2001 Country Reports on Economic Policy and Trade Practices
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REPUBLIC OF KOREA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment:			
GDP (nominal/factor cost)	405.8	457.4	434.5
Real GDP Growth (pct) 2/	10.9	8.8	2.7
GDP by Sector:			
Agriculture/Fisheries	20.7	21.0	21.1
Manufacturing	124.6	144.1	135.1
Electricity/Gas/Water	11.0	12.8	11.9
Construction	35.3	37.5	36.7
Financial Services	74.3	81.4	78.4
Government Services	40.6	45.3	43.2
Other	99.4	115.3	108.0
Government Expenditure (pct/GDP)	10.4	10.2	10.3
Per Capita GNI (US$)	8,551	9,628	9,019
Labor Force (000s)	21,634	21,950	22,270
Unemployment Rate (pct)	6.3	4.1	3.9
Money and Prices (annual percentage rate):			
Money Supply (M2)	27.9	30.2	33.3
Corporate Bonds 3/	9.85	8.12	7.10
Personal Savings Rate	24.2	23.0	22.6
Retail Inflation	0.8	2.3	4.6
Wholesale Inflation	-2.1	2.0	2.6
Consumer Price Index (1995 base)	118.8	121.5	127.1
Average Exchange Rate (Won/US$)	1,189.5	1,130.6	1,285.0
Balance of Payments and Trade:			
Total Exports FOB 4/	145.2	175.8	159.1
Exports to United States 4/	29.5	37.6	31.8
Total Imports CIF 4/	-116.8	-159.2	-143.6
Imports from United States 4/	-24.9	-29.2	-25.8
Trade Balance	28.4	16.6	8.6
Balance with the United States	4.6	8.4	6.0
External Debt 5/	137.1	136.3	117.7
Debt Service Payments 6/	-45.4	-25.0	-35.3
Gold and Foreign Exchange Reserves 7/	74.1	96.2	100.0

Aid from the United States	0	0	0
Aid from All Other Sources	0	0	0

1/ 2001 figures are estimates based on available monthly data and the economic forecasts made by local research institutes as of September 5.
2/ Growth based on won the local currency.
3/ Figures are average annual interest rates.
4/ Merchandise trade, measured on customs clearance basis; Korean government data. (Estimated figures are for the entire year 2001).
5/ Gross debt; includes non-guaranteed private debt. 2001 figure is an estimate based on available monthly data as of July.
6/ Note that the Government of the Republic of Korea does not release such data, so the 2001 figure is an estimate based on available related data as of September 14.
7/ 2001 figure is as of the end of September 2001.

1. General Policy Framework

In 2001, Korean economic conditions continued to worsen due to the triple distress of weakened global economic conditions (and related falls in Korea's exports), a severe slump in microchip/computer demand and prices, and low levels of Korean corporate fixed investment. The September 11, 2001, terrorist attacks in New York and Washington added stress to an already gloomy economic picture in 2001. Real annual average economic growth rate is not expected to exceed 2 percent, with inflation expected in the 4-5 percent range. Increased uncertainty in the economy could further dampen domestic consumption and investment. In the near term, decreasing exports of IT products and depressed consumer sentiment in industrialized countries will likely hamper the recovery of Korean exports in the near term. Recovery could come by the second quarter of 2002, at the earliest.

The economic downturn contrasts sharply with Korea's 1999 and 2000 rebound, when economic growth rose sharply from the unprecedented 1997-98 economic crisis. Buoyant domestic consumption and investment and a surge in exports to buoyant international markets mainly led the rally. During those years, Korea's gross domestic product (GDP) grew 10.9 percent and 8.8 percent respectively in real terms, propelled by strong recoveries in principal industrial sectors, decisively reversing 1998's 6.7 percent contraction, Korea's worst performance since the Korean War. GDP growth was particularly impressive in Q4 1999, 14.2 percent, and Q1 2000, 12.0 percent.

Korea's economic recovery from the 1997-98 crisis was impressive but still is not firm or assured. Long-term success will depend on continued financial and corporate-sector restructuring to encourage a high pace of productive domestic and foreign direct investment. Otherwise, existing high levels of domestic corporate debt could threaten economic performance with the impact of significant bankruptcies.

