

IN-DEPTH ANALYSIS

Republic of Korea: Impact of the leadership crisis and security threats on the economy

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ABSTRACT

After decades of authoritarian military rule, South Korea — an East Asian nation on the southern half of the Korean Peninsula — has opened up politically. The current president, Park Guen-hye, faces a range of domestic problems. Recently, a corruption scandal triggered widespread protests and caused her approval ratings to plummet.

The US continues to be an important ally in both economic and political terms, particularly in light of the deteriorating relations with North Korea, whose nuclear programme has accelerated in 2016. Economically, South Korea, one of the world's most rapidly aging societies, faces major challenges despite its strong growth and export record. Measures are needed to tackle low employment among women and young people and to support the elderly as well as to promote social inclusion. The large proportion of irregular workers on the labour market accounts for the big wage gap and high relative poverty rate. Economic restructuring in China, South Korea's biggest trading partner, also has a spill-over effect.

In July 2016, trade between the EU and South Korea was fully liberalised, apart from certain agricultural products, under the ambitious 'second generation' free trade agreement (FTA) signed in 2011. The FTA has benefited both sides. It does not contain an investment chapter and could be revised to incorporate one. However, public concerns in both South Korea and the EU would first have to be addressed.

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1 Key issues and developments

- South Korea's first female president, Park Guen-hye, was elected in February 2013 and is now entering the final year of her presidency. Her popularity has steadily declined and plunged to new lows after a corruption scandal concerning the prominence of her close friend, Choi Soon-sil, erupted in late October 2016. After protests by hundreds of thousands of South Koreans, President Park publicly apologised and reshuffled her cabinet. However, calls for her impeachment¹ continue.
- The South Korean government is facing serious domestic problems, although exports increased by over 10 % from 2014 to 2015. Industrial performance has been affected by China's changing trade model and rebalancing of the Chinese economy². In response, the government has launched a new set of fiscal policies, adopted a package of stimulus measures and made efforts to boost productivity through innovation and structural reform. It is looking into improving social security cover (currently well below the OECD average), reducing gender inequalities and promoting social cohesion. Cutting household debt and improving women's and youth employment are also priorities.
- A more transparent economic strategy focusing the on small and medium-sized enterprises (SMEs) that are particularly active in the service sector has not been universally embraced by the country's *chaebols*, the large post-war conglomerates still mostly controlled by the founding families.
- Relations with North Korea continue to be problematic. The leader, Kim Jong-un, has continued his predecessors' space and nuclear programmes, launching intercontinental rockets in December 2012 and on 7 February 2016. The year 2016 in particular has witnessed an acceleration of North Korean nuclear aggression, with five nuclear tests so far. The United Nations Security Council condemned these grave violations of North Korea's international obligations in its resolutions³. With collaboration from the US, South Korea subsequently toughened its response, encouraging sanctions and installing a ballistic anti-missile system, the Terminal High Altitude Defence (THAAD), in July 2016.
- Relations between South Korea and People's Republic of China have been tested, in particular, by the South China Sea ruling of the Permanent Court of Arbitration⁴ based in The Hague, and by the unprecedented numbers of Chinese fishermen operating in South Korean waters. In December 2015, a free trade agreement with China, which is South Korea's top trading partner, entered into force.

¹ <http://www.ndtv.com/topic/south-korea/news>

South Korea's Million-Strong March 19.11.2016: <http://thediplomat.com/2016/11/south-koreas-million-strong-march/>

² European Investment Bank: Occasional Paper No142,

<https://www.ecb.europa.eu/pub/pdf/scpops/ecbocp142.pdf?e627863b2fce0a26dd6c2890dae23885>

³ UN Press Statement, 6 September 2016:

<https://www.un.org/press/en/2016/sc12509.doc.htm>

⁴ <https://pca-cpa.org/en/documents/pca-conventions-and-rules/>

- The EU-South Korea Strategic Partnership has forged stronger economic and political relations since 2010 and the eighth summit took place on 15 September 2015. The EU is one of the country's largest investor, helping to generate jobs and wealth. Trade between the EU and South Korea takes place largely under the first of the 'new generation' Free Trade Agreements (FTAs), provisionally applied since 1 July 2011 before formally entering into force in December 2015. Apart from substantial market liberalisation, the FTA also includes provisions for non-tariff and regulatory barriers and mutual protection for geographical indications. The FTA appears to benefit both parties, the EU and South Korea, as EU imports and exports increased 9.2 % and 10.8 % respectively in 2015 and continue to show an upward trend.

