

TRADE POLICY REVIEW

Report by the

REPUBLIC OF KOREA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Republic of Korea is attached.

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I. KOREA IN THE WORLD ECONOMY AND THE MULTILATERAL TRADING SYSTEM

1. Korea's prompt recovery from the global financial crisis of 2008 presents a forceful example which illustrates the important role and benefits of the multilateral trading system. Although tumultuous financial markets around the world impeded global production and employment, the Korean economy's deep integration into the multilateral trading system, coupled with the Korean government's prompt economic policies for a more open and competitive business environment proved to be crucial factors in moving the Korean economy forward. Korea has continued to promote liberal trade and investment policies as well as domestic regulatory reform measures. As a result, despite ongoing uncertainties and volatility in the global economic environment, Korea is projected to sustain moderate growth in 2012.

2. During the past four years, Korea has played a more active role on the global economic stage in basically all aspects of the multilateral trading system, ranging from development assistance to sustainable development. Korea has been at the forefront of global efforts to keep protectionism at bay, leading the collective initiative to adopt the "standstill" commitment at the G20 Washington Summit in 2008 and hosting the G20 Seoul Summit in 2010 to discuss ways to ensure a worldwide economic recovery. Korea also played a key role in extending the "standstill" commitment until the end of 2014 at the recent G20 Los Cabos Summit. Furthermore, Korea joined the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) in 2010, officially transforming its status from a recipient to a donor state of official development assistance (ODA) in less than half a century. Pursuant to the mandate of DAC, the Korean government has consistently increased the budget and scope of its ODA activities.

3. Korea has fully committed itself to promoting sustainable development as stipulated in the Agreement Establishing the World Trade Organization (WTO). In this vein, recognizing the urgency of combating climate change and promoting sustainable economic growth, President Lee Myung-bak announced in 2008 *Low Carbon, Green Growth* as a national policy vision.

4. Additionally, Korea has been a strong advocate of the open and rules-based multilateral trading system anchored by the WTO, and is prepared to support constructive efforts towards the conclusion of the Doha Development Agenda (DDA) negotiations.

5. In parallel, Korea has made notable progress in concluding a number of free trade agreements (FTAs) that are in compliance with the WTO agreements. Korea has been pursuing comprehensive and high-standard FTAs not only to promote trade liberalization but also to strengthen its competitiveness and to prompt domestic regulatory reforms. Korea believes that its policy of pursuing "WTO-plus" FTAs—in a wide range of areas such as investment, competition, government procurement, cultural cooperation, intellectual property rights (IPRs), trade remedies, as well as trade in goods and services—can provide an exemplary platform for continuous trade liberalization for future WTO negotiations.

II. ECONOMIC DEVELOPMENTS IN KOREA

6. The Korean economy quickly rebounded from the global financial crisis of 2008. The recovery was aided by a series of assertive economic policies in 2009, including a fiscal stimulus package amounting to ₩ 38.8 trillion – 3.6% of GDP – which consisted mainly of various measures such as social-overhead-capital (SOC) investments and support for small- and medium-sized and self-employed businesses that are particularly vulnerable to external shocks. An aggressive monetary policy by the Bank of Korea to lower Korea's key interest rate to a record low of 2% also contributed

to the recovery. Most significantly, and in spite of the difficult economic environment, Korea pushed ahead with continuous domestic reform and restructuring efforts that laid down the foundation for sustained future economic growth.

7. The unforeseen financial crash in the second half of 2008 reminded Korea of painful memories during the Asian currency crisis of the late 1990s. Following the Asian currency crisis, Korea implemented a series of extensive reform measures to address weaknesses in the Korean economy. These efforts significantly improved the efficiency and resilience of the Korean economy – as evidenced by the continuing display of relatively strong economic fundamentals – and placed Korea in a better position, as compared to a decade ago, to withstand the global financial headwinds.

(1) ECONOMIC RECOVERY FROM THE GLOBAL FINANCIAL CRISIS

8. Leading up to the Asian currency crisis in the late 1990s, Korean companies – especially large business groups – accumulated huge amounts of debts that were provided mostly by short-term loans from foreign banks. The heavy reliance on short-term foreign loans led the Korean economy to succumb to the currency crisis, as the foreign currency reserves were insufficient to deal with financial instability. Such financial problems were exacerbated by the excessively regulated banking sector and inefficient financial markets.

9. In the course of overcoming the Asian currency crisis, the Korean government carried out a wide array of rigorous economic reform measures. Restrictions in the financial market were relaxed in accordance with the International Monetary Fund (IMF) recommendations, and the free-floating exchange rate regime was adopted to support liberalization of the capital market. Private firms reduced leverage on foreign debts.

10. In addition, the Korean government and the central bank amassed sufficient foreign exchange reserves to prepare for contingencies such as external financial shocks. As a result of such reform measures, by 2007, the leverage ratio in the private sector was at a prudent 100-200% level and foreign reserves stood at US\$200 billion.¹ Korea also arranged a bilateral currency swap agreement with the United States in 2008, and subsequently with Japan and China. The Korean economy was clearly on a better footing due to economic restructuring undertaken during and following the Asian currency crisis.

11. In spite of these overall improvements in the financial system, certain aspects of the Korean economy were still highlighted as persisting vulnerabilities. For example, there was the continuous growth of short-term foreign debts in the banking system stemming from increased hedging activities by exporters. Such activities caused the Korean won to appreciate about 30% in nominal terms from 2002 to 2007. Another issue for concern was the high loan-to-deposit ratio in the Korean banking system. Moreover, the vulnerability of an export-oriented economy was shown by the current account deficit that spanned from 2007 to 2008 during which foreign demand precipitously dropped due to financial turmoil across the world.

12. The vulnerability of the Korean economy to external economic shocks made the value of the national currency decline the most among the major Asian currencies during the global financial crisis. While the weak Korean won suppressed domestic demand, the global economic turmoil also hurt Korea's exports by weakening foreign demand for Korean products. As a result, in the fourth quarter of 2008, Korea's GDP contracted by 4.6% as compared to the third quarter of the same year. Ironically, difficulties were compounded by the fact that previous reform measures – in particular the

¹ The leverage ratio in 2011 remained at the 100-200% level, while foreign reserves as of March 2012 stood at US\$316 billion.

liberalization of the capital market and the shift to free-floating exchange rate regime – contributed to making it much easier for foreign investors and speculators to withdraw capital from the Korean capital market, thereby worsening financial stability.

13. However, the Korean economy has bounced back since 2009, due in large part to the economy's resilient trade structure and the government's prompt and effective policy responses. The combined effects of Korea's current account surplus, the government's policy to increase fiscal expenditures, and the central bank's decision to lower the key interest rate facilitated the economic recovery. Consequently, in 2009, when the world economy was still in the midst of the financial crisis, Korea, along with only two other member countries in the OECD, achieved positive GDP growth.²

14. In the process of recovering from the global financial crisis, many structural problems of the Korean economy have been largely rectified. Firstly, Korea's trade competitiveness in the world market has significantly improved despite global financial instability. The value of the Korean won fell sharply during the early stages of the global financial crisis to almost ₩ 1,600 per U.S. dollar in March 2009, but regained its value gradually afterward to about ₩ 1,200 per U.S. dollar in June 2012, *albeit* still lower than that of pre-crisis levels.³ The continued surplus in trade balance despite the appreciating Korean won since 2009 illustrates fundamental improvement of Korea's export structure and competitiveness in the global market.