Korea's 1997-98 financial crisis coincided with the election and inauguration of President Kim Dae-jung. President Kim gave decisive support to a $58 billion International Monetary Fund (IMF) package, which he saw as Korea's best way out of the crisis. The package included loans from the IMF, World Bank, and the Asia Development Bank. Under the IMF program, the government took steps to open its financial and equity markets to foreign direct and portfolio investment and to reform and restructure its financial and corporate sectors to increase transparency, accountability and efficiency.

The United States is a leading Korean trade partner, taking 22 percent of Korea's exports and providing 20 percent of Korea's imports for the first eight months of 2001. Korea exports advanced electronic components and telecommunications equipment, automobiles, steel, and a wide variety of mid-level, medium-quality consumer electronics and other goods.

In the early 1990s, wages rose faster than productivity and Korea lost its low-wage labor advantage to China and Southeast Asia. At the same time, Korea faced tough competition from Japan and other advanced countries in exporting cutting-edge, high-tech products. Through September 30, the average value of the Korean currency, the won, has been around 1,285 won per dollar. Korea's useable foreign currency reserves grew to over $100 billion by September 2001, which significantly reduced Korea's vulnerability to a repeat of the 1997-98 financial crisis, when Korea nearly exhausted its foreign exchange reserves. Nonetheless, the trade surplus continues to narrow, as exports have decreased faster than imports. The Korean government has revised its trade surplus estimate for 2001 to $12 billion, from its previous estimate of $13 billion.

2. Exchange Rate Policy

Since the IMF program began in December 1997, foreign exchange and capital controls have been greatly relaxed or abolished. In conjunction with IMF program requirements, the exchange rate has been allowed to float (with Bank of Korea intervention nominally limited to smoothing operations only).

3. Structural Policies

In response to the 1997 financial crisis, the government has required greater corporate transparency, fostered the development of small and medium-sized industries and implemented broad-based reforms of the financial system. The financial reforms include substantial liberalization of capital markets, and abolishing restrictions on foreign ownership of domestic stock shares and bonds and on the use of deferred payments to finance imports. Foreign banks can now establish subsidiaries in Korea, and foreign financial firms can participate in mergers and acquisitions of domestic Korean financial institutions.

Certain regulations may disadvantage foreign bank branches. For instance, Korea requires foreign branches to be separately capitalized; also, prudential lending limits are based on local branch capital as opposed to a foreign bank's total worldwide capital, while domestic banks may count their entire capital base as assessed capital. Foreign banks are also disadvantaged in access to local-currency lending. The April 1999 Foreign Exchange Transaction Law, fully implemented at the end of 2000, significantly liberalized formerly heavily regulated capital transactions.

Korea's 1998 Foreign Investment Promotion Act streamlined foreign investment application procedures and eased barriers to foreign direct investment across a range of sectors. Korea now has a much more favorable climate for foreign direct investment (FDI). In the long run, increased openness to FDI should foster broader market access for imported goods. FDI levels for the two years 1998 and 1999 exceeded the total FDI that Korea received during the previous 37 years (1960-1997). In 2000, FDI was at the 1999 level, but has fallen somewhat in 2001. Investment restrictions remain on 21 industrial sectors, of which only seven are entirely closed. Mergers, including hostile acquisitions, are permitted, and most restrictions on foreign ownership of local shares have been lifted. For the first time in modern Korean history, foreigners now may purchase property and real estate. Tax incentives, especially for the high technology sector, have been increased, but restrictions on access to offshore funding (including offshore borrowing, intra-company transfers and inter-company loans) continue to be burdensome. Foreign equity participation limits, licensing requirements and other regulatory restrictions can limit FDI in sectors nominally open to foreigners. Foreign firms also face additional investment restrictions in many professional services sectors. The United States and Korea are negotiating these and other investment issues in the effort to conclude a bilateral investment treaty (BIT).

4. Debt Management Policies

At the end of July 2001, Korea's total foreign debt (largely private sector) totaled $125 billion, down from $136 billion in December 2000. By the end of July 2001, Korea's short-term debt as a percentage of total foreign debt was 31.2 percent, down from 32.4 percent at the end of 2000.

