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PRIORITY

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE,
OFFICE OF ASIA AND THE PACIFIC
600 17TH STREET, N.W.
WASHINGTON, D.C. 20508

DATE: May 13

PAGES TO FOLLOW:

TO:	OFFICE:	PHONE:	FAX:
LAEL BRAINARD			5-6853

FROM: **Sean P. Murphy**

Tel: (202) 395-6813
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Attached are Korea materials. The 2 most important topics to hit are Hanbo Steel & Autos. Please specific points immediately under this cover sheet.

Hanbo:

- As you know, the Administration and U.S. industry have strong concerns over the disposition of Hanbo Steel.

- Most recently, these concerns have been communicated to Minister Han Duck Soo in a letter from Deputy USTR Richard Fisher (See attached).

- We look forward to Korea's reply to this letter at the earliest opportunity.

U.S.-Korea Autos Negotiations:

- The USG is interested in reaching a settlement on outstanding autos market acsess issues.

- For a settlement to be acceptable, it is imperative that we demonstrate progress in each of the main areas of concern including:
  - -- taxes & tariffs,
  - -- standards & certification,
  - -- anti-import bias,
  - -- installment financing & collateralization, and
  - -- compliance with existing commitments under the 1995 bilateral MOU on autos.

- As you know, bilateral consultations are taking place in Seoul this week. While I understand that some progress has been made, I am disappointed with Korea's current proposal on tariff/tax issues which. Movement on these issues are fundamental to a settlement.

- We need to be able to demonstrate that the tax/tariff burden on imported motor vehicles has been substantially reduced and that market access opportunities are increased.

- I strongly urge Korea to reconsider its curremt, unacceptable position on tax/tariff reform.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

May 8, 1998

The Honorable Han Duck-soo
State Minister for Trade
Ministry of Foreign Affairs and Trade
Republic of Korea
77 Sejong-ro, Chongro-ku
Seoul, KOREA 110-760

Dear Mr. Minister:

We enjoyed meeting you in Paris on April 27. Like you, we would like to advance progress on our bilateral trade agenda. We are writing to follow up on our discussion of Hanbo Steel.

In that regard, we would note that there has been a great deal of concern in the United States about non-market-driven activity in important industrial sectors in Korea. That said, we appreciate your President's establishment of a new economic policy premised on free and open trade, competition, investment, and market principles. In implementing this new policy, it is imperative that your government discontinue the directed lending and other subsidization that gave rise to non-market-driven activity and made Hanbo a difficult bilateral issue.

The financing and operation of Hanbo Steel have been under discussion between our two governments for some time, and this matter needs prompt resolution. To alleviate U.S. concerns about Hanbo and to demonstrate Korea's commitment to economic reform, we would propose a two-part plan.

First, we were encouraged by your indication that Hanbo's assets will be sold by putting them up for international bid and that POSCO does not intend to participate in the bidding. Building upon this development, we would suggest that Hanbo's assets be sold as soon as possible in an open, expeditious, and transparent process that follows best international practices by (a) treating all potential buyers equally; and (b) ensuring that the market dictates the terms of the assets' sale and disposition. The appointment of an independent international agent to oversee the sale and disposition of Hanbo's assets would be pivotal in structuring a process that strictly adheres to market principles. Finally, after the sale of its assets, we would assume that Hanbo would operate as a private company without Korean government influence.

Second, the Korean Government should ensure that its stabilization-related commitments to (a) cease directed lending and other market-distorting subsidies; and (b) improve the transparency of corporate balance sheets (including profit and loss accounts) in accordance with generally accepted accounting practices, are clearly applied to Hanbo Steel.

We would like your views on this proposed plan, which would seek to address our bilateral issue on Hanbo and at the same time, demonstrate Korea's commitment to a market-based corporate restructuring strategy. Based on this plan, we would like to continue a dialogue with the Korean Government on Hanbo, keeping in mind the need to ensure the commercial sanctity of the sale and disposition of its assets. We look forward to your prompt response so that we can have a constructive discussion on this matter during your visit next week to Washington.

Sincerely,

Richard Fisher
Deputy U.S. Trade Representative

David Aaron
Under Secretary of Commerce
for International Trade

cc: Lawrence Summers
Deputy Secretary of the Treasury

Stuart Eizenstat
Under Secretary of State for Economic, Business, and Agricultural Affairs

BRIEFER ON KOREAN BILATERAL ISSUES (EXCEPT HANBO STEEL) AND APEC
for Meeting with Han Duck-soo, Korean State Minister for Trade

POINTS

U.S. Issues

Korea's New Economic Policy Direction/Implementation of IFI Reforms

- The USG applauds your government's movement toward a market-driven economy.
- A key means for realizing your President's economic vision is full and faithful follow-through on the conditions in the IFI packages.
- It also is important that your government refrain from taking steps that would provide Korean exports with an unfair advantage over other countries' products, particularly if such steps are inconsistent with WTO rules or apply to sectors in which there has been uneconomic activity (*e.g.*, overcapacity.)

Charting a New, Results-oriented Course for Bilateral Trade Relationship

- Korea's plan for a liberalized economy has created an opportunity for our two governments to chart a new course for our bilateral trade and economic relationship.
- We should take full advantage of this opportunity and focus on generating real results on trade, particularly in advance the June state visit of your President.
- Such results would help me to manage protectionist pressure that is building on Capitol Hill with (1) the shift from surplus to deficit in our bilateral trade balance with Korea; and (2) the controversy over continued U.S. contributions to the international financial institutions.
- For your government, resolution of trade issues with the United States would help signal that Korea is liberalizing and therefore is a more efficient market in which to do business.

Autos

- We are looking forward to re-engaging on this issue in mid May (13-14) in Seoul in the interest of moving toward resolution of the section 301 investigation.
- This is one of those long-standing issues, the resolution of which would be positive for both Korea and the United States.
- I am encouraged by recent indications that Korea is considering plans to reform auto standards and certification and financing procedures. I also have noted that the

government is beginning to take steps to counteract anti-import activity.

- I have instructed my staff to take a results-oriented approach in the May meetings, and to engage on the substance of all of the core issues, **including tariffs and taxes**, and other measures to ensure market-driven trade and competition in the auto sector.

Hanbo Steel *(Please see separate briefing paper, which was hand-carried by Dorothy Dwoskin.)*

Intellectual Property Rights (IPR)

- The Administration is now in the process of making decisions on Special 301 designations. These decisions will be announced on May 1.

- There are two particular areas in which further movement would favorably influence the outcome on Korea's Special 301 status: screen quotas and protection of well-known trademarks.

- As you know from recent discussions with MPA, the liberalization of Korean screen quotas is a high priority, including for a number of Members of Congress.

  -- Although designed to protect Korean film producers, these quotas have acted as a disincentive to investment in the development of cinemas in Korea.

  -- I understand that your government is considering a reduction in the quota to 60 days. What is the status of this proposal?

- Also, we need to be in a position to tell our right holders on marks bearing the name of world famous figures (James Dean and Marilyn Monroe) that the unauthorized use of such marks will not be tolerated in Korea.

  -- Will your new trademark law provide such protection?

NOTE: Curtis Management Group (CMG), a constituent company of Senator Lugar, has been complaining for some time about the unauthorized use of the James Dean and Marilyn Monroe names in Korea.

Pharmaceuticals

- I understand that your government is currently developing proposals to reform its rules on pharmaceutical reimbursement and pricing.

- We appreciate the receptivity that your government has demonstrated thus far to our industry's input, and note that our research-based manufacturers have requested a bit more time to generate specific suggestions.

- I know that in March, in his meetings with Korean officials, Ambassador Fisher discussed the barriers our companies face in Korea.

- We would like to work with you on reforms that would address our concerns about discriminatory treatment, and at the same time, respond to your government's need to ensure that the Korean consumer has the best medicines and cost-efficient healthcare.

NOTE: Latimer's May 12-19 trip to Seoul may provide an opportunity for meetings on pharmaceuticals with the Ministry of Health and Welfare.

APEC

- We are approaching that time in the year when the world starts looking hard at the APEC process to see what it will deliver, and this year, with the economic turmoil in Asia, I think many question whether APEC **will** deliver.

- It is particularly crucial this year that APEC, the trade forum of the Asia Pacific, demonstrate its commitment to liberalization through unified support for the EVSLs.

- Such action would help investor confidence in the region and ensure APEC's continued distinction as a trend-setter in global trade.

- Korea's full participation in the EVSL's is crucial.

(If Raised)
Korea's Issues

Sub-cabinet Meeting

- We have noted your government's interest in holding a sub-cabinet meeting at the end of May.

- We agree that our two governments should re-engage this mechanism and would like to ensure that we do so at a time when we most need action at a higher level to deliver results.

- We see the upcoming June meeting of our Presidents as a means to spur results in the short term, and would like to hold the sub-cabinet meeting in the months following that, thereby creating another opportunity to advance progress through high-level attention.

Consultations on Korea's Proposed Establishment of a Value-added Tax on Cigarettes

- I understand that your government has requested consultations (as required under our bilateral agreement) by the end of this month on Korea's proposed establishment of a value-added tax on cigarettes.

- Before we can respond, we would like to know **when** Korea will implement the proposed change. We also would like a general description of the change Korea is contemplating.

NOTE: We have not completed interagency consultation on Korea's request, and must do so in view of the statutory rules on USTR action in this area of trade.

DRAMs

Commerce's Preliminary Dumping Decision

- On March 3, the Commerce Department decided to impose preliminary antidumping duties on Hyundai and LG semicon memory chips. The final determination will be made in July (120 days after the preliminary decision).
- The March ruling was an administrative action, based on technical data on pricing and cost, and has no legal effect in this preliminary phase.
- This ruling will be followed by a transparent process through which all relevant parties will have ample opportunity to comment.
- The Commerce Department's decisions on antidumping action are not linked to policy considerations, and USTR is not involved in this process in any way.

Korea's WTO Case against U.S. Antidumping (AD) Action

- This is a matter that is being litigated in the WTO, and the USG is confident that the action the Department of Commerce has taken with respect to Korean DRAMs is consistent with our WTO obligations.

BACKGROUND

U.S. Issues

Autos

On October 1, 1997, the USG identified Korea's barriers to auto imports as a "priority foreign country practice" (PFCP) under Super 301 procedures. Although limited progress was made in intensive negotiations prior to this announcement, Korea was not prepared to address the fundamental trade barriers that have restricted auto imports to less than 1 percent of the Korean market. These barriers include (1) an array of cumulative taxes levied on top of an applied tariff rate of 8 percent; (2) onerous standards and certification requirements; (3) auto-financing restrictions; and (4) government-driven policies aimed at discouraging purchases of imported cars. As required under Super 301 procedures, the USG initiated a section 301 investigation on October 20, 1997, and published a *Federal Register* notice on October 24. The dispute must be resolved by October 19, 1998, or the USG is authorized under the law to take sanctions action.