2 European Parliament–South Korea: Milestones

17-19 June 2015	The 19 th EP-Republic of Korea inter-parliamentary meeting was held in Seoul.
22 January 2015	The 18 th EP-Republic of Korea inter-parliamentary meeting was held in Brussels.
1 June 2014	The Framework Agreement between the EU and Republic of Korea entered into force following ratification by the Member States and consent by the European Parliament (EP).
16 January 2014	The 17 th EP-Republic of Korea inter-parliamentary meeting was held in Strasbourg.
8 November 2013	The seventh summit between the European Union (EU) and the Republic of Korea (ROK) took place in Brussels.
10 January 2013	The 16 th EP-Republic of Korea inter-parliamentary meeting was held in Brussels.
17 December 2011	The EP passed a legislative resolution (by 465 votes to 128, with 19 abstentions) consenting to the conclusion of the EU-Korea FTA. This was the first international agreement to which the EP consented following the entry into force of the Treaty of Lisbon.
May 2011	South Korea's National Assembly organised the second G 20 Speakers' consultation.
2009-2010	The full EP Delegation to South Korea visited the country in June 2010, during the aftermath of the Cheonan incident, and the Delegation's Bureau visited South Korea in April 2009, before North Korea's missile test of 25 May 2009. Neither visit included a visit to the North.
2004-2009	The Delegation for Relations with the Korean Peninsula was established during the EP's sixth term (2004-2009). The ROK was previously covered by the delegation that covered ASEAN, while the Democratic People's Republic of Korea (DPRK) was under the aegis of the Foreign Affairs Committee (AFET).
11 December 2001	Kim Dae Jung, President of Republic of Korea, addressed a formal sitting of the European Parliament in Strasbourg.

3 Political situation in South Korea

3.1 Overview

The border between North and South Korea is one of the most heavily militarised borders in the world.

President Park Guen-hye, the country's first woman president, was elected in December 2012 with 51.55% of the vote.

Her approval ratings have plummeted since the corruption scandal concerning her close friend

The Republic of Korea (South Korea), an East Asian nation on the southern half of the Korean Peninsula, **shares one of the world's most heavily militarised borders with North Korea.** After decades of authoritarian military rule — including the presidency of Park Chung-hee, who ruled from 1961 after seizing power in a coup 1979 and is the father of current President Park Guen-hye — the constitution of the Korean Sixth Republic⁵ of 1987 stipulated a separation of powers between the three branches of government: the legislature, the executive and the judiciary. It also allowed for significant political liberalisation, including greater freedom of the press and an increased role for the country's National Assembly. The role of president, partly modelled on the US example (called an 'imperial presidency'), is still central to South Korea's politics⁶. The president is the head of state, elected by direct popular vote for a single five-year term, and has the power to appoint the prime minister with the consent of the National Assembly. **President Park Guen-hye was elected in December 2012 with 51.55 % of the vote, becoming the country's first woman president.** She is also the first presidential candidate to receive more than half of the vote since the end of authoritarian rule in the country in 1988⁷.

Park is now in the final 14 months of her presidency, with elections for a new president scheduled for December 2017. **Her popularity has been declining steadily since April 2014** when her administration came under heavy criticism after the Sewol ferry sank en route from Inch'ŏn (Incheon) to Cheju (Jeju) Island, resulting in the deaths of all but 172 of the nearly 500 passengers on board, most of them high-school students⁸. On 21 April 2015, the prime minister, Lee Wan-koo, resigned after just two months in office. Mr Lee was accused of receiving gifts from a businessperson, Sung Wan-jong, who hanged himself on 9 April 2015.

Since the corruption scandal concerning her close friend, Choi Soon-sil, which surfaced in late October 2016⁹ and led to mass protests in Seoul, Park's approval ratings have plummeted to around 5 %. Despite a public apology on 4 November 2016, Park faces calls from the public to resign or face impeachment¹⁰. On 2 November 2016, the Presidential Blue House (Cheong

⁵ WIPO: <http://www.wipo.int/wipolex/en/details.jsp?id=7145>

⁶ The Korean president is inter alia head of state and commander-in-chief of the armed forces.

