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TRADE AND INDUSTRIAL POLICIES IN THE REPUBLIC OF KOREA: PAST PERFORMANCE AND FUTURE PROSPECTS */

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Abstract

The objective of the paper is to examine the evolution of trade and industrial policies of the Republic of Korea over the last three decades and to look into their changes in the future under the new international trading system, such as the World Trade Organization.

Chapter I will first examine the major changes of Korean economic development pattern and assess critically various arguments to explain the economic miracle of Korea. In addition, macro economic factors such as the role of domestic savings and investment, the incentive system for investment, the influx of foreign capital and the growth of trade will be analyzed. Chapter II examines briefly the modifications or policy shifts in the areas of trade and industrial development that had taken place before the Uruguay Round. Chapter III discusses in some detail the policy objectives sought by the preceding Kim Young Sam administration, administrative reforms made in this government, and changing patterns of trade policy instruments (e.g., tariffs, non-tariff barriers, TRIMs). The following chapter will focus more specifically on reform measures that have been adopted in the country to be in compliance with the WTO regime. The recently introduced deregulation and facilitation measures on trade and industrial development are discussed. Chapter V analyzes the institutional reforms of the governmental and non-governmental organizations which are in charge of trade and industrial policies. Chapter VI provides a summary of policy measures to be undertaken by the administration of the new President Kim Dae-jung, under the tutorage of the IMF. The document closes with a mention on future prospects of the trade and industrial policies in Korea.

I. RISE OF THE KOREAN ECONOMY: THE 1960S - THE 1980S

With less than four decades the Korean economy has achieved unprecedented growth. The GDP per capita was only US$80 and the annual growth rate was 1.1% in 1960. Exports were hovering around US$30 million, the rate of unemployment was over 11%, and the inflation rate was more than 10% in the early 1960s. From these statistics, nobody could anticipate that the Korean economy would be able to achieve a self sustaining economy within several decades. However, by 1995, the Korean economy deserved to be cited as the fastest growing economy among the developing countries.

The GNP per capita became US$10,076 in 1995. For the same year, the GNP growth rate was still very high, 9.3%, while the unemployment rate was 2.0%, and the inflation rate, 4.6% in 1995. Total amount of exports in 1995 exceeded US$123 billion, which made Korea the eleventh largest trading country in the world. In the mid 1990s, the GNP per capita has increased more than 100 times and the exports have increased more than 4,000 times than those of the early 1960s. Korea began to boast of a marvelous economic success in various sectors: for instance, the second largest shipbuilding country in the world just next to Japan, the third largest exporter of textiles after Germany and Italy, the fifth largest producers of automobiles, among others.

In this chapter, we will examine the major features of Korean economic development pattern, which will be followed by the critical assessment of various arguments to illustrate the economic miracle of Korea. In addition, macro economic factors such as the role of domestic savings and investment, the incentive system of investment, the influx of foreign capital and the growth of trade will be discussed.

A. BACKGROUNDS: PATTERNS OF ECONOMIC DEVELOPMENT IN KOREA

Since President Park took power in 1961, the aggressive growth-oriented economic policies have been adopted during the rapid economic growth period. A series of five year plans were implemented and a number of industrial policy incentives were taken. Since the 1960s the growth pattern of Korean economy is often identified as an export promotion strategy. In addition, the heavy and chemical industry was targeted as a priority sector during the 1970s.

With the limited resources and capital accumulation, the Korean government had nothing but to take the following economic growth strategies (Song, 1997). First, the economic strategy of Korea has focused on the growth orientation. With the lack of legitimacy in Park's military regime, the intense competition, not only in military but also in social and economic sectors, with North Korea, and urgent demands to escape from massive unemployment and poverty, left the Korean government with much option but to adopt aggressive policy objective of economic growth. Second, due to the lack of capital accumulation, the Korean economy has geared its orientation toward the industrial sector from the agricultural or primary sector. Government created rents and provided it to the hands of a small number of firms in order to concentrate the economic power to be effective in the world market. It resulted in the excessive concentration of economic power in the so-called *chaebols*. Third, the Korean government has taken a selective and outward-oriented strategy rather than a neutral and inward-oriented strategy. Urgent needs for foreign currency to procure necessary foods and other raw materials have made Korea engage in the global economy rather than being a self containing economy. Competitiveness in the world market has been the highest priority of her economic policy makers. Thus, as trade expanded, the imbalance between the tradable and non-tradable sectors as well as the excessive dependance on the imports of capital goods and intermediate production goods have increased.

In order to foster export-oriented industrialization, the Korean government has adopted various trade-related policy measures. First, the tariff rates have been high during the rapid economic growth period. The average tariff rate was almost 40%, i.e., 39.9% in 1962, which gradually decreased to the level of 21.9% in 1984. However, since the Korean government did not levy the tax on imported goods for export firms and targeted industry, the actual tariff rate was much lower than the official tariff rates. One calculation shows that the actual tariff rate on the average in 1962 was 12.4% and was only 6.3% in 1984 (Lee, J-W. 1996).

Second, the import restrictions have been widely used. Until 1967, the Korean government followed the positive list system in order to protect the domestic market. It changed its policy into the negative list system since then. However, the import licensing system tightly controlled the import of goods until the late 1970s, when the import restrictions as percentage of total items reached up to 43.2%. Korean government abolished the quantitative import restrictions since 1989 except agricultural and fisheries products and other sensitive items.

Third, the preferential tax system was applied to the export industries and selected import-substituting industries. During the 1970s, when the heavy and chemical industry was mainly fostered by the Korean government, the key industries received a preferential tax treatment such as tax holidays for five years, 8% of investment tax credit, rebates of indirect taxes, or special depreciation allowances.

Fourth, the government implemented a series of significant credit policies for the targeted industries. During the 1970s, the heavy and chemical industry as well as export industries received preferential loans at substantially subsidized rates provided by the government-controlled banks (Vittas & Cho, 1996). In many cases, the nominal interest rates were lower than inflation rates. Thus, the special interest rates for targeted industries were less than half or one third of the interest rates of curb market.

Fifth, administrative supports for export industries were conspicuous during the rapid industrialization period. For instance, President Park established in December 1962 and actually presided the Monthly Export Promotion Meetings. The meetings, chaired by President Park and consisted of ministerial level government officers, executives of industry, bankers, and representatives of industrial organizations, served as a strategic forum of problem shooter for exports. If complaints from industry, bureaucratic red-tapes, or inter-governmental disputes were identified, President ordered senior government officers to solve the problem immediately.

B. ARGUMENTS: ASSESSING THE ECONOMIC MIRACLE OF KOREA

Various and sometimes confronting interpretations of the Korean economy have been prevalent among the developmental theorists. The spectrum runs from the neoclassical economic approach to the statist argument. For instance, one developmental theorist argues that the Korean economic model is a typical example of a strong government interventionist system: "South Korea has the strangest free enterprise system I've ever seen. A conservative estimate is that almost half the country's GNP is produced by the 15 largest giant conglomerates, called chaebols. At first sight they look like the massive Japanese companies like Hitachi or Mitsubishi. But they're not. They're really more like government departments. Admittedly, they're owned and managed by the people who called themselves capitalists and they've displayed great entrepreneurial flair. But, in fact, it is the Ministry of Finance and the Economic Planning Board which decide what South Korea is going to produce and whether is it for export or the home market. It then tells several of giants to go ahead and make whatever it is..... and after a while the government decides who's going it best and orders the others to stop (Prysor-Jones quoted in Nolan, 1990: pp.22-23)".

On the other extreme is the interpretation that the government intervention has been minimal and, if anything at all, detrimental. Fei's assertion is typical: "(T)he basic causation of success of the East Asian NICs on the policy front, can be traced to the lessening of government interferences in the market economy during the Export-Oriented phase. In Taiwan and Korea, interferences with the market was considerably less as compared to other worse offenders in the near NICs and the Latin American countries (Fei quoted in Wade, 1990a: pp.22-23)".

Meanwhile, pessimistic observers such as Paul Krugman recently shed a gloomy light on the prospects of East Asian economy (Krugman, 1994). Based on his argument, the economic success in East Asian countries is ephemeral mainly due to the fact that the economic performance owes nothing but to the input factors such as labor forces and capital investment. The lack of technological innovation would make the East Asian economy including the Korean economy unable to grow as the previous degree.

Why do these contrasting assessments exist? How can we interpret these polarized observations? At least four approaches are conspicuous in the analysis of the Korean economic development. These are the neoclassical economic approach, the "flying geese" model, the world systems approach, and the developmental state approach. The former two approaches are based on the economic theories and the later two approaches are based on the political theories. In this section, a brief explanation of approaches and a critical assessment are delineated. In addition, a revisionist interpretation is introduced as well.

1. Neoclassical Economic Approach

The advocates of a free market system hold that competition generates the efficient allocation of resources. Accordingly, the economies of developing countries function effectively when the government does not intervene into the market. In particular, they have rejected the idea of effectiveness of government intervention in a specific industry. If any, the government role should be confined to the macro-economic policies and export promotion policies (Page, 1994; World Bank, 1993). The high growth of the Korean economy has been said to be a result of an export-oriented economic system in a benevolent international free trade regime. Balassa (1988) and Lal and Rajapatirana (1987), among others, correlated economic growth rates with the growth of exports.

Compared with the economies that adopted import substitution strategies in Latin American countries, the conspicuous economic achievements of East Asian NICs are derived from the aggressive export promotion strategies (Gereffi, 1990). For instance, in 1965 the exports of manufactured goods from Korea amounted to US$104 million compared to US$124 million from Brazil and US$170 million from Mexico. Within a ten year period, after implementing the export promotion strategy in Korea, Korea achieved US$4 billion worth of exports of manufactured items, while Brazil had only US$2.4 billion exports. Mexico was even worse, ending up with only US$930 million. With an accelerated export drive, Korea reached a total amount US$123.2 billion of export in 1995.

In their empirical analyses, the advocates of free market ridicule the efficiency of government intervention, such as making industrial policy adjustments. The World Bank resounded the eminence of the macro-economic factors of the most successful economies of East Asia. A typical example is Korea's macro-economic stability, human capital formation, openness to international trade, and an environment that encourages private investment and competition (World Bank, 1993: pp.84-85). Balassa also maintains that "(t)he neutrality and stability of the incentive system, together with the limited government interventions, well-functioning labor and capital markets, and reliance on private capital, thus appear to have been the main ingredients of successful economic performance in East Asia (Balassa, 1988)."

In the World Bank reports, of course, all government roles are not rejected. They admit the promotion policies, especially market-friendly policies, for industrial development in Japan, Korea, and Taiwan, which is contrasted with the laissez faire approach of Hong Kong and Singapore. However, with regard to the specific industrial policy, it is often argued that "it is difficult to establish links between growth and a specific intervention, even more difficult to establish causality (Page, 1994: p.619)."

In the case of Korea, for instance, the textile industry showed a high total factor productivity performance even though it was not selected by the government as a targeted industry. On the other hand, the promoted areas such as metal products and machinery sectors did not show much higher productivity growth rate than the textile industry (Yanagihara, 1994). In a nutshell, an "unshackling exports" orientation (Hughes, 1988) along with macro-economic stability, conducive infrastructure, and abundant educated labor force are regarded as the major conditions for economic success for Korea by the neoclassical economists.

However, this approach is criticized as an overly simplified version of analysis. For instance, Amsden criticized the World Bank analysis as a Narcissism: "(L)ike a Narcissus, all the Bank was capable of doing in its Report was seeing the image of its own 'market-friendly' policies in East Asia's fortunes (Amsden, 1994: p.628)." She even retorts the report's conclusion on the government intervention as a truism and harshly criticized the logical fallacy of its analysis: "If it is not possible to establish statistical links 'between growth and a specific intervention' then neither is it possible to establish statistical links between growth and non-intervention. ... As this test result is formulated, industrial policy cannot win: if it fulfills neoclassical expectations, it is 'ineffective'; if it violates them, it is inefficient! (Amsden, 1994: pp.628-629).

2. Flying Geese Model

The applied flying geese model, originally developed by Akamatsu (1937), explicates that the developmental patterns of East Asian economies follows the trajectory of the Japanese developmental pattern in technology as well as in production. Vernon's product cycle theory also elaborated the analogy of wild geese model. As time proceeds, according to this model, the competitive advantage of production in the advanced country wanes. In the industrial development trajectory, the less developed countries instead take over the production of matured items, which have been dominated by the advanced country, thanks to the low production costs and to the abundant demands for the products from domestic and overseas. In this process, the industrial technology and production facility is diffused in the less developed countries. Meanwhile, the lack of competitive advantage in the advanced country urges it to engage in producing the high value-added goods. In this process, the technological innovation occurs in the pioneer countries. It shows the pattern of flying geese toward the advanced stage of industrial development.