15. Secondly, the loan-to-deposit ratios of Korean banks have been improved. As shown in Table I, deposits in banks have been continuously growing primarily due to huge volatility in the stock market and high risks in the real estate market. Meanwhile, loans have increased relatively slower because of more prudent banking policies⁴ as well as weaker economic activity levels.

Table I
Korea's Loan-to-Deposit Ratios
(₩ trillion)

	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Mar. 2012
Loan (A)	598	690	785	806	828	883	879
Deposit (B)	551	565	665	717	844	915	923
Loan-to-Deposit Ratio (%) (A/B×100)	108.5	122.2	118.0	112.4	98.2	96.5	95.3

Note: Figures for banks subject to the loan-to-deposit regulations as of March 2012.

Source: Financial Supervisory Service, *Results of Loan-to-Deposit Ratio as of March 2012*.

16. Thirdly, short term foreign debts have been considerably subdued following the global financial crisis. To reduce short term debts and curb excessive volatility of capital flows, the Korean government imposed two macro-prudential measures in the banking sector: the regulation limiting the ratio of net foreign currency forward positions to bank capital, and a bank levy on non-deposit foreign currency liabilities. The limitation on the ratio of net foreign currency forward position to bank capital has been in effect since August 2010, and the bank levy has been in place since August 2011. As a result, the ratio of short term debts to total debts in the banking sector dropped to 49% by March 2012, from 73% in September 2008.

² Korea, Australia, and Poland recorded positive growth in 2009 among the OECD member countries.

³ The exchange rate was ₩ 942 per U.S. dollar in January 2008.

⁴ The ratio has been lowered by 17.1% as of March 2012 since the announcement by the Financial Supervisory Service in December 2009 to introduce regulations capping the ratio at 100% starting from July 2012.

17. However, excessively volatile capital flows in the Korean economy still pose difficult challenges for monetary and fiscal policies, given the turbulence of the global financial market. The Korean government has committed itself to the continuous and steadfast implementation of economic reform policies so as to enhance its sovereign creditworthiness and financial stability.

(2) TRADE AND INVESTMENT

18. Korea is the world's seventh largest exporter and ninth largest importer, with a total trade volume of more than US\$1 trillion in 2011.⁵ From a deficit of US\$13.2 billion in 2008, Korea's trade surplus increased sharply to US\$40.4 billion in 2009. Since 2009, the trade surplus has surpassed pre-crisis levels. During the period under review, the trade balance has maintained a surplus, except for 2008 when the global financial crisis was at its peak.

Table II
Korea's Basic Trade Statistics, 2004-11
(US\$ million)

	Exports	Growth Rate (%)	Imports	Growth Rate (%)	Trade Balance	Current Account
2004	253,845	31.0	224,463	25.5	29,382	32,312
2005	284,419	12.0	261,238	16.4	23,180	18,607
2006	325,465	14.4	309,383	18.4	16,082	14,083
2007	371,489	14.1	356,846	15.3	14,643	21,770
2008	422,007	13.6	435,275	22.0	-13,267	3,198
2009	363,534	-13.9	323,085	-25.8	40,449	32,791
2010	466,384	28.3	425,212	31.6	41,172	29,394
2011	555,214	19.0	524,413	23.3	30,801	26,505

Source: Korea International Trade Association, *Korea Trade Statistics* (online information last viewed on 18 July 2012); and Bank of Korea, *Balance of Payments, Economic Statistics System* (online information last viewed on 18 July 2012).

19. Korea's exports have been led by items such as vessel parts/ocean structures, petroleum products, semiconductors and automobiles, while its largest import products were crude oil, semiconductors, natural gas, and petroleum products.

Table III
Korea's Major Trade Items, 2008-11
(US\$ million and %)

Description (MTI code)	Exports				Description (MTI code)	Imports			
	2008	2009	2010	2011		2008	2009	2010	2011
Vessel Parts/Ocean Structures (746)	43,157 (10.2)	45,128 (12.4)	49,112 (10.5)	56,588 (10.2)	Crude Oil (131)	85,855 (19.7)	50,757 (15.7)	68,662 (16.1)	100,806 (19.2)
Petroleum Products (133)	37,573 (8.9)	22,965 (6.3)	31,531 (6.8)	51,600 (9.3)	Semiconductors (831)	32,018 (7.4)	26,620 (8.2)	31,137 (7.3)	32,483 (6.2)
Semiconductors (831)	32,793 (7.8)	31,042 (8.5)	50,707 (10.9)	50,146 (9.0)	Natural Gas (134)	19,806 (4.6)	13,875 (4.3)	17,006 (4.0)	23,859 (4.5)
Automobiles (741)	35,032 (8.3)	25,411 (7.0)	35,411 (7.6)	45,312 (8.2)	Petroleum Products (133)	17,534 (4.0)	12,765 (4.0)	17,928 (4.2)	22,883 (4.4)

Table III (cont'd)

⁵ International Monetary Fund, *Direction of Trade Statistics* as of July 2012; Korea International Trade Association, *Korea Trade Statistics* (online information last viewed on 23 July 2012).

Description (MTI code)	Exports				Description (MTI code)	Imports			
	2008	2009	2010	2011		2008	2009	2010	2011
Flat Panel Display & Sensor (836)	18,732 (4.4)	25,578 (7.0)	32,589 (7.0)	30,996 (5.6)	Coal (132)	12,810 (2.9)	9,995 (3.1)	13,131 (3.1)	18,477 (3.5)
Wireless Communications Devices (812)	35,713 (8.5)	30,986 (8.5)	27,621 (5.9)	27,325 (4.9)	Iron Boards (613)	17,203 (4.0)	9,271 (2.9)	10,988 (2.6)	12,872 (2.5)

Note: Percentage shares of total exports or imports are in parentheses.

Source: Korea International Trade Association, *Korea Trade Statistics by Commodity* (online information last viewed on 18 July 2012).

20. Korea's shares of trade with its largest trading partners – China, Europe, the United States and Japan – remained relatively unchanged since the last review, although the share of total trade with Asia showed a marked increase.

21. Exports to the U.S. held steady, while the share of exports to Europe decreased from 18.2% in 2008 to 13.5% in 2011. Meanwhile, the share of Korea's exports to China continued to grow – from 21.7% in 2008 to 24.2% in 2011. The shares of imports from the four major trading partners remained relatively unchanged. Notably, as indicated in Table IV, Korea's high proportion of exports to Asia further increased from 50.7% in 2008 to 56.6% in 2011.