⁷ The World Factbook, CIA <https://www.cia.gov/library/publications/the-world-factbook/geos/ks.html>

⁸ <https://www.britannica.com/place/South-Korea/The-Sixth-Republic>

⁹ South Korean President Agrees to Withdraw Prime Minister Nominee, 8.11.2016, <http://www.voanews.com/a/south-korean-president-agrees-to-withdraw-pm-nominee/3586087.html>

¹⁰ BBC News <http://www.bbc.com/news/world-asia-37869993>

Choi Soon-sil, which erupted in late October 2016.

South Korean prosecutors are to question President Park over allegations of political corruption.

If the National Assembly passed a motion for the president's impeachment and this was upheld by the Constitutional Court, an early election would be called.

The next presidential election is scheduled for 20 December 2017, unless there is an early election.

3.2 Parliament

South Korea, a high-income, industrialised country, is held up as an example of successful economic and political development.

Wa Dae) nominated Yim Jong-yong, the chair of the Financial Services Commission, as the new finance minister and deputy prime minister. On 8 November 2016, **President Park announced her decision, after a meeting with Chung Sye-kyun, the speaker of South Korea's opposition-controlled National Assembly, to allow the country's parliament to select a new prime minister.** Park also agreed to allow that person control of the Cabinet.

South Korean prosecutors are set to question President Park over allegations of political corruption related to the Choi Soon-sil scandal¹¹.

Park has appointed Yoo Yeong-ha, a former member of the standing committee of the National Human Rights Commission, as her defence attorney¹². South Korea's constitution does not allow a sitting president to be prosecuted, but investigations are permissible. **If Park resigned, an election would have to be held within 60 days to choose a new president, who would serve a full five-year term.** For her impeachment, a motion for impeachment would have to be passed by at least two-thirds (or 200 members) of the National Assembly, suspending the president from her duties. Depending on how the Constitutional Court then ruled, either Park would be reinstated or an early election would be held. Hundreds of thousands of Koreans gathered in central Seoul in the largest demonstrations South Korea has seen since its pro-democracy movement toppled authoritarian rule in the late 1980s¹³. Prosecutors have indicated that the president was complicit in Choi Soon-sil's crimes¹⁴.

The 19th South Korean presidential election is scheduled for 20 December 2017. Under current law, the election is decided in a single round on a first-past-the-post basis. The president is limited to a single term in the office, so Park Geun-hye cannot seek re-election. The president-elect will take office on 25 February 2018¹⁵.

South Korea, a high-income, industrialised country, is considered an example of successful development in both economic and political terms.

It has evolved into a fully-fledged multi-party democracy. The unicameral **Kuk Hoe** (National Assembly) consists of 300 seats, which are directly elected every four years. In the voting system, 253 seats are decided by a simple

¹¹ South Korean prosecutors to question President Park Geun-hye, 13 November 2016, <http://www.bbc.co.uk/news/world-asia-37966494>

¹² The Korea Times, 15.11.2016: https://www.koreatimes.co.kr/www/news/nation/2016/11/116_218221.html

¹³ South Korea's Leadership Crisis, 17.11.2016: <http://www.cfr.org/south-korea/south-koreas-leadership-crisis/p38503>

¹⁴ Prosecutors link South Korean president to corruption scandal, 20.11.2016 : https://www.washingtonpost.com/world/prosecutors-link-south-korean-president-to-corruption-scandal/2016/11/20/66a21e3d-4667-4d50-910d-8c992c98a0d0_story.html

¹⁵ <http://www.globalsecurity.org/military/world/rok/politics.htm>

MPs from four political parties as well as independents were elected to the Assembly on 13 April 2016.

In a surprise victory, the Minjoo Party of South Korea defeated President Park's Saenuri Party.

majority direct vote in the 253 single-member district constituencies, while 47 seats are filled by proportional representation¹⁶. Vacancies of district constituency seats arising between general elections are filled through by-elections. Vacancies of proportional representation seats are filled by the 'next-in-line' candidates of the political party concerned¹⁷.

Members from four political parties as well as independents were elected to the Assembly¹⁸ following the most recent parliamentary elections held on 13 April 2016. These elections took place amid anxiety over an economic slowdown and rising youth unemployment (12.5 %¹⁹ in February 2016)²⁰. The elections were held shortly after the UN Security Council strengthened sanctions on the Democratic People's Republic of Korea (DPRK) in response to a nuclear test in January 2016 and the use of ballistic missile technology in February and on 10 and 18 March 2016²¹. The turnout was relatively low at 58 %, although represented an increase from the 54 % turnout in the 2012 elections.

