

Country Report

Republic of Korea (South Korea)



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We selected the Republic of Korea, a.k.a. South Korea, for our country report. Amid the recent development in its neighboring North Korea's shifting position on nuclear arms issue, there has been a growing concern over security and political stability in the region. This report summarizes our findings on business facts that are relevant to international trade and logistics in a tabular format following the questionnaire guideline provided in the course.

1	What are the rough dimensions of the country in miles?	38023 SqMiles Total 37911 SqMiles Land 112 SqMiles Water
2	What is the population? What percentage live in the 3 largest cities?	48.324 million (July 2002 est.)
3	What is the predominant language? How widely used is English in business?	Korean, English is recognized as the main business language with any non-Korean speakers. English is part of public education curriculum starting from 6th grade. Increasing number of youngsters are taught English as early as five.
4	In the last three years have there been any instances of political instability?	Not internally, but there has been an international concern over its neighboring country's--North Korea--position on nuclear arms.
5	What is the currency? What is the exchange rate to US dollars? How has it changed in the past two years?	South Korean Won (KRW) Exchange rate 1197.3 (last week)
6	What time zones exist in this country? What time is it in the capital when it is noon in Cambridge, MA?	One time zone within the country; shares the same time zone as Japan; no daylight savings time; it is 2 AM when Cambridge is noon
7	What unique requirements exist for products sold in this country? (e.g. testing, packaging, language, safety, etc.)	Import permit is required for certain food items. Korean language label is required for all items. Pharmaceutical products are subject to more specific labeling requirement (Exhibit A)
8	What regulations or limitations exist regarding freight transport?	Coastal water freight transport is limited to non-foreign entities only. Deep sea freight transport is not restricted.
9	Are there saltwater ports which can handle large ships? How far are the major population centers from those ports?	There are ten major salt water ports in Korea all within a day's trucking distance to major cities. Due to chronic traffic congestion, two days is often quoted. (Exhibit B)
10	What business terms and financial instruments are typically used for import commercial transactions?	Subject to individual negotiation with most standard options available (Exhibit C)
11	How large is a typical supermarket or retail food store (square feet or meters)?	There is a growing trend for 60,000+ sqft Mega store openings replacing many less than 10,000 sqft street corner stores
12	Do any of the large US discount retailers (Wal-Mart, K-Mart, Toys 'R Us) have stores in this country?	Wal-Mart; since July 1998, 12 Supercenters located in 10 cities; Costco 2 stores; Many fastfood chains including McDonalds, KFC, TGIF, etc.

13	Describe the highway and rail infrastructure. Are they: extensive, moderate, or primitive nationwide?	Extensive; also has well-developed delivery services that offer one day delivery to most locations within the country
14	How bad is the traffic congestion in the major cities?	Traffic congestion is a major concern; in Seoul typical normal congestion is about that of Cambridge's typical rush-hour traffic
15	Which countries are the primary trading partners? For each partner, in which direction is the balance of trade (import or export)?	US, Japan, China are Korea's major trading partners totaling ~50% on both import and export. US is the biggest export partner and Japan is the biggest import partner (Exhibit D)
16	Is security an issue in logistics? Why?	So far no, but it is increasingly becoming an issue due to raised security requirements by trading partners around world.
17	How reliable is the phone system? How long for a consumer to get a phone line installed? How extensive is the mobile phone network?	Well developed phone system; less than a week for phone line installation, often within a day or two; mobile phone network is well developed and extensive
18	How many people have internet access?	22.23 million users (2001) Access is readily available
19	What is the price of regular gasoline, \$ per gallon?	~1400W/liter = ~\$4.5/gallon (1400*3.785412/1195)
20	What trade restrictions exist? What are the highest import duties – which products and countries of origin? What embargoes exist, if any?	Trade restrictions on weapons; typical import duties 10-20% with another 20% on luxury goods; no embargoes (Exhibit F)
21	What customs documents are required for an import shipment? For export?	Export declaration can be done electronically unless special good requirements apply (Exhibit E). For import there is a longer list: Import Declaration ; Import Approval Document (Applicable to subject goods) ; Commercial Invoice ; Price Declaration ; Duplicates of the Bill of Lading (B/L) or Airway Bill (AWB) ; Detailed Packing List ; Certificate of Origin (Applicable to subject goods) ; Required documents before the acceptance of declaration for goods subject to confirmation by the director of the customs office, and confirmation procedures according to designated notices under Article 145 of the Customs and Excise Law. (Confirmation of proof includes such items such as permissions and approvals). ; Copy of the bonded transportation declaration (approval) form. (Applicable to declared goods only)