Table IV
Korea's Geographical Distribution of Trade, 2008-11
(US\$ million and %)

	Exports				Imports			
	2008	2009	2010	2011	2008	2009	2010	2011
Total	422,007	363,534	466,384	555,214	435,275	323,085	425,212	524,413
Asia	214,051 (50.7)	190,761 (52.5)	255,178 (54.7)	314,006 (56.6)	199,784 (45.9)	154,114 (47.7)	202,341 (47.6)	234,438 (44.7)
China	91,389 (21.7)	86,703 (23.9)	116,838 (25.1)	134,185 (24.2)	76,930 (17.7)	54,246 (16.8)	71,574 (16.8)	86,432 (16.5)
Japan	28,252 (6.7)	21,771 (6.0)	28,176 (6.0)	39,680 (7.1)	60,956 (14.0)	49,428 (15.3)	64,296 (15.1)	68,320 (13.0)
North America	50,434 (12.0)	41,089 (11.3)	53,918 (11.6)	61,135 (11.0)	42,768 (9.8)	32,575 (10.1)	44,754 (10.5)	51,181 (9.8)
U.S.	46,377 (11.0)	37,650 (10.4)	49,816 (10.7)	56,208 (10.1)	38,365 (8.8)	29,039 (9.0)	40,403 (9.5)	44,569 (8.5)
Europe	76,697 (18.2)	56,017 (15.4)	69,627 (14.9)	75,087 (13.5)	53,697 (12.3)	43,862 (13.6)	55,760 (13.1)	65,260 (12.4)
Latin America	33,267 (7.9)	26,764 (7.4)	36,187 (7.8)	40,131 (7.2)	13,756 (3.2)	11,648 (3.6)	14,645 (3.4)	20,165 (3.8)
Middle East	26,647 (6.3)	24,039 (6.6)	28,369 (6.1)	32,884 (5.9)	101,645 (23.4)	61,613 (19.1)	80,815 (19.0)	119,211 (22.7)
Africa	9,386 (2.2)	8,467 (2.3)	9,618 (2.1)	14,396 (2.6)	4,052 (0.9)	3,185 (1.0)	4,684 (1.1)	5,607 (1.1)
Oceania	11,216 (2.7)	16,321 (4.5)	13,396 (2.9)	17,065 (3.1)	19,519 (4.5)	16,044 (5.0)	22,140 (5.2)	28,477 (5.4)

Note: Percentage shares of total exports or imports are in parentheses.

Source: Korea International Trade Association, *Korea Trade Statistics by Country and Continent/Economic Bloc* (online information last viewed on 18 July 2012).

22. Korea's trade in services recently recovered from adverse impacts of the global financial crisis. As shown in Table V, transport services' share in the total services exports stands at about 40%, and that sector has recorded a surplus throughout the period under review. In contrast, tourism and business services have experienced persistent large deficits during the same period.

Table V
Korea's Trade of Main Services, 2008-11
(US\$ million and %)

	Exports					Imports			
	2008	2009	2010	2011		2008	2009	2010	2011
Total	90,635	73,580	87,282	95,000	Total	96,369	80,221	95,908	99,378
Transport Services	44,768 (49.4)	28,693 (39.0)	38,982 (44.7)	37,057 (39.0)	Transport Services	36,770 (38.1)	23,451 (29.2)	29,675 (30.9)	27,797 (28.0)
Business Services	12,965 (14.3)	12,088 (16.4)	16,834 (19.3)	18,910 (19.9)	Business Services	27,245 (28.3)	27,094 (33.8)	30,422 (31.7)	35,827 (36.1)
Tourism and Travel Related Services	9,773 (10.8)	9,819 (13.3)	10,359 (11.9)	12,304 (13.0)	Tourism and Travel Related Services	19,065 (19.8)	15,040 (18.7)	18,779 (19.6)	19,463 (19.6)

Note: Percentage shares of total exports or imports are in parentheses.

Source: Bank of Korea, *Balance of Payments, Economic Statistics System* (online information last viewed on 18 July 2012).

23. The Korean government has announced various plans since 2008 to assist and raise productivity of its services industry. Such plans include R&D assistance to the services industry, creation of the Committee for Services Industry Development, and application of information and communications technology to enhance efficiency in the services sectors. In the *Services Industry Development Plan* of 2012, for example, the government set forth plans for increasing the competitiveness of services sectors such as business services, tourism, and education which have greater job-creating potential than others. The implementation programs of the Plan include deregulation in relation to construction of hotels and lodges, provision of one-stop professional services in the legal, accounting, and patent areas, and establishing comprehensive strategies to attract foreign educational institutions.

24. From 2008 to 2011, the inflow of foreign direct investments (FDIs) to Korea increased from US\$11 billion to US\$13 billion. The Korean government has implemented a series of measures including cash grants and land supply at lower costs to job-creating foreign-invested companies. The government has also made efforts to foster a more business-friendly environment and provide better living conditions to foreign investors through a three-year plan that began in 2008. To better assist foreign investors in Korea, the government established a foreign investment policy center that conducts research on business trends of global firms, effective investment incentives, and the success factors in foreign investments. In July 2011, the government embarked on a second three-year plan to enhance the general investment climate in Korea. The plan involves providing further incentives to foreign investors such as strengthened protection of their intellectual property rights, supplying land at lower costs, and continuous improvement of the overall business and living environment in Korea.

25. Korea's outbound FDI has shown a remarkable increase since the last review. In particular, FDI outflows have surged in the mining and natural resources sectors as Korean energy firms significantly increased investments abroad to secure a stable supply of raw energy sources, although manufacturing and services sectors still account for the predominant portion of Korea's overseas investments.

Table VI
Korea's Inbound and Outbound FDI, 1995-2011
 (US\$ million and %)

		1995	2000	2005	2008	2009	2010	2011
Inbound FDI^b	Total	1,970	15,265	11,566	11,712	11,484	13,071	13,674
	Manufacturing	1,041 (52.8)	6,877 (45)	3,078 (26.6)	3,007 (25.6)	3,725 (32.4)	6,659 (50.9)	5,657 (41.4)
	Services^a	927 (47)	8,384 (54.9)	8,484 (73.3)	8,703 (74.3)	7,743 (67.4)	6,409 (49)	7,960 (58.2)
	U.S.	665 (33.7)	2,921 (19.1)	2,690 (23.2)	1,328 (11.3)	1,486 (12.9)	1,974 (15.1)	2,372 (17.4)
	Japan	425 (21.5)	2,452 (16)	1,881 (16.2)	1,424 (12.1)	1,934 (16.8)	2,083 (15.9)	2,289 (16.7)
	EU	461 (23.4)	4,446 (29.1)	4,781 (41.3)	6,339 (54.1)	5,297 (46.1)	3,196 (24.5)	5,033 (36.8)
Outbound FDI^b	Total	3,218	5,252	7,203	23,817	20,327	24,245	25,595
	Manufacturing	2,043 (63.4)	1,675 (31.8)	3,701 (51.3)	7,081 (29.7)	4,549 (22.3)	7,116 (29.3)	7,946 (31)
	Services^a	1,073 (33.3)	3,440 (65.4)	2,991 (41.5)	10,544 (44.2)	10,248 (50.4)	9,713 (40)	10,052 (39.2)
	Mining	77 (2.3)	119 (2.2)	483 (6.7)	4,092 (17.1)	5,440 (26.7)	7,295 (30)	7,464 (29.1)
	China	842 (26.1)	757 (14.4)	2,818 (39.1)	3,764 (15.8)	2,169 (10.6)	3,619 (14.9)	3,572 (13.9)
	U.S.	572 (17.7)	1,434 (27.3)	1,259 (17.4)	5,090 (21.3)	3,563 (17.5)	3,368 (13.8)	5,874 (22.9)
	Viet Nam	183 (5.6)	71 (1.3)	319 (4.4)	1,366 (5.7)	605 (2.9)	837 (3.4)	1,024 (4)

a Including electricity, gas, water supply, and construction.

b Inbound FDI is on a notification basis. Outbound FDI is on an invested-amount basis.

Note: Percentage shares of total inbound or outbound FDI are in parentheses.

Source: Ministry of Knowledge Economy, *Inbound FDI Data Base*; Export-Import Bank of Korea, *Outbound FDI Data Base*.