The Minjoo Party of South Korea created a surprise by defeating President Park's Saenuri Party by a one-seat margin, winning 123 seats in the 300-member National Assembly. The Saenuri Party, with 122 seats, down 35 on the previous elections, ceased to be the largest parliamentary force for the first time since 2000. **The People's Party**, a new party established in February 2016 by former school dean Ahn Cheol-soo, performed well, taking 38 seats. The 4th largest party, the Justice Party, won 6 seats and Independents got 11 seats²². The number of seats won by the Minjoo Party of Korea includes the Speaker. In accordance with the Act of the National Assembly, the Speaker may not belong to any party during his term in office. As a result, both Minjoo and Saenuri Parties had 122 seats.

In September 2016, the Saenuri Party filed petitions with the Constitutional Court and the prosecution against the Assembly speaker of the Minjoo Party, alleging that he abandoned his political neutrality by supporting a motion by the opposition Minjoo Party to dismiss the new agriculture minister. The current parliamentary law did not include specific rules on neutrality except that the speaker is not allowed to be affiliated with any party while in the post²³.

¹⁶ The Diplomat, Why South Koreans Voted for Change, 25.4.2016:

<http://thediplomat.com/2016/04/why-south-koreans-voted-for-change/>

¹⁷ Asian Parliamentary Assembly: <http://www.asianparliament.org/parliament/electoral-system/kuk-hoe--national-assembly--/57/32/view/>

¹⁸ IPU Parline database, Rep. of Korea: http://www.ipu.org/parline-e/reports/2259_E.htm

¹⁹ Youth unemployment reaches record high 12.5 %, 16.3.2016:

http://www.koreatimes.co.kr/www/news/nation/2016/06/116_200530.html

²⁰ Youth unemployment rate was recorded at 8.5 % in October 2016, up from 7.4 % in October 2015: <http://www.tradingeconomics.com/south-korea/unemployment-rate>

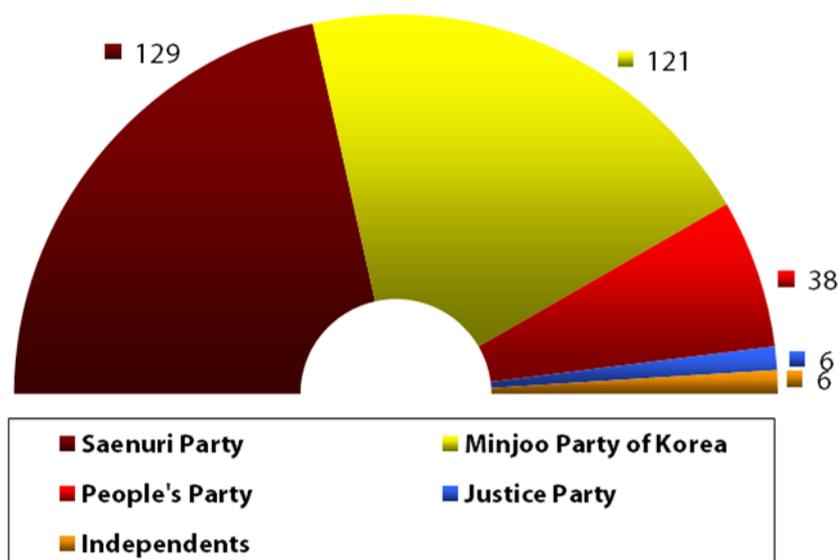
²¹ UN Security Council, 18.3.2016, Resolution 2270: Press Release SC/12293-DC/3615: http://www.securitycouncilreport.org/atf/cf/%7B65BF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/s_res_2270.pdf

²² The National Assembly of the Republic of Korea :

http://korea.assembly.go.kr/mem/mem_04.jsp

²³ The Global Security: <http://www.globalsecurity.org/military/world/rok/politics.htm>

Figure 1:
Composition of the
National Assembly - as of 4
November 2016



Source: [National Assembly of the Republic of Korea](#)

Negotiation Group (as of 4 November 2016)	Electoral District	Proportional Representation	Total
Saenuri Party (새누리당)	112	17	129
The Minjoo Party of Korea (더불어민주당)	108	13	121
The People's Party (국민의당)	25	13	38
Non-negotiation: Justice Party (정의당)	2	4	6
Non-negotiation: Members with No Political Party Affiliation (무소속)	6	0	6
Total	253	47	300

The speaker of the National Assembly, Chung Sye-kyun, recently voiced his disappointment with the 'unchecked and absolute power of the president'.