22	How common is “bribery” (US definition) in trade transactions? (normal, infrequent, very rare). What are the legal ramifications?	Very rare and the legal ramifications can be costly if caught. However, there can be much "entertainment" expenses associated in the deal making
23	How strong are the unions? In what industries are they an important factor? Are they predominantly national or local? What impact do they have on logistics?	Most active union activities in south Korea can be found in blue-collar manufacturing groups. However, their unionization movement has been growing into service sectors as well as white-collar workforce in the past decade. Dock workers are unionized and had staged a highly publicized strike as recent as 2001

Exhibit A: Labeling, Marking Requirements

Country of origin labeling is required for commercial shipments entering Korea. The Korean Customs Service (KCS) publishes a list of the country of origin labeling requirements by Harmonized System Code number. Further labeling and marking requirements for specific products, such as pharmaceutical and food products, are covered by specific regulations from the Korean Government agencies responsible for these items. Korean labels, except for country of origin markings, which must be shown at the time of customs clearance, are allowed to be locally attached on products in the bonded area either before or after clearance. The Ministry of Agriculture, Forestry and Fisheries has its own set of standards for markings for agricultural products. Local importers usually print Korean labels when imported quantities are not large, and can consult with the KCS as to where they can be attached to the product.

For pharmaceuticals, all imported containers and packages must be marked in a conspicuous place to show:

- 1) country of origin and manufacturers' and importers' names and addresses;
- 2) name of product;
- 3) date of production and batch number;
- 4) names and weights of ingredients;
- 5) quantity;
- 6) number of units;
- 7) storage method;
- 8) distribution validity date;
- 9) instructions for use;
- 10) import license number;
- 11) effectiveness;
- 12) import price and suggested retail price.

Imported food products should have Korean language labels. (Stickers may be used instead of Korean language labels, but such stickers must be in Korean. It should not be easily removable and should not cover the original labeling). Labels should have the following inscriptions printed in letters large enough to be readily legible:

Product Name

Product type: If a product type (or a product kind, in case a product type is not classified) is classified in the standards & specifications for foods in accordance with the provision of the Food Sanitation Act, the product type should be indicated.

Importer's business license number and the name of the agency which issued the business license

Importer's name and address, and address where products with defects may be returned or exchanged

Manufacturing date, month and year (only designated products are subject to this category): On the manufacturing date, lot number and bottling date should be indicated on liquor products which are not required to identify a shelf life.

Shelf life: Food products should identify their shelf life stipulated by the manufacturer. However, sugar, ice cream, edible ice, chewing gum (only in small-packages) and liquor whose shelf life is not determined by the Food Code may be exempted from the shelf life indication requirement. The shelf life for products that are subject to mandatory shelf life limits should meet such standards.

Content: Weight, volume or number of pieces (if the number of pieces is shown, the weight or volume must be indicated in parentheses)

Ingredient(s) or raw material(s) and the contents of the ingredient(s) (only when certain ingredients are used for the product name or for part of the product name): the names of at least top five ingredients or raw materials should be indicated.

Nutritional information for special nutritional foods, health supplementary foods, products wishing to carry nutritional labels and products wishing to carry a nutrients emphasis mark

Other items designated by the detailed labeling standards for food et al: This includes cautions and standards for use or preservation (for products which must be kept at a low temperature, such temperature should be indicated), detailed labeling requirements for canned products, etc.

Note: Labeling standards for food additives, equipment, container and packaging for food products are set separately. Labeling Standards for Food et al is available from the American Chamber of Commerce in Seoul.

In 1997, the number of items required to list import prices was reduced from 108 to 40. In response to foreign complaints, the government decided that it will eliminate the price marking requirement for the remaining 40 industrial and liquor products in the second half of 1998.

Effective April 1, 1998, the government made the following changes in relation to country of origin listing requirements: (1) defined "minimum processing" in more detail to increase transparency; (2) gave a more concrete description of when country of origin listing is required; and, (3) replaced value added reports used to determine the country of origin for six items using the Harmonized System Code Number instead.