(3) EFFORTS FOR GREEN GROWTH

26. In 2008, to more actively combat climate change, the Korean government announced *Low Carbon, Green Growth* as a national policy vision. The Presidential Committee on Green Growth (PCGG) was created to provide legal and institutional framework for green growth, as well as to promote policies tackling climate change. The Committee's *National Strategy for Green Growth* and the *Five-Year Plan for Green Growth* lay out the basic direction of environmental and industrial strategies and provide a framework for enhanced international cooperation.

27. In November 2009, the government adopted a national mid-term goal of cutting 30% of greenhouse gas (GHG) emissions by 2020, as compared with the projected business-as-usual (BAU) level. The *Framework Act on Low Carbon Green Growth* was enacted in January 2010 to serve as a framework legislation covering such areas as climate change, renewable energy, and sustainable development. In line with the *Framework Act*, the National Assembly in May 2012 passed a legislation establishing an emissions trading scheme (ETS), which will enter into force in 2015.

28. Further, the Global Green Growth Institute (GGGI)⁶ was launched in June 2010 with the aim of creating an international platform for developing policy innovations that promote sustainable economic development. On the margins of the Rio+20 Summit in Brazil in June 2012, sixteen countries⁷ signed the Agreement on the Establishment of the GGGI to become founding members, thereby officially transforming GGGI into an international organization.

29. Since the launch of green growth policies, major business groups in Korea have made green business one of their highest investment priorities. Between 2008 and 2010, the combined total of such investments by the 30 largest business groups showed an annual average growth rate of 75%, amounting to ₩ 15.1 trillion, or about US\$13 billion in 2010.

(4) OFFICIAL DEVELOPMENT ASSISTANCE

30. During the period under review, Korea set a milestone in its history of international development cooperation by joining the OECD DAC in 2010. At the special review conducted by the DAC Peer Review Team in 2008, Korea reconfirmed its commitment to scale-up the volume of ODA. The total amount of Korea's ODA has steadily increased from US\$696 million in 2007 to US\$1.17 billion in 2010.⁸ As a result, Korea's ODA/GNI ratio reached 0.12% in 2010, a figure that is expected to further increase to 0.15% in 2012 and 0.25% by 2015.

31. The objectives of Korea's ODA as stated in the *Framework Act on International Development Cooperation* of 2010 include the reduction of poverty in developing countries, improvement of their qualities of life, and promotion of friendly relations and mutual exchanges with developing country partners. Korea's unique experience of having transformed itself into a DAC member from a least developed country (LDC) places Korea in a favourable position to share its development experience with partner countries.

32. In accordance with the *Strategic Plan for International Development Cooperation*⁹ and the *Mid-Term ODA Policy*¹⁰ for 2011-2015, Korea seeks to improve aid effectiveness and better accommodate the diverse needs of developing partners.

33. In 2010, the volume of Korea's bilateral aid amounted to US\$901 million, accounting for 77% of its total ODA. Around 60% of the bilateral ODA was delivered as grants and the remainder was in the form of concessional loans. In terms of the regional allocation of aid in 2010, Asia and Africa accounted for 62% and 15% of Korea's aid, respectively. 37% of Korea's bilateral ODA was delivered to LDCs as of 2010.

⁶ The GGGI was initially created as a non-profit foundation in 2010 and converted into an international organization in 2012. The GGGI seeks to promote a new model of economic growth, known as "green growth," that simultaneously targets key aspects of economic performance, such as poverty reduction, job creation and social inclusion, and those of environmental sustainability, such as mitigation of climate change and biodiversity loss and security of access to clean energy and water.

⁷ The 16 signatories are: Australia, Cambodia, Costa Rica, Denmark, Ethiopia, Guyana, Kiribati, Korea, Norway, Papua New Guinea, Paraguay, the Philippines, Qatar, the UAE, the United Kingdom, and Viet Nam.

⁸ The volume of ODA in 2011 is estimated to be US\$1.321 billion.

⁹ The *Strategic Plan for International Development Cooperation* is a government-wide plan to set out Korea's vision and strategies on development cooperation. The Plan was approved in October 2010 at the 7th session of the Committee of International Development Cooperation (CIDC), which is chaired by the Prime Minister.

¹⁰ The *Mid-Term ODA Policy* lays out Korea's development policy direction, the volume of ODA, as well as mid-term development strategies.

34. Korea recognizes that the tying of aid raises the costs of goods and services needed to implement aid projects, and prompts decisions to be based on commercial considerations rather than local needs or the priorities of partner countries. In this regard, Korea is committed to increasing the proportion of untied aid from 36% in 2008 to 75% by 2015¹¹, keeping with international rules and guidance such as the 2001 *DAC Recommendation on Untying ODA* and the recommendations of the DAC special review in 2008.

35. Korea is taking a leading role in enhancing global partnership for economic development and poverty reduction. In 2010, Korea successfully led the development agenda at the G20 Seoul Summit with the adoption of the *Seoul Development Consensus for Shared Growth* and the *Multi-Year Action Plan*. The *Seoul Development Consensus* focuses on measures to resolve any bottlenecks for growth in developing countries based on the understanding that economic growth in developing countries contributes to ensuring a more balanced global economy. At the 4th High Level Forum on Aid Effectiveness (HLF-4) held in Busan in November 2011, Korea contributed to promoting a paradigm shift in development from "aid effectiveness" to "development effectiveness" and broadening global development partnerships with new participants.

36. Korea is also making a contribution to strengthening Aid for Trade. Korea is the ninth largest donor for Aid for Trade in the world, with its aid commitment volume reaching US\$935 million in 2009. Korea joined the Regional Technical Group (RTG) on Aid for Trade for Asia-Pacific in 2011, and subsequently hosted the 5th RTG meeting in Seoul in May 2012 in cooperation with the Asian Development Bank. The meeting carried out in-depth discussions for promoting Aid for Trade in the Asia-Pacific region with particular focus on enhancing public and private partnerships, regional integration, and South-South relationships. With regard to Aid for Trade in the context of the WTO, Korea has been a donor to the WTO DDA Global Trust Fund since 2002. Korea has contributed US\$350,000 every year to the Fund since 2007.

(5) DOMESTIC REFORMS

37. Since the last review, the Korean government has persistently implemented economic reforms. In the financial sector, the government has introduced various forms of macro-prudential measures to alleviate systemic risks in the Korean economy caused by excessive capital flow volatility, as stipulated above in Chapter II. Regarding the labor market, Korea's policy priorities involve addressing population aging, workforce shortage, and labor market dualism. In the corporate sector, the Korean government has tried to enhance transparency and accountability in corporate governance. Bearing in mind the significant role of competition policies in promoting economic growth, the Korean government has stepped up the implementation and enforcement of competition rules and policies.

Financial Sector

38. Korea experienced substantial capital outflow during the early phase of the global financial crisis. Following the global financial crisis, the G20, the IMF, and the OECD acknowledged the need to address excessive volatility in capital flows. In response to such recognitions, the Korean government adopted a series of macro-prudential measures to reduce capital flow volatility in 2010 and 2011.¹²

¹¹ In 2006, the proportion of untied aid was only about 2% of Korea's total bilateral assistance.

¹² Such measures include caps on banks' foreign exchange forward positions and taxes on foreign investment in local bonds that were introduced in October 2010 and January 2011, respectively.

