 86% of PSE in 2017 to 90% in 2019. MPS is maintained mainly through some TRQs with high out-of-quota tariffs,¹⁶ as well as government purchases. Korea's main MPS commodities

¹³ OECD, *Table A.1: Estimates to Support Agriculture (EUR)*. Viewed at: https://www.oecd-ilibrary.org/agriculture-and-food/oecd-estimates-of-support-to-agriculture-eur_6d3329fc-en.

¹⁴ OECD (2020), *Agricultural Policy Monitoring and Evaluation 2020*. Viewed at: <https://doi.org/10.1787/928181a8-en>.

¹⁵ OECD (2016), *OECD's Producer Support Estimate and Related Indicators of Agricultural Support: Concepts, Calculation, Interpretation and Use (the PSE Manual)*. Viewed at: <http://www.oecd.org/agriculture/topics/agricultural-policy-monitoring-and-evaluation/documents/producer-support-estimates-manual.pdf>.

¹⁶ The authorities state that out of 11 items subject to MPS, 5 are subject to TRQs (rice, garlic, pepper, soybeans, and barley).

are barley, Chinese cabbage, garlic, red pepper, rice, soybeans, milk, beef and veal, pig meat, poultry, and eggs.

4.36. On the other hand, the share of direct payment to total PSE fell from about 13% in 2017 to about 9% in 2019 (Table 4.1). In 2020, the rice income compensation scheme was replaced by a new direct payment programme, which integrates payments for rice, upland crops, and less favoured areas. It aims to further decouple payments from production and reinforce cross-compliance of farmers. Under the new programme, farmers must meet requirements in five categories: (i) environmental protection; (ii) ecology preservation; (iii) rural community revitalization; (iv) food safety; and (v) capacity-building. Farmers conforming to these requirements may receive direct payments, while non-compliance will result in reduced payment.¹⁷

4.37. GSSE averaged 14% of TSE to the agricultural sector in 2017-19. The main element was expenditure on infrastructure, representing 62% of the GSSE. Government funding for the agricultural knowledge and innovative system accounts for 18%. Support for drainage, seeds, and agricultural machines is also part of the Government's efforts to promote crop diversification, aiming to mitigate the dependence of rice farmers on direct payments.

4.38. The negative CSE measures the annual monetary value of gross transfers from consumers of agricultural commodities, i.e. burdens on consumers as they pay higher prices resulting from MPS.

4.1.2.3 WTO notifications

4.39. The most recent notification made by Korea to the WTO regarding its domestic support to agriculture covers the 2018 calendar year (Section 3.3.1.2.2.2 and Table A3.7).¹⁸ According to this notification, total support to agriculture reached KRW 9.1 trillion in 2018 (up from KRW 8.1 trillion in 2015). Green Box accounted for 85% of total domestic support, while trade-distorting support (AMS or Amber Box) occupied 15% (up from 9% in 2015). MPS measures were applied only to soybeans.

4.40. In 2018, Green Box support amounted to KRW 7.7 trillion (up from KRW 7.4 trillion in 2015); 41% of this was spent on infrastructure services, 18% on decoupled income support, 9% on research, and 7% on environmental programmes (Table A3.7). They were followed by investment aids (6%), public stockholding for food security purposes (4.7%), extension and advisory services (3.1%), pest and disease control (3.1%), and payment for relief from natural disasters (2.6%). Training services, inspection services, marketing and promotion services, domestic food aid, producer retirement, resource retirement, and regional assistance in total accounted for less than 1%.¹⁹

4.41. Product-specific support to apples, beef, cabbage, carrots, garlic, ginseng, green onions, milk, oats, onions, potatoes, red peppers, rice, soybeans, white radishes, goats, mushrooms, special crops, walnuts, and non-product-specific AMS amounted to about KRW 1.4 trillion.²⁰ All support, apart from that for oats and walnuts, was *de minimis*. Support for soybeans took the form of MPS (KRW 8.8 billion).

4.42. Korea also notified its direct support programmes to the WTO Committee on Subsidies and Countervailing Measures; a number of the programmes were provided to the agriculture sector (Section 3.3.1.2). Korea's latest notification (in 2019) covered subsidy programmes for the period 2017-18.²¹ Grants or concessional loans were the main forms used (Table 4.2).

¹⁷ Non-compliance with the requirements results in 10% reduction of aggregate basic direct payment per item. The penalties increase and the reduction goes up to 100% for multiple and continuous violations.

¹⁸ WTO document G/AG/N/KOR/82, 26 April 2021.

¹⁹ Korea also notified some modified domestic support measures that are exempt from reduction: an R&D project to develop technology to manage foreign organisms threatening biodiversity; and building infrastructure for the Smart Horticultural Complex. WTO document G/AG/N/KOR/83, 26 April 2021.

²⁰ WTO document G/AG/N/KOR/82, 26 April 2021.

²¹ WTO document G/SCM/N/343/KOR, 22 July 2019.

Table 4.2 Subsidies notified, 2017 and 2018

(KRW million)

Items	Type	2017	2018
Food grain management programme			
Grains (except rice)	Direct subsidy	n.a.	n.a.
	Loan	10,316	9,089
	Benefit of loan ^a	n.a.	n.a.
	Total (direct subsidy + benefit of loan)	n.a.	n.a.
Soybeans	Direct subsidy	44,042	2,443
	Loan	n.a.	n.a.
	Benefit of loan ^a	n.a.	n.a.
	Total (direct subsidy + benefit of loan)	44,042	2,443
Variable direct payment for rice			
Rice	Lump sum transfer (partial support for the difference between the target price and the actual average price during the harvesting season of the year)	1,489,778	539,331
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)	39,608	40,810
Support for livestock products			
Calf breeding stabilization schedule	Lump sum transfer (Support is provided to compensate for loss in case the average market price of the calf is lower than the standard price in the schedule.)	452	376

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/343/KOR, 22 July 2019.

4.1.2.3.1 Other support measures

4.43. The agriculture sector also benefits from preferential tax treatment (Section 3.3.1):

- Income from the production of grains and other human food crops is exempted from income tax, and income from plant cultivation is not taxed if the revenue is less than KRW 1 billion (USD 0.9 million).
- VAT is exempted on the supply of unprocessed edible food; the authorities indicate that this is to free consumers from a tax burden on necessity goods.
- Zero-rate VAT is applied to input items used exclusively for agricultural production, such as fertilizers, chemicals for plant protection, agricultural machines, equipment and materials for livestock farming, and feed. For some specific equipment and materials that can be used for purposes other than agricultural production, a VAT refund is available when they have been used for agricultural production.
- VAT tax is deducted for the purchase of agricultural products by food processing businesses or restaurants.
- Oil fuels used for agricultural machines, including tractors and heaters, are exempted from all fuel taxes, including the transportation-energy-environment tax, the auto tax, individual consumption tax, and VAT.

4.44. The OECD suggested that income tax exemptions could impede resource reallocation to more profitable and competitive non-grain agricultural sectors and reduce farmers' incentives to record and manage their farming business activities through bookkeeping, while the fuel tax exemption may create incentives for excessive use of inputs and natural resources.²² The authorities state that tax policies are determined by considering various factors, including income distribution and food

²² OECD (2018), *Innovation, Agricultural Productivity and Sustainability in Korea*, OECD Food and Agricultural Reviews. Viewed at: <https://doi.org/10.1787/9789264307773-en>.

security. They consider that the effectiveness of tax policies should not be assessed only by looking at resource reallocation or farmers' incentives. According to the authorities, Korea has many small, low-income farms with aged farmers, preferential tax treatment is thus essential for continuous agricultural production, and support for grains is highly relevant to achieving food self-sufficiency.

4.45. Farmers also benefit from zero or low irrigation water fees; according to the authorities, this is because the irrigation facilities were built by farmers at their own expense. Irrigation water is either provided by the Korea Rural Community Corporation (KRC), a public company, or by local governments. The KRC provides irrigation water free of charge, and local governments' prices do not cover operation and maintenance fees. This arrangement reduces the farmers' motivation to conserve water, adopt water-saving technologies, and diversify away from paddy rice production. The authorities disagree, and state that the facilities were built in the 1970s by the Farmland Improvement Corporative, formed by farmers. The facilities were transferred to the KRC in 2000, and it covers the operation cost with its profits. The authorities also indicate that, as part of the efforts to achieve the Net Zero carbon emissions target by 2050, Korea announced that it is adopting various water saving technologies.

4.46. Other support measures include the agricultural disaster insurance scheme, which aims to protect against losses in yields. The scheme has been gradually extended to cover more commodities. In 2020, its coverage increased to 83 agricultural products (67 crops and 16 livestock commodities), up from 66 agricultural products (50 crops and 16 livestock commodities) in 2016. The Government subsidizes half of the insurance premium.²³

4.47. Public investment in the Smart Agriculture Project was increased, aiming to promote the use of ICT in farming. Tools such as smartphones and remote controls are used to check crop growth information in real time so as to create the optimal cultivation environment. The Government started to support the use of ICT equipment in greenhouses and animal housing in 2014, and announced a Smart Farm Dispersion Method in 2018. Since then, smart farms have been fully implemented. The authorities state that, compared to the period prior to the implementation of smart farming, average production volume, and production volume per labour, increased by 32.1% and 17.9%, respectively.

4.48. The Smart Agriculture Project also includes the construction of Smart Farm Innovative Valleys, covering the entire value chain from smart farm equipment production companies to agro-food firms. These measures also help to bring people back to farm villages. The Government has been trying to encourage the return of people by providing advisory services on relocation or housing, and providing education and training on farming and marketing skills, as well as scholarship programmes for children of farmers and new farmers.²⁴

4.49. To promote environmentally friendly and safe goods, the Government launched the Promotion Plan for Environmentally Friendly Agriculture (2016-20), with a view to improving certification policy²⁵; establishing an eco-friendly agri-food industry linking production, processing, distribution, and consumption; and reducing chemical inputs in crop production. Measures adopted include direct payment adjustments: farm households or farm corporations certified by the Environment-friendly Agricultural Product Certification System may receive direct payments. In 2020, 35,071 crop farms and 32 livestock farms received payments totalling KRW 23.9 billion (USD 21.6 million) under this Plan.

4.50. Facing the COVID-19 pandemic, the Government provided emergency funds to farming households to address liquidity problems. Under this initiative, farming households could obtain low-interest-rate loans with favourable payment schedules.²⁶ Leasing fees for agricultural machinery and

²³ OECD (2020), *Agricultural Policy Monitoring and Evaluation 2020*. Viewed at: <https://doi.org/10.1787/928181a8-en>.

²⁴ WTO document G/AG/N/KOR/64, 8 March 2019.

²⁵ The certification system is operated by private certification agencies. Under this system, organic processed food using 70% or more organic ingredients may be marked as "Organic 70%", but may not use the Korean Organic Food logo on its packaging.

²⁶ Interest rates of loans to farmers under the 2020 Agricultural Policy Fund were reduced by 0.5-1.0 percentage points. The authorities state that the lowered interest rates apply to KRW 2 trillion in loans. The repayment schedule of loan principals of the 2020 Long-term Major Facilities Fund (horticulture, livestock production, and agricultural processing industries) for farmers has been postponed for one year.

equipment were also temporarily reduced. Other measures adopted, and their budgeted amounts, are:

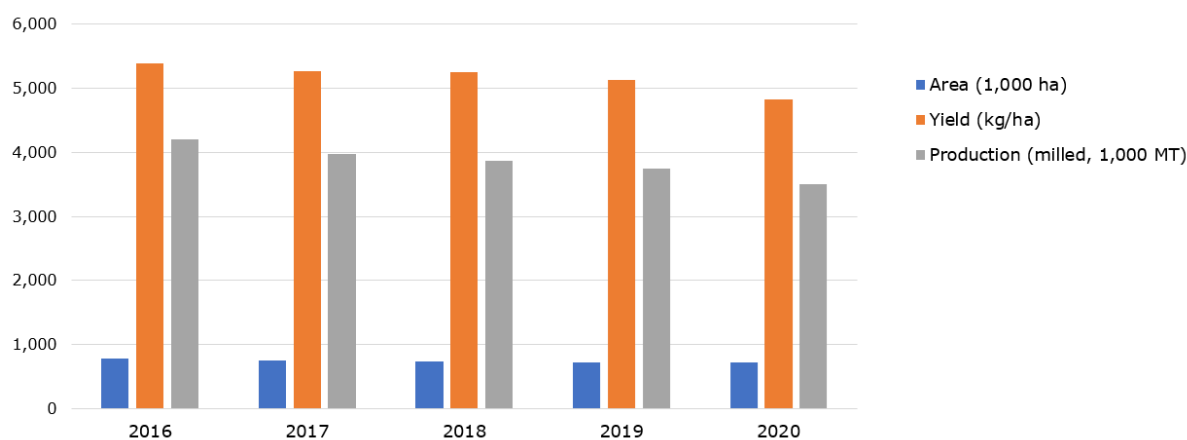
- KRW 7 billion budget was allocated to support manpower in rural areas, by recruiting and sending workers to rural areas, supporting their cost (including their insurance premiums), and improving the living conditions of foreign workers.
- KRW 6.4 billion budget was allocated to support the promotion of flower consumption, by supporting flower farmers to sell online and encouraging public agencies and companies to purchase flowers.
- KRW 15.8 billion budget was allocated to provide a basket of organic produce to students and pregnant women.
- KRW 8.9 billion budget was allocated to conduct an e-voucher project to help vulnerable people purchase food and beverages.

4.1.3 Key subsectors

4.1.3.1 Rice

4.51. Rice production, the area used to plant rice, and the output per hectare declined during the review period (Chart 4.2), perhaps reflecting the progress made under the crop diversification programme. The Government has been implementing this programme since 2017, to shift the demand for rice to other crops by reducing the area of rice paddies, and encouraging farmers to plant high-quality instead of high-yield variety seeds.

Chart 4.2 Rice production, 2016-20



Source: USDA Foreign Agricultural Service (2020), *2020 Rice Production Update*, GAIN Report Number KS2020-0071. Viewed at: https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=2020%20Rice%20Production%20Update_Seoul_Korea%20-%20Republic%20of_11-18-2020.

4.52. Per capita rice consumption continued to decline, as the changing diet associated with the rapid income growth in Korea diversified food consumption away from rice (Table 4.3).²⁷

4.53. Korea imports about 10% of its rice for consumption (Section 4.1.1), and rice remains protected by a combination of border measures and domestic support. The authorities disagree and state that Korea completed its rice tariffication in 2015; the rice income compensation scheme was abolished in 2019, and replaced by a new direct payment programme that decouples eligibility criteria from production and prices of agricultural products in 2020 (Section 4.1.2.2.1). However,

²⁷ OECD (2018), *Innovation, Agricultural Productivity and Sustainability in Korea*, OECD Food and Agricultural Reviews. Viewed at: <https://doi.org/10.1787/9789264307773-en>.

foreign investment remains prohibited in the growing of rice (and barley), and rice remains excluded from the scope of concessions in all RTAs (Section 2.5.2).

Table 4.3 Rice production, supply, and demand, 2016-20

	2016	2017	2018	2019	2020
Production ('000 tonnes)	4,196.69	3,972.47	3,868.05	3,848.71	3,829.46
Imports ('000 tonnes)	470.46	354.75	363.70	429.00	428.96
Consumption ('000 tonnes)	4,594.26	4,905.25	4,476.84	4,177.71	4,180.18
Ending stocks ('000 tonnes)	1,790.00	1,150.00	850.00	900.00	928.24
Exports ('000 tonnes)	2.89	61.96	54.90	50.00	50.00
Producer price (KRW/tonne)	1,992.06	1,923.71	2,193.07	2,117.65	2,151.86
Human consumption (kg per capita)	62.22	62.22	61.80	60.99	60.21

Note: Data for 2020 are provisional.

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

4.54. Since 2015, import quotas on rice have been replaced by a TRQ system: an in-quota tariff rate of 5% and an out-of-quota tariff rate of 513%. In January 2020, Korea received consent from WTO Members on the modifications and rectifications to its Schedule of Concessions.²⁸ MAFRA has the exclusive right to import rice within the quota (Section 3.1.5.2). The domestic price of rice was 2.32 times world levels (consumer nominal protection coefficient (NPC)) in 2018, up from 1.88 in 2016.²⁹

4.55. The public stockholding scheme for rice, a purchase and release mechanism to deal with emergency situations such as grain shortages and natural disasters, is maintained. MAFRA is responsible for public stockholding for rice. The target amount of public stockholding for rice is around 17%-18% of annual consumption. To keep the stock in good, edible condition, the Government purchases half of the target amount during the harvest season, and replaces the stock every two years. The Government sells a certain amount of its stockpiled rice after considering the supply and demand for rice, as well as the amount of private rice stocks, during the off season.

4.1.3.2 Livestock – meat

4.56. In contrast to that of rice, per capita consumption of meat grew, and the livestock sector expanded during the review period (Chart 4.3). Imports accounted for 67% of domestic consumption for beef and veal, and 34% for pig meat (Chart 4.1). FDI of less than 50% of investment assets is permitted in cattle-raising and meat wholesale.

4.57. Reflecting preferential tariffs under Korea's various free trade agreements (FTAs) (Table 4.4), beef imports came mainly from the United States and Australia. Based on 2019 UN Comtrade data, 59.9% of beef imports came from the United States, and 35.5% from Australia.³⁰

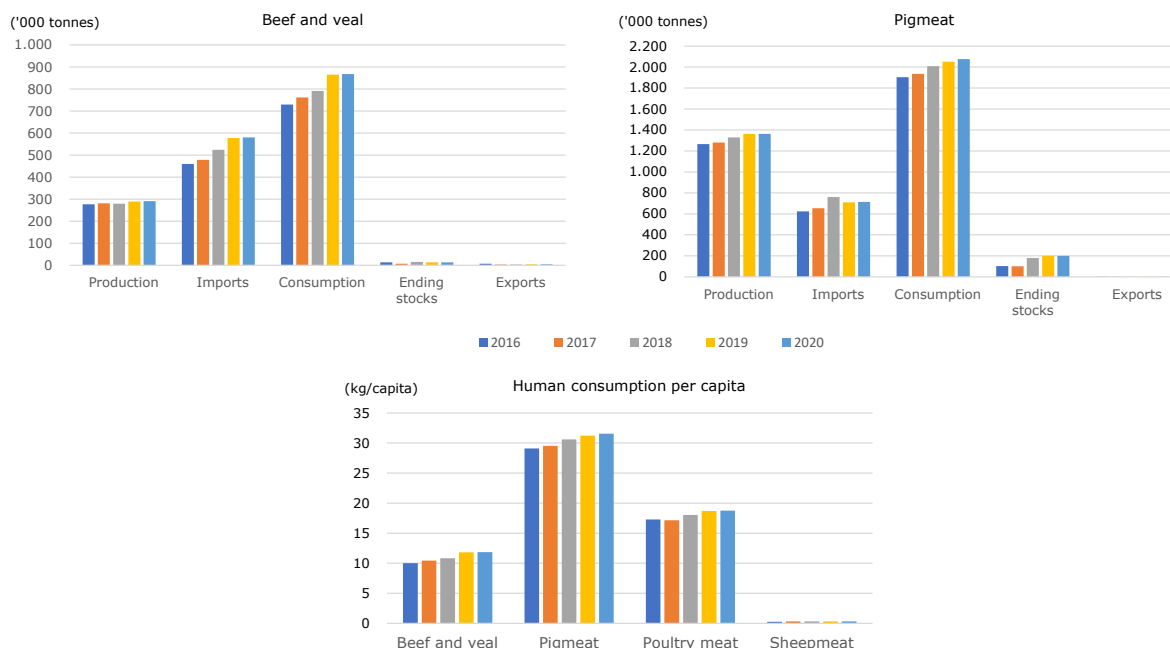
4.58. In 2019, about half (50.5%) of pig meat (HS 0203 – meat of swine; fresh, chilled or frozen) came from the European Union (EU-27), and 31% came from the United States. When MFN applied tariffs on pig meat are 22.5% (on fresh or chilled pig meat) and 25% (on frozen pig meat), the applied duty on pig meat imported from the European Union and the United States is zero.

4.59. In 2018, domestic price was 1.4 times world levels (consumer NPC) for beef and veal, and about two times for pig meat.

²⁸ WTO document WT/Let/1461, 24 January 2020.

²⁹ Consumer NPC is the ratio between the average price paid by consumers (at farm gate) and the border price (measured at farm gate).

³⁰ Data on HS Codes 0201 (meat of bovine animals, fresh or chilled) and 0202 (meat of bovine animals, frozen).

Chart 4.3 Livestock production, importation, consumption, stocks, exportation, and per capita human consumption, 2016-20

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

Table 4.4 Composition of beef import tariffs, 2021

	KORUS FTA	Korea–Australia FTA
Content of the FTA	Duty phased out in 15 years, plus agricultural safeguard	Duty phased out in 15 years, plus agricultural safeguard
MFN tariff 2021 (same as in 2016)	40%	40%
Applied duty in 2021	13.3%	18.6%
Applied duty in 2022	10.6%	16%
Applied duty in 2023	8%	13.3%
Applied duty in 2024	5.3%	10.6%
Applied duty in 2025	2.6%	8%
Applied duty in 2026	0	5.3%
Applied duty in 2027	0	2.6%
Applied duty in 2028	0	0

Source: Data provided by the authorities.

4.60. Since the first case of African swine fever (ASF) disease was found in September 2019, Korea has successfully contained this viral disease along the Demilitarized Zone (DMZ) and has not seen further positive cases on commercial farms since October 2019. A total of 380,821 heads of swine were culled in 2019, and another 4,000 in 2020. ASF continues to be found in wild boar. MAFRA issued a guideline to allow affected farms to repopulate their herds, if they meet the quarantine control standards provided in this guideline. In November 2020, the Government designated areas where ASF broke out as Central Quarantine Zones, where farms must establish strengthened biosecurity measures, such as fences around their facilities. Repopulation is allowed exclusively at these farms. The authorities state that by now, 34,000 heads of pigs are populated and being raised at 64 of 261 farms subject to repopulation.

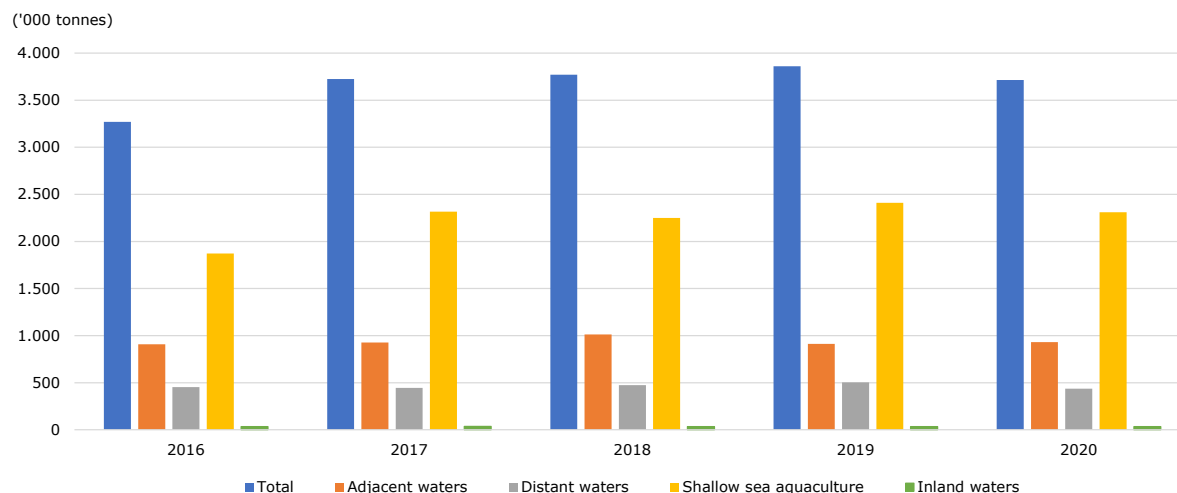
4.2 Fisheries

4.2.1 Overview

4.61. Korea's fisheries output continued to increase, from 3.3 million metric tonnes in 2016 to 3.7 million metric tonnes in 2020. Reflecting depletion of fisheries resources in distant and adjacent

waters, the enforcement of exclusive economic zones by Korea's neighbouring countries, and constraints built into bilateral and multilateral fishing accords, the shares of fish production from distant and adjacent waters have been declining. In 2020, 11.8% of fish production came from distant waters (down from 13.9% in 2016), and 25.1% from adjacent waters (down from 27.8% in 2016). The Government has been making efforts to boost aquaculture production in shallow sea areas, which accounted for 62% of total production in 2020, up from 57% in 2016 (Chart 4.4). Production from inland waters accounted for around 1% of total fish production.

Chart 4.4 Domestic production, 2016-20



Source: Korean Statistical Information Service (KOSIS), *Fishery Production Survey*. Viewed at: https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT_1EW0001&language=en&conn_path=13.

4.62. Korea is a major consumer of fish. Per capita seafood consumption continued to increase, from 57.4 kg in 2016 to 66.9 kg in 2020 (Table 4.5). Consumption of seaweed in particular has been increasing quickly. The gap between domestic production and domestic consumption is filled by imports. In 2020, total fisheries imports reached USD 5.4 billion (1.2% of total merchandise imports) (fish and fish products based on WTO definition), while exports totalled USD 1.6 billion (0.3% of total merchandise exports). Main sources of imports were China (22.3%), the Russian Federation (17.1%), Viet Nam (13.9%), Norway (8.0%), and the United States (4.2%). Main export destinations were Japan (29.2%), China (20.8%), the United States (9.9%), Viet Nam (8.3%), and Thailand (7.9%).

Table 4.5 Fisheries trade data, 2016-20

	2016	2017	2018	2019	2020
Domestic consumption ('000 tonnes)	4,854	5,137	5,172 ^a	5,230 ^a	..
Domestic production ^b ('000 tonnes)	3,269	3,725	3,770	3,861	3,713
Self-sufficiency ratio (%)	67.3	72.5	73.3 ^a	73.8 ^a	..
Imports ^c (USD million)	4,631	5,110	5,928	5,592	5,408
Exports ^c (USD million)	1,674	1,714	1,749	1,816	1,612
Per capita consumption of seafood products (kg/year) ^a					
Fish and shellfish	36.3	38.2	39.0	38.4	39.1
Seaweed	21.1	27.7	26.6	28.5	27.8
Total	57.4	65.9	65.6	66.9	66.9

.. Not available.

a Data for 2018-20 are estimates.

b Korean Statistical Information Service (KOSIS), *Statistical Database, Summary Table of Fishery Production Trend*. Viewed at: https://kosis.kr/eng/statisticsList/statisticsListIndex.do?menuId=M_01_01&vwcd=MT_ETITLE&parmTabId=M_01_01&statId=1971002&themeId=#SelectStatsBoxDiv.

c UN Comtrade database.

Source: Ministry of Oceans and Fisheries (MOF).

4.63. The Ministry of Oceans and Fisheries (MOF) is responsible for providing a fully integrated approach to all marine issues, including fisheries. The Korea Fisheries Resources Agency (FIRA) intends to restore and enhance fisheries resources and the marine ecosystem.

4.64. The Government has been fighting against IUU fishing. In accordance with the Distant Water Fisheries Development Act, all distant-water fishing vessels must obtain preauthorization for transshipment, install a vessel monitoring system (VMS), and be monitored. Fishermen who conduct IUU fishing face imprisonment of up to five years, and/or a criminal fine of up to five times the wholesale value of illegal catches, or a criminal fine of at least KRW 500 million, whichever is higher. The authorities indicate that in 2019, MOF introduced an additional surcharge on IUU fishing vessels, with a view to improving the fight against IUU fishing.

4.65. MOF also maintains Total Allowable Catch (TAC) limits for 14 species found in offshore and coastal fishing.³¹ It sets limits on the fishing season, fishing areas, the number of fishing boats, and fishing methods. The TAC for these 14 species reached 358,390 MT for the period July 2019-June 2020.³² 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. Quotas are transferable but not tradable. In addition, bycatch of TAC-covered species is deducted from allocated quotas. The TAC-covered species are required to be landed at designated landing points and monitored by FIRA.

4.66. Reflecting the reduction in fishery resources, the number of fishing vessels decreased, from 66,970 vessels in 2016 to 65,835 in 2019. The Government is working to accelerate the downsizing of the fishing fleet.

4.67. The MOF programmed a future development plan for the fisheries sector into Fisheries Innovation 2030, with a vision to ensure sustainable fisheries.³³ It aims to:

- increase the sales value of fisheries products from KRW 67 trillion in 2016 to KRW 100 trillion in 2030;
- increase fishing income from KRW 49 million in 2017 to KRW 80 million in 2030, through industrialization of fishing communities; and
- create 40,000 more jobs in the fisheries industry, i.e. creating 3,100 more jobs every year from 2019.

4.68. To achieve these targets, various plans were formulated to:

- transit offshore fishing to sustainable fisheries, by managing resources, expanding TAC, and eradicating illegal fishing;
- improve revenue from aquaculture, and ensure the supply of quality and eco-friendly aquaculture products, by, *inter alia*, increasing the smart aquaculture farm supply ratio from 2.5% in 2017 to 12.5% in 2030;
- enhance fishing village vitality through innovative projects;
- expand fishery business start-ups and investments, as small fishing enterprises create jobs and contribute to the development of local economy; and
- modernize distribution facilities to ensure the supply of fresh and safe seafood.

³¹ The 14 species are mackerels, Jack mackerels, red snow crabs, snow crabs, purplish Washington clams, pen shells, horned turban, blue crabs, squids, sailfin sandfish, mottled skate, hairtails, Manila clams, and yellow corvina.

³² TAC limits were 338,827 MT in 2016, 340,060 MT in 2017, 289,643 MT in 2018 (July 2018-June 2019), and 358,390 MT in 2019 (July 2019-June 2020).

