REPUBLIC OF KOREA

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Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998 1/
Income, Production and Employment:			
GDP (nominal/factor cost)	483,305	437,480	297,800
Real GDP Growth (pct) 2/	7.1	5.5	-6.6
GDP by Sector:			
Agriculture/Fisheries	N/A	30,330	24,998
Manufacturing	N/A	124,765	112,394
Electricity/Gas/Water	N/A	10,781	10,278
Construction	N/A	70,122	64,046
Financial Services	N/A	83,925	77,030
Government/Health/Education	N/A	38,961	36,386
Other	N/A	124,421	112,348
Government Expenditure (pct/GDP)	22.0	22.5	23.2
Per Capita GDP (US$)	10,548	9,511	6,474
Labor Force (000s)	21,188	21,500	21,800
Unemployment Rate (pct)	2.0	2.5	7.0
Money and Prices (annual percentage rate):			
Money Supply (M2)	16.2	19.2	18.0
Corporate Bonds 3/	12.6	13.4	15.4
Personal Savings Rate	23.7	24.3	27.8
Retail Inflation	4.9	4.5	7.5
Wholesale Inflation	2.8	3.9	12.6
Consumer Price Index (1995 base)	104.9	109.6	117.8
Average Exchange Rate (Won/US$)	806.9	962.3	1,393
Balance of Payments and Trade:			
Total Exports FOB 4/	129,715	136,164	130,800
Exports to U.S. 4/	21,671	21,625	21,500
Total Imports CIF 4/	-150,339	-144,616	-89,900
Imports from U.S. 4/	-33,305	-30,122	-19,950
External Debt 5/	104,700	154,400	152,000

Debt Service Payments	-9,600	-15,000	-16,000
Gold and FOREX Reserves	33,237	20,410	48,000

1/ 1998 figures are estimates based on available monthly data as of October.
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.
5/ Gross debt; includes non-guaranteed private debt.

1. *General Policy Framework*

South Korea registered enviable economic growth rates over the last two decades by pursuing a growth strategy that relied heavily on government-directed industrial policy and a protected domestic market. Korea's dramatic growth propelled it from a position as the third poorest nation in the world in 1953, to the world's eleventh-largest economy in 1996. Korea became a member of the OECD in December 1996. Korea produces and exports automobiles, steel, and a wide variety of mid-level, medium-quality electronic and other consumer goods. Labor activism in the 1980's drove up wages faster than productivity growth. Korea thus lost the advantage of low-wage labor to China and Southeast Asian countries. At the same time, it could not compete with Japan in the fields of cutting-edge, high-tech and top quality products. Nevertheless, its products had numerous markets worldwide, and domestic demand and high consumer confidence sustained continued high growth rates, averaging 7.6 percent from 1990-96. Per capita GDP was $10,500 in 1996.

The bankruptcies of several large Korean companies in 1997 revealed a pattern of misallocation of investment resources, excessive debt and an over-reliance on short-term overseas borrowing by the Korean corporate and banking sectors. Following financial crises in Thailand and Indonesia in the summer of 1997, international investors lost confidence in Korean institutions, and refused to roll over loans to Korean banks and corporations. Because the majority of private sector debt was short-term, Korea suffered a severe foreign exchange liquidity crisis, and came close to defaulting on its international obligations as its foreign exchange reserves dwindled at the end of 1997. The Korean Won lost more than 50 percent of its value against the dollar by the end of 1997, at one point dropping to 1,960 per dollar (versus 900 per dollar the previous summer).

After an initial IMF package failed to stem the outflow of foreign exchange, Korea agreed on an enhanced $58 billion IMF package in mid-December. Under the terms of the IMF program, Korea agreed to accelerate the opening of its financial and equity markets to foreign investment and to reform and restructure its financial and corporate sectors to increase transparency, accountability and efficiency. To stabilize the won, Korea raised interest rates significantly. Korea then succeeded in reaching agreement with foreign bank creditors to restructure $21.8 billion in private bank short-term debt into medium-term obligations. Korea's usable foreign currency reserves subsequently grew to over $47 billion and the won appreciated to about 1,200/dollar as of December 1998.