Under the IMF stabilization package, Korea agreed to financial, corporate, and capital account reforms that, if implemented fully, should curtail or eliminate policy-directed preferential financing to the auto-producing *chaebols*. The more specific structural conditions in the IMF package, *e.g.*, on import certification, also might advance the U.S. auto trade agenda with Korea.

We have scheduled auto talks for May 13-14 in Seoul and have agreed that the next round will be in DC, possibly before the June 9-11 state visit of President Kim. In the May talks, we intend to focus on the four issues cited above plus other matters related to industry concerns, including overcapacity.
Over the past several months, there have been indications that the Korean government is seriously considering changes to its auto policies, *e.g.*, on standards, certification procedures, and financing. Just this month, it was reported that Korea intends to raise fuel taxes. As a result, the local auto industry is calling for a reduction in taxes on the ownership and operation of vehicles. The Korean government has not indicated any willingness to lower its 8 percent applied tariff on passenger vehicles (80 percent bound rate).

IPR

In April 1997, USTR downgraded Korea from the Special 301 "priority watch list" to the "watch list" after Korea agreed to an action plan on specific reforms. We are currently in the closing stages of this year's Special 301 deliberations. The interagency group is basing its decision on (1) the steps Korea has taken to implement the 1997 action plan; and (2) Korea's response to other industry concerns including on retroactive protection of copyrights, screen quotas, and protection of famous trademarks and trade secrets.

Screen Quotas

The Korean government currently reserves a maximum quota of 146 days per year per screen for **Korean** motion pictures; however, under certain circumstances, the Ministry of Culture and Tourism (MOCT) has discretion to reduce this quota to 106 days. At the Motion Picture Association's (MPA's) request, USTR staff proposed a reduction in the screen quota. Recently, MPA sent representatives to Korea to discuss this issue, including with Minister Han. U.S. Embassy officials indicate that the Ministry of Foreign Affairs and Trade recently expressed a willingness to consider reducing the quota to 60 days.

Protection of Well-known Trademarks

A constituent company of Senator Richard Lugar, the Curtis Management Group (CMG), has raised a case regarding the unauthorized use of the James Dean name in Korea. The estate of James Dean has secured worldwide trademark protection for the James Dean name through approximately 1,000 trademark registrations. However, in Korea, about six years ago, a celebrity by the name of Joo begun registering trademarks consisting of the James Dean name. The Korean Industrial Property Organization (KIPO) rejected these trademarks, but this ruling was overturned by the Korean Supreme Court. CMG recently sent a letter to President Clinton recommending that Korea be elevated to the "priority watch list" for failing to stop the unauthorized use of trademarks consisting of the James Dean and Marilyn Monroe names.

Pharmaceuticals

The Pharmaceutical Research and Manufacturers of America (PhRMA) has brought to USTR's attention various Korean market access barriers affecting foreign pharmaceuticals. These impediments include (1) discriminatory insurance reimbursement and pricing policies; and (2) requirements for redundant clinical trials that significantly delay entry of foreign pharmaceuticals into the Korean market.

In a March 31 Trade Action Group (TAG) meeting in Seoul, Korea indicated a willingness to eliminate its requirement for redundant phase III clinical trials on foreign pharmaceuticals if companies provide certain information on results of phase I and II clinical trials. Mary Latimer and Foreign Commercial Service officers in the U.S. Embassy in Seoul are working with PhRMA members to determine what information they would be willing to provide (if any) to avoid redundant phase III clinical trials.

Latimer also has been working with PhRMA on its strategy to resolve its market access problems in Korea through the government's reform plans. Currently, KIHASA -- a think tank affiliated with the Korean Ministry of Health and Welfare -- is generating a study that will inform the government decision-making process on the reform of Korea's pharmaceutical-related rules. PhRMA sent a letter to this think tank asking for a delay in the completion of this study in order to have the chance to provide additional input (Ambassadors Barshefsky and Fisher were cc'd). PhRMA's letter noted that such a delay would enable U.S. experts on health economics and financing to offer their expertise. On her trip to Seoul in May, Latimer will provide USG support for the ideas the U.S. industry is feeding into the Korean reform process.

Korea's Issues

Consultations on Korea's Proposed Establishment of a Value-added Tax on Cigarettes

In early April, the Korean government formally notified the USG of Korea's request for consultations under the U.S.-Korea 1988 bilateral agreement on cigarettes, as revised in 1995. Korea is planning a shift from specific excise taxes on cigarettes to *ad valorem* taxes, and as required under the agreement, notified us of this proposed change. Korea would like to have these consultations by the end of April. We asked when Korea is likely to implement the proposed change to determine whether we can delay action on this matter. We need time to fully vet our position with an interagency team, including HHS, as required under law. Before responding, we also need to obtain a general description of Korea's proposed change.

DRAMs

On April 22, 1992, Micron filed with the Department of Commerce (DOC) and the International Trade Commission (ITC) a petition alleging that Korean DRAMs were being sold in the United States at less than fair value. On March 23, 1993, the DOC found that all Korean DRAM manufacturers -- LG Semicon, Hyundai, and Samsung -- were dumping. On May 3, 1993, the ITC made a final affirmative determination of injury.

On July 16, 1997, the DOC made a final determination not to revoke the antidumping duty order on DRAMS from Korea. Although the DOC found that certain of the regulatory prerequisites for revocation were satisfied, one regulatory prerequisite was *not* satisfied: the DOC was not convinced that dumping of DRAMS by the companies in question was "not likely" in the future.

On August 14, Korea requested consultations under WTO dispute settlement procedures on the DOC's antidumping action on Korean DRAMs. Consultations were held on October 9. A WTO dispute settlement panel was established on January 16, and panelists were selected in March.

On March 3, in the fourth administrative review of an anti-dumping order on Korean DRAMs, the DOC announced a preliminary determination that LG Semicon (margin -- 7.61) and Hyundai Electronics (margin -- 12.64) were dumping DRAMs in the U.S. market during the period May 1, 1996 to April 30, 1997. Techgrow Ltd. of Hong Kong (margin -- 12.64) and Vitel Electronics of Canada (margin 12.64) also were found to be dumping. The final decision will be announced in early July (120 days after the preliminary ruling).

Drafted by: Mary Latimer
4/25/98

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97-70

FOR IMMEDIATE RELEASE
Wednesday, July 23, 1997

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UNITED STATES AND KOREA SUCCESSFULLY CONCLUDE NEGOTIATIONS ON TRADE IN TELECOMMUNICATIONS GOODS AND SERVICES

U.S. Trade Representative Charlene Barshefsky announced today that the United States and Korea have concluded year-long negotiations which will expand opportunities in the growing Korean telecommunications market for U.S. equipment and services suppliers.

"The United States has worked aggressively to open the Korean telecommunications market for U.S. equipment and services suppliers," said Ambassador Barshefsky. "The commitments undertaken by Korea through multilateral and bilateral negotiations will help ensure that U.S. telecommunications companies -- the most competitive providers in the world -- are in a position to compete in Korea's telecommunications market, which is estimated to grow to $100 billion between 1996 and 2000."

"Korea has made important commitments, including the elimination of tariffs on information technology products, and an increase in limitations on foreign ownership of domestic telecommunications services companies, and taken other steps which will promote competition and enhance transparency," said Ambassador Barshefsky. "Taken as a whole, the Korean Government's actions over the last year should eliminate objectionable practices which led to Korea's identification in July 1996 as a 'Priority Foreign Country' under section 1374 of the 1988 Omnibus Trade and Competitiveness Act."

Korea has undertaken a number of commitments which satisfy U.S. negotiating objectives:

- The Korean Ministry of Information and Communication has agreed to employ policies that ensure Korea will address a wide range of U.S. telecommunications concerns. These policies are embodied in a July 14, 1997 policy statement which resulted from negotiations between the United States and Korea. The statement clarifies recent revisions of Korea telecom policies and practices, enhances transparency, and corrects misperceptions regarding the treatment of foreign telecom goods and services suppliers. Specific policies detailed in the MIC policy statement include: national treatment and non-discrimination for foreign companies; government non-intervention in private sector procurement; transparent criteria and procedures relating to services licensing, equipment certification and type approval; increased foreign ownership in domestic service providers; enhanced protection of intellectual property and proprietary information; clear guidelines for technology transfer; transparent procedures for satellite services authorization; pro-competitive regulatory measures; and an enhanced independent regulatory role for the Korean Communications Commission. These commitments ensure that U.S. telecom companies will enjoy improved market access in Korea.

- Under the Information Technology Agreement, Korea will eliminate in stages tariffs on an agreed package of information technology products (including telecommunications) equipment by the year 2000; tariffs on a few additional items will be eliminated by 2004.

- Under the WTO basic telecommunications agreement, Korea will allow increased foreign ownership of domestic telecommunications services companies and adopt a series of enforceable and pro-competitive regulatory principles.

Collectively, these undertakings will further open the Korean telecommunications market on competitive terms, and provide important opportunities for U.S. service and equipment providers.

Based on the positive steps taken by Korea over the last year, Ambassador Barshefsky has announced her intention to revoke Korea's identification as a Priority Foreign Country (PFC). According to Barshefsky, "The United States will continue to monitor closely Korean adherence to its commitments and will make use of U.S. trade laws and WTO procedures, if appropriate, to ensure effective implementation."

The formal revocation of Korea's identification as a PFC will be effective August 11, 1997.