On 28 October 2016, the Speaker of the National Assembly, Chung Sye-kyun, expressed his disappointment with the 'unchecked and absolute power of the president' and the lack of fiscal autonomy of local governments stating 'the ration between national and local taxes as 8:2, pointing to the reality of 20 % autonomy'²⁴.

3.3 Human rights

There are human rights issues, including restrictions to freedom of

Although Korea is classified as a 'free' country with a high freedom rating of 83/100²⁵, on-going **human rights issues exist**. **Freedom of assembly** has proven particularly controversial, with police using unnecessary force during

²⁴ Parliament, Speaker underscores Constitutional amendment for decentralisation, 4.11.2016, http://korea.assembly.go.kr/wha/new2_read.jsp

²⁵ Freedom House, Freedom in the World 2016, <https://freedomhouse.org/report/freedom-world/freedom-world-2016>

assembly and to the right of conscientious objectors to exemption from military service.

a vigil walk on 16 April 2014 in memory of the Sewol ferry accident, seriously injuring one protestor.

In another clampdown on the right to peaceful assembly, on 4 July 2016, the Central District Court in Seoul convicted Han Sang-gyun, the leader of the **Korean Confederation of Trade Unions (KCTU)**, for his role in organising a number of demonstrations, the most prominent of which was the 14 November 2015 agricultural rally²⁶. In a rally in Seoul another protestor was seriously injured from the blast of police water cannon, and on 29 September 2016 he died²⁷.

Other human rights issues within South Korea concern the continued denial of the **right of conscientious objectors to be exempted from military service**, the exploitation of migrant agricultural workers, and concerns over freedom of expression in the **context of repeated incidents of intimidation and imprisonment under the National Security Law (NSL)**. South Korea still has the death penalty, although it is 'abolitionist in practice' having not applied it for at least 10 years²⁸.

3.4 Press and media freedom

Threats to press freedom in South Korea's relatively robust media landscape prompted civic protests in 2015.

President Park's administration has continually sought to stifle criticism of its policies, invoking the National Security Law and a criminal ban on defamation.

Threats to press freedom in South Korea's relatively robust media environment prompted civic protests in the country and raised concerns abroad in 2015²⁹. South Korea scored 33 (where 0 is the best score and 100 the worst) in a 2016 Freedom House press freedom report.

Freedom of the press is guaranteed by the constitution and generally respected in practice. Article 7 of the National Security Law prescribes imprisonment for praising or expressing sympathy for North Korea. **The administration of President Park has continually sought to suppress criticism of its policies, invoking the National Security Law and a criminal ban on defamation.** The government also introduced a series of regulatory measures that could curtail freedom of the press or expression, such as stricter requirements for registering an online newspaper and a provision allowing third parties to request the removal of defamatory internet content.

²⁶ Amnesty International <https://www.amnesty.org/en/latest/news/2016/07/south-korea-five-year-sentence-against-union-leader-a-chilling-blow-to-peaceful-protest/>

²⁷ Bloomberg, Hunger Strike Suspends Policy Debate in South Korea's Parliament, 27 September 2016, <http://www.bloomberg.com/news/articles/2016-09-27/hunger-strike-suspends-policy-debate-in-south-korea-s-parliament>

²⁸ Amnesty International, <https://www.amnesty.org/en/countries/asia-and-the-pacific/south-korea/>

²⁹ <https://freedomhouse.org/report/freedom-press/2016/south-korea>

3.5 Military forces on the Korean peninsula

South Korea's military forces are significantly smaller than North Korea's.

The Republic of Korea's Armed Forces consist of around 630 000 armed personnel, around 500 000 of which belong to the army, 65 000 to the navy, and a further 65 000 to the air force. **The Korean People's Army, the military forces of North Korea, has nearly twice as many troops**, at around 1 106 000³⁰.

On 5 September 2016, the Minister of National Defence (MND) announced that the South Korean government was allocating a record KRW 40.33 trillion (USD 36.49 billion) to the country's 2017 defence budget, which represents an increase of 4 % percent from 2016³¹.

The other military forces on the Korean peninsula belong to the US, with South Korea under the US 'nuclear umbrella', and are known as **US Forces Korea (USFK), consisting of 28 500 troops**.

The Opcon transfer would be part of a broader scaling-back of the US military presence on the peninsula.

