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TRADE POLICY REVIEW

Report by

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.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on the Republic of Korea.

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I. KOREA IN THE GLOBAL TRADING SYSTEM

1. Korea believes in the primacy of the multilateral trading system. It has been consistently advocating that an open and strong multilateral trading system is fundamental to economic growth and development. Since its accession to the General Agreement on Tariffs and Trade (GATT) in 1967, Korea's gross national income per capita and exports have risen from a mere US\$142 and US\$0.3 billion to US\$20,045 and US\$371.5 billion in 2007, respectively. The global liberalization of trade under the transparent and rules-based multilateral trading system helped Korea transform itself from one of the poorest countries in the world 40 years ago to a successfully industrializing economy.

2. As one of the greatest beneficiaries of the open multilateral trading system, Korea has been fully committed to the successful conclusion of the Doha Development Agenda (DDA) negotiations. The slow progress made in the current DDA negotiations was a cause of worry for Korea. Giving primary priority of its trade policy to the DDA negotiations, Korea has been playing an active and constructive role in the DDA negotiations in an effort to promote further liberalization and strengthen the rules and disciplines of the WTO system. It has so far tabled over 140 proposals and submissions. Korea will continue to make efforts to help move the multilateral trade agenda forward.

3. In parallel with these efforts for trade liberalization on the multilateral front, Korea has been making efforts to nurture more future-oriented and mutually beneficial bilateral trade relations with its trading partners. As part of these efforts, Korea has been engaged in several WTO-consistent regional free trade agreements (FTAs). To Korea, the objective of pursuing FTAs is to manage its bilateral trade relations in a more systematic manner and secure better access in trade and investment to foreign markets which may be unavailable under the multilateral setting. Moreover, it is expected that FTAs will prompt the domestic restructuring of less competitive sectors and thus raise the level of efficiency within the economy. In this light, Korea believes that these FTAs will complement, not replace, efforts for multilateral trade liberalization.

4. Apart from the DDA negotiations and FTAs, Korea is also participating in regional cooperation mechanisms, including the Asia-Pacific Economic Cooperation (APEC), the Asia-Europe Meeting (ASEM), and the ASEAN+3 processes. In 2005, Korea was the host economy of APEC, taking a leading role, *inter alia*, in issuing a political statement of support for the DDA negotiations on the occasion of the Economic Leaders' Meeting, held in November 2005. Through these regional cooperation mechanisms, Korea continues to contribute to making progress in achieving free and open trade and investment regimes in these regions and thus to moving toward global trade liberalization.

II. ECONOMIC DEVELOPMENTS: 2004-2008

5. The Korean economy gradually rebounded from the 2003 recession caused by the stagnation of domestic demand mainly due to household indebtedness. In particular, Korea overcame the liquidity and solvency problems of credit card companies following the sharp rise in the delinquency rate from the credit boom to the household sector.

6. Aside from addressing the problems of the credit card companies and household indebtedness by restructuring the credit card companies and establishing "bad banks" for delinquent borrowers, the recovery of the global economy also helped the Korean economy to bounce back on track. The stable and favourable external economic environment that lasted until the first half of 2007 contributed to the strong performance of Korea's exports. In addition, continuous domestic reforms have created an efficient and strong platform for the sustainable growth of the Korean economy.

7. However, the global economic downturn since the latter half of 2007, which was triggered by the subprime mortgage loan problems in the United States, produced a gloomy outlook on the Korean economy. Despite the adverse impact of external shocks, the Korean government places growth and employment as top priorities, and aims to accomplish continuous growth and to create more jobs through uninterrupted domestic reforms.

(1) DOMESTIC ECONOMIC SITUATION

8. Korea underwent a recession in 2003 mainly due to a drop in domestic consumption as households focused on improving their financial balance sheets in the wake of a sharp rise in debt. Thanks to the pick-up in domestic consumption, the real GDP growth has gradually come back on track to its potential growth rate of around 4.5% since 2004. A short setback in 2005 was due to sluggish overseas demand, yielding a short-term deceleration of exports. The recovery of domestic consumption was mainly due to the measures taken by the Korean government following the collapse of the credit card bubble, such as the establishment of "bad banks" to purchase delinquent loans and the revision of the framework for personal bankruptcy. The government also restructured credit card companies and investment trust companies.

9. Sluggish fixed investments may also be attributed to the relatively gradual recovery of domestic demand. During the period under review, the gross rate of fixed capital formation has been stagnant between 2 and 4%, compared with 6.6% in 2002. This decline is largely due to the reluctance on the part of corporations to increase their level of fixed investment given the uncertainty of the environment regarding their growth prospects. It is also, in part, due to the efforts by large firms to reduce debt and thereby improve their balance sheets.

10. Much of the growth since 2004 has been driven by exports. Strong external demand, particularly from China, has boosted Korea's exports and contributed to economic recovery, despite the appreciation of the Korean won relative to the dollar. The increase in exports, however, combined with sluggish domestic demand, has exacerbated the problem of imbalances in the domestic economy. In particular, the gap in profitability between large and small firms has widened.

Table 1
Major Korean Economic Indicators (2002-2007)
(%, won)

	GDP Growth Rate	Private Consumption (% change)	Gross Fixed Capital Formation (% change)	Unemployment Rate	Consumer Price (% change)	Exchange Rate (KRW/USD, end of period)
2002	7.0	7.9	6.6	3.3	2.8	1200.4
2003	3.1	-1.2	4.0	3.6	3.5	1197.8
2004	4.7	-0.3	2.1	3.7	3.6	1043.8
2005	4.2	3.6	2.4	3.7	2.8	1013.0
2006	5.1	4.5	3.6	3.5	2.2	929.6
2007	5.0	4.5	4.0	3.2	2.5	938.2

Source: Korea National Statistical Office; Bank of Korea.

11. Inflation has been modest during most of the period, running within or slightly below the lower bound of the target range set by the Bank of Korea (BOK).¹ However, consumer prices have accelerated their upward trend since October 2007, mainly due to cost factors, such as high oil prices. The overall employment situation has been stable during the period under review, with the unemployment rate falling slightly from 3.7% in 2004 to 3.2% in 2007. Meanwhile, the exchange rate relative to the dollar appreciated by about 10% from 2004 to 2007, reflecting the sound rebound of the domestic economy.

12. In 2008, in the aftermath of the sub-prime mortgage loan problems in the United States, Korea's economic outlook is more uncertain than ever. The surge in prices of oil and other raw materials will also have an adverse impact on Korea's economy by weakening domestic demand. Meanwhile, exports are expected to maintain a robust growth due to greater quality competitiveness and the diversification of major export items and markets. Although exports remain buoyant, Korea's economic growth rate in 2008 is forecast to be lower than 5% in 2007. In this regard, the Korean government places high priority on growth and job creation, and aims to increase the potential growth rate through continuous domestic reforms.