This model attracts the interests of some economists who have struggled to apply the Japanese influence on the development patterns of East Asian economies. Korea is often selected as the best disciple. However, if we scrutinize the development pattern of East Asian economies more closely, the empirical evidence has not sufficiently support the argument. As Bernard and Ravenhill (1995) aptly delineated, the model does not hold for the East Asian development. First, the maturation of products and technology has not followed the product cycle. As many neo-Schumpeterians argue, technology adoption and application through the learning-by-doing may supersede the level of imported technology for the production of mature goods and even generate the technology innovation. Second, the matured goods produced in the following countries have not induced the reverse exports to Japan in a significant level as the model predicted. Third, the East Asian economies have not developed the import-substitution production stemmed from the migration of the manufacturing technics of the advanced country. Fourth, due to the globalization of production and the rapid development of new technology, the life cycle of a product became shortened. Thus, the development pattern of product life cycle becomes more complicated and multifaceted than the model's explication (Chen, 1996). Finally, the model implicitly conveys that the international division of technology development must be intensified and prolonged following the trajectory of forward development of industrialization. In other words, the takeover of technology innovation is hardly achievable by the following countries.

3. World Systems Approach

The world systems approach focuses on the international economic order in explaining the economic growth of a country. Cumings (1984) borrowed the ideas of the flying geese model and applied them to the analysis of the political economy of the East Asian countries. In his analysis, the historical interpretation is mainly adopted to explicate the economic accomplishment. For instance, the colonization legacy of Japan to Korea and Taiwan as well as the United States' subsidies on the Northeast Asian economies during the cold war period seem to be the major elements for the economic growth in this region. Particularly, the world systems approach developed by Wallerstein plays the significant part for Cumings to analyze the Northeast Asian economies. Thus, the development pattern in this region resembles the dependency model, where the industrialization is heavily influenced by the hierarchical conditions of relationships among the core country, the semi-periphery country, and the periphery country.

However, the interpretation of Cumings' analysis is somewhat too remote to be historical evidences and the causation of the world system's framework to the East Asian development is not sufficiently justified. For instance, the factory facilities and the industrial infrastructure bequeathed from the Japanese colonization became almost negligible after the Korean War. Most production facilities in either side of Korea was completed devastated, if anything left from the colonial period. Moreover, the South Korea and Taiwan were not the targeted region for industrialization during the colonial rule. Instead, the heavy and chemical factory facilities were mainly located in the northern part of Korean peninsular for the encroachment into Manchuria during the Pacific War.

4. Developmental State Approach

Compared to the viewpoints of economists, many political scientists have exerted their efforts on the analysis of the state's role. In particular, hard state, meritocratic bureaucracy, and dirigist authoritarian regime have been considered as the main determinants of economic success. In short, the state-led industrialization has been driven by elite bureaucrats insulated from social and political interest penetration and an authoritarian political system which guarantees a stable economic environment.

Johnson's "developmental state" argument has predominated the statist approach to the economic success in East Asian countries. As strongly maintained in the analysis of the Ministry of International Trade and Industry (MITI) of Japan, the Korean economic success seems to resort to "the existence of a powerful, talented, and prestigious laden economic bureaucracy (Johnson, 1982)" under a strong authoritarian regime. Unlike the neoclassical economists, the state-oriented theorists attributed the export promotion strategy to the role of state. Such policy measures as direct tax reductions and special depreciation for export products, preferential interest rates and loan programs, and provision of import licenses, which were designed by the elite economic bureaucrats, have been regarded as the main causes for the economic success in Korea.

The statist approach has also drawn criticism due to its simplicity. Revisionists rejected the simplistic version of statist interpretation in economic development. For instance, Wade (1990b, pp.261- 262) recently emphasized the role of the government in terms of followship rather than leadership. In the followship mode, "(t)he government cannot do anything by itself, and does not force anything on the private economy. It does, however, establish a consultation process in which government, management, and labor can enter into strategic agreements about consumption, investment, incomes, and work practices to which the government brings its own ideas about the long run evolution of the economy and in which government help is given only in return for stipulated performance by the other parties."

5. Revisionist Approach

The critics or the revisionists on the existing theories both from the neoclassical economist and from political scientists began to turn their attention to the dynamic relationship between government and business. They seem to admit that the developmental strategies in Korea are composed of a complex set of interrelated policies (Chang, 1993) and sequencing ones (Shin, 1991). Thus, both simplified causality based on the economic indicators and abstract images of state and historical legacy are insufficient to understand the uniqueness of economic operation in the East Asian countries. As Perkins (1994) argues, the strategies of economic development among the East Asian countries are diverse and even confronting with one another. The shortcomings of the existing theories can be derived from the ambition to identify the universal law for the economic success and from the categorization of development based on the region. It hampers the understanding of unique characteristics of the developmental trajectories of each country in the East Asia.

The institutional arrangement such as the unique relationship between state and business in Korea has been overlooked in the existing analyses (Yeom, 1996). As Bhagwati aptly argues, "(t)he key question then is not whether there is governmental action in the Far Eastern economies, but rather how have these successful economies managed their intervention and strategic decision making in ways that dominate those of the unsuccessful ones (Bhagwati, 1987)." In other words, the functional prerequisites for policies and the dynamic process of policy making should be analyzed for understanding the economic success of the East Asian countries.

C. MACROECONOMIC FACTORS IN ECONOMIC DEVELOPMENT

During the period of rapid economic development, the Korean government has adopted aggressive export-driven strategies. A series of the five year plans were implemented in the Park's Administration, mainly during the 1960s and the 1970s. On the one hand, the Korean government has provided an incentive system to the private business in order to expand the national economy with several effective policy instruments: credit policy; tax incentives; direct administrative supports; favorable exchange rates; import restrictions and relatively high tariff rates; and the legal assistance.

On the other hand, its endeavor to establish an amicable market environment also facilitated the private sector to function effectively. Such indirect factors as the strict wage control, price stability, close consultation between government and the private sector, vision making for future economic objectives, and government's designation of general trading companies have been, among others, some examples.

One recent empirical analysis shows that while the trade protection negatively affected the growth rate of total factor productivity, industrial policies such as credit policies and tax incentives appeared to be positively correlated with the output and capital growth (Lee, J-W. 1996). Another study also argues that credit support of the Korean government was indispensible for export growth, even though it is difficult to maintain that the selective credit policy is a necessary condition for rapid economic growth (Vittas & Cho, 1996).

For instance, the Korean government allowed business firms to borrow loans for investment from commercial banks as well as government-owned banks such as the Industrial Bank. Due to the limited domestic capital accumulation, Korean government guided the private investment toward industrial sectors which would increase the production and export capacity in effective ways. Since the government has yielded a power to control and regulate the activities of commercial banks under the close scrutinization of the Bank of Korea, which is, in turn, under the rule of a government agency, the Ministry of Finance.

In addition, the foreign loans were preferentially distributed in two ways. One route was to the parts of the private sector which participated in the major government projects that were initiated under the Five Year Plans for Economic Development. The other route was to the firms which were mainly engaged in exports. Though the foreign interest rate was between 5 and 6%, the bank interest rate ran a range from 15% to as high as 26%. These figures are not even including the curb market interest rates, which were much higher. Loans from the commercial banks were also concentrated towards the most effective industrial sectors and the conglomerates (Yeom, 1996). For instance, the total amount of loans from the commercial banks to *chaebols* consisted of 17.7 billion won in 1964, which was equivalent to 40% of total balance of outstanding loans of all the commercial banks combined.

During the period of rapid growth, while credit policy and tax incentives were evaluated to be effective, the role of foreign direct investment in the economic growth was strictly limited to the minimal. The Korean government agency, representatively the Economic Planning Board, which worked in close consultation with the Presidential Office as well as with leading business firms, had carefully examined conditions of investment, congruence with government policies of developing priorities, and other domestic economic conditions including the balance between foreign investment and loan capital (Bishop, 1997). In short, compared to the foreign loans, the role of foreign direct investment was minimal during the rapid growth period (Table 1).

Table 1
FOREIGN LOANS AND DIRECT INVESTMENT (1962-1980)
(Unit: %)

Year	Public Loans	Private Loans	FDI	Total	Total Amount US$ million
1962-66	37.5	57.0	5.4	100.0	307.9
1967-71	35.4	59.9	4.3	100.0	2,261.8
1972-76	39.9	50.8	9.3	100.0	5,988.6
1977	31.8	63.0	5.2	100.0	1,970.6
1978	28.7	67.8	3.5	100.0	2,848.0
1979	38.3	57.2	4.4	100.0	2,833.4
1980	47.5	49.1	3.4	100.0	2,800.0
TOTAL	**37.8**	**56.5**	**5.8**	**100.0**	**19,015.4**

Source: Koo (1982), cited in Bishop (1997), p.39.

II. MODIFICATION OF INDUSTRIAL AND TRADE POLICIES AND RESTRUCTURING THE ECONOMY: THE 1990S

A. MODIFICATION OF THE ECONOMIC STRATEGIES AND THE URUGUAY ROUND

The Korean economy, heavily tilted toward export-oriented structure and highly concentrated business power, began to be restructured as early as the 1980s. Direct government subsidies were directed toward exports and investment of some targeted industries during the 1960s. The heavy and chemical industry including the electrical industry was mainly focused during the 1970s.

According the Heavy and Chemical Industrial Promotion Plan, strategic industries of iron and steel, machinery, non-ferrous metals, electronics, shipbuilding, and petrochemicals were selected to be preferentially supported by the government. The plan was established in 1973 just shortly after the proclamation of Yushin Constitution, which was a major political reform to solidify the authoritarian power of President Park. In order to achieve its main goal of US$10 billion exports and the national income per capita of US$1,000 in the early 1980s, the government planned to mobilize domestic capital of US$3.8 billion and foreign capital of US$5.8 billion between 1973 and 1981. Firms were required to invest their own funds just over 30% of total amount of investment. The capital needed for investment was given priority to foreign loans. And the firms were allowed to establish joint ventures from foreign direct investment (Rhee, 1994).

However, the massive burden of over investment on the heavy and chemical industry of during the 1970s raised a number of problems in the Korean economy. Not only the inefficiency of production and the lack of demands in these industries but the excessive concentration of economic power in the hands of *chaebols*, ineffectiveness of government intervention, and rigidity of investment in heavy and chemical industrialization, the strong demands of economic liberalization in the world market urged Korea to reshape its economic structure.

As early as the late 1970s, the Korean government began to consider to restructure its economic system. For instance, the Economic Planning Board, newly headed by the Vice Prime Minister Shin, Hyun-Whack, prepared in 1978 a new policy orientation for the national economy. Breaking away from the massive interventionist measures, new strategies included the following policy orientation (KDI, 1982: cited in Haggard and Moon, 1990):

- emphasis on comparative advantage rather than industrial targeting and import substitution;
- transition toward an economy led by the private sector;

- a general reduction of state intervention and wider play for market forces;
- emphasis on social development;
- vigorous pursuit of macro-economic stabilization.

During the 1980s, the Korean government attempted to restructure its economy for economic liberalization or deregulation as well as for weakening the market concentration of the *chaebols*. The Fifth Five Year Plan in Chun's Administration during 1982 and 1986 emphasized the economic growth with stability. The Korean government began to consider economic stability, social equity, and quality of life in its economic policy. Major policy objectives in the Fifth Five Year Plan were as follows:

- establishing foundations for price stability and self-sustaining economy;
- improving technology;
- improving quality of life;
- restructuring government's economic functions.

Based on these policy objectives, the Korean government prepared for major policy directions in specific:

- eradicating inflation-oriented economic behavior;
- increasing competitiveness in heavy industries;
- improving agricultural policy;
- overcoming energy constraints;
- improving financial institutions;
- readjusting government functions and rationalizing fiscal management;
- solidifying competitive system and promoting open-door policy;
- developing manpower and promoting science and technology.

However, the restructuring of the economy was not managed properly in the mid 1980s. The Korean government ran across a dilemma to modify its economic strategy. In order to increase competitiveness in the heavy industry, for instance, the government had to employ the the policy to adjust investments in the heavy and chemical industry. However, the investment adjustment policy and the disposal of ill managed firms also invited government intervention in the decision and business activities of the private sector. In addition, the bureaucratic inertia to control the market for effective economic growth well developed during the era of rapid economic growth has hindered the government from aggressive implementation of reform policies. Particularly, after the assassination of the ardent reformist and the chief economic secretary to President Chun, Dr. Jai-Ik Kim in the Rangoon bomb incident in 1983, the reform activity began to wane. New economic policy makers were modest reformists, who supported the economic stabilization policy for short-term outcomes rather than the economic liberalization policy for the long-term objective.