Exhibit B: Salt water ports in Korea

Port of Pusan

Port of Incheon

Port of Tonghae

Port of Kunsan

Port of Mokp'o

Port of Yosu

Port of Pohang

Port of Masan

Port of Ulsan

Port of Cheju

Korea's Vision for the Port Industry

Looking at the world map, the Republic of Korea is part of a small peninsula at a corner of the continent of Asia. But with the map turned upside down, the country is a marine giant with vast potential, capable of reaching out to the world from its front yard, the Pacific Ocean.

From a historical perspective, the 21st century will usher in a fourth wave of the ocean age, or ocean century. Aspiring to become a marine superpower in the New Ocean Age, Korea has designated 'modernization and expansion of port facilities' as one of the nation strategic projects.

In order to provide a framework for the establishment and implementation of an integrated and efficient marine policy that actively corresponds to the changes in the world marine environment, the Korean government launched the Ministry of Maritime Affairs and Fisheries on August 8, 1996.

Attractive Investment Opportunities in Port Construction and Operation Businesses

Ports are not only the core distribution arm of the Korean economy where 99.7% of all export and import cargo is handled, but also at the center of the logistics, waterfront industries, fisheries and international trade sectors. As such, the coastal axis, which centers on ports, is gaining attention as the new frontier of national land development.

For your reference, before going into the details of individual projects, geographical conditions of Korean ports and cargo traffic prospects should be mentioned. As you know, these two factors are vital pieces of information for the decision-making process in port investment.

Korea is located in the center of the world's trunk routes, including the North American route, the Southeast Asian route, the European route and so on. Also, ports in Korea possess more favorable conditions compared the competing ports of Kobe and Yokohama in handling transshipment cargo originating from China, Russia and Northwestern Japan. Considering its numerous geographical advantages, the Korean government plans to promote Korea as the logistics hub of Northeast Asia.

Total cargo traffic is expected to increase to 1.4 billion tons by the year 2011. Container cargo will also increase from the current 6.7 million TEU to 20.2 million TEU during the same period. However, at present, port facilities are capable of handling only 84% of the expected total cargo traffic volume, and container handling facilities('98) are only 80% sufficient. Based on the geographical conditions discussed earlier and cargo traffic prospects, Korean ports fully satisfy pre-conditions for investment.

Exhibit C: Commonly used trade terms

- **CIF** (cost, insurance, freight) to a named overseas port of import. Under this term, the seller quotes a price for the goods (including insurance), all transportation, and miscellaneous charges to the point of debarkation from the vessel. (Typically used for ocean shipments only.)
- **CFR** (cost and freight) to a named overseas port of import. Under this term, the seller quotes a price for the goods that includes the cost of transportation to the named point of debarkation. The cost of insurance is left to the buyer's account. (Typically used for ocean shipments only.)
- **CPT** (carriage paid to) and **CIP** (carriage and insurance paid to) a named place of destination. Used in place of CFR and CIF, respectively, for shipment by modes other than water.
- **EXW** (ex works) at a named point of origin (e.g., ex factory, ex mill, ex warehouse). Under this term, the price quoted applies only at the point of origin and the seller agrees to place the goods at the disposal of the buyer at the specified place on the date or within the period fixed. All other charges are for the account of the buyer.
- **FAS** (free alongside ship) at a named domestic port of export. Under this term, the seller quotes a price for the goods that includes charges for delivery of the goods alongside a vessel at the port. The seller handles the cost of unloading and wharf age; loading, ocean transportation, and insurance are left to the buyer.
- **FCA** (free carrier) to a named place. This term replaces the former "FOB named inland port" to designate the seller's responsibility for the cost of loading goods at the named shipping point. It may be used for multimodal transport, container stations, and any mode of transport, including air.
- **FOB** (free on board) at a named port of export. The seller quotes the buyer a price that covers all costs up to and including delivery of goods aboard an overseas vessel. The exporter should quote CIF whenever possible, because it has meaning abroad. It shows the foreign buyer the cost of getting the product to a port in or near the desired country.