(2) EXTERNAL TRADE AND INVESTMENT

13. The favourable external environment since the last review has brought about a steady increase in exports of Korean goods. These swelled by 31% from the previous year to US\$253.8 billion in 2004, and increased by 12, 14.4 and 14.1% in the following three years, respectively. Imports to Korea followed a similar pattern due to the recovery of the domestic economy. In 2004, imports rose by 25.5% to US\$224.5 billion compared with the previous year. Imports increased by 18.4% to US\$309.4 billion in 2006 and by 15.3% to US\$356.8 billion in 2007. This increase was due to surges in the prices of oil and other raw materials.

Table 2
Korea Trade Statistics
(US\$ million)

	Exports	Growth Rate (%)	Imports	Growth Rate (%)	Trade Balance	Current Account
2004	253,845	31.0	224,463	25.5	29,382	28,174
2005	284,419	12.0	261,238	16.4	23,180	14,981
2006	325,465	14.4	309,383	18.4	16,082	5,385
2007	371,489	14.1	356,846	15.3	14,643	5,954

Source: Korea International Trade Association; Bank of Korea.

14. Over the period under review, the current account has maintained a surplus. From 2004 to 2007, however, it shrank from US\$28.1 billion to US\$5.9 billion. Trade surplus also decreased by half from US\$29.4 billion in 2004 to US\$14.6 billion in 2007. In addition to the heightened prices of oil and other raw materials, which have eroded trade surplus, rapidly rising expenses, such as overseas travel expenses, have resulted in a decrease in the current account surplus.

15. Korea's major export items have been semiconductors, automobiles, mobile phones, and vessel parts/ocean structures. Since 2004, the share of automobiles and wireless communication devices in the total value of Korea's exports has decreased, while the share of vessel parts/ocean

¹ Current inflation target has been set for the period 2007-2009 as a range of 3.0±0.5% in terms of the 3-year average of annual consumer price inflation.

structures, petroleum products, and flat panel displays and sensors has increased. Meanwhile, major import items have been raw materials, including crude oil and natural gas, and semiconductors. The share of crude oil in the total value of imports continues to be the largest part, and it increased even more, from 13.3% in 2004 to 16.9%, in 2007.

Table 3
Korea's Trade of Major Products
(US\$ million, %)

	Export					Import			
	2004	2005	2006	2007		2004	2005	2006	2007
Semiconductors	26,516 (10.4)	29,986 (10.5)	37,360 (11.5)	39,045 (10.5)	Crude oil	29,917 (13.3)	42,606 (16.3)	55,865 (18.1)	60,324 (16.9)
Automobiles	26,577 (10.5)	29,506 (10.4)	32,922 (10.1)	37,284 (10.0)	Semiconductors	23,618 (10.5)	25,133 (9.6)	28,043 (9.1)	0,817 (8.6)
Wireless Communication Devices	26,223 (10.3)	27,495 (9.7)	27,018 (8.3)	30,458 (8.2)	Natural Gas	6,552 (2.9)	8,646 (3.3)	11,925 (3.9)	12,653 (3.5)
Vessel Parts/ Ocean Structures	15,657 (6.2)	17,727 (6.2)	22,123 (6.8)	27,777 (7.5)	Petroleum Products	6,848 (3.1)	7,783 (3.0)	9,559 (3.1)	11,969 (3.4)
Petroleum Products	10,203 (4.0)	15,366 (5.4)	20,404 (6.3)	23,966 (6.5)	Iron Boards	5,709 (2.5)	7,498 (2.9)	7,928 (2.6)	10,150 (2.8)
Flat panel display & sensor	1,315 (0.5)	4,783 (1.7)	12,388 (3.8)	16,929 (4.6)	Computers	6,339 (2.8)	7,797 (3.0)	9,035 (2.9)	9,896 (2.8)

Notes: Share in total exports or imports is in parentheses.

Source: Korea International Trade Association.

Table 4
Geographical Distribution of Korea's Trade
(US\$ million)

	Exports				Imports			
	2004	2005	2006	2007	2004	2005	2006	2007
Total	253,845	284,419	325,465	371,489	224,463	261,238	309,383	356,846
Asia	129,525	146,914	168,447	188,790	111,247	126,033	146,049	170,549
China	49,763	61,915	69,459	81,985	29,585	38,648	48,557	63,028
Japan	21,701	24,027	26,534	26,370	46,144	48,403	51,926	56,250
North America	46,232	44,789	46,804	49,273	30,971	33,190	36,745	40,474
U.S.	42,849	41,343	43,184	45,766	28,783	30,586	33,654	37,219
Middle East	11,006	12,241	14,463	19,721	33,665	47,395	62,531	67,541
Europe	44,593	52,853	60,282	71,198	30,535	33,610	37,410	47,987
Latin America	11,563	14,987	20,387	25,567	6,651	7,017	9,729	11,321
Africa	5,633	6,203	7,730	8,257	2,847	2,946	4,372	4,317
Oceania	4,924	6,018	6,781	7,983	8,498	10,971	12,436	14,592

Source: Korea International Trade Association.

16. Korea's exports to major destinations – China, Europe and the United States – have increased steadily after 2001. Since 2003, Korea's exports to China have accelerated, surpassing both Europe

and the United States as the largest export destination for Korean goods. As for imports, goods from Japan, China, Europe, and the United States have all recorded steady increases since 2004. In particular, the Chinese share of imports to Korea surpassed that of Japan in 2007, being second only to that of the Middle East from which imports comprise mostly oil and natural gas.

17. Major Korean services exports and imports have been in the areas of transportation, business services, and travel. In particular, the share of transportation in total exports is more than half, representing the importance of transportation services in Korea's services exports. While the share of each major service in total exports and imports has been steady over the period under review, total services imports have increased more than total services exports, resulting in a services deficit. The deficit in services trade has remained over US\$10 billion since 2005 and has continued to grow, reaching US\$20.6 billion in 2007.

Table 5
Korea's Trade of Major Services
(US\$ million, %)

	Exports (Credit)					Imports (Debit)			
	2004	2005	2006	2007		2004	2005	2006	2007
Total	41,882	45,129	49,891	63,034	Total	49,928	58,788	68,852	83,609
Transportation	22,529 (53.8)	23,877 (52.9)	25,807 (51.7)	33,767 (53.6)	Transportation	17,655 (35.4)	20,144 (34.3)	23,133 (33.6)	29,874 (35.7)
Business Services	8,125 (19.4)	9,422 (20.9)	10,532 (21.1)	14,124 (22.4)	Business Services	13,163 (26.4)	15,538 (26.4)	17,705 (25.7)	22,508 (26.9)
Travel	6,069 (14.5)	5,806 (12.9)	5,788 (11.6)	5,797 (9.2)	Travel	12,350 (24.7)	15,406 (26.2)	18,851 (27.4)	20,890 (25.0)

Notes: Share in total exports or imports is in parentheses.