Labour Sector

39. Workforce shortage – especially in small- and medium-sized enterprises (SMEs) – and a rapidly aging population are barriers to maintaining Korea's economic growth potential. The Korean population is expected to peak in 2030 and subsequently drop 8% by the mid-century, while the working-age population is projected to peak in 2016 and then drop by more than one quarter by 2050, according to the *OECD Economic Surveys: Korea 2012*.

40. In order to deal with the demographic shifts, Korea has undertaken labour market reforms that boost employment and productivity. The government's *2020 National Employment Strategy* which was launched in 2010 aims to tap into underrepresented workers – women, youth and the elderly – to increase the employment rate from 63% of working-age population in 2010 to approximately 70% by 2020.

41. Korea has also taken steps to alleviate the burden of childcare, and to create more family-friendly workplaces in accordance with recommendations by the Committee on Low Fertility and Population Aging Policy in 2006. These include expansion of public childcare, flexible working hours, lengthening maternity leave to 90 days for women working in SMEs, increasing allowances during childcare leave and easing the conditions attached to applying for childcare leave. These measures were followed by the 2011 revision of the *Equal Employment Opportunity and Work-Family Balance Assistance Act*, which allows parents with children under age six to request shorter working hours.

42. In September 2011, the Korean government announced the *Comprehensive Non-Regular Workers Initiative* to strengthen social safety nets and enhance equal treatment for non-regular workers.¹³ Korea believes that this Initiative will help raise labour productivity and address social cohesion issues.

Competition Policy and Other Reforms

43. Korea has made continuous efforts to enhance corporate transparency and alleviate the concentration of wealth to a few dominant corporations by strengthening rules on information disclosure and strictly enforcing regulations against anti-competitive business practices.

44. At the same time, Korea has lowered entry barriers that restrict competition and undermine consumer welfare in various economic domains. Meanwhile, as even good-willed regulations may have the unintended effect of adversely impacting the business climate, the government has also been taking into account global business norms when implementing economic policies.

45. The Korea Fair Trade Commission (KFTC) has been offering an administrative incentive¹⁴ to encourage large corporations to establish systematic compliance programs for the *Fair Transactions in Subcontracting Act* and maintain mutually beneficial relationships with SMEs. In accordance with the provisions of the *Fair Transactions in Subcontracting Act* – which prohibit primary contractors from unlawfully lowering payments to subcontractors – the KFTC has monitored, investigated and cracked down on unfair price-cutting practices.

¹³ This Initiative aims to enhance workforce flexibility by removing unnecessary discrimination against non-regular workers performing jobs identical or similar to those of regular workers, expanding social safety nets, and increasing welfare services for low-paid workers.

¹⁴ Corporations that benefit from the administrative incentive are exempted from annual in-writing inspection.

46. In addition, the Anti-Corruption and Civil Rights Commission (ACRC)¹⁵ was established in February 2008 to fight corruption and promote clean governance in Korea. The ACRC is involved in formulating anti-corruption policies, coordinating preventive activities such as institutional improvement and educational programs, detecting corruption through investigations and evaluating the anti-corruption activities of other government organizations. The ACRC places priority on resolving grievances of the general public that stem from unfair practices infringing upon the rights and interests of citizens. Through these efforts, the Korean government has continuously promoted transparency, predictability and accountability in the corporate sector as well as in the government.

III. TRADE POLICY DEVELOPMENTS

(1) KOREA AND THE WTO

(a) Implementation of WTO Commitments

47. As one of the major beneficiaries of the multilateral trading system, Korea has consistently advocated for an open and robust multilateral trading system as a platform for promoting sustainable economic growth and development. Korea has therefore remained committed to implementing its obligations under the WTO agreements. At the same time, Korea has actively and constructively engaged in the efforts to promote further trade and investment liberalization, while implementing domestic reform measures on a voluntary basis that go beyond its current WTO commitments.

Trade Remedies

48. In line with its strong commitment to the WTO multilateral trading system and to help resist growing protectionist trends around the world, Korea has made modest and selective use of WTO trade remedy measures.

49. During the period under review, Korea has refrained from taking any safeguard or countervailing measures. Korea did take 18 anti-dumping measures, but as shown in Table VII, this represents a drop from the preceding four-year review period. As of June 2012, anti-dumping measures are in force in 12 of the 18 cases, including both original measures and measures extended through sunset reviews.

Table VII
Korea's Use of Trade Remedy Measures, 2004-11

	2004-07	2008	2009	2010	2011
Anti-Dumping Duties	21	12	4	0	2
Safeguard Measures	0	0	0	0	0
Countervailing Duties	0	0	0	0	0

Source: Korea Trade Commission, *Trade Remedies: State of Play as of April 2012*.

Dispute Settlement

50. During the period under review, Korea has been involved in three cases as a complainant, and in one case as a respondent. In two of the cases in which Korea participated as a complainant, Panel reports were adopted and the recommendations and rulings of the Dispute Settlement Body (DSB) were implemented. The third complainant case was suspended at Korea's request. In the respondent

¹⁵ The ACRC was created by merging the Ombudsman of Korea, the Korea Independent Commission Against Corruption, and the Administrative Appeals Commission.

case, both parties notified the mutually agreed solutions to the DSB. In addition, Korea has participated in 19 dispute cases as a third party.

Intellectual Property Rights

51. Korea's domestic laws and regulations on IPRs are in full compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In an effort to further strengthen protection of IPRs, Korea negotiated the Anti-Counterfeiting Trade Agreement (ACTA) with seven other WTO Members and signed it in October 2011. Currently, Korea is going through the necessary domestic procedures for the ratification of ACTA.

(b) DDA Negotiations

52. Korea has attached great importance to the open and rules-based multilateral trading system embodied in the WTO. Korea firmly believes that the WTO can and should play a pivotal role in further improving the global trade and investment environment, particularly in the face of current global economic challenges.

53. Korea will continue to actively and constructively take part in collective efforts to explore fresh and credible approaches to help move the DDA negotiations forward, as agreed at the 8th WTO Ministerial Conference in December 2011.

Agriculture

54. Korea has been actively participating in the agriculture negotiations as a member of the G10 and the G33. Korea shares the view of other participants that future negotiations should build on the progress achieved thus far. Korea believes that it would not be desirable to attempt to reopen issues already stabilized, as doing so would run the risk of preventing the negotiations from progressing in a timely manner. Notwithstanding its domestic agricultural sensitivities, Korea will continue to engage in the negotiations in a constructive manner to help move the discussions forward.

Non-Agricultural Market Access (NAMA)

55. Due to continuing difficulties in narrowing the differences over outstanding issues such as the sectorals, the NAMA negotiations have not produced meaningful outcome during the period under review. In the area of non-tariff barriers, Members have been engaged in constructive discussions. Korea has been working with other Members since 2008 to reach a balanced outcome and will continue to extend efforts to advance the negotiations.

Services

56. The services sector is one of Korea's key industries. Korea believes the continued development of the services sector is essential for further enhancing the overall competitiveness of other industries including manufacturing.

57. In this vein, Korea has actively participated in the services negotiations regarding both market access and rules such as domestic regulations. On market access negotiations, Korea considers five infrastructure-related services – telecommunications, distribution, construction, maritime transport, and financial services – to be of particular significance and has been working to enhance the level of liberalization in these areas, among others. Regarding negotiations on domestic regulations, Korea, as one of the demandeurs, seeks to ensure that domestic regulations do not present unnecessary barriers to trade in services.