Despite that the economic policy at the outset of Roh's Administration was reformoriented, it became distorted again just after the general election in 1988. A series of reformist policies such as the public concept of land ownership and the real name financial transaction system were attempted by the government, but in vain. Due to the weakening government capacity under the minority position of ruling party, it was really difficult for Roh's administration to restructure the economic system abruptly. Moreover, since the wage increase in the process of political democratization and the appreciation of Korean currency weakened the economic performance, the government began to change its policy objective from economic reform orientations to realistic ones. In addition, the lukewarm support of business leaders for economic reform has made the economic policy makers change their original intention to adopt a growth oriented economic strategy again by calling for economic-boosting measures (Rhee, 1994).

It still seemed difficult for the Korean government to implement reform measures in the early 1990s. For instance, the diversification of economic power has not born a fruitful outcome. A recent empirical analysis showed that the economic liberalization to weaken the concentration of economic power of the *chaebols* was still muddling through. The proportion of the real rates of stock holdings by the owners of the ten largest *chaebols* had declined slightly during the period of 1987 to 1989 from 23.6% to 19.4%, but increased again in 1991 to the level of 20.1%. Moreover, despite the Anti-Trust Law in Korea enacted in 1987, which regulates *chaebols*' mutual stock holdings, an increase of around 20% of mutual investment of the 29 big conglomerates was identified during the period of 1987 to 1991 (Chung & Yang, 1992; Yeom, 1996).

B. ADJUSTMENT MEASURES TO THE NEWLY ESTABLISHED INTERNATIONAL TRADING SYSTEM

Since the Kim Young Sam Administration was launched in 1993, massive reform measures have been taken in Korea. The rapid structural change in the Korean economy has continued during the Kim Young Sam Administration. The Kim Young Sam administration replaced the Seventh Five Year Plan prepared during the Roh's administration with the New Economy Five Year Plan. In this plan, the administration emphasized the economic liberalization and globalization. The major policy orientations consist of the following items:

- strengthening growth potential of the economy;
- expanding international marketing;
- improving the quality of life;
- reforming government administration and work ethics.

In short, the main features of the New Economy Five Year Plan are to enhance the economy to the level of industrialized countries and to reform the administrative and economic systems into a more effective system to vie with in the international competition.

The conclusion of the Uruguay Round and the establishment of the WTO urged the Kim Young Sam Administration to ease the high protectionist measures and administrative regulations in more intensive ways. Korean government's adaptation to the new international system showed an aggressive commitment to the liberalization of trade and initiation of a series of reform policy measures. With a minor exception in the agricultural sector, the Kim Young Sam government liberalized the inflow of foreign capital and eased the approval system of foreign investment. In addition, deregulation measures in various administrative sectors helped the trade liberalization in Korea. For instance, lifting the ban of the advertisement of foreign products in television, assuring foreign ownership in high technology industry areas, and simplifying the bureaucratic red tapes in import as well as export processes. On the other hand, the intellectual property right protection for foreign products was strengthened. It means that the Korean government attempted to set up various trade-related rules similar to those of OECD countries. As a result, the Korean import liberalization ratio now stands at 99.9%, which means almost any product except for rice and beef can be imported without restriction. The tariff rate reached at 7.9% which is close to the level of advanced industrialized countries.

A number of administrative processes including the investment approval system for foreign direct investment became simplified. For instance, the Korean government changed its policy so that the foreign direct investment approval can be made by the delegated banks instead of government agency. In 1993, the approval by the delegated banks was limited to 30% of total cases and 9.6% of total amount of investment approval. But the approval rate by the delegated banks increased rapidly in 1995 to 88.6% of total cases and to 50% of total amount of investment approval in Korea (Table 2). It shows that the government sticks to the line of privatization of government activities and deregulation of the previous restrictive measures on trade.

Table 2
CHANGES OF INVESTMENT APPROVAL BY WAY OF AUTOMATIC APPROVAL/NOTIFICATION
(Unit: US million dollars; number of cases)

Year	By Delegated Bank		Total		Percent	
	Cases	Amount	Cases	Amount	Cases	Amount
1993	82	100.4	273	1,044.3	30.0	9.6
1994	199	385.8	414	1,316.5	48.0	29.3
1995	492	962.5	555	1,941.3	88.6	50.0

Source: MOF (1995); cited in Bishop (1997), p.126.

As a result of these liberalization measures, foreign direct investment has increased very rapidly during the Kim Young Sam Administration (Bishop, 1997). The total foreign direct investment in 1995 reached almost $2 billion, which showed the doubling of its amount within two years. More specifically, the total foreign direct investment to Korea was $1044 million in 1993 and increased to $1941 million in 1995. The annual growth rate of foreign direct investment since 1995 has been also impressive, i.e., around 45.3% of annual increase rate. In the first half of 1997 showed that the increase rate of foreign direct investment soared to 252% against the previous year.

The Korean government reached at 97.6% of foreign investment liberalization ratio in 1997, which will be raised to 98.7% by the year of 2000. At the moment, such liberalization ratio is the level of most advanced countries, which means almost all industries are open to foreign investment except for those areas which are not open in most OECD countries and need to be restricted in favor of public interest.

In addition, the Kim Young Sam government hoisted a banner of globalization or Segyehwa in Korean as a major national goal of its administration. The government launched a special presidential committee, the Committee of Facilitation of Globalization, which was one of the most influential civilian advisory boards for president. Korea has also tried to be a leading member of international organizations. One of former civil servants, whom the Korean government strongly supported in the election process, became deputy director general of the WTO. After joining the OECD, the Korean government has played a significant role in regional economic cooperation forums, such as APEC (Asia-Pacific Economic Cooperation) and ASEM (Asia-Europe Meeting).

C. URUGUAY ROUND AND THE INDUSTRIAL ADJUSTMENT: AGRICULTURAL SECTOR

The influence of the Uruguay Round agreement has been far reaching to the Korean economy. The overall international trade policy has been revised to a wide range. And a number of industrial sectors needed to be adjusted to the Uruguay Round agreement in a short period of time. A typical industry was the agricultural sector.

Anticipating the result of the Uruguay Round, the Seventh Five Year Economic and Social Development Plan, which was originally prepared to cover the period of 1992 to 1996 but replaced with the New Economy Five Year Plan in the newly established the Kim Young Sam administration, was intended to adjust to the agricultural and fishery import systems and to subsidy programs for the agricultural sector. The plan aimed to cover various counter measures to adjust to the Uruguay Round agreement in the following ways:

- to improve productivity by way of modernization and mechanization of farming;
- to increase economies of scale by increasing the farm size;

- to provide job training and employment programs for those who want to leave farming;
- to diversify rural economic structures;
- to provide special retirement programs and social welfare programs for farmers;
- to improve living conditions in rural areas.

The Special Account for Rural Structural Improvement, for instance, was established in 1992 to implement the above policy objectives. It planned to provide total public investments of 42 trillion won for ten year period. The account is funded by customs duty on agricultural imports, value-added taxes on animal food and livestock equipments. The account consists of the Agricultural and Fisheries Development Fund, the Agricultural and Fisheries Marketing and Price Stabilization Fund, and Livestock Promotion Fund.

Subsequently, the New Agricultural Policy was established in 1993, which was replaced by the Agricultural and Fisheries Development Plan in 1994 in order to make it in accordance with the new WTO framework. The 1994 Plan called for massive adjustment measures:

- to increase competitiveness in rice production by lowering production cost through increasing the economy of scale in farming;
- to mechanization and automation in horticulture;
- to create export processing facilities near production sites;
- to advance general systemic reforms, including rural land usage and market distribution.

For the agricultural industry, the Uruguay Round has made the Korean government revise eight related laws: the Foodgrain Management Act; the Livestock Farming Act; the Sericulture Law; the Seed Industry Law; the Forestry Law; the Agricultural and Fisheries Marketing and Price Stabilization Act; the Feed Grain Management Act; and the Agrochemicals Management Act.

The most sensitive issue in the agricultural sector has been the imports of rice and beefs. After the turmoil of vociferous debates in Korea, the import restriction on rice was lifted in 1995. The schedule to import rice is limited to from 1% of domestic consumption, (i.e., 51,300 tons) after the adjustment to 4% (205,228 tons) by the year 2004. The in-quota tariff rate was set at 5%. The import of beefs is adjusted to increase the volume from 123,000 tons in 1995 to 225,000 tons by the year 2000. The tariff quota for oranges was set at 15,000 tons in 1995, which is to increase to 20,000 tons in 1997.

In addition, in order to facilitate more direct sales of beef between exporters and end-users, the Simultaneous Buy Sell System was established in 1993. With this system, the interest conflict arising from the price stabilization can be minimized. The supply management and price stabilization schemes are still in use by the Foodgrain Management Program, the Livestock Price Stabilization Program, the Buffer Stock Management Program, and the Sericulture Price Stabilization and Promotion Program.

Among other adjustment measures to the Uruguay Round resolution, direct subsidies for agricultural products by the government have declined gradually. The government procurement of rice, for instance, began to be reduced from 1.66 trillion won in 1994 to 1.52 trillion won in 1995. Except for the marketing loans, there is no direct support for livestock production. Even in the marketing loans for the agricultural sectors by the government, where the interest rates range between 3 to 5 percent, while the interest rates from commercial banks are about 11%, the total subsidy effect declined sharply from 1.6 billion won in 1992 to 0.7 billion won in 1995.

III. CHANGING PATTERNS OF INDUSTRIAL AND TRADE POLICIES OF KOREA UNDER THE WTO REGIME

A. POLICY OBJECTIVES AND DIRECTIONS

From the outset of the Kim Administration, deregulation, liberalization, privatization, and globalization became catchwords for running the economy. Policy objectives for the Korean economy of the Kim Administration can be summarized in the following manners.

First, President Kim announced that "Segyehwa" or globalization would be the main national objective of his administration. Since the Korean economy has grown rapidly due to the export-driven industrialization, its reliance on the international market becomes more and more important. Thus, liberalization of domestic market and abiding by international rules are regarded as the utmost condition to expand its economy. Especially, economic liberalization is regarded as the primary vehicle to implement globalization policy effectively.

Second, the government understands that the economic liberalization cannot be achieved without proper administrative reforms. The major administrative reform measures have been implemented including the government organizational reform. Deregulation and small government became the main policy objective in the Kim Administration. Among others, the Committee for the Deregulation of the Economic Administration Sector established in 1993 has played a significant role in implementing the deregulation policy in the market.

Third, in order to increase the trade volume, which is essential for its economic growth, the Korean government has attempted to speed up market liberalization and deregulation. Except for a limited number of agricultural items such as rice and beef, 99.9% of all products can be imported without restriction. Tariff rates began to close to those of developed countries, on the average at 7.9%. In addition, the Korean government has enacted revised 27 trade-related laws in compliance with the WTO rules.

Fourth, upon the criticism on the closed market for foreign investment, the Korean government has improved the foreign direct investment procedures. It established one-stop service system including the "Investing in Korea Service Center", provided tax exemptions and favorable financing, and created two industrial parks for foreign investors. For instance, the procedure for foreign investment approval became much simplified by submitting an application to any commercial banks or to the branch office of foreign banks in Korea. As a result, the foreign direct investment has rapidly increased since 1993, which showed 45.3% increase rate on the average.

Fifth, the Korean government endeavors to formulate or to revise the related rules and ordinances on new trade issues in accordance with the WTO and other international trade organizations. Negotiations on the Multilateral Agreement on Investment, the international agreement on prevention of government bribery, the WTO ministerial discussions on such issues as investment, competition policy, government procurement, anti-circumvention, and harmonized rules of origin are under close review. In addition, the Korean government actively participates in the multilateral discussions on environmental issues as well as on technology and labor related issues.

Sixth, regional economic cooperation to complement the WTO system is pursued to create a more free trade regime in the East Asia. The Korean government has played a leading role in Asia-Pacific economic cooperation through APEC. Recently, the third ASEM (Asia Europe Meeting) meeting is decided to be held in Korea in the year 2000. In addition, the Korean government endeavors to assist developing countries to be successfully integrated into the world trading system. ODA activities through the Korea International Cooperation Agency (KOICA) and the Economic Development Cooperation Fund (EDCF) have been intensified in the past ten years.

B. ADMINISTRATIVE REFORM IN THE KIM YOUNG SAM ADMINISTRATION

One of the major steps toward adjustment measures for newly established international economic system in Korea was the administrative reform. In particular, reducing the government control and regulation was the main objectives of the New Economy Five Year Plan during 1993 and 1997.

In due course, the Kim Young Sam administration set forth four administrative reform measures for government agencies. The utmost objective of administrative reform of the Kim Administration was to establish efficient government agencies in the turbulent international environment. Strong political leadership of President Kim allowed the aggressive administrative reform measures to be implemented effectively. Unlike the traditional reform activities, organizational reforms in the Kim Administration could cut back the number of staffs in public agencies and to streamline the government organization.