In 2007, it was agreed that command of the joint US-Korean forces (Opcon) would be transferred from the South Korea-US Combined Forces Command (CFC), to a new Korean Command (KOPCOM) by April 2012. In 2010, following the sinking of Cheonan, the deadline was postponed at South Korea's request until 2015. In October 2014, the transfer date was again pushed back, to 2023, due to North Korea's rising aggression. **The Opcon transfer would form a part of a broader scaling-back of the US military presence on the peninsula**. South Korea currently covers approximately 40 % of the costs of the presence of the US troops on the peninsula, and is also a leading purchaser of US weapon systems³².

4 Foreign policy and international relations

South Korea recognises the status of its powerful neighbours in the region, notably China and Japan.

South Koreans often refer to their status in the Asia region as that of 'a shrimp among whales', recognising its powerful regional neighbours, most notably China and Japan. In an effort to encourage trilateral cooperation between the three countries, Park proposed the Northeast Peace and Cooperation Initiative (NAPCI), although critics argue that the initiative has failed to produce concrete results³³.

South Korea and its regional neighbours are, on the one hand, increasingly mutually reliant on each other economically. South Korea, Japan and China are currently negotiating a tripartite free trade agreement³⁴. While on the other hand countries' interests in the region are increasingly divergent in political-security terms, struggling to cooperate on key political and security

³⁰ Congressional Research Service, "US-South Korea Relations", 20 October 2016

³¹ <http://www.globalsecurity.org/military/world/rok/budget.htm>

³² Congressional Research Service, "US-South Korea Relations", 20 October 2016

³³ Congressional Research Service, "US-South Korea Relations", 20 October 2016

³⁴ Tenth Round of Negotiations on a Free Trade Agreement (FTA) among Japan, China and the ROK, 4-9 April 2016: http://www.mofa.go.jp/press/release/press4e_001099.html

issues such as the environment, maritime disputes and the nuclear threat posed by North Korea.

As a result, **the country has established a dense network of bilateral relations. Of the world's 190 nations**³⁵ — excluding Taiwan and North Korea — there are only three countries with which South Korea has not established diplomatic relations: Cuba, Syria, and the former Yugoslav Republic of Macedonia. Seoul also participates in 94 international organisations, and prides itself on providing the current UN Secretary-General, Ban Ki-moon³⁶.

In 2016, South Korea's foreign policy has been strongly influenced by North Korea's growing nuclear and military aggression.

In 2016, South Korean foreign policy has been heavily affected by the growing nuclear and military aggression of North Korea, which has simultaneously served to strengthen its relationship with the US (with the two countries working on joint responses), and weaken its relationship with China, North Korea's longstanding 'ally'. The rise of North Korea may also push South Korea towards closer ties with Japan, uniting against a mutual threat.

South Korea is a member of the G20 group. The 5th G20 Summit where heads of state and government deliberated on the global financial system and the world economy took place in Seoul on 11–12 November 2010.

4.1 Relations with North Korea (Inter-Korean relations)

Officially, North and South Korea remain at war and the border separating them is one of the most heavily fortified frontiers in the world.

Officially, North and South Korea remain at war, having never signed a formal peace treaty after the 1950-1953 Korean War. The border between the two countries is one of the most heavily fortified frontiers in the world. Most of North Korea's 1.1 million-strong army are positioned along **the 250 km long demilitarised zone (DMZ)**, within easy striking distance of the South Korean capital, situated only 40 km away.

Despite an apparent thawing of relations from mid-2013 characterised by renewed dialogue, tensions resurfaced on 4 August 2015 with two South Korean soldiers injured by landmines in the DMZ.

Recent tensions have focused mainly on North Korea's escalating nuclear programme.

Recent tensions between the two countries have focused mainly on North Korea's escalating nuclear programme. On 9 September 2016, North Korea conducted its fifth nuclear test, and the second in the same year. 2016 has also witnessed 22 North Korean ballistic missile launches, an unprecedented number³⁷. Subsequently, South Korea has toughened its response, collaborating with the US and regional neighbours to increase international pressure on the North in particular through the framework of

³⁵ Korean Ministry of Foreign Affairs, https://www.mofa.go.kr/ENG/ministry/relations/index.jsp?menu=m_50_120

³⁶ UN : <http://www.un.org/press/en/content/secretary-general>

³⁷ The Economist: <http://www.economist.com/blogs/graphicdetail/2016/09/troubling-trajectory>;

UN A/70/1037-S/2016/771: http://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/s_2016_771.pdf

the UN Security Council. Simultaneously, **the UN Security Council (UNSC) has sought to restrain North Korea's nuclear capability.** The US and South Korea in particular have repeatedly called on member states to redouble their efforts to implement sanctions against North Korea³⁸. On 6 September, following ballistic missile launches on 5 September, the UNSC released a statement strongly condemning the launches, on the grounds that they threaten to increase global tensions and divert resources away from the urgent needs of the North Korean people³⁹. On 8 September, North Korea protested the statement, and the following day conducted its fifth nuclear test of 2016, and its most powerful yet⁴⁰.