Trade Facilitation

58. Korea is of the view that multilateral rules on trade facilitation would not only reduce administrative costs and waiting time but also enhance predictability and transparency in the customs procedures. In this context, Korea has participated in the trade facilitation negotiations in an active and constructive manner by submitting and co-sponsoring a number of proposals on specific topics in such areas as single-window, release time of goods, risk management, and so forth. While working to advance the textual negotiations, Korea has also shared with other Members its experiences regarding the benefits and challenges of the single window system by presenting case studies at a WTO symposium held in November 2011.

59. Although the DDA negotiations are at an overall stalemate, trade facilitation is considered as one of the areas in which progress could be achieved on its own merits. Thus, Korea will continue to make contributions toward tangible progress in the negotiations by offering fresh ideas and playing a bridge-building role.

Rules

60. Korea has engaged in the DDA rules negotiations to make WTO rules more transparent and predictable in the areas of trade remedies and regional trade agreements.

61. Large gaps still exist among Members engaged in fisheries subsidies negotiations, one of the most contentious areas in the DDA negotiations on rules. Korea has provided constructive ideas regarding the issues of fuel subsidies in fisheries, as well as illegal, unreported and unregulated (IUU) fishing. In particular, regarding IUU fishing, Korea believes it is imperative that regulations be made more effective and practical. In this regard, Korea has suggested the establishment of a transparency mechanism that provides data for enforcement activities, imposes penalties on IUU fishing, and creates a periodic peer review process.

Trade and Environment

62. To enhance mutual compatibility between trade and environment, Korea supports improving coordination between WTO rules and multilateral environmental agreements (MEAs). Korea recognizes the importance of establishing procedures for information exchange between MEA secretariats and the relevant WTO committees. Further, Korea continues to embrace liberalization of environmental goods and services that would provide substantial benefits to Members and is committed to working towards a positive outcome in this area.

(c) Other Trade Liberalization Efforts

Combating Protectionism

63. Since the outbreak of the global financial and economic crisis, Korea has strongly advocated international efforts to deter and push back protectionism in the WTO and other forums. In particular, Korea has been playing a positive role in the collective adoption of the "standstill" commitment at the G20 Washington Summit in 2008 and the Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting in 2008, as well as in subsequently extending the commitment until the end of 2014 at the recent G20 Los Cabos Summit. Korea is also actively participating in the WTO exercise designed to monitor trade and trade-related measures.

Government Procurement

64. As a Party to the WTO Agreement on Government Procurement (GPA), Korea has keen interest in establishing more transparent and rules-based practices in the area of government procurement. Korea also seeks to ensure the efficient and effective management of public resources by further opening up Korea's procurement market to international competition. Along these lines, Korea actively participated in the discussions to revise the WTO GPA which were launched in 1997. The negotiations to revise the GPA text and expand the coverage were finally concluded in December 2011. Currently, Korea is going through the necessary domestic procedures for the ratification of the revised GPA.

ITA Expansion

65. Recognizing that a successful expansion of the Information Technology Agreement (ITA) will help boost the global economy and enhance the credibility of the multilateral trading system, Korea has been engaged, since May 2012, in in-depth technical discussions with other Members to expand the product coverage of the ITA. Further, Korea shares with Members a common interest in reflecting in the ITA the changing patterns of global trade and developments in information and communications technology, as fairly long time has passed since the ITA was concluded in 1997.

Advancing Negotiations on Trade in Services

66. Over the past several months, Korea and some WTO Members have been exploring new approaches aimed at progressing the liberalization of trade in services, with a view to capturing significant improvements made through various avenues since the conclusion of the General Agreement on Trade in Services (GATS). Korea will continue to work closely with other Members to advance the liberalization of trade in services and improve the services rules, with the ultimate goal of reinforcing and strengthening the multilateral trading system.

Trade Agreements among Developing Countries

67. Korea has been engaged in negotiations to liberalize trade among developing countries by participating in preferential trade agreements among developing countries, such as the Global System of Trade Preferences (GSTP)¹⁶ and the Asia-Pacific Trade Agreement (APTA).¹⁷

68. In December 2010, Korea and seven other participants of the GSTP successfully concluded the Sao Paulo Round Negotiations which expanded the scope of preferential tariff reduction and the margins of preference among participants. Korea has also been engaged in negotiations with other APTA participating states in areas such as trade facilitation, investment, and trade in services with the aim of going beyond traditional tariff concessions.

LDC-related Measures

69. Taking into account the WTO Hong Kong Ministerial Declaration in 2005, Korea has expanded duty-free and quota-free market access to 95% of its tariff lines (based on HS 6 digits) for

¹⁶ The GSTP is a preferential trade agreement signed in April 1988 with the aim of increasing trade among developing countries in the framework of the United Nations Conference on Trade and Development.

¹⁷ APTA, formally known as the Bangkok Agreement, was originally signed in 1975 and is the oldest preferential trade agreement among developing countries in the Asia-Pacific region. The original participating states of APTA are Bangladesh, India, Korea, Laos, the Philippines, Sri Lanka, and Thailand.

products originating from LDCs since January 2012. Korea has also relaxed its rules of origin requirements regarding such preferential treatments.

(2) FREE TRADE AGREEMENTS

70. Korea has actively engaged in FTA negotiations since 2003, aiming for a comprehensive network of FTAs connecting Europe, Asia, and the Americas.

71. Korea has pursued high-standard and comprehensive FTAs covering virtually all aspects of trade, in line with WTO provisions such as Article XXIV of GATT 1994 and Article V of GATS. Most of Korea's FTAs cover not only trade in goods but also trade in services, investment, and trade rules such as non-tariff barriers and trade remedy systems, and IPRs.

72. The main objectives of Korea's FTA policy include further liberalizing the international trade regime as well as increasing momentum for economic growth. By developing global free trade networks with FTA partners, Korea will find new market opportunities around the world. Korea also recognizes that FTAs reduce trade costs such as tariffs and non-tariff barriers, and help defuse potential trade disputes with FTA partners. Furthermore, FTAs can enhance the efficiency of the economy by promoting further competition and increase consumer welfare by bringing down the price of imported goods, as well as by diversifying consumers' choice.

73. During the period under review, the Korea-ASEAN FTA, the Korea-India CEPA, the Korea-EU FTA, the Korea-Peru FTA and the Korea-U.S. FTA have entered into force. As of July 2012, eight FTAs signed by Korea involving 45 countries are in force. The negotiations on the Korea-Turkey FTA and the Korea-Colombia FTA were recently concluded, and Korea is currently engaged in negotiations with eight trading partners such as Australia, Canada, China, the Gulf Cooperation Council (GCC), Indonesia, Japan, Mexico, and New Zealand.

74. The Korea-EU FTA and the Korea-U.S. FTA entered into force on 1 July 2011 and 15 March 2012, respectively. The two bilateral FTAs with the world's largest economies are expected to produce positive economic effects, although it is still premature to assess the exact impacts due to the short time period of implementation since the agreements entered into force.

Trade in Goods

75. Korea has sought to liberalize more than 90% of its trade with FTA partners within ten years, in terms of both tariff lines and import value. In the Korea-U.S. FTA, for instance, Korea will eliminate tariffs for 92.0% of its tariff lines and 92.6% of its import value within five years, and for 98.3% of its tariff lines and 97.4% of its import value within ten years.