Exhibit D: South Korea's import/export status (2001)

Rank	Main Destinations of Exports	Percentage of Total(%)	Main Origin of Imports	Percentage of Total (%)
1	U.S.	20.7	Japan	18.9
2	China	12.1	U.S.	14.6
3	Japan	11.0	China	9.4
4	Hong Kong	6.3	Saudi Arabia	5.7
5	Taiwan	3.9	Australia	3.9
6	Germany	2.9	UAE	3.3
7	Singapore	2.7	Indonesia	3.2
8	Britain	2.3	Germany	3.2
9	Indonesia	2.2	Taiwan	3.0
10	Malaysia	1.7	Malaysia	2.9

Source: Ministry of Commerce, Industry and Energy(MOCIE)

Exhibit E: Import/Export declaration and procedures

Import/Export Declaration and Procedures

1. Export Declaration

In principle, all export declarations are processed through the Electronic Data Interchange (EDI). Export declarations and evidentiary documents

in exceptional cases are submitted to the director of the customs office on a yearly basis.

(1) Export Declaration

Applicant Applicants desiring to export goods must submit an export declaration at the relevant customs office and receive acceptance. A consignor, customs broker (association and corporation) and finished product supplier can all apply for export declarations, but generally it is left to the customs broker to be processed.

(2) Declaration Documents

Export declarations are currently being processed on-line where the applicant transmits the necessary information through the EDI and receives the acceptance or rejection notification from the customs office after confirmation. Therefore, in normal cases, the export declaration process is completed without submissions of paper documents to the customs office. However, goods listed as per the following require the submission of a paper export declaration form, along with all necessary evidentiary documents to the customs office.

- Goods subject to the director of the customs office's approval under the regulations of Article 145 of the Customs and Excise Law.
- Goods subject to strategic goods approval.
- Transfer goods subject to re-export upon import or due to breaches of contract.
- Export of counterfeit goods and cases potentially threatening intellectual property rights.
- Goods associated with cases of fraudulent export undertaken with the aim of receiving tax returns.
- Other cases of illegality regarding exports in which there is sufficient information regarding criminal liability.

(3) Point of Declaration

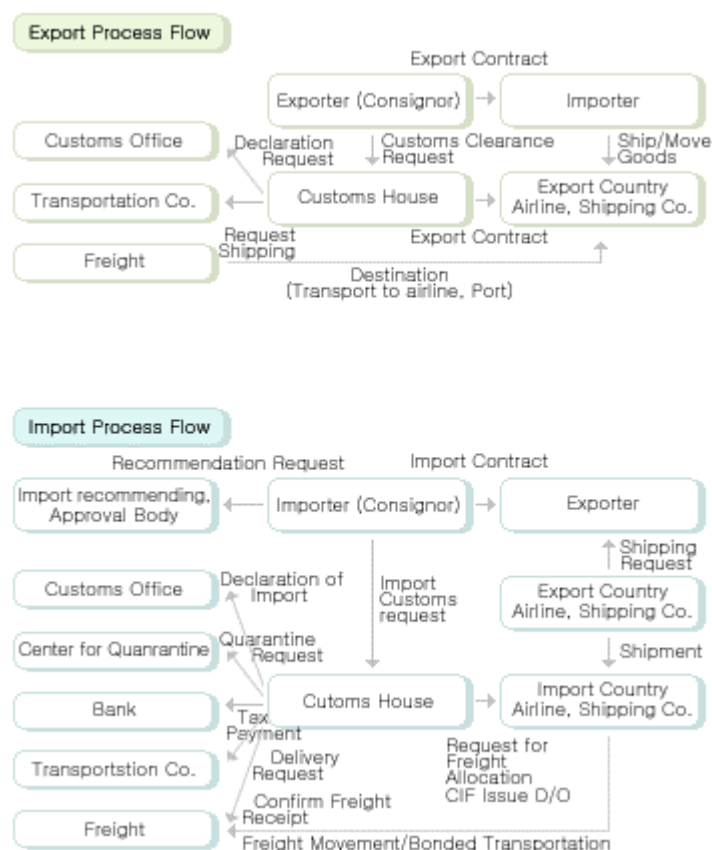
When the applicant is notified electronically as to the errors of declaration or when amendments are desired, the amended information must be re-submitted under its initial application number before a declaration number is assigned. The point of declaration when utilizing the EDI system is the point when the EDI system issues a declaration number. However, for paper declarations, the point of declaration is when the customs office receives and accepts the document.