AMCHAM KOREA

amcham

AMERICAN CHAMBER OF COMMERCE * IN KOREA *

INTRODUCTION - 1997

- Korean economy grew at 6% last year
- Korea is 5th largest US export partner
- Korea is 4th largest US agriculture market
- Korean per capita GNP is over $10,000
- Korea is the 11th largest economy in the world
- US has a surplus with Korea
- OECD membership has been driving need for reform and liberalization
- Korea's current account deficit has caused problems for American companies
- Korea will continue to grow at 4-7% for the next 10 years
- By 2000, Korean economy will be among the world's top 10

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TOP ISSUES - KOREA

- **Pharmaceuticals: little progress in last few years Equal treatment for imported drugs regarding reimbursement**
- *Korean patients will benefit with wider selection of drugs and lower prices*

- **Autos: The Memorandum of Understanding (1995) was a good first step but more needs to be done. Tariff & tax schedule should be reduced to US levels for vehicles & components**
- *Korean consumers will benefit with more choices and lower prices. This competition will help Korean industry better compete in global markets.*

- **Financial Reform: Speed up liberalization and improve transparency**
- *Opening this market will reduce the cost of capital and help to make Korean products more competitive internationally.*

- **Telecom: Improve market access & adopt international standards**
- *Allowing free competition in this sector will allow domestic carriers to use economic factors as primary criteria in bid selections rather than being compelled to consider local content.*

- **Transparency: Unclear and inconsistent application of regulations is a problem in all industries**
- *Vague regulations and government guidelines prevent free market forces from operating and make the Korean market less efficient. Consider moving toward a regulation system which allows things unless specifically prohibited.*

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TOP ISSUE - PHARMACEUTICALS

- **Korea is the 10th largest pharmaceutical market in the world with approximate sales in 1995 of $4 billion**
- **Little progress in last few years**
- **Provide equal treatment for imported drugs regarding reimbursement (Korean Medical Reimbursement Schedule)**
- **Harmonize new drug registration with international practices & recognize the validity of clinical trials conducted outside Korea**
- **Permit toll manufacturing (one pharmaceutical company to manufacture products for another)**
- **Process new drug registration requests when the data is available & allow phase 3 clinical trials to be conducted in Korea prior to submission of CSF (Certificate of Free Sale) from the country of origin**
- **MOHW should accept the Certificate of Quality Assurance from the country of manufacture for registered products & not require testing of each batch**

Benefits of an Open Korean Pharmaceutical Market

- *Korean patients will benefit with wider selection of drugs and lower prices*

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TOP ISSUE - AUTOS

- **Korea is the 2nd largest auto market in Asia behind Japan but is still effectively closed to imports**
- **The MOU was a good step in the right direction but more needs to be done**
- **Reduce the tariff and tax schedule to US levels for vehicles and components**
- **The Korean government needs to continue to address the perceived consumer bias against imports**
- **Eliminate redundant type approval tests for vehicles certification & move toward industry self certification**
- **Develop and publish timetable to liberalize auto financing**

Benefits of an Open Korean Auto Market

- *Korean consumers will benefit with more choices and lower prices.*
- *Korean auto industry will benefit with competition which will help them become more competitive globally.*

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TOP ISSUE - FINANCIAL SERVICES

Banking

- Speed up deregulation of foreign exchange market
- Recognize branch limits based on global capital
- Permit alternative, stable & cost effective funding sources

Insurance

- Speed up commitment to consistently enforcing solvency requirements
- Improve regulatory transparency & access
- Liberalize products and rates
- Permit parent company assets to be used in determining the percentage of branch assets that can be allocated to the investment in real estate for a home office.

Securities

- Allow foreign investors greater access to Korean stock market & other securities markets
- Harmonize market practices with international standards

Corporate Financial Services

- Permit direct foreign currency loans from overseas affiliates
- Allow netting / multilateral netting of payables & receivables
- Simplify remittance documentation for fund transfers to overseas affiliates

Benefits of Open Korean Financial Markets

- *Korean consumers will benefit with more innovative product choices and lower prices.*

- *Korean industry will benefit with use of more economic based risk management decisions.*

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TOP ISSUE - TELECOMMUNICATIONS

- **Liberalize limits on foreign equity investment**
- **Simplify & clarify licensing & spectrum allocation process**
- **Open bidding process & deregulate sourcing decisions**
- **Eliminate restrictive localization requirements**
- **Simplify & clarify standards & regulations**
- **Harmonize standards & regulations for CATV, satellite, cellular & PCS with worldwide practices**
- **Provide equal access for input into establishing industry standards**

Benefits of an Open Korean Telecom Market

- *Korean telecom companies will be able to choose the products & services that best suits their need regardless of local content.*

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TOP ISSUE - TRANSPARENCY

- **Unclear and inconsistent application of regulations is an issue in all sectors in Korea**

- **Regulations written in vague terms permits broad interpretation and prevents consistent application**

- **Simplify & clarify standards & regulations**
- **Harmonize procedures & practices with international standards**

Benefits to Korea With Improved Transparency

- *Increased transparency will allow for more efficient utilization of resources which will result in increased global competitiveness*

- *Increased transparency also will reduce the opportunities for fraud and corruption*

- *A more transparent environment will level the playing field for all companies operating in Korea which will in turn allow the most competitive to thrive*

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TOP ISSUE - Construction & Engineering

- **Jan. 1, 1996 - Korean construction & engineering markets have been open to foreign competition**
- **Jan. 1, 1997 - foreign construction companies became eligible to bid on public projects**
- **Registration & licensing process is cumbersome**
- **Different government agencies interpret laws and regulations differently**
- **Replace requirement for $800,000 cash deposit with a posted bond or bank guarantee**
- **Make bidding process clear and transparent**

Benefits of an Open Korean Construction & Engineering Market

- *Korean construction industry will benefit with competition which will help them become more competitive globally.*

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AMCHAM KOREA

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TOP ISSUE - Insurance

Background

- The Korean insurance market is the 6th largest in the world

- Some progress has been made (abolishing the economic needs test & announcing a schedule of pricing and dividend deregulation actions)

Recommendations

- Resolve solvency issue

- Require transparency of regulations an equal treatment by regulatory bodies

- Increase product and rate liberalization for the benefit of the consumer

- Permit life insurers to offer personal accident insurance

- Permit parent assets to be used in determining the percentage of branch assets that can be allocated to the investment in real estate for a home office

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TOP ISSUE - Market Access

Background

- **The current account deficit, which doubled in 1996 to more than $20 billion, has created an unfavorable atmosphere for foreign products in Korea**

Recommendations

- **Accept international norms for product standards and ingredients**
- **Eliminate redundancy in product testing and specifications**
- **Recognize internationally accepted manufacturing and distribution practices**

The American Chamber of Commerce in Korea
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Tel: (822) 753-6471, 752-3061 Fax: (822) 755-6577
e-mail : 100053.1334@compuserve.com

AMCHAM KOREA

TOP ISSUE - Aerospace & Defense

Background

- US military forces will remain a major part of the ROK Defense posture for the foreseeable future
- Other UN forces will not play an initial major role in the support of the ROK in the event of an outbreak in hostilities
- The ability of the US and ROK forces to participate in any conflict in a coordinated fashion will be a key element in the success of tactical operations
- Common equipment, coordinated training & tactics between US & ROK forces will be essential to ensure early success of any future conflict
- Interoperability (the ability of two forces to operate in harmony in a coordinated manner will be a key element in avoiding unnecessary loss of life for both US and ROK forces

Recommendations

- Leverage security relationship to sustain US share of Korean defense acquisitions
- Establish closer cooperation between US government & industry to compete more effectively

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AMCHAM KOREA

TOP ISSUES - U.S.

- **Support making Visa Waiver Pilot Program permanent**
- **Support H.R. 203 allowing Korea to fully participate in Visa Waiver Pilot Program**
- **Support signing of reciprocal social security tax treaty by U.S. Social Security Administration**
- **Support continuation of Section 911 of the U.S. tax code**
- **Educate U.S. government officials & businessmen about the importance of U.S. Korea trade relationship**

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AMCHAM KOREA

TOP ISSUE - Visa Issue

It is too difficult for our Korean businessmen and tourists to get U.S. visas

Tourism

- **Tourism is the 2nd largest employer in U.S.**
- **International tourists visiting U.S. bring jobs**
- **Korea travelers spent over $1B in U.S. in 1996**
- **Alaska estimates Korean travelers would increase ten-fold if Korea were admitted into VWPP**

Current Situation

- **Seoul Consulate issued more NIVs than any in world**
- **U.S. Embassy efforts to streamline process have been heroic**
- **U.S. must do more to capture larger share of outbound market**
- **As Korean economy grows, outbound travel increases**
- **U.S. is 1st destination of choice**
- **Korea is 11th largest economy in the world**
- **Korea is 6th largest U.S. trade partner**
- **Korea is 5th largest export market for U.S.**

Visa Wavier Pilot Program (VWPP)

- **Allows 27 countries visa free entry for up to 90 days**
- **Korea does not yet meet criteria**
- **Neither did Ireland, but they got special legislation**
- **AMCHAM's supports H.R. 203 - allowing Korea to participate**

Make Visa Waiver Pilot Program Permanent

- **If Congress did not re-approve & suddenly those 27 countries needed visas, U.S. consular affairs worldwide would be paralyzed**

The American Chamber of Commerce in Korea
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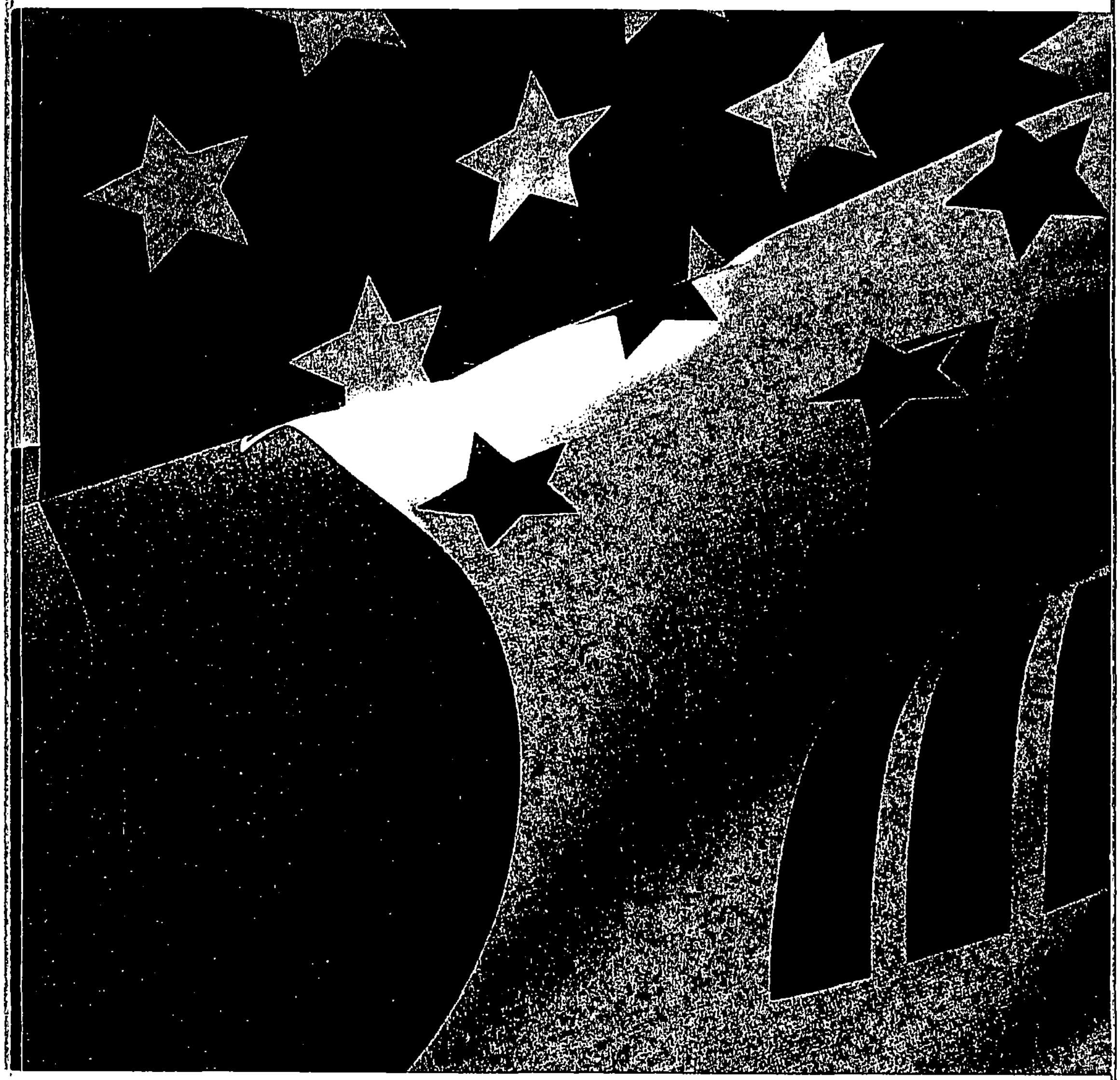
KOREA