Source: Bank of Korea.

18. In the wake of the 1997 financial crisis, the Korean government undertook reforms to attract foreign direct investment (FDI) inflows and embarked on various policy measures to enhance the environment for FDI inflows. Combined with increased opportunities in cross-border M&As resulting from corporate and financial restructuring, these efforts resulted in a surge of FDI inflows. The US\$68.5 billion in actual inflows since 1998 is more than quadruple the amount received during the previous 40 years. This surge increased the ratio of the stock of FDI to GDP from 2% to 8%.

19. Since 2004, Korea has experienced a slight decline in foreign direct investment. However, annual FDI inflow has remained high at levels over US\$10 billion (measured on a notification basis). The Korean government has taken active measures such as, *inter alia*, cutting corporate taxes and reducing the trademark evaluation period, to stimulate FDI through deregulation and by enhancing vehicles for investment promotion. According to the OECD, Korea's FDI regulatory restrictiveness index is lower than the average OECD level, demonstrating a higher level of openness in the FDI sector. Deregulation remains at the top of the Korean government's agenda. In 2008, the Presidential Council on National Competitiveness (PCNC) was launched. Its main objective is to create a business-friendly environment by eliminating unnecessary obstacles that hinder investment.

20. Furthermore, the government has made considerable efforts to solicit foreign investors' opinions and incorporate their suggestions into its policies.² The Invest Korea Plaza and the G4F

² For example, though not a legal obligation, the Korean government makes efforts to review opinions on its policies from foreign chambers of commerce (e.g. AMCHAM, EUCCK, SJC) on a yearly basis. Invest

website (www.g4f.go.kr) which were set up in 2006 are good examples of the government's efforts to provide one-stop administrative services to foreign investors. The government is also working to establish a more business-friendly environment and better living conditions for foreigners, particularly in the areas of education and medical services. To this end, the government implemented a five-year plan, which began in 2004 and ended in early 2008, and has embarked on a new, improved three-year plan in 2008. The plans include measures for immigration procedures, residential facilities and access to high quality schools and medical facilities. Moreover, ensuring economic growth by attracting more FDI inflows is one of the top priorities for the Korean government. In this regard, it will strengthen its efforts to achieve this goal by improving the overall investment environment through a combination of policies involving tax cuts, deregulation, and more organized support for businesses.

21. The Korean government has also been facilitating outward FDI, in recognition of its importance as a means of raising the competitiveness of domestic companies. As a result, Korea's outbound FDI has rapidly increased since 2004, driven mostly by a rise in FDI outflows to China. In particular, FDI outflows surged by a factor of two in 2007, with services taking up more than the majority share of the total FDI outflows, after the government undertook deregulation on outward FDI. For example, the procedures for establishing overseas offices of domestic financial institutions were simplified and the related criteria were relaxed in April 2007.

Table 6
Foreign Direct Investment in Korea and Outward Investment by Korea: 1990-2007
(US\$ million)

		1990	1995	2000	2004	2005	2006	2007
Inward FDI^b	Total	803	1,970	15,256	12,792	11,566	11,243	10,514
	Manufacturing	520	1,041	6,877	6,217	3,078	4,246	2,692
	Services^a	282	927	8,375	6,574	8,484	6,992	7,819
	U.S.	318	665	2,921	4,718	2,690	1,705	2,341
	Japan	236	425	2,452	2,263	1,881	2,111	990
	EU	188	461	4,437	3,009	4,781	4,971	4,332
Outward FDI^b	Total	1,066	3,208	5,110	6,137	6,792	10,958	20,352
	Manufacturing	485	2,042	1,639	3,487	3,717	5,459	7,616
	Services^a	438	1,153	3,392	2,350	2,589	4,055	10,990
	China	16	841	722	2,328	2,772	3,346	5,226
	U.S.	360	570	1,391	1,404	1,257	1,794	3,407
	Vietnam	0	183	71	178	310	588	1,270

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

b. Inward FDI on a notification basis. Outward FDI on an investment amount basis.

Source: Ministry of Knowledge Economy; Export-Import Bank of Korea.

Korea operates an advisory council, composed of approximately 30 foreign investors, to collect evaluations of the regulation and foreign investment policies on a biannual basis.

(3) DOMESTIC REFORMS

22. Following up on the successful structural reforms since the 1997 financial crisis, the Korean government continues to undertake sectoral reforms. The government's ongoing efforts in the financial sector include measures to improve situations in household credit markets and measures to restructure the asset management industry. Regarding corporate-sector reforms, the Korean government continues to make efforts to enhance transparency and accountability in corporate governance. Bearing in mind the role of competition policies in promoting further economic growth and transforming Korea into an advanced economy, the Korean government is also consistently pursuing strengthened competition policies.

Financial Sector

23. Since the last review, the reform process in the financial sector has focused on the non-banking industry, including the credit card industry, since much of the reform in the banking industry had already been accomplished. In particular, the credit card industry has been going through extensive restructuring since 2003, either by merging with parent banks or by recapitalization. For instance, one of the largest credit card companies, LG Card, received a 6.1 trillion won credit-restructuring package from creditor banks and turned profitable. In order to resolve the problems of delinquent borrowers, "bad banks" were established in 2004, for which qualifying debtors were given up to eight years to repay their loans without interest. The Individual Debtor Rehabilitation Act was also introduced in 2004 to provide relief to debtors through court mediation without requiring the debtor to declare bankruptcy. The law was combined into the Debtor Rehabilitation and Bankruptcy Act in 2005.

24. In addition, restructuring in the asset management industry has continued, with a private equity fund (PEF) law introduced in 2004 in order to help PEFs engage in restructuring through M&As. Moreover, the privatization of the three largest investment trust companies was completed in 2005. To further upgrade the domestic capital market through deregulation and the lowering of entry barriers, the Financial Investment Services and Capital Market Act was enacted and will enter into force in February 2009. This act integrates six existing securities-related laws and allows financial institutions to operate six financial investment businesses such as investment trading, investment brokerage, collective investment, trust, discretionary investment and investment advisory. It also introduces a negative system in defining financial investment products, in which all financial investment products are allowed unless they are specifically prohibited under laws and regulations.