5. Significant Barriers to U.S. Exports

During the 1990s, Korea steadily liberalized its markets for goods and services and substantially improved its investment climate for U.S. firms. Many protective tariffs were lowered or phased out as a result of bilateral negotiations, Uruguay Round commitments and other multilateral efforts. Various nontransparent policies and regulations, which directly or indirectly inhibited market access for imports, were clarified or eliminated. The government rejected explicit policies that encouraged anti-import sentiment among Korean consumers, and its efforts to address residual anti-import biases among Korean consumers, media and bureaucrats have started to have some meaningful impact. Introduced in late 1998, the new foreign investment regime is aimed at attracting rather than tolerating foreign investment; total foreign investment in 2001 is expected to reach $15 billion for the third straight year. The net effect of these changes is that Korea is now an easier place to do business than in the past. Several key sectors, especially agricultural products, pharmaceuticals, and automobiles, however, are still very challenging for foreign firms. Problems also exist in intellectual property rights protection.

Korea's tariffs are generally modest. However, for agricultural products Korea's 50.3 percent average out-of-quota tariff contrasts sharply with the relatively low average tariff for industrial products of 7.5 percent. This disparity gives some indication of the political sensitivity of agricultural and fishery imports, which are further restricted by quotas and tariff rate quotas (TRQ), as well as by the restrictive way that Korea administers the quotas. Several agricultural products of interest to U.S. suppliers, such as rice and oranges, are directly hindered by these policies, although Korea purchased U.S. rice for the first time in 2001 since agreeing to open its rice market during the Uruguay Round. Korea also uses adjustment tariffs to respond to import surges; the majority of the 27 adjustment tariffs apply to agricultural products. The government eliminated its import diversification program, which barred certain imports from Japan, in June 1999 and its eight remaining GATT balance-of-payments restrictions at year-end 2000.

Nontariff barriers, which often result from non-transparent regulatory practices, continue to inhibit imports to Korea across a range of sectors. A lack of regulatory transparency and consistency can affect licensing, inspections, type approval, marking/labeling requirements and other standards. To improve transparency and due process to its regulatory system, in 1996, Korea enacted the Administrative Procedures Act, but public notice of new regulations, as well as comment and transition periods, are still not always adequate. The regulatory system does not consistently offer adequate recourse to those adversely affected by creation of new regulations. In 1998 a comprehensive effort at regulatory reform was initiated at the request of President Kim; thousands of regulations have been reviewed and many eliminated, but the impact on doing business has not been significant.

Products regulated for health and safety reasons (such as pharmaceuticals, processed foods, medical devices, and cosmetics) typically require additional testing or certification from relevant ministries before they can be sold in Korea, resulting in considerable delays and increasing costs. Although new reimbursement pricing and product approval systems were recently put into place, the Korean health authorities have attempted to make changes to the system that will disadvantage foreign producers, generally without consultation or an adequate public comment period. As a result, the foreign pharmaceutical industry continues to face discriminatory barriers in Korea. Registration requirements for such products as chemicals, processed food, medical devices, and cosmetics hamper entry into the market as well. It has committed to bring its Food Code, Food Additive Code and labeling requirements into conformity with international standards, and has taken some steps to do so. Import clearance, however, still takes longer than in other Asian countries.

Despite potential conflict-of-interest problems, the government has delegated authority to some Korean trade associations to carry out functions normally administered by the government. Such delegation of responsibility may include processing import approval documentation prior to customs clearance (allowing local trade associations to obtain business confidential information on incoming shipments), advertisement pre-approvals (providing early warning on the introduction of new products and on competitors' marketing efforts), and a decision-making seat on various committees (usually not available to foreign firms). The Korea Fair Trade Commission has made some efforts to reduce the quasi-legal, trade restrictive powers of a number of associations.

While the Korean government made some effort to improve the market environment for foreign automobiles, including President Kim's March 2001 statement encouraging Koreans to buy foreign cars, Korea's automobile market remains effectively closed to foreign imports with only 4,414 imported cars sold in 2000. Pursuant to the October 1998 U.S.-Korea Memorandum of Understanding (MOU) on motor vehicles, Korea lowered some taxes that had a discriminatory impact on imported cars, bound its auto tariffs at eight percent, improved consumer financing of autos, and streamlined standards and certification. These steps have yet to have a meaningful impact. We have called on Korea to further reduce the tariff and tax burden on motor vehicle owners as called for in the MOU, to effectively counter the years of government-sponsored ant-import campaigns, and to improve consumer perception of foreign motor vehicles. In 2001, Korean imports of U.S. and other foreign cars are expected to barely exceed 8,000 units, far less than one percent of the domestic market.