The crisis called into question the viability of what had come to be known as "Korea Inc.," and set the scene for the upset victory of opposition figure Kim Dae Jung in the December presidential election. This was the first peaceful transfer of power to the opposition in Korean history. Kim, a world-famous democracy and human rights activist who had spent much of the previous 25 years in either prison or exile, recognized and espoused the need for drastic reform in the public, financial, labor and business sectors. Using the impetus of the IMF program, he began the long and difficult process of restructuring and liberalizing the economy.

The impact on the real economy of the financial crisis and economic restructuring led to a recession in 1998 that is expected to continue into 1999. Korea's GDP is expected to decline about 7 percent in 1998. Unless external economic conditions worsen, the resumption of growth in 1999 will depend largely on whether economic reforms are implemented swiftly and thoroughly. Unemployment exceeded 7 percent in 1998, with over 1.4 million people unemployed, and compensation levels dropped significantly for many people who remained employed. Corporate investment in facilities and capital is forecast to drop by over 40 percent in 1998. Expenditures on domestic consumption, which accounted for 61 percent of total GDP in 1997, have fallen 10 to 15 percent.

These internal factors, along with declining demand from Asian markets also suffering from recession, and falling world prices for Korea's exports, caused exports through October to drop 2.9 percent below the 1997 level. 1998 exports are forecast to decline 5-6 percent to about $130 billion. Imports through October were 37.9 percent below the same period in 1997. Although Korea relies on imports for all of its energy and most of its raw materials, this decline was largely caused by a 20 percent average decline in world prices for Korea's imports, and a 49 percent drop in imports for domestic consumption. 1998 imports are forecast to fall about 36 percent to $90 billion, which would give Korea a trade surplus of about $40 billion in 1998. The U.S. is Korea's leading trade partner in 1998, taking 17 percent of Korea's exports and providing 21.5 percent of Korea's imports. The drop in Korea's imports from the U.S. caused Korea to fall from 7th to 9th place among U.S. trade partners. U.S. Commerce Department statistics show that, through August 1998, U.S. exports to Korea fell 43 percent to $11.1 billion, while U.S. imports from Korea rose 2.8 percent to $17.6 billion. These trends are expected to continue to the end of 1998.

The won's 50 percent fall against the dollar in late 1997 pushed the Consumer Price Index (CPI) up nearly 9 percent in the first quarter of 1998. However, the decline in both real and nominal compensation for workers, the weakness in domestic demand, and reduced world commodity prices have all worked to constrain inflation. Analysts forecast that the rise in the CPI will not exceed 8 percent in 1998.

The public sector's role in the economy is relatively small, with taxes and expenditures amounting to only 23 percent of GDP in 1998. Faced with the need to stimulate the economy, improve and expand the nation's transportation infrastructure, and provide a social safety net for the unemployed, the government cut some consumption taxes and proposed to increase its budget expenditures by 6.2 percent in 1999. This is designed to create a budget deficit of about 5 percent, the first fiscal deficit in more than 10 years. The government plans to finance the deficit by selling bonds in Korea. In consultation with the IMF, the government allowed interest rates to fall from a peak of over 20 percent in January 1998 to about 10 percent in November. In addition, the government increased the money supply by about 20 percent for the year to fight potential deflation due to the recession and falling asset values.

2. Exchange Rate Policy

Since the introduction of the IMF program in December 1997, foreign exchange and capital controls have been relaxed or abolished. In conjunction with IMF program requirements that the exchange rate be allowed to float (with intervention limited to smoothing operations only), the previously enforced daily exchange rate fluctuation band of plus/minus 2.25 percent has been repealed. The Bank of Korea announces the weighted average of the prior day's transactions at local banks to set the daily exchange rate.