Corporate Sector

25. Since the 1997 financial crisis, the Korean government has undertaken comprehensive corporate restructuring. As a result, the debt-to-equity ratio has fallen from nearly 400% before the 1997 crisis to around 100% in 2004. Even though corporate governance has been significantly improved since the 1997 crisis, Korea has taken further steps to upgrade corporate governance. In 2005, class action suits in securities-related cases against large firms with assets of at least 2 trillion won were allowed, and this permission was extended to cover all listed firms in 2007. In addition, amendments to the Commercial Act were proposed in 2007 to increase the accountability of managers and controlling shareholders to minority shareholders. The proposed amendments include, among other things, a prohibition against corporate directors using their corporate authority for their own or a third party's benefit.

Labor Sector

26. In an effort to harmonize labor market flexibility and protection for workers, new legislation on industrial relations reform was introduced in 2006. The new scheme began to impose non-compliance charges in case of failure to comply with a remedial order, which enhances the effectiveness of a remedy for a breach of rights. The penal provision punishing unfair dismissal was removed and the requirement for specifying working conditions in writing was expanded. The Korean government reduced the period of advance notice in case of dismissal for managerial reasons, and abolished the compulsory arbitration system and the reporting requirement for third-party assistance. In addition to the scheme, the Korean government has made an effort to prevent abuses of, and discrimination against, non-regular workers, to support development of their vocational skills, to reinforce employment advisory services to enable them to obtain regular employee status, and to expand the social safety net.

Competition Policy

27. With the financial and corporate restructurings since the 1997 crisis almost completed and the household credit crunch afterwards nearly resolved, strengthening competition policies as a tool of market reform has become more important. In 2006, the Korea Fair Trade Commission (KFTC) completed the "Three-year Roadmap for Market Reform," and upgraded fair-trade institutions. To propose a direction for market reform after the Roadmap, the KFTC created a "Task Force for Advancement of Market Economy" and discussed measures for the improvement of the overall fair trade policy. These measures were reflected in the Amendment Bill of the Monopoly Regulation and Fair Trade Act (MRFTA) in 2007. It includes, among other things, revision of the merger notification process, review criteria and subjects of sanction, as well as the introduction of an arbitration system, under which disputes on unfair trade practices are resolved through agreements between the concerned parties, so that efficacy of damage redress and efficiency of case handling can be boosted. Currently, the KFTC is pursuing a revision of the law for the introduction of a consent order system, which will allow fast and efficient restoration of undermined competition. In addition, the Commission enacted the "Guidelines for Review of Cartels involving Administrative Guidance" in 2007 for greater consistency in law enforcement and greater predictability on the part of enterprisers.

Regulatory Reform

28. Another key element in the shift to more market-oriented reform has been the implementation of regulatory reform. The Regulatory Reform Committee (RRC) is a comprehensive regulatory reform coordination body with wide ranging responsibilities. These include setting annual reform guidance, monitoring evaluation of the regulatory performance by ministries, and reviewing Regulatory Impact Analysis documents. For three years from 2004 to 2007, the Regulatory Reform Task Force (RRTF) complemented the RRC. These bodies are composed of government officials and representatives of the private sector, including representatives of foreign business organizations. The RRTF focused on bundled regulations that greatly impact the economy in 64 areas. The Korean government not only handles complaints and regulatory proposals from business, but also provides a one-stop solution for clients.

29. Transparency of the regulatory process has been enhanced. Consultation with local governments, business groups and foreign business groups has expanded. In addition, to reduce administrative burdens, Korea has continued to develop electronic services, such as Government for Citizen (G4C), Government for Business (G4B) and Government for Foreigners (G4F), designed to provide one-stop e-government services. Furthermore, the Korean government enacted the

Administrative Investigation Act in 2007, to prohibit arbitrary and overlapping administrative investigations.

30. The new administration has placed regulatory reform as top priority on its national agenda. As planned, the Korean government will continue to upgrade the regulatory system to meet the principles of market economy and global standards. The Korean government is committed to providing a world-class business environment through deregulation, particularly focusing on regulations with major socio-economic impacts.

III. TRADE POLICY DEVELOPMENTS: 2004-2008

(1) KOREA AND THE WTO

(a) Implementation of WTO Commitments

31. Since the inception of the WTO, Korea has faithfully implemented its commitments and obligations under the WTO. Korea has been successful in bringing its laws and regulations into conformity with WTO norms. In some areas, Korea has even undertaken voluntary liberalization and reform measures beyond the level of its commitments.

Trade in Goods

32. Korea adopted the 2007 version of the Harmonized System of Tariff Classification (HS) on 1 January 2007; the new customs tariff consists of 11,729 ten-digit tariff lines as of 2008. A total of 90.8% of all tariff lines are bound and the simple average bound tariff rate fell slightly from 17.2% in 2004 to 17% in 2007. A further decrease should take place in 2009 when all Uruguay Round commitments are to be fully implemented. The average applied tariff rate in 2007 also fell slightly from 12.8% in 2004 and to 12.6% in 2007 and is lower than the average bound tariff rate. With a view to providing substantial market access for products from least-developed countries(LDCs), Korea currently provides LDCs with unilateral (non-reciprocal) duty-free and quota-free preference for 75% of its national tariff lines.

33. The WTO Members have agreed to extend the special treatment for the Korean rice importation regime based on Annex 5 of the Uruguay Round Agreement on Agriculture through an enlarged minimum market access (MMA) agreement for the period of 2005-2014. Under the agreement, the minimum-access volume will almost double in size by 2014; from 225,575 tons in 2005 to 408,700 tons in 2014. The tariff within the quota will remain at 5%.

34. Korea revised its Grain Management Act in March 2005 to replace the government-purchasing program with a Public Storage System for Emergency (PSSE). The PSSE was introduced as a means to ensure food security. Under the system, the government buys rice at market prices during harvest and then sells rice during non-harvest periods at market prices, so as to prevent market distortion and be in conformity with WTO rules.

35. Korea recognizes that standardization is an essential element to advance regulatory systems and to facilitate fair trade. In the light of this recognition, Korea is making continuous efforts to harmonize Korean Industrial Standards (KSs) with international standards and to unify standards among ministries pursuant to the Industrial Standardization Act, which was amended in May 2007 and the National Standard Act. Moreover, the second five-year National Standard Plan (2006-2010) was established in April 2006, with an emphasis on advancing the national standards system, fortifying the standardization infrastructure, building capacity for international standardization

activities, and facilitating the standardization of private sectors. As of the end of 2007, Korea had harmonized 13,957 of 22,760 KSs with relevant ISO/IEC standards, which corresponds to 61.3% of the total number of KSs.

36. Korea has not been an active user of antidumping measures. During the period under review, 21 antidumping duties were imposed and 4 price undertakings were accepted. Currently, antidumping measures are in force for 23 cases, 13 products and 10 countries. No countervailing duty or safeguard measure has been imposed since the last review.