U.S. TRADE & INVESTMENT ISSUES 1997



AMERICAN CHAMBER
OF COMMERCE IN KOREA

YOUR PARTNER IN BUSINESS SINCE 1953

FAXTRANSMISSION

U.S. TRADE REPRESENTATIVE
600 17TH STREET, NW
WASHINGTON, D.C. 20506
TEL: 202-394-3430
FAX: 202-395-3512

To: Lael Brainard

Date: 6/3

Fax #: 395 6853

Pages: 2, including this cover sheet.

From: RICK RUZICKA
DAUSTR, OFFICE OF ASIA
AND THE PACIFIC

Subject: US-Korea Auto MOU press release

COMMENTS: per my phone call today. Christina Lucas said you were interested in this issue. Call if you have further questions

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C.
20506

FOR IMMEDIATE RELEASE
Monday, June 3, 1996

USTR Contact: Jay Ziegler/Dianne Wildman/Kirsten Powers
(202) 395-3350
DOC Contact: Anne Luzzatto/Julie Rice
(202) 482-6001

USTR-COMMERCE JOINT PRESS RELEASE ON THE IMPLEMENTATION OF THE 1995 AGREEMENT WITH KOREA ON AUTOS

Acting USTR Charlene Barshefsky and Commerce Secretary Mickey Kantor announced today the findings of a U.S. Government report on the implementation of the United States-South Korea market access Memorandum of Understanding (MOU) for passenger vehicles.

"While we are pleased that Korea has generally implemented the terms of the September 1995 agreement, it is still too early to see any significant impact on the Korean auto market," Ambassador Barshefsky said. "Korea remains the most closed market of the major world auto producers, with imports at less than one percent of the domestic market. In addition, we are concerned that Korea may implement an increase in the annual taxes on jeep-type vehicles that could be contrary to the standstill provisions in the MOU. In light of this problem, and the need for more progress, we plan to hold further consultations with Korea."

In assessing implementation of the MOU, Secretary Kantor said, "We have been closely monitoring compliance with the agreement. Korea has taken steps to reduce barriers in the following areas: safety and emission standards and certification; taxes on foreign passenger vehicles (except jeep-type vehicles); advertising regulations; improving consumer perceptions of imported vehicles; and retail financing. However, much more needs to be done to fully open the Korean market in order to reach a level of openness comparable to that of the United States."

Korea has maintained a sanctuary market for automobiles at home while it pursues an aggressive export strategy abroad. Korea is the world's third largest auto exporter after Japan and the European Union, and is the fifth largest manufacturer in the world. In 1995, Korea exported over 976,000 vehicles, a 40 percent increase in vehicles exported since 1994. Of this almost 1 million vehicles, 132,118 Korean passenger vehicles were sold in the United States, while 2,578 U.S. passenger vehicles were sold in the Korean market.

In 1995, the foreign share of the Korean auto market was less than 0.5 percent. Although foreign auto sales in Korea have increased in the first quarter of 1996, this only represents 2,084 foreign passenger vehicle sales compared to an estimated 400,000 of domestic sales of passenger vehicles.

In implementing the specific market access provisions of the 1995 MOU, the United States will continue to monitor progress in market access brought about by the 1995 MOU, and seek additional progress toward creating a more open market for U.S. autos in Korea.

—30—

THE WHITE HOUSE

WASHINGTON

June 19, 1996

MEMORANDUM FOR DISTRIBUTION

FROM: Michael Warren

SUBJECT: Thursday's International Economic Issues Meeting

Attached is a paper developed by the State and Treasury Departments regarding Korea's accession to the OECD. Also attached is an agenda. No paper will be circulated on Japanese economic issues.

The meeting tomorrow will take place in at 3:00 pm in Room 231 of the Old Executive Office Building. Deputies plus one other person are invited. Please contact Kristen Panerali at 456-5353 with your clearance information.

Thank you.

Gordon Adams
Martin Baily
Sandy Berger
Stuart Eizenstat
Leon Fuerth
Charles Hunnicutt
Joel Klein
Sandy Kristoff
Eugene Moos
Jeff Lang
Ira Magaziner
Andrew Samet
Jeff Shafer
Joan Spero

KOREA'S ACCESSION TO THE OECD

ISSUES FOR DISCUSSION

- o Assess Korea's progress on liberalization in the context of OECD accession.
- o Consider whether to seek further liberalization in the key areas of: foreign investment; capital movements; financial services; trade; and labor relations. Is it time to focus on one or two areas?
- o President Kim has made it a top priority for Korea to accede by the end of 1996. What weight should Korea's timetable be given in our thinking?

INTRODUCTION

Korea is at a critical stage in its effort to accede to the OECD. It needs positive reports from several OECD committees, most importantly the CIME and CMIT committees which are responsible for the OECD Codes, and approval by the OECD Council in July to meet its self-imposed timetable for accession. However, the commitments Korea has made so far on liberalization and other issues of concern to OECD members do not appear sufficient to ensure a positive outcome.

With respect to the Codes, Korea has proposed a somewhat larger number of reservations than the four newest members. A few of these reservations would be unique -- no OECD member maintains comparable restrictions. Moreover, the nature of Korea's reservations is substantially different, calling for detailed regulation at the "micro" level which raises fundamental questions about the consistency of Korea's approach with the spirit of the Codes. Beyond the Codes, OECD members continue to have concerns about Korean trade practices and labor relations policies. These issues are not part of the core of the accession process, but will be a factor in Council decision-making.

Korean President Kim has made OECD accession in 1996 a cornerstone of his "globalization" policy. If the U.S. fails to support completion of the accession process at the OECD this summer, he could engage in some personal lobbying. On the other hand, there are reports that the Korean bureaucracy is resisting further moves, even at the expense of delay in accession. Failure in July would not make it impossible for Korea to accede this year. It would still be possible to wrap things up in September or October, leaving two months for the Korean parliament to ratify the instrument of accession.

Following are status reports for the examining committees and other factors to be considered. A matrix showing Korea's position with respect to the Codes in comparison to other new members and a brief overview of the accession process are provided as attachments.

THE CODES OF LIBERALIZATION: The Committee on International Investment and Multinational Enterprises (CIME) and the Committee on Capital Movements and Invisible Transactions (CMIT) will conduct the second review of Korea's position with respect to the Codes of Liberalization on July 4-5. Korea has made significant progress in recent years in liberalizing its capital markets and in increasing access for foreign providers of financial services. Nevertheless, the reservations it is proposing from the Codes would leave it short of traditional OECD standards. Even with full implementation of its current liberalization plans, which stretch to the year 2000, Korea's financial markets will still be tightly regulated and narrowly segmented compared to those in most OECD countries.

The attached matrix compares Korea's reservations to the OECD Codes to those of the four newest members of the organization (Poland is expected to accede later this month). The number of sectors and operations in which Korea proposes reservations is somewhat larger than those of the four new members. In addition, a few of the reservations would be unique -- no OECD member maintains similar restrictions. Moreover, the nature of Korea's proposed reservations is substantially different. Not only are specific sectors and operations still highly regulated, but so are the types and sizes of firms that may engage in the operations, the use to which funds secured on capital markets may be put, and the amount of funds that borrowers are permitted to obtain. Such detailed regulation at the "micro" level raises fundamental questions about the consistency of Korea's approach with the spirit of the Codes. Finally, Korea's commitments to future liberalization are not as solid as those of other new members, who in most cases were able to present draft legislation as evidence of their intentions.

OECD Secretariat staff have reportedly advised the Koreans that, in their view, CIME/CMIT Committee members would be unlikely to make a positive report to the Council based on the materials the ROKG has provided to date. (The Secretariat also reportedly offered the same opinion with respect to two other committees: the Insurance Committee and the Committee on Financial Markets (CFM)). This would set the stage for another CIME/CMIT review at the September meeting of the Committees.

FINANCIAL MARKETS: The Committee on Financial Markets (CFM) will conduct its second review of Korea June 19. We expect the Committee to welcome the liberalizations Korea has announced, but ask for improvements before issuing a report to the Council. Issues of concern to CFM include: a timetable for future liberalization of foreign stock purchases; restrictions on long-term borrowing abroad; acquisition by foreign banks of participation in Korean banks; limited scope for transactions in derivatives; no recognition of the "global capital" concept for branches of foreign banks; restrictions on foreign purchases of domestic bonds; and restrictions on the issuance of certificates of deposit. The CFM will wait to consider the results of the CIME/CMIT review and Korea's responses to the issues noted above before reporting to the Council.