3. Structural Policies

The Korean economy is notable for the high degree of concentration of capital and industrial output in a small number of conglomerates known locally as "chaebol." The financial crisis exposed the weaknesses of the economic model that Korea previously used to achieve its remarkable growth and made plain the need for the major systemic reforms that newly-elected President Kim Dae Jung had long advocated. The government passed laws requiring greater corporate transparency and strengthened prudential requirements for banks and other financial institutions. These reforms will move Korea's economy towards a more market-based system. In particular, the government is trying to force the chaebol to focus on core businesses and close down or sell off unprofitable and peripheral subsidiaries. Korea's economy is based on private ownership of the means of production and distribution, with basic pricing decisions left to the private sector.

4. Debt Management Policies

Korea's total foreign debt (largely private sector-held) totaled at $151 billion as of the end of August 1998, declining somewhat from $158 billion at the end of 1997. The large proportion of short-term debt at the end of 1997 (64 percent of total debt), has been reduced to 25 percent of total debt at the end of August 1998 as a result of the Korean Government's successful rescheduling efforts. The government has developed an external debt reporting system to enhance debt management and monitoring. Through November 1998, Korea has registered a current account surplus of almost $35 billion.

5. Significant Barriers to U.S. Exports

Historically, Korea maintained a protective market environment in which U.S. exports have faced a variety of market access barriers. More recently, though, the government has taken steps to liberalize Korean markets. It has been revising many policies and regulations which have directly or indirectly inhibited market access for imports as part of its broader economic reform program prompted by the recent financial crisis. The government has moved away from policies which encourage anti-import sentiment among consumers, but some residual anti-import biases remain among both Korean consumers and bureaucrats. Implementation of reforms will take time, though, and depressed economic demand in Korea will likely continue to constrain sales of U.S. products in the short term.

The most typical trade barriers in Korea are nontariff barriers which commonly result from non-transparent regulatory practices. The lack of regulatory transparency and consistency can affect licensing, inspections, type approval, marking/labeling requirements and other standards. Despite the Administrative Procedures Act enacted in 1996, the government is still inconsistent in providing public notice, and announcing minimum comment periods and transitional periods prior to implementation of new regulations. The Korean regulatory system has not offered adequate recourse or compensation to those adversely affected.

The government maintains extensive relationships with Korean trade associations whereby the government delegates to the trade associations, varying by sector, authority to carry out functions normally administered by the government. Such delegation of responsibility may include processing import approval documentation prior to import 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 (not available to foreign firms).

Products regulated for health and safety reasons (such as pharmaceuticals, medical devices, and cosmetics) typically require additional testing or certification from the relevant ministries before they can be sold in Korea, resulting in considerable delays and increasing costs. The foreign pharmaceutical industry faces discrimination due to barriers associated with clinical registration and reimbursement pricing issues. Registration requirements for such products as chemicals, processed food, medical devices and cosmetics hamper entry into the market as well. In the course of implementing major reforms of the economy in 1998, the government has initiated efforts to streamline its complex and burdensome import clearance procedures, targeting some 54 laws for revision. It has begun revising legislation to make the necessary corrections in the Food Code. More time will be required to revise the Food Additive Code and labeling requirements. U.S. exporters of food and agricultural products experienced an upsurge in safety and sanitary inspections in October 1997 after Korean inspectors found e-coli and lysteria bacteria in U.S. beef shipments.

In October 1997, the United States designated Korea's auto sector policies and practices as a Priority Foreign Country Practice under Section 301 of the U.S. Trade Act. After several rounds of negotiations, the United States and Korea signed a Memorandum of Understanding (MOU) in October 1998 in which Korea agreed to take measures to further open its auto market and improve market access for U.S. automobiles. These measures include reducing auto taxes, binding auto tariffs at 8 percent, facilitating consumer financing of autos, and reducing nontariff barriers in areas such as standards and certification, and anti-import behavior.

In telecommunications, the government has assured the United States that it will not interfere in the equipment purchasing decisions of private Korean telecommunications service providers. In accordance with its obligations under the Information Technology Agreement, the government will eliminate tariffs on 203 categories of telecommunication and information-related equipment by 1999, and phase out tariffs on remaining categories by 2004.