Table 7
Number of Definitive Anti-Dumping Measures, 2004-2007

	2004	2005	2006	2007
Antidumping Duties	10	3	8	0
Price Undertakings	1	1	0	2

Source: Korea Trade Commission.

37. As a party to the WTO Government Procurement Agreement (GPA), Korea continues to improve its public procurement system with a view to ensuring more open, transparent and non-discriminatory procurement. Efforts have been made to further update the Korea ON-line E-Procurement System (KONEPS) to render it more stable and user-friendly.³ The use of KONEPS has been increasing in recent years. Government purchases via KONEPS accounted for approximately 52% of Korea's total government procurement as of 2006. With respect to small and medium enterprises (SMEs) policies, Korea has abolished the single tendering policy for SME cooperatives and recently adopted a policy of competitive tendering among SMEs in order to enhance the transparency and competitiveness of the procurement market. As previously established, single tendering procurement and set-asides for SMEs stipulated in the relevant laws remain free from the WTO GPA coverage.

Intellectual Property Rights

38. Korea's intellectual property rights (IPR) laws and regulations are fully compliant with the WTO TRIPS Agreement. In an effort to further strengthen the protection of IPR, Korea has amended its Copyright Law to fully implement the WIPO Performances and Phonograms Treaty (WPPT) and the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (Rome Convention), and is currently going through domestic procedures to accede to those treaties by the end of 2008.

Dispute Settlement

39. Between 2004 and 2008 Korea has been involved in eight dispute cases: as a complainant in six cases, and as a respondent in two cases. During the period under review, four Panel reports and two Appellate Body reports were adopted in four of the six complainant cases. In another complainant case, only a consultation request was made, and the dispute was resolved. In the remaining complainant case, the Panel concluded its work by noting that a mutually agreed-upon solution to this dispute had been reached between the parties. In one respondent case, Measures Affecting Trade in Commercial Vessels, a Panel report was adopted, and Korea implemented the DSB's

³ Korea's electronic government procurement system was originally named the Government e-Procurement System (GePS), and was renamed as KONEPS in July 2006.

recommendation. In another respondent case, a Panel report and an Article 21.5 Panel report were adopted.

Technical Assistance and Capacity Building

40. Mindful of the importance of technical assistance and capacity building activities for the promotion of the development dimensions of the multilateral trading system, Korea is committed to devoting as much resources as possible. From 2004 to 2007, Korea contributed a total of US\$950,000 to support the WTO's technical assistance activities. Between 2004 and 2007, a total of 250 people, mainly governmental officials, were invited from developing countries to the training programs related to the WTO agreements. Forty-six trainees will be invited in 2008. The total amount of Korea's official development assistance (ODA) increased from US\$423 million in 2004 to US\$672 million in 2007. In addition, Korea provides an increasingly broad range of technical assistance programs to developing countries through the Korea International Cooperation Agency (KOICA), the Korea Development Institute (KDI) and other public agencies.

(b) DDA Negotiations

41. Since the launch of the DDA, Korea has played an active and constructive role in the negotiations, and remains firmly committed to its successful conclusion. Korea fully recognizes the importance of trade and development, in light of its own developmental experiences through international trade. Korea shares the belief that open markets, non-discrimination and global competition in international trade are conducive to global and national welfare.

42. Achieving a higher level of market access through the DDA is a goal of utmost importance for Korea. Korea supports ambitious approaches to the market access negotiations, and fully engages in all negotiating theatres. Furthermore, since substantial expansion of the global market can also be achieved through participation of a large number of countries, Korea believes that appropriate flexibilities should be provided within the negotiating framework in order to take into account the specific concerns and sensitivities of each member country. From Korea's perspective, this will encourage deeper engagement in the negotiations from all member countries.

43. Korea has also worked, together with other like-minded Members, on minimizing transaction costs that may occur from market access issues and non-tariff barriers. It believes that an improved trade environment in terms of predictability and transparency will accelerate further increase not only in returns to business but also in consumer welfare.

Agriculture

44. Korea believes that a substantial reduction in trade-distorting domestic support, as well as substantial improvements in market access will be achieved through a tiered reduction formula. Korea also believes that the full modalities should take into account Members' individual agricultural realities duly and fairly, and reflect the concerns and interests of both exporters and importers in an equitable and balanced manner. In particular, considering the different tariff structures among Members and vulnerabilities – especially in food security, a sufficient level of flexibility should be given to Members.

Market Access for Non-Agricultural Products

45. Korea believes an ambitious outcome in the NAMA negotiations in this Round could deliver the most commercially meaningful benefits to all WTO Members. Korea supported a Swiss formula

with dual coefficients on a line-by-line basis. Korea is participating in discussions of electronics and electrical products sectoral initiatives as a co-sponsor. With regard to non-tariff barriers (NTBs), in 2004, Korea submitted a proposal related to the vertical approach for addressing NTBs of the electronics industry. In 2005, Korea led plurilateral discussions on NTBs of the electronics industry.

Services

46. Korea has been focusing on the further liberalization of key infrastructure services such as maritime transportation, construction, telecommunications, distributions, and financial services. Korea views the liberalization of these key infrastructure services as beneficial not only to services themselves but to economic development and overall economic competitiveness. Meanwhile, Korea has also tried to respond to the interests of other Members including those of developing countries. In May 2005, Korea tabled the first revised offer, which adds improvements, in the areas of entry and temporary stay of natural persons, Mode 4, among others, to its ambitious initial offer.

Rules

47. Concerning rules on antidumping measures, Korea believes that one of the urgent tasks for negotiators is finding ways to prevent the misuse or overuse of antidumping measures. Korea has strongly argued for the prohibition of zeroing altogether in dumping margin calculations. Concerning the disciplines on fisheries subsidies, while actively engaging in the talks so as to preserve the sustainability of fish resources, Korea cautions against unnecessary adverse effects the prohibition of subsidies may bring on the fisheries sector, particularly to socially and economically vulnerable groups. In this context, Korea stresses the importance of properly working fisheries management systems that would help avoid negative effects of fisheries subsidies on fish resources.

TRIPS

48. While Korea supports the strengthening of intellectual property rights protection, it prefers a pragmatic approach when it comes to negotiation on the establishment of a multilateral system of notification and registration of geographical indications for wines and spirits. Korea believes that any system to be established should not impose undue financial and administrative burdens on Members.

Trade and Environment

49. Korea recognizes that the relationship between WTO rules and multilateral environmental agreements (MEAs) needs to be defined in order to enhance the mutual supportiveness of trade and environment. Korea further recognizes the importance of establishing procedures for information exchange between MEA Secretariats and the relevant WTO committees, and the criteria for the granting of observer status. Korea continues to believe that liberalization of environmental goods and services could result in substantial benefits to Members and will commit to working toward a positive outcome in the negotiations.