INSURANCE: The Insurance Committee conducted its second review of Korea on June 7. The Committee noted considerable progress since its first review, but expressed concern with a new requirement that foreign insurers seeking to establish in the Korean market be larger than the average asset/premium size of domestic Korean insurers. The Committee has asked the ROKG to abolish this rule. It has also referred to the CIME/CMIT Committees an issue concerning the scope of business to be allowed to foreign brokers which would be in violation of the Codes of Liberalization. If Korea responds positively on these two points -- the ROKG has signaled a willingness to make the necessary improvements -- then the Committee would expect to forward a positive recommendation to the Council.

FISCAL AFFAIRS: The Committee on Fiscal Affairs (CFA) will consider a report to the Council at its June 25-26 meeting. CFA working parties have forwarded satisfactory opinions to the CFA and, based on Korean representations, Secretariat staff believe that Korea's tax regime now meets acceptable standards for a new member. Several members, including the U.S., remain concerned about implementation of Korean commitments on some points. Nevertheless, we expect the Committee will issue a positive report to the Council at next week's meeting.

MARITIME COMMITTEE: This Committee has completed its work and submitted a positive report to the Council.

ENVIRONMENT: The Environment Policy Committee (EPOC) has expressed concern about whether Korea is prepared to assume the more burdensome obligations expected of developed country parties (i.e., OECD members) to many environmental arrangements, in particular the Framework Convention on Climate Change (FCCC). The ROKG's written response on this issue seemed to indicate that it would align itself with the developed countries in future FCCC negotiations, but was unclear about whether it would assume current developed country obligations under the FCCC. The U.S. has made a bilateral proposal to Korea suggesting that it assume some, but not all, FCCC developed country obligations, and offering to work to convince other OECD members to accept this arrangement. As yet, the Koreans have not responded to our proposal.

TRADE: The Trade Committee (TC) was unsatisfied with Korea's responses in its first review and sought further clarification of a number of ROKG policies. We raised concerns about non-tariff barriers, the Import Diversification Law, harassment of importers, intellectual property and labor practices. Other members raised additional issues. In general, the ROKG responses to these questions are either vague or fail to offer substantive improvements. We are considering our next steps. The TC Chair has offered to hold another session with Korean officials in July if members are still not satisfied, but we doubt that this will lead to concrete progress. The TC is on weaker ground in pressing for policy changes than CIME/CMIT, which can point to a clear-cut set of standards in the Codes.

Also, while the TC's opinion will be communicated to the Council, it does not have a formal voice in the accession process. It may nevertheless make sense to hold another TC session with the Koreans, since silence may be viewed as acceptance of Korea's trade-distorting policies. USTR is contemplating WTO action on many of these issues.

ELSA: Like the Trade Committee, the Education, Labor and Social Affairs (ELSA) Committee does not have a formal role in the accession process. However, given the concerns many members have expressed about Korea's industrial relations policies, the Council will be very interested in ELSA's views. Korea maintains labor laws and practices which contradict ILO freedom of association standards which the OECD has endorsed. The ROKG recently announced the establishment of a Presidential Commission to consider reforms. ELSA welcomed this step, but withheld final judgment until the ROKG takes concrete actions. Committee members also called on the Koreans to demonstrate their commitment to reform by freeing imprisoned labor unionists, ratifying relevant ILO conventions and publicizing a reform agenda and timetable. ELSA asked Korean officials to attend its next meeting in October to report on their progress.

OTHER FACTORS

-- The U.S. has long seen the addition of Korea (on acceptable terms) to the OECD as beneficial, adding another significant player and non-European member to the group and giving us another forum in which to press the Koreans for liberalization.

-- Even though other accession candidates (e.g. Argentina) may be several years away from membership, the standards established with Korea will set precedents for their admission.

-- Korea has indicated that it would like to keep its G-77 membership for as long as two years after joining the OECD, and has in general demonstrated a reluctance to adopt developed country status.

-- Korea has complained that it is being held to a higher standard than other recent members, citing as an example the less stringent scrutiny of Mexico on trade and labor issues.

-- Japan and most other non-European OECD members support conclusion of Korea's accession process in July.

ATTACHMENTS: 1) CIME/CMIT MATRIX
2) OVERVIEW OF THE ACCESSION PROCESS

APPENDIX

RESERVATIONS UNDER THE OECD CODES

(numbers in parenthesis are as of end 1999)

Country	Foreign Direct Investment			Capital Flows		Services	Total
	General	Sectoral	Nat'l Trtmt	List A	List B		
Mexico	1	10	15	12	12	13	63
Czech Rep	0	4	3	11	20	10 (9)	48 (47)
Hungary	1 (0)	2	2	12 (11)	28	11 (8)	56 (51)
Poland	1 (0)	7 (6)	7	7 (3)	3 (3)	12 (8)	37 (27)
Korea	2	8	28 (23)	13	25	11 (8)	87 (79)

Note:

For recent applicants, the Committee has looked at the overall package: FDI, Capital Code, and Invisibles Code. For Mexico, the relatively good Code position overcame many FDI restrictions (plus some of those restrictions did not affect the U.S. due to NAFTA). For Hungary, the excellent FDI position helped a relatively poor capital flows position. For Poland, the legally binding commitments for future liberalization helped sway the Committee. Korea's position at present has it at the high end of the scale in each area with limited commitments for future improvements.

THE ACCESSION PROCESS

When the Council decides to allow a country to begin the accession process, it also decides which OECD Committees will examine the country and which of these committees will be asked to give a formal opinion on the willingness and ability of the candidate to meet the standards of the OECD. In the case of Korea, CIME/CMIT, the Insurance Committee, CFM, CFA, the Maritime Committee and EPOC were asked to give formal opinions. These committees must issue a positive report before the country goes before the Council for final consideration. A negative report from the committees which are not charged with giving a formal opinion would not necessarily prevent consideration by the Council, but Council members would no doubt weigh the views of these committees in their decision making.

The CIME/CMIT Committees, with their responsibility for the OECD Codes, are generally considered the most important part of the accession process. Traditionally, the CIME/CMIT review has been a two step process: an initial examination to identify areas in which the candidate falls short of the minimum standards for membership, followed by a second examination once the country confirms it has corrected the problems identified during the first exam. This precedent was broken with Poland, which required a third CIME/CMIT review to win approval from the Committees. It seems likely that Korea will follow the pattern set by Poland.

Once the Committees have issued their reports, the Council will take a comprehensive look at the candidate's fitness for membership based on all of the information available to it. Like all OECD decisions, the decision to admit a new member must be a consensus decision. Any single member of the Council can, in theory, block the admission of a new candidate. In practice, however, if the candidate has cleared the committee review process, the Council would be unlikely to decide against accession.

The ROKG set itself an ambitious timetable for accession. It did not begin accession in earnest until after its April parliamentary elections and is striving to complete the process before the end of the year so it will not become an issue in the Korean Presidential elections scheduled for 1997. The OECD has been flexible in trying to accommodate Korea's timetable, while at the same time maintaining the integrity of the examination process.

THE WHITE HOUSE

WASHINGTON

WEEKLY INTERNATIONAL ECONOMIC ISSUES MEETING
Thursday, June 20 at 3:00 pm in Room 231

AGENDA

I. Update on Japan Economic/Trade Issues

II. Korea's Accession To The OECD

U.S. Department of Labor

Deputy Under Secretary for
International Affairs
Washington, D.C. 20210

FAX COVER SHEET

May 16, 1996

Subject:	Background and Talking Points on Korean Labor Law and the OECD for the U.S. Delegation to the OECD Ministerial		
From:	Andrew Samet, U.S. Department of Labor Phone: 219-6043 Fax: 219-5983		
To:	State	Joan Spero	647-9763
	State	Bryan Samuel	647-9959
	Commerce	Stuart Eizenstat	482-4821
	NEC	Dan Tarullo	456-1605
	NEC	Malcolm Lee	456-9240
	CEA	Lael Brainard	395-6853

Prepared By:
DOL/ILAB
May 16, 1996

Korea Labor Law and the OECD
Background/Talking Points
U.S. Delegation to OECD Ministerial

Background

The Government of Korea has asked to accede to the OECD by the end of 1996. In the accession process, much concern has been raised about the fact that Korea's labor law has been found by the International Labor Organization to be inconsistent with international standards, particularly in the area of freedom of association. No current OECD member has such serious discrepancies between national labor law and ILO standards.

In April 1996, the Employment, Labor and Social Affairs Committee of the OECD, reviewed Korea's record on labor issues with Korea's Vice Minister of Labor, and expressed deep concern about those Korean labor laws found by the ILO to violate workers' freedom of association and collective bargaining rights. The Committee requested an early indication of a concrete legislative timetable for revising the laws and called for clear political and public signals that would demonstrate the government's resolve to move ahead with reforms. The Korean delegation expressed the government's intention to table labor law amendments for consideration in the September-December 1996 session of the National Assembly.

Immediately following the ELSA meeting, President Kim created a 30-member Presidential Advisory Commission on Labor-Management Reform charged with a) reviewing past labor-management relations; b) revising labor laws, and c) reforming the public sector and labor administration. The Commission will conduct public hearings, surveys, and studies on all aspects of labor relations.

The major Korean violations of international labor standards cited by the ILO in June 1994 include:

-- The prohibition on multiple trade unions and multiple trade union federations, which has denied legal status to the Korean Council of Trade Unions (KCTU, or Minjunochong), a 400,000 member national labor federation.

-- The denial of freedom of association for public employees seeking to form labor organizations, including the prohibition that prevents school teachers from forming unions;

-- The restriction on "third party intervention" in industrial disputes, which makes it a criminal offense for anyone other than a worker to become involved in either the organization of a trade union or take part in an industrial dispute; and

-- The jailing of trade unionists only for labor-related activities.

Suggested Talking Points

-- We fully support Korea's membership in the OECD.

-- We are encouraged that the Government of Korea has acknowledged that serious labor law issues exist and that a program has been initiated to address these problems.

-- We applaud President Kim's steps to revise and reform labor-management relations and labor law, and we look forward to the recommendations and proposals of the Presidential Commission.

-- We hope that changes can be made as soon as possible to bring Korea's labor law into compliance with ILO standards, and we hope new legislation can be considered by the National Assembly by the end of this year.