The director of the customs office reviews the EDI applications and evaluates whether they comply with the export declaration methods and accepts or rejects them. However, for cases subject to paper applications, acceptances are granted only after the content is fully reviewed. In order to contribute to the efficiency of the customs clearance process, all cases, which are not subject to paper declarations, of valuations under US\$5,000, or are not subject to the customs system's criminal liability selection standards, are automatically accepted on-line.

2. Import Declaration

Applicable regulations, taxable goods and persons subject to tax payment obligations are so confirmed through import declarations. In other words, the applicable regulations are effective at the point of declaration, and taxable goods are confirmed also at the point of declaration depending upon their characteristics and quantities.

Export/Import Declaration and Process Flow



(1) Import Declaration Applicant

Only consignors, customs brokers, associations or corporations are eligible to apply for import declarations. The applicant name for cases where the consignor directly applies for the declaration must be made under the name of the registered customs brokers under the relevant regulations

(2) Import Declaration Period

Import declarations in principle are possible only after the freight has arrived via sea or air. However, for exceptional cases, import declarations and acceptances can be received before the arrival of the freight.

There are four classes of import declaration period: declarations before port departure, declarations before port arrival, declarations before bonded area arrival and declarations after registration in the bonded area. Importers may choose the declaration method (period) according to their specific needs. Import declarations are effective from the point when the results of a submitted declaration are returned to the applicant.

(3) Relevant Customs Office

- ⌘ The relevant customs office for declarations before port departure and before port arrival is the office holding jurisdiction over the expected port of arrival of the ship carrying the imported goods. (E.g., the Busan customs office for Busan).
- ⌘ The customs office for declarations before the arrival into a bonded area is the office holding jurisdiction over the bonded area.
- ⌘ The customs office for declarations after registering into the bonded area is the office holding jurisdiction over the bonded area.

(4) Required Documents

The consignor may submit photocopies and faxes of following required documents. If a document cannot be submitted before the declaration acceptance for unavoidable reasons, it may be submitted after the declaration is accepted within a decided period of time.

"ç Import Declaration

"è Import Approval Document (Applicable to subject goods)

"é Commercial Invoice

"ê Price Declaration

"ë Duplicates of the Bill of Lading (B/L) or Airway Bill (AWB)

"ì Detailed Packing List

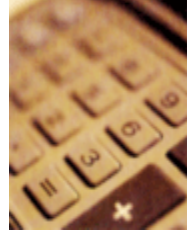
"í Certificate of Origin (Applicable to subject goods)

"ï Required documents before the acceptance of declaration for goods subject to confirmation by the director of the customs office, and confirmation procedures according to designated notices under Article 145 of the Customs and Excise Law. (Confirmation of proof includes such items such as permissions and approvals).

"ï Copy of the bonded transportation declaration (approval) form. (Applicable to declared goods only)

Exhibit F: Customs and tariff policies

Customs and Tariff Policies



1. Trade Barriers, Customs Regulations, Tariffs Rates and Import Taxes

The results of the negotiations of the Uruguay Round formed under the General Agreement on Trade and Tariffs have strengthened the system of world trade. Under the agreement of the Uruguay Round, Korea agreed to liberalize the import of almost all those items it previously restricted. In 2001, the tariff on imports of industrial products was 7.5 percent on average. Under the WTO "Zero for Zero" initiatives, Korea is in the process of lowering tariffs to zero on most or all products in the following sectors: paper, toys, steel, furniture, semiconductors and farm equipment.

For some sensitive items, customs tariffs can be adjusted every six months plus or minus 40 percent within the limits of the basic rate. As of July 1, 2001, 70 items were identified as having "close to zero tariffs," up from 60 items as of the end of 2000 and up from 55 items as of July 1, 2000.

Among the 70 items, 20 are related to agriculture, forestry or fishery. In operating the quota rate system, the government has agreed to notify foreign business associations such as the American Chamber of Commerce in Korea on instances when local industries recommend items for tariff quota designation to the government.

On the other hand, the successful completion of the information technology agreement (ITA), which eradicates tariffs for information related devices such as semiconductors until 2000, has created a tariff reduction effect of approximately US\$5 billion worldwide. In accordance with the Information Technology Agreement (ITA), Korea is reducing tariffs on 203 types of telecommunication and information related equipment to zero. The tariff reduction was completed for most items in 2000, but implementation will be phased in for 10 equipment categories (six by 2002 and four by 2004). Korea has also participated in the ITA-2 negotiations aimed at eliminating tariffs on 108 other items by the target year of 2002.