Trade Facilitation

50. Korea supports the introduction of a multilateral rule on trade facilitation, as it believes that trade facilitation benefits business communities not only by cutting administrative costs and waiting times, but also by improving the predictability, transparency and competitiveness of business. Korea has actively engaged in the negotiations by submitting and co-sponsoring proposals on many specific measures of trade facilitation, *inter alia*, in the areas of single-window, release time of goods, and risk management. Korea also considers special and differentiated treatment, technical assistance, and

capacity building for developing and least-developed countries to be important and supports the current horizontal approach to these areas.

(2) BILATERAL TRADE RELATIONS

(a) China

51. China has been Korea's largest trading partner since 2003. Bilateral trade with China has increased at an annual rate of 22.3% over the last four years, reaching US\$145 billion in 2007. From 2004 to 2007, Korea's exports to China increased by 64.7% to US\$82 billion and its imports from China more than doubled to US\$63 billion. Since 2002, China has replaced the United States as the largest investment destination for Korea's FDI. In 2007, Korea's FDI into China was US\$5.2 billion and its cumulative amount reached US\$22.5 billion. China's FDI into Korea was only US\$40 million in 2006, but it increased to US\$385 million in 2007.

(b) The European Union

52. In 2007, the volume of bilateral trade between Korea and the EU was US\$92.8 billion, making the EU Korea's second-largest trading partner. Korea's exports to the EU more than doubled from US\$24.8 billion in 2003 to US\$55.9 billion in 2007. Korea's imports from the EU increased by 90% during the same period to US\$36.8 billion. In terms of FDI, the EU has recently surpassed the United States and become the largest foreign investor in Korea. In 2007, the EU's FDI into Korea reached US\$4.3 billion, a 12% decrease from 2006. Korea's FDI into the EU was US\$2.6 billion in 2007, a 150% increase from 2006.

(c) The United States

53. The United States is currently Korea's third-largest trading partner after China and the EU, with bilateral trade in 2007 valued at approximately US\$83 billion. Bilateral trade between the two countries increased by 40% over the last five years. Korea's exports to the United States reached US\$45.7 billion and its imports from the United States US\$37.2 billion in 2007. It has also been an important foreign investor in Korea. FDI from the United States into Korea was US\$2.3 billion in 2007, a 37% increase from 2006. Korea's FDI into the United States was US\$3.4 billion in 2007, a 90% increase from 2006.

(d) Japan

54. Korea and Japan have, for many years, maintained a close relationship as important trading partners. Japan is currently Korea's fourth-largest trading partner. Korea's exports to Japan decreased slightly, by 0.6% to US\$26.4 billion in 2007, while its imports from Japan increased by 8% to US\$56.3 billion. Korea's trade deficit with Japan has grown by 56% over the past five years, reaching US\$29.9 billion in 2007. Korea's FDI into Japan was only US\$246 million in 2006 but increased by 110% in 2007 to US\$518 million. Japan's FDI into Korea decreased by 53% to US\$990 million in 2007.

(e) ASEAN and Others

55. In 2007, Korea's exports and imports with ASEAN amounted to US\$38.7 billion and US\$33.1 billion, respectively. From 2006 to 2007, Korea's exports to ASEAN increased by 20.8% while Korea's imports from ASEAN increased by 11.3%. With regard to bilateral investment flows, Korea's FDI into ASEAN showed an upward trend between 2004 and 2007. In particular, Korea's

FDI into ASEAN increased sharply from US\$677 million in 2005 to US\$1.4 billion in 2006. In 2007, Korea's FDI into ASEAN reached US\$3 billion while ASEAN's FDI into Korea was only US\$595 million.

56. Korea values other regions as important trade partners, and continues to make efforts to further expand trading relationships with newly emerging markets such as Mexico, Latin America, Russia and CIS, South Asia, Middle East and Africa. During the period under review, Korea has conducted several joint studies and launched FTA negotiations to expand trade with these regions as they are gaining importance as markets for exports and sources of imports.

(3) FREE TRADE AGREEMENTS

57. Since the last trade policy review, Korea has actively engaged in FTA negotiations. It has pursued comprehensive FTAs, covering all sectors and substantially all aspects of trade, in line with Article XXIV of GATT 1994, Article V of GATS and in certain areas beyond the WTO commitment. As stated earlier, the main objective of pursuing FTAs is to secure better access to foreign markets, while at the same time creating growth momentum through accelerated trade liberalization in the domestic market.

58. Another important objective is to facilitate domestic reform and deregulation and thereby raise efficiency in the overall economy. FTAs not only result in trade liberalization but can also lead to substantial improvement in the domestic regulatory framework. More importantly, benefits from certain reform measures brought about by FTAs can be shared by all countries, not just by the FTA partners, as negotiations in such areas as competition, services, and customs procedures often relate to the regulatory framework. For example, in the case of many services sectors, as it is difficult to differentiate standards and conditions between FTA partners and third party countries, countries that are not involved in a bilateral FTA with Korea may also reap the benefits of liberalization in services. Another example is transparency measures. In one recently signed FTA, Korea agreed that it would extend the prior comment period required for new legislations. When this FTA comes into force, all countries will be able to enjoy the benefits of the extended comment period.

(a) FTAs under Implementation or Recently Concluded

FTA between Korea and Chile

59. The Korea-Chile FTA, the first FTA signed by Korea, entered into force on 1 April 2004. For the liberalization of trade in goods, the immediate elimination of tariffs granted by Korea to imports from Chile covers 87.2% of the total tariff line. Tariff elimination is further expanded to the remaining products in stages over a timeframe of five, seven, nine, ten, and sixteen years. The only exceptions are rice, apples and pears.

60. During the last four years after the Agreement came into force, Korea's exports to Chile increased at an annual rate of 61.1% and its imports from Chile increased at an annual rate of 35.9%. Korea's exports to Chile recorded US\$3.5 billion in the fourth year after the implementation of the FTA, from April 2007 to March 2008, an 89.7% increase from the third year, from April 2006 to March 2007. Korea's imports from Chile increased by 5.8% to US\$4.3 billion in the fourth year.

FTA between Korea and Singapore

61. The Korea-Singapore FTA, signed in August 2005, entered into force on 2 March 2006. The FTA features a high level of liberalization. The scope of the agreement goes beyond tariff elimination,

covering a wide range of areas including trade in services, investment, intellectual property rights, competition, government procurement, electronic commerce, SPS, TBT, MRA, and dispute settlement. 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 implementation of the agreement.