DEPARTMENT OF TREASURY
OFFICE OF ASIAN AND NEAR EAST NATIONS (INA)
FAX: (202) 622-0349

DATE: 4/5/96

PAGES TO FOLLOW INCLUDING COVER SHEET 2

TO: Lael Brainard

OFFICE/PHONE: 395-6853

FROM:

_______ *TODD CRAWFORD, DIRECTOR*
_______ *NANCY LEE, DEPUTY DIRECTOR*

_______ *ROWENA HOLLOWAY, SECRETARY*

___✓___ *MAUREEN GREWE, ECONOMIST*
_______ *ELIZABETH HUGHES, ECONOMIST*
_______ *JOAN KOTZE, ECONOMIST*
_______ *LOIS QUINN, ECONOMIST*
_______ *TODD SCHNEIDER, ECONOMIST*
_______ *ANDREW VELTHAUS, ECONOMIST*

IF YOU HAVE ANY QUESTIONS, PLEASE CALL ON (202) 622-1710

MESSAGE:

Please call if you have any questions.

Korea
OECD Accession

Suggested Points:

-- The United States welcomes Korea's application to become a member of the OECD. Korea must meet the standards for membership set forth by the Organization.

-- We urge the Korean government to carefully consider the recommendations made by the Committees reviewing Korea's application.

Background:

President Kim announced in early 1994 that Korea intended to apply for membership in the OECD as part of his policy of globalization. Korea submitted its formal application in March 1995 and is already a full member of 5 OECD bodies, an observer in 17, and has outstanding requests for observership in four committees. The accession process includes reviews of Korea's policies by numerous committees. The areas likely to be the most difficult for Korea are investment and capital markets policies and labor standards.

The OECD has two Codes of Liberalization covering capital movements and invisible transactions that are legally binding for all OECD members. Applicants to the OECD must state whether they will need reservations to these codes prior to joining. The Committees on Capital Movements and Invisible Transactions (CMIT) and on International Investment and Multinational Enterprises (CIME), which govern compliance with the OECD Codes, met on April 11 to review Korea. Recommendations for additional reform measures were made in the areas of foreign direct investment and financial services.

Several other committees have already reviewed Korea's compliance with OECD standards in their areas of expertise. The Insurance Committee and Committee on Financial Markets both asked for additional liberalization. Other committees have not yet completed their reviews of Korea's policies, including the Trade Policy Committee, the Committee on Fiscal Affairs and the Employment, Labor and Social Affairs Committee.

Drafted: MGrewe/INA
April 1, 1996

U.S. Department of Labor

Deputy Under Secretary for
International Affairs
Washington, D.C. 20210

FAX COVER SHEET

Date: 4/12/96

To: Lael Brainard

Fax Number: 202-395-6853

Addressee's Phone Number:

From: Andrew Samet

Fax Number: (202) 219-5980

Sender's Phone Number: 202-219-6043

Number of pages including this cover sheet: 5

If there is any problems receiving this fax please call (202) 219-6043

Remarks:

U.S. Department of Labor

Bureau of International Labor Affairs
Washington, D.C. 20210

April 12, 1996
By FAX: 395-6853

To: Lael Brainard

From: Andrew Samet

Re: President's Trip to Korea

It is possible that while in Korea, President Kim will ask for President Clinton's support for Korean membership in the OECD. Of course, we are supportive, but it is important for you to know that we have serious problems with Korea on their labor law and practice. See attached cable.

If admitted under current circumstances, Korea would be the first OECD country with law and practice that has been found inconsistent with international standards on fundamental worker rights by the ILO on repeated and recent occasions.

We are in a dialogue with Korea on some of these issues, and it will be discussed (by me) at the OECD next week. We would want some significant improvements and additional commitments before we finally agree to OECD membership for Korea.

I hope you can assure that the President's briefings reflect this matter.

cc: Jack Otero

UNCLASSIFIED

OUTGOING TELEGRAM

Department of State

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PARIS FOR USOECD; GENEVA ALSO FOR USTR

E.O. 12958: N/A
TAGS: ELAB ETRD ECON OECD PREL KS
SUBJECT: KOREAN ACCESSION TO THE OECD: LABOR LAW ISSUES
REF: (A) 96 SEOUL 2135, (B) 96 PARIS 4619, (C) 96 SEOUL 1118, (D) 95 PARIS 27898
BRUSSELS ALSO FOR USEU PARIS ALSO FOR USOECD

1. THIS IS AN ACTION REQUEST. SEE PARAS. 5-7.

2. SUMMARY: THE ROKG HAS ASKED TO ACCEDE TO THE OECD BY THE END OF 1996. AMONG THE ISSUES COVERED DURING THE ACCESSION PROCESS WILL BE THE CONSISTENCY OF ROK LABOR LAW AND PRACTICE WITH THAT OF CURRENT OECD MEMBERS. THE APRIL 15-17 MEETING OF THE OECD EMPLOYMENT, LABOR AND SOCIAL AFFAIRS (ELSA) COMMITTEE WILL ASSESS WHETHER KOREA HAS MADE SUFFICIENT PROGRESS TO WARRANT THE COMMITTEE'S SUPPORT FOR KOREAN MEMBERSHIP. WASHINGTON AGENCIES BELIEVE THAT EMBASSY AND USOECD SHOULD EMPHASIZE TO THE ROKG THAT A COMMITMENT (AND TIMETABLE) TO FIX SPECIFIC SHORTCOMINGS IN KOREA'S LABOR LAW WILL ENHANCE KOREA'S PROSPECTS FOR OECD MEMBERSHIP, AND THAT USOECD SHOULD ACTIVELY ENCOURAGE SYMPATHETIC DELEGATIONS TO PRESS FOR A CLEAR SIGNAL FROM THE ROKG THAT IT WILL TAKE ACTION TO BRING ITS LABOR LAW UP TO ILO STANDARDS. TALKING POINTS FOR THE ELSA COMMITTEE MEETING WILL BE FORWARDED SEPTEL.

END SUMMARY.

3. WASHINGTON AGENCIES CONCUR WITH REF A AND B VIEWS ON THE IMPORTANCE OF USING THE OECD ACCESSION PROCESS TO ADVANCE OUR OBJECTIVES IN IMPROVING KOREAN LABOR STANDARDS. IN LIGHT OF ROKG SENSITIVITIES ABOUT US BILATERAL PRESSURE, WE DO NOT WANT TO BE IN A POSITION AT THE ELSA COMMITTEE MEETING WHERE THE US IS THE ONLY

DELEGATION PRESSING THE ROKG TO CHANGE ITS LAW, AS WAS THE CASE IN APRIL 1995. WE BELIEVE IT WOULD BE MORE EFFECTIVE TO BUILD MULTILATERAL PRESSURE, BY URGING OECD PARTNERS TO RAISE THEIR CONCERNS ABOUT ROK LABOR LAW AND TO PRESS ROKG REPS AT THE ELSA MEETING FOR AN EXPLANATION OF THE ROKG'S ACTIONS TO COMPLY WITH RECOMMENDATIONS MADE BY THE ILO COMMITTEE ON FREEDOM OF ASSOCIATION, AND ADOPTED BY THE ILO GOVERNING BODY, IN JUNE 1994, TO RESOLVE THE CONCERNS NOTED BY THE ILO AND TO ADDRESS RELEVANT SHORTCOMINGS IDENTIFIED IN THE FOLLOWING LAWS:

-- THE TRADE UNION LAW
-- THE EMERGENCY ADJUSTMENT PROVISIONS IN THE LABOR DISPUTE ADJUSTMENT ACT
-- THE NATIONAL PUBLIC OFFICIALS ACT
-- THE LOCAL GOVERNMENT EMPLOYEES ACT
-- THE PRIVATE SCHOOL ACT
-- THE PUBLIC EDUCATION SERVANTS ACT

THIS APPROACH DOES NOT MEAN THAT THE US SHOULD BE INACTIVE AT THE ELSA COMMITTEE MEETING; RATHER, WE SHOULD WORK TO ENSURE THAT THE US IS JOINED BY A NUMBER OF OTHER DELEGATIONS PRESSING FOR ACTION IN THIS ISSUE. TALKING POINTS FOR THE ELSA COMMITTEE MEETING WILL BE FORWARDED SEPTEL.

4. WASHINGTON AGENCIES ALSO BELIEVE THAT IT WOULD BE USEFUL TO ENCOURAGE THE ELSA CHAIRMAN TO EMPHASIZE THAT THE PREAMBLE TO THE OECD'S CONVENTION STATES THAT THE MEMBERS SHOULD PURSUE THE GOALS OF THE ORGANIZATION "IN A MANNER CONSISTENT WITH THEIR OBLIGATIONS IN OTHER INTERNATIONAL ORGANIZATIONS OR INSTITUTIONS IN WHICH THEY PARTICIPATE OR UNDER AGREEMENTS TO WHICH THEY ARE A PARTY." THIS INCLUDES, INTER ALIA, OBLIGATIONS UNDER THE INTERNATIONAL LABOR ORGANIZATION. (THE ELSA COMMITTEE PARTICIPANTS CONCLUDED IN APRIL 1995 THAT KOREAN PROGRESS IN ADHERING TO BASIC LABOR STANDARDS WOULD BE IMPORTANT IN REVIEWING KOREA'S APPLICATION FOR OECD ACCESSION.)

5. ACTION USOECD: DEPARTMENT NOTES THAT THE ROK HAS OFTEN RESPONDED UNFAVORABLY WHEN THE US HAS APPLIED BILATERAL PRESSURE ON CERTAIN ISSUES; THIS HAS OCCASIONALLY RESULTED IN NATIONALIST BACKLASH. WE HAVE HAD SOME SUCCESS IN ELICITING CHANGES WHEN OUR APPROACH HAS BEEN COUCHED IN TERMS OF ENCOURAGING ACTIONS THAT WILL ENHANCE KOREA'S STANDING INTERNATIONALLY. IN THIS SPIRIT, MISSION SHOULD PROVIDE, ON A CONFIDENTIAL BASIS, THE CHAIRMAN AND DELS FROM KEY PARTNERS WITH THE NON-PAPER IN PARA 8 AS BACKGROUND MATERIAL TO HELP PREPARE FOR DISCUSSION OF KOREA'S LABOR LAW SITUATION. THE PAPER SHOULD NOT REPEAT NOT BE TABLED BY THE US OR BY THE CHAIRMAN AS A US DOCUMENT AT THE ELSA MEETING. IN APPROACHING OTHER KEY DELEGATIONS (PERHAPS INCLUDING, AMONG OTHERS, AUSTRALIA, JAPAN, CANADA, FRANCE, BELGIUM,

SWEDEN, SWITZERLAND, NORWAY), MISSION SHOULD EXPLAIN THAT WE BELIEVE THEIR ACTIVE ENGAGEMENT AT THE ELSA COMMITTEE MEETING WOULD BE HELPFUL IN OVERCOMING ROKG COMPLACENCY ON THIS ISSUE, AND SHOULD ALSO DRAW ON THE FOLLOWING POINTS:

-- AS YOU KNOW, THE APRIL 15-17 MEETING OF THE ELSA COMMITTEE WILL ASSESS WHETHER KOREA HAS MADE SUFFICIENT PROGRESS TO WARRANT THE COMMITTEE'S SUPPORT FOR KOREAN MEMBERSHIP.