The most significant administrative reform was the third reform in the series of reform movements, which was enforced abruptly in December 1994. It was the most intensive and far reaching organizational reform in the Kim Administration. President Kim had actually banned discussions of the organizational reform and had secretly prepared a reform plan before its announcement, because bureaucrats could not concentrate on their works for fear of abolishment of their positions.

The main focus of the third reform was to merge the Economic Planning Board and the Ministry of Finance into the Ministry of Finance and Economy and to merge the Ministry of Construction and the Ministry of Transportation into the Ministry of Construction and Transportation. In addition, the Ministry of Trade, Industry, and Energy reshuffled its functions with the Ministry of Information and Telecommunication and with the Ministry of Science and Technology. And the ministry changed its official name in Korean but not in English. The Ministry of Communications was restructured into the Ministry of Information and Telecommunication.

Minor restructuring took place in various ministries. Five minister and vice minister positions, five assistant vice ministership, 26 director positions, and 115 section chief positions were eliminated. Posts for a total number of 1002 civil servants were abolished by the third reform. As a result, it was estimated that the reform could save government expenses up to 35 billion Korean Won annually.

Although the slim organizational structure for efficient public management or privatization of government function seems to be a persistent goal to renovate the government function, the third organizational reform intensified the capability of government in response to rapid changes of international competitiveness. The economic ministries became more consolidated and more powerful in carrying policy instruments to mobilize the private sector. For instance, while the Economic Planning Department in the EPB, which has played a significant role during the rapid economic growth era, was terminated, the newly established Ministry of Finance and Economy is able to hold the massive power of budget allocation along with various economic policies such as financial, monetary, and foreign exchange policies simultaneously.

In addition, in the fourth reform, occurred in February 1996, the Kim Administration restructured the former Office of Industrial Advancement into the Agency of Small and Medium Industry with more enhanced missions. It aimed at promotiing small- and medium-size industries which had been neglected in the period of rapid economic growth, due to the chaebol-oriented economic structure of Korea. In the Ministry of Finance and Economy, the Office of International Cooperation was newly established, and the Department of Economic Policy expanded its functions. The Ministry of Trade, Industry and Energy added up one department to its organization, despite the Agency of Small and Medium Industry was separated from its jurisdiction to an independent organization. The increase of personnel was observed in various ministries including the Ministry of Construction and Transportation, the Ministry of Environment, and the Ministry of Telecommunication among others. The underlying rationale for the expansion of government function in the fourth reform seems to be in response to increasing demands for public services in the turbulent environmental changes of international competition.

Not only the organizational reform, but the procedural reform has been considered as the main policy objective of administrative reform in the Kim Young Sam Administration. The Administrative Innovation Commission (AIC) started to carry out its mission as the advisory organ for the president in April 1993. It concentrated its function on eliminating inefficient bureaucratic procedures. The major objectives of the commission are:

- to renovate the unfair legal ordinances and institutions including deregulation;
- to improve the administrative behavior and custom to facilitate the convenient service of public;
- to innovate the administrative procedures such as licensing and approval;
- to reallocate the functions of public and private sectors;
- to restructure the administrative system and government organization in a rational way;
- to advise the relevant issues to president (Lee, J.-S. 1996: p.77).

While it included the reorganization function in its mission, the major activities of AIC have been concentrated on procedural innovation. During the period of April 1993 to July 1996, AIC received 19,439 issues raised by the public as well as by the government agencies. 13,996 items which had passed through the preliminary examination process were scrutinized in the AIC meetings and 2,259 issues were resolved by way of amending exiting laws and ordinances and of enacting new laws.

The content of the issues resolved in the AIC can be categorized into rationalization of the administrative procedures, deregulation measures, simplification of administrative procedure, change of jurisdiction and others. Among the 1,557 items settled by the AIC, rationalization issue took the lion's share of 1,086 (70.0%). It was followed by simplification of administrative procedures of 190 (12.2%), deregulation issues of 156 (10.0%), change of jurisdiction of 53 (3.4%), even intensifying regulation issues of 42 (2.7%), administrative assistance of 20 (1.3%), and facilitation of competition of 10 (0.6%) (Lee, J.-S. 1996). In short, rationalization and simplification of administrative procedures rather than curtailment of government regulation over the private sector turned out to be significant components of administrative reform processed in AIC.

C. CHANGING PATTERNS OF TRADE POLICY ORIENTATION: TARIFFS, NTBS, TRIMS

The agreement of the Uruguay Round has expedited the process of trade liberalization in Korea. Tariff rates have been reduced gradually, non-tariff barriers including customs procedures have been simplified, and a number of import restrictions have been phased out since 1992. In addition, the Korean government began to change its trade policy orientation from direct export subsidies for individual sectors or targeted industries to indirect policy measures for trade environment such as establishing industrial standards, tax breaks, and concessional interest rates.

Trade liberalization has been developed in accordance with the WTO and the OECD rules and practices. The Korean government attempts to deregulate the domestic economy, to liberalize the foreign direct investment procedures, and to enhance the competitiveness of small- and medium-size enterprises.

1. Tariff Policies

The Korean government has gradually reduced the tariff rate on the average from 24% in 1982 to slightly over 9% in 1996. The tariff rate for industrial products is now around 7.5%, but that of agricultural products is still high up to 19.3%. Among the 10,855 tariff lines, 77.1% falls into the range of 5% to 10% of tariffs, and 11.4% into the range of less than 5% of tariffs.

Tariff rates began to change rapidly since 1992 based on the domestic capacity to adjust to the bindings of the Uruguay Round agreement. For instance, the tariff rates for manufactured products such as iron and steel and furniture, among others, will be reduced to zero within five or ten year period from the resolution. However, the tariff rate for agricultural products has increased sharply from about 10% to 90%. One of the main reasons for the increase of tariff rate for agricultural items is to provide temporary protection for the domestic agricultural market when the government lifted the ban on the imports of agricultural products.

In addition, tariff rates can be adjusted if the Minster of Finance and Economy determines that it is necessary. For instance, retaliatory duties, price stabilization duties, emergency duties, adjustment duties, and tariff quotas can be applied if necessary. However, the retaliatory and price stabilization duties have not been applied yet. Tariff quotas are applied to the 67 groups of agricultural products in Korea. For instance, rice is the most typical agricultural product under an import quota. The amount of rice imports will be increased from 1 percent at present level to 4 percent of domestic consumption over a 10 year period.

2. Non Tariff Barriers

(a) Customs procedures

Even though the tariff rates have been reduced to as low as the level of industrialized countries, Japan and Korea have been criticized as unfair trade partners due to the existence of non tariff barriers. A typical example is customs procedures.

The Korean government has attempted to simplify the customs procedures complying with the amendment of the Customs Act in July 1996. According to the amendment, the custom clearance will not take more than two to three days, much less than the 15 days on the average before. Moreover, earlier, it was necessary for importers to file an application to the customs office in Korea after goods had been stored in a bonded area and duties had been paid to obtain an import permit.

The process has been revised into a less time consuming declaration system. For instance, it abolishes the requirement to store the imported goods in bonded warehouses. The importers can file in advance before the goods arrive. In addition, the customs office installed "the Electronic Data Interchange" type clearance system to process the import clearance.

(b) Licensing requirements

Basically the import restrictions have been abolished by a 1989 agreement, which governed the gradual abolishment of non-automatic import licensing requirements. During the period of 1992 and 1996, 220 agricultural and fisheries products were lifted from the non-automatic import licensing requirements. Restrictions on 73 additional items were lifted in 1997, while eight categories of beef and cattle were still under the non-automatic import licensing requirements, which will be abolished by 2001. During the interim period, the Korean government tried to increase the import quotas and to decrease the tariff rates on them.

In addition, the present licensing system on import and export goods is to be changed from a positive system into a negative system in 1997. Non-automatic licensing requirements will be limited to sensitive items for national security, environment and public health reasons.

Another non tariff barrier is a domestic tax system. The Korean government levies standard value-added tax of 10% since 1992. Some products such as unprocessed foods, books and newspapers are exempted if they are used for domestic purposes. However, some luxurious items are charged by high consumption tax rates. Liquor taxes range from 5 to 150 percent. Excise taxes on automobiles are still high hovering around 10 to 20 percent. Not only the special excise tax, but a number of other related taxes added to the tariff will make the price of foreign automobiles very high (See Table 3). While the Korean government attempts to reduce the heavy charges on indirect taxes, the excise tax is often regarded as a non tariff barrier to be resolved by the trade partners. Sometimes it is even criticized by domestic consumers, because a number of ordinary home appliances such as refrigerator, color T.V., and VTR, Even sugar requires consumers to pay high excise taxes (See Table 4).

(c) Import Diversification Program

The Korean government has set up the import diversification program to resolve the problem of persistent bilateral trade deficit with Japan. In 1993, the program regulated 258 items to be imported from Japan. The regulation by the program has been liberalized: for instance, 28 items in 1994, 43 items in 1995, and 35 items in 1996 were lifted from the import restriction from Japan. It is projected that the program would be phased out by the end of 1999.

Table 3
AUTOMOBILE TAXATION SYSTEM IN 1996

Tax category	Criteria	Rate
Tariff	Passenger cars	8%
Special Excise Tax	Passenger cars over 2,000cc	20%
	1,500cc - 2,000cc	15%
	1,500cc or less	10%
Value-added tax	all vehicles	10%
Acquisition tax	all vehicles	2%
Registration tax	Passenger cars	5%
	Commercial cars	3%
License Tax	Cars valued over KW 70	KW 45,000
	million	KW 36,000
	Over 1,600cc	KW 27,000
	More than 1,400cc	KW 18,000
Annual Vehicle Tax	Less than 1,400cc	KW 370/cc
	Over 3,000cc	KW 310/cc
	2,500cc - 3,000cc	KW 250/cc
	2,000cc - 2,500cc	KW 220/cc
	1,500cc - 2,000cc	KW 160/cc
	1,000cc - 1,500cc	KW 120/cc
	800cc - 1,000cc	KW 100/cc
Education Tax	800cc or less	30% of Special Excise Tax
	All vehicles	20% of Registration Tax
Special Tax for Agriculture		30% of Annual Vehicle Tax
Public Bond	All vehicles	10% and Fishery
	All vehicles	Varies according to sales price and engine size

Source: WTO (1996).

Table 4
CATEGORIES OF EXCISE TAXES IN KOREA, 1992-96
(Unit: %)

	1992-93	1994	1995	1996
CLASS 1				
Slot machines, etc.	60	60	25	20
Golf requisites, etc.	60	60	25	20
Motorboats, yachts	30	30	25	20
Snow- and water-skiing apparatus, etc.	25	25	25	20
Air-conditioners	25	25	25	20
Movie projectors, etc.	25	25	25	20
Projection TVs	30	30	25	20
CLASS 2				
Refrigerators	15-20	15-20	15	15
Electric washing machines	20	10	15	15
Color T.V. sets	15-20	15-20	15	15
VTR	25	20	15	15
Grand pianos	20	20	15	15
Crystal glassware	20	10	15	15
Coffee and cocoa	20	20	15	15
CLASS 3				
Soft drinks	10	10	10	10
Other beverages	10	10	10	10
Nutritional preparations	10	10	10	10
Sugar	10	10	10	10
Cosmetics (specified items)	10	10	10	10
Pianos other than grand piano	10	10	10	10
CLASS 4				
Jewellery	60	60	25	20
Precious metal products	20	20	25	20
Luxury watches	20	20	25	20
Luxury furs and skins	60	60	25	20
Luxury carpets	10-20	10-20	15	15
Luxury furniture	10	10	15	15
CLASS 5				
Passenger automobiles				
800cc - 1,500cc	10	10	10	10
1,500cc - 2,000cc	15	15	15	15
2,000cc and above	25	25	25	20
Kerosene	10	10	10	KW 17/l
Liquidified natural gas	10	10	10	KW 14/kg
Liquidified petroleum gas	10	10	10	KW 14/kg
Gasoline	100	100	150	KW 345/l
Diesel oil	10	20	20	KW 40/l

Source: WTO (1996).

3. Trade Related Investment Measures

The Korean government has attempted to attract foreign direct investment in order to overcome domestic resource constraints and to facilitate technology transfer. However, foreign investors have been reluctant to invest in Korea due to a number of FDI-related barriers such as high cost and necessity of industrial plant sites, difficulty in access to proper information, residential restrictions on foreigners including restrictions on residential period, limitation on access to bank loans and credit cards, and labor disputes and high wage levels.