62. Bilateral trade volume between Korea and Singapore increased by 51% from the pre-FTA levels to US\$20.2 billion in the second year after the implementation of the FTA. In addition, Korea's trade surplus with Singapore increased by 151% from the pre-FTA levels to US\$5.8 billion in the second year. Korea's investment in Singapore recorded US\$0.84 billion during the post-FTA period of 22 months from March 2006 to December 2007, a 61.5% increase from the pre-FTA period of 22 months from May 2004 to February 2006. Singapore's investment in Korea rose by 57.4% to US\$0.96 billion during the same period.

FTA between Korea and EFTA

63. The Korea-European Free Trade Association (EFTA) FTA entered into force on 1 September 2006. Under this FTA, Korea will remove tariffs on 99.1% of products originating from EFTA over a period of up to seven years. Imports tariffs on some agricultural and fishery products will be phased out over a maximum period of ten years. The agreement covers not only the elimination of tariffs and non-tariff barriers to trade in goods, but also liberalization of trade in services, investment, government procurement, intellectual property rights, competition, and cooperative measures in broadcasting services.

64. Bilateral trade between Korea and EFTA climbed by 13.1% to US\$3.7 billion in the first 11 months after the implementation of the FTA compared to the same time period before the implementation of the FTA. During this period, Korea's exports to EFTA decreased from US\$1.5 billion to US\$969 million, while Korea's imports from EFTA increased from US\$1.8 billion to US\$2.7 billion. Excluding a few products such as gold, ships, and paintings, however, for which exports dropped sharply due to irregular demand, Korea's exports to EFTA appear to have increased slightly from US\$671 million to US\$717 million.

FTA between Korea and ASEAN

65. The Korea-ASEAN FTA is the first FTA Korea concluded with one of its five largest export markets. In December 2005, Korea and ASEAN signed the Framework Agreement that forms the basis of the Korea-ASEAN FTA. Under this framework, Korea and the ASEAN member countries, except Thailand, signed the Agreement on Trade in Goods that took effect on 1 June 2007. For the liberalization of trade in goods, Korea and ASEAN are to eliminate tariffs on products constituting 90% of their respective imports until 2010. Tariffs on the other 7% of imports will be lowered to 0-5% until 2016. In addition to trade in goods, the Korea-ASEAN FTA negotiation also covers trade in services and investment. The Agreement on Trade in Services was concluded in November 2007.

FTA between Korea and the United States

66. By establishing an FTA with the United States, Korea aims to upgrade its current economic structure and improve the nation's competitiveness. After 14 months of negotiations, the Korea-U.S. (KORUS) FTA was concluded in April 2007 but has yet to come into force.

67. This agreement is comprehensive in scope, covering a full range of trade-related areas from goods and services to intellectual property rights, government procurement, competition, labor, the

environment, SPS, TBT, and dispute settlement. About 94% of Korea-U.S. trade in consumer and industrial products will be duty-free within three years of the agreement's effective date. In addition, the agreement will immediately eliminate duties on 56% of Korea's agricultural imports from the United States. When implemented, the KORUS FTA will build on a long-standing and robust trade and investment relationship between the two countries.

(b) FTAs under Negotiation

FTA Negotiations between Korea and Canada

68. In July 2005, Korea and Canada agreed to launch official negotiations for an FTA. Both sides have held fourteen rounds of negotiations so far.

FTA Negotiations between Korea and Mexico

69. In September 2005, Korea and Mexico agreed to launch Strategic Economic Complementarity Agreement (SECA) negotiations. Since then, three rounds of negotiations have been held, but the talks stalled in June 2006 due to wide gaps in positions regarding the level of tariff elimination. In August 2007, Korea and Mexico officially agreed to resume their negotiations for a high-level and comprehensive FTA. The first round of FTA negotiations was held in December 2007 and the second round took place in June 2008.

FTA Negotiations between Korea and India

70. In February 2006, Korea and India agreed to pursue a comprehensive economic partnership agreement (CEPA). A partnership agreement is technically the equivalent of an FTA, and the Korea-India CEPA is the first FTA that Korea is pursuing with one of the BRICs nations. The tenth round of negotiations was held in May 2008.

FTA Negotiations between Korea and the European Union

71. Negotiations on the Korea-EU FTA commenced in May 2007. Korea and the EU have held seven rounds of negotiations so far, and the seventh round took place in May 2008. The Korea-EU FTA, if concluded, is likely to contribute greatly to promoting trade and investment with EU members.

FTA Negotiations between Korea and the Gulf Cooperation Council (GCC)

72. Following a preliminary meeting in November 2007, Korea and the GCC held the first round of negotiations in July 2008.

FTA Negotiations between Korea and Japan

73. Korea and Japan launched FTA negotiations in December 2003. Since the conclusion of the sixth round of negotiations on the Korea-Japan FTA held in Tokyo in November 2004, the talks have been stalled due to differences over such issues as the level of market access in agriculture and fisheries, public procurement, non-tariff measures (NTMs), and industrial cooperation. Both countries agreed to consider a resumption of FTA negotiations and create a favorable environment for the resumption, in working level consultations that were held in June 2008.

(c) Other Bilateral Trade Negotiations under Joint Studies*China*

74. Korea and China have continued to make efforts to strengthen their bilateral trade and economic cooperation. In October 2006, the two countries completed a non-governmental joint research on the prospect for a Korea-China FTA. In March 2007, Korea and China launched a joint study for a possible bilateral FTA at the governmental, industrial, and academic levels. This study is scheduled to be completed by the end of 2008. The final decision regarding the launch of Korea-China FTA negotiations will be made after the result of the study is reviewed and opinions from industries and relevant experts are received in public hearings.

The Southern Common Market (MERCOSUR)

75. Korea and MERCOSUR believe that there is great potential to be exploited for further cooperation between Korea and the MERCOSUR members. In November 2004, an agreement was reached to conduct a joint study on the feasibility of a trade agreement (TA) between Korea and MERCOSUR. The joint study on the Korea-MERCOSUR TA was officially completed in November 2007, and both parties agreed to discuss the future plan at the next Korea-MERCOSUR consultative meeting.

Others

76. Korea has been conducting joint studies in various formats on the feasibility of FTAs with Russia, Turkey and Peru. A joint study with Russia at the governmental, industrial, and academic levels was launched in November 2007. A joint study between Korea and Turkey was recently launched in June 2008 with participation from the Korea Institute for International Economic Policy and the Foreign Trade of the Republic of Turkey. Furthermore, Korea and Peru completed a non-governmental joint study in May 2008.

(4) REGIONAL ENGAGEMENTS

77. Korea values APEC, ASEM, and ASEAN+3 as fora that promote greater economic cooperation within and across regions and ultimately support the multilateral trading system. Korea has actively participated in these fora for the further liberalization and facilitation of trade and investment, and played a role in promoting cooperation in various fields to help achieve the goal of common prosperity at both the regional and inter-regional levels.