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. U.S. industry states that these constraints on foreign movies and programs are more restrictive than in most other countries. The Korean Government, however, views this as a cultural, rather than a trade issue.

Korea acceded to the WTO Government Procurement Agreement (GPA) on January 1, 1997. Despite the fact that Korea is subject to the obligations of the GPA, U.S. firms continue to raise concerns about transparency in Korean procurement practices. The U.S. Government has expressed concern both multilaterally and bilaterally regarding Korea's refusal to recognize coverage of GPA rules for procurements conducted by the Korea Airport Construction Authority.

In general, Korea's tariffs are modest; Korea's average tariff rate is 7.9 percent. However, Korea maintains a system of quotas and tariff rate quotas, mostly for agricultural and fishery products, and uses adjustment tariffs to respond to import surges which affect domestic producers. Under the IMF program, Korea reduced the number of items subject to adjustment tariffs from 62 to 38. The government is working to phase out its GATT balance of payments restrictions, having committed to phase out all such restrictions by the year 2000.

Korea will expand its Uruguay Round minimum import quota for beef to 225,000 metric tons by the year 2000, as well as to expand the proportion of the quota imported through the "simultaneous buy/sell system." However, in 1998, due to a sharp drop in consumption, Korea will be unable to meet its WTO minimum import commitment. Korea has committed to remove all remaining nontariff barriers to beef imports, including state trading, by January 2001.

Beginning in late 1997, the government has begun implementing broad-based reforms of its financial system in cooperation with the International Monetary Fund, the World Bank and the Asian Development Bank. These reforms include substantial liberalization of the capital markets, including the abolition of restrictions on foreign ownership of domestic shares and bonds, and restrictions on the use of deferred payments to finance imports. Likewise, restrictions on foreign investment have been largely dismantled, including restrictions affecting mergers and acquisitions and land ownership by foreigners. Foreign banks can now establish subsidiaries in Korea and foreign financial firms can participate in mergers and acquisitions of domestic Korean financial institutions. Despite these reforms and improvements, foreign banks operating in Korea continue to face barriers. Korea requires foreign branches to be separately capitalized and other regulations such as prudential lending limits are based on local branch capital as opposed to its total capital, while domestic banks capital base would be assessed as the entire bank's capital. Foreign banks are also disadvantaged in access to local currency funding.

As a result of the economic crisis and in the interest of generating foreign exchange, the government has loosened controls over access to currency, such as swap lines used by banks as a source of local currency, but the government retains controls and has not committed to maintaining these new lines once the crisis is over. The government has revised its Foreign Exchange Transaction Law, scheduled to be implemented in April, 1999, which should significantly liberalize formerly heavily regulated capital transactions.

Another constraint on the growth of U.S. exports to Korea has been the government's restriction on the use of credit to finance imports. Agricultural importers, however, can now use foreign credit facilities without Ministry of Finance and Economy approval. Use of limited deferred payment terms (to a maximum of 180 days) is restricted to items with a tariff of 10 percent or less, which are generally raw materials. These controls will be reduced, but not fully phased out, through 2001. Use of deferred payment terms for other goods requires a license from foreign exchange banks or permission from the Bank of Korea, which is rarely granted.

In conjunction with requirements of the IMF program, recent regulatory changes have streamlined foreign investment application procedures and eased a number of barriers to foreign direct investment across a range of sectors. Restrictions on access to offshore funding (including offshore borrowing, intracompany transfers and intercompany loans), however, continue to be burdensome. Foreign equity participation limits, licensing requirements, and other regulatory restrictions can limit foreign direct investment in sectors nominally open to foreigners. Foreign firms also face additional investment restrictions in most of the professional services sectors.