³³ MOF, *Fisheries Innovation 2030*. Viewed at: <https://www.mof.go.kr/en/page.do?menuIdx=1478>.

4.2.2 Border policy

4.69. Fish and fisheries products are subject to tariffs ranging from 0 to 32%, with a simple average applied tariff rate of 17.0% in 2021 (Table A3.1) (increased slightly from 16.9% in 2016 due to a nomenclature change). Adjustment tariffs ranging from 20%-32% (Table A3.3) are maintained for seven fish species that are not subject to tariff bindings in the WTO.

4.70. Korea applies TRQs on three fish species (Table 4.6). Importers use these quotas on a first-come, first-served basis. The duty-free allotment under the TRQs is increased each year.

Table 4.6 Seafood under tariff quotas, 2021

(MT)

	Flatfish – frozen (HS 0303.34.0000, 0303.39.0000)	Alaska pollock – frozen (HS 0303.67.0000, 0303.69.9000)	Croaker – frozen (HS 0303.79.9095)
2020	2,832	7,970	1,477
2021	3,058	8,688	1,551
2022	3,303	9,469	1,629
2023		10,322	
2024		11,251	
2025	Unlimited	12,263	Unlimited
2026		Unlimited	

Source: Information provided by the authorities.

4.71. Since 2016, foreign investment in fishing has been fully allowed. According to the authorities, this is to attract inward FDI and to keep up with global practice.

4.2.3 Domestic support

4.72. Korea notified to the WTO under Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures that it continues to provide financial support to the fisheries sector. Support takes the form of grants, or low-interest-rate loans (Table 4.7), in accordance with the Fisheries Act, the Fishery Resources Management Act, the Aquaculture Industry Development Act, the Distant Water Fisheries Development Act, or the Act on Structural Improvements and Support for Domestic Fisheries.

4.73. Korea participates in the WTO Negotiating Group on Rules, including negotiations on disciplines in fisheries subsidies.

Table 4.7 Fisheries subsidies, 2016-19

(KRW million)

Item	Type	2016	2017	2018	2019
Support for management of fisheries					
To support fishermen including aquaculture farmers suffering from disasters, by relieving financial burdens and maintaining stable management. No fixed time period.	Lump-sum transfer	n.a.	n.a.	n.a.	n.a.
	Loan	2,072,194	2,045,749	2,135,931	2,296,700
	Benefit of loan ^a	51,327	59,573	55,033	61,991
	Total (lump-sum transfer + benefit of loan)	51,327	59,573	55,033	61,991
Support to aquaculture fishery development					
To support aquaculture fishermen. Terms of the grant: 20%-30% of business expenses. Terms of the loan: 2 years at an annual interest rate of 3%.	Lump-sum transfer	19,860	19,917	19,955	16,666
	Loan	1,800	2,800	2,800	2,240
	Benefit of loan ^a	n.a.	22	22	18
	Total (lump-sum transfer + benefit of loan)	19,860	19,939	19,977	16,684

Item	Type	2016	2017	2018	2019
Support for vessel decommissioning					
To reduce coastal fleet size to protect fish stocks and promote sustainable fisheries. Offshore fishing vessel decommissioning (government support 100%), coastal fishing vessel decommissioning (government support 80% and provincial support 20%). To be continued provisionally until 2023.	Lump-sum transfer	22,332	22,332	19,328	37,772
	Loan	n.a.	n.a.	n.a.	n.a.
	Benefit of loan ^a	n.a.	n.a.	n.a.	n.a.
	Total (lump-sum transfer + benefit of loan)	22,332	22,332	19,328	37,772
Support for management of overseas fisheries					
Grants are provided to support distant-water fishermen, to ensure stable supply and demand of fishery products.	Lump-sum transfer	1,065	977	1,044	1,384
	Loan	n.a.	n.a.	n.a.	n.a.
	Benefit of loan ^a	n.a.	n.a.	n.a.	n.a.
	Total (lump-sum transfer + benefit of loan)	1,065	977	1,044	1,384
Support for fisheries resources management					
To ensure sustainable use and conservation of fisheries resources and foster increased scientific and technical knowledge for resource management. It includes sea reforestation projects; developing marine ranches, marine forests, and artificial reefs; and implementation of resource management and restoration measures, such as TAC and self-management in fisheries.	Lump-sum transfer	n.a.	122,975	127,468	115,803
	Loan	n.a.	9,174	8,274	8,274
	Benefit of loan ^a	n.a.	n.a.	n.a.	n.a.
	Total (lump-sum transfer + benefit of loan)	n.a.	132,149	135,742	115,803
Support for replacement of old distant-fishing vessels and modernization of facilities					
To ensure navigational safety through replacement of old distant-water fishing vessels. Distant-water fishermen may obtain loans with 5-year grace period and 10-year repayment at an annual interest rate of 3%. Ended in 2018.	Lump-sum transfer	n.a.	n.a.	n.a.	n.a.
	Loan	11,700	2,700	2,430	n.a.
	Benefit of loan ^a	n.a.	n.a.	n.a.	n.a.
	Total (lump-sum transfer + benefit of loan)	n.a.	n.a.	n.a.	n.a.

n.a. Not applicable.

a The benefit of the loan is estimated based on the difference between the loan rate and the market rate.

Source: WTO documents G/SCM/N/315/KOR, 6 July 2017 and G/SCM/N/343/KOR, 22 July 2019.

4.3 Mining and Energy

4.3.1 Mining and quarrying

4.74. The mining and quarrying industries account for a tiny share of GDP in Korea (0.1%), while its share in total employment is negligible (Table 1.2). In particular, coal has been an important source for electricity generation, while the Government has been implementing policies to gradually phase out coal from the energy mix (Section 4.3.2). Almost all coal used in Korea is imported, duty-free. Coal price is controlled or monitored under the Coal Business Law (Section 3.3.4.2).

4.75. The Government has been providing subsidies in the form of VAT and individual consumption tax relief, and grants, to the production of anthracite coal used in the form of charcoal briquettes by low-income households. This subsidy was to end in 2020; however, it seems that this has not been the case (Section 3.3.1.1.1). Korea also notified to the WTO the coal industry support programme (Table 4.8).

Table 4.8 Subsidies to the energy sector, 2016-19

(KRW million)

Item	Type	2016	2017	2018	2019
Coal industry support in the Special Accounting for energy and resource					
To stabilize the price of coal and briquettes to protect the livelihoods of people and ensure a stable supply of and demand for coal.	Lump-sum transfer	202,854	175,915	151,781	99,588
	Loan	n.a.	n.a.	n.a.	n.a.
	Benefit of loan ^a	n.a.	n.a.	n.a.	n.a.
	Total (lump-sum transfer + benefit of loan)	202,854	175,915	151,781	99,588
To compensate for the difference between the production cost and sale price of coal and briquettes following the notification of a sale price ceiling.					

n.a. Not applicable.

a Benefit of loan was estimated based on the difference between the loan rate and the market rate.

Source: WTO documents G/SCM/N/315/KOR, 6 July 2017 and G/SCM/N/343/KOR, 22 July 2019.

4.3.2 Energy

4.3.2.1 Main features

4.76. Korea relies heavily on fossil fuels; of the 280 mega tonnes of oil equivalent (Mtoe) total primary energy supply (TPES) in 2019, oil, coal, and natural gas accounted for 83% (Chart 4.5). Renewable energy accounted for less than 4%.

4.77. Domestic energy production in Korea reached 49.5 Mtoe in 2019, with nuclear accounting for 77% of total domestic energy production. Domestic production of oil, natural gas, and coal covered only 1% of total demand.

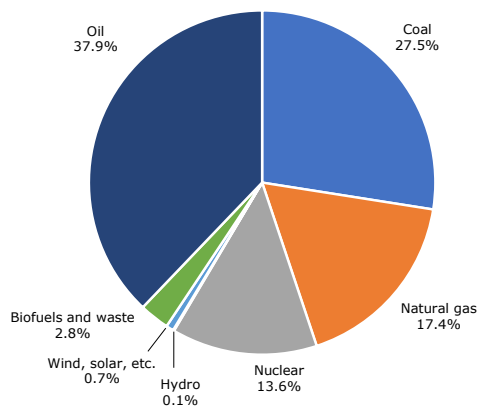
4.78. Korea's high reliance on imported energy has led its energy policy to focus on the security of supply. In 2020, over 90% of its total energy consumption was imported, and USD 86.4 billion was spent on importing energy, accounting for 18.5% of the import bill. Korea does not have any cross-border gas pipelines, oil pipelines, or electricity transmission lines.

4.79. Korea is an energy-intensive nation; in 2018 (the latest year for which data are available), its energy intensity measured in total final consumption (TFC) as a share of GDP (TFC/GDP), 86 toe/USD million purchasing power parity (PPP), and was the third highest among International Energy Agency (IEA) members and was higher than the IEA average (67 toe/USD million PPP).³⁴

³⁴ IEA (2020), *Korea 2020 Energy Policy Review*. Viewed at: <https://www.iea.org/reports/korea-2020>.

Industry remains the largest consumer, and its share in final consumption remained around 55%. Transport is the second-largest energy-consuming sector in Korea, accounting for 19%, followed by services (14%), and residential use (12%).

Chart 4.5 Energy supply sources, 2019



Source: International Energy Agency (IEA), *World Energy Balances*, 2020. Viewed at: <https://www.iea.org/subscribe-to-data-services/world-energy-balances-and-statistics>.

4.3.2.2 Regulatory and institutional framework

4.80. Since the previous Review, there has not been any significant change to the institutional framework regulating the energy sector. The MOTIE is in charge of energy policy development and implementation. Energy-related environmental policy is overseen by the Ministry of Environment. The Korea Electricity Regulatory Commission (KOREC) is the electricity supply regulator. A number of state-owned enterprises (SOEs) also play an active role in the sector, including the Korea National Oil Corporation (KNOC), the Korea Gas Corporation (KOGAS), and the Korea Electric Power Corporation (KEPCO).

4.81. The energy sector is regulated under the Basic Energy Law enacted in 2008, and the Energy Master Plans (EMPs) that are prepared every five years. The 3rd EMP, covering the period 2019-40, sets out five initiatives to support its vision of securing sustainable growth and improving the quality of people's lives through energy transition:

- Shift the focus of energy policy to innovation in demand management, by improving energy intensity, reducing energy demand, revitalizing the demand management market, and rationalizing the energy pricing system;
- Transition to a clean and safe energy mix, by gradually reducing nuclear power and drastically reducing coal, expanding the share of renewable energy generation to 30%-35% by 2040, reducing "fine dust" (i.e. particulate matter) levels, and implementing the 2030 Greenhouse Gas Reduction Roadmap;
- Expand the decentralized energy system and ensure broad stakeholder engagement, by expanding the share of distributed power supply and improving power grid resilience, promoting power prosumers³⁵, and strengthening the role and responsibility of local governments;
- Strengthen the global competitiveness of the energy industry, by fostering future energy industries such as renewable energy, hydrogen, and efficiency-related industries, and promoting a higher value-added conventional energy industry and maintaining the nuclear industry's ecosystem; and

³⁵ A prosumer is someone who both produces and consumes energy.

- Secure the necessary infrastructure to accelerate the energy transition, by improving the market system for power, gas, and heat, and building a big data-based comprehensive energy platform to promote the creation of new industries.

4.82. To reach these targets, the Government has been making efforts to both improve energy supply and regulate energy demand. On the supply side, the Government committed to gradually reduce nuclear power in electricity generation, and to eventually halt power production from nuclear by 2084 at the latest.³⁶ The Government also committed to close old coal-fired plants that have been operating for over 30 years. In addition, in 2018 the Government granted local governments the authority to limit the output of coal-fired plants if air pollution and fine dust exceed the legal limits set by the Government.

4.83. In 2019, the consumption tax on liquified natural gas (LNG) for power generation was reduced by 80% (from KRW 60 per kg to KRW 12 per kg), and the import surcharge on LNG was lowered by 85% (from KRW 24.2 per kg to KRW 3.8 per kg), while the consumption tax on coal was increased by about 30% (from KRW 36 per kg to KRW 46 per kg), so that their prices adequately reflect their related environmental costs.

4.84. Demand-side efforts require Korea to substantially enhance decarbonization efforts across all energy sectors, and to apply its advanced technologies and innovative capacity. In February 2019, MOTIE established a new Energy Innovation Policy Bureau, dedicated to improving energy efficiency. In August 2019, MOTIE announced an Energy Efficiency Innovation Strategy that is expected to achieve a reduction in total final energy consumption of 14.4% in 2030 from the 2017 level, by applying ICT-based factory energy management systems and intelligent transport systems, to allow efficient exchange of energy sources between major power plants.

4.85. Further, the Rational Energy Utilization Act, which sets the legal ground for all energy efficiency policies and legal obligations, requires major energy consumers to report their energy demand management plans to the Korean Energy Agency (KEA). KEA aimed to increase energy efficiency by granting financial and technical support to businesses investing in energy-saving technologies. Large energy consumers were required to conduct energy audits every five years, while up to 30% of the audit costs for SMEs (under 10 Ktoe/year) were subsidized. Industries investing in combined heat and power (CHP) plants for their own heat supply were entitled to tax reductions.

4.86. In July 2020, the Government issued the Korean New Deal (Sections 1.2.1, 1.2.4, and 3.3.1.2.2.2, and Table A1.1), which consists of the Green New Deal and the Digital New Deal. It aims to achieve decarbonization of the industry sector, and decouple the sector's energy consumption from its economic activity, while maintaining Korea's strong industrial export base. Linked closely to the Fourth Industrial Revolution, the Green New Deal aims at facilitating investments for electric vehicles, zero-energy buildings, smart grids, and establishing low-carbon and green industrial complex systems.

4.87. The Government is committed to leverage the benefits of the Fourth Industrial Revolution, not only for economic development, but also to support the energy transition by harnessing the opportunities offered by digitalization. Proposed measures include industrial convergence with 5G networks and artificial intelligence (AI), and the promotion of smart working and low-carbon industrial complexes.

4.88. Korea introduced a nationwide Emission Trading System (ETS) in 2015; however, according to the IEA, as over 90% of the emissions trading certificates are provided for free, the ETS resulted in a limited emissions reduction: 2.3% in 2019 from the 2018 level for all ETS sectors taken together, and 8.6% for the power generation sector. The authorities state that Korea has been operating the third planning period of the ETS since 2021, during which period 73.5% of the country's total emissions are to be covered. According to the authorities, the share of the paid allocation of ETS certificates increased from 3% to 10%, and the number of emission-benchmark applied sectors increased from 7 to 12.

³⁶ The ongoing construction of 5,600 megawatts (MW) of nuclear capacity is to continue, and nuclear capacity is expected to peak in 2024.

4.3.2.3 Policies

4.3.2.3.1 Border policies

4.89. As Korea relies on imported energy products, import tariffs are often low. For example, in 2021, imported crude oil is subject to a tariff of 3% (same in 2016). Tariffs on refined products vary from zero to 8%: zero (waste oils of naphtha and natural liquid gas), 0.5% (naphtha and natural liquid gas), 3%, 5%, 7%, and 8% (such as greases and waxes). This is intended to encourage domestic refining. Autonomous tariff quotas are applied to the imports of, *inter alia*, coke, liquefied petroleum gas (LPG), natural gas, and petroleum oils and oils obtained from crude bituminous minerals in 2021 (Table A3.6).

4.90. In addition to tariffs, a surcharge (KRW 16 per litre on crude oil and petroleum products) is levied on petroleum imports (Section 3.1.4).

4.3.2.3.2 Domestic support

4.91. The Government allocated a significant part of its budget to implement the Green New Deal (Section 4.3.2 and 3.3.1.2). In addition, subsidies are provided to reduce emissions for old diesel vehicles, and to support the purchase of natural gas, electric, and hydrogen fuel-cell vehicles.³⁷ Prices of electricity are monitored or controlled (Sections 3.3.1.2 and 3.3.4.2).

4.3.2.4 Hydrocarbons

4.3.2.4.1 Oil

4.92. Oil remains the largest source of energy supply in Korea, accounting for 38% of TPES and 2.5% of electricity generation in 2019. Domestic oil production is very limited, covering less than 1% of oil demand. Korea imports more than 99% of its crude oil requirements. In 2020, imports of crude oil (HS 2709) came largely from the Middle East (67.2%), followed by the United States (12.1%), the Russian Federation (5.4%), Mexico (4.9%), and others. Korea continued its efforts to encourage the diversification of the crude oil supply: surcharges on imported crude oil are partly returned if they are from non-Middle East countries.

4.93. Imports of petroleum products other than crude (HS 2710) went up from USD 11.7 billion in 2016 to USD 17.2 billion in 2019, and down again to USD 12.7 billion in 2020. Korea imports oil products mainly from the Russian Federation (21.5%), the United Arab Emirates (12.4%), India (8.3%), the United States (7.9%), and Iraq (5.9%). Korea is a net exporter of refined products; export values went up from USD 25.5 billion in 2016 to USD 39.3 billion in 2019, and down to USD 23.2 billion in 2020. The main export markets are China, Japan, the United States, Singapore, Australia, and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei).

4.94. The KNOC, an SOE, dominates the upstream oil market, and is responsible for domestic and overseas exploration, development, and production of oil and natural gas.

4.95. Daehan Oil Pipeline Corporation (DOPCO) is the only oil pipeline company in Korea, responsible for operating the nationwide oil pipeline system consisting of six oil pipelines. DOPCO is a private company jointly owned by SK Innovation, GS Caltex, S-Oil, Hyundai Heavy Industries, Korean Air, and the Korean Government. According to an IEA report, there are no restrictions for market players that are not DOPCO shareholders to utilize the DOPCO pipelines on a commercial basis.³⁸

4.96. The domestic downstream market has been largely liberalized: import and export restrictions on crude oil and oil products have been lifted since the 1990s, when prices were fully liberalized as well. Although no barriers exist for new entrants to enter the downstream market, it remains dominated by four private companies: SK Innovation, GS Caltex, Hyundai Oilbank, and S-Oil (whose

³⁷ WTO documents G/SCM/N/315/KOR, 6 July 2017 and G/SCM/N/343/KOR, 22 July 2019.

³⁸ IEA (2020), *Korea 2020 Energy Policy Review*. Viewed at: <https://www.iea.org/reports/korea-2020>.

controlling shareholder is the Saudi Aramco). In 2020, among the 11,589 service stations, 88% carried their brand names.

4.97. Prices for diesel, gasoline, and fuel oil are relatively low compared with those of other IEA members. Taxes are an important component of their prices, and include the transportation-energy-environment tax, the driving tax, the education tax, and VAT.

4.3.2.4.2 Natural gas

4.98. Natural gas accounted for 17.7% of TPES, and 25.6% of electricity generation in 2019. As domestic production covers only 0.5% of total gas consumption, Korea imports more than 99% of its demand for gas. Korea does not have international gas interconnections, thus all gas is imported as LNG. Domestic production comes from two offshore gas fields. The field operator, KNOC, plans to operate the fields until 2022, when the reserves are to be depleted.

4.99. The gas sector is regulated under the Urban Gas Business Act. MOTIE is responsible for enforcing Korea's natural gas policies, setting wholesale and retail prices, and arbitrating for third-party access to the transmission and distribution networks.

4.100. Korea is the third-largest importer of LNG in the world, after Japan and China. Korea Gas Corporation (KOGAS), a state-owned vertically integrated company, purchases most of the LNG. In 2020, LNG (HS 2711.11) came mainly from Qatar (26.3%), Australia (19.3%), the United States (13.3%), Oman (11.3%), Malaysia (10.7%), Indonesia (5.3%), the Russian Federation (4.9%), and Peru (4.3%). Korea exports LNG, but the export value seems rather volatile. For example, in 2019, the export value of LNG was USD 54,602, of which 51.3% was exported to China, and the rest to the United States. In 2020, Korea exported LNG worth USD 7.3 million, of which 99% went to the United States, and the remainder to the Philippines.

4.101. Companies meeting the requirements of the Urban Gas Business Act and its Presidential Decree are allowed to import natural gas for their own use, or resell their unused LNG to overseas markets. They cannot sell their gas on the domestic market. Korea has 11 direct importers, including large industrial consumers and power generation companies.

4.102. KOGAS is the only wholesaler, and is also the transmission system operator, of gas in Korea. It is listed on the Korean Stock Exchange, and its owners include the Central Government (26.15%), KEPCO (20.47%), and local governments (7.93%). KOGAS owns and operates five of Korea's seven LNG receiving terminals, representing 91% of Korea's storage capacity. Direct importers own two LNG terminals.

4.103. Wholesale prices are regulated by MOTIE, while retail prices are regulated by local governments (Section 3.3.4.2). On 6 January 2020, MOTIE approved a new pricing scheme for wholesale prices of natural gas. Under the new scheme, KOGAS may offer individual tariffs to power generators, while under the previous scheme, all power generators paid the same tariff to KOGAS.

4.104. KOGAS supplied natural gas to 34 private city gas companies for retail distribution, and to 82 power-generating plants (owned by 27 power producers), as at end-2020. These distribution companies purchase gas at the wholesale level from KOGAS at government-set prices, and then sell gas to end users at retail prices set by local governments.

4.3.2.5 Electricity

4.105. Electricity generation relies heavily on fossil fuels: in 2019, coal was the largest source (41.9%), followed by natural gas (26.8%), and nuclear power (23.4%). Renewable energy accounted for 6% of total electricity generation, and oil 1%. The Government, in its 8th Basic Plan for Long-Term Electricity Supply and Demand (BPLE) for the period 2017-31, announced the target of gradually phasing out coal and nuclear power generation, and increasing the share of renewable energy in electricity generation to reach 20% of power generation by 2030. Its rate of transmission and distribution losses is among the lowest in the world (3.56% in 2018, 1.59% for transmission and 2.01% for distribution).

4.106. Korea has no electricity interconnection with neighbouring countries, and operates an isolated system. Given its isolated grid, Korea requires generating plants to maintain an operating reserve margin of 15%. The 8th BPLE targets a reserve margin of 19% between 2018 and 2025, and 22% between 2026 and 2031.

4.107. Total electricity consumption kept growing. In 2019, it was mostly used in industry (53.8%), services (32.7%), and the residential sector (13.5%). The energy and transport sectors accounted for minor shares: 2.57% and 0.56%, respectively.

4.108. An increase in electricity consumption is not only driven by strong economic growth, but also by low electricity retail prices that do not send price signals to consumers, and that do not vary in line with generation costs.

4.109. Retail prices are not set by the market; rather, they are regulated by the Government through MOTIE, in accordance with the Electricity Utility Act and the Price Stabilization Act. End-use electricity prices must be reviewed by KOREC, and approved by MOTIE after consultation with the Ministry of Strategy and Finance. The electricity tariff system is complex, and has six categories: residential, commercial, educational, industrial, agricultural, and street lighting. Tariffs vary depending on voltage, season, time of usage, rate option, and other factors. Retail consumers generally pay low tariffs compared to those in other IEA countries, but cross-subsidization between industrial and residential consumers continues: industrial users pay lower prices than residential consumers.³⁹ The authorities disagree, and indicate that industrial electricity prices have increased by 83.8% since 2000 on a cumulative basis, while residential prices have declined by 2%. According to the authorities, the ratio of residential electricity tariffs to industrial tariffs in Korea (1.08) is much lower than the OECD average (1.59).

4.110. 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.

4.111. The electricity market is governed by the Electricity Utility Act, the Nuclear Safety Act, and the Act on the Development, Use, and Diffusion of New and Renewable Energy. The Electricity Utility Act was amended in 2018 to establish new licensing procedures for small-scale electricity brokerage businesses and electric vehicle charging businesses.⁴⁰ Small-scale electricity brokerage businesses are now authorized to collect and trade electricity that is produced from renewable sources and stored in energy storage devices, or electric vehicles, and can be traded on the Korea Electric Power Exchange (KPX). Both types of businesses must register with MOTIE.

4.112. According to the Electricity Utility Act, KOREC oversees the regulation of the market, reviews issues concerning the rights of electricity consumers, and settle disputes related to the electricity business.

4.113. According to an IEA report, there is no independent electricity sector regulator in Korea.⁴¹ MOTIE remains the key regulatory entity. Its responsibilities include granting electricity business licences; approving market rules, transmission and distribution tariffs, and retail sales prices; and regulating wholesale electricity prices.

4.114. Competition-related matters (such as monopoly behaviour and unfair business practices) are regulated by the Fair Trade Commission (FTC). The FTC and KOREC have memoranda of understanding on their respective roles and functions in the electricity sector.

4.115. KEPCO, a government-owned corporation, dominates the electricity sector. As at 31 December 2020, the Government holds 18.2% of KEPCO's equity, Korea Development Bank holds 32.9%, National Pension Corporation 8.62%, foreign investors 16.58%, and Korean investors 23.7%. Its generation business was split into six competing generating companies in 2001. All six companies remain state owned.

³⁹ IEA (2020), *Korea 2020 Energy Policy Review*. Viewed at: <https://www.iea.org/reports/korea-2020>.

⁴⁰ IEA (2020), *Korea 2020 Energy Policy Review*. Viewed at: <https://www.iea.org/reports/korea-2020>.

⁴¹ IEA (2020), *Korea 2020 Energy Policy Review*. Viewed at: <https://www.iea.org/reports/korea-2020>.

4.116. In addition to KEPCO's six generating subsidiaries, there are private independent power producers. In December 2019, 20 independent fossil fuel producers and 3,442 new and renewable energy power generators (3,297 of which are solar power producers) were operating independently of KEPCO. They accounted for 21.7% of total installed capacity.

4.117. KEPCO owns the electricity transmission and distribution systems in Korea. It is the only operator of the distribution system, and the only electricity retailer. Foreign nationals may purchase from KEPCO no more than 30% of domestic power generation facilities. Foreign investment in the transmission and distribution of electric power faces an equity limit of 50%, and the largest shareholder must be Korean (Table 2.1).

4.118. KEPCO purchases all power generated through the Korea Power Exchange (KPX), and then supplies power to consumers. The KPX is a state-owned electricity pool, which is compulsory for all generators (above 20 MW) with a few exceptions. Electricity generators do not bid their prices into the mandatory pool. Instead, they must submit full details of their operating costs to the KPX, based on which the KPX calculates the system marginal price (SMP) used as the price for the next-day electricity market. Power generators then receive a remuneration that is equal to the SMP plus a reference capacity price, which is determined annually based on the plant's fixed costs. Since April 2019, the SMP has also reflected environmental considerations: tax on eco-friendlier LNG-generated electricity was reduced, while tax on bituminous coal-generated electricity was increased.

4.119. The Government has been deploying a smart grid project; the smart grid would first be developed in metropolitan areas by 2020 and extended nationwide by 2030. A national rollout of smart meters is also underway.

4.120. As at the time of the previous Review, fees were charged on the consumption of electricity (3.7% of the consumption bill) in order to finance the Electric Basis Fund. The Fund was set up in 2001 after the Power Industry Structure Reorganization to achieve public objectives and build infrastructure for sustainable growth of the power industry. Subsidies were given to, *inter alia*, the diffusion of electricity generated by renewable energy, the maintenance of the stability between electricity demand and supply, and research and development (R&D) activities. The source of the Fund includes interest accrued from surplus funds and surcharges.

4.3.2.6 New and renewable energy⁴²

4.121. Promoting energy from renewable sources is the core of Korea's energy target. Korea is committed to increasing the share of renewables in power generation to 20% by 2030 and to 30%-35% by 2040. Currently, the share of new and renewable energy in TPES (2.4% in 2019) is much lower than the IEA median (11%), and the share of renewable energy in power generation (4.9%) is also lower than the IEA median (27%).⁴³

4.122. In 2019, Korea had 19,651 MW of new and renewable energy-generation capacity, up from 19,027 MW in 2018. Solar photovoltaic (PV) accounted for 84.6% of total new and renewable power capacity, followed by biomass (6.5%) and wind (4.3%).

4.123. Pursuant to the Act on Development, Use and Diffusion of New and Renewable Energy (Renewable Energy Act), MOTIE formulates basic national plans for the promotion of new and renewable energy every five years. MOTIE also oversees the regulations for renewable electricity generation, including the allocation of permits. The KEA and the Korea New and Renewable Energy Center under it promote new and renewable energy by issuing renewable energy certificates (RECs) that serve as certified proof of renewable energy power generation.

⁴² Korea refers to renewable energy as "new and renewable energy", where "new" energy includes hydro, fuel-cell, and energy converted from fossil fuels, such as an integrated gasification combined cycle. Before October 2019, Korea also included non-renewable waste energy (i.e. waste, wood pellet, by-product gas, etc.) in the definition of "renewable energy". IEA (2020), *Korea 2020 Energy Policy Review*. Viewed at: <https://www.iea.org/reports/korea-2020>.

⁴³ IEA, *World Energy Balances, 2020*. Viewed at: <https://www.iea.org/subscribe-to-data-services/world-energy-balances-and-statistics>.

4.124. Power generators are obliged to generate a certain portion of electricity using renewable energy in order to meet renewable portfolio standards (RPSs). They may either generate electricity using new and renewable energy themselves to receive proportionate RECs from the KEA, or purchase RECs from the electricity market operated by the KPX. In practice, KEPCO is the only entity approved by the Government to directly purchase renewable electricity.⁴⁴

4.125. RPSs are the principal measures that have been adopted to support the development of renewable energy in Korea. The Government also provides various subsidies, for example:

- The Housing Support Scheme provides grants to households that use renewable heating or electricity. In 2018, KRW 230 billion was granted to households, more than double the 2017 level (KRW 100 billion).
- A government plan announced in 2017 expanded the discount on those electricity bills linked to renewable energy generation and consumption. Previously, renewable energy producers and end users had been eligible for a maximum discount of 10% on their electricity bills under the condition that the amount of green electricity produced or consumed exceeded 20% of the total. From 2017 to end-2020, the discount was raised to up to 50% of the renewable electricity generated and consumed.