(a) Asia-Pacific Economic Cooperation (APEC)

78. As one of the inaugural members of APEC, Korea has been playing an important role in shaping APEC to be more efficient and active. Furthermore, Korea has continued to introduce meaningful initiatives aimed at deepening regional integration in APEC. Among these initiatives, the 2005 Busan Roadmap provided a new scope of prosperity and a greater level of ambition seeking co-prosperity for the members in working toward an Asia-Pacific Economic Community.

79. Korea is using three distinctive policy tools for the successful implementation of the Bogor Goals. First, Korea is making efforts to support DDA negotiations as one of its primary policy objectives. In this regard, as the APEC host economy in 2005, Korea took a leading role in issuing a political statement of support for the DDA negotiations in November 2005. Korea also led APEC trade ministers to a unanimous endorsement for the Swiss formula to reduce tariffs for non-

agricultural goods in June 2005. Second, Korea's engagement in FTAs with major trading partners will create momentum for more open and transparent economic regimes in the region. Third, Korea's domestic reform activities contributed to creating more business-friendly environments in the region.

80. Korea is fully committed to promoting reforms and providing a vision that enhances the prosperity of people in the Asia-Pacific region over the medium-to-long term. At the same time, Korea will continue to contribute to the minimization of red tape for enhanced trade facilitation.

81. As one of the leading economies in terms of GDP size and trade volume, Korea will be more responsive to securing equitable and sustainable growth in the region. In this context, Korea will seek to be more proactive in intensifying efforts to strengthen capacity building initiatives. Expanding ODA and technical assistance to advance capacity building activities will serve as a catalyst for achieving the Bogor goals.

(b) Asia-Europe Meeting (ASEM)

82. Korea has been actively engaged in the ASEM process since the inception of the dialogue. In 2006, ASEM celebrated ten years of strengthening informal networks in Asia and Europe, and its membership has expanded from 26 partner countries to 45 since 2004. In the course of the transformation process, Korea has contributed to maintaining the internal dynamism of the ASEM process by taking an active role in the general management process as a regional coordinator of the ASEM process from 2004 to 2006, after its previous term in 1998 to 2000. Korea has been pivotal in the process by deeply engaging itself and bridging gaps between partner countries by discussing emerging issues such as security, trans-national crime, and anti-terrorism, which the current global governance has yet to deal with. Recently, as the host of the 8th ASEM Finance Ministers' Meeting held in Jeju in June 2008 and two rounds of the Finance Deputies' Meeting in 2007 and 2008 respectively, Korea has contributed to advancing inter-regional financial cooperation.

(c) ASEAN+3

83. Korea places great importance on the development of the ASEAN+3 (Korea, China, and Japan) mechanism, aware that the mechanism has been expanding and deepening cooperation in East Asia. In celebration of its 10th anniversary, the ASEAN+3 Summit held in Singapore in November 2007 adopted the "2nd Joint Statement on East Asia Cooperation" and the "Work Plan" – which lists the specific implementation plan of the Joint Statement. Moreover, the Summit agreed to establish an ASEAN+3 Cooperation Fund (APTCF) as a joint financial resource needed for the implementation of the ASEAN+3 cooperation projects.

84. Korea has been playing an important role in the evolution of the ASEAN+3 mechanism through, among others, the EAVG (East Asia Vision Group) in 2001 and the EASG (East Asia Study Group) in 2002. Multiple cooperation projects and diverse assistance activities initiated by Korea include: (1) the launching and development of the EAF (East Asia Forum) – an industry-government-academia joint think tank; (2) the hosting of the Building East Asia Identity Workshop in 2005 and the East Asia Week in 2006, both of which aim to promote East Asian identity and mutual understanding; (3) a US\$5 million contribution to the IAI (Initiative for ASEAN Integration) between 2003-2007 and the commitment of another US\$5 million – the IAI intending to narrow the development gap among the ASEAN countries and to accelerate economic integration –; and (4) the ICT Cooperation towards Co-prosperity in East Asia Project, which began in 2007 and aims to promote East Asian ICT exchange and to support IT expert education.

85. Korea proposed the second phase of the East Asian Free Trade Area (EAFTA) study in January 2007 in an effort to maintain the momentum of the EAFTA discussions within the ASEAN+3 framework. The final report of the study is expected to be submitted to the ASEAN+3 Economic Ministers and the ASEAN+3 Summit in 2009.

IV. FUTURE POLICY DIRECTIONS

86. It is unlikely that in the near future Korea will change the general direction of its trade policy, which is based on, and working under, an open and rules-based multilateral trading system, in spite of various challenges presented by deepened globalization. From its own experiences, Korea continues to believe in the primacy of the multilateral trading system. As a country with a total value of trade equivalent to two-thirds of its GDP, Korea believes that multilateral trade liberalization is one of the best means to achieve balanced development and sustainable growth. In this respect, Korea will continue to be firmly committed to the successful conclusion of the DDA negotiations, and make utmost efforts to contribute constructively in the DDA negotiations to bring great benefits to the global community.

87. In addition to the efforts for multilateral trade liberalization, Korea also considers FTAs to be a complementary tool to accelerate trade liberalization, and will seek comprehensive, WTO-consistent FTAs. Korea believes that the FTAs it pursues will serve as building blocks for multilateral efforts toward greater global trade liberalization. By incorporating far-reaching transparency and liberalization measures in various areas, it is also expected that these FTAs will spark domestic restructuring in less competitive sectors.

88. For economic cooperation on a regional level, Korea will continue to support APEC's work on trade and investment liberalization and economic and technical cooperation in the Asia-Pacific region. Furthermore, Korea will continue to actively participate in the collective efforts of ASEAN+3 and ASEM to promote freer trade and greater economic cooperation at both the regional and inter-regional levels. Korea will utilize these regional and inter-regional cooperation opportunities to support the multilateral trading system.

89. In order to foster mutually beneficial bilateral trade relations with its trading partners, Korea will continue to proactively address any trade issues through bilateral consultations in accordance with international rules. Economic cooperation with least-developed countries and other developing countries is another key priority for Korea's bilateral economic relations. Expanded trading opportunities and strengthened investment relations will be accompanied by technical assistance, capacity building, and sharing of development experiences, particularly for least-developed partners.

90. The ultimate objective of the Korean government's trade policy is to move Korea toward an advanced market economy. In order to accomplish this task, Korea will continue to vigorously pursue liberalization and domestic reforms in a mutually reinforcing manner. Domestic reform will be undertaken to enhance greater efficiency, market discipline, transparency, and fair competition in the Korean economy. Simultaneously, Korea will continue to engage in a greater opening of the economy through combined efforts on the multilateral, regional, and bilateral fronts. This market opening will likely stimulate domestic reform, which will, in turn, give rise to further liberalization.
