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REPUBLIC OF KOREA

Key Economic Indicators

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

	1998	1999	2000 1/
Income, Production and Employment:			
GDP (nominal/factor cost)	321,300	406,700	459,796
Real GDP Growth (pct) 2/	-6.7	10.7	8.6
GDP by Sector:			
Agriculture/Fisheries	15,768	20,326	23,345
Manufacturing	98,521	129,344	147,764
Electricity/Gas/Water	7,519	10,682	12,600
Construction	32,560	35,639	37,626
Financial Services	62,886	80,049	90,726
Government Services	25,864	30,150	32,897
Other	78,182	100,517	114,839
Government Expenditure (pct/GDP)	10	8.3	10
Per Capita GNI (US$)	6,823	8,581	10,000
Labor Force (000s)	21,456	21,634	21,778
Unemployment Rate (pct)	7.4	6.3	4
Money and Prices (annual percentage rate):			
Money Supply (M2)	24	27.9	24.6
Corporate Bonds 3/	15.1	8.9	9.58
Personal Savings Rate	24.4	24.2	23.4
Retail Inflation	7.5	0.8	2.1
Wholesale Inflation	12.2	-2.1	2.2
Consumer Price Index (1995 base)	117.8	118.8	121.3
Average Exchange Rate (Won/US$)	1,399	1,189.5	1,116.8
Balance of Payments and Trade:			
Total Exports FOB 4/	132,313	143,685	168,174
Exports to U.S. 4/	22,805	29,475	35,068
Total Imports CIF 4/	-93,282	-119,752	-158,530
Imports from U.S. 4/	-20,403	-24,922	-29,443
External Debt 5/	148,700	137,100	140,540
Debt Service Payments 6/	-29,800	-24,000	-58,700
Gold and FOREX Reserves 7/	52,041	74,055	92,530

1/ 2000 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. (Estimated figures are for the entire year 2000).
5/ Gross debt; includes non-guaranteed private debt. 2000 figure is an estimate based on available monthly data as of August.
6/ Note that the ROKG does not release such data, so the 2000 figure is the estimated amount that Korea is obligated to repay by the end of 2000. Also, the ROKG has announced that it will repay approximately $6 billion from useable foreign currency reserves in 2001.
7/ 2000 figure is as of the end of September 2000.

1. General Policy Framework

In 1999 and during the first half of 2000, the Korean economy rebounded sharply from its unprecedented 1997-98 economic crisis, led mainly by buoyant domestic consumption and investment and a surge in exports. In 1999 Korea's gross domestic product (GDP) grew 10.7 percent 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 (13 percent) and Q1 2000 (12.8 percent). In 2000 the Korean economy is expected to grow eight to nine percent and considerably slower in 2001, with inflation expected to remain in the three to four percent range, despite high petroleum prices.

Korea's 1997-98 financial crisis coincided with the election and inauguration of President Kim Dae-Jung, who embraced as Korea's best chance to recover a $58 billion International Monetary Fund (IMF) package, including loans from the IMF, World Bank, and the Asia Development Bank. Under the IMF program, the Korean government has taken steps to open its financial and equity markets to foreign investment and to reform and restructure its financial and corporate sectors to increase transparency, accountability and efficiency. The Korean economy's recovery, although strong, is not yet firm or assured. Success depends on continued financial and corporate-sector restructuring to encourage a high pace of productive domestic and foreign investment. Otherwise, existing high levels of domestic debt could threaten economic performance. So far, however, rapid productivity increases and a favorable yen-won exchange rate have kept exports strong.

Korea produces and 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, labor activism drove up wages faster than productivity growth and Korea lost its low-wage labor advantage to China and Southeast Asian countries. At the same time, Korea faced tough competition from Japan and other advanced countries in exporting cutting-edge, high-tech products.

Although the value of the won plunged from 800 won per dollar to nearly 2,000 won per dollar in late 1997, its value stabilized by 1999 to around the 1200 range. Beginning in early 2000, the won strengthened further, and the average exchange rate for 2000 is expected to be around 1,120 won per dollar. Korea's useable foreign currency reserves also grew to nearly $93 billion by September 2000. This strong growth in foreign exchange reserves has reduced their external vulnerability, but Koreans are still concerned about a narrowing trade surplus, as imports have increased faster than exports. The Korean government has revised its trade surplus estimate for 2000 to $10 billion, from its previous estimate of $12 billion.

The United States is a leading Korean trade partner, taking 21 percent of Korea's exports and providing 20 percent of Korea's imports for the first eight months of 2000.

2. Exchange Rate Policy

Since the introduction of the IMF program 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 system reforms include substantial liberalization of capital markets, including the abolition of 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. Korea, however, requires foreign branches to be separately capitalized, and other regulations such as prudential lending limits are based on local branch capital as opposed to a foreign bank's total capital worldwide, while a domestic bank's capital base is assessed as the entire bank's capital. Foreign banks are also disadvantaged in access to local currency funding. The April 1999 Foreign Exchange Transaction Law, which will be 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 investment climate for foreign firms, and in the longer run this should foster broader market access and imports. Changes to the investment regime increased greatly and immediately levels of foreign direct investment (FDI). FDI for the two years 1998 and 1999 exceeded the total FDI that Korea received during the previous 37 years (1960-1997). Investment restrictions remain on 21 industrial sectors, of which only seven are entirely closed. Mergers, including hostile mergers, are allowed, and most restrictions on foreign ownership of local shares have been lifted. For the first time in modern Korean history, foreigners are now permitted to purchase real estate and property. Tax incentives, especially for the high technology sector, have been increased. Restrictions on access to offshore funding (including offshore borrowing, intra-company transfers and inter-company 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 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 August 2000, Korea's total foreign debt (largely private sector) totaled $142 billion, up from $137 billion in 1999. Korea's short-term debt as a percentage of total foreign debt increased from 29 percent at the end of 1999 to 34 percent at the end of August 2000.