Korea has a flat 10 percent Value Added Tax on all imports and domestically manufactured goods. A special excise tax of 10 percent to 20 percent is also levied on the import of certain luxury items and durable consumer goods. Tariffs and taxes must be paid in Korean won within 15 days after the goods have cleared customs.

Most duties are assessed on an ad valorem basis. Specific rates apply to some goods, while both ad valorem and specific rates apply on a few others. The dutiable value of imported goods is based on the value of the price at the time of declaring imports. Import duties are not assessed on capital goods and raw materials imported in connection with foreign investment projects. Authorization to import on a duty free basis, items and supplies designated in a foreign investment application usually requires the Ministry of Finance and Economy's approval of a foreign investment project. In addition, raw materials used in the production of export goods are often exempt from duty, and certain machinery, materials, and parts used in designated industries such as the high-technology and aerospace industries enter Korea either tariff free or at reduced rates. Tariffs are zero on materials used for educational purposes and on computer software.

2. Free Trade Zones

The government has designated several free trade zones for the processing of imported materials into finished goods for export. The free trade zones are specially established industrial areas where foreign-invested firms can manufacture, assemble, or process export products using freely imported, tax-free raw materials, or semi-finished goods. Tax incentives are provided for foreign invested firms. The Masan Free Trade Zone is located near Busan in southern Korea. The Iksan Free Trade Zone is located near Kunsan on the western coast. The Kunsan Free Trade Zone opened in July 2001. There are three industrial parks exclusively for foreign firms in Gwangju and Cheonan (for high technology industries) and in Daebul. These parks offer incentives including large discounts on land rental fees and self-contained shopping and educational facilities. To encourage foreign investment, the government set the minimum foreign ownership requirement at 10 percent for Gwangju and Daebul and 30 percent for Cheonan.

Exhibit H: Trade policy environment

Trade Policy Environment



Korea strongly supports open multilateral trading. In fact, Korea is positioned to benefit tremendously from an open system. The Korean economy has grown rapidly since Korea joined the GATT in 1967. This was made possible by open trade under the GATT/WTO system.

Since its accession to the GATT, Korea has been fully committed to complying with multilateral rules and obligations, and maintaining a free and open market at home. Korea actively participated in the multilateral trade negotiations of the Tokyo and Uruguay Rounds. Since the WTO's inception in 1995, the Korean government has, in cooperation with its trading partners, concluded agreements on trade in information technology products, financial services, and basic telecommunications services.

In the past two years, the Korean government has actively participated in discussions on the New Round with the belief that early launching of a comprehensive round is essential to the strengthening of the multilateral trading system.

In December 1996, Korea joined the OECD. As part of its accession commitments, Korea further liberalized the financial sector, in particular, the foreign exchange and capital markets. Through its participation in the various activities of the OECD, including the review of its economic development and regulatory regime, Korea has strengthened its commitment to market openness and stepped up measures to enhance market access.

Despite the serious economic downturn caused by the 1997 financial crisis, Korea has continued to implement its commitments under the WTO agreements. The crisis in fact, prompted Korea to accelerate liberalization. Much progress was made in improving the environment for foreign direct investment (FDI). Korea evinces the fact that continued economic reform and liberalization of markets offer the best possible path to increased prosperity.

In 1998, Korea consolidated the dispersed trade functions of the government under the Ministry of Foreign Affairs and Trade (MOFAT). This institutional change was designed to improve the trade policy-making process and to implement the policies in a consistent manner. As a result, restrictions on trade in Korea are gradually being lifted. Restrictions on many import items have been removed altogether. The remaining restrictive measures apply mostly to basic agricultural products. The Korean government also converted its system of export authorization from one that was positively based to one negatively oriented. It also applies a negative system for import authorization.

Individual imports previously had to receive import authorization from the government, but as of July 1, 1996, the government excluded import licenses (I/L) from the required submission documents for import authorization, streamlining the customs clearance process. In 1999, the government abolished the diversification program of imports (which targeted imports from Japan) and is in the process of implementing measures to simplify and increase the transparency of the import authorization process.

As a member country of the World Trade Organization (WTO), Korea is aggressively lowering tariffs and trade barriers. Regardless of the origin of imports, imported goods are subject to the same tariffs, their value being calculated mostly on the basis of CIF prices.