4.4 Manufacturing

4.126. Korea is one of the main hubs in international production networks. According to the OECD Global Value Chain (GVC) Index, Korea was ranked 7th among the top 10 manufacturing hubs in GVCs.⁴⁵ The manufacturing sector plays a very important role in the economy. Its share of GDP fell from 28.8% in 2016 to 27.2% in 2020, while that in total employment went down slightly too (17.4% in 2016 to 16.3% in 2020) (Table 1.2). By taking into account GDP and employment data, productivity in manufacturing remains higher than in the agriculture sector.

4.127. During the review period, the manufacturing sector's growth rate went up from 2.3% in 2016 to 3.7% in 2017, and then slowed to 1.1% in 2019, before contracting in 2020 (-0.9%).

4.128. Manufacturing remains an export-oriented sector, accounting for 91.4% of total merchandise exports in 2020 (86.4% in 2014). In terms of the shipment value, heavy industry accounted for 85.2% of the total manufacturing sector in 2018, and light industry accounted for 14.8%.⁴⁶ Important industries in terms of export values include machinery and electrical equipment, transport equipment, base metals and articles thereof, and chemicals (Chart 1.1).

4.129. The Korean New Deal initiative (Section 4.3.2), announced in 2020, aims to, *inter alia*, enhance the competitiveness of the manufacturing sector by increasing public investment in digital and green energy infrastructure (Section 3.3.1.2). MOTIE is in charge of preparing policies to promote the development of the manufacturing sector. It announced a number of policy reports covering green energy, the smart and green industrial complex, eco-friendly vehicles, and the digital transformation of industry. MOTIE has also been promoting private investment by making regulatory improvement to meet the target set at the RE100 initiative.⁴⁷

4.130. The manufacturing sector remains dominated by large business conglomerates, while the labour productivity gap between large firms and SMEs⁴⁸ is substantial (Section 1.2.1). To facilitate the development of SMEs, several tax and non-tax incentives in several policy areas were used (Section 3.3.1). In particular, the Ministry of SMEs and Startups (MSS) budgeted KRW 16.8 trillion

⁴⁴ The authorities indicate that, starting from October 2021, electricity consumers will be able to directly purchase renewable electricity.

⁴⁵ OECD (2021), *Inclusive Growth Review of Korea – Creating Opportunities for All*, OECD Publishing, Paris. Viewed at: <https://doi.org/10.1787/4f713390-en>.

⁴⁶ Statistics Korea (2020), *Explore Korea through Statistics 2020*. Viewed at: <http://kostat.go.kr/portal/eng/news/3/index.board?bmode=read&aSeq=388486>.

⁴⁷ RE100 is a global collaborative initiative among companies committed to using 100% renewable energy. Viewed at: <https://www.there100.org/>.

⁴⁸ Since 1 January 2016, Korea changed the definition of SMEs from the number of workers to the average sales for the recent three years of a company, which differs by industry according to the Korea Standard Industrial Classification.

for 2021 (up from KRW 10.3 trillion for 2019) to promote manufacturing innovation in SMEs and support their scaling up.

4.131. The Government has been using grants, tax concessions, and low-interest loans to support the Fourth Industrial Revolution, and other manufacturing activities (Section 3.3.1.2.2). Measures include, *inter alia*, establishing manufacturing data centres, further increasing the penetration rate of smart manufacturing factories, extending the coverage of smart factories from manufacturing to services, and supporting R&D for technological innovation and commercialization for SMEs.⁴⁹ Smart factories are central to the Government's plan for the Fourth Industrial Revolution, which covers also smart cities, the Internet of Things (IoT), and big data.

4.132. Foreign investment in manufacturing in general is allowed, except for the manufacture and supply of fuel for nuclear power generation (Table 2.1).

4.133. In 2021, the simple average applied MFN tariff rate was 10.9% (ISIC 3) on imports of manufacturing products, and the rate was 5.9% on manufacturing excluding food processing products (Table A3.1) (down from 11.3% and 6.3% in 2016, respectively). Adjustment duties protected one industrial item – plywood, at 10% instead of 8% (Table A3.3). Autonomous tariff quotas, allowing concessional tariff treatment for imports of inputs, are applied to sugar, manioc chips, silk yarn and many others in 2021 (Section 3.2.4.2, Table A3.6).

4.4.1 ICT industry

4.134. Korea has a large trade surplus in the ICT industry. In 2020, the ICT sector exported USD 183.5 billion, accounting for 35.8% of total merchandise exports; it imported USD 112.6 billion, accounting for 24.1% of total merchandise imports (Table 4.9 and Section 1). Korea is a participant in the WTO Information Technology Agreement (ITA). Tariffs on ICT products covered by the Agreement are all zero. There is no foreign investment restriction in the manufacturing of the ICT products covered by the ITA.

Table 4.9 Production and trade in the ICT industry, 2018-20

	2018	2019	2020
Information, communications and broadcasting equipment – Production (KRW trillion)	367.9	322.7	332.1
Electronic components (%)	64.7	61.9	61.6
Computers and peripherals (%)	3.3	3.2	4.6
Communications and broadcasting equipment (%)	11.3	11.4	11.3
Video and audio equipment (%)	2.7	2.7	2.5
Information and communications application and infrastructure equipment (%)	18.0	20.8	20.1
Information, communications and broadcasting equipment – Export (USD billion)	220.3	176.9	183.5
Electronic components (%)	75.4	71.7	71.4
Computers and peripherals (%)	5.1	5.1	7.6
Communications and broadcasting equipment (%)	8.0	8.2	7.5
Video and audio equipment (%)	1.4	2.5	1.4
Information and communications application and infrastructure equipment (%)	10.2	12.5	12.1
Information, communications and broadcasting equipment – Import (USD billion)	107.1	108.4	112.6
Electronic components (%)	54.7	53.9	54.7
Computers and peripherals (%)	12.0	10.6	11.9
Communications and broadcasting equipment (%)	13.0	14.2	12.9
Video and audio equipment (%)	2.8	4.2	3.0
Information and communications application and infrastructure equipment (%)	17.5	17.0	17.5

Source: Production: Ministry of Science and ICT, Information & Communication Technology Survey (2018-19, final), Monthly Survey of Information & Communication Technology Statistics (2020, preliminary).

⁴⁹ OECD (2020), *Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

4.135. The Ministry of Science and ICT (MSIT) is responsible for designing policies to facilitate the development of the ICT sector, as well as promote the development of science, technology, and innovation.

4.136. Korea's ratio of R&D investment in ICT equipment to total business expenditure on R&D (BERD) is the highest among OECD countries, at 50.1% in 2017.⁵⁰ Korea's ICT R&D achievement measured by patents is the third highest among OECD countries, after the United States and Japan. However, the ranking of Korea in terms of technology transfers between companies and universities was not high: Korea ranked 23rd of 36 OECD countries in 2019. In terms of how actively public- and private-sector ventures support technological development, Korea ranked 26th.⁵¹

4.4.2 Automotive

4.137. In 2019, Korea was the world's 7th largest automobile producer. Most vehicles produced in Korea are exported (Table 4.10). Major export markets are the United States (36.8%), the European Union (21.5%), and the Middle East (10.2%).⁵² Imports of automobiles remained much smaller than export volumes. Notably, the share of electric cars in total imported vehicles went up about six times from 2016 to 2020, and the share of hybrid cars more than doubled. During the same period, the share of gasoline-fuelled cars increased while that of diesel engine vehicles declined.

Table 4.10 Automobile supply and demand, 2016-20

('000 cars)

		2016	2017	2018	2019	2020
Production	Passenger cars	3,860	3,735	3,662	3,613	3,212
	Commercial vehicles	369	379	367	338	295
	Total	4,229	4,114	4,029	3,951	3,507
Domestic consumption	Passenger cars	1,343	1,297	1,298	1,294	1,375
	Commercial vehicles	257	263	254	245	237
	Total	1,600	1,560	1,552	1,539	1,612
Export	Passenger cars	2,507	2,416	2,342	2,313	1,821
	Commercial vehicles	115	114	108	88	66
	Total	2,622	2,530	2,450	2,401	1,887
Import	Total	304	297	324	320	338
	Gasoline (%)	33.9%	42.9%	47.3%	57.4%	54.2%
	Diesel (%)	58.7%	47.2%	41.0%	30.3%	27.7%
	Hybrid (%)	7.2%	9.8%	11.6%	11.3%	16.9%
	Electric (%)	0.2%	0.1%	0.1%	1.0%	1.2%

Source: Korea Automobile Manufacturers Association (2020), *Korea Automobile Industry – Annual Report 2020*.

4.138. The automotive industry remains concentrated, with the three largest manufacturers – Hyundai, Kia, and GM Korea – collectively accounting for about 92.3% of total production.

4.139. There is no equity restriction on foreign investment in the automobile sector. Currently, GM Korea is 82.98% owned by foreign investors, including General Motors and SAIC Motor Corporation, Renault Samsung is 80.1% owned by Renault, while Mahindra & Mahindra's share in Ssangyong Motors is 74.65%.

4.140. In 2021, the customs tariff is 8% on passenger vehicles (HS 8703) and averages 9.7% on commercial vehicles.⁵³ 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.

⁵⁰ Korea Information Society Development Institute (2020), *2020 ICT Industry Outlook of Korea*.

⁵¹ Korea Information Society Development Institute (2020), *2020 ICT Industry Outlook of Korea*.

⁵² Korea Automobile Manufacturers Association (2020), *Korea Automobile Industry – Annual Report 2020*.

⁵³ The import tariff rate is zero for HS 870410 (dumpers for off-highway use), and is 10% for the other commercial vehicles (HS 8704) (both unchanged from 2016).

4.141. To purchase, own, and use automobiles, various taxes are imposed (Table 4.11). The Government has been facilitating the development of eco-friendly cars by providing tax incentives.

Table 4.11 Vehicle taxes and tax reduction for eco-friendly vehicles, 2020

	Taxes	Rates	
Purchase	Individual consumption tax Education tax VAT Acquisition tax Bond	5% of the ex-factory price 30% of the individual consumption tax 10% of the retail price Private: 5%-7%; business: 4% of the retail price 0-20% of the retail price	
Possession	Automobile tax (annual) Education tax	1,000 cc and below: KRW 80/cc 1,001 cc-1,600 cc: KRW 140/cc Over 1,600 cc: KRW 200/cc 30% of the automobile tax	
Use	Fuel excise tax: Transportation-energy-environment tax LPG Education tax Motor fuel tax VAT	Unleaded gas: KRW 529/litre Diesel: KRW 375/litre KRW: 275/kg 15% of the fuel excise tax 26% of the transportation-energy-environment tax 10% of the fuel retail price	
Tax reductions for eco-friendly cars			
Category	Individual consumption tax	Education tax	Acquisition tax
Hybrids/plug-in hybrid electric vehicles (PHEVs)	Temporary tax reduction: maximum KRW 1 million per car (up to December 2021)	Tax cut: maximum KRW 0.3 million per car (up to December 2021)	Temporary tax reduction: maximum KRW 0.9 million per car (up to December 2021)
Electric vehicles (EVs)	5% of ex-factory price Temporary tax reduction: maximum KRW 3 million per car (up to December 2020)	Tax cut: maximum KRW 0.9 million per car (up to December 2020)	Tax cut: maximum KRW 1.4 million per car (up to December 2021)
Fuel-cell electric vehicles (FCEVs)	5% of ex-factory price Temporary tax reduction: maximum KRW 4 million per car (up to December 2022)	Tax cut: maximum KRW 1.2 million per car (up to December 2022)	Tax cut: maximum KRW 1.4 million per car (up to December 2021)

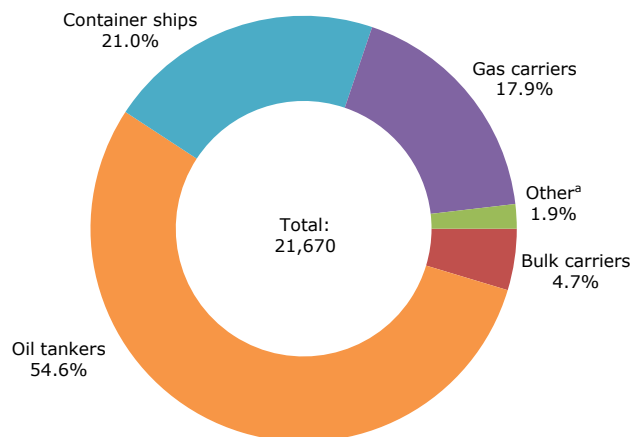
Source: Korea Automobile Manufacturers Association (2020), *Korea Automobile Industry – Annual Report 2020*.

4.142. In January 2021, the Government announced, as part of the Green New Deal Initiative (Section 4.3.2 and above), subsidies of up to KRW 19 million to buyers of electric cars, and up to KRW 37.5 million to buyers of hydrogen fuel-cell electric vehicles. The Government aims to install 96,000 electric vehicle charging systems and build more than 180 hydrogen stations across the country by the end of 2021, to provide a more convenient charging infrastructure. Subsidies for electric taxis, buses, and trucks will also increase.⁵⁴

4.4.3 Shipbuilding

4.143. Korea remains the second-largest shipbuilder in the world, after China. The shipbuilding industry has been going through a restructuring process, continuing the trend to move towards more specialized higher value-added ships, such as oil tankers, container ships, and gas (LNG) carriers (Chart 4.6).

⁵⁴ *Bangkok Post News*, "South Korea Ups Subsidies for Eco-Friendly Cars to Speed Up Green Push", 24 January 2021. Viewed at: <https://www.bangkokpost.com/business/2056259/south-korea-ups-subsidies-for-eco-friendly-cars-to-speed-up-green-push>.

Chart 4.6 Deliveries of newly built vessels, 2019

a Other includes ferries and passenger ships (0.01%), general cargo ships (0.9%), offshore vessels (0.6%), chemical tankers (0.2%), and vessels n.e.s. (0.1%).

Source: UN Conference on Trade and Development (UNCTAD), *Review of Maritime Transport 2020*. Viewed at: https://unctad.org/system/files/official-document/rmt2020_en.pdf.

4.144. The industry is becoming more concentrated. In 2019, Hyundai Heavy Industries (HHI) and Korea Development Bank signed a contract to acquire Daewoo Shipbuilding & Marine Engineering (DSME). Since then, the three largest shipbuilders (HHI, DSME, and Samsung Heavy Industries (SHI)) have been reorganized into two (HHI and SHI). According to the authorities, they accounted for 66.9% of the market share in Korea in 2019.

4.145. According to an Invest Korea report, most of the equipment and parts used for shipbuilding have been localized.⁵⁵ SMEs may be able to play a bigger role as suppliers in the value chain of large shipbuilding companies. FDI in the shipbuilding sector is allowed, although it has been sluggish, as the commercial vessel market has cooled down since 2014.

4.146. In 2021, tariff protection for ships ranges from zero to 8%, with a simple average of 3.6% (same as in 2016):

- 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), HS 8902 (fishing vessels; factory ships and other vessels for processing or preserving fishery products), HS 8906 (other vessels, including warships and lifeboats other than rowing boats), and HS 8908 (vessels and other floating structures for breaking-up);
- tariff rate of 5% for HS 8904 (tugs and pusher craft), 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 HS 8907 (other floating structures (for example, rafts, tanks, landing-stages)); and
- tariff rate of 8% for HS 8903 (yachts and other vessels for pleasure or sports; rowing boats and canoes).

4.147. The industry employs various ICT technologies to "smarterize" ships and sailing, equipment, and production. The large shipbuilders are in the process of developing their own platforms and ship systems. The development of remote monitoring was completed and is currently in the process of commercialization.⁵⁶

⁵⁵ Invest Korea (2020), *Investment Opportunities in Korea – Shipbuilding & Marine*. Viewed at: www.investkorea.org.

⁵⁶ Invest Korea (2020), *Investment Opportunities in Korea – Shipbuilding & Marine*. Viewed at: www.investkorea.org.

4.148. The shipbuilding industry is undergoing a restructuring process to meet environmental requirements set by the International Maritime Organization (IMO). In particular, IMO strengthened the standards for ship emissions, such as sulphur oxide (SO_x), nitrogen oxide, and carbon dioxide, to reduce marine pollutant emissions. SO_x emission regulation, effective from 1 January 2020, aims to reduce the current sulphur emission from 3.5% to less than 0.5% worldwide. The shipping industry has to use low-sulphur oil, install desulfurizer, or purchase LNG-fuelled ships.

4.149. To support the development of eco-friendly and high-efficiency ships, MOTIE plans to establish a mid- to long-term roadmap to respond to LNG demand, and build infrastructure for LNG bunkering at the ports of Busan, Ulsan, Gwangyang, Incheon, and Pyeongtaek by 2025. The authorities state that the construction of LNG bunkering at Ulsan Port started. In 2019, the MOF revised the Marine Environment Management Act to accommodate IMO's SO_x content in ship fuel (SO_x 0.5% or less).

4.150. Ship financing is provided mainly through two state-owned export credit agencies: K-SURE under MOTIE, and the EXIM Bank under the MOEF. K-SURE mainly deals with export credit insurance (covering lender's losses against buyer's non-payment on loans), while the EXIM Bank handles export credit loans (direct loans to ship owners, or to ship yards for the funds needed to produce vessels). In 2019, the shipbuilding industry accounted for the largest portion (16.4%, KRW 5.4 trillion) of the total export credit provided by the EXIM Bank (Section 3.2.5). On 27 May 2020, the EXIM Bank announced it would increase its investment through a "win-win" loan scheme in the domestic shipbuilding industry by USD 971 million (KRW 1.2 trillion) (Section 3.3.1.2).

4.151. In addition, local governments offer support for the installation of LNG-fuelled equipment developed by domestic companies in local government vessels.⁵⁷ According to the authorities, this is to replace old government ships with eco-friendly ones.

4.5 Services

4.5.1 Features

4.152. During the review period, the growth rates of the services sector were relatively stable (averaging around 3% from 2016 to 2019), before declining in 2020 (-1%) (Table 1.2). The share of services to GDP increased slightly, from 60.5% in 2016 to 62.3% in 2020, while its share in total employment remained around 70%. In 2020, the largest contributor to gross value added within services was real estate, followed by wholesale and retail trade; public administration and defence; professional, scientific and technical services; and finance and insurance.

4.153. Services exports rose from USD 94.8 billion in 2016 to USD 103.8 billion in 2019, and then fell to USD 90.1 billion in 2020 (Table 1.4). The main destinations of services exports are China, the United States, the European Union, and Japan.⁵⁸ Imports of services rose from USD 112.1 billion in 2016 to USD 130.7 billion in 2019, before declining to USD 106.3 billion in 2020. Transportation, other business services, and travel are the main traded services.

4.154. Labour productivity of the services sector, although higher than that of the agriculture sector, was still lower than that of the manufacturing sector and is far below the OECD average (85%).⁵⁹ Productivity in ICT services and productivity in other business services are equal to 74% and 41%, respectively, of that of manufacturing. Productivity is even lower in wholesale and retail, transport, and accommodation (31% of manufacturing productivity). These subsectors tend to be less standardized and require more face-to-face interactions in their delivery, leading to lower labour productivity. The authorities indicate that, based on data published by the Korea Productivity Center, labour productivity indexes in the services and manufacturing sectors were 108.7 and 117.2, respectively, in 2020. However, these indexes are not strictly comparable.⁶⁰

⁵⁷ Invest Korea (2020), *Investment Opportunities in Korea – Shipbuilding & Marine*. Viewed at: www.investkorea.org.

⁵⁸ WTO, *I-TIP Services: Korea*. Viewed at: <http://i-tip.wto.org/services/ChartResults.aspx>.

⁵⁹ OECD (2020), *Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

⁶⁰ Korea Productivity Center, *Smart KPC*. Viewed at: <https://www.kpc.or.kr/eng/>.

4.155. The OECD suggested that servicification of manufacturing⁶¹ helps firms create value and increase their productivity. For example, banking, engineering, IT, legal, management, R&D, and after-sales or installation and maintenance services all help firms improve productivity, reduce costs, or increase their innovative capacity and production efficiency. According to the OECD, Korea lags behind most advanced OECD countries in the development of manufacturing servicification.⁶²

4.156. Digital technologies, such as AI and advanced robotics, and digital platforms offer new ways of supplying and consuming services. Digital technologies improve the tradability of services and provide alternative ways of trading. According to an OECD report, Korea's barriers to digital service trade are among the lowest of OECD Members. Despite this, its exports of digitally deliverable services are well below the OECD average.⁶³

4.157. SMEs may also benefit from digital technologies to reduce costs and expand markets. However, an OECD report considers that digital technologies are not used to their full potential in SMEs, which are concentrated in low-productivity and less knowledge-intensive services, such as wholesale and retail trade, transportation, accommodation, and food services. Compared with their counterparts in other OECD countries, Korean SMEs have more difficulties in hiring highly skilled university graduates because they offer less attractive jobs than do larger conglomerates.⁶⁴ The authorities disagree and state that SMEs across the globe are now struggling to recruit new employees, and there is little evidence that Korean SMEs face a disproportionately challenging situation compared to those in other OECD countries.

4.5.2 GATS and RTA commitments

4.158. Since the submission of its revised conditional offer concerning services in 2005, Korea has not made any new offers.⁶⁵ Its GATS commitments cover 98 of the 155 sectors.⁶⁶

4.159. Korea adopted services liberalization commitments under various RTAs with a view to achieving a higher level liberalization that goes beyond its GATS commitments (Section 2.5). During the review period, Korea notified to the WTO its RTAs with Colombia (entered into force in 2016), five Central America countries (entered into force in 2021), and the United Kingdom (entered into force in 2021), all of which contain services liberalization commitments (Section 2.5).⁶⁷

4.160. In 2016, Korea signed, with Australia, Japan, New Zealand, and Thailand, a Memorandum of Cooperation on the establishment and implementation of the Asia Region Funds Passport (ARFP) initiative. The ARFP intends to establish a regional market for collective investment schemes by facilitating cross-border offerings across participating economies.⁶⁸ To implement this initiative, the Financial Investment Services and Capital Markets Act was amended, and the amendment took effect in May 2020.

4.161. During the review period, Korea also notified to the WTO its mutual recognition agreements with the State of Texas (United States), and with Australia, on professional engineers.⁶⁹

⁶¹ According to the OECD, the phenomenon that services are increasingly embedded in manufactured products is known as "servicification" of the manufacturing industry. OECD (2020), *Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

⁶² OECD (2020), *Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

⁶³ OECD (2020), *Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

⁶⁴ OECD (2020), *Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

⁶⁵ WTO document TN/S/O/KOR/Rev.1, 14 June 2005.

⁶⁶ WTO document GATS/SC/48, 15 April 1994. 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).

⁶⁷ WTO document WT/REG375/N/1-S/C/N/868, 7 October 2016.

⁶⁸ WTO document S/C/N/961, 15 October 2019.

⁶⁹ WTO documents S/C/N/901, 3 May 2018 and S/C/N/902, 3 May 2018.

4.5.3 Financial services

4.162. During the review period, the financial services sector had robust growth, registering a rate of 9.1% in 2020. Its contribution to GDP rose from 5.6% in 2016 to 6.3% in 2020, and it accounted for about 2.9% of total employment in 2020 (Table 1.2). It managed to weather the challenges posed by the COVID-19 pandemic, thanks to supportive measures from the Government. Between February 2020 and April 2021, the financial sector injected KRW 357 trillion (USD 323 billion) into the economy in new loans, loan rollovers, and payment guarantees.

4.163. The financial services sector includes banks, and non-bank financial institutions including insurance companies (Table 4.12). It is regulated under:

- the Financial Holding Companies (FHCs) Act, most recently amended in December 2018 to reflect a change in a notification requirement⁷⁰;
- the Financial Investment Services and Capital Markets Act, amended in May 2020, and whose major amendments include the conversion of the pre-reporting principle for concurrent operation and incidental business to a post-reporting principle, the expansion of the scope for outsourcing of financial investment business and permission for re-outsourcing, and a stipulation related to the exchange of information; and
- the Banking Act, amended in March 2020, and whose amendment was mainly on the prohibition of unfair trade practices and the regulation of advertising to protect financial consumers.

4.164. 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.

Table 4.12 Structure of the financial system, 2015 and 2020^a

Institutions	No. of establishments		Assets (KRW billion)		Loans and discounts (KRW billion)	
	2015	2020	2015	2020	2015	2020
Banks	56	55	2,709,032	3,749,521	1,520,999	2,076,586
Commercial banks	51	50	1,837,716	2,550,028	975,533	1,354,758
Nationwide (including Internet only)	6	8	1,389,968	2,021,484	828,915	1,161,423
Regional	6	6	187,294	246,579	122,020	163,401
Foreign bank branches	39	36	260,454	281,966	24,597	29,933
Specialized banks ^b	5	5	871,316	1,199,493	545,466	721,829
Korea Development Bank	1	1	255,931	290,841	121,128	137,484
Export-Import Bank of Korea	1	1	81,890	97,590	65,602	70,222
Industrial Bank of Korea	1	1	241,806	381,793	167,041	237,460
Non-bank financial institutions	1,211	1,460	1,310,034	1,916,861	308,644	533,475
Mutual savings banks	79	79	43,859	92,101	35,590	77,610
Credit unions	910	879	65,820	110,965	43,582	78,856
Specialized credit financial companies ^c	78	120	203,262	319,613	48,435	89,771
Life insurance companies	25	24	724,930	977,284	114,699	169,432
Non-life insurance companies	31	31	226,061	344,096	50,103	83,579
Asset management companies	87	326	5,306	11,678	n.a. ^d	1

⁷⁰ Notification of whether the report on modification of capital or articles of incorporation has been accepted within 14 days of receipt.

Institutions	No. of establishments		Assets (KRW billion)		Loans and discounts (KRW billion)	
	2015	2020	2015	2020	2015	2020
Korea Securities Finance Corporation	1	1	40,796	61,124	16,235	34,226
Total^e	1,267	1,515	4,019,066	5,666,382	1,829,643	2,610,061

n.a. Not applicable.

a End-of-period figures.

b The Korea Development Bank (KDB), the Export-Import Bank of Korea (EXIM Bank), the Industrial Bank of Korea (IBK), the National Agricultural Cooperative Federation, and the National Federation of Fisheries Cooperatives.

c Credit card companies, leasing companies, instalment financing companies, and venture capital finance companies.

d The authorities state that asset management companies 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, or postal savings.

Source: Financial Supervisory Service.

4.165. Foreign investment is allowed in financial institutions, except for specialized banks. During the review period, more foreign financial companies left than entered the Korean market; according to an Economist Intelligence Unit (EIU) report, they could not compete with bigger local rivals and could not find a growth niche in a maturing market.⁷¹ The number of foreign bank branches dropped from 39 in 2015 to 36 in 2020. In 2021, foreign financial institutions accounted for about 10.6% of financial sector assets (11% in 2015). The two foreign bank subsidiaries and 36 branches from 16 countries make up about 11.6% of the banking sector (14% in 2015). In the insurance sector, 12 foreign insurance companies' subsidiaries from 5 countries make up 9.8% of the domestic insurance sector. In the securities sector, 23 foreign companies from 11 countries make up about 5.7% of the securities sector's assets. Foreign or local non-bank 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.

4.166. The financial services sector is undergoing significant changes to incorporate fast-developing digital technologies. This process has been sped up as a result of the economic impact of the COVID-19 pandemic and the closure of physical branches, and as a result:

- two Internet banks were recently set up;
- the two largest local social media and Internet search firms, Kakao and Naver, are emerging as key financial service providers (see below); and
- the share of Internet banking in money transactions went up from 59.3% in December 2019 to 64.3% in June 2020.

4.167. Kakao is licensed to provide electronic financial services, Internet-only banking services, and insurance services. Naver is licensed to provide electronic financial services. As of December 2020, foreign investment accounted for 31% of Kakao Corporation and 11% of NHN Corporation (Naver).

4.168. Electronic financial services are defined under the Electronic Financial Transactions Act, enacted in 2006. The Act regulates financial platforms controlled by big tech companies and aims to provide fair competition between fintech newcomers and conventional operators. Under this Act, electronic financial services cover electronic prepayment, payment gateway (or electronic payment settlement agency), and escrow services:

- "Electronic prepayment" means certificates, or information on such certificates, issued with transferable monetary values and stored by electronic means. For examples,

⁷¹ EIU (2021), *Industry Report – Financial Services: South Korea*. Viewed at: http://country.eiu.com/filehandler.ashx?issue_id=730761656&mode=pdf.

rechargeable "Naver Pay points", which may be used to purchase products on Naver Shopping.

- "Electronic payment settlement agency service" means any service to transmit or receive payment settlement information in purchasing goods or services by electronic means, or to execute as an agent or mediate the settlement of prices thereof. For example, the registration of a credit card on Naver Pay and using it to pay.
- "Escrow" is a service in which payment is deposited from the buyer on an e-commerce platform, and the platform pays the payment to the seller after the consumer confirms the transaction. For example, after a user confirms the purchase of an item from Naver Shopping, Naver Shopping pays the seller the sales price.

4.169. During the review period, the FSC lowered and abolished certain regulatory entry barriers, such as minimum paid-in capital, for new entrants in financial services with a view to diversifying the market with participation from specialized niche players. Conventional financial institutions are joining fintech through partnerships with technology start-ups. In September 2020, the FSC launched the Digital Finance Consultative Body, comprising both regulators and industry participants, to explore policy issues linked to technology companies' increasing participation in financial services. According to the FSC, there were about 600 fintech firms in operation in 2020, up from 131 in 2014. Among them, 17% provide easy payment and remittance-related services, 14% provide robot advisor services, 8% provide security and authentication services, and 7% provide insurance-related technology services. The authorities indicate that foreign investment accounted for 7% of investment in these fintech companies in 2019.