-- WE MADE THE POINT LAST YEAR THAT A NUMBER OF PROVISIONS OF ROK LABOR LAW ARE NOT UP TO ILO STANDARDS. WE ALSO NOTED RECOMMENDATIONS MADE BY THE ILO COMMITTEE ON FREEDOM OF ASSOCIATION, AND LATER ADOPTED BY THE ILO

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BEGIN TEXT

DISCREPANCIES EXIST BETWEEN ROKG LABOR LAWS AND THOSE IN CURRENT OECD MEMBER COUNTRIES. THE INTERNATIONAL LABOR ORGANIZATION'S GOVERNING BODY AND THE COMMITTEE ON FREEDOM OF ASSOCIATION HAVE NOTED A NUMBER OF CONCERNS ABOUT THE ROKG'S APPROACH TO INDUSTRIAL RELATIONS, ALL OF WHICH REPRESENT VIOLATIONS OF THE RIGHT TO FREEDOM OF ASSOCIATION. THESE CONCERNS INCLUDE THE FOLLOWING:

-- THE PROHIBITION ON MULTIPLE TRADE UNIONS.

THE ROKG'S FAILURE TO GRANT LEGAL STANDING TO THE KOREAN COUNCIL OF TRADE UNIONS (KCTU), A 400,000 PLUS MEMBER NATIONAL LABOR FEDERATION, IS VERY TROUBLING. THE TRADE UNION LAW, WHICH RESTRICTS THE FORMATION OF UNIONS WHOSE

THAT ARTICLE 12(3) OF THE SAME ACT BE AMENDED IN LINE WITH THE PRINCIPLE THAT "THE RIGHT TO STRIKE MAY BE RESTRICTED OR PROHIBITED ONLY FOR PUBLIC SERVANTS EXERCISING AUTHORITY IN THE NAME OF THE STATE."

-- PROHIBITIONS OF THE UNIONIZATION OF TEACHERS

KOREA'S BAN ON THE UNIONIZATION OF TEACHERS IS NOT FOUND IN ANY CURRENT OECD MEMBER. SECTION 66 OF THE NATIONAL PUBLIC OFFICIALS ACT, SECTION 58 OF THE LOCAL GOVERNMENT EMPLOYEES ACT, AND SECTION 53(4) OF THE PUBLIC EDUCATION SERVANTS ACT COLLECTIVELY BAR TEACHERS FROM THE RIGHT TO ASSOCIATE FREELY, ORGANIZE, OR BARGAIN COLLECTIVELY. PRIVATE SCHOOL TEACHERS ARE ALSO PROHIBITED FROM ORGANIZING. THE ILO CALLED ON THE ROKG TO "ENSURE IN THE FUTURE THAT NO PERSON IS DISMISSED OR DISCRIMINATED

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OUTGOING TELEGRAM

Department of State

AGAINST FOR EXERCISING HIS RIGHT TO FORM AND JOIN AN ORGANIZATION OF HIS OWN CHOOSING AND THAT TEACHERS HAVE THE RIGHT TO ESTABLISH AND JOIN ORGANIZATIONS OF THEIR OWN CHOOSING."

-- EXCESSIVE USE OF ADMINISTRATIVE AUTHORITY

THE ILO COMMITTEE ON FREEDOM OF ASSOCIATION FOUND SEVERAL SECTIONS OF THE TRADE UNION ACT (TUA) TO VIOLATE INTERNATIONAL STANDARDS WITH RESPECT TO GOVERNMENT INTERFERENCE IN THE INTERNAL AFFAIRS OF TRADE UNIONS:

A) THE TUA ALLOWS ADMINISTRATIVE AUTHORITIES TO ORDER THE MODIFICATION OF A UNION'S CONSTITUTION OR RULES. THE ILO/COFA DETERMINED THAT "NATIONAL LEGISLATION SHOULD ONLY LAY DOWN FORMAL REQUIREMENTS AS REGARDS TRADE UNION CONSTITUTIONS, AND THE CONSTITUTIONS AND RULES SHOULD NOT BE SUBJECT TO PRIOR APPROVAL AT THE DISCRETION OF THE PUBLIC AUTHORITIES."

B) THE ILO/COFA REQUESTED THAT THE ROKG REVISE ARTICLE 30 OF THE TUA, UNDER WHICH ADMINISTRATIVE AUTHORITIES MAY ASK TRADE UNIONS FOR FINANCIAL OR OTHER DATA WHENEVER THE AUTHORITIES REQUEST.

C) SECTION 34(3) OF THE TUA ENABLES ADMINISTRATIVE AUTHORITIES TO CHANGE OR CANCEL THE CONTENTS OF A COLLECTIVE AGREEMENT IF IT DEEMS THEM "ILLEGAL OR UNJUSTIFIABLE." THE ILO/COFA CONSIDERED THIS A THREAT TO THE PRINCIPLE OF AUTONOMY IN THE BARGAINING PROCESS, AND REQUESTED THAT THE ROKG AMEND IT.

-- THE USE OF "NATIONAL ECONOMIC SECURITY" TO TERMINATE STRIKES

ARTICLE 40(1) OF THE EMERGENCY ADJUSTMENT PROVISIONS OF

THE LABOR DISPUTE ADJUSTMENT ACT, STATES THAT THE MINISTER OF LABOR "MAY RENDER A DECISION FOR AN EMERGENCY ADJUSTMENT IN CASE AN ACT OR DISPUTE IS RELATED TO THE PU[illegible] INTEREST, [illegible] OF A LARGE SCALE OR OF A [illegible]IFIC CHARACTER, AND THAT, BECAUSE OF SUCH AN ACT OF DISPUTE THERE EXISTS THE SAME DANGER WHICH MIGHT IMPAIR THE NATIONAL ECONOMY OR ENDANGER THE DAILY LIFE OF THE GENERAL PUBLIC." WHILE THE ILO HAS NOT CITED THE LAW AS BREAKING INTERNATIONAL STANDARDS, ITS APPLICATION IN THE 1993 HYUNDAI DISPUTE RAISES SERIOUS QUESTIONS. THE ROKG ARGUED THAT THE IMPACT ON THE NATIONAL ECONOMY AND ON THE DAILY LIFE OF THE GENERAL PUBLIC WAS "TREMENDOUS." THE ILO HAS QUESTIONED WHETHER THE AUTOMAKER INDEED PROVIDED ESSENTIAL SERVICES, AND REITERATED THAT THE ROKG'S INTERPRETATION OF LAW, IN ANY CASE, VIOLATED WORKERS RIGHT TO STRIKE.

(END TEXT)

9. WASHINGTON AGENCIES APPRECIATE USOECD'S AND EMBASSY'S CONTINUED REPORTING ON THIS ISSUE.

CHRISTOPHER

prepared for Kantor's Worldnet interview on Korea - for Korean audience. Nov 95

TALKING POINTS

INTRODUCTION

- Thank you for inviting me to participate today. Congratulations on Korea's 32nd annual Trade Day.

- Korea has much to proud of:

  -- Total trade volume exceeded $200 billion for first time in October.

  -- By end of this year, Korea's total trade is expected to reach $260 billion. Korea will vie with China for position of the 11th largest trading nation in world.

  -- Korea is also expected to double its exports from $100 billion this year to $200 billion by the year 2000, on par with France and Britain.

  -- Korea ranks among world's top five exporters in semiconductors, automobiles, shipbuilding, steel and electronics.

- Clear that Korea has benefited greatly from an open, global trading system. Very appropriate that the KBS host a teleconference on developments in world trade.

U.S- KOREA BILATERAL RELATIONS

- First, will comment on overall U.S.-Korean trade relations.

- Korea is very important trading partner for U.S.:

  -- Korea is our fifth largest market overall and our fourth largest agricultural market.

  -- US exports rose more than 50 percent in first seven months of 1995, compared to same period last year.

  -- US trade balance with Korea shifted from a $1.1 billion deficit to a $1.5 billion surplus over same period.

- Some Koreans have expressed dismay that US would have any differences with Korea on trade matters given this surplus. Don't think this view makes sense.

- **Trade surplus is a recent development, and has more to do with macroeconomic developments and exceptional events rather than trade liberalization.**

-- Korea's economy is growing at a rate of almost 10 percent per year, which fuels demand for foreign capital goods and consumer durables. Exchange rate shifts of Japanese yen and US dollar have improved competitiveness of US goods.

-- A drought in 1994, a drop-off in Chinese corn exports and a number of aircraft purchases helped boost US exports.

- Our trade balance has not been a one way street. US has long been a major market for Korea.

-- Last year Americans purchased $20 billion dollars or 24 percent of Korea's exports. Korean exports to US increased again this year, and trade between the two countries will exceed $50 billion.

- Given sheer volume of bilateral trade between our two nations, not unusual to experience trade friction. A lot more business takes place, so more likely problems will arise.

- New WTO has also affected US-Korean trade diplomacy, as it will with other trading partners.

-- Reforms in dispute settlement procedures make it more effective for countries to resolve disputes in Geneva. US initiated two cases against Korea this year.

-- WTO has new or strengthened disciplines covering more areas of commerce than ever before. US now has broader legal basis to pursue concerns than existed under old GATT, such as the new Sanitary and Phytosanitary Agreement, TRIPS and Services.

- Like other contracting parties to the WTO, Korea has undertaken significant commitments to open its market. US will expects that those commitments will be implemented.

- That said, our exporters still find Korea a very difficult place to do business.

- Some of the barriers U.S. exporters often encounter were also cited a recent article in the November 1 Korean Times. These include:

-- Non-transparent and unpredictable rules and regulations, or a propensity to over-regulate.

-- "Narrow Nationalism" or a "closed attitude to the outside world." One result of this is a discriminatory, anti-import trade regime.

-- A national ecomony that is geared to Korean producers, at expense of Korean consumers. Export industries are built-up with government support and protection from imports.

- Over the years, we have tried many different approaches in an effort to work out our differences in a reasonable, effective manner, such as the Dialogue for Economic Cooperation.

- Will keep trying. While we highly value our important relationship with Korea, we also must protect our economic interests.

- U.S. expects Korea to exercise economic leadership commensurate with its level of economic achievement and position in the global trading system-- at home, in APEC, in WTO, and as it aspires to join OECD.