Various promotion measures to attract foreign direct investment have been implemented in Korea. First, simplified administrative procedures and even "one-stop" service system have been adopted by the Korean government to induce foreign investment. For instance, a prior approval required to foreign investment is replaced with a notification in a certain liberalized sectors. Particularly, the foreign exchange banks have been allowed to receive foreign investment notification since 1994. In due course, the administrative procedures for imports were streamlined from 20-30 days to several hours. In the case of investment approval, the processing period has been reduced from a month to 5 days, which will be extended to 15 days only if interministrial consultation is required.

Second, the Foreign Direct Investment Liberalization Plan was established in 1996, which is a follow-up plan of the previous plans such as the Five Year Foreign Investment Liberalization Plan in 1993, the 1994 Reform Plan for the Improvement in the Foreign Investment Environment, and the 1995 Five Year Liberalization Plan for Foreign Direct Investment. Under the new plan, the government committed to increase the average liberalization rate to over 98 percent by the year 2000. In 1995, among the 1,148 possible business fields, 107 were under full restriction from foreign investment, which accounted for 90.7% liberalization rate. The Korean government proposed the schedule up to 98.4% liberalization rate in the year 2000, in which only 18 business will be under full restriction. In short, the liberalization rate in 2000 will be 95.6% in agriculture, fisheries and mining industry, 99.8% in manufacturing industry, and 97.2% in service industry. In addition, 26 businesses will be partially restricted from foreign investment after the year 2000.

The completely restricted sectors after the year 2000 are as follows:

- growing cereal grains;
- inshore fishing;
- coastal fishing;
- manufacturing tobacco products;
- collection, purification, and distribution of water;
- wholesaling of meat;
- supporting air transport activities;
- other credit granting;
- stable-fund management companies;
- medical care insurance;
- workman's accident compensation insurance and other social security insurance;

- commodity exchanges;
- rental of real estate;
- land development;
- radio broadcasting;
- television broadcasting;
- horse racing track and similar stadium operation;
- gambling.

26 business sectors will be partially liberalized after the year 2000 as follows:

- cattle farming;
- biological product manufacturing;
- publishing books, brochures, musical books, and other publications;
- publishing newspapers;
- publishing periodicals;
- electric power generation;
- coastal water passenger transport;
- coastal water freight transport;
- sea and coastal water transport;
- scheduled air transport;
- non-scheduled air transport;
- wire telegraph and telephone;
- wireless telegraph and telephone;
- telecommunications;
- domestic banking;
- investment companies and investment trust;
- securities dealing activities;
- other activities auxiliary to financial intermediation;
- rental of residential buildings;
- rental of non-residential buildings;
- subdividing residential buildings;
- subdividing non-residential buildings;
- credit rating services;
- golf course operation;
- wire broadcasting;
- news agency activities.

Third, based on the trade liberalization policy orientation, deregulation measures have been widely applied to foreign direct investment in Korea. The FDI system has been restructured in accordance with the OECD and the WTO standards. A number of acts have been amended since 1995. For instance, in the Foreign Capital Inducement Act amended in 1997, the following measures are permitted: approval of FDI involving friendly mergers and acquisitions; consolidation of FDI concept (i.e., classification of FDI-related long-term loans together with FDI); abolition of approval system for foreign investment and replacement with notification system for 43 businesses; and simplification of post-screening procedures for foreign investment, including notification requirements related to share acquisitions or changes in share ownership. Based on the amendment of Regulation of Foreign Investment, streamlining of the tax reduction and exemption process for FIEs, including reduction of processing periods, and abolition of unreasonable restrictions on foreign investors subject to tax reduction and exemption have been implemented since 1995.

Fourth, the Korean government has provided various incentive measures for foreign direct investment. For the outward foreign direct investment, the government has reduced the number of restricted industries and simplified the administrative procedures. For the inward foreign direct investment, the government has provided tax exemptions, created industrial parks to attract foreign enterprises, established a task force on labor disputes, strict enforcement of intellectual property rights, and extension of foreign residential period. For instance, the tax exemption is applicable to the high technology businesses, in which corporation and business tax is exempted for five years and deducted by 50% for the following three years as well. Newly developed industrial cites, the Kwangju Pyongdong Industrial Estate and the Chonan Industrial Estate, have been reserved for the use of foreign invested and joint ventured high technology enterprises, where long-term and low rate lease for factory sites are available.

D. MODIFICATION OF TRADE AND INDUSTRIAL POLICY LEGISLATION

The Korean government has advanced the massive modification of legal measures in accordance with the WTO rule and ordinances. After the conclusion of the Uruguay Round in December 1993, 13 agreements related to merchandise trading, agreement on service trade, and on intellectual property rights have been under examination in various related ministries. The Korean government enacted or amended 22 acts including the Customs Act and the Foodgrain Management Act in order to enhance competitiveness of the Korean economy and to abide by the UR agreements before 1994.

In 1995, the revision and modification of trade related acts went ahead, based on "the Agenda to Implement the Follow-Up Measures of the WTO Initiation". Twenty-seven Acts including the Intellectual Property Act were amended and enacted and the related rules and ordinances were reformulated.

Amendment of existing trade-related acts were implemented with two policy objectives. One is related to comply with the WTO agreements, and the other is related to enhance the capacity of competitiveness. Eleven acts for the WTO agreements and eleven acts for competitiveness were amended in 1994. Fourteen acts for the WTO agreements and thirteen acts for competitiveness were amended in 1995 as well. Five more acts were under revision in 1996. Major revision measures were carried into effect in the following ways.

1. Revision in compliance with the WTO agreements

In 1994, eleven Acts were amended. In agricultural sectors ten amendments were made: the Customs Act; the Agricultural and Fisheries Marketing and Price Stabilization Act; the Feed Grain Management Act; the Forest Law; the Foodgrain Management Act; the Ginseng Business Act; the Seedlings Management Act; the Major Agricultural Crop Seed Act; the Sericulture Law; and the Livestock Farming Act. In manufacturing and service sectors, one amendment was made: the Foreign Trade Act.

In 1995, forteen Acts were amended. In agricultural sectors five amendments were made: the Agrochemical Management Act; the Protection of Livestock Contagion Act; the Plant Protection Act; the Food Sanitation Act; and the Seed Industry Law. In manufacturing and service sectors, nine amendments were made: the Architect Law; the Customs Act; the Act Relating to Contracts to which the State is a Party; the Act related to the Array Design for Semiconductor Integrated Circuit; the Trademark Act; the Tax Accountant Act; the Intellectual Property Act; the Computer Program Protection Act; and the Patent Law.

In addition, three acts have been under review for amendment since 1996: the Act Related to the Research and Development for Information and Telecommunication; the Regulation of Tax Exemption Act; and the Marine Industry Promotion Act.

2. Revision for Enhancement of Competitiveness

In 1994, eleven Acts were amended. In agricultural sectors nine amendments were made: the Special Measure Act for Agriculture and Fisheries Development; the Act for Improving Agricultural and Fishery Areas, the Act for the Public Corporation of Promoting Agriculture and Fisheries and Management Fund for Farming Estates; the Act for Promoting Farming Mechanization; the Act for Agricultural Cooperative Association; the Farmland Act; the Act for Fishery Cooperative Association; the Act for Forest Cooperative Association; and the Act for Livestock Cooperative Association. In manufacturing and service sectors, two amendments were made: the Act of Infrastructure Formation for Industrial and Energy Technology; and the Act for Promotion and Product Purchase of Small and Medium Industry.

In 1995, thirteen Acts were amended. In agricultural sectors, two amendments were made: the Fertilizer Management Act; and the Farmland Improvement Cooperative Association Act. In manufacturing and service sectors, 11 amendments were made: the Act for Mutual Aid Association of Construction; the Industry Development Act; the Special Measure Act for Deregulation of Business Activities; the New Device and Design for Practical Use Act; the Artistic Design Act; the Fundamental Law for Small and Medium Enterprises; the Law for Protecting the Business Domain of Small and Medium Industry and Promotion of Inter-Business Cooperation; the Act of Foundation Support for Small and Medium Enterprise; the Act of Promotion for Retail and Whole Sale Industry; the Marine Act; and the Port Act.

In addition, two acts have been under review for amendment since 1996: the Basic Law for Construction Industry and the Act of Promotion for Dairy Industry.

If we examine the content of the amendment, the following changes can be identified in import-related technical and procedural requirements by ministries since 1992.

(a) <u>Ministry of Trade, Industry and Energy</u>

- Items subject to safety inspection under the Quality Management Promotion Act: 3 items were added and 4 items were removed (1992-93).

- Items subject to approval or reporting under the Electric Appliances Safety Control Act: 20 items added and 85 items removed for model and type approval; 84 items added and 61 items removed for import report (1992-96).

(b) <u>Ministry of Agriculture, Forestry and Fisheries</u>

- Revision of the Agrochemicals Management Law: approval requirement replaced by registration requirement for manufacturing or import business.

- Revision of the Plant Protection Act: introduced the concepts of "Quarantine Pest" and "Pest Risk Analysis".

- Revision of the Major Agricultural Crop Seeds Act: requirement for import recommendation replaced by import report (1995).

- The Seedlings Management Act: abolished import eligibility restriction (1995).

- Livestock Act: requirement for import recommendation replaced by import report (1994).

- Pharmaceutical Act: import recommendation of veterinary medicine was replaced by import report (1995).

(c) <u>National Forestry Administration</u>

- Introduced measures concerning endangered wildlife species regulated under CITES (1993).

(d) <u>National Fisheries Administration</u>

- Validation required for blue-fin tuna statistical documentation.

(e) **Ministry of Finance and Economy**

- Ginseng Business Act: scheduled to be abolished in July 1996.

(f) **Ministry of Health and Welfare**

- Food Sanitation Act: introduced expedited clearance system, pre-report system and the Hazard Analysis Critical Control Point; decreased range of food products subject to laboratory tests.

(g) **Ministry of Labor**

- Harmful of hazardous machinery and equipment: excluded air press vessels (1994).

- Protective equipment: added air masks and heat radiation clothes (1995).

(h) **Ministry of Culture and Sports**

- Act Relating to Import and Distribution of Foreign Publications: electronic publications were included (1993).

IV. CHANGES OF POLICY INSTRUMENTS UNDER THE WTO REGIME

A. DEREGULATION MEASURES UNDER THE WTO REGIME

Until the early 1990s, Korea had implemented a wide range of direct and indirect industrial policy measures to foster the national industry. Deregulation measures have been widely sought for by the Korean government since then. Before reviewing the changing patterns of policy instrument, it is necessary to review the government attempts on deregulation in Korea. A summary of deregulation efforts made by the Korean government is as follows (WTO, 1996).

1. Finance

Various regulations covering transactions have been eased, including partial deregulation of interest rates. Financial institutions are given greater autonomy over their fund operations, personnel, organizational management, and the scope of business.

2. Land management and factory establishment

Regulations have been eased on the use and development of land to enable companies to freely conduct business activities if balance in land development is not affected. Procedures for setting up factories will be streamlined. For example, the procedures for 13 types of approval and 26 permits are by-passed.

3. Export

Regulation on imports have been eased, including type-approval testing of imported electric and electronic goods. Import trade agency businesses can now be established by simply notifying the relevant authority. The average period during which imported products remain at the port of entry has been reduced from 15 to 2-3 days. The post-duty payment system, which allows importers to pay customs duties after customs clearance, was expanded. Ex-post faster customs clearance has been achieved through electronic data interchange.

4. Distribution and logistics

In the distribution industry, deregulation has expedited the establishment of sales and logistics facilities, financing, and business activities. In the area of logistics, substantial deregulation has facilitated distribution, maintenance and loading of cargos.

5. Environment and industrial safety

Environment and industrial safety regulations and administrative procedures have been simplified or converted to ex-post management, and legal employment requirements were eased.

6. Type approval for industrial products

Ex-ante regulations have been converted to ex-post regulations, dual restriction has been abolished, and harmonization with international standards is being pursued. These changes are to ensure that type approval on the structure, function, and performance of manufactured goods will focus exclusively on consumer safety and public interest, and that approval requirements do not hinder production activities or create barriers to imports.

7. Competition-related elements in laws

Regulations and practices which restrict competition have been abolished or revised to promote freer competition among companies, enhance the international competitiveness of domestic firms, contribute to consumer welfare and expand liberalization.

8. Foreign investment

Many restrictions of foreign investment will be eased or abolished with a view to enhancing international competitiveness by strengthening industrial structure, promoting consumer welfare and attracting advanced technology.

9. Energy and resources

Restrictions on the distance between gas stations will be abolished. Restrictions on sales prices of domestic oil products was gradually lifted from 1997. The approval system for exporting and importing oil will be abolished. The current approval system for entering the oil refining and sales business will be converted to a registration system.