4.170. Several pieces of legislation were revised, amended, or issued during the review period. The Special Law on Financial Innovation Support, aimed at promoting fintech by introducing deregulated "sandboxes" for emerging technologies and services, came into force in April 2019. Since then, the FSC has approved many sandbox projects. The Act on Online Investment-Linked Financing and User Protection came into force in August 2020. It requires peer-to-peer (P2P) lenders to register with the FSC and comply with existing money lender regulations, including the 24% statutory ceiling on lending rates. This limit was lowered to 20% from 7 July 2021.

4.171. The FSC revised the Regulation on Financial Investment Business in 2018, to allow securities companies to provide payment gateway (PG) services. At of 10 May 2021, there were 129 PG service providers in the Korean market, along with 26 banks and credit card companies that also provide PG services.

4.172. Data management and storage for the digitization of financial services are high priorities. In December 2018, the FSC revised the Regulation on Supervision of Electronic Financial Transactions, to allow financial institutions to store personal credit information and identifiable information on cloud-computing servers. Financial institutions' use of cloud-computing based abroad had been limited to "non-critical information", excluding such information about their customers' personal credit information and unique identification information. In addition, the Use and Protection of Credit Information Act, the Personal Information Protection Act, and the Act on Promotion of Information and Communications Network Utilization and Information Protection were amended, to relax some data privacy rules for financial institutions and fintech operators seeking to exploit big data.

4.173. In connection with the legislative change, the FSC set up a dedicated financial data exchange at the Financial Security Institute in May 2020, to facilitate a secondary market for depersonalized financial data. In June 2020, the FSC allowed the private sector to access public data held by the FSC and nine public financial institutions.

4.174. Korea started to regulate virtual assets (VAs)⁷² (such as cryptocurrencies) in line with anti-money laundering and combating the financing of terrorism (AML/CFT) guidelines. In March 2020, the Financial Transaction Reports Act was revised, to ensure the prevention of

⁷² The authorities state that VAs refer to a digital representation of economic value (including all relevant rights thereby) that can be digitally traded or transferred, excluding tangible and intangible results obtained through the use of game products, electronic prepayment means and electronic currency, electronically registered stocks, electronic bills, electronic bills of lading, and so on.

VA-related criminal activities and the transparency of transactions.⁷³ Since March 2021, virtual asset service providers (VASP) must register with the Financial Intelligence Unit (FIU), and fully comply with AML/CFT obligations, including reporting suspicious transactions to the FIU. Clients must use real-name bank accounts to transfer money for trading of VAs.

4.175. In December 2020, the Act on Supervision of Financial Groups was approved by the National Assembly, and is to come into force in 2021. The Act intends to regulate the financial risk of business conglomerates holding two or more financial institutions with assets worth KRW 5 trillion, such as Samsung, in a similar way to those FHCs.

4.176. The Financial Consumer Protection Act came into force in March 2021. It combined and systemized legal provisions that were scattered in various laws to enforce fiduciary duty requirements for all types of financial products sold to consumers. It also seeks to improve dispute resolution systems for consumers, and enhance the effectiveness of relief measures for financial losses stemming from hard-sell marketing and other types of negligence from financial institutions. The practice of selling high-risk financial products, such as derivatives and structured financial instruments to poorly informed investors, is punished.

4.5.3.1 Banking

4.5.3.1.1 Structure and ownership

4.177. By the end of 2020, Korea had 55 banks, of which 50 were commercial banks and 5 were specialized banks. The 50 commercial banks comprised 8 nationwide banks (including 2 Internet banks⁷⁴), 6 regional banks, and 36 foreign bank branches. The commercial banking sector remains dominated by nationwide banks, which held 79% of the assets of commercial banks in 2020. Foreign bank branches accounted for about 11% of the assets, and regional banks 10% (Table 4.12).

4.178. Two Internet banks, Kakao Bank and K Bank, which do not have any physical branches, launched their operations in 2017. A third – Toss Bank, controlled by the operator of the Toss Mobile P2P payment platform – was granted a licence in December 2019. Internet banks are regulated under the Special Act on Establishment and Operation of Internet-Only Banks, which came into force in January 2019. This Act allows ICT firms to own up to 34% of an Internet bank.

4.179. Four nationwide banks operate under holding companies, and all six regional banks have adopted a holding-company structure. FHCs have a variety of non-bank units specializing in credit-card lending, brokerage, insurance, and consumer finance and wealth management. Subsidiaries of an FHC are prohibited from carrying credit exposure to each other in excess of 10% of equity capital.

4.180. Two nationwide banks – Standard Chartered Bank Korea and Citibank Korea – are foreign subsidiaries. Foreign banks operate in Korea through locally incorporated subsidiaries, branches, and representative offices. Prudential requirements are the same for domestic and foreign financial institutions.

4.181. The five specialized banks are the Korea Development Bank (KDB), the Export-Import Bank of Korea (EXIM Bank), the Industrial Bank of Korea (IBK), the National Agricultural Cooperative Federation, and the National Federation of Fisheries Cooperatives. The Government fully owns the KDB, and 68.0% of the EXIM Bank (Table 3.4). The IBK specializes in providing loans to SMEs. As at 2020, the Government owned 59.2% of IBK's shares, up from 50.6% in 2015. These banks, and the Korea Credit Guarantee Fund, are tasked with providing substantial financial relief to airlines and large industrial companies, to facilitate their recovery from the impacts of the COVID-19 pandemic.

4.5.3.1.2 Prudential requirements, profitability, and non-performing loans

4.182. Korea continues to apply Basel III capital-adequacy regulations for banks. Banks are required to meet capital-adequacy ratios (CARs) for each tier of capital: at least 4.5% of risk-weighted assets as common-equity capital and 6% as Tier 1 capital. They also must hold a capital

⁷³ Korea Financial Intelligence Unit (KoFIU), *Financial Transaction Reports Act*. Viewed at: <https://www.kofiu.go.kr/eng/legislation/financial.do>.

⁷⁴ The third Internet bank obtained a licence in December 2019.

conservation buffer, initially set at 0.625% but which rose to 2.5% in 2019. Internet banks have a three-year grace period to meet these CARs. Korean banks remain well capitalized: in 2020, their CAR was 16.5% and their Tier 1 capital ratio was 12.7%, both well above the Basel III requirements (Table 4.13).

Table 4.13 Banking indicators^a, 2015-20

(%)

	2015	2016	2017	2018	2019	2020 ^b
Capital-adequacy ratio	13.9	14.8	15.2	15.4	15.3	16.5
Tier 1 capital ratio	11.3	12.5	13.2	13.3	13.2	12.7
Non-performing loans net of provisions to capital	2.1	2.9	1.7	1.3	1.2	1.2
Non-performing loans to total gross loans	0.5	0.5	0.4	0.3	0.3	0.2
Return-on-assets	0.5	0.4	0.7	0.8	0.7	0.7
Return on equity	6.5	4.5	8.5	9.8	8.9	9.3
Net interest margin	1.6	1.5	1.6	1.7	1.6	1.4
Interest margin to gross income	62.7	65.3	58.7	72.7	76.2	65.9
Non-interest expenses to gross income	54.6	65.1	65.6	75.5	75.2	56.6
Liquid assets to total assets (liquid asset ratio)	34.4	33.7	29.9	31.2	32.2	33.0
Liquid assets to short-term liabilities	105.5	99.0	101.3	114.5	110.0	101.9
Net open position in foreign exchange to capital	0.04	0.0	-1.0	0.04	0.11	-0.30

a Depository corporations only.

b Capital-adequacy ratio is based on end-2020, and other indicators are based on end-June 2020.

Source: IMF (2021), *Republic of Korea: Staff Report for the 2021 Article IV Consultation*, IMF Country Report No. 2021/064. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2021/03/24/Republic-of-Korea-2021-Article-IV-Consultation-Press-Release-Staff-Report-Staff-Statement-50306>; and information provided by the authorities.

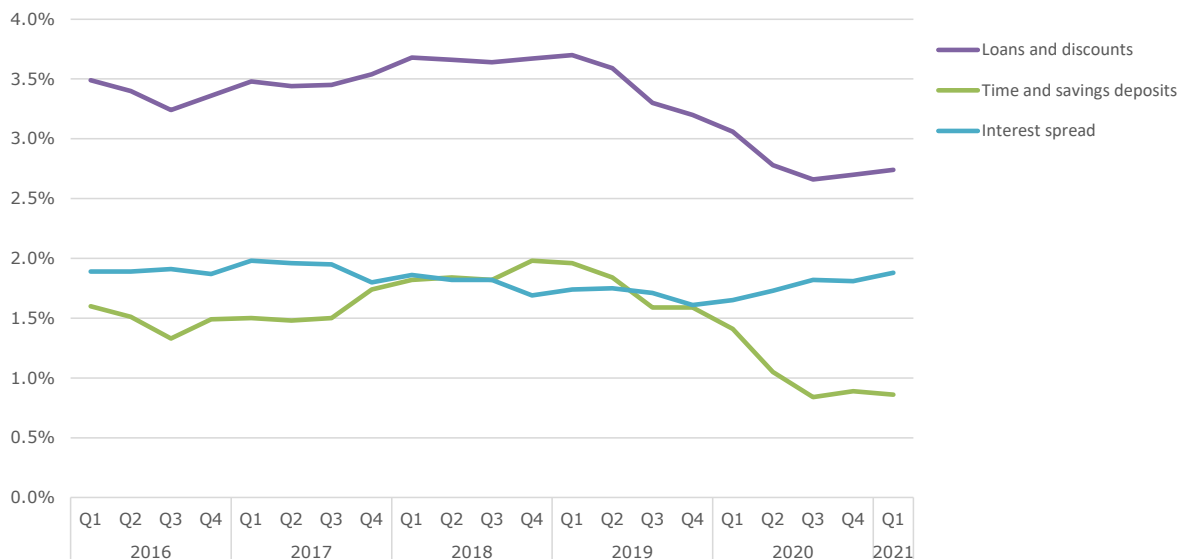
4.183. In April 2019, the FSC tentatively introduced the Basel Committee on Banking Supervision's standard to regulate banks' large exposure to connected counterparties, by placing a limit of 25% on Tier 1 capital. Its formal implementation began in September 2020. The Banking Act stipulates that banks' credit allowances to the *chaebol* and other regulated conglomerates cannot go beyond 25% of total capital.

4.184. In June 2020, the FSC and the FSS redesignated Shinhan Financial Group, Hana Financial Group, KB Financial Group, NH Financial Group, and Woori Financial Group as "domestic, systematically important bank holding companies", and listed their nationwide bank units as "domestic systematically important banks (D-SIBs)", in line with the Basel Committee on Banking Supervision.⁷⁵ D-SIBs have faced an incremental 1% risk surcharge on their capital buffer since 2019.

4.185. The banking sector is well positioned, and the risk of a liquidity crisis is low. In 2020, the non-performing loans ratio went down from 0.5% in 2015 to 0.2%, and their return-on-assets (ROA) ratio and return on equity (ROE) ratio both went up, to 0.7% and 9.3%, respectively (Table 4.13). The earning power of banks is under long-term pressure from the country's low-interest rates, which constrain banks' ability to earn interest on loans (Chart 4.7). Interest income accounts for over 80% of the sector's revenue. The net interest margin changed from 1.6% in 2015 to 1.4% in 2020. Mortgage lending, the main source of domestic growth for banks, faces challenges, as the FSC issued directions for banks to tighten income-screening and to phase out interest-only mortgages.

4.186. Commercial banks are subject to a loan/deposit cap of 100%. The loan/deposit ratio regulation was extended to mutual savings banks (MSBs) in 2020: loans should not exceed 110% of deposits at MSBs in 2020, and 100% from 2021. The FSC rolled out a debt-service ratio (DSR) requirement across the financial sector as a further safeguard against overleveraging in the consumer lending segment. Tougher loan-screening standards based on DSR rules came into force for insurers and commercial banks in late 2018 and for the rest of the lending sector – the non-bank lenders – in late 2019.

⁷⁵ EIU (2021), *Industry Report – Financial Services: South Korea*. Viewed at: http://country.eiu.com/filehandler.ashx?issue_id=730761656&mode=pdf.

Chart 4.7 Interest rate spread, 2016-Q1 2021

Source: Bank of Korea, ECOS Economic Statistics System. Viewed at: ecos.bok.kr/flex/EasySearch_e.jsp.

4.5.3.1.3 Non-banking

4.187. Non-bank financial institutions refer to MSBs, credit unions, specialized credit financial business companies⁷⁶, insurance companies, asset management companies, and the Korea Securities Finance Corporation. From 2015 to 2020, the number of non-bank financial institutions went up, mainly because the number of asset management companies increased from 87 to 326 (Table 4.12). Their total asset value increased by 46.3%, and their total loans and discount value increased by 72.8%.

4.188. Among all non-bank financial institutions, MSBs and credit unions are deposit-taking institutions. Perhaps reflecting the Government's efforts to encourage financial institutions to shift their attention from large conglomerates to medium and small-sized customers, total assets of MSBs and credit unions increased even faster than assets at other non-banking financial institutions:

- The number of MSBs, which are small-scale deposit-taking institutions, remained the same, while their asset value more than doubled from 2015 to 2020. MSBs target low-income individuals and SMEs.
- Credit unions, which are part of mutual credit cooperatives, are voluntary, not-for-profit organizations set up by groups of entities having shared (community) interests. They were established to promote the financial well-being of their members through a cycle of mutual assistance among themselves, to contribute to the development of their local economy. From 2015 to 2020, despite a reduction in number (because of mergers and voluntary dissolutions), their asset value rose by 68.6%.

4.189. The asset management sector comprises both public and private funds markets. Korea Investment Corporation (KIC) is the country's sovereign wealth fund, and the National Pension Service manages the world's third-largest national pension fund. The increase in the number of asset managers came mainly from new private fund managers, particularly hedge fund managers. The FSC announced plans to tighten the supervision of the sector by, *inter alia*, conducting fund audits and increasing disclosure requirements.

4.190. 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

⁷⁶ Specialized credit financial business companies comprise credit card companies, instalment financing companies, leasing companies, and new technology venture capital companies.

planning, a sound balance-sheet, sufficient human and physical resources for investor protection, and a system for preventing conflicts of interest.

4.5.3.2 Insurance

4.5.3.2.1 Recent developments

4.191. Korea has a large and mature insurance sector, with one of the world's highest penetration rates in terms of premiums as a proportion of GDP (10.63% in 2020, when the world average was 2.77%).⁷⁷ It has the third-largest insurance sector in Asia, after Japan and China. In 2020, Korea had 55 insurance companies – 24 life insurance and 31 non-life insurance companies (Table 4.12). From 2015 to 2020, total assets of life insurance companies went up by 35%, while those of non-life insurance companies went up by 52%.

4.192. Local firms dominate the industry, accounting for more than 80% of the life insurance market and 98% of non-life insurance market in 2018.⁷⁸ The insurance market is concentrated: the top three insurers have more than half of the total assets in each market. Foreign-owned ventures play mostly secondary roles. Korea has 10 reinsurance companies in 2021.

4.193. Digital operators are beginning to gain market shares in the insurance sector.⁷⁹ Currently, Korea has two digital non-life insurers: Carrot General Insurance (owned by a consortium led by Hanwha General Insurance) and Hana Insurance (owned by Hana Financial Group). Kakao Pay, the mobile payment service provider unit of the Kakao social media group, plans to set up a third digital non-life insurance company.

4.194. The insurance market is characterized by a very high number of insurance intermediaries – more than 400,000 insurance brokers and another 31,000 agents dominate the distribution channel. The bancassurance market is developed, and half of new business in life insurance is sold via banks. The Insurance Business Act allows insurance companies to sell policies through banking channels, but limits a bank's sale of insurance from the same insurer to 25% of its total bancassurance sales.

4.195. Mergers and acquisitions are becoming more active in the insurance sector, with both domestic and foreign buyers driving realignment.⁸⁰ For example, in 2019 and 2020, Lotte Insurance and MG Non-Life Insurance were sold to private equity investors. Large insurance companies began to seek growth in overseas markets by making strategic asset purchases.

4.5.3.2.2 Regulatory framework

4.196. The Insurance Business Act is the main legislation regulating the insurance sector. In April 2020, the National Assembly approved a major amendment to this Act: from December 2020, the statutory limit on insurance companies' investment in overseas assets of their total assets was raised from 30% to 50%. Another amendment to the Insurance Business Act obtained approval from the National Assembly in November 2020. Under this amendment, some red tape on insurance companies' addition of new products and businesses was removed, and the criterion of capital for small-amount insurance and short-term insurance was lowered.

4.197. The FSC and the FSS are responsible for supervising the insurance industry, and the FSC delegates supervision and inspection activities to the FSS. Other relevant institutions include the Korea Deposit Insurance Corporation (KDIC) and the Korea Insurance Development Institute (KIDI).

⁷⁷ EIU (2021), *Industry Report – Financial Services: South Korea*. Viewed at: http://country.eiu.com/filehandler.ashx?issue_id=730761656&mode=pdf.

⁷⁸ IMF (2020), *Republic of Korea: Financial Sector Assessment Program Technical Note – Financial Conglomerates Supervisions*, IMF Country Report No. 20/275. Viewed at: <https://www.imf.org/en/Publications/CR/Issues/2020/09/18/Republic-of-Korea-Financial-Sector-Assessment-Program-Technical-Note-Financial-Conglomerates-49747>.

⁷⁹ EIU (2021), *Industry Report – Financial Services: South Korea*. Viewed at: http://country.eiu.com/filehandler.ashx?issue_id=730761656&mode=pdf. The authorities state that digital operators are insurance companies specializing in telemarketing to solicit not less than 90% of the total number of insurance contracts and insurance premiums by, *inter alia*, telephone, mail, and computer communication.

⁸⁰ EIU (2021), *Industry Report – Financial Services: South Korea*. Viewed at: http://country.eiu.com/filehandler.ashx?issue_id=730761656&mode=pdf.

The KDIC maintains a policy holder protection fund against insurance failure. It is an integrated insurance protection body that insures insurers, banks, financial investment businesses, and MSBs. 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. The KIDI calculates reference premium rates and statistical analysis to insurers and regulators based on data collected from member companies.⁸¹

4.198. The regulators are working with insurance companies to upgrade insurers' risk-based capital (RBC) ratios, as part of their efforts to transit to the International Financial Reporting Standards (IFRS) 17 standard for insurance contracts by 2023. At the end of 2020, the RBC ratios averaged 297.3% for life insurers, and 234.0% for non-life insurers in Korea; both were well above the statutory 100% minimum requirement under the Insurance Business Act.

4.199. Life insurance and non-life insurance are strictly divided. Life insurance companies are not allowed to provide non-life insurance business, and vice versa. In practice, life insurers lend heavily to the corporate sector, especially to large companies affiliated with the *chaebol*.

4.200. There are no foreign equity restrictions. Insurance companies, both domestic and foreign, must maintain funds of at least KRW 30 billion to do business in Korea. This requirement changed to KRW 3 billion for insurance branches. If insurers seek to handle certain insurance products, but not all, they need to maintain funds of at least KRW 5 billion, pursuant to presidential decrees.

4.5.4 Communications and postal services

4.5.4.1 Communications

4.201. The information and communications sector achieved an average annual growth rate of 4.4% from 2016 to 2019, before slowing down to 3.2% in 2020. In 2020, it contributed to 5% of GDP and accounted for 3.2% of total employment (Table 1.2). Korea has high ICT rankings internationally. In the Network Readiness Index 2020, Korea was ranked 14th of 134 countries.⁸²

4.202. During the review period, fixed-line penetration continued to go down, while mobile phone penetration continued to go up and reached 134% in 2019 (Table 4.14). Fixed wired broadband subscriptions also went up, while the percentage of individuals using the Internet increased from an already high base (92.8% in 2016 to 96.2% in 2019).

Table 4.14 Selected telecommunications indicators, 2016-19

	2016	2017	2018	2019
Fixed (number)	28,036,600	26,844,692	25,906,849	24,747,415
Fixed (per 100 inhabitants)	55.0	52.5	50.6	48.3
Mobile (number)	61,295,538	63,658,688	66,355,778	68,892,541
Mobile (per 100 inhabitants)	120.2	124.6	129.7	134.5
Fixed (wired) broadband subscriptions (number)	20,555,683	21,195,918	21,285,858	21,906,172
Fixed (wired) broadband subscriptions (per 100 inhabitants)	40.3	41.5	41.6	42.8
Percentage of individuals using the Internet	92.8	95.1	96.0	96.2

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 authorities.

4.203. Three main fixed-line telecommunications service providers provide local, national, and international telephony services: Korea Telecom (KT), SK Broadband, and LG U+. KT is the dominant carrier, accounting for 80.8% of the local market and 81.3% of the long-distance market. SK Broadband and LG U+ account for 15.4% and 3.8% of the local market, and 13.5% and 2.4% of the long-distance market, respectively. Some smaller companies also provide national long-distance services and international services.

⁸¹ KIDI. Viewed at: <https://www.kidi.or.kr/user/nd90545.do?menuCode=engsite>.

⁸² Portulans Institute, Network Readiness Index 2020. Viewed at: <https://networkreadinessindex.org/countries/korea-rep/>.

4.204. Three main suppliers provide mobile telephony services in Korea: SK Telecom, KT, and LG U+. At the end of 2020, their market shares were 45.1%, 31.4%, and 23.5%, respectively. All three have foreign participation (Table 4.15), and they are not state owned. Several mobile virtual network operators (MVNOs) also provide mobile telephone services; however, their market shares are not significant.

Table 4.15 Ownership structure of major telecom operators, December 2020

Company	Market share (%)		State participation	Foreign participation
	Fixed line	Mobile phone		
KT	80.8	31.4	None	43.97 ^a
SK Telecom	n.a.	45.1	None	33.93
LG U+	3.8	23.5	None	30.20
SK Broadband	15.4	n.a.	None	..

.. Not available.

n.a. Not applicable.

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 is well above 33%.

Source: Korea Communications Commission, and the Ministry of Science and ICT.

4.205. The MSIT is responsible for granting licences and approving or monitoring prices of the telecommunications market. 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 telecommunications market. From June 2019, the KCC has also been responsible for mediation in disputes between carriers and users. In 2020, 572 cases were submitted to the KCC for mediation. Among them, 31 were dropped, 246 were settled, and 295 were not settled.

4.206. The Korea Internet and Security Agency (KISA) specializes in promoting Internet and information security in the private sector. The National Information Society Agency (NIA) is responsible for the overall implementation and support of the informatization of the country. The National IT Industry Promotion Agency (NIPA) engages in a variety of initiatives to raise national competitiveness and secure growth engines for the future by promoting increased use of, *inter alia*, AI, virtual reality/augmented reality (VR/AR), 5G, and cloud-computing in conventional industries. It also helps promising SMEs and start-ups expand into global markets.

4.207. The main legislation regulating the communications sector are the Telecommunications Business Act and its Enforcement Decree of 2021 (on registration requirements for telecommunication businesses and standards for mandatory wholesale services).

4.208. The Telecommunications Business Act was most recently amended in 2020 (Act No. 17352). It classified telecommunications business into facilities-based and value-added operators.⁸³ Foreign investment in facilities-based telecom services is subject to a ceiling of 49%, while value-added telecom services are fully open to foreign investment. For facilities-based telecom services, foreign corporations from certain RTA partners and that passed the public interest review are not subject to this equity restriction. The MSIT may prohibit a foreign shareholder from becoming the largest individual shareholder (5% or more of shares) in KT.

4.209. Foreign investment in radio broadcasting and in over-the-air broadcasting is prohibited. Foreign equity restrictions (up to 49%, 20%, or 10%) apply to programme broadcasting services as defined under the Broadcasting Act⁸⁴, cable network providers, broadcasting via satellite and other

⁸³ Facilities-based operators provide those telecommunications services that transmit or receive information (voice, data, images, etc.) without changing the form or details, and that lease telecommunications line equipment to enable transmission or reception of information (voice, data, images, etc.), such as telephone services or Internet services. Value-added service operators provide telecommunications services other than those provided by facilities-based operators (Telecommunications Business Act). Examples of value-added services include online data processing, online data base storage and retrieval, electronic data interchange, and email.

⁸⁴ No more than 20% foreign equity for general service programming; and no more than 10% foreign equity for specialized programming of news reports.

broadcasting, wired communications and wireless and satellite communications, and other electronic communications (Table 2.1).

4.210. Universal service covers the provision of any basic telecommunications service at a reasonable fee, regardless of time and place. Fixed broadband was designated as a universal service in 2020. All telecommunications business operators have the obligation to provide universal service, or compensate any loss caused by the provision of such service; the MSIT may exempt operators from this obligation. The authorities state that, by presidential decree, telecommunications business operators with an annual sale value from telecommunications services less than or equal to KRW 30 billion are exempted from this obligation. All value-added telecommunications business operators are also exempted.

4.211. The authorities state that facilities-based telecommunications business operators must report the terms of use (charges and conditions) of each telecommunications service it intends to provide to the MSIT. However, the terms of use reported by KT on an urban phone, and that of SK Telecom on a mobile phone, may be rejected within 15 days if the MSIT deems there is a risk of harming users' interests or fair competition. Telecommunication tariffs that do not require MSIT approval need to be notified to the MSIT.

4.212. The Telecommunications Business Act stipulates that telecommunications business operators need to conclude an interconnection agreement within 90 days⁸⁵ of receiving a request from another operator. The MSIT determines and publicly notifies the scope of, and guidelines for, the conditions, procedures, methods, and calculations of interconnection charges.

4.213. Telecommunications numbers, for both fixed-line telephone and mobile phones, are portable (in the same services) across operators.

4.214. In 2019, Korea rolled out a comprehensive strategy named 5G+, aimed at promoting a "5G ecosystem" where 5G is the underlying infrastructure connecting advanced devices and innovative services. 5G is characterized by the ability to connect all objects in a network and transmit large volumes of data at high speeds and in real time, i.e. ultra-low latency. 5G can trigger a ripple effect in large investments and across upstream and downstream industries. The Government sees 5G as a driving force for Korea's new economic growth. Among OECD countries, Korea has the highest target for downloading speeds: 10 Gigabits per second (Gbps) to 50% of urban households (85 cities) by 2022.⁸⁶

4.215. The 5G+ Strategy aims to create an environment where advanced devices and innovative services connecting all things are integrated into a 5G infrastructure. The Strategy plans to focus efforts on 10 core industries⁸⁷, and 5 core services based on 5G networks (i.e. digital health care, immersive content, smart factories, autonomous vehicles, and smart cities). The Government aims to support 5G market growth by, *inter alia*, promoting public investment and accelerating private investment, supporting the adoption of 5G services and user protection through institutional improvements, developing companies and talent that match the global standard, and promoting globalization of Korea's 5G technology and services by supporting their overseas expansion.

4.216. Korea already adopted policies to enhance backhaul and backbone connectivity⁸⁸, by requiring network operators to share fibre cables, including backhaul, but also maintaining incentives to invest. In Korea, the percentage of fibre in total fixed broadband connection was 84% in 2020.

4.217. With the development of the 5G network, 5G data traffic increased steadily from 121,444 TB in December 2019 to 302,278 TB in December 2020, more than doubled in one year. The number

⁸⁵ Telecommunications Business Act, Article 44.

⁸⁶ OECD (2020), *Digital Economy Outlook 2020*. Viewed at: <https://www.oecd.org/publications/oecd-digital-economy-outlook-2020-bb167041-en.htm>.

⁸⁷ The 10 core industries are network equipment, next-generation 5G smartphones, AR and VR devices, wearable devices, intelligent CCTV, (future) drones, (connected) robots, 5G vehicle-to-everything communication (V2X) for self-driving cars, information security, and edge computing. KISDI (2020), *2020 ICT Industry Outlook of Korea*.

⁸⁸ In a hierarchical telecommunications network, the backhaul portion of the network comprises the intermediate links between the backbone network (core network) and the small subnetworks at the edge of the network.

of 5G mobile phone base stations reached 169,612 in December 2020, and the number of 5G subscribers reached 11.85 million.

4.218. In December 2019, the MSIT announced a 5G+ Spectrum Plan, which incorporates three policy directions:

- Advance unlicensed technologies to the 5G performance level. Licensed frequency assignments are to be concentrated on strategic 5G+ industries including smart city, smart factory, autonomous vehicles, drones, and digital healthcare. The Government plans to release unlicensed frequencies to each strategic 5G+ industry and improve technology regulations to help advance unlicensed technologies (Wi-Fi, Internet of Things (IoT), sensing, etc.) to the 5G level of performance.
- Secure the world's widest 5G bands. The MSIT plans to secure additional spectrum, up to 2,640 MHz, which will increase spectrum availability from 2,680 MHz now to 5,320 MHz by 2026.
- Innovate spectrum management and systems, as well as institutional systems. The MSIT is to improve frequency supply approaches and management systems to respond to diversifying demand.

4.219. The Government, through the NIA, monitors the quality of broadband providers through "in the field" measurements, the results of which are publicly accessible. According to the NIA, service quality evaluation significantly contributed to broadband development, as operators improved network quality after each publication of the results. The evaluation also helps increase competition by providing users with quality information on communication services.