In July 2016, South Korea and the US agreed to deploy the Terminal High Altitude Area Defence (THAAD) anti-missile system to counter the North Korean threat.

On 8 July 2016, South Korea agreed with the US to deploy (although not yet done) the Terminal High Altitude Area Defence (THAAD) anti-missile system to counter the North Korean threat. The South has also announced a 'Korean Massive Punishment and Retaliation' plan, imposed new unilateral sanctions, and increased its monitoring of the North's human rights abuses. **In September 2016, South Korea refused to provide humanitarian assistance following flooding in the North,** and in October, President Park actively encouraged North Korean defections for the first time⁴¹. **South Korea regards trade with North Korea as intra-Korean commerce** in accordance with the 1992 Agreement on Reconciliation, Non-Aggression and Exchange and Cooperation. **Since 24 May 2010, trade with North Korea has been prohibited,** except for goods manufactured in the Gaeseong Industrial Complex (located in North Korea), which was closed on 10 February 2016.

In 2016, the UN has stepped up its human rights monitoring in North Korea.

In 2016, the UN has increased its monitoring of the human rights situation in North Korea. On 23 March, the Human Rights Council (HRC) adopted a resolution urging the North Korean government to end human rights abuses, and asking the UN's High Commission for Human Rights to designate for six months two individual experts to explore approaches to seek accountability for such abuses in the country. The High Commissioner did so on 9 September⁴².

³⁸ Security Council Report, May 2016 Monthly Forecast Report on North Korea, http://www.securitycouncilreport.org/monthly-forecast/2016-05/dprk_north_korea.php

³⁹ Security Council Press Statement on DPRK Ballistic Missile Launches, <https://www.un.org/press/en/2016/sc12509.doc.htm>

⁴⁰ Security Council Report, November 2016 Monthly Forecast Report on North Korea, http://www.securitycouncilreport.org/monthly-forecast/2016-11/dprk_north_korea_19.php

⁴¹ Congressional Research Service, 'US-South Korea Relations', 20 October 2016: <http://fpc.state.gov/documents/organization/152040.pdf>

⁴² Security Council Report, November 2016 Monthly Forecast Report on North Korea, http://www.securitycouncilreport.org/monthly-forecast/2016-11/dprk_north_korea_19.php

4.2 Relations with the US

South Korea and the US have been military allies since 1 October 1953.

They are also trade partners, under the South Korea-US Free Trade Agreement (KORUS).

The US and South Korea have cooperated on installing a ballistic missile defence system and on launching a bilateral North Korean Human Rights Consultation mechanism.

South Korea and the US have been military allies since 1 October 1953, when the two countries signed a Mutual Defence Treaty. Today, South Korea is one of the US' most important strategic and economic partners in Asia. South Korea is the US' seventh largest trading partner while the US is South Korea's second largest, after China, with trade totalling EUR 103 billion in 2015⁴³. **The two are bound by the South Korea-US Free Trade Agreement (KORUS)**⁴⁴. Under the KORUS FTA, almost 80 % of US exports of consumer and industrial products to South Korea became duty free on 15 March 2012, and nearly 95 % of bilateral trade in consumer and industrial products will be liberalised fully in 2017. Most of the remaining tariffs should be eliminated by 2022. South Korea has also expressed an interest in joining the US-led Trans-Pacific Partnership (TPP)⁴⁵.

On 9 November 2016, the Korean Ministry of Trade, Industry and Energy held an emergency meeting on the trade implications of the US election result. **President-elect Trump has indicated that he is likely to oversee a more protectionist trade policy, including the removal of US backing for the TPP** (as he stated in an interview on 22 November 2016⁴⁶), and tighter restrictions on Korean imports⁴⁷.

The US cooperated with South Korea in installing the above-mentioned **Terminal High Altitude Defence (THAAD) ballistic missile defence system** in July 2016, and in launching a bilateral **North Korean Human Rights Consultation mechanism**. In October 2016, the two jointly issued a '2+2' statement promising a firm response to North Korean nuclear action and established the **External Deterrence Strategy and Consultation Group** (EDSCG)⁴⁸.