B. DIRECT AND INDIRECT POLICY INSTRUMENTS

Direct and indirect measures for export promotion as well as for protecting domestic markets are still being implemented in Korea. However, most measures are under the scrutinizing review in accordance with the WTO rules and the OECD guidelines. The pre-existing direct export promotion measures have been reduced since the early 1990s. Instead, the indirect and market assisting measures have replaced them.

1. Export subsidies

The Korean government does not resort to any direct export subsidy at the moment. Only exceptions for export subsidy along with tax concessions are reserves for export losses and reserves for overseas market development, which was notified to the WTO Committee on Subsidies and Countervailing Measures.

Instead, more indirect assistance is applied to export promotion such as post-shipment export loans, export related tax-free reserves, and preferential access to export credit.

Major restructuring of the export promotion system has focused on the abolition of export subsidies. WTO regulates the government subsidies for export promotion and import restrictions. Its definition of government subsidy is to subsidize exporters based on the export performance and to subsidize domestic manufacturers for using domestic products instead of imported goods. In Korea, since five programs fall into this category, the Task Force for Revising the Industry Assistance System and the Presidential Committee for Promotion of Segyehwa (Globalization) proposed to revise the programs as follows:

- Export subsidy of 700 won for US$1 export performance for small- and medium-size firms and of 400 won for US$1 export performance for big corporations except chaebols, under the Program of Subsidy for Facility Investment, was eliminated in December 1996 by the Ministry of Trade, Industry and Energy.

- Allowance of reserve fund for the export loss as expenses, under the Program of Export Loss Reservation, is to be abolished by the end of 1998 by the Ministry of Finance and Economy.

- Allowance of reserve fund for the developing foreign markets as expenses, under the Program of Foreign Market Development Reservation, is to be abolished by the end of 1998 by the Ministry of Finance and Economy.

- Different tax rate application, between 3-5%, to domestic and foreign products for facility investment to improve productivity and rationalization, under the Tax Deduction System for Facility Investment, has to be adjusted to apply the same rate regardless of the origines of products, by the end of 1998 by the Ministry of Finance and Economy.

- Subsidy for purchasing domestic main-frame computer, under the Program of Promotion of Domestic Main Frame Computer from the Promotion Fund for Information and Telecommunication, it to be eliminated by the end of 1997 by the Ministry of Information and Telecommunication.

2. Export financing and insurance

Export financing consists of such programs as post-shipment export loans, tax-free reserves, and export credits. For instance, the ceilings of certain loan periods were increased in

1992 and the loan periods were adjusted in accordance with the OECD Guidelines for Officially Supported Export Credit. In addition, the Korea Export Insurance Corporation, established in 1992, has provided the export insurance and overseas investment insurance. The deficits exceeding the Corporation's reserve fund is subsidized by the government budget.

The post-shipment export loans have increased from 700 billion won in 1992 to 1.3 trillion won in 1995. However, the share of export loans in the domestic loans has decreased from 1.9% in 1992 to 1.5% in 1995. Meanwhile, the export insurance coverage has increased from 3.2% of the value of total exports and foreign construction projects in 1992 to 11.3% in 1995.

However, the overall government financing assistance has been reduced rapidly. Substantial share of private sector credit has decreased since 1990. The total share of private sector credit consisted of 39% of total bank credit in 1985, which sharply decreased to 26% in 1991 and even to 19% in 1995. It is more conspicuous in the industrial loans. Industrial loans took the lion's share, i.e., 31% of the total bank loans in 1985, but rapidly decreased to 18% in 1990 and 12% in 1995. In short, while the government's assistance to industrial financing has declined, assistance for agriculture, coal mining, and housing has increased.

3. Indirect export promotion and import restriction

A variety of indirect export promotion and import restriction measures are employed by the Korean government. For instance, trade information collection and consultation is conducted by the Korea Trade-Investment Promotion Agency.

In addition, fourteen items are under export restraints mainly due to environmental reasons. Due to security and to protection of intellectual property rights, the government regulates the exports as well.

Korea has followed the Tokyo Round Agreements on Anti-Dumping and on Subsidies and Countervailing Measures in 1986. In addition, the Korean government has changed the domestic rules in accordance with the Uruguay Round agreement. Based on the amended Foreign Trade Act and the Customs Act, the decision period for opening investigation has been reduced from 90 days to 30 days, and the rendering period of final decision has been reduced from 90 days to 30 days as well.

The Korean Trade Commission investigates the anti-dumping charges. 10 anti-dumping cases were investigated during the period of 1992 to 1995. Five of them were charged as definitive duty, three cases were found as no injury, and two cases were withdrawn.

Safeguard measures were taken by the Korean government under the WTO Agreements on Safeguards. Recently, Korea has notified its safeguard provisions such as suspending imports, promoting purchase agreements between domestic manufacturers and users, and encouraging adjustment talks between foreign exporters and domestic manufacturers requesting protection.

Two cases of Chinese imports were notified as import licensing requirement needed. For five cases, the Korean government decided to increase tariff temporarily since the early 1990s. In addition, seven petitions for adjustment relief have been filed. Among them, four petitions were withdrawn, one resulted in a negative determination, and two received an affirmative determination.

C. NEWLY CONSIDERED SECTORS: TECHNOLOGY, INFRASTRUCTURE, AND SMES

1. Technology

The Korean government understands that technological innovation is the key element for sustaining economic growth. To promote the private R&D, the government has designed a variety of support measures and incentive systems since the early 1970s.

The government R&D efforts have been too ambitious to be fulfilled in Korea. The Ministry of Science and Technology planned that Korean would be among the G-7 countries in science and technology and that the government would increase the R&D spending up to 3.5% of GDP by 1995. Even though the government effort has been somewhat too ambitious, its role of guiding the private sector to engage in R&D has been enormous. Numbers of research institutes and unions have been growing rapidly during the 1990s (See Table 5).

Table 5
RESEARCH INSTITUTES AND RESEARCH UNIONS IN THE PRIVATE SECTOR
(Unit: number, person)

	1989	1990	1991	1992	1993	1994	1995
Research Institutes	749	966	1,201	1,435	1,690	1,980	2,270
(Researchers)	22,056	26,851	30,469	38,643	43,872	60,330	63,037
Research Unions	50	54	64	68	65	57	63
(Participating Firms)	1,102	1,181	1,415	1,460	1,279	1,236	1,346

The Ministry of Science and Technology has provided tax incentives for the private R&D. For instance, private firms that reserve funds for technology development, technical information, R&D manpower and facilities, and others are given tax deduction for three years. The maximum tax deductible reserve is 5% of total sales. In addition, they may take advantage of tax deduction of up to 15% of their total expenditures on training and in-house technical college. Another 10% of their investments for research facilities is allowed for tax deduction. And the total investment for research and test facilities can be depreciated at the rate of 90% a year.

Financial supports for R&D consist of government subsidy, support by public corporations, by banks, and by venture capital institutions. The government provides up to 50% of the total R&D expenditures when private firms get involved in the national R&D projects. The Korea Electric Power Corporation and the Korea Telecommunication Corporation provide financial support for the R&D activities of related industrial R&D organizations with their 80% of R&D investment. The Korea Development Bank, the Citizens National Bank, and the Industrial Bank of Korea extend their loan programs to the R&D activities of the private sector. Long-term loans with low interest rates are provided to the private R&D for technology development for new products and process technology development, and the commercialization of new technologies. In addition, the Korea Technology Banking Corporation has played a complementary role to bank loans. Its financial support consists of equity investments, debenture purchases, conditional loans, technology development loans, leasing and factoring services.

Government has launched a series of the national R&D projects including G-7 project, HAN project, the Strategic National R&D Project, and International Cooperative Project. During the period of 1982 to 1995, the Korean government invested US$1.4 billion and the industry invested US$1.2 billion for these national R&D projects.

Table 6
GOVERNMENT FUND FOR INDUSTRIAL R&D, 1991-96
(Unit billion won)

	1991	1992	1993	1994	1995	1996
Industry Development Fund						
Prototype development	32.5	39.0	60.0	106.5	130.0	200.0
Industrial high-tech development	52.0	52.0	40.0	52.0	54.5	54.5
TOTAL	84.5	91.0	100.0	158.4	184.5	254.5
Industrial Generic Technology Development	71.2	72.7	88.7	141.0	188.8	232.3

Recently, the government changed its R&D support measures into a so-called Project Based System (PBS) to facilitate efficient management of the national R&D projects. It means that the government R&D laboratories and their researchers can not receive the government R&D funds automatically. The minimal maintenance expenses for the operation of institutions will be provided by the government budgets. But they should apply for the R&D funds from the government, which will be provided based on the evaluation of research proposals and of previous performances. Thus, the government makes the public research institutions compete with the private R&D organizations including universities for receiving government R&D funds.

More indirect R&D support can be found in the activities of information service, standardization, protection of intellectual property rights, improvement of procurement system, and establishment of collaborative R&D among industry, university, and government research institutions. The Korean government, mostly the Ministry of Science and Technology, has put strong emphasis on facilitating R&D activities in the private sectors. For instance, it has encouraged the R&D activities for industrial technology with various incentive measures such as awarding the Chang Young-Sil 52 prizes every week. The Ministry of Science and Technology announces the most notable industrial technology among the industrial researchers, and awards a prize and provides other incentives for the corporation with which the researchers are affiliated.

2. Infrastructure

A variety of policy measures for establishing infrastructure are employed to increase national competitiveness in the long run by the Korean government. Since the only abundant resources in Korea, which is in need of other natural resources, is the human capital, the Korean government has put a great emphasis on the human resource development program along with the R&D activities. Moreover, the government begins to turn its interest in the R&D activities of the small- and medium-size firms. Until recently, the industrial R&D was conducted mostly by the R&D organizations affiliated with *chaebols*. Thus, the government set out promotion programs for R&D infrastructure.

If we compare the amount of industrial infrastructure promotion programs between 1995 and 1996, the government objective to lay out the infrastructure for R&D and for human resource development can be easily noticed (See Table 7). Human resource development program was increased to almost five times in 1996 compared to the previous year. The total amount of infrastructure program shows 37.5 billion won in 1996, which was almost four times increase of the amount in 1995.

Table 7
INDUSTRIAL INFRASTRUCTURE PROMOTION PROGRAM
(Unit: million won)

	1995	1996
Human resource development	3,000	14,700
Dissemination of technology information	300	300
Expansion of R&D facilities	4,000	9,500
Reinforcement of international technology co-operation base	600	150
Technical support for SMEs	1,000	11,300
Promotion of technical industrial standardization	600	1,400
TOTAL	9,500	37,350

3. Small- and Medium-size Enterprises

In order to enhance the competitiveness in the world market, the Korean government endeavors to promote small- and medium-size enterprises. First of all, concentration of the economic power on *chaebols* needs to be resolved by the Korean Fair Trade Commission (KFTC). In the administrative reform of 1994, the status of the Korean Fair Trade Commission became upgraded. The administrative status of its chairman became to move up to the ministerial level. The KFTC announces an annual list of market dominating firms. If an industrial firm occupies more than 50% of market share or if top three companies in the industry dominate more than 75% of market share, the enterprises are designated as a market dominating firm. 332 firms in 1994 and 316 firms in 1995 were designated as the market dominating firms.

To promote the small- and medium-size firms, the Korean government has provided not the direct government subsidies but the indirect assistance measures such as tax breaks and reduced interest loans for the start-up SMEs. President Kim upgraded the Agency of Small and Medium Industry from the Office of Industrial Advancement in February 1996. The agency began to provide technical advice, assistance in labor supply, financial support, preferential procurement of products developed in SMEs, marketing and distribution of products.

Recently, the agency identified "problem areas" of in small- and medium-size enterprises as follows:

(a) Lack of R&D fund:

- Due to the high cost of investment for R&D with the low ROI (return on investment), the SMEs avoid R&D investment.

- Since the government R&D programs are operated in a loan based system, regardless of firm size, the SMEs cannot utilize the programs effectively.

(b) Lack of R&D personnel:

- Due to the preference of the talented R&D personnel to big business, the SMEs suffer from the lack of necessary R&D personnel. In 1995, it was reported that the rate of lack of R&D personnel was 21.8%.

- Until recently, the government labor policy for SMEs focused on technicians rather than R&D staffs.

(c) Problems of marketing:

- In spite of their high quality, the products of the SMEs are seldom sold in the market due to the lack of marketing capability.

(d) Weak research cooperation:

- In the industrialized countries, research cooperation among government research institutions, universities, SMEs is well developed. However, since the collaborative R&D in Korea is in the early stage, the technology transfer from government research institutions and from universities to SMEs is hardly obtained.

In order to resolve the problems in promoting them, the Korean government has developed a number of promoting measures for small- and medium-size enterprises. First, to promote the SMEs more effectively, the Rural Development Fund was integrated into the Special Budget for the Structural Improvement of Rural Areas in 1994. In addition, the Industrial Development Fund has been changed into the Industrial Foundation Fund, and the Structural Adjustment Fund for Small- and Medium-size Enterprises were replaced by the Small- and Medium-size Enterprises Start-Up and Promotion Fund.