4.220. In the ITU's Global Cybersecurity Index (GCI), Korea was ranked 15th in 2018 among 155 participants.⁸⁹ The Government considers cyberspace crucial to people's daily lives, economic activities, and the Government's operations. Interconnection across various information and communications devices, including the application of IoT and the borderless nature of cyberspace, makes cyberspace safety control complex. In 2019, the Government devised Korea's first National Cybersecurity Strategy, which elaborates on the roles and responsibilities of all members of society to create a national culture of security practice, with a view to enhancing the country's cyber-defence capacity.⁹⁰ The Government established the Private Sector Information Protection Comprehensive Plan 2019, to secure cyber-safety in the private sector and promote innovation in the information security industry. In addition, Korea promulgated privacy-related laws: the Act on Promotion of Information and Communication Network Utilization and Information Protection (most recently revised in June 2020) and the Personal Information Protection Act.

4.221. According to the OECD, digital technologies, such as blockchain, are powerful tools to strengthen the safety of transactions and information exchanges, and block hacking (quantum cryptography communication). The OECD suggests Korea allocate more R&D support to promote research and investment in next-generation security technologies.⁹¹

4.222. The Regulation on Outsourcing of Data Processing of Financial Companies contains provisions regarding the protection of specific information, i.e. personal identification information of individual customers should not be transferred to foreign countries when financial companies entrust information process to third parties. The Regulation on Supervision of Electronic Financial Transactions requires financial companies whose main office is established in Korea to establish an IT room and a disaster recovery centre in the country. It also requires an electronic financial business

⁸⁹ ITU (2018), *Global Cybersecurity Index (GCI) 2018*. Viewed at: https://www.itu.int/dms_pub/itu-d/opb/str/D-STR-GCI.01-2018-PDF-E.pdf.

⁹⁰ National Security Office (2019), *National Cybersecurity Strategy*. Viewed at: https://www.itu.int/en/ITU-D/Cybersecurity/Documents/National_Strategies_Repository/National%20Cybersecurity%20Strategy_South%20Korea.pdf.

⁹¹ OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

entity,⁹² when processing personal identification information or personal credit information through a cloud-computing service, to use or locate such service in the country.

4.5.4.2 Postal services⁹³

4.223. In accordance with the Postal Service Act, state-owned Korea Post (Table 3.4) is the national operator of postal services, under the MSIT. It is in charge of postal services, postal saving services, and postal life insurance services.

4.224. Some postal services are reserved for Korea Post, including:

- 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 10 times the ordinary postal charge prescribed by presidential decree; and
- registered letters dispatched by a state agency or local government.

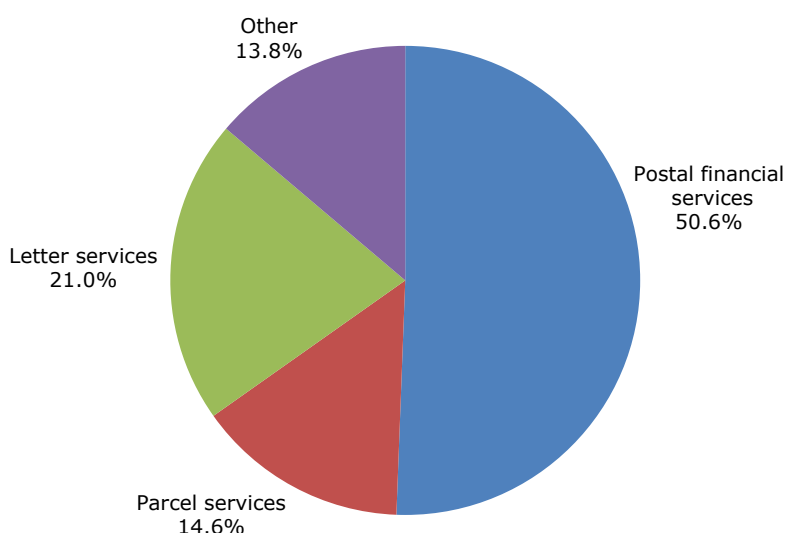
4.225. Apart from these reserved services, delivery services are open to competition. According to the Foreign Investment Promotion Act, postal business is not open to foreign investment.

4.226. Universal postal service, reserved for Korea Post, is defined as:

- ordinary postal items weighing up to 2 kg per item;
- parcels weighing up to 20 kg per item; and
- special postal items, and other postal items, specified by presidential decree.

4.227. 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 indicate that in 2020 half the income was linked to postal financial services, 21% to letter services, 14.6% to parcel services, and 13.8% to other (Chart 4.8).

Chart 4.8 Postal services, 2020



Source: Information provided by the authorities.

⁹² These financial business entities do not include domestic branches of foreign financial companies that do not significantly affect the safety and reliability of electronic financial transactions and electronic payment and settlement agencies for overseas cyber malls.

⁹³ UPU, *Status and Structure of Postal Entities, Korea*. Viewed at: <https://www.upu.int/UPU/media/upu/PostalEntitiesFiles/statusOfPostalEntities/korEn.pdf>.

4.228. During the review period, when postal services registered an annual average growth rate of 1.46% from 2016 to 2020, courier services grew quickly, averaging 13.25% annually (Table 4.16).

Table 4.16 Annual growth rates of postal and courier services^a, 2016-20

	2016	2017	2018	2019	2020
Postal services	1.6%	-0.3%	2.9%	3.5%	-0.4%
Courier services	12.7%	13.3%	9.6%	9.72%	20.93%

a The supervisory governmental bodies for postal services, and for courier services, are different.

Source: Information provided by the authorities.

4.229. Courier services are regulated under the Logistics Service Industry Development Act, enacted on 26 January 2021, by MOLIT. Currently, Korea has 21 courier service providers. From 22 June 2021, foreigners with an H-2 visa (work and visit visa) are allowed to work as loading and unloading workers at logistics terminal operation businesses.

4.5.5 Transport services

4.230. International transport of freight is mainly by sea, while international transport of passengers is mainly by air (96%). Domestic transport of passengers was dominated by road (around 85%) in 2017, while rail and subway accounted for 4.5% and 10.8%, respectively (Table 4.17). Both road and air transportation are subject to competition laws, while the international liner transport segment of maritime transport is exempt.

Table 4.17 Annual international and domestic passenger transport by mode, 2016-20

(Million passengers)

	2016	2017	2018	2019	2020
International	75.8	79.7	..	..	..
Shipping	2.8	2.7	..	..	..
Aviation	73.0	77.0	85.9	90.1	14.2
Domestic	33,158.7	33,336.7	..	..	..
Railway	1,449.5	1,490.3	1,574.7	1,635.1	..
Subway	3,572.1	3,604.7	3,444.6	3,521.8	..
Road	28,090.7	28,192.4	28,409.6	n/a	..
Shipping	15.4	16.9	..	..	..
Aviation	30.9	32.4	31.6	33.0	25.2

.. Not available.

Source: Korean Statistical Information Service (KOSIS). Viewed at: <https://kosis.kr/eng/>.

4.5.5.1 Maritime transport

4.231. According to UNCTAD data, in 2020, Korea maintained its ranking as the 7th in the world by carrying capacity in dead-weight tonnes (DWT) (3.93% of total DWT). A total of 1,615 vessels carried 80.5 million DWT, of which 837 foreign-flagged vessels carried 82% of this total tonnage.⁹⁴

4.232. The maritime sector is regulated mainly under the Marine Transportation Act by the MOF.

4.233. Following the bankruptcy of Hanjin Shipping – once one of the world's top 10 shipping companies – in February 2017, MOF announced its five-year plan in April 2018 to rebuild the shipping industry. The Plan aims to:

- secure stable cargo volumes based on competitive maritime services and freight rates, by operating a cooperative mechanism for mutual benefit between shipping companies and shippers;

⁹⁴ UNCTAD (2020), *Review of Maritime Transport 2020*. Viewed at: https://unctad.org/system/files/official-document/rmt2020_en.pdf.

- restore shipping competitiveness by increasing the number of low-cost and high-efficiency ships, expanding the national flag fleet with an additional 200 new vessels including ultra large container ships, and supporting the introduction of eco-friendly ships; and
- encourage shipping companies to continue maritime innovation by enhancing cooperation among themselves to secure their management stability, promoting cooperation among container shipping lines, supporting small and medium-sized shipping companies, securing domestic and overseas base port terminals, and monitoring shipping transactions.

4.234. The five-year plan helped HMM, formerly known as Hyundai Merchant Marine, move up its global ranking as the eighth-largest container carrier in the world in terms of capacity (up from 13th before 2018). It also helped increase the operating revenue in the shipping sector, and the container shipping capacity.

4.235. The Government has also been making efforts to build a global maritime power hub by win-win partnerships between shipping and shipbuilding, and to enhance the competitiveness of the shipbuilding industry by developing technology to build eco-friendly vessels and supporting vessels going green. Progress made includes: (i) adjusting overlapped routes and developing new routes; (ii) providing subsidies (to shipping lines) to replace coastal cargo ships by eco-friendly vessels, with a target to build up to 100 green vessels by 2022; (iii) establishing infrastructure for LNG-powered vessels; (iv) rehabilitating the shipbuilding industry by localizing materials for marine plants until 2022⁹⁵; and (v) implementing renewal projects.⁹⁶

4.236. The MOF prepared the Act on the Development and Promotion of Eco-friendly Vessels, effective from January 2020, with a view to reducing marine pollution. The Government's National Plan for the Development and Popularization of Green Ship (2021-30), which was announced on 23 December 2020 and officially named the 2030 Green Ship-K Promotion Strategy, was based on this Act. This strategy aims to develop advanced green ship technologies to help phase out greenhouse gas emissions by up to 70% by 2030. The authorities indicate that, with the implementation of this strategy, Korea is expected to lead the drive to create a sustainable and eco-friendly shipping industry, by renovating 15% (528 ships of 3,542) of the ships into eco-friendly ones, or "green ships".

4.237. The MOF also made efforts to strengthen marine safety by, *inter alia*, establishing the Korea Maritime Transportation Safety Authority (KOMSA) in 2019, and introducing and implementing maritime e-Navigation (e-Nav) services, which contain automatic predictions and warnings for collision and stranding, optimal route guidance, automatic updates for electronic charts, and information on marine safety and weather. According to the MOF, these services will help: (i) prevent human error on collision/stranding-related maritime accidents; (ii) promote efficiency of ships, ports, and maritime logistics; (iii) establish maritime digital service infrastructure; and (iv) establish and operate the Fourth Industrial Revolution service infrastructure in maritime transport. It established nine operation centres by 2021 to provide smooth e-Nav services. In this regard, the Act on Providing and Promoting Use of Intelligent Maritime Traffic Information Service (e-Nav Act) went into force on 30 January 2021.

4.238. In March 2019, Korea released guidelines based on international standards for type approval of maritime cybersecurity to help inspect the cybersecurity level and functioning of cyber-systems, including remote access equipment, integrated control, and monitoring systems on board ships.⁹⁷

4.239. Given the pandemic crisis and growing uncertainties on when and how demand will recover, Korea launched a USD 33 billion rescue fund to protect seven of its mainstay sectors, including the shipping and shipbuilding sectors. The state agency – Korea Ocean Business Corporation (KOBC) – planned to buy KRW 100 billion worth of subordinated bonds from shippers by accepting the shippers' loan-to-value ratio of up to a maximum of 95% from the current average of 60% to 80%.

⁹⁵ According to the authorities, no measure has been taken to localize materials for marine plants.

⁹⁶ The "renewal projects" are development projects aiming to revitalize the local economy of old and unused port facilities and their surroundings by transforming the area into an industrial, cultural, and living space.

⁹⁷ UNCTAD (2020), *Review of Maritime Transport 2020*. Viewed at: https://unctad.org/system/files/official-document/rmt2020_en.pdf.

The KOBC directly purchased KRW 24.9 billion corporate bonds of 10 small and medium-sized shippers.

4.240. Sea water transport is open to foreign investment (Table 2.1). Foreign carriers have equal access to port facilities and port services. On ship registration, vessels that fly the Korean flag are required to be registered within 60 days after acquisition.⁹⁸ The captain and chief engineer of an international vessel registered under Korean law must be of Korean nationality. For national essential 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, and coal.

4.241. Under the Ship Act (Article 6), foreign vessels are not permitted to engage in cabotage. However, coastal trade is allowed if specified by law or treaty, approved by the MOF, or if it is to avoid marine accident or marine capture. For example, coastal trade has been allowed to be carried by foreign vessels between Busan and Gwangyang ports since 2003, and between Incheon and Gwangyang ports since 2005, both with no time limit.

4.242. Foreigners may participate in goods and passenger transport between the Democratic People's Republic of Korea and the Republic of Korea, as minority joint-venture partners with a firm in the Republic of Korea.

4.243. UNCTAD's Liner Shipping Connectivity Index ranked Korea as third in the world (after China and Singapore) in 2020, i.e. Korea was ranked third in terms of its level of integration into the existing liner shipping network.⁹⁹ Korea is a contracting party to the Convention on a Code of Conduct for Liner Conferences. Liner shipping companies are exempted from competition laws, and their concerted actions are allowed.

4.244. Various tax incentives are used. For example, the voluntary tonnage tax system (TTS), which is based on the net tonnage of individual vessels, is applied to shipping companies (foreign- or Korean-flagged vessels).¹⁰⁰ 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 operating profits are generated, the TTS allows for a lower effective tax rate than the corporate income tax system. In 2019, 64 companies participated in this system, down from 70 in 2015.

4.245. International vessels registered under Korean law benefit from tax breaks relating to acquisition, registration, and property taxes. The authorities state that those vessels with a designated port of shipment in Jeju-do could benefit more. "International vessels" mean any merchant ships engaged in international voyage and include, *inter alia*, ships owned by Koreans, ships owned by corporations established under Korean laws, ships owned by corporations with main offices in Korea and where the representatives are Korean nationals, and ships operated by ocean-going transport enterprises.

4.246. Ports are state-owned and are regulated by the MOF. Under its 2030 Port Policy and Implementation Strategy, the MOF aims to build high value-added smart ports with global competitiveness. The Strategy aims to ensure sustainability by implementing up-to-date port automation and digitalization, supporting going green, and expanding port facilities and achieving coexistence between ports and communities.

4.247. Various port authorities, such as the Busan Port Authority and the Incheon Port Authority, which are majority owned by the State, manage ports (Section 3.3.5 and Table 3.4). Container

⁹⁸ Under Article 2 of the Ship Act, a vessel is eligible to fly a Korean flag if it is owned by the State, by Koreans, by corporations established under Korean laws, or by corporations with main offices in Korea and the representatives are all Korean nationals.

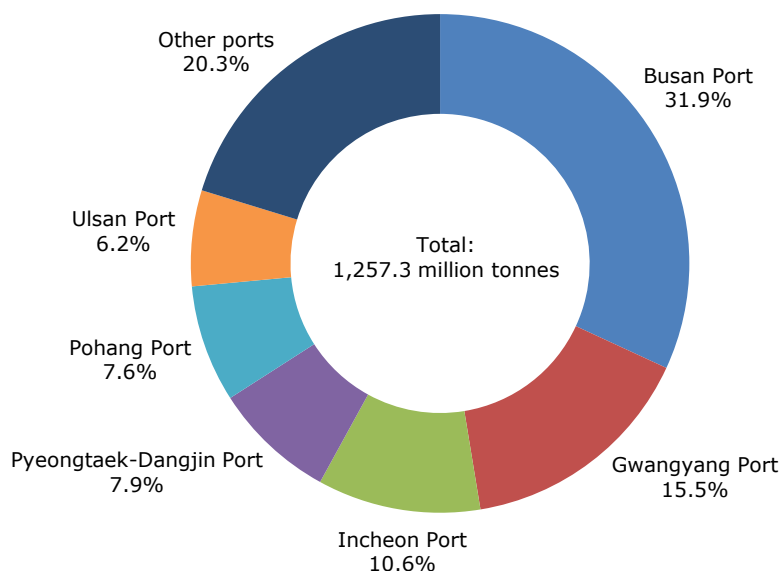
⁹⁹ UNCTAD (2020), *Review of Maritime Transport 2020*. Viewed at: https://unctad.org/system/files/official-document/rmt2020_en.pdf. The Liner Shipping Connectivity Index was updated and improved in 2019 to offer additional country coverage, and to add a component covering the number of countries that can be reached without the need for transshipment. The other five components are the number of companies that provide services, the number of services, the number of ships that call per month, total annualized deployed container-carrying capacity, and ship sizes.

¹⁰⁰ WTO document WT/TPR/S/346/Rev.1, 6 January 2017.

throughput reached 29 million TEU (20-foot equivalent unit) in 2019, up from 26.3 million TEU in 2016.¹⁰¹ Korea has the fourth-largest container throughput capacity in the world, after China, the United States, and Singapore.

4.248. In terms of cargo-handling capacity, Busan Port is the largest port in Korea (Chart 4.9). It invests in port-distribution centres (distriparks) to strengthen its position as a regional logistics centre.

Chart 4.9 Cargo-handling capacity, 2020



Source: Korean Statistical Information Service (KOSIS). Viewed at: <https://kosis.kr/eng/>.

4.249. Most maritime auxiliary services, including tug, freight forwarding, and maintenance and repair, are provided by the private sector; pilots must be Korean. According to the authorities, there is no restriction on foreign investment.

4.250. Port charges for imports and exports are the same, and include those for vessels (port dues, berth hire, anchorage, and laid-up charges), cargo (wharfage and demurrage), passenger terminal rental charges, and exclusive usage charges (warehouse and yard).

4.5.5.2 Air transport

4.251. Korea's air transport services, particularly international scheduled flights, grew quickly during the review period until 2019 (Table 4.18).

Table 4.18 Air transport, 2016-20

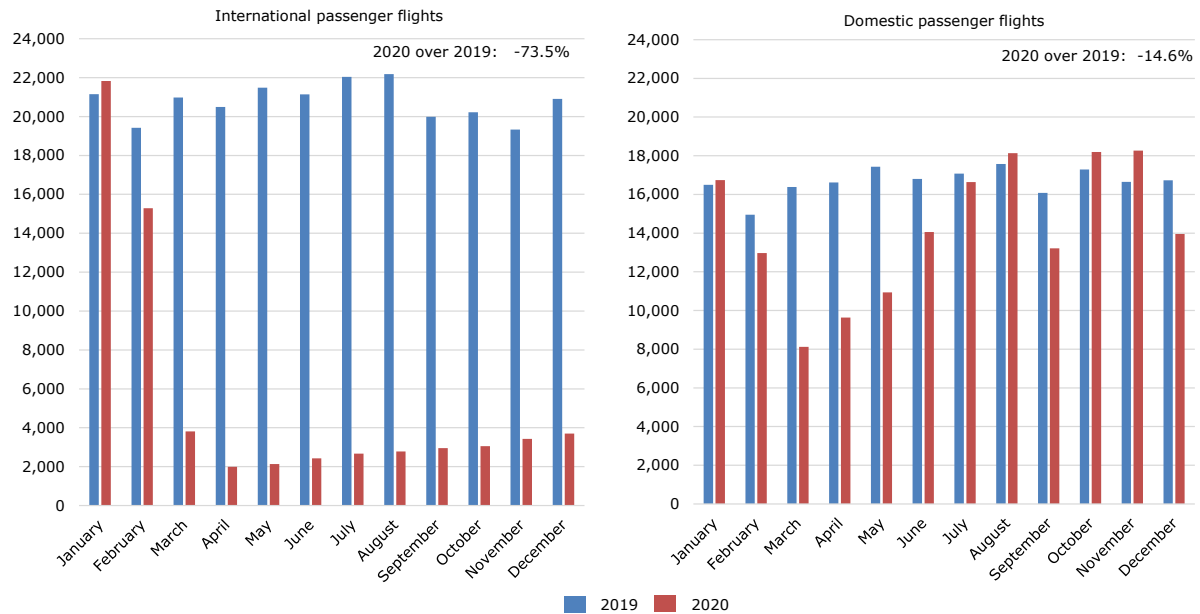
	2016	2017	2018	2019	2020
International scheduled flights					
Aircraft movements	424,998	441,163	482,152	514,596	135,040
Passengers	71,278,438	74,988,900	83,977,265	88,718,376	13,679,292
Freight (tonne)	3,633,182	3,827,871	4,025,820	3,876,583	2,480,013
Domestic scheduled flights					
Aircraft movements	188,293	193,186	191,135	190,859	149,060
Passengers	30,453,160	31,854,452	31,067,088	32,236,818	21,759,005
Freight (tonne)	289,745	287,304	270,482	255,578	168,430

Source: Korea Civil Aviation Development Association, Korea Airports Corporation, *Aviation Statistics 2020*; and information provided by the authorities.

¹⁰¹ UNCTAD Stat, *Container Port Throughput*. Viewed at: <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=13321>.

4.252. Reflecting the COVID-19 pandemic, the number of passengers carried by international flights dropped by 73% in 2020 from its 2019 level (Chart 4.10). Domestic flights contracted on average by 14.6% during the same period.

Chart 4.10 International and domestic passenger flights, January to December, 2019 and 2020



Source: International Civil Aviation Organization (ICAO). Viewed at: <https://data.icao.int/coVID-19/operational.htm>.

4.253. Air transport is regulated under the Aviation Act by MOLIT. Aviation policy aims to:

- Provide convenient and safe air transport services, by building Korea into an aviation powerhouse leading the pan-Pacific region; expand the number of cities and international routes to make Korea the largest air transport hub in Asia; expand the international aviation network by negotiating with countries in America and Africa, and pursue open skies agreements with the European Union (signed in 2020 (Table A4.1)) and the ASEAN; promote open skies agreements with Asian economies; increase the supply capacity of low-cost carrier (LCC) services; and provide seamless air traffic control by establishing the second Area Control Center in 2017.
- Promote Incheon International Airport (IIA) as an airport hub in Northeast Asia, by implementing the fourth phase expansion project, and by building it into one of the world's best airports backed by its cargo-handling and passenger transport capacities.
- Strengthen Korea's status as an aviation powerhouse, by maintaining the world's top level in aviation safety and security assessment; maintain the status as the ICAO Council member state in the Part III group; become a mid-sized aircraft design country by establishing a national certification infrastructure for aircraft manufacturing; and implement aviation workforce training projects.¹⁰²

4.254. Korea has 12 national flag carriers: 2 full-service carriers (Korean Air and Asiana Airlines), 9 low-cost carriers (Jeju Air, Air Busan, Jin Air, Eastar Jet, t'way, Air Seoul, flygangwon, aero k and airpremia), and 1 cargo carrier (Air Incheon). All airlines are privately owned. It was reported that Korean Air planned to spend KRW 1.8 trillion to become the top shareholder of Asiana Airlines, which

¹⁰² MOLIT, *Aviation*. Viewed at: http://www.molit.go.kr/english/USR/WPGF0201/m_36861/DTL.jsp.

was in debt due to the COVID-19 pandemic. The KDB also plans to merge some low-cost carriers, i.e. Air Busan, Jin Air, and Air Seoul.¹⁰³

4.255. Foreign ownership of Korean airline operators is limited to less than 50%, and operators must register their aircraft in Korea. Foreign investment in supporting air transport activities, including aircraft maintenance, repair, and overhaul, is now allowed with no foreign investment restrictions, and the previous foreign equity cap at 50% was removed in 2017 (Section 2.6.2). National carriers may have their aircraft repaired or 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 third-party handling are allowed, and there are no limits to the number of ground-handling suppliers at major airports.

4.256. 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 seasons, and new slots requested for scheduled and non-scheduled air services. Slots are not transferable. Unused slots are collected according to relevant regulations and are re-allocated if necessary.

4.257. Cabotage is not permitted.

4.258. International air services are governed by bilateral air services agreements (ASAs), and Korea has signed bilateral ASAs with 92 countries by 2021, including open skies agreements. The authorities state that since 2016, Korea has signed new ASAs (with Ethiopia, the European Union, Georgia, Italy, Latvia, Paraguay, Portugal, Rwanda, Serbia, and the Seychelles), and updated others (with the Czech Republic, Finland, Greece, the Kyrgyz Republic, the Netherlands, Panama, the Philippines, Poland, Spain, and Turkmenistan). Table A4.1 lists 81 ASAs.

4.259. Most ASAs score an Air Liberalization Index (ALI) of under 30 (of a possible 50).¹⁰⁴ This is largely a reflection of the absence in those agreements of 7th freedom or cabotage traffic rights, of a withholding clause mostly based on "substantial ownership and effective control", and not fully liberal pricing and capacity clauses. Notable exceptions are the ASAs concluded with Canada, Chile, Ecuador, and the United States (which all score ALIs of 30 or over), essentially because of the inclusion of more liberal pricing and capacity provisions. The frequent unavailability of publicly available information about cooperation clauses is likely to have reduced the value of the total ALI scores.

4.260. The IIA continues to be Korea's major gateway. It is operated and managed by the Incheon International Airport Corporation, which is 100% owned by the Government. It is a global hub connecting 177 cities in 53 countries. MOLIT planned to implement the fourth phase expansion project in the IIA by 2024, the completion of which would enable the airport to be a stronger hub airport for northeast Asia.

4.261. Korea also has another 14 local airports, all of which are government-owned and managed and operated by the Korea Airports Corporation, a government-owned entity.

4.5.5.3 Land transport

4.262. Domestic transport of passengers and freight is dominated by road (in 2018, 84.6% for passengers and 92.6% for freight), followed by rail and subways: 4.5% (rail) and 10.8% (subway) for passengers, and 1.5% (rail) for freight.¹⁰⁵ Cabotage of land transport is not allowed.

¹⁰³ Heekyong Yang and Joyce Lee, "Korean Air to Spend USD 1.6 Billion to Become Asiana Airlines' Top Shareholder", *Reuters*, 15 November 2020. Viewed at: <https://www.reuters.com/article/asiana-airlines-ma/update-1-hanjin-kal-to-buy-asiana-airlines-after-getting-724-mln-kdb-injection-yonhap-idUSL1N2I202Z>.

¹⁰⁴ The ALI 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 restrictive agreements) and 50 (for open ones). For more information, see WTO document S/C/W/270/Add.1, 30 November 2006.

¹⁰⁵ Figures provided by the authorities.

4.263. Road transport is regulated by MOLIT. Korea has over 112,977 km of road, with 41 expressways and 52 national highways. Road transport operators must comply with an economic needs test to obtain licences.¹⁰⁶ The Government encourages private investment in road construction, through build-transfer-operate (BTO) contracts. Foreigners may invest in the construction of roads promoted as private investment projects under relevant laws. According to the authorities, current relevant legislation does not have provisions distinguishing domestic and foreign nationals differently on investment terms.

4.264. Licensing conditions for bus services are regulated under the Passenger Transport Service Act. Private operators, including foreign ones, are eligible for a licence if they meet requirements prescribed under the Act. Fares of buses operating within a city are regulated by local governments, while intercity bus fares are regulated by the Central Government.

4.265. According to the OECD, services like ride-hailing are subject to strict regulations, hindering the development of new business models or the commercialization of new digital products.¹⁰⁷ For example, Uber and Kakao Carpool struggle to service the Korean market, because the Passenger Transport Service Act limits commercial use of private cars during rush hours (7 a.m.-9 a.m., and 6 p.m.-8 p.m.). The authorities disagree, and state that Korea has been providing institutional assistance to support the growth of new business models on mobility. For example, the Government set an institutional framework for passenger transport platforms in April 2021, and use ICT-connected transport operators with their consumers through these platforms. According to the authorities, the range of commuting hours for the commercial use of non-commercial motor vehicles for passenger transport was agreed in March 2019 after social consensus was reached in the country. This led to the amendment of the Passenger Transport Service Act in August 2019.

4.266. Freight transport is regulated under the Trucking Transport Business Act. Permission does not vary depending on the nationality of the operator.

4.267. Railway transport is regulated under the Railroad Enterprise Act by the Rail Policy Bureau within MOLIT. The Korea National Railway, a government agency, is responsible for the construction of railways including high-speed, conventional, and urban rail infrastructure. The Korea Railroad Corporation (KORAIL) carries out management tasks, including the maintenance of railway facilities. KORAIL and SR Corporation, both of which are designated public enterprises, are national railway operators. KORAIL manages high-speed railways, general railways, and freight railways, while SR manages some high-speed railways. Train fare changes (passenger rates) must be notified to MOLIT, but freight fare changes are not subject to this reporting requirement.

4.268. All railway operators must be licensed by MOLIT, and meet the requirements listed in the Railroad Enterprise Act. Foreign enterprises may supply rail transport services for routes built after 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.

4.5.6 Distribution services with a specific focus on e-commerce

4.269. Distribution services (wholesale and retail trade) contributed to 7.6% of GDP in 2020, down from 8.1% in 2016 and 7.8% in 2019. The sector's share in total employment also declined, from 14.2% in 2016 to 13.1% in 2020 (Table 1.2). Its growth rate changed from being positive from 2016 to 2019 to negative in 2020 (-1.9%).

4.270. The regulatory framework of and FDI constraints on the distribution sector remain unchanged. The sector is regulated under the Distribution Industries Development Act, and by competition policy and consumer protection legislation.

4.271. Foreign entry in trading activities is allowed, except in the areas of: (i) firearms, explosives, and swords; (ii) works of art and antiques; and (iii) operation of distribution services at public

¹⁰⁶ The test contains a cost-benefit ratio, a policy analysis (including policy directions and job creation), and regional development concerns (including the level of underdevelopment in the region and the local economic ripple effect), based on which a decision is made on whether to carry out the road transport project.

¹⁰⁷ OECD (2020), *Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>.

wholesale markets for agricultural, fishery, and livestock products. Foreign participants are accorded national treatment.

4.272. The sector remains regulated by MOTIE. Any person (domestic or foreign) intending to open a large store or a super supermarket (SSM) in any traditional commerce preservation area must register with the local government before commencing their business. A licence is not required. For those superstores located within a 1 km radius of traditional markets, local governments may enact ordinances to restrict their registration. This regulation is valid until 2025.

4.273. From 2013, local governments may enact ordinances to restrict discount stores or SSMs to close their businesses twice per month to give smaller competitors opportunities to grow.