76. With the trade remedy provisions in its FTAs, Korea has endeavoured to strike a balance between promoting substantial trade liberalization and protecting the domestic industry from injuries and damages. Korea's FTAs introduced certain WTO-plus provisions in order to enhance procedural transparency and prevent trade remedy measures from undermining trade liberalization efforts.

77. Korea has increased market access to its sensitive agricultural sector in its FTAs. The share of agricultural imports from FTA partners has grown during the past five years – from 14.6% in 2007 to 26.8% in 2011, and may reach 50% in 2012 with the Korea-U.S. FTA entering into force. These figures indicate an improvement in access to Korea's agricultural market for its FTA partners.

78. During the period under review, Korea's farming household income has shown stagnation or even decline. The average farming household income in 2011 was ₩ 30.1 million, which is lower

even in nominal terms than the ₩ 32.0 million in 2007. Low labour productivity in agriculture – attributable to the increase in the proportion of farmers aged 60 years or more¹⁸ and small-scale farming traditions – coupled with an increase in agricultural imports are considered to be factors that suppress farming household incomes.

Trade in Services

79. As part of its overall effort to increase the competitiveness of its services industry, Korea further liberalized the services sector beyond its WTO commitments through subsequent FTA negotiations – in particular the Korea-U.S. FTA and the Korea-EU FTA. Korea made meaningful market access commitments that extend across major services sectors such as, *inter alia*, legal services, higher education services, R&D services, and environmental services. Korea's continued commitment to the liberalization of trade in services is expected to enhance overall productivity in the services sector, which in turn can transform Korea into a regional services hub.

Investment

80. The investment chapters of Korea's FTAs, by incorporating powerful investment liberalization and investment protection elements, create a more stable, transparent, and investor-friendly environment for foreign investors from FTA partner countries.

81. According to the most recent statistics, inbound investment into Korea increased by 17% to US\$2.3 billion during the first quarter of 2012, vis-a-vis the first quarter of 2011 – the highest level since 2008. The investment inflow was generally of a "greenfield" nature¹⁹, mainly concentrated in the manufacturing sector, and came from industrialized regions such as the EU and Japan.

82. As Korea's FTA network consolidates with other FTAs which are currently under negotiations, Korea is expected to further attract foreign investment, thereby promoting job creation and revitalizing its economy, among other effects.

Competition

83. Competition rules in FTAs improve consumer welfare by reducing consumer prices and increasing varieties of goods and services available. Anti-competitive practices such as forming cartels and abusing the dominant market position will be subject to enforcement action by parties to the FTAs.

Transparency

84. FTAs require the parties to ensure that their laws, regulations, and procedures affecting trade are promptly published or otherwise made available. Domestic institutions become more transparent in order to satisfy the requirements of FTAs; furthermore, most of these improvements are extended to non-FTA partners as well.

¹⁸ According to the *2010 Census of Agriculture, Forestry, and Fisheries* issued by Statistics Korea, the share of farmers – aged 60 years or more – exceeded 40% of the total population of Korea's farming households in 2010.

¹⁹ Greenfield investment refers to an investment in a manufacturing, office, or other physical company-related structure or group of structures in an area where no previous facilities exist.

(a) FTAs in Force or Recently Concluded

FTA between Korea and Chile

85. The Korea-Chile FTA, the first FTA signed by Korea, entered into force on 1 April 2004. Under this FTA, Korea is to eliminate tariffs on 96.2% of all goods, while Chile is to eliminate tariffs on 96.5% of all goods within ten years.

86. During the past seven years subsequent to the Agreement coming into force, bilateral trade between Korea and Chile increased 4.6 times, from US\$1.58 billion to US\$7.24 billion, far outpacing the growth of Korea's trade with the rest of the world during the same period.

FTA between Korea and Singapore

87. The Korea-Singapore FTA entered into force on 2 March 2006. Under this FTA, Korea is to eliminate tariffs on 91.6% of all goods within ten years, while Singapore is to eliminate tariffs on 100% of all goods immediately upon the entry into force of the Agreement.

88. Bilateral trade volume between Korea and Singapore has increased 134.2%, reaching US\$29.8 billion in the fifth year after the implementation of the FTA, surpassing the increase in Korea's trade with other countries which grew by 98% during the same period.

FTA between Korea and the European Free Trade Association (EFTA)

89. The Korea-EFTA FTA entered into force on 1 September 2006. Under this FTA, within ten years, Korea is to remove tariffs on 99.1% of goods excluding agricultural products originating in EFTA, while EFTA is to eliminate tariffs on 100% of goods originating in Korea.

90. Since the entry into force of the Agreement, bilateral trade volume between EFTA and Korea increased approximately 2.4 times from US\$2.9 billion in 2005 to US\$7.0 billion in 2011.

FTA between Korea and the Association of Southeast Asian Nations (ASEAN)

91. Korea's FTA with ASEAN member countries is based on the Framework Agreement on Comprehensive Economic Cooperation. Under this Agreement, Korea and ASEAN members signed the Agreement on Trade in Goods, the Agreement on Trade in Services, and the Agreement on Investment. Under the Agreement on Trade in Goods which entered into force on 1 June 2007, Korea and ASEAN agreed to eliminate tariffs by 2010 on goods constituting 90% of their respective imports. Tariffs on 7% out of the remaining 10% of imports will be lowered to zero to 5% by 2016. The Agreement on Trade in Services and the Agreement on Investment went into effect on 1 May 2009 and 1 September 2009, respectively.

92. Bilateral trade between Korea and ASEAN has increased 102.1 since entry into force to reach US\$125 billion in 2011, while Korea's trade with other countries increased 70.1% during the same period.

Comprehensive Economic Partnership Agreement (CEPA) between Korea and India

93. The Korea-India CEPA entered into force on 1 January 2010. Under the Korea-India CEPA, Korea is to eliminate or reduce tariffs on 93.2% of all goods while India is to eliminate or reduce tariffs on 85.3% of all goods within ten years.

94. In 2010, the first year of the entry into force of CEPA, bilateral trade volume between Korea and India increased 40.8% compared to that of 2009.

FTA between Korea and the European Union

95. The Korea-EU FTA was concluded in July 2009 and has been applied provisionally since 1 July 2011. The impact of the Korea-EU FTA is significant because of the size of the economies involved and both parties' commitment to comprehensive market access.

96. Under the Korea-EU FTA, Korea is to eliminate tariffs on all industrial goods within seven years while the EU is to eliminate tariffs on all industrial goods within five years. The average concession rate of both parties is 99.6%.

97. During the first 12 months following the provisional application of the Korea-EU FTA, trade between Korea and the European Union decreased slightly due to the European debt crisis. However, the total volume of exports and imports of goods receiving preferential treatment by the FTA has increased 16.3% and 13.6%, respectively. It shows that the Korea-EU FTA has been an important pillar of the Korean economy during the recent volatile global economic situation.

FTA between Korea and Peru

98. The Korea-Peru FTA entered into force on 1 August 2011. Korea is to eliminate or reduce tariffs on 97.4% of all goods, and Peru is to eliminate or reduce tariffs on 98.9% of all products within ten years.

99. Bilateral trade volume between Korea and Peru increased 23.1% during the first seven months since the entry into force of the Agreement, compared with the same period of the previous year.

FTA between Korea and the United States

100. The Korea-U.S. FTA negotiations were launched in February 2006 and, after eight rounds of negotiations, the Korea-U.S. FTA was signed on 30 June 2007. In February 2011, Korea and the U.S. also concluded an additional agreement with a view to facilitating the ratification and the early entry into force of this FTA. In the second half of 2011, the Korea-U.S. FTA was approved by Korea's National Assembly and the U.S. Congress and finally entered into force on 15 March 2012.