5. Significant Barriers to U.S. Exports

During the 1990s, Korea has 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 made efforts to address residual anti-import biases among both Korean consumers and bureaucrats. However, anti-import campaigns by various consumer groups still take place on a recurring basis, often instigated by the press, and are one of the most significant barriers to increased U.S. exports. Introduced in late 1998, the new foreign investment regime was aimed at attracting rather than tolerating foreign investment; total foreign investment in 2000 is expected to exceed $15 billion for the second straight year. The net impact of these changes is that Korea is now an easier place to do business than in the past; however, Korea is still a difficult market for foreign products in several key sectors, especially agriculture and automobiles. Problems also exist in intellectual property rights protection (the issue is considered below in greater detail).

Korea's tariffs are generally modest; however, Korea's 50.3 percent average tariff for agricultural products 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 them. Several agricultural products of interest to U.S. suppliers, such as rice and oranges, are directly impacted by these policies. Korea also uses adjustment tariffs to respond to import surges; the majority of the 27 adjustment tariffs apply to agricultural products. The government eliminated in June 1999 its import diversification program, which barred certain imports from Japan, and has committed to phase out its eight GATT balance-of-payments restrictions by 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 add 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, is 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, including the review of 11,000 regulations, was initiated at the request of President Kim; it is not clear, however, that the elimination of many of these regulations has had a significant effect on doing business.

Products regulated for health and safety reasons (such as pharmaceuticals, 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 foreign pharmaceutical industry has faced discriminatory barriers in Korea. Registration requirements for such products as chemicals, processed food, medical devices and cosmetics hamper entry into the market as well. Korea has initiated efforts to streamline its complex and burdensome import clearance procedures, targeting some 54 laws for revision. It has committed to bring its Food Code, Food Additive Code and labeling requirements into conformity with international standards, and has taken 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.

Korea's automobile market remains effectively closed to foreign imports with only 2,401 imported cars sold in 1999, despite efforts by the Korean government to improve the market environment for foreign automobiles. 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. Korea also has taken some steps to reduce anti-import attitudes about the purchase of foreign automobiles, including the co-sponsorship of the Seoul Import Motor Show in May 2000, but these steps have yet to have a meaningful impact. In 2000 Korean imports of U.S. and other foreign cars are expected to barely exceed 4,000 units, which is far less than one percent of the 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.

On January 1, 1997 Korea acceded to the WTO Government Procurement Agreement (GPA). U.S. firms, however, continue to raise some concerns about Korean procurement practices, including perceived discrimination against U.S. firms participating in procurements for

Korea's new Inchon International Airport. (However, the WTO Dispute Settlement Board [DSB] formally ruled in July 2000 against U.S. claims in this dispute).

Korea expanded its Uruguay Round minimum import quota for beef to 225,000 metric tons by the year 2000 as well as the proportion of the quota imported through the "simultaneous buy/sell system." Korea has committed to remove all remaining non-tariff barriers to beef imports, including state trading, by January 2001. However, due to a sharp drop in consumption, Korea has been unable to meet its WTO minimum import commitment in recent years. In July 2000 the WTO DSB ruled in favor of the United States concerning its complaints about import barriers and distribution restrictions on foreign beef, but the ROKG announced its intentions on September 11, 2000 to appeal certain issues of law and interpretation.

6. Export Subsidies Policies

In the past, Korea aggressively promoted exports through a variety of policy tools, including export subsidies, directed credit and targeted industrial policy. However, in the WTO, Korea committed to phasing out those subsidy programs not permitted under the WTO Agreement on Subsidies and Countervailing Measures. Under the IMF stabilization package, Korea eliminated four WTO prohibited subsidies. 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. 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 Bern Convention in August 1996.

Korean laws protecting IPR and related enforcement measures can be problematic. Korea's Special 301 status was upgraded from "Watch List" to "Priority Watch List" in April 2000. 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 fairly 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. A fairly 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 an author's rights, but local prosecutors take no action against infringement unless the copyright holder files a formal complaint. Korea is in the process of amending its Computer Program Protection Act (again) and is preparing revised copyright legislation so as to better meet its TRIPS obligations, especially with respect to copyright and trademark protection for transactions conducted in the new information economy. Regarding the Computer Program Protection Act, U.S. concerns focus on the provisions relating to: 1) reverse engineering; 2) private use; 3) circumvention of technical protection measures; 4) compulsory registration of exclusive licenses; and 5) the requirement of a complaint for criminal proceedings. Korea, however, 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, however, such activities dropped off precipitously, and IPR violations, especially of computer software, remain a problem.

8. Worker Rights

a. *The Right of Association*: With the exception of public sector employees, Korean workers enjoy the right of 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. Starting this year, government employees were allowed to form workplace consultative councils. 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. 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 Korean 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. 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 due to economic hardship. 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 such as selling newspapers. 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 in 1999 was set at 1,600 won/hour ($1.34/hour, with $1 equal to an average of 1,189 won in 1999). 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. 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, 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—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		1,550
Total Manufacturing		3,651
Food & Kindred Products	479	
Chemicals & Allied Products	665	
Primary & Fabricated Metals	25	
Industrial Machinery and Equipment	409	
Electric & Electronic Equipment	930	
Transportation Equipment	175	
Other Manufacturing	968	
Wholesale Trade		810
Banking		2,110
Finance/Insurance/Real Estate		47
Services		533
Other Industries		48
TOTAL ALL INDUSTRIES		8,749

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