E-commerce

4.274. Because Korea is a country where more than 90% of individuals use the Internet, e-commerce has developed quickly. Beginning in 2016, online purchases surpassed hypermarkets' sales, making e-commerce the biggest retail channel in Korea. Popular e-commerce sites include Auction, G-market, 11st, Coupang, and Naver Store. In 2020, e-commerce recorded its strongest growth, reflecting changes in consumers' lifestyles due to COVID-19, which accelerated the adoption of online shopping.

4.275. Domestic online purchases reached USD 115.4 billion in 2019, up from USD 100.8 billion in 2018.¹⁰⁸ The authorities state that domestic online purchase reached USD 135.1 billion in 2020. Online purchases from abroad are also rapidly increasing. Cross-border e-commerce reached USD 3.3 billion in 2019, up from USD 2.7 billion in 2018. Amazon.com and eBay are the most frequently used foreign online shopping sites visited by Koreans.¹⁰⁹

4.276. The authorities indicate that the most popular products sourced from domestic online retailers in 2019 were travel & transportation services (12.9%), home appliances & electronics (10.8%), clothing (10.7%), food & beverage (9.9%), cosmetics (9.2%), household items (7.4%), and food services (7.2%). According to the Korea Customs Agency, the most popular foreign-sourced products from online retailers by Koreans in 2019 were food preparations (20%), electronics (12%), and cosmetics (7%).

4.277. E-commerce is mainly regulated under the Act on Consumer Protection in Electronic Commerce (Act No. 15141), which was partially amended in November 2017. The authorities state that this Act is currently being fully revised, and the pre-announcement of legislation was made in March 2021.

4.278. MOTIE is responsible for the development of e-commerce, while the FTC regulates competition-related e-commerce activities.

4.279. The development of e-commerce is linked to various aspects of the economy, including intellectual property right (IPR) protection, e-payment, and delivery service. Measures adopted by the Government to promote e-commerce development include the standardization of the online commodities transaction data and the promotion of digital transformation.

4.280. The preferred payment method for online shopping is credit card. The average number of usages of PG services has been increasing quickly. In addition, mobile payment and digital wallet services, such as Samsung Pay and Naver Pay, are attracting more users.

¹⁰⁸ US International Trade Association, *South Korea – Country Commercial Guide*. Viewed at: <https://www.trade.gov/knowledge-product/korea-e-commerce>.

¹⁰⁹ US International Trade Association, *South Korea – Country Commercial Guide*. Viewed at: <https://www.trade.gov/knowledge-product/korea-e-commerce>.

4.5.7 Tourism¹¹⁰

4.5.7.1 Recent developments

4.281. Tourism plays an important role in the economy, accounting for 4.7% of GDP in 2018. It is estimated to support 1.4 million jobs (both direct and indirect), or around 5.3% of total employment.¹¹¹ Accommodation and food service activities accounted for 2.2% of GDP in 2020, and 8.0% of employment (Table 1.2).

4.282. The sector contracted significantly in 2020, due to the COVID-19 pandemic. It is estimated that Korea's travel and tourism sector lost approximately KRW 16.6 trillion in 2020, due to a rapid decrease in international tourist arrivals and outbound travel departures. In this regard, the Government implemented economic support measures worth a total of KRW 2 trillion for the tourism industry, including financial and fiscal support, and job support.

4.283. The authorities state that under the impact of COVID-19, digital transformation has accelerated in the tourism sector, and the Government has enhanced R&D, data management, and workforce training with a view to facilitating tourism companies to convert or expand their businesses by utilizing big data, AI, and other advanced technologies.

4.284. The number of international visitors to Korea reached 15.3 million in 2018. The largest visitor flows are from Korea's neighbours (China, Japan, and Chinese Taipei), followed by the United States and Hong Kong, China. Tourism deficits expanded during the review period, as inbound tourism receipts declined while outbound tourism expenditure increased quickly (Table 4.19).

4.285. The number of domestic trips continues to increase, from 227.1 million in 2014 to 311.2 million in 2018. The number of overnight visitors overtook that of same-day visitors for the first time in 2018, and the number of nights spent by domestic visitors in collective accommodation establishments totalled 408.9 million in 2018, up by 33% from 2017.

Table 4.19 Tourism enterprises (2018) and employment, 2014-18

	Number of establishments	Number of persons employed				
		2014	2015	2016	2017	2018
Tourism industries	33,452	230,334	235,604	261,978	280,270	267,561
Accommodation services	2,110	67,465	70,305	73,631	71,769	69,926
Food and beverage serving industry	4,077	39,506	27,902	27,110	28,998	32,785
Travel agencies and other reservation services	19,039	69,400	84,558	98,421	107,209	99,077
Sports and recreation	7,340	36,633	37,707	50,219	60,129	56,673
Other	886	17,330	15,131	12,596	12,166	9,100
Tourism flows ('000)						
Inbound tourism: total international arrivals		14,202	13,232	17,242	13,336	15,347
China		6,127	5,984	8,068	4,169	4,790
Japan		2,280	1,838	2,298	2,311	2,949
Chinese Taipei		644	518	833	926	1,115
United States		770	768	866	869	968
Hong Kong, China		558	523	651	658	684
Outbound tourism: total international departures		16,081	19,310	22,383	26,496	28,696
Domestic tourism: total domestic trips		227,100	238,297	241,750	284,966	311,153
Overnight visitors		98,521	99,776	101,068	112,784	163,204
Same-day visitors		128,579	138,522	140,682	172,182	147,949
Nights in all types of accommodation		269,268	268,297	271,696	307,492	408,941

¹¹⁰ OECD (2020), *OECD Tourism Trends and Policies 2020*. Viewed at: <https://doi.org/10.1787/6b47b985-en>.

¹¹¹ OECD (2020), *OECD Tourism Trends and Policies 2020*. Viewed at: <https://doi.org/10.1787/6b47b985-en>.

	Number of establishments	Number of persons employed				
		2014	2015	2016	2017	2018
Tourism receipts and expenditures (USD million)						
Inbound tourism		22,390	18,712	20,923	17,173	19,856
Outbound tourism		26,136	27,957	29,817	34,453	34,769

Source: OECD Tourism Statistics.

4.5.7.2 Regulatory framework

4.286. The tourism sector is regulated by the Ministry of Culture, Sports and Tourism (MCST) and its Tourism Policy Bureau, and the Tourism Industry Policy Bureau. The MCST works closely with the Korea Tourism Organization, a publicly funded organization responsible for marketing and promoting Korea tourism both domestically and abroad. In addition, the National Tourism Strategy Meeting, established in 2017, is held annually to discuss ways to attract more international tourists and boost domestic travel.

4.287. After the third National Tourism Strategy Meeting, Korea announced its Tourism Innovation Strategy in April 2019. It identified key challenges facing the tourism sector: securing continued growth in inbound tourists, strengthening the competitiveness of tourism SMEs, increasing the dispersal of visitors to less visited regions, and enhancing the attractiveness and quality of tourism products and services.

4.288. In the Tourism 2020 Strategy, the Government proposed a range of policy responses to address the challenges. It plans to ease visa rules, develop local municipalities into regional tourism hubs, and include more cultural content into tour programmes. Furthermore, it plans to increase financial support to the tourism sector. The Government also plans to dedicate an online platform and improve digital marketing strategies to enhance the experience for independent travellers.

4.289. The Tourism Promotion and Development Fund supports tourism under the Framework Act of Tourism.¹¹² In 2018, the total expenditure of the Fund was about KRW 811 billion.

4.290. With a view to promoting private investment, Korea also notified to the WTO that, pursuant to the Enforcement Decree of the Tourism Promotion Act:

- the minimum number of guest rooms required for registration of a resort condominium business was reduced from 30 to 20, for a period of two years from 1 July 2016 to 30 June 2018; and
- the minimum business capital required for registration of a travel business (general, overseas, and domestic travel business) was reduced during the same period.¹¹³

¹¹² 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 activities that promote tourism.

¹¹³ WTO documents S/C/N/892, 4 September 2017 and S/C/N/893, 4 September 2017.

5 APPENDIX TABLES

Table A1.1 COVID-19 policies to support the economy, as at June 2021

Date	Measure	Amount	Main items
		Total support of more than KRW 310 trillion (16.5% of GDP)	KRW 89 trillion: four supplementary budgets; KRW 229 trillion; financing support (loans and guarantees); KRW 8 trillion: overlapping support
5-20 February 2020	Support for the quarantine system, affected families and businesses	KRW 4.3 trillion (budget: KRW 0.3 trillion; financing: KRW 4.0 trillion)	KRW 0.1 trillion: pre-emptive quarantine (budget) KRW 2.0 trillion: SMEs (loans and guarantees) KRW 0.3 trillion: low-cost carriers (fee reduction) Policy preparation for worse-hit sectors, such as automobile, aviation, shipping, tourism and export industries
28 February 2020	Support for households and reinforcing the financial sector	KRW 16 trillion (budget: KRW 2.8 trillion; financing: KRW 11.7 trillion; tax benefit: KRW 1.7 trillion)	KRW 2.8 trillion: consumption coupons and support for family care leave; KRW 2.5 trillion low-interest-rate loans and guarantees to SMEs; KRW 0.5 trillion: support to local credit guarantee funds (guarantees); KRW 8.2 trillion: liquidity support to the financial sector (liquidity); KRW 1.7 trillion: tax credit for reduction of rents and cut in individual consumption tax on cars (tax benefits)
16 March 2020	Bank of Korea policy rate cut		50 basis point policy rate cut to 0.75%; interest rate cut on the Bank Intermediated Lending Support Facility to 0.25%
Passed 17 March 2020	First supplementary budget	KRW 11.7 trillion (0.6% of GDP) • Expansion expenditure of KRW 10.9 trillion • Revenue adjustment of KRW 0.8 trillion	KRW 2.1 trillion: virus prevention, diagnosis and treatment; KRW 4.1 trillion: loans to SMEs and small merchants; KRW 3.5 trillion: emergency livelihood support including gift vouchers and deduction in national health insurance; KRW 1.2 trillion: aid to employees and severely affected provinces, including expanded employment retention subsidy and financial support; support for epidemic prevention and treatment for designated coronavirus disaster areas
19 March 2020 24 March 2020	Plan to provide financing to companies and stabilize financial markets (bonds and securities)	Initial amount of KRW 50 trillion raised to KRW 100 trillion (5.1% of GDP)	KRW 22.5 trillion: lending to SMEs, small merchants and self-employed (loans and guarantees); KRW 29.1 trillion: support for large and mid-sized companies (loans and guarantees); KRW 17.8 trillion: to avoid a credit crunch (loans and guarantees); KRW 20.0 trillion: Bond Market Stabilization Fund to perform financial functions (liquidity provision funded by financial institutions); KRW 10.7 trillion: Securities Market Stabilization Fund (liquidity provision funded by financial institutions); expansion of foreign currency liquidity by raising ceilings on the foreign-exchange derivatives positions of banks and easing foreign-exchange market stability rules (26 and 28 March)
19 March 2020	Currency swap agreement with the United States	USD 60 billion	Bilateral currency swap agreement between the Bank of Korea and the US Federal Reserve for six months (dollar liquidity); extended three times (30 July 2020, 17 December 2020, and 17 June 2021) for the periods of 30 September 2020 to 31 March 2021, and 31 March 2021 to 30 September 2021, and 30 September 2021 to 31 December 2021

Date	Measure	Amount	Main items
20 March 2020, 10 April 2020, 2 July 2020, 31 August 2020, 24 September 2020, 28 October 2020, 27 November 2020, 9 March 2021 28 April 2021, 3 June 2021, 28 June 2021	Purchase of treasury bonds by the Bank of Korea	KRW 13 trillion (as at April 2021)	KRW 4.5 trillion (KRW 1.5 trillion on 20 March 2020, 10 April 2020, and 2 July 2020); KRW 1.5 trillion (31 August 2020); KRW 2 trillion (24 September 2020); KRW 1.5 trillion (28 October 2020); KRW 1.5 trillion (27 November 2020); and KRW 2 trillion (9 March 2021) purchases of treasury bonds for market stabilization KRW 1 trillion (28 April 2021); KRW 1.5 trillion (3 June 2021); and KRW 1.5 trillion (28 June 2021) purchases of treasury bonds for market stabilization
8 April 2020	Support for exports and start-ups	KRW 10.4 trillion	KRW 10.4 trillion: financial support to export companies and start-ups and ventures (loans and guarantees)
16 April 2020	Support for non-bank financial institutions	KRW 10 trillion	KRW 10 trillion: loans to bank and non-bank financial institutions such as securities and insurance companies for three months
22 April 2020	Plan to support key industries and additional financing to SMEs and households	KRW 85.1 trillion	KRW 40 trillion: Key Industry Relief Fund guaranteed by government to purchase corporate debt and equity; KRW 35 trillion for additional financing to SMEs (loans and guarantees); KRW 10.1 trillion for special employment security measures
Passed 30 April 2020	Second supplementary budget	KRW 12.2 trillion (0.6% of GDP); KRW 3.4 trillion financed by debt issuance (the remaining by spending cuts)	Emergency relief grants of up to KRW 1 million (USD 814) to all 22.7 million households 2.7 million lower income households can receive grants in cash. The remaining 19 million households receive grants in voucher or credit card points for incentive to consumption. A total of KRW 2.4 trillion in financial aid for micro businesses and SMEs (Contingency Livelihood Support Policy released on 10 September 2020) consisting of a Credit Guarantee Support Program by KODIT (KRW 1.5 trillion) and a Credit Guarantee Support Program by KIBO (KRW 0.9 trillion)
28 May 2020	Bank of Korea policy rate cut		25 basis point policy rate cut to 0.50%
3 July 2020	Third supplementary budget	KRW 35.1 trillion	KRW 10.0 trillion: Creation of about 550,000 jobs in publicly initiated programmes and strengthening social safety nets; KRW 5 trillion: Emergency loans to struggling small merchants, SMEs and large businesses; KRW 4.8 trillion: Korean New Deal projects investments
Passed 22 September 2020	Fourth supplementary budget	KRW 7.8 trillion (0.4% of GDP), KRW 7.5 trillion financed by debt issuance	KRW 3.9 trillion: support for small businesses and SMEs; KRW 1.5 trillion: emergency employment support, KRW 2.2 trillion: low-income family support and childcare support; KRW 0.2 trillion: emergency disease prevention support
Announced on 29 December 2020, started as from January 2021	Customized damage support	KRW 9.3 trillion, KRW 4.8 trillion financed by reserve funds (designated), KRW 3.9 trillion financed by the 2021 budget, etc.	KRW 5.6 trillion: support for small business and emergency employment; KRW 0.8 trillion: COVID-19 testing, diagnosis, treatment and disease prevention; KRW 2.9 trillion: COVID-19 support for SMEs, small merchants and households

Source: OECD (2020), *OECD Economic Surveys: Korea 2020*. Viewed at: <https://doi.org/10.1787/2dde9480-en>; and information provided by the authorities.

Table A1.2 Merchandise exports by HS section and major HS chapter/subheading, 2015-20

HS section/chapter/subheading	2015	2016	2017	2018	2019	2020
Total exports (USD billion)	526.8	495.4	573.6	604.8	542.2	512.7
	(% of total exports)					
01 Live animals and products	0.3	0.3	0.3	0.3	0.3	0.3
02 Vegetable products	0.2	0.2	0.2	0.2	0.2	0.2
03 Fats and oils	0.0	0.0	0.0	0.0	0.0	0.0
04 Prepared food, beverages and tobacco	0.9	1.0	0.9	0.9	1.0	1.2
05 Mineral products	6.4	5.6	6.4	8.1	7.9	5.1
27 Mineral fuels and oils	6.3	5.5	6.3	7.9	7.8	5.0
2710 Petroleum oils and oils from bituminous minerals, not crude (..)	5.8	5.2	5.8	7.4	7.2	4.5
06 Chemicals and products thereof	6.5	7.3	7.6	8.4	8.6	9.3
29 Organic chemicals	3.5	3.6	4.0	4.2	3.9	3.0
2902 Cyclic hydrocarbons	1.6	1.6	1.8	1.9	1.7	1.1
30 Pharmaceuticals	0.4	0.5	0.5	0.6	0.7	1.4
3002 Blood, antisera, immunological products, etc.	0.2	0.3	0.3	0.4	0.5	1.1
33 Essential oils, perfumes, cosmetic or toilet preparations	0.6	0.8	0.9	1.0	1.2	1.5
3304 Cosmetic and toilet preparations; beauty, make-up and skin care	0.5	0.7	0.7	0.8	1.0	1.2
38 Miscellaneous chemical products	0.6	0.6	0.6	0.8	0.8	1.3
07 Plastics and rubber	6.7	7.0	6.8	7.1	7.4	7.4
39 Plastics and articles thereof	5.4	5.6	5.5	5.8	6.0	6.2
40 Rubber and articles thereof	1.3	1.4	1.4	1.3	1.3	1.3
08 Raw hides and skins; leather, furskins and articles thereof	0.2	0.2	0.2	0.1	0.2	0.1
09 Wood, cork, straw	0.0	0.0	0.0	0.0	0.0	0.0
10 Pulp of wood; paper and paperboard	0.6	0.6	0.6	0.6	0.6	0.6
11 Textiles and textile articles	2.7	2.7	2.3	2.2	2.3	2.1
12 Footwear, headgear, etc.	0.1	0.1	0.1	0.1	0.1	0.1
13 Articles of stone, plaster, cement	0.5	0.5	0.5	0.5	0.6	0.6
14 Precious stones and metals	0.6	0.8	0.7	0.4	0.6	1.0
15 Base metals and articles thereof	8.4	8.5	8.7	8.5	8.7	8.2
72 Iron and steel	3.8	3.8	3.9	4.1	4.3	3.9
73 Articles of iron and steel	2.1	2.2	2.3	1.7	1.7	1.5
16 Machinery, electrical equipment	38.1	38.9	40.5	43.4	41.4	44.4
84 Machinery and mechanical appliances, parts thereof	11.8	11.8	12.1	12.8	13.1	13.2
8473 Parts and accessories (..) principally for machines of headings 84.70 to 84.72	1.0	0.9	1.3	2.0	2.1	2.6
8486 Machines used for the manufacture of semiconductor boules or wafers (..)	0.9	0.8	1.2	1.4	1.4	1.6
85 Electrical machineries and parts thereof	26.3	27.1	28.4	30.5	28.3	31.1
8507 Electric accumulators	0.9	1.0	1.0	1.2	1.4	1.5
8517 Telephone sets, including telephones for cellular networks (..)	5.7	5.0	2.7	2.4	3.3	3.5
8529 Transmission apparatus; parts suitable for use principally with the apparatus of heading 8525 to 8528	1.1	1.3	1.4	1.2	1.9	1.5
8523 Discs, tapes, solid-state non-volatile storage devices, smart cards (..)	0.2	0.2	0.1	0.4	1.0	2.1
8542 Electronic integrated circuits	9.9	10.6	15.0	18.2	14.6	16.2
17 Transport equipment	20.9	19.8	18.4	14.0	15.6	14.7
87 Vehicles, parts thereof	13.1	12.6	10.8	10.1	11.6	10.6
8703 Motor vehicles for the transport of persons	7.9	7.6	6.8	6.3	7.5	7.0
8708 Parts and accessories of motor vehicles of HS 8701 to 8705	4.4	4.4	3.4	3.2	3.5	3.1
89 Ships, boats and other floating structures	7.3	6.7	7.1	3.4	3.5	3.7
8901 Cruise ships, ferry-boats, cargo ships and similar for transport of persons or goods	4.1	5.1	4.2	2.6	3.2	3.2
18 Precision equipment	6.2	5.6	5.1	4.6	3.9	4.0
90 Optical, photographic, measuring, medical instruments (..)	6.2	5.6	5.1	4.6	3.9	3.9
9013 Liquid crystal devices (..); lasers, not laser diodes; (..)	4.1	3.3	2.7	2.2	1.3	1.3

HS section/chapter/subheading	2015	2016	2017	2018	2019	2020
19 Arms and ammunition	0.1	0.1	0.1	0.1	0.1	0.2
20 Miscellaneous manufactured articles	0.6	0.6	0.5	0.5	0.5	0.5
21 Works of art, etc.	0.1	0.1	0.0	0.0	0.0	0.0

Source: WTO Secretariat calculations, based on UN Comtrade database.

Table A1.3 Merchandise imports by HS section and major HS chapter/subheading, 2015-20

HS section/chapter/subheading	2015	2016	2017	2018	2019	2020
Total imports (USD billion)	436.5	406.2	478.5	535.2	503.3	467.5
	(% of total imports)					
01 Live animals and products	1.9	2.2	2.1	2.1	2.2	2.4
02 Vegetable products	2.1	2.1	1.8	1.7	1.8	2.0
03 Fats and oils	0.2	0.3	0.3	0.2	0.3	0.3
04 Prepared food, beverages and tobacco	1.9	2.2	1.9	1.9	2.1	2.3
05 Mineral products	26.6	23.0	26.1	30.4	28.5	22.1
26 Ores, slag and ash	2.8	2.7	3.0	2.8	3.0	3.4
27 Mineral fuels and oils	23.7	20.1	23.0	27.5	25.3	18.5
2701 Coal; briquettes, ovoids and similar solid fuels manufactured from coal	2.3	2.3	3.1	3.1	2.8	2.0
2709 Petroleum oils and oils obtained from bituminous minerals; crude	12.6	10.9	12.5	15.0	14.0	9.5
2710 Petroleum oils and oils obtained from bituminous minerals; other than crude	3.5	2.9	3.1	3.9	3.4	2.7
2711 Petroleum gases and other gaseous hydrocarbons	4.9	3.7	3.9	5.1	4.8	4.0
06 Chemicals and products thereof	8.3	8.8	8.5	8.7	8.7	9.2
29 Organic chemicals	2.8	2.7	2.7	2.7	2.5	2.6
07 Plastics and rubber	2.8	3.1	2.9	2.7	2.8	3.0
39 Plastics and articles thereof	2.3	2.5	2.3	2.2	2.3	2.5
08 Raw hides and skins; leather, furskins and articles thereof	0.8	0.8	0.7	0.7	0.7	0.8
09 Wood, cork, straw	0.7	0.8	0.7	0.7	0.6	0.6
10 Pulp of wood; paper and paperboard	0.9	0.9	0.8	0.8	0.8	0.7
11 Textiles and textile articles	3.2	3.4	3.0	3.0	3.2	3.2
12 Footwear, headgear, etc.	0.6	0.7	0.7	0.7	0.7	0.7
13 Articles of stone, plaster, cement	1.2	1.3	1.1	1.1	1.1	1.1
14 Precious stones and metals, pearls	0.8	0.8	0.9	0.6	0.8	1.1
15 Base metals and articles thereof	8.9	8.7	8.2	7.6	7.7	6.9
72 Iron and steel	3.5	3.5	3.5	3.1	3.1	2.4
16 Machinery, electrical equipment	28.5	29.8	30.0	27.1	28.1	32.4
84 Machinery and mechanical appliances. parts thereof	10.6	11.3	12.7	11.2	10.3	12.3
8486 Machines of a kind used for the manufacture of semiconductor boules or wafers (..)	1.8	2.4	4.2	3.2	1.8	3.3
85 Electrical machineries and parts thereof	17.8	18.5	17.3	15.8	17.8	20.1
8517 Telephone sets, including telephones for cellular networks (..)	2.7	3.0	2.8	2.2	2.6	2.6
8542 Electronic integrated circuits	7.2	7.4	7.0	6.5	7.1	8.6
17 Transport equipment	4.9	5.3	4.1	4.1	4.4	5.0
87 Vehicles, parts thereof	3.4	3.8	3.3	3.1	3.3	3.9
8703 Motor vehicles for the transport of persons	2.3	2.3	2.0	2.1	2.2	2.6
18 Precision instruments	4.4	4.5	4.7	4.4	3.9	4.4
90 Optical, photographic, measuring, medical instruments (..)	4.2	4.3	4.5	4.2	3.7	4.1
19 Arms and ammunition	0.1	0.2	0.1	0.1	0.1	0.1
20 Miscellaneous manufactured articles	1.2	1.4	1.2	1.2	1.3	1.5
21 Works of art, collectors' pieces and antiques	0.0	0.1	0.1	0.1	0.1	0.1

Source: WTO Secretariat calculations, based on UN Comtrade database.

Table A1.4 Merchandise exports by destination, 2015-20

	2015	2016	2017	2018	2019	2020
Total exports (USD billion)	526.8	495.4	573.6	604.8	542.2	512.7
	(% of total)					
Americas	20.0	19.5	17.7	17.6	19.4	19.3
United States	13.3	13.5	12.0	12.1	13.6	14.5
Other America	6.6	6.1	5.7	5.5	5.8	4.8
Mexico	2.1	2.0	1.9	1.9	2.0	1.6
Canada	0.9	1.0	0.8	0.9	1.0	1.1
Brazil	1.0	0.9	1.0	0.8	0.9	0.8
Europe	11.7	11.5	11.6	11.2	11.3	11.8
EU-27	7.7	8.1	8.0	8.5	8.7	9.3
Germany	1.2	1.3	1.5	1.5	1.6	1.9
Poland	0.5	0.6	0.5	0.7	1.0	1.1
Netherlands	0.8	0.8	0.8	0.8	0.8	0.8
EFTA	1.2	0.8	0.9	0.6	0.5	0.4
Other Europe	2.7	2.6	2.6	2.1	2.1	2.1
Turkey	1.2	1.1	1.1	1.0	1.0	1.1
United Kingdom	1.5	1.4	1.5	1.1	1.0	0.9
CIS ^a	1.3	1.4	1.6	1.7	2.4	2.2
Russian Federation	0.9	1.0	1.2	1.2	1.4	1.3
Africa	2.2	2.6	1.9	1.7	1.8	1.6
Middle East	5.0	4.4	3.7	2.9	2.6	2.4
Asia	59.8	60.5	63.6	64.9	62.5	62.7
China	26.0	25.1	24.8	26.8	25.1	25.9
Japan	4.9	4.9	4.7	5.0	5.2	4.9
Other Asia	29.0	30.5	34.2	33.0	32.1	31.9
Viet Nam	5.3	6.6	8.3	8.0	8.9	9.5
Hong Kong, China	5.8	6.6	6.8	7.6	5.9	6.0
Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei)	2.3	2.5	2.6	3.4	2.9	3.2
India	2.3	2.3	2.6	2.6	2.8	2.3
Singapore	2.8	2.5	2.0	1.9	2.4	1.9
Malaysia	1.5	1.5	1.4	1.5	1.6	1.8
Philippines	1.6	1.5	1.8	2.0	1.5	1.4
Thailand	1.2	1.3	1.3	1.4	1.4	1.3
Indonesia	1.5	1.3	1.5	1.5	1.4	1.2
Australia	2.1	1.5	3.5	1.6	1.5	1.2
Marshall Islands	1.4	1.6	1.2	0.3	0.6	0.9
<i>Memorandum:</i>						
APEC	72.9	73.6	75.3	77.7	76.5	77.4
ASEAN	14.2	15.0	16.6	16.5	17.5	17.4
EU-28	9.2	9.5	9.5	9.6	9.7	10.2

a Commonwealth of Independent States, including certain associate and former member states.

Source: WTO Secretariat calculations, based on UN Comtrade database.

Table A1.5 Merchandise imports by origin, 2015-20

	2015	2016	2017	2018	2019	2020
Total imports (USD billion)	436.5	406.2	478.5	535.2	503.3	467.5
	(% of total)					
Americas	14.7	15.4	15.2	15.7	17.5	17.6
United States	10.1	10.7	10.6	11.0	12.3	12.4
Other America	4.5	4.7	4.6	4.6	5.1	5.2
Mexico	0.8	0.9	0.9	1.0	1.2	1.4
Canada	0.9	1.0	1.1	1.1	1.1	0.9
Europe	14.6	14.1	13.1	12.9	12.3	14.1
EU-27	11.7	11.5	10.7	10.4	10.3	11.8
Germany	4.8	4.7	4.1	3.9	4.0	4.4
Italy	1.3	1.3	1.2	1.2	1.3	1.4
Netherlands	1.0	1.0	1.3	1.3	0.8	1.3
France	1.4	1.4	1.2	1.1	1.2	1.3
EFTA	1.2	1.0	0.8	0.9	0.9	0.9
Other Europe	1.7	1.6	1.6	1.6	1.2	1.4
United Kingdom	1.4	1.3	1.3	1.3	0.8	0.9
CIS ^a	2.7	2.2	2.8	3.5	3.2	2.5
Russian Federation	2.6	2.1	2.5	3.3	2.9	2.3
Africa	1.6	1.3	1.5	1.7	1.5	1.2
Middle East	15.3	13.1	14.3	15.5	13.8	9.2
Saudi Arabia, Kingdom of	4.5	3.9	4.1	4.9	4.3	3.4
Qatar	3.8	2.5	2.4	3.0	2.6	1.6
Kuwait, State of	2.1	1.8	2.0	2.4	2.1	1.2
United Arab Emirates	2.0	1.7	2.0	1.7	1.8	1.2
Asia	51.0	53.8	52.9	50.3	51.2	54.7
China	20.7	21.4	20.5	19.9	21.3	23.3
Japan	10.5	11.7	11.5	10.2	9.5	9.8
Other Asia	19.8	20.7	21.0	20.2	20.5	21.5
Viet Nam	2.2	3.1	3.4	3.7	4.2	4.4
Australia	3.8	3.7	4.0	3.9	4.1	4.0
Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei)	3.8	4.0	3.8	3.1	3.1	3.8
Malaysia	2.0	1.8	1.8	1.9	1.8	1.9
Singapore	1.8	1.7	1.9	1.5	1.3	1.8
Indonesia	2.0	2.0	2.0	2.1	1.8	1.6
Thailand	1.1	1.1	1.1	1.0	1.1	1.1
India	1.0	1.0	1.0	1.1	1.1	1.0
Other	0.1	0.1	0.2	0.4	0.5	0.7
<i>Memorandum:</i>						
APEC	65.3	68.2	67.9	66.4	68.5	71.5
ASEAN	10.3	10.9	11.2	11.1	11.2	11.7
EU-28	13.1	12.8	12.0	11.6	11.1	11.3

a Commonwealth of Independent States, including certain associate and former member states.