REPUBLIC OF KOREA

Key Economic Challenges

- Maintaining robust growth without overheating - A surge in capital investment in 1995 expanded the current account deficit and pushed real GDP growth close to 10%. Inflationary concerns proved to be unfounded as inflation was below 5%. The ROKG forecasts slower real GDP growth of 7-7.5% for 1996.
- Managing the transition from state-influenced export-oriented production with protected domestic markets to integration into the global economy.
- Strengthening the domestic financial sector - Domestic financial institutions are weak and inefficient with low returns on equity compared to other East Asian countries. Directed credit and limitations on foreign financial firm participation reduce competition between domestic firms and stifle innovation.

Bilateral Issues and Relations

- Treasury and the Ministry of Finance have held Financial Policy Talks since 1990 to improve market access for U.S. firms and foster liberalization of financial and capital markets. Most recent FPT session was March 1995 in Washington. Intensive discussions were also held with Korea during the WTO negotiations.
- Trade disputes abound with the most recent related to medical equipment, and automobiles. Concerns have arisen about Korea's implementation of a recent agreement on shelf-life for meat products.
- OECD accession talks are proceeding. Primary areas of concern are financial services and capital markets, and labor standards. Key upcoming committee meetings are Financial Markets in February and CMIT/CIME meetings in April.
- Korea had a bilateral trade deficit with the U.S. of $1 billion through October 1995 (U.S. Customs data), following a bilateral surplus of $1.6 billion in 1994. (Korean figures report a trade deficit with the U.S. of $6.2 billion for 1995.)
- FDI approvals for U.S. projects during the first six months of 1995 were $367 million, up 62 percent from the prior year. Total net U.S. FDI in Korea was $3.6 billion at the end of 1994. Net flows from the U.S. in 1994 totalled $399 million.
- There were 11 U.S. banks in Korea with 25 branches and two banks with representative offices during 1994. In 1995, two new banks opened a branch and a rep office, and Citibank obtained approval for 3 new branches. Serious market

access issues remain. U.S. securities firms have only three branches and eight representative offices, reflecting significant impediments to operations.

Economic Performance

- Real GNP growth for 1995 was 9.5%.
- Consumer price inflation has slowed to 4.7% in 1995 after a 1994 rate of 6.2%. For 1996, the ROKG has set a target inflation rate of 4.5%.
- In October 1995, the unemployment rate was 1.9%, down from a 2.4% annual rate in 1994.
- Per capita GNP was projected to reach $10,000 in 1995.
- FDI into Korea on an approval basis in the first 9 months of 1995 rose 27% from the same period in 1994, totalling $1.4 billion.

Fiscal Policy

- ROKG's 1995 budget incorporated a nominal 15.9% rise in spending from 1994, including 700 billion won (US$875 million) for redemption of state debt. The 1995 budget deficit is estimated at 0.3% of GNP.
- The draft 1996 budget provides for a 15% increase in expenditures and 16% increase in revenues from 1995, for a projected consolidated public sector budget deficit of approximately 0.2% of GDP. The biggest spending increases are for education (27%) and public project expenditures (21%). There is also a large increase in regional development expenditures, due to the upcoming elections.

Monetary Policy

- 1995 money supply growth was 13.7%, within the BOK target range of 12-16%, following difficulty controlling the money supply in 1994, when M2 grew by 18.9% due to surging private credit demand.
- The Bank of Korea recently announced it would cease to offer "window guidance" to domestic banks on their lending rates. This may signal a change by the BOK to use interest rate targets, in addition to its traditional use of M2 growth targets, to implement monetary policy.
- During 1995, the won appreciated against the dollar from about 790 early in the year to around 765 at year end. In January, the won moved back to a level around 780 to the dollar.

- While the appreciating yen earlier this year help Korea's export competitiveness, it also contributed to the record trade deficit as imports of machinery and intermediate goods from Japan became more expensive.

- As of December 1, 1995, the won-dollar exchange rate daily fluctuation band expanded from 1.5% to 2.25%. MOFE will eliminate the daily range during the second half of 1996.

External Accounts

- Korea's balance of payments was $1.4 billion in surplus through October 1995, rebounding from a $1.5 billion deficit in the first quarter.

- The current account balance was a $8.2 billion deficit in the first ten months of 1995, and is projected to total 2% of GDP for the year.

- Korea's overall trade balance for 1995 was in deficit by $9.87 billion, or 2.2% of GDP. This tops Korea's record high trade deficit of $9.65 billion in 1991.

  - For the first time, Korea's imports and exports have topped the annual $100 billion mark, with export growth of 30% and import growth of 32%.

  - Korea's trade deficit with Japan was $14.1 billion through October.

- Forecast for the 1996 trade deficit is $7 billion, assuming export growth of 13% and import growth of 10%. The forecast represents a return to trend growth rates after an unusually strong year for both import and export growth in 1995. Soft overseas demand, anticipated due to a weakening of the yen, is expected to lower export growth. Dampened investor confidence will limit import growth.

- Gross external debt increased from $56.8 billion in 1994 to $70.2 billion in June 1995, due to use of foreign loans to pay for plant and equipment investment. Net external debt rose from $10.2 billion to $17.3 billion in the same period.

Relations with the IFIs

- Korea received about $8.5 billion from the IBRD and "graduated" from World Bank assistance in December 1994. Korea's contribution to IDA is still rather modest compared to its IDA procurements.

- Korea is considering joining the General Arrangements to Borrow under the IMF, but has requested increases in its quotas for both the IMF and IDA.

- Korea has applied for membership in the Inter-American Development Bank.

INA/MGrewe, 2/1/96

KOREA
Summary Statistics
(US$ billions unless otherwise indicated)

Population in millions 1994e: 45.1
Per Capita GDP (1995e): $10,000

Pop. Growth Rate: 1%
Fiscal Year: Calendar

	1991	1992	1993	1994	1995	1996
GDP						
GNP in Current Dollars	280.8	296.3	313.4	364.3		
Real GNP Growth (%)	8.4	4.7	5.3	8.2		
Real GDP Growth (%)	9.1	5.1	5.5	8.4	9.5	7.5 f
Saving and Investment						
Gross Domestic Investment (% GNP)	39.3	36.2	34.8	35.4		
Gross National Savings (% GNP)	36.4	35.0	34.9	35.4		
Fiscal Policy						
Government Expenditure (% GNP)	20.1	19.8	19.2	18.0		
Fiscal Balance (% GNP)	-1.9	-0.7	-0.3	0.8		
Monetary Policy						
Average CPI Change (%)	9.3	6.2	4.8	6.3	4.7	4.5 f
Money Supply (M2, annual average)	18.6	18.4	18.6	18.9	13.7	11.5-15.5f
Money Market Rate (Interbank)						
Balance of Payments						
Exports	69.6	75.2	82.2	93.7	125.2	141.5 f
(% change)	10.3	8.0	9.3	14.0	30.0	13.0 f
Imports	76.6	77.3	83.8	96.8	135.1	150.0 f
(% change)	17.7	0.9	8.4	15.5	32.0	11.0 f
Trade Surplus	-7.0	-2.1	-1.6	-3.1	-9.9	-8.5 f
(% GNP)	-2.5	-0.7	-0.5	-0.9	-2.2	
Trade Surplus with U.S.	1.5	2.1	2.3	1.6	-1.0 *	Oct
Current Account	-8.7	-4.5	0.4	-4.5	-8.2	Oct
(% GNP)	-3.1	-1.5	0.1	-1.2	-2.0	
External Debt						
Gross External Debt	39.1	42.8	47.2	56.9	70.2	Jun
(% GNP)	13.9	14.4	15.1	15.6		
Net External Debt	11.9	11.0	10.2	10.2	17.3	Jun
(% GNP)	4.2	3.7	3.3	2.8		
Debt Service (% Xg&s)	6.0	6.0	9.2	n.a.		
International Reserves						
Gross Reserves (excl. gold)	13.7	17.1	20.7	25.7	32.2	Oct
Months of Import Cover	1.8	2.1	2.5	3.5	3.8	Jun
Exchange Rate						
Average Nominal Rate	733.4	780.7	802.7	803.4	768.5	781.2 Jan
% change vs. US $ (- = apprec.)	3.6	6.4	2.8	0.1	-4.3	1.7 Jan
Real Effective Rate (1980=100)	98.6	92.9	91.2	92.5	91.7	Jun
Standard & Poor Rating						AA-
Moody's Rating						A1

* U.S. Customs data reports a Korean bilateral trade deficit of $1 billion through 10/95, but Korea reports a 1995 bilateral deficit of $6.2 billion.

Sources: IMF, Bank of Korea, Embassy reporting

OASIA/INA:MGrewe 31-Jan-96

U.S. Investment in Korea and Asia-Pacific, 1992-94

$millions

	Korea				Asia & Pacific			
Position at Yearend	**1994**	**1993**	**1992**	**%Chg., 93-94**	**1994**	**1993**	**1992**	**%Chg., 93-94**
All Industries	3,612	3,124	2,912	15.6%	108,402	92,561	79,962	17.1%
Petroleum	88	74	72	18.9%	19,144	17,243	15,065	11.0%
Manuf.	1,391	1,264	1,199	10.0%	41,577	34,190	30,100	21.6%
Whlsl. Trade	422	309	309	36.6%	16,829	13,873	12,262	21.3%
Banking	1,426	1,259	1,155	13.3%	7,259	6,059	5,103	19.8%
Fin. & Ins.	204	168	165	21.4%	13,426	11,660	9,091	15.1%
Services	29	28	28	3.6%	3,259	2,337	1,543	39.5%
Other	51	23	(17)	121.7%	6,907	7,200	6,799	-4.1%
Total Capital Flow (outflow)								
All Industries	(399)	(229)	101		(11,613)	(8,767)	(7,391)	
Petroleum	(4)	(3)	(3)		(1,812)	(1,691)	(1,043)	
Manuf.	(130)	(76)	179		(6,001)	(3,134)	(1,891)	
Whlsl. Trade	(99)	1	54		(1,888)	(1,433)	(1,447)	
Banking	(125)	(99)	(114)		(587)	(500)	(460)	
Fin. & Ins.	(8)	(13)	(16)		(734)	(1,731)	(1,025)	
Services	(5)	Negl.	(2)		(900)	(585)	(153)	
Other	(28)	(39)	2		309	306	(1,372)	

The year-to-year change in position is the sum of the direct capital flow plus a valuation adjustment.

Capital flow is defined as the sum of reinvested earnings, net change in equity holdings, and net change in intercompany debt.

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