Second, while the special depreciation clause and the temporary tax credit for new investment were abolished, the agency began to focus on improving conditions for investment, quality enhancement, and R&D activities. Main schemes for promotion policy lie in financing. The government provides the fund for improving the structure of small- and medium-size enterprises and for promoting rural small and medium enterprises. Special loan programs are prepared for the technology oriented SMEs. Without security for loan such as land mortgage, small and medium firms hardly get loan from commercial banks. The Ministry of Trade, Industry and Energy and the Ministry of Science and Technology established a technology security system for loans. In this program, government guarantees the loan at 10% interest rate for one year deferment and three year repayment in case that a SME is evaluated to have a qualified technology.

Third, preferential procurement policy for SMEs, incentive systems for human development and attraction of talented personnel for SMEs, tax reduction for R&D activities are provided by the government. In particular, stock option system and special exemption for military service in SMEs are effective measures to attract talented and qualified personnel to SMEs.

V. INSTITUTIONS AND ACTORS IN THE POLICY MAKING PROCESS OF INDUSTRIAL AND TRADE POLICIES

A. GOVERNMENT AGENCIES

The decision making structure in trade related policies is composed of various levels of adjustment process among committees and councils, ministries, presidential office, non-governmental agencies, and representatives from the private sector. Generally speaking, trade issues consist of preparing general policy orientations, adjusting domestic acts in accordance with international trade rules, coordinating trade policy with other domestic policies, resolving trade conflicts with trading partners, among others. Thus, various government agencies take part in the policy making structure.

In Korea, the most significant and politically sensitive issues are coordinated in the Presidential Office. Related to the trade policy issues, Principal Secretary of Economic Affairs to President has the authority to coordinate the inter-ministerial conflicts and to have the ultimate decision authority on behalf of President. However, the role of Principal Secretary of Economic Affairs has not been conspicuous in trade issues because they are not politically sensitive in terms of coordination of domestic conflict of interest.

State Council and Economic Ministers' Council have the official authority to coordinate the trade policy related issues. However, the role of State Council on the trade issues has been minimal and nominal. Instead, the close consultation between the Economic Ministers' Council and the Economic Vice Ministers' Council has been more effective and practical. However, the Economic Ministers' Council will not take responsibility of policy coordination in economic issues any more. Newly elected President Kim Dae-jung recently established a new committee, called the Conference on Economic Activities, which resembles the National Economic Council in the U.S.. According to the Presidential Office, President Kim will preside over economic meetings including the Conference on Economic Activities in order to directly review the economic situation and to discuss ways to promote trade and foreign investment.

The conference consists of around 15 members including Prime Minister, ministers of economic bureaus, the Governor of the Bank of Korea, the Chairman of Planning and Budget Office, and the Chairman of Financial Supervisory Board, the Principal Secretaries of President on Economic Affairs, on Policy Planning, and on Social Welfare, Spokesman of President, two civilian members designated by President. Since President Kim Dae-jung has a keen interest in the trade issue, he will preside over five different economic conferences. For instance, President Kim will preside over a quarterly meeting to promote trade and investment on March 27, 1998 at the KOEX building where about 100 government officials, exporters, officers of investment promotion organizations will be attending.

The official coordinating organization for international trade issues was the International Economic Policy Coordination Committee, which was established in 1986. The committee was located under the administrative jurisdiction of the Ministry of Finance and Economy, and its minister presided the meeting. Members of the committee consisted of less than 20 ministers of the trade related ministries, including the Ministry of Foreign Affairs, the Ministry of Trade, Industry and Energy, the Ministry of Agriculture, the Ministry of Environment, among others. The committee deliberated the following policy issues of trade and international economic affairs: coordination of international economic policies; coordination of major policies related to government strategies of international cooperation, international liberalization, and investment in foreign markets; setting up discussion agendas and coordinating principles for the Summit meetings; coordination of basic policy stance related to the bilateral and multilateral issues on international trade; and coordination of public information activities related to international economic affairs.

At the ministerial level, the Ministry of Foreign Affairs, the Ministry of Trade, Industry, and Energy, and the Ministry of Finance and Economy have been the major ministries to prepare the trade policy orientation, to participate in the international meetings, and to resolve trade disputes. The International Trade Bureau in the Ministry of Foreign Affairs, the International Trade Office in the Ministry of Trade, Industry and Energy, and the Commissioner of International Cooperation and the Bureau of International Economy in the Ministry of Finance and Economy have been the major administrative agency which take charge of international trade issues.

The Kim Dae-jung Administration sets out a government organization reform, in which the jurisdiction of trade administration is concentrated under the newly established Ministry of Foreign Affairs and Trade. In addition, a new government agency for trade negotiation has been established. A Korean version of USTR, the Korean Trade Representatives will have the centralized authority for the trade negotiations under Prime Minister. The head of the Korean Trade Representatives will take the chairmanship of the newly established Committee of Trade Policy Coordination, which will take the official responsibility to coordinate administrative conflicts on trade issues. If a certain policy on trade issues is not sufficiently coordinated, it will be reviewed and determined in the Conference on Economic Activities presided by President Kim.

B. NON-GOVERNMENTAL ORGANIZATIONS

Not only the government organizations but also non-government organizations such as industrial associations and the government-affiliate agencies such as the Korea Trade-Investment Promotion Agency (KOTRA) also play significant parts in the policy making and implementing process. For instance, the KOTRA provides the exporters with collected information on trade and industry and with the analysis of the relevant data for them. The industrial associations and business groups propose policy agendas related to international trade and actively participate in the policy formulation process by way of the committee activities.

The most influential industrial organization in Korea is the Korean Federation of Industry (KFI), whose membership consists of major *chaebol* owners. The KFI not only facilitates the relationship among member firms and between the government and business, but also runs research organization to develop policy agenda. In addition, individual firms, particularly general trading companies, are the major interest groups in the policy making structure of trade policy. Research institutions of the government and of the private sector also provide the trade policy-related information and analyze the international economic statistics. The Korea Development Institution, the Korea Industrial and Economic Institution, and the Korea Institute of International Economic Policy are the major governmental research organizations for trade policy.

VI. INDUSTRIAL AND TRADE POLICIES OF KOREA UNDER THE IMF SYSTEM

The economic crisis of Korea, mainly caused by the foreign exchange crisis in December 1997, as well as the inauguration of the Kim Dae-jung administration have accelerated the liberalization pace of economic reform measures in Korea. In his inauguration speech on the 25th of February in 1998, the nation's 15th president, Kim Dae-jung, addressed that to cure the ailing Korean economy under the IMF bailout program, the government would introduce democracy and free competition to the domestic market. Major economic reforms, on which the new administration appeared to concentrate, are the aggressive or intervening but market conforming measures. Five major objectives are identified in the new government: (1) the commodity price stabilization; (2) sweeping reforms of *chaebols* and active support for small businesses; (3) export promotion and improvement in the current account balance; (4) inducement of foreign capital; and (5) a hike in incomes of farmers and fishermen (Korea Herald, February 26, 1998).

The Korean government has accelerated its attempts to reform economic policies to a massive scale since December 1997. A number of economic reform policies, which had been prolonged to be implemented due to the conflicts of interest, have been executed immediately. The major targets of IMF program have focused on the reform of the banking system, liberalization of foreign investment including mergers and acquisitions, structural reform of *chaebols* or large conglomerates, revision of accounting and auditing standards, as well as lifting import restrictions. For instance, 13 bills dealing with financial reforms, including The Bank of Korea Act and a bill establishing consolidated financial supervisory institution, were passed on December 29, 1997. The emergent economic measures included the opening the short term credit market, liquidating financially troubled commercial banks, and allowing mergers and acquisitions by foreign capitals. In addition, the IMF intervened not only in the policy schemes in financial sectors but in the trade liberalization, labor market reform, and corporate governance. In short, the Korean government has faced the unprecedented changes of its economic policy orientation to a greater extent under the IMF bailout program. Upon this wide range adjustment recommendation made by the IMF, the Korean government could not help but accept the IMF arrangement in order to escape from the immediate foreign exchange disaster and to avoid the continuing economic crisis.

A. MACRO ECONOMIC POLICY UNDER IMF SYSTEM

On December 5, 1997, upon the abrupt advent of foreign exchange turmoil, the Korean government and the IMF agreed to set up an agreement for economic reform and prepared an original plan of economic adjustment program. It conveyed the major economic objectives to narrow the external current account deficit to below 1% of GDP in 1998 and 1999, to contain inflation rate at or below 5%, and to limit the deceleration in real GDP growth to about 3% in 1998. Monetary policy was tightly controlled to avoid inflation. The large liquidity injection needed to be interrupted and the call rate was raised from 12.5% on December 1 to 21% on December 5, 1997. Money supply would be limited to a rate consistent with containing inflation at 5% or less. A flexible exchange rate policy and tight fiscal policy would be maintained.

In order to achieve a budget balance, the fiscal policies needed include the following measures:

- increasing Value-added Tax coverage and removing exemptions;
- widening the corporate tax base by reducing exemptions and certain tax incentives;
- widening the income tax base by reducing exemptions and deductions;
- increasing excises, luxury taxes, and transportation tax;
- reducing current expenditures, particularly support to the corporate sector; and
- reducing low-priority capital expenditures.

The original plan negotiated between the IMF and the government was amended on January 14, 1998. For instance, the economic growth rate in 1998 was revised from the initial 3% to 1-2%. The inflation rate was adjusted from the initial 5% to 9%. In addition, the 1998 budget cut of 8 trillion won was proposed in the special session of the National Assembly in February 1998. The budget proposal included the freeze on salaries of government employees, a 10% cut of proposed administrative expenses and a 7 trillion won cut in project expenses.

B. STRUCTURAL ADJUSTMENT OF FINANCIAL SECTORS

The IMF and other western observers as well as the Korean government share their views of inefficiency of Korean commercial banks. The reform measures include the revision of the Bank of Korea Act, restruction and recapitalization of financially troubled commercial banks, and assessment of rehabilitation plans of merchant banks. For instance, the government already suspended 9 insolvent merchant banks on December 2, 1997.

1. Restructure of Merchant Banks

For merchant banks, the Korean government established the Evaluation Committee for Merchant Banks in December 29, 1997, which is now in process of assessing the rehabilitation of all merchant banks. Based on its assessment of rehabilitation plan, the committee recommended revocation of licenses of 10 suspended merchant banks. Upon its recommendation, the government ordered closure of these banks on February 17, 1998. The assessment of the remaining 20 merchant banks are scheduled to be completed by the early March, 1998. The evaluation will involve due diligence analysis and assessment of rehabilitation plans based on criteria regarding liquidity, asset quality, and management capability. If the evaluation result is not satisfactory, the government will suspend their operations immediately and will revoke their licenses by April 30, 1998. On the other hand, if the rehabilitation plan is approved, the banks will enter into a managerial contract with the supervisory authority that will include a timetable to achieve capital adequacy ratio of 4% by the end of March 1998, 6% by the end of June 1998, and 8% by June 1999.

2. Restructure of Commercial Banks

For commercial banks, the Korean government already recapitalized two most poorly managed banks, the Korea First Bank and the Seoul Bank. The government is scheduled to appoint outside experts to assist the Privatization Committee to develop a privatization strategy for the Korea First Bank and the Seoul Bank and to select a leading manager for privatizing the banks by the end of March, 1998. Obtain bids for these two banks are also scheduled to be made by November 15, 1998.

Not only these two banks but the remaining commercial banks are required to submit their recapitalization and rehabilitation plans to the government. The Korean government recently set up a Special Task Force at the Ministry of Finance and Economy to coordinate and to monitor bank restructuring and the provisions of public funds as well as to assess the recapitalization and rehabilitation plans. The Task Force operates as a standing organization and the members attend meetings once a week. The functions of the Special Task Force will be transferred to the Financial Supervisory Board in April 1998.

The assessment is made by the submission of recapitalization plans from commercial banks whose capital adequacy ratio as of the end of 1997 falls below 8%. The plan needs to include the following items:

- to specify a clear schedule to meet capital adequacy standards and provisional requirements within a frame of six months to two years, the sources and amounts of new capital, and confirmation from suppliers of funds;
- to indicate any intended changes in management and ownership;
- to present a business plan;
- to set out measures to improve risk assessment and pricing, and loan recovery; and
- to present a set of measures to reduce costs and improve internal governance.

By the end of June 1998, the bank restructuring unit of the Financial Supervisory Board will assess the plans. If the plan is approved, the bank will enter into a managerial contract with the Supervisory authority to implement the plan.