Source: WTO Secretariat calculations, based on UN Comtrade database.

Table A2.1 Notifications to the WTO, 1 July 2016-1 July 2021

Agreement/Article	Requirement	Symbol and date of latest notification
Agreement on Agriculture		
Article 18.2	Export subsidy (ES:1)	G/AG/N/KOR/79, 09/04/2021
Article 18.2	Export subsidy (ES:1 – ES:3)	G/AG/N/KOR/58, 06/01/2017
Article 18.2	Domestic support (DS:1)	G/AG/N/KOR/82, 26/04/2021
Article 18.2	Market access, administration of tariff and other quota commitments (MA:1)	G/AG/N/KOR/56, 20/07/2016
Article 18.2	Market access, imports under tariff quotas (MA:2)	G/AG/N/KOR/77, 12/10/2020
Article 18.3	New or modified domestic support measures exempt from reduction (DS:2)	G/AG/N/KOR/83, 26/04/2021
Article 16.2	Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries (Table NF:1)	G/AG/N/KOR/75, 29/04/2020
Articles 5.7 and 18.2	Market access, special safeguard (MA:5)	G/AG/N/KOR/76, 06/10/2020
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/868, WT/REG375/N/1, 07/10/2016
Article III.3	Notification of investment-related legislation	S/C/N/894, 01/09/2017
Article VII:4	Notification of mutual recognition agreement or memorandum of cooperation	S/C/N/961, 15/10/2019
GATT 1994		
Article XXIV:7(a)	Notification of regional trade agreement	S/C/N/1054, WT/REG452/N/1, 16/04/2021
Agreement on the Implementation of Article VI of the GATT 1994 (anti-dumping)		
Article 16.4	Anti-dumping actions (<i>ad hoc</i>)	G/ADP/N/356, 9/06/2021
Article 16.4	Anti-dumping actions (taken within the preceding 6 months)	G/ADP/N/350/KOR, 22/04/2021
GATT 1994		
Article XVII:4(a)	State trading activities	G/STR/N/18/KOR, 12/10/2020
GPA 2012		
Article XVI:4 of the revised GPA	Statistics	GPA/STAT(18)/KOR/1, 05/11/2020
Appendix I	Procurement methods	GPA/THR/KOR/2, 08/01/2021
Agreement on Import Licensing		
Article 7.3	Replies to questionnaire	G/LIC/N/3/KOR/13, 02/12/2020
Articles 5.1, 5.2, 5.3	New licensing regulations and procedures	G/LIC/N/2/KOR/41, 27/10/2020
Decision on Notification Procedures for Quantitative Restrictions		
G/L/59	Quantitative restrictions	G/MA/QR/N/KOR/3, 13/10/2020
Agreement on Rules of Origin		
Paragraph 4 of Annex II	Preferential rules of origin	G/RO/N/225, 29/04/2021
WT/L/917/Add.1	Preferential rules of origin for LDCs	G/RO/LDC/N/KOR/1, 27/09/2017
Agreement on Subsidies and Countervailing Measures		
Article XVI:1, Article 25	Subsidies	G/SCM/N/343/KOR, 22/07/2019
Agreement on Safeguards		
Articles 8.2 & 12.5	Notification of the proposed suspension of concessions and other obligations	G/L/1306, G/SG/N/12/KOR/4, 02/04/2019
Agreement on Sanitary and Phytosanitary Measures		
Article 7, Annex B	Sanitary/phytosanitary regulations	179 regular notifications http://spsims.wto.org/
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/151, 17/02/2020
Article 2.10	Notification of measures affecting environment	G/TBT/N/KOR/933, 22/10/2020
Article 2.10 & 5.7	Notification of technical regulations	G/TBT/N/KOR/921, 23/09/2020

Agreement/Article	Requirement	Symbol and date of latest notification
Article 2.9	Technical regulations	351 notifications http://tbtims.wto.org
Articles 2.9 and 5.6	Proposed amendments to laws and regulations	G/TBT/N/KOR/944, 22/02/2021
Article 5.6	Proposed amendments to laws and regulations	G/TBT/N/KOR/917, 22/09/2020
Article 5.7	Adoption of domestic law	G/TBT/N/KOR/905, 13/07/2020
Agreement on Trade Facilitation		
WT/L/931	Notification of relevant institutions and their websites	G/TFA/N/KOR/1/Rev.1, 10/07/2020
Agreement on Trade-Related Aspects of Intellectual Property Rights		
Article 63.2	Notification of laws	IP/N/1/KOR/21, IP/N/1/KOR/O/4 08/06/2021 IP/N/1/KOR/22, IP/N/1/KOR/O/5 08/06/2021
Article 69	Members' contact points	IP/N/3/KOR/2, 29/11/2019

Source: WTO Secretariat.

Table A2.2 Main features of Korea's RTAs, 2021

RTAs	Main features
RTAs signed after 2016	
Regional Comprehensive Economic Partnership (RCEP) Agreement (10 ASEAN Member States, and Australia, China, Japan, Republic of Korea, and New Zealand)	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	20/11/2020
Entry into force	Upon completion of internal ratification procedures in the Parties
End of transition period for Korea	35 years after the entry into force
Coverage (selected features)	Goods, services, investment, e-commerce, etc.
Korea's merchandise trade with other RCEP members (2020)	49.12% of total imports; 49.61% of total exports
WTO consideration status	Not notified
WTO document series	Not notified
Korea–United Kingdom	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	22/08/2019
Entry into force	01/01/2021
End of transition period for Korea	2031
Coverage (selected features)	Goods and services
Korea's merchandise trade with the United Kingdom (2020)	0.93% of total imports; 0.88% of total exports
WTO consideration status	Awaiting data from the Parties
WTO document series	WT/REG431/N/1-S/C/N/1029, 7 January 2021
Korea–Five Central American countries (Costa Rica, El Salvador, Honduras, Nicaragua, and Panama)	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	21/02/2018
Entry into force	01/03/2021
End of transition period for Korea	2039
Coverage (selected features)	Goods and services
Korea's merchandise trade with the five countries (2020)	0.13% of total imports came from, 0.35% of total exports
WTO consideration status	Not notified
WTO document series	WT/REG452/N/1, S/C/N/1054, 16 April 2021
Korea–Israel	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	Not yet
Entry into force	Not yet
End of transition period for Korea	19 years after entry into force
Coverage (selected features)	Goods and services
Korea's merchandise trade with Israel (2020)	0.23% of total imports; 0.28% of total exports
WTO consideration status	Not notified
WTO document series	Not notified
Korea–Indonesia	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	18/12/2020
Entry into force	Upon completion of internal ratification procedures in the Parties
End of transition period for Korea	20 years after the entry into force
Coverage (selected features)	Goods and services, investment, etc.
Korea's merchandise trade with Indonesia (2020)	1.62% of total imports; 1.23% of total exports
WTO consideration status	Not notified
WTO document series	Not notified
RTAs entered into force before 2016	
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) 14/10/2010 (services)
End of transition period for Korea	On 1 June 2007 for goods, and on 1 May 2009 for services
Coverage (selected features)	Goods and services. A Korea-ASEAN FTA in Trade in Investment entered into force in September 2009 for Korea.
Korea's merchandise trade with ASEAN (2020)	11.73% of total imports; 17.37% of total exports
WTO consideration status	Factual presentation issued

RTAs	Main features
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) (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 10-digit HS items.
Coverage	Goods
Korea's merchandise trade with other APTA members (2020)	24.45% of total imports; 28.43% 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–Australia	
Type of agreement	Free trade agreement and economic integration agreement
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 (2020)	4.00% of total imports; 1.21% of total exports
WTO consideration status	Factual presentation issued
WTO document series	WT/REG359/N/1-S/C/N/786, 22 December 2014
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 (2020)	0.94% of total imports; 1.07% of total exports
WTO consideration status	Factual presentation issued
WTO document series	WT/REG362/N/1-S/C/N/789, 20 January 2015
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 10 years, under a phased elimination schedule. The transition period for Korea ended in 2020.
Coverage (selected features)	Goods, services, investment
Korea's merchandise trade with Chile (2020)	0.75% of total imports; 0.17% of total exports
WTO consideration status	Factual presentation issued
WTO document series	WT/REG169/N/1-S/C/N/302, 19 April 2004
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 (2020)	23.29% of total imports; 25.85% of total exports
WTO consideration status	Factual presentation issued
WTO document series	WT/REG370/N/1-S/C/N/854, 2 March 2016
Korea–Colombia	
Type of agreement	Free trade agreement and economic integration agreement
Date of signature	21/02/2013
Entry into force	15/07/2016
End of transition period for Korea	2035
Coverage (selected features)	Goods and services
Korea's merchandise trade with Colombia (2020)	0.15% of total imports; 0.12% of total exports
WTO consideration status	Factual presentation issued

RTAs	Main features
WTO document series	WT/REG375/N/1-S/C/N/868, 7 October 2016
Korea–EFTA (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 liberalization)	Korea eliminated tariffs on 88%-88.5% of its tariff lines (excluding basic agricultural items) by 2016, and ended its transition period by 2016
Coverage (selected features)	Goods and most services
Korea's merchandise trade with EFTA members (2020)	0.92% of total imports; 0.43% of total exports
WTO consideration status	Factual presentation issued
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 (2020)	11.79% of total imports; 9.31% of total exports
WTO consideration status	Factual presentation issued
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. The end of implementation period for Korea is 2016.
Coverage (selected features)	Goods, services
Korea's merchandise trade with India (2020)	1.05% of total imports; 2.33% of total exports
WTO consideration status	Factual presentation issued
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–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 (2020)	0.25% of total imports; 0.29% of total exports
WTO consideration status	Factual presentation issued
WTO document series	WT/REG367/N/1-S/C/N/855, 4 January 2016
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 10 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 (2020)	0.59% of total imports; 0.09% of total exports
WTO consideration status	Factual presentation issued
WTO document series	WT/REG298/N/1-S/C/N/598, 10 August 2011

RTAs	Main features
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	2016
Coverage (selected features)	Goods and services
Korea's merchandise trade with Singapore (2020)	1.81% of total imports; 1.92% of total exports
WTO consideration status	Factual presentation issued
WTO document series	WT/REG210/N/1-S/C/N/363, 24 February 2006
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 (2020)	0.28% of total imports; 1.08% of total exports
WTO consideration status	Factual presentation issued
WTO document series	WT/REG339/N/1, 1 May 2013
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 5 years, with virtually all remaining tariffs eliminated within 10 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 (2020)	12.36% of total imports; 14.51% of total exports
WTO consideration status	Factual presentation issued
WTO document series	WT/REG311/N/1-S/C/N/621, 16 March 2012
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 (2020)	4.40% of total imports; 9.47% of total exports
WTO consideration status	Factual presentation issued
WTO document series	WT/REG371/N/1-S/C/N/861, 10 March 2016

Source: WTO Secretariat, based on information from the WTO RTA database. Viewed at: <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>; information provided by the authorities; and WTO Secretariat calculations based on UN Comtrade database.

Table A3.1 Tariff summary, 2021

	Number of lines	Average (%)	Range (%)	Coefficient of variation (%)	Duty free (%)
Total	12,242	13.9	0-887.4	4.2	19.6
HS Chapters 01-24	2,157	50.7	0-887.4	2.5	2.5
HS Chapters 25-97	10,085	6.0	0-754.3	2.2	23.3
By WTO category					
WTO agricultural products	1,726	60.4	0-887.4	2.4	5.4
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	500	78.6	0-887.4	2.2	0.2
Coffee and tea	53	51.4	2-513.6	2.6	0.0
Cereals and preparations	212	154.8	0-800.3	1.6	0.5
Oils seeds, fats, oil and their products	159	39.0	0-630	3.0	2.5
Sugars and confectionery	34	18.0	3-243	2.3	0.0
Beverages, spirits and tobacco	110	30.3	8-270	0.9	0.0
Cotton	10	0.0	0-0	0.0	100.0
Other agricultural products, n.e.s.	384	29.7	0-754.3	2.7	17.4
WTO non-agricultural products	10,516	6.3	0-50	0.7	22.0
Fish and fishery products	590	17.0	0-32	0.3	1.2
Minerals and metals	1,777	4.8	0-8	0.7	25.9
Chemicals and photographic supplies	2,288	5.6	0-50	0.5	8.4
Wood, pulp, paper and furniture	677	2.9	0-13	1.3	57.0
Textiles	1,006	8.7	0-13	0.3	1.6
Clothing	321	12.5	8-13	0.1	0.0
Leather, rubber, footwear and travel goods	365	8.7	0-16	0.4	1.4
Non-electric machinery	1,286	5.1	0-13	0.7	32.4
Electric machinery	740	4.1	0-13	0.9	43.1
Transport equipment	316	6.2	0-10	0.6	21.2
Non-agricultural products, n.e.s.	1,026	4.4	0-13	0.9	42.7
Petroleum	124	5.5	0-8	0.4	1.6
By ISIC sector					
ISIC 1 – Agriculture, hunting and fishing	899	53.2	0-800.3	2.6	13.0
ISIC 2 – Mining	196	2.4	0-8	0.7	21.9
ISIC 3 – Manufacturing	11,146	10.9	0-887.4	4.1	20.1
Manufacturing excluding food processing	9,771	5.9	0-754.3	1.6	22.7
Electrical energy	1	5.0	5	0.0	0.0
By stage of processing					
First stage of processing	1,582	41.0	0-887.4	3.1	14.5
Semi-processed products	3,847	9.3	0-800.3	4.6	15.4
Fully processed products	6,813	10.2	0-800.3	3.2	23.2
By HS section					
01 Live animals and products	805	20.4	0-243	1.0	2.6
02 Vegetable products	699	107.9	0-887.4	1.9	4.1
03 Fats and oils	105	13.7	2-630	4.5	0.0
04 Prepared food, beverages and tobacco	548	29.3	0-754.3	2.4	0.5
05 Mineral products	388	3.8	0-8	0.6	11.6
06 Chemicals and products thereof	2,222	7.4	0-754.3	3.7	8.9
07 Plastics, rubber, and articles thereof	379	6.6	0-8	0.2	1.6
08 Raw hides and skins, leather, and its products	236	7.8	0-16	0.6	11.0
09 Wood and articles of wood	344	5.7	0-10	0.6	14.5
10 Pulp of wood, paper and paperboard	285	0.0	0-0	0.0	100.0
11 Textiles and textile articles	1,282	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	343	7.8	0-8	0.1	0.3
14 Precious stones and metals, pearls	115	5.1	0-8	0.5	4.3
15 Base metals and articles thereof	1,029	4.2	0-8	0.9	39.9
16 Machinery, electrical equipment, etc.	2,093	4.5	0-13	0.8	39.0
17 Transport equipment	345	5.9	0-10	0.6	24.6
18 Precision equipment	548	4.3	0-8	0.9	44.0
19 Arms and ammunition	81	3.4	0-8	1.2	58.0
20 Miscellaneous manufactured articles	280	5.4	0-13	0.7	32.5
21 Works of art, etc.	15	0.0	0-0	0.0	100.0

Note: Excluding in-quota rates and 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 MFN applied tariffs and ad valorem equivalents of their specific duty component, 2021

HS code	Description	MFN 2021 ^a	AVE
0301994090	Other	28% or KRW 2,052/kg	28.0%
0409000000	Natural honey	243% or KRW 1,864/kg	13.0%
0703101000	Onions	135% or KRW 180/kg	135.0%
0703201000	Fresh peeled garlic	360% or KRW 1,800/kg	359.7%
0703209000	Fresh garlic other than peeled	360% or KRW 1,800/kg	343.3%
0706101000	Carrots	30% or KRW 134/kg	30.2%
0709592000	Oak mushrooms	40% or KRW 1,625/kg	44.7%
0709601000	Sweet peppers (bell type)	270% or KRW 6,210/kg	0.0%
0709609000	Fruits of the genus <i>Capsicum</i> or of the genus <i>Pimenta</i>	270% or KRW 6,210/kg	0.0%
0711901000	Garlic	360% or KRW 1,800/kg	0.0%
0711905091	Fruits of the genus <i>Capsicum</i> or of the genus <i>Pimenta</i>	270% or KRW 6,210/kg	0.0%
0712200000	Onions	135% or KRW 180/kg	101.7%
0712319000	Mushrooms other than cultivated	30% or KRW 1,218/kg	0.5%
0712320000	Wood ears (<i>Auricularia</i> spp.)	30% or KRW 1,218/kg	22.2%
0712330000	Jelly fungi (<i>Tremella</i> spp.)	30% or KRW 1,218/kg	20.0%
0712391020	Oak mushrooms	40% or KRW 1,625/kg	40.8%
0712391030	Ling chiu mushrooms	30% or KRW 842/kg	30.5%
0712391090	Other mushrooms	30% or KRW 1,218/kg	20.9%
0712901000	Garlic	360% or KRW 1,800/kg	198.3%
0712902010	Bracken	30% or KRW 1,807/kg	27.1%
0712902030	Welsh onions	30% or KRW 1,159/kg	30.0%
0712902040	Carrots	30% or KRW 864/kg	25.3%
0712902094	Flowering ferns	30% or KRW 1,446/kg	0.0%
0714201000	Fresh sweet potatoes	385% or KRW 338/kg	..
0802410000	Chestnuts in shell	219.4% or KRW 1,470/kg	66.8%
0802420000	Chestnuts shelled	219.4% or KRW 1,470/kg	0.0%
0802901010	Pine nuts in shell	566.8% or KRW 2,664/kg	0.0%
0802901020	Pine nuts shelled	566.8% or KRW 2,664/kg	127.0%
0810903000	Jujubes, fresh	611.5% or KRW 5,800/kg	0.0%
0813402000	Jujubes, dried	611.5% or KRW 5,800/kg	47.0%
0904210000	Fruits of the genus <i>Capsicum</i> or of the genus <i>Pimenta</i> , dried	270% or KRW 6,210/kg	218.2%
0904220000	Fruits of the genus <i>Capsicum</i> or of the genus <i>Pimenta</i> , dried	270% or KRW 6,210/kg	236.5%
0910111000	Ginger, fresh or chilled	377.3% or KRW 931/kg	303.3%
0910112000	Ginger, dried	377.3% or KRW 931/kg	372.0%
0910119000	Ginger, other than fresh, chilled or dried	377.3% or KRW 931/kg	374.0%
0910121000	Ginger, fresh or chilled	377.3% or KRW 931/kg	0.0%
0910122000	Ginger, dried	377.3% or KRW 931/kg	303.9%
0910129000	Ginger, other than fresh, chilled or dried	377.3% or KRW 931/kg	244.0%
1003102000	Unhulled barley	324% or KRW 326/kg	..
1003103000	Naked barley	299.7% or KRW 361/kg	..
1003902000	Unhulled barley	324% or KRW 326/kg	0.6%
1003903000	Naked barley	299.7% or KRW 361/kg	0.0%
1201101000	Soya beans for bean sprouts	487% or KRW 956/kg	0.0%
1201109000	Other soya beans	487% or KRW 956/kg	0.0%
1201901000	Soya beans for soya beans oil and oil cake	487% or KRW 956/kg	0.0%
1201902000	Soya beans for feeding	487% or KRW 956/kg	0.0%
1201903000	Soya beans for bean sprouts	487% or KRW 956/kg	3.9%
1201909000	Other soya beans	487% or KRW 956/kg	5.4%
1207400000	Sesame seeds	630% or KRW 6,660/kg	30.4%
1207991000	Perilla seeds	40% or KRW 410/kg	35.4%
1515500000	Sesame oil and its fractions	630% or KRW 12,060/kg	205.1%

HS code	Description	MFN 2021 ^a	AVE
1902192000	Chinese vermicelli	26% or KRW 206/kg	25.0%
2306901000	Oil cake of sesame seeds	63% or KRW 72/kg	0.0%
3706101000	Cinematographic film	KRW 195/m or 6.5%	..
3706102000	Cinematographic film	KRW 4/m or 6.5%	..
3706103010	Cinematographic film	KRW 26/m or 6.5%	..
3706103020	Cinematographic film	KRW 468/m or 6.5%	..
3706103030	Cinematographic film	KRW 78/m or 6.5%	..
3706104000	Cinematographic film	KRW 26/m or 6.5%	0.0%
3706105010	Cinematographic film	KRW 1,092/m or 6.5%	3.5%
3706105020	Cinematographic film	KRW 182/m or 6.5%	7.5%
3706106010	Cinematographic film	KRW 1,560/m or 6.5%	..
3706106020	Cinematographic film	KRW 260/m or 6.5%	..
3706901000	Cinematographic film	KRW 9/m or 6.5%	..
3706902000	Cinematographic film	KRW 5/m or 6.5%	..
3706903010	Cinematographic film	KRW 26/m or 6.5%	..
3706903020	Cinematographic film	KRW 468/m or 6.5%	..
3706903030	Cinematographic film	KRW 78/m or 6.5%	..
3706904000	Cinematographic film	KRW 26/m or 6.5%	..
3706905010	Cinematographic film	KRW 25/m or 6.5%	0.0%
3706905020	Cinematographic film	KRW 8/m or 6.5%	0.3%
3706906010	Cinematographic film	KRW 1,092/m or 6.5%	..
3706906020	Cinematographic film	KRW 182/m or 6.5%	4.6%
3822003058	Diagnostic or laboratory reagents	KRW 182/m or 6.5%	..
3822003059	Diagnostic or laboratory reagents	KRW 4/m or 6.5%	..
3822003060	Diagnostic or laboratory reagents	KRW 26/m or 6.5%	6.5%
3822003061	Diagnostic or laboratory reagents	KRW 468/m or 6.5%	..
3822003062	Diagnostic or laboratory reagents	KRW 78/m or 6.5%	..
3822003063	Diagnostic or laboratory reagents	KRW 1,092/m or 6.5%	..
3822003064	Diagnostic or laboratory reagents	KRW 1,560/m or 6.5%	..
3822003065	Diagnostic or laboratory reagents	KRW 260/m or 6.5%	..
3822003066	Diagnostic or laboratory reagents	KRW 8/m or 6.5%	..
3822003067	Diagnostic or laboratory reagents	KRW 25/m or 6.5%	2.6%
5001000000	Silkworm cocoons suitable for reeling	51% or KRW 5,276/kg	0.0%
5002001020	Raw silk (not thrown)	51.7% or KRW 17,215/kg	0.0%
5002001030	Raw silk (not thrown)	51.7% or KRW 17,215/kg	..
5002001040	Raw silk (not thrown)	51.7% or KRW 17,215/kg	0.0%
5002001050	Raw silk (not thrown)	51.7% or KRW 17,215/kg	0.0%

.. Not available.

a Whichever is the greater for agricultural items; whichever is the lower for manufacturing products.

Note: AVEs are calculated using 2019 import data.

Source: Information provided by the authorities.

Table A3.3 Adjustment tariff, 2020 and 2021

HS	Description	General (%)	2020 (%)	2021 (%)
0301.92	Eels (<i>Anguilla</i> spp.), excluding glass eels for aquaculture	10	20	20
0301.99	Sea-bream, excluding fry (for aquaculture)	10	28% or KRW 2,052/kg, whichever is greater	28% or KRW 2,052/kg, whichever is greater
0301.99	Sea bass, excluding fry (for aquaculture)	10	28	28
0303.59	Pacific saury (<i>Cololabis saira</i>), of a total length exceeding 22 cm from head to tail		26	24
0303.67	Alaska Pollack (<i>Theragra chalcogramma</i>)	10	22	22
0303.69	Alaska Pollack, excluding <i>Theragra chalcogramma</i>	10	22	22
0306.95	Shrimps and prawns, salted or in brine	20	32	32
0307.43	Frozen squid, excluding cuttlefish, squid (<i>Loligo</i>) and fish surimi	10	22	22
0709.59	Oak mushrooms	30	40% or KRW 1,625/kg, whichever is greater	40% or KRW 1,625/kg, whichever is greater
0712.39	Oak mushrooms	30	40% or KRW 1,625/kg, whichever is greater	40% or KRW 1,625/kg, whichever is greater
1902.19	Chinese vermicelli	8	26% or KRW 206/kg, whichever is greater	26% or KRW 206/kg, whichever is greater
1904.90	Steamed or boiled rice in grain form, not containing cocoa	8	50	50
2103.90	Sauces, preparations thereof and mixed seasonings of the following: containing more than 20% of <i>Capsicum</i> or garlic or onion or ginger; more than 40% of a mixture thereof Oriental sauces and bean paste; other mixed seasonings, Gochujang	8	45	45
		8	32	32
2710.12	Naphtha, natural gas liquid	0	0.5	0.5
2710.20	Naphtha, natural gas liquid	0	0.5	0.5
4412.31	Other plywood, consisting solely of sheets of wood (other than bamboo), each ply not exceeding 6mm thickness, excluding at least one outer ply of tropical wood specified in National Note 1 to this chapter	8	10	10
4412.33	Other, with at least one outer ply of non-coniferous wood of the species alder (<i>Alnus</i> spp.), ash (<i>Fraxinus</i> spp.), beech (<i>Fagus</i> spp.), birch (<i>Betula</i> spp.), cherry (<i>Prunus</i> spp.), chestnut (<i>Castanea</i> spp.), elm (<i>Ulmus</i> spp.), eucalyptus (<i>Eucalyptus</i> spp.), hickory (<i>Carya</i> spp.), horse chestnut (<i>Aesculus</i> spp.), lime (<i>Tilia</i> spp.), maple (<i>Acer</i> spp.), oak (<i>Quercus</i> spp.), plane tree (<i>Platanus</i> spp.), poplar and aspen (<i>Populus</i> spp.), robinia (<i>Robinia</i> spp.), tulipwood (<i>Liriodendron</i> spp.) or walnut (<i>Juglans</i> spp.), of a thickness more than 6 mm	8	10	10
4412.34	Other, with at least one outerply of non-coniferous wood not specified under Subheading 4412.33, of a thickness more than 6mm	8	10	10
4412.39	Other, with both outer plies of coniferous wood, of a thickness more than 6 mm	8	10	10
4412.99	Other, of a whole thickness not less than 6 mm, with each ply not exceeding 6 mm thickness	8	10	10

Source: Data provided by the authorities.