The government requires theaters to show local movies for a minimum of 146 days each year, with some flexibility so that this total can be reduced to 106 days. The quota acts as a deterrent to imported films, cinema construction, and the expansion of theatrical distribution. The Korean government, however, considers this a cultural rather than a trade issue.

Korea is a party to the WTO Government Procurement Agreement (GPA).

In January 2001, Korea removed most of the remaining non-tariff barriers on beef imports, with the notable exception of the dual retail distribution system separating domestic and imported beef, state trading and overly strict sanitary requirements. On September 10, 2001, Korea implemented the WTO Dispute Settlement Board (DSB) recommendations to remove the dual retail system, which controlled distribution of beef in the marketplace. In its stead Korea will impose a new record-keeping system applicable to all meat products effective January 1, 2002.

6. Export Subsidies Policies

In the past, Korea has aggressively promoted exports through a variety of policy tools, including export subsidies, directed credit and targeted industrial policies. While Korea has eliminated WTO-prohibited subsidies, concerns remain about subsidization in a variety of important sectors, such as shipbuilding, steel and semiconductors. In particular, apparent government subsidization of Hynix Semiconductor, Inc. (formerly Hyundai Electronics, Inc.) through various state-sponsored credit guarantees, a Korea Development Bank financing program, and influence over the lending decisions of key Hynix creditor banks have recently renewed concerns about inappropriate government intervention in the market place and retrenchment on financial and corporate reforms.

7. Protection of U.S. Intellectual Property

Korea is a participant in the WTO's Agreement on Trade Related Aspects of Intellectual Property (TRIPS). It is also a signatory to the World Intellectual Property Organization (WIPO), the Universal Copyright Convention, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms, the Geneva Phonograms Convention, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty. Korea joined the Berne Convention in August 1996.

Korean laws protecting IPR and related enforcement measures can be problematic. Korea's Special 301 "Priority Watchlist" status was maintained in April 2001. Areas of continuing IPR concern include: protection of clinical drug test data, pre-existing copyrighted works and pharmaceutical patents, lack of coordination between Korean health and IPR authorities on drug product approvals for marketing; and counterfeit consumer products. The United States also has ongoing concerns about the consistency, transparency, and effectiveness of Korean enforcement efforts, particularly with regards to piracy of U.S. computer software and books.

Korean patent law is quite comprehensive, offering protection to most products and technologies. However, it does not provide for effective pharmaceutical patent protection, and approved patents of foreign patent holders are still seen as vulnerable to infringement. Likewise, U.S. industry believes that Korean courts are deficient in terms of treatment and interpretation of its claims.

Since the early 1990s, the government's protection of trademarks has improved. A revised Trademark Law became effective March 1, 1998. The Design Act was also revised on March 1, 1998, enhancing protection of industrial designs. The granting of a trademark under Korean law is based on a "first-to-file" basis. While preemptive and predatory filings are on the decline, "sleeper" preemptive registrations still surface on occasion. The Korean Industrial Property Office (KIPO) is able to reject suspected predatory applications based on a "bad faith" clause. There has been less success in stemming the export of Korean counterfeit products globally.

The Patent Utility, Industrial Design and Trademark laws were revised more recently to make it easier to establish damage amounts and adjust penalty provisions up to KRW 100 million (just under $100,000) fine or seven years' imprisonment. The Unfair Competition and Trade Secret Protection laws were also amended to enhance the protection of well-known trademarks. Korea's Copyright Act protects an author's rights, but local prosecutors take no action against infringement unless the copyright holder files a formal complaint. Recently, Korea amended its Computer Programs Protection Act (again). However, there are continuing concerns regarding the temporary copies issue. The Copyright Act (CA) has also been revised to meet the needs of the new information economy. Still, the CA is not in full compliance with provisions of the TRIPS Agreement that stipulate that preexisting works and sound recordings must enjoy a full term of protection (i.e., life of the author plus 50 years for works; 50 years for sound recordings). Korea now only provides protection back to 1957. In 1999 the Korean government devoted increased resources and staff to IPR enforcement activities, and President Kim himself directed cabinet agencies to step-up government efforts to protect intellectual property. In 2000, such activities dropped off precipitously, and IPR violations, especially of computer software, remain a problem. However, in 2001, President Kim Dae-jung made clear the government's determination to strengthen IPR enforcement activities. This was followed by vigorous two-month-long special enforcement period raids against more than 2,000 suspected users of illegal computer software.