One of the major attempts of the government to reform the financial institutions is to make Korean banks reinforce competitiveness in accordance with the international standards. Until recently, under the protection of the government finance ministry, the commerce banks in Korea resembled more public corporations rather than private enterprises. Preferential loans were allocated to targeted industries or firms by the government as policy loans. Thus, the business of commercial banks lacked the international standard of accounting and auditing system. The

Korean government now plans to revise the relevant laws and rules to meet the accounting and auditing standards of international best practice by the end of 1998. To meet with the international practice means improvement in asset classification, loss and income recognition, presentation of financial statement, and financial disclosure.

3. Reform of the Central Bank and Financial Supervisory System

Along with the massive reform measures of merchant banks and commercial banks, the Korean government amended and newly formulated 13 financial reform bills, which were passed on December 29. 1997 in the special session of the National Assembly. The reform bills including the Bank of Korea Act are based on the extensive public discussions and consultation among the Minister of Finance and Economy, the Governor of the Bank of Korea, the Chief Economic Secretary of the Presidential Office, and the Chairman of the Presidential Commission on Financial Reform. The basic principles of these financial reforms are as follows:

- The reform aims at establishing an institutional framework for central banking and financial supervision that is appropriate for the globalization and information age.

- The independence of the central bank and the consolidation of the financial supervisory system are regarded as the matters concerning the basic national responsibilities.

- The organizational division of labor among the three major government agencies, i.e., the Ministry of Finance and Economy, the Bank of Korea, and the Financial Supervisory Board, should be clearly identified. In particular, the assignment of responsibility rather than an equitable distribution of power needs to be clarified. For instance, the three agencies should share the responsibilities for price stability, soundness of financial institutions and protection of depositors, and proper management of the overall national economy.

- The allocation of responsibilities among the three agencies is based on consumer orientation rather than the convenience of the regulators.

- Since the reform measures are designed not only to resolve immediate problems but to consider the expected future changes in the financial environment, the new system is constructed with the expectation that policy loans and direct monetary control will be phased out.

- Authority should be followed by responsibility in the newly established financial system.

In order to facilitate the independence of the central bank, the Bank of Korea became a special juridical entity. The Bank of Korea came to conduct the monetary policy and to consult with the government agency regarding foreign exchange rates, foreign exchange deposits and loans, and foreign exchange positions. Until recently, the Bank of Korea provided credit for the policy loans, but it will be transferred to the government fiscal account. According to the new law, the Bank of Korea will have the right to request the necessary information regarding monetary policy from financial institutions and the financial supervisory board. The Bank of

Korea has also a right to request the Financial Supervisory Board to inspect commercial banks and to implement corrective measures.

The status of the Bank of Korea as an independent organization can be symbolized by the role of the governor of the bank. The Governor of the Bank of Korea can hold the position of the Chairman of the Monetary Board, which is the supreme decision making body of the central banking system as well as the holder of ultimate responsibility of nation's monetary policy. Before amending the law, the chairmanship was held by the Ministry of Finance and Economy.

According to the New Act for Establishing Financial Supervisory Institutions, the currently decentralized financial supervisory organs have been consolidated into a single Financial Supervisory Agency under the jurisdiction of Financial Supervisory Board. In order to cope with the turbulent financial environments, the functions of financial supervisory agency have been reinforced. The five existing financial supervisory organs, Financial Inspector of the Ministry of Finance and Economy, the Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board, and the Credit Management Fund, are consolidated into the Financial Supervisory Board. It became an independent government agency which used to be under the jurisdiction of the Ministry of Finance and Economy. Now it is placed under the jurisdiction of the Prime Minister's Office, but performs its duties independent from the Prime Minister. The major functions of the Financial Supervisory Agency are to inspect, audit, and sanction financial institutions.

Due to the new roles of the Bank of Korea and the Financial Supervisory Board, the role of the Ministry of Finance and Economy will be limited to the authority over financial policies at the macroeconomic level, foreign exchange policies, the preparation of finance-related bills and the licensing of establishment of financial institutions. It means that the highly concentrated power of the Ministry of Finance and Economy, and the former Ministry of Finance and the Economic Planning Board, over the macro economic policy including monetary policies during the rapid economic development period, will be diversified into the new roles of independent central bank and of the financial supervisory institution.

C. CAPITAL LIBERALIZATION

Based on the IMF recommendation, the Korean government introduced the capital liberalization measures to a full scale. Non-financial institutions as well as financial institutions can issue money market instruments in a fully liberalized way. The government also allows the treasury bill market to be able to issue treasury bills of more than 1 trillion won by the end of April, 1998.

The restrictions on corporate borrowing have been lifted by the new economic program. For instance, the regulation on borrowing up to US$2 million has been lifted since February 15, 1998. Further review is under way on the removal of restrictions on corporate borrowing of 1-

3 year maturities for large firms and small and medium-sized firms by May 15, 1998. All remaining restrictions on corporate borrowing will be reviewed comprehensively and revised by the end of 1998.

As the Banking Law has been revised and promulgated on January 13, 1998, the Presidential Decree to implement the Banking Law is also revised. It will provide transparent guidelines on foreign investment in domestic financial institutions. A number of plans for ownership of banks have been revised to a more liberalized way. For instance, the establishment of foreign bank subsidiaries was to be allowed in December 1998 as a result of negotiations with the OECD. However, the IMF system urged the introduction schedule to be shortened. The Korean government and the IMF agreed to that the establishment of foreign bank subsidiaries shall be allowed by the mid-1998, and that the foreign banks' purchasing equity in domestic banks in excess of the 4% limit shall be allowed with certain conditions.

For instance, if the foreign investor wants to own more than 4% but less than 10% of the equity of a bank, the investor should be a bank or an organization including holding companies which have been engaged in financial business as defined by the Financial Supervisory Board. In addition, it needs to inform and satisfy certain conditions regulated by the Financial Supervisory Board. If the foreign investor wants to own more than 10% of a bank, it must seek approval from the Financial Supervisory Board. The typical condition is that the investor's BIS ratio for equity must have been above 8%, or the Financial Supervisory Board mandated threshold for the past three years.

In addition, foreign banks and brokerage houses are allowed to establish subsidiaries from March 31, 1998. With certain conditions, the domestic investors can also own more than 10% of the equity of a bank. For provincial banks, regardless of its origin, domestic or foreign investors can purchase up to 15% of the equity of a provincial bank. If the investor wants to own more than 15% of the equity of a provincial bank, the investor needs to get approval from the Financial Supervisory Board with certain conditions including a certain level of previous BIS ratio for equity.

D. TRADE LIBERALIZATION

The Korean government has abolished the trade related subsidies and enhanced the import liberalization measures. The trade related subsidies on 5 items which were originally planned to be abolished by the end of 1998 in compliance with the agreement with the WTO, but the Korean government rescheduled the abolishment measures at its earliest day of by March 1998. The five items on trade related subsidies are subsidies for the preparatory funds for foreign market development, the reserve funds for export loss, the tax exemption for facility investment, promotion of small and medium industry, and the program for purchasing domestic main frame computers.

The government also set up a schedule to phase out the Import Diversification Program, which is presently covering 113 items, as follows:

- liberalization of 25 items (December 1997);
- liberalization of additional 40 items (July 1998);
- liberalization of additional 32 items (December 1998);
- liberalization of remaining items (June 1999).

In addition, the Korean government has reduced the number of items subject to adjustment tariffs from 62 to 38. It also sets up a schedule to review the existing import certification procedures and to present a plan to streamline these in line with the international practice by August 15, 1998. All existing subsidy programs will be reviewed and proposal for rationalizing existing subsidy programs will be presented by November 15, 1998.

Other trade-related issues such as transparency of administrative regulations on import process, movement of reducing consumptions, regulations of standards and safety measures on importing goods will be scrutinized for in the direction of the trade liberalization.

E. STRUCTURAL ADJUSTMENT OF BUSINESS ENTERPRISES AND CORPORATE GOVERNANCE

Big conglomerates or *chaebols* have been regarded as a locomotive of Korean economic success. During the period of rapid economic growth, the role of chaebols was hardly deniable in the export promotion industrialization and in the heavy and chemical industrialization of Korea. In particular, a network relation between the state and big business was established during this period. However, the previous efficient business of chaebols began to be a target of criticism in the changing trends of international competition. The major problems of economic structure of chaebols in Korea lie in such issues as transparency, accountability of management, guarantee liabilities among affiliated firms, capital structure, restriction on mergers and acquisitions, among others.

Following the IMF guidance, the Korean government is strongly committed to restructure the chaebol system in Korea. Thanks to the inauguration of the liberal Kim Dae-jung administration, the restructuring measures of chaebols is radically implemented. In order to achieve transparency of management, the government requires financial statements of listed companies in accordance with the international practice. The mutual guarantees by the affiliated firms or subsidiaries is required to be reduced. Outside auditing system should be introduced. In order to enhance the accountability of management, the minority shareholders' rights are to be strengthened.

The government also prepares a policy based on the Monopoly Regulation and Fair Trade Act and on bank supervision regulations to prohibit borrowing practices which rely on affiliate payment guarantees among 30 largest business groups. In addition, the existing guarantee liabilities need to be reduced. For instance, the existing guarantees will be reduced to a level not exceeding 100% of shareholders' equity by March 1998. Furthermore, existing guarantee liabilities will be reduced to none by the end of 1999.

F. LABOR MARKET REFORM

Another major issue on economic reforms in relation to the international standard is the labor market reform. First, the labor market in Korea has lacked flexibility. It has enjoyed an almost lifetime employment. The layoff by employers is regarded as the last resort to the rationalization of management. In order to facilitate the labor market flexibility, the government needs to amend legislation to clarify the circumstances and procedures of layoffs in the context of the Tripartite Accord. It also needs to relax restrictive legal provisions relating to private job placement and manpower leasing services.

Second, as a social safety net, the government provides various measures to resolve layoff problems. For instance, following measures are prepared:

- Budget allocation for the employment insurance fund, including for more training support and employment stabilization, will be tripled from 0.7 trillion won to 2 trillion won.

- Social welfare assistance, including income support to persons without own incomes, was protected and will be increased at least by 13% compared with 1997.

- Additional social expenditures will be provided in the context of the Tripartite Accord.

Third, the unemployment benefit will be extended as well:

- The coverage has been expanded from workers in firms with more than 30 employees to workers in firms with more than 10 employees from January 1, 1998. It will be expanded to workers in firms with more than 5 employees from July 1, 1998.

- It has increased the minimum benefit level from 50% to 70% of the minimum wage since March 1, 1998.

- The minimum duration of benefit has been increased from 1 month to 2 months since March 1, 1998.

- It will temporarily extend eligibility from April 1, 1998 to June 30, 1999 by reducing the minimum period of contribution from one year to six months.

The facilitation of the flexible labor market will ease the burden of management and streamline the corporate structure in Korea.

VII. FUTURE PROSPECTS OF INDUSTRIAL AND TRADE POLICIES IN KOREA

Since the Korean economy is heavily dependent on international trade, the prospects for the Korean trade regime will be focused on trade liberalization orientation. The legacy of rapid industrialization has left Korea with a number of socio-economic problems such as concentration of economic power, increasing labor disputes, high cost but low productivity economic structure, rigid governmental regulations, inefficient financial system, among others. In addition, due to the rapid upsurge of economic status in the international market, Korea has no option but to take liberal economic policy in the future.

The Korean government is still attempting to enhance economic competitiveness by way of liberalization, globalization, and deregulation. It will continuously reduce the tariff rate and abolish government regulations. The international economic regime formulated from the international institutions such as the WTO and the OECD will be a consistent pressure for Korean government to move toward liberalization.

On the one hand, liberalization, globalization, and deregulation will be the main locomotives for the Korean economy to strengthen its economic capability. On the other hand, the Korean government will promote technology intensive industry by was of various support mechanisms for industrial R&D.

Due to the economic crisis stemmed from the foreign exchange turmoil, and to the strong recommendation and guidance of IMF bailout programs, the economic reform in Korea will be implemented in an unprecedented way. The reform activities will be far reaching and fundamental in the Kim Dae-jung Administration. In particular, President Kim Dae-jung is the first president in modern Korean history to be elected from the opposition party. Since he is sharing the liberal economists' views, the reform measures will be implemented in a more aggressive way. Liberalization of financial institutions, trade liberalization, facilitation of foreign investment including aggressive mergers and acquisitions, restructuring chaebols, among others will be effectively implemented in the Kim Dae-jung Administration. However, the close surveillance by President himself on various economic conditions including international trade and economic competitiveness in the world market will make the economic stance of Korea more reinforced.

In addition, Korea strives to help to create more amicable environment for economic cooperation in East Asian and Pacific regions. Its active role in the APEC meetings and the ASEM and its recent joining in the OECD group will enhance the economic cooperation in the world market.

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