Table A3.4 Tariff quotas on agricultural products, 2019 and 2021

HS code	Description	In-quota rate 2021 (%)	Out-of-quota rate 2021 (%)	Quota levels ^a 2019
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 <i>Gallus domesticus</i> : pure-bred breeding animals	0	9	461,000 birds
0105941000	Live poultry: weighing not more than 2,000 g: fowls of the species <i>Gallus domesticus</i> 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	89	130 tonnes

HS code	Description	In-quota rate 2021 (%)	Out-of-quota rate 2021 (%)	Quota levels ^a 2019
0402919000	Other milk and cream not containing added sugar or other sweetening matter	40	89	130 tonnes
0402991000	Other milk and cream	40	89	130 tonnes
0402999000	Other milk and cream	40	89	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: demineralized (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
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 <i>Gallus domesticus</i>	30	41.6	19,515.8 tonnes
0409000000	Natural honey	20	243% or KRW 1,864/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 KRW 180/kg ^b	20,645 tonnes
0703201000	Garlic: peeled	50	360% or KRW 1,800 kg ^b	14,467 tonnes
0703209000	Garlic: other than peeled	50	360% or KRW 1,800/kg ^b	14,467 tonnes

HS code	Description	In-quota rate 2021 (%)	Out-of-quota rate 2021 (%)	Quota levels ^a 2019
0709601000	Sweet peppers (bell type)	50	270% or KRW 6,210/kg ^b	7,185 tonnes
0709609000	Other pepper	50	270% or KRW 6,210/kg ^b	7,185 tonnes
0711901000	Garlic – provisional preserved	50	360% or KRW 1,800/kg ^b	14,467 tonnes
0711905091	Fruits of the genus <i>Capsicum</i> or other genus <i>Pimenta</i> – provisionally preserved	50	270% or KRW 6,210/kg ^b	7,185 tonnes
0712200000	Onions – dried	50	135% or KRW 180/kg ^b	20,645 tonnes
0712901000	Garlic	50	360% or KRW 1,800/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	1,000,000 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 KRW 338/kg ^b	18,535 tonnes
0714202000	Sweet potatoes – dried	20	385	18,535 tonnes
0714203000	Sweet potatoes – chilled	20	385	18,535 tonnes
0714309000	Yam (<i>Discorea</i> spp./ other)	20	385	326.7 tonnes
0714409000	Taro (<i>Colocasia</i> spp./ other)	20	385	326.7 tonnes
0714509000	Yautia (<i>Xanthosoma</i> 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 KRW 1,470/kg ^b	2,170 tonnes
0802420000	Chestnuts – shelled	50	219.4% or KRW 1,470/kg ^b	2,170 tonnes
0802901010	Pine nuts in shell	30	566.8% or KRW 2,664/kg ^b	52.9 tonnes
0802901020	Pine nuts shelled	30	566.8% or KRW 2,664/kg ^b	52.9 tonnes
0805100000	Oranges	50	50	57,017 tonnes
0805211000	Korean citrus	50	144	2,097 tonnes
0805219000	Other mandarins	50	144	2,097 tonnes
0805220000	Clementine	50	144	2,097 tonnes
0805290000	Similar citrus hybrids	50	144	2,097 tonnes
0805502020	Citrus <i>latifolia</i>	50	144	2,097 tonnes
0805900000	Other citrus	50	144	2,097 tonnes
0810903000	Jujubes	50	611.5% or KRW 5,800/kg ^b	259.5 tonnes
0813402000	Jujubes	50	611.5% or KRW 5,800/kg ^b	259.5 tonnes
0902100000	Green tea	40	513.6	7.8 tonnes
0902200000	Green tea	40	513.6	7.8 tonnes

HS code	Description	In-quota rate 2021 (%)	Out-of-quota rate 2021 (%)	Quota levels ^a 2019
0904210000	Fruits of the genus <i>Capsicum</i> or <i>Pimenta</i> (dried/neither crushed nor ground)	50	270% or KRW 6,210/kg ^b	7,185 tonnes
0904220000	Fruits of the genus <i>Capsicum</i> or <i>Pimenta</i> (crushed or ground)	50	270% or KRW 6,210/kg ^b	7,185 tonnes
0910111000	Ginger (neither crushed nor ground/fresh or chilled)	20	377.3% or KRW 931/kg ^b	1,860 tonnes
0910112000	Ginger (neither crushed nor ground/dried)	20	377.3% or KRW 931/kg ^b	1,860 tonnes
0910119000	Ginger (neither crushed nor ground/other)	20	377.3% or KRW 931/kg ^b	1,860 tonnes
0910121000	Ginger (crushed or ground/fresh or chilled)	20	377.3% or KRW 931/kg ^b	1,860 tonnes
0910122000	Ginger (crushed or ground/dried)	20	377.3% or KRW 931/kg ^b	1,860 tonnes
0910129000	Ginger (crushed or ground/other)	20	377.3% or KRW 931/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 KRW 326/kg ^b	23,582 tonnes
1003103000	Naked barley (seed)	20	299.7% or KRW 361/kg ^b	23,582 tonnes
1003109000	Other barley (seed)	20	299.7	23,582 tonnes
1003901000	Malting barley (other)	30	513	30,000 tonnes
1003902000	Unhulled barley (other)	20	324% or KRW 326/kg ^b	23,582 tonnes
1003903000	Naked barley (other)	20	299.7% or KRW 361/kg ^b	23,582 tonnes
1003909000	Other barley (other)	20	299.7	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
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
10082110000	Foxtail millet for seed	3	18	0.4 tonnes
1008400000	Fonio (<i>Digitaria</i> spp.)	3	800.3	1,328 tonnes
1008500000	Quinoa (<i>Chenopodium quinoa</i>)	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

HS code	Description	In-quota rate 2021 (%)	Out-of-quota rate 2021 (%)	Quota levels ^a 2019
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 or flaked (rice)	5	513	408,700 tonnes
1104192000	Rolled or 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
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 KRW 956/kg ^b	185,787 tonnes
1201109000	Soya beans (seed/other)	5	487% or KRW 956/kg ^b	185,787 tonnes
1201901000	Soya beans (other/for soya bean oil and oil cake)	5	487% or KRW 956/kg ^b	846,365 tonnes

HS code	Description	In-quota rate 2021 (%)	Out-of-quota rate 2021 (%)	Quota levels ^a 2019
1201902000	Soya beans (other/for feeding)	5	487% or KRW 956/kg ^b	846,365 tonnes
1201903000	Soya beans (other/for bean sprouts)	5	487% or KRW 956/kg ^b	185,787 tonnes
1201909000	Soya beans (other/other)	5	487% or KRW 956/kg ^b	185,787 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 KRW 6,660/kg ^b	6,731 tonnes
1211201110	Ginseng root (raw ginseng/ wild-simulated 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
1211203100	Leaves and stems of ginseng	20	754.3	56.8 tonnes
1211203200	Ginseng seed	20	754.3	56.8 tonnes
1211209300	Ginseng, fresh, chilled or dried	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 KRW 12,060/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

HS code	Description	In-quota rate 2021 (%)	Out-of-quota rate 2021 (%)	Quota levels ^a 2019
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 19.05)	5	513	408,700 tonnes
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	5	63% or KRW 72/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
2309909090	Animal feeding preparations	5	50.6	4,171.4 tonnes
3301904520	Oleoresin extracts of red ginseng	20	754.3	56.8 tonnes
3505103000	Roasted starches	8	385.7	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

HS code	Description	In-quota rate 2021 (%)	Out-of-quota rate 2021 (%)	Quota levels ^a 2019
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 KRW 5,276/kg ^b	1,143 tonnes
5002001020	Raw silk more than 20 decitex	8	51.7% or KRW 17,215/kg ^b	2,254 tonnes
5002001030	Raw silk more than 20 decitex	8	51.7% or KRW 17,215/kg ^b	2,254 tonnes
5002001040	Raw silk more than 20 decitex	8	51.7% or KRW 17,215/kg ^b	2,254 tonnes
5002001050	Raw silk more than 20 decitex	8	51.7% or KRW 17,215/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 10-digit item. These product groups are found in WTO document G/AG/N/KOR/77, 12 October 2020.

b Whichever is greater.

Source: Data provided by the authorities.

Table A3.5 Fill ratios for main agricultural tariff-rate quotas, 2019

(%)

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	Imports from RTA/FTA partners
Fowls for pure-bred breeding	42.5	Imports from RTA/FTA partners
Skim milk powder	99.7	n.a.
Whole milk powder	99.9	n.a.
Evaporated milk	19.6	Domestic production meets the demand
Whey	39.4	Imports from RTA/FTA partners
Butter	100	n.a.
Bird's eggs	0	Lack of demand
Natural honey	23.1	Imports from RTA/FTA partners
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	28.2	Increase in domestic production
Onions	0	Increase in domestic production
Garlic	0	Increase in domestic production
Red peppers	13	Increase in domestic production
Beans (red and green)	100	n.a.
Manioc	100	n.a.
Manioc pellets	11.1	Lack of demand
Sweet potatoes	0.5	Lack of demand
Roots and tubers	100	n.a.
Chestnuts	100	n.a.
Pine nuts	100	n.a.
Oranges	0	Increase in imports from RTA/FTA partners
Korean citrus	52.1	Lack of demand
Jujubes	98.3	n.a.
Green tea	66.7	n.a.
Ginger	100	n.a.
Rye for seed	99.9	n.a.
Ginseng	0.0	Lack of demand
Malting barley	100	n.a.
Barley	82.3	n.a.
Oats for seed	99.9	n.a.
Corn	100	n.a.
Rice	100	n.a.
Grain sorghum for seed	13.6	Lack of demand
Foxtail millet for seed	0	Lack of demand
Buck wheat	95.5	n.a.
Other processed cereals	84.4	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	46.8	Increase in imports from RTA/FTA partners
Sesame seeds	100	n.a.
Forage products	100	n.a.
Sesame oil	66.1	n.a.
Lactose	66.8	n.a.
Artificial honey	100	n.a.
Undenatured ethyl alcohol	99.1	n.a.
Flour of meat	6.6	Lack of demand due to BSE
Oil cake	0	Domestic production meets the demand
Other mixed feeds	100	n.a.

Commodity grouping	TRQ fill ratio	Reason for low TRQ fill ratio
Supplementary feeds	100	n.a.
Silkworm cocoons	0	Lack of demand
White silk	0	Lack of demand

n.a. Not applicable.

Source: WTO document G/AG/N/KOR/77, 12 October 2020.

Table A3.6 Autonomous tariff quotas, 2021

HS code	Item	Description	General (%)	In-quota (%)	Quota
030192	Eels (<i>Anguilla</i> spp.)	Young eels (exceeding 0.3 g and not exceeding 50 g per unit, for aquaculture)	5.0	3.0	50 MT
040410	Whey and modified whey	For feeding	20.0	0.0	22,000 MT
071410	Manioc(cassava)	Dried chips for alcoholic beverages	20.0	10.0	131,000 MT
071410	Manioc(cassava)	Pellets for feeding	7.0	0.0	All imported
100390	Unhulled barley	For feeding	5.0	0.0	40,000 MT
100490	Oats	For feeding	3.0	0.0	All imported
100590	Maize(corn)	For feeding	3.0	0.0	10,000,000 MT
120190	Soya beans	For soya beans oil and oil cake	3.0	0.0	1,200,000 MT
120729	Cotton seeds	For feeding	2.0	0.0	All imported
121410	Lucerne (alfalfa) mean and pellets	For feeding	1.0	0.0	All imported
121490	Lucerne (alfalfa) bale	For feeding	1.0	0.0	All imported
121490	Fodder roots	For feeding	20.0	0.0	600,000 MT
230800	Other	For feeding	5.0	0.0	
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	0.0	30,000 MT
170191	Containing added flavouring or colouring matter		30.0	5.0	100,000 MT
170199	Other		30.0	5.0	
170211	Lactose	For feeding	20.0	0.0	6,500 MT
170219	Other	Lactose	20.0	0.0	
230320	Beet-pulp, bagasse and other waste of sugar manufacture	For feeding	5.0	0.0	All imported
230320	Beet-pulp, bagasse and other waste of sugar manufacture	For mushroom cultivation	5.0	0.0	25,000 MT
230330	Brewing or distilling dregs and waste	For feeding	2.0	0.0	All imported
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	0.0	2,450,000 MT
230800	Cotton seed hulls	For feeding	5.0	0.0	All imported
230990	Preparations of a kind used in animal feeding		5.0	0.0	10,000 MT
270400	Coke (of coal)		3	0.0	All imported
270900	Petroleum oils and oils obtained from bituminous minerals, crude	For manufacturing naphtha	3.0	0.5	195,000,000 BBL
270900	Petroleum oils and oils obtained from bituminous minerals, crude	For manufacturing propane or butanes	3.0	2.0	33,000,000 BBL

HS code	Item	Description	General (%)	In-quota (%)	Quota
271111	Natural gas (liquefied)		3.0	2.0	All imported (1.1~3.31 and 10.1~12.31)
271121	Natural gas (in gaseous state)		3.0	2.0	All imported (1.1~3.31 and 10.1~12.31)
271112	LPG	Propane	3.0	2.0	All imported
271113	LPG	Butanes	3.0	2.0	All imported
280300	Carbon (carbon blacks and other forms of carbon not elsewhere specified or included).	For manufacturing secondary batteries	8.0	0.0	All imported
280469	Other	Silicone metal	5.0	0.0	All imported
282550	Copper hydroxide	Material for manufacturing agricultural chemicals	2.0	0.0	All imported
282741	Copper chloride oxides, Copper chloride hydroxide	(registered material under the Agricultural Chemicals Management Act)			
283325	Of copper				
290930	Aromatic ethers and their halogenated, sulphonated, nitrated or nitrosated derivatives				
290950	Ether-phenols, ether-alcohol-phenols and their halogenated, sulphonated, nitrated or nitrosated derivatives Material for manufacturing agricultural chemicals				
291479	Other				
291539	Other				
291619	Other				
291620	Cyclanic, cyclenic or cycloterpenic monocarboxylic acids, their anhydrides, halides, peroxides, peroxyacids and their derivatives				
291631	Benzoic acid, its salts and esters				
291830	Carboxylic acids with aldehyde or ketone function but without other oxygen function, their anhydrides, halides, peroxides, peroxyacids and their derivatives				
291899	Other				
291990	Salts of phosphoric esters				
292011	Parathion (ISO) and parathion-methyl (ISO) (methyl-parathion)				
292019	Other				
292090	Other				
292142	Aniline derivatives and their salts				
292143	Toluidines and their derivatives; salts thereof				
292149	Other				
292250	Amino-alcohol-phenols, amino-acid-phenols and other amino-compounds with oxygen function				

HS code	Item	Description	General (%)	In-quota (%)	Quota
292412	Fluoroacetamide (ISO), monocrotophos (ISO) and phosphamidon (ISO)	Phosphamidon (registered material under the Agricultural Chemicals Management Act)			
292419	Other	Material for manufacturing agricultural chemicals (registered material under the Agricultural Chemicals Management Act)			
292421	Ureines and their derivatives; salts thereof				
292425	Alachlor (ISO)				
292429	Other				
292519	Other				
292529	Other				
292690	Other				
292800	Organic derivatives of hydrazine or of hydroxylamine				
293020	Thiocarbamates and dithiocarbamates				
293030	Thiuram mono-, di- or tetrasulphides	Thiuramdisulphides (registered material under the Agricultural Chemicals Management Act)			
293090	Other	Material for manufacturing chemicals (registered material under the Agricultural Chemicals Management Act)			
293139	Other				
293190	Other				
293219	Other				
293220	Lactones				
293299	Other				
293311	Phenazone (antipyrin) and its derivatives				
293319	Other				
293329	Other				
293339	Other				
293349	Other				
293359	Other				
293369	Other				
293379	Other lactams				

HS code	Item	Description	General (%)	In-quota (%)	Quota
293399	Other				
293410	Compounds containing an unfused thiazole ring (whether or not hydrogenated) in the structure				
293420	Compounds containing in the structure a benzothiazole ring-system (whether or not hydrogenated), not further fused				
293499	Other				
293590	Other				
294120	Streptomycins and their derivatives; salts thereof				
294130	Tetracyclines and their derivatives; salts thereof				
294190	Other				
340213	Non-ionic				
380891	Insecticides				
380892	Fungicides				
380893	Herbicides, anti-sprouting products and plant-growth regulators	Herbicides, plant-growth regulators (registered material under the Agricultural Chemicals Management Act)			
382499	Intermediate products of the antibiotics manufacturing process				
282590	Other	NCM Precursor (for manufacturing secondary battery)	8.0	0.0	All imported
283329	Cobalt sulphates	For manufacturing secondary battery	5.0	0.0	All imported
284190	Other	1. Lithium cobalt oxide (for manufacturing secondary battery) 2. Lithium nickel cobalt manganese oxide (for manufacturing secondary battery) 3. Lithium nickel cobalt aluminium oxide (for manufacturing secondary battery)	8.0	0.0	All imported
292159	Other	1. Xylene diamine (XDA) (for manufacturing Xylendisocyanate (XDI)) 2. For polymer mixing raw material (TFMB) (for manufacturing flex supply display)	8.0	0.0	All imported
292249	5-amino-2,4,6-triiodo isophthaloyl dichloride	For contrast medium	8	0.0	All imported
292390	Quaternary ammonium salts and hydroxides; lecithins and other phosphoaminolipids, whether or not chemically defined (other)	Tetraethylammonium Tetrafluoroborate (for manufacturing secondary battery)	8	0.0	All imported
310210	Urea	Fertilizer, for making fertilizer	2.0	0.0	All imported
320411	Disperse dyes and preparations based thereon (other)		4.0	0.0	All imported

HS code	Item	Description	General (%)	In-quota (%)	Quota
320611	Containing 80 % or more by weight of titanium dioxide calculated on the dry matter		8.0	0.0	All imported
320890	Other	Ionomer variance solution (for fuel cell manufacturing)	8.0	0.0	All imported
380110	Artificial graphite	For manufacturing secondary battery	8.0	0.0	All imported
380130	Carbonaceous pastes For electrodes and similar pastes for furnace lining		8.0	0.0	All imported
381512	Reaction initiators, reaction accelerators and catalytic preparations not elsewhere specified or included	With platinum metal or platinum compounds (for fuel cell manufacturing)	8.0	0.0	All imported
382499	Prepared binders for foundry moulds or cores; chemical products and preparations of the chemical or allied industries (including those consisting of mixtures of natural products), not elsewhere specified or included (other)	Graphite compounds and Electrolytes (for manufacturing secondary battery)	8.0	0.0	All imported
390110	Polyethylene	Excluding of pulp	8.0	0.0	91,800 MT
390120	Polyethylene	Except for pulp	8.0	0.0	36,000 MT
390140	Polyethylene	For agriculture	8.0	0.0	18,000 MT
390190	Other	Polyethylene (for manufacturing mobile phone plastic lens)	8.0	0.0	All imported
390469	Polyethylene	Polyvinyl fluoride (PVDF) binder (for manufacturing secondary battery)	8.0	0.0	All imported
390740	Polycarbonates	For camera manufacturing	8.0	0.0	All imported
392119	Other plastics	1. Separator 2. Ion-exchange membrane (for manufacturing secondary battery)	8.0	0.0	All imported
392190	Of polymers of propylene	Pouch (for manufacturing secondary battery)	8.0	0.0	All imported
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	1.0	All imported
410419			3.0	1.0	
410441			3.0	1.0	
410449			3.0	1.0	
500200	Raw silk (not thrown)		3.0	0.0	200 MT
520512	Single yarn, unbleached or not mercerized	Measuring note more than 370.37 decitex but not less than 232.56 decitex (not less than 27 metric number but not exceeding 43 metric number). Excluding open end yarn.	1.0	0.0	All imported

HS code	Item	Description	General (%)	In-quota (%)	Quota
520532	Multiple (folded) or cabled yarn, unbleached or not mercerized	Measuring not more than 370.37 decitex but not less than 232.56 decitex (not less than 27 metric number but not exceeding 43 metric number). Excluding open end yarn.	1.0	0.0	All imported
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	4.0	All imported
550410	Artificial staple fibres, not carded, combed or otherwise processed for spinning	Of viscose rayon	1.0	0.0	All imported
681510	Non-electrical articles of graphite or other carbon	For fuel cell manufacturing	8.0	0.0	All imported
690320	Containing by weight more than 50 % of alumina (Al ₂ O ₃) or of a mixture or compound of alumina and of silica (SiO ₂)	For manufacturing secondary battery	8.0	0.0	All imported
700600	Glass of heading 70.03, 70.04 or 70.05, bent, edge-worked, engraved, drilled, enamelled or otherwise worked, but not framed or fitted with other materials	For blank mask used in the manufacture of semiconductors, or of flat panel displays (FPDs)	3.0	0.0	All imported
711021	Palladium	For car smoke reduction for catalyst manufacturing	3.0	1.0	All imported
711031	Rhodium	For car smoke reduction for catalyst manufacturing	3.0	1.0	All imported
711299	Waste and scrap of precious metal or of metals clad with precious metal; other waste and scrap containing precious metal or precious metal compounds, of a kind used principally for the recovery of precious metal.		2.0	1.0	All imported
720221	Ferro-silicon: Containing by weight more than 55 % of silicon		2.0	0.0	All imported
720241	Ferro-chromium: Containing by weight more than 4 % of carbon		2.0	0.5	All imported
720249	Other		2.0	0.5	All imported
720260	Ferro-nickel		3.0	0.0	All imported
720291	Ferrotitanium		3.0	1.0	All imported
720293	Ferro-niobium		3.0	0.0	All imported
741011	Not backed: Of refined copper	For manufacturing secondary battery	8.0	0.0	3,000 MT
750210	Nickel, not alloyed (other)		3.0	1.0	All imported
810820	Unwrought titanium; powders		2.0	0.5	All imported
842139	Filtering or purifying machinery and apparatus for gases: other	For manufacturing secondary battery	8.0	0.0	All imported
842199	Other (adsorbent for manufacturing ion-exchange membrane of secondary battery)	For manufacturing secondary battery	8.0	0.0	All imported
847780	Other machinery	Elongator	8.0	0.0	All imported

HS code	Item	Description	General (%)	In-quota (%)	Quota
847989	Other	Coating Machine(For hydrogen electric vehicle electrolytic film manufacturing)	8.0	0.0	All imported
850300	Parts suitable for use solely or principally with the machines of heading 85.01 or 85.02.	For fuel cell manufacturing	8.0	0.0	All imported
850790	Electric accumulators, including separators therefor, whether or not rectangular (including square) (other)	For manufacturing secondary battery	8.0	0.0	All imported
851410	Resistance heated furnaces and ovens	For fuel cell manufacturing and for manufacturing secondary battery	8.0	0.0	All imported
851680	Electric heating resistors(For manufacturing secondary battery)	For manufacturing secondary battery	8.0	0.0	All imported
854511	Of a kind used for furnaces		5.0	0.0	All imported
854590	Other (separation plates)	For fuel cell manufacturing	8.0	0.0	All imported
901831	Syringes, with or without needles	Syringe of cartridge type (for growth hormone therapy)	8.0	0.0	All imported

Source: Data provided by the authorities.

Table A3.7 Domestic agricultural support notified to the WTO, 2018

(KRW billion)

		Below <i>de minimis</i> level of 10%^a
Product-specific AMS	606.35	
Soybean	8.82	Yes
Chinese cabbage	4.55	Yes
Radish	7.24	Yes
Garlic	9.12	Yes
Onion	14.54	Yes
Green onion	0.44	Yes
Goat	0.13	Yes
Mushroom	0.20	Yes
Walnut	1.68	No
Oat	1.23	No
Rice	539.33	Yes
Beef	0.38	Yes
Milk	15.00	Yes
Red pepper	1.39	Yes
Potato	0.24	Yes
Carrot	0.17	Yes
Ginseng	0.54	Yes
Special crops	0.04	Yes
Apple	1.31	Yes
Non-product-specific AMS	789.44	
Crop insurance	388.76	
Direct payment	338.97	
Loan programme	13.12	
Self-help fund raising	30.35	
Other	18.24	
Total AMS	1,395.79	
Green box assistance	7,658.62	
Research	716.43	
Pest and disease control	238.26	
Training services	74.43	
Extension and advisory services	239.62	
Inspection services	61.06	
Marketing and promotion services	47.09	
Infrastructural services	3,168.47	
Public stockholding for food security purposes	356.31	
Domestic food aid	37.02	
Decoupled income support	1,367.17	
Payments for relief from natural disasters	201.96	
Producer retirement programmes	47.86	
Resource retirement programmes	36.82	
Investment aids	472.78	
Environmental programmes	538.62	
Regional assistance programmes	54.72	
S&D assistance	0	
Investment subsidies generally available for agriculture	0	
Total notified assistance	9,054.41	

a Based on 2018 value of products.

Source: WTO document G/AG/N/KOR/82, 26 April 2021.

Table A4.1 Air Transport Agreements, 2021

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	01/2005	07/2009	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Austria	05/1979	07/1979	Y	N	N	N/A	M	SOEC	DA	B1	Y	15
Argentina	09/1996	01/2004	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Australia	02/1992	04/1992	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Azerbaijan	05/2006	12/2006	N	N	N	N/A	M	SOEC	DD	PD	Y	11
Bangladesh	02/1979	03/1979	N	N	N	N/A	S	SOEC	DA	PD	Y	1
Belarus	11/2007	11/2008	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Belgium	10/1975	10/1975	N	N	N	N/A	S	SOEC	DA	PD	Y	1
Brazil	08/1992	05/1995	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Brunei Darussalam	08/1992	07/2003	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Bulgaria	08/1994	02/1995	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Cambodia	04/2001	05/2001	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Canada	09/1989	09/1989	Y	Y	N	Y	M	SOEC	DD	FD	Y	37
Chile	08/1979	10/1980	Y	N	N	Y	M	SOEC	DD	FD	Y	31
China	10/1994	10/1994	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Croatia	12/2015	09/2016	N	N	N	N/A	M	SOEC/PPoB	DD	PD	Y	19
Ecuador	12/2012	11/2015	Y	N	N	Y	M	SOEC	DD	FD	Y	31
Egypt	07/1979	06/1988	N	N	N	N/A	S	SOEC	DA	PD	Y	1
Ethiopia	05/2016	11/2017	Y	N	N	N/A	M	SOEC	DD	PD	Y	17
Fiji	10/1994	10/1994	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Finland	11/1996	02/1997	N	N	N	N/A	M	SOEC/PPoB	DD	PD	Y	19
France	06/1974	07/1974	N	N	N	N/A	M	SOEC/PPoB	DA	PD	Y	13
Georgia	02/2021	05/2021	N	N	N	N/A	M	SOEC	DD	PD	Y	11

Partner	Date	Entry into force	5th ¹	7th ²	Cabotage ³	Coop ⁴	Designation ⁵	Withholding ⁶	Pricing ⁷	Capacity ⁸	Stat ⁹	ALI
Germany	02/1985	02/1985	Y	N	N	N/A	M	SOEC	CoO	PD	Y	14
Greece	01/1995	04/1996	Y	N	N	N/A	S	SOEC	DA	PD	Y	7
Hong Kong, China	03/1996	07/1996	Y	N	N	N/A	M	SOEC/PPoB	DA	PD	Y	19
Hungary	11/1989	05/1990	N	N	N	N/A	M	SOEC/PPoB	DD	PD	Y	19
India	03/1992	03/1992	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Indonesia	09/1989	09/1989	Y	N	N	N/A	S	SOEC	DD	PD	Y	13
Iran, Islamic Republic of	10/1998	03/2001	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Iraq	05/1985	01/1986	N	N	N	N/A	S	SOEC	DA	PD	Y	1
Israel	12/1994	07/1997	N	N	N	N/A	S	SOEC	DA	PD	Y	1
Japan	05/1967	08/1967	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Jordan	05/1978	07/1978	N	N	N	Y	M	SOEC	DD	PD	Y	17
Kenya	01/1981	01/1981	N	N	N	N/A	S	SOEC	DA	PD	Y	1
Kuwait, State of	10/1981	01/1982	N	N	N	N/A	S	SOEC	DA	PD	Y	1
Kyrgyz Republic	07/2006	06/2007	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Lao PDR	04/2010	06/2010	N	N	N	N/A	M	SOEC	DD	PD	Y	11
Latvia	09/2018	02/2019	N	N	N	N/A	M	SOEC/PPoB	DD	PD	Y	19
Liberia, Republic of	06/1978	09/1978	N	N	N/A	N/A	S	SOEC	DA	PD	Y	1
Luxembourg	09/2000	05/2003	N	N	N	N/A	M	SOEC	DD	PD	Y	11
Macao, China	04/1997	04/1997	Y	N	N	N/A	M	SOEC/PPoB	DA	PD	Y	19
Malaysia	03/1967	06/1967	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Maldives	06/1990	08/1990	Y	N	N	N/A	S	SOEC	DD	FD	Y	21
Malta	03/1997	05/1997	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Mexico	07/1988	11/1989	Y	N	N	Y	M	SOEC	DA	PD	Y	17

Partner	Date	Entry into force	5th ¹	7th ²	Cabotage ³	Coop ⁴	Designation ⁵	Withholding ⁶	Pricing ⁷	Capacity ⁸	Stat ⁹	ALI
Morocco	06/2000	04/2003	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Mongolia	10/1991	11/1991	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Myanmar	01/1978	01/1978	Y	N	N	N/A	S	SOEC	DA	PD	Y	7
Nepal	09/2004	03/2005	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Netherlands	06/1970	06/1970	N	N	N	N/A	M	SOEC/PPoB	DA	PD	N/A	12
New Zealand	05/1993	08/1993	Y	N	N	N/A	M	SOEC	DD	PD	Y	17
Oman	05/1983	02/1987	N	N	N	N/A	S	SOEC	DA	PD	Y	1
Pakistan	07/1996	08/1996	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Palau	07/2009	08/2009	N	N	N	N/A	M	SOEC	DD	PD	Y	11
Panama	12/1979	10/1982	Y	N	N	Y	M	SOEC	DD	PD	Y	23
Papua New Guinea	11/2015	11/2016	N	N	N	N/A	M	SOEC	DD	PD	Y	11
Philippines	07/1969	08/1969	Y	N	N	N/A	M	SOEC	DA	PD	N/A	10
Poland	10/1991	04/1992	N	N	N	N/A	M	SOEC/PPoB	DD	PD	Y	19
Portugal	05/2018	12/2019	N	N	N	N/A	M	SOEC/PPoB	DD	PD	Y	19
Qatar	11/2005	02/2009	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Romania	03/1994	07/1997	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Russian Federation	03/2003	05/2003	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Saudi Arabia, Kingdom of	11/1976	01/1984	N	N	N	N/A	S	SOEC	DA	PD	Y	1
Serbia	02/2016	11/2016	N	N	N	N/A	M	SOEC	DD	PD	Y	11
Singapore	02/1972	02/1972	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
South Africa	07/1995	07/1985	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Spain	06/1989	01/1991	Y	N	N	N/A	M	SOEC/PPoB	DD	PD	Y	25
Sri Lanka	01/1978	01/1978	Y	N	N	N/A	S	SOEC	DA	PD	Y	7
Switzerland	12/1975	11/1976	N	N	N	N/A	S	SOEC	DA	PD	Y	1

Partner	Date	Entry into force	5th ¹	7th ²	Cabotage ³	Coop ⁴	Designation ⁵	Withholding ⁶	Pricing ⁷	Capacity ⁸	Stat ⁹	ALI
Tajikistan	04/2015	08/2015	N	N	N	N/A	M	SOEC	DD	PD	Y	11
Thailand	07/1967	03/1968	Y	N	N	N/A	M	SOEC	DA	PD	Y	11
Tunisia	11/1994	02/1995	N	N	N	N/A	M	SOEC	DA	PD	Y	5
Turkmenistan	11/2008	01/2009	N	N	N	N/A	M	SOEC	DD	PD	Y	11
Turkey	06/1976	10/1979	N	N	N	N/A	S	SOEC	DA	PD	Y	1
Ukraine	12/1996	03/2003	N	N	N	N/A	M	SOEC	DA	PD	Y	5
United Arab Emirates	11/2005	07/2010	N	N	N	N/A	M	SOEC	DA	PD	Y	5
United Kingdom	03/1984	03/1984	N	N	N	N/A	M	SOEC/PPoB	DD	FD	Y	27
United States	06/1998	06/1998	Y	N	N	Y	M	SOEC	DD	FD	N/A	30
Uzbekistan	06/1994	06/1994	N	N	N	Y	M	SOEC	DD	PD	Y	17
Viet Nam	05/1993	06/1993	Y	N	N	N/A	M	SOEC	DD	PD	Y	17

- 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 authorities. ALI calculated by the WTO Secretariat, and an "n/a" clause is assigned a value of "zero" in the calculation.