8. Worker Rights

a. *The Right of Association*: Most Korean workers enjoy the right of free association. White-collar workers in the government sector cannot join unions, but since 1999 have been allowed to form workplace consultative councils. Blue-collar employees in the postal service, railways, and telecommunications sectors, and the national medical center have formed labor organizations. In July 1999, legislation went into effect allowing teachers to form unions. Unions may be formed with as few as two members and without a vote of the full prospective membership.

Labor law changes in 1997 authorized the formation of competing labor organizations in individual work sites beginning in the year 2002, but in 2001 implementation of this was postponed for five years by mutual agreement among members of the Tripartite Commission. Workers in government agencies and defense industries do not have the right to strike. Unions in enterprises determined to be of "essential public interest," including utilities, public health, and telecommunications, may be ordered to submit to government-ordered arbitration in lieu of striking. However, work stoppages occur even in these sensitive sectors. The Labor Dispute Adjustment Act requires unions to notify the Labor Ministry of their intention to strike, and normally mandates a 10-day "cooling-off period" before a work stoppage may legally begin.

b. *The Right to Organize and Bargain Collectively*: The Korean constitution and the Trade Union Law provide for the right of workers to bargain collectively and undertake collective action, but do not grant government employees, school teachers or workers in defense industries the right to strike. Collective bargaining is practiced extensively in virtually all sectors of the Korean economy. The central and local labor commissions form a semi-autonomous agency that adjudicates disputes in accordance with the Labor Dispute Adjustment Law. This law empowers workers to file complaints of unfair labor practices against employers who interfere with union organizing or practice discrimination against unionists. In 1998, the government established the Tripartite Commission, with representatives from labor, management, and the government to deal with labor issues related to the economic downturn. The work of the Commission made it legal for companies to lay off workers for managerial reasons, including merger or acquisition, or in case of financial difficulties. Labor-management antagonism remains, and some major employers remain strongly anti-union.

c. *Prohibition of Forced or Compulsory Labor*: The constitution provides that no person shall be punished, placed under preventive restrictions, or subjected to involuntary labor, except as provided by law and through lawful procedures. Forced or compulsory labor is not condoned by the government and is not known to occur.

d. *Minimum Age for Employment of Children*: The government prohibits forced and bonded child labor and enforces this prohibition effectively. The Labor Standards Law prohibits the employment of persons under the age of 15 without a special employment certificate from the Labor Ministry. Because education is compulsory through middle school (about age 14), few special employment certificates are issued for full-time employment. Some children are allowed to do part-time jobs. In order to obtain employment, children under 18 must have written approval from their parents or guardians. Employers may only permit minors to work a limited number of overtime hours and are prohibited from employing them at night without special permission from the Labor Ministry.

e. *Acceptable Conditions of Work*: The government implemented a minimum wage in 1988 that is adjusted annually. The minimum wage as of August 2001 was 2100 won/hour (about $1.60/hour). Companies with fewer than 10 employees are exempt from this law. The maximum regular workweek is 44 hours, with provision for overtime to be compensated at a higher wage, but such rules are sometimes ignored, especially by small-companies. The law also provides for a maximum 56-hour workweek and a 24-hour rest period each week. Labor laws were revised in 1997 to establish a flexible hours system that allows employers to ask laborers to work up to 48 hours during certain weeks without paying overtime so long as average weekly hours do not exceed 44. Recent legislation authorized a five-day, forty-hour workweek, but full agreement on implementation and the phase-in period has not yet been reached. Due to an insufficient number of inspectors, the government's health and safety standards are not always effectively enforced, but the accident rate continues to decline. The number of work-related deaths and injuries remains high by international standards.

f. *Rights in Sectors with U.S. Investment:* U.S. investment in Korea is concentrated in petroleum, chemicals and related products, transportation equipment, processed food, manufacturing, and services. Workers in these industrial sectors enjoy the same legal rights of association and collective bargaining as workers in other industries.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		3,954
Food & Kindred Products	527	
Chemicals & Allied Products	807	
Primary & Fabricated Metals	19	
Industrial Machinery and Equipment	336	
Electric & Electronic Equipment	1,059	
Transportation Equipment	196	
Other Manufacturing	1,009	

Wholesale Trade	858
Banking	2,104
Finance/Insurance/Real Estate	91
Services	510
Other Industries	(D)
TOTAL ALL INDUSTRIES	9,432

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.