101. Within five years of the FTA's entry into force, approximately 96% of bilateral trade in industrial goods will become duty free. As a comprehensive and high-level FTA that covers a full range of trade-related areas, the Korea-U.S. FTA is expected to improve transparency and predictability in Korea's regulatory and rulemaking procedures and to enhance its business environment.

102. Between 15 March 2012 and 30 June 2012, bilateral trade between Korea and the U.S. increased 1.4% to reach US\$32.7 billion, while Korea's trade with the rest of the world decreased 2.5% to record US\$325.1 billion. FDI on a notification basis has also increased 48.2% to reach US\$1.168 billion as compared with the same period of the previous year.

FTA between Korea and Turkey

103. Korea and Turkey initialled the Framework Agreement Establishing the Korea-Turkey Free Trade Area and the Agreement on Trade in Goods in March 2012 after four official rounds of

negotiations which began in March 2010. Both Agreements are to be signed in the second half of 2012. Negotiations for an Agreement on Trade in Services and Investment will begin immediately after the Agreement on Trade in Goods enters into force.

104. Under the Agreement on Trade in Goods, Korea is to eliminate tariffs on 92.2% of all products originating in Turkey, while Turkey is to eliminate tariffs on 89.8% of all goods originating in Korea within ten years.

FTA between Korea and Colombia

105. The Korea-Colombia FTA negotiations were launched in December 2009, and the two parties concluded negotiations in June 2012. The Agreement is expected to be initialled in the second half of 2012.

(b) FTAs under Negotiations

106. Korea is negotiating FTAs with Australia, Canada, China, the Gulf Cooperation Council (GCC), Indonesia, Japan, Mexico, and New Zealand.

107. Negotiations with China and Indonesia have been recently launched. The negotiations for the Korea-China FTA officially started in May 2012, and as of 18 July 2012, two rounds of negotiations have been held. The Korea-Indonesia CEPA negotiations commenced in March 2012, and as of 18 July 2012, Korea and Indonesia have had one round of negotiations.

108. In recent months, Korea has consulted with Australia, Canada, Japan to create a favourable environment for the resumption of the stalled negotiations for a bilateral FTA with each country.

(c) FTAs at the Pre-Negotiations Stage

109. Korea has completed joint feasibility studies for a Korea-China-Japan FTA, a Korea-Viet Nam FTA, a Korea-Israel FTA, a Korea-Central America (includes Costa Rica, El Salvador, Guatemala, Honduras, Panama) FTA and a Korea-MERCOSUR²⁰ FTA. The feasibility study for a Korea-Malaysia FTA is currently under way.

(3) REGIONAL ENGAGEMENTS

110. Korea considers regional economic cooperation to be a pathway to eventual multilateral trade liberalization. Korea values regional forums such as APEC and ASEAN+3 as mechanisms that foster greater economic cooperation within and across regions, which in turn facilitates the strengthening of the multilateral trading system. Korea has actively participated in these forums to achieve further trade liberalization.

(a) Asia-Pacific Economic Cooperation (APEC)

111. As one of its founding members, Korea has played an active role in APEC by, in particular, introducing initiatives aimed at deepening regional economic integration. There has been wide recognition that different economic levels among economies in the APEC region may serve as obstacles to the realization of the Free Trade Area of the Asia-Pacific (FTAAP). In this regard, Korea has led the *Capacity Building Initiative* since 2008, in order to contribute to APEC's efforts to achieve the mid-and-long-term objectives as set out by the FTAAP. As a lead economy of this Initiative,

²⁰ Mercado Común del Sur.

Korea held its inaugural program of *Rules of Origin Capacity Building Workshop* in Seoul in July 2012.

112. Korea held the 5th APEC Education Ministerial Meeting in Gyeongju, Korea in May 2012. The Ministerial Meeting adopted the *Gyeongju Initiative* which affirmed that educational cooperation is an essential driving force for sustainable, secure, inclusive, innovative, and balanced growth in the APEC region.

113. Korea has committed itself to promoting trade and investment in environmental goods (EG) in APEC, and has made concerted efforts with other member economies to develop an APEC EG list in line with the instructions of the Leaders agreed in Honolulu in 2011.

(b) Northeast Asian Economic Cooperation

114. During the period under review, Korea, together with China and Japan, has made efforts to institutionalize Northeast Asian economic cooperation. At the ASEAN+3 Summit in Manila in November 1999, the leaders of Korea, China and Japan met together for the first time in history. The Trilateral Summit has been held on the margins of the annual ASEAN+3 summits ever since. An independent Trilateral Summit outside of the ASEAN+3 framework was first held in Fukuoka, Japan in December 2008, and it has also become an annual event.

115. Korea, China, and Japan signed an agreement to facilitate and protect mutual investments at the 2012 Trilateral Summit in Beijing. Aimed at improving the investment climate in the region, the agreement – the first legal framework on trilateral economic co-operation – includes provisions on transparency, intellectual property rights protection and investor-state dispute settlement. The three countries also agreed to begin preliminary procedures to launch official negotiations for the Korea-China-Japan FTA before the end of the year, on the basis of the outcome of the joint study for the FTA completed in December 2011. In July 2012, the three countries held the first round of preliminary working level meetings in Japan.

(c) East Asian Economic Cooperation

116. Since 2004, Korea has been engaged in the discussions for East Asian economic integration under the *East Asia Free Trade Area (EAFTA)* and the *Comprehensive Economic Partnership for East Asia (CEPEA)* initiatives, also known as the ASEAN+3 FTA and the ASEAN+6 FTA, respectively. Korea has also participated in the *Regional Comprehensive Economic Partnership (RCEP) Framework* that ASEAN proposed in 2011, which aims at establishing a regional economic community on the basis of ASEAN's existing individual FTAs with non-ASEAN partners.

IV. FUTURE POLICY DIRECTIONS

117. Korea continues to place emphasis on liberalizing trade at all levels – multilateral, regional and bilateral. Despite the current challenges presented by a volatile global economic environment, Korea is committed to keeping its trade policies in line with the fundamental principles of an open and rules-based multilateral trading system. In this regard, Korea will continue to participate in international efforts for a successful conclusion of the DDA negotiations.

118. Korea considers FTAs to be an effective and complementary tool for accelerating multilateral trade liberalization, and will continue to pursue high-standard, comprehensive, and WTO-consistent FTAs. Korea believes that the FTAs it pursues can serve as building blocks for further trade liberalization at the regional and global levels.

119. Korea will continue to engage international efforts to promote free trade, sustainable and inclusive economic growth, and balanced development. To this end, Korea seeks to be a bridge-builder between the developed and developing countries in global economic forums such as the WTO and the G20 Summit. Korea also supports the promotion of regional free trade and economic cooperation in East Asia and the Asia-Pacific region.

120. Korea will actively participate in global efforts to combat climate change and promote sustainable development by fostering international cooperation in these areas and implementing effective domestic green growth policies. In order to achieve a more balanced global economy, Korea will continuously seek ways to increase not only the scope but also the effectiveness of its ODA programs.

121. Korea will conduct appropriate domestic reforms that are necessary to improve efficiency, market discipline, transparency, and fair competition in the Korean economy, as it pursues the shared goal of creating prosperity for everyone in the global community.