6. Export Subsidies Policies

Since the mid-1980's, Korea has been dismantling the once-prevalent system of export subsidies used to promote industrialization. The real benefit of the few remaining subsidized lines of export credit is insignificant in a macroeconomic sense. The relative size of direct grants is small and declining with regard to both the government budget and growing private investment. The use of tax exemptions, the main vehicle for export promotion, appears to be declining as well. Under the IMF program, the government also has eliminated a number of export-related subsidies. However, in response to the credit crunch experienced by many Korean small-and-medium-sized companies in the export sector in 1998, the government has provided support in the form of: trade financing, export insurance, lower tariff rates for raw materials for re-export and reduction of miscellaneous export-related fees. The government does expend large amounts of money in research and development in key industrial sectors targeted for development, such as telecommunications.

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 are generally adequate in legal terms, but there is a gap between legal and practical protection in terms of enforcement and particularly Korean inter-agency coordination. Korea's Special 301 status was downgraded from Priority Watch List to Watch List in April 1997 in recognition of the commitments made by the government to improve its intellectual property protection regime. Korea maintained its Watch List status in the U.S. Government's 1998 review. Problem areas remain, especially with counterfeit consumer products, software piracy, and pharmaceutical patent protection enforcement.

Korean patent law is fairly comprehensive, offering protection to most products and technologies. A new patent court came into effect March 1, 1998. However, approved patents of foreign patent holders are vulnerable to infringement. In its procurement process, the Korean Government lacks adequate controls to effectively prevent patent infringement, especially in the high technology sector. Korean law provides for compulsory licensing of patents when the invention is deemed necessary for the national defense, for the public interest, or for the protection of a dependent patent.

The government's protection of trademarks has improved since 1991. A revised Trademark Law became effective as of March 1, 1998. The Design Act was also revised on March 1, 1998, enhancing protection of industrial designs. Although the Unfair Competition Prevention Act theoretically protects foreign trademarks and those not otherwise protected, recent narrowly-based court decisions have made the Act less than completely effective. 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. A new provision now allows the Korean Industrial Property Office (KIPO) 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.

Korea's Copyright Law protects author's rights, but local prosecutors take no action unless the copyright holder files a formal complaint. Korea is not in full compliance with provisions of the TRIPs Agreement which 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. Although the government has devoted increased resources and staff for IPR enforcement, software piracy is prevalent and becoming a more significant problem. The government is drafting laws and regulations to afford copyright and trademark protection for transactions conducted on the internet.

8. Worker Rights

a. The Right of Association: With the exception of public sector employees and teachers, Korean workers enjoy the right to free association. White collar workers in the government sector cannot join unions, but blue collar employees in the postal service, railways, and telecommunications sectors, and the national medical center have formed labor organizations. However, starting next year, government employees will be allowed to form workplace consultative councils. The government also agreed in February to allow teachers to form unions, and talks to bring this to fruition are currently underway between labor and government. Unions may be formed with as few as two members and without a vote of the full prospective membership.

Until recently the Trade Union Law specified that only one union was permitted at a workplace, but labor law changes in 1997 authorize the formation of competing labor organizations beginning in the year 2002. 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. In fact, 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 constitution and the Trade Union Law provide for the right of workers to bargain collectively and undertake collective action, but does 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. The government this year 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 both made it legal for companies to lay off workers due to economic hardship and authorized temporary manpower agencies. Labor-management antagonism, however, remains a serious problem, and some major employers remain strongly antiunion.

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 rarely occurs.

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 such as selling newspapers. In order to obtain employment, children under 18 must have written approval from their parents or guardians. Employers may require minors to work only 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 in 1998 was set at 90 cents/hour (won 1,525/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 work week 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. 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 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 and manufacturing. Workers in these industrial sectors enjoy the same legal rights of association and collective bargaining as workers in other industries. Manpower shortages are forcing labor-intensive industries either to improve wages and working conditions or to move offshore.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		2,674
Food & Kindred Products	755	
Chemicals & Allied Products	515	
Primary & Fabricated Metals	11	
Industrial Machinery and Equipment	103	
Electric & Electronic Equipment	565	
Transportation Equipment	152	
Other Manufacturing	573	
Wholesale Trade		715
Banking		1,784
Finance/Insurance/Real Estate		-15
Services		294
Other Industries		(1)
TOTAL ALL INDUSTRIES		6,528

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.