The **rise of the progressive Minjoo Party in South Korean politics** (the party won 123 seats in national legislative elections on 13 April 2016) may have substantial future implications for US-South Korea relations. **The Minjoo Party's policies seem to be more conciliatory towards North Korea**, including criticism of the 2015 South Korea-Japan comfort women agreement, and opposition to the THAAD system. Historically, US ties have been much stronger with South Korea's conservative parties⁴⁹.

⁴³ DG Trade, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113448.pdf

⁴⁴ <https://ustr.gov/trade-agreements/free-trade-agreements/korus-fta>

⁴⁵ Office for the United States Trade Representative <https://ustr.gov/trade-agreements/free-trade-agreements/korus-fta>

⁴⁶ BBC News, <http://www.bbc.com/news/world-us-canada-38059623>

⁴⁷ Ministry of Trade, Industry and Energy, <http://english.motie.go.kr/?p=7510&paged=0>

⁴⁸ US State Department, <https://www.state.gov/secretary/remarks/2016/10/263341.htm>

⁴⁹ Congressional Research Service, 'US-South Korea Relations', 20 October 2016

4.3 Relations with China

President Park held six summit meetings with the Chinese president, Xi Jinping, before her first meeting with the Japanese prime minister.

Exclusive economic zones (EEZs) are a further source of tension between China and South Korea.

Another thorny issue is the rival claims to fishing rights. The number of Chinese fishing vessels operating in South Korean waters has risen significantly in 2016.

In efforts to engender good relations, President Park held six summit meetings with Chinese President Xi Jinping, before having the first meeting with Japanese Prime Minister Abe in November 2015⁵⁰. **South Korea has thus far remained virtually silent on the escalating South China Sea dispute.** Japan and the US conducted their first bilateral naval drill in the **South China Sea** in October 2015, and the ruling by the Permanent Court of Arbitration in The Hague on 12 July 2016 that China's nine-dash line in the Sea holds no meaning under international law only promises to make such cooperative drills more likely⁵¹. The combination of declining relations with China and the US' interest in stronger South Korea-Japan ties might lead to eventual South Korean involvement in the dispute.

Since late 2013 relations between China and South Korea have deteriorated considerably, partially due to China's **declaration of an Air Defence Identification Zone (AZID) in the East China Sea**, intended primarily to send a signal to Japan which disputes China's territorial claims in the region. The AZID included the **Jeodo Reef**, controlled by South Korea but claimed by China, sparking diplomatic tension between the two countries. China-South Korea tensions rose with the announcement of the U.S.-South Korea alliance decision to deploy the THAAD missile defence system in South Korea and South Korean protests against illegal Chinese fishing. **Exclusive economic zones (EEZs) remain another point of China-South Korea tension.**

Another problematic issue has been **competing claims to fishing rights, with the number of Chinese fishing vessels operating in South Korean waters increasing significantly in 2016**. South Korea has pledged to greet Chinese illegal fishing with force, and in early November 2016, the coastguard fired warning shots at Chinese fishing ships⁵². Exclusive economic zones (EEZs) remain another point of China-South Korea tension.

4.4 Relations with Japan

Bilateral relations between Japan and South Korea are plagued by past grievances surrounding Japan's occupation of the peninsula.

Bilateral relations between Japan and South Korea are plagued by past grievances surrounding Japan's occupation of the peninsula from 1910 to 1945 as well as the wartime 'comfort women' issue. The relationship was also tested in December 2013 by Prime Minister Shinzō Abe's controversial visit to the **Yasukuni Shrine**⁵³, a Japanese shrine which inter alia enshrines

⁵⁰ Congressional Research Service, 'US-South Korea Relations', 2 October 2016

⁵¹ The Diplomat: <http://thediplomat.com/2016/08/will-an-abe-xi-meeting-happen-on-the-sidelines-of-the-2016-g20-summit/>

⁵² Al Jazeera, <http://www.aljazeera.com/indepth/opinion/2016/10/china-failed-south-korea-embrace-161019091000159.html>

⁵³ <http://www.yasukuni.or.jp/english/>

The two countries also clash over fishing rights, the exploitation of undersea mineral resources and the name of the Japan Sea.

Anti-Japanese sentiment is widespread in Korea.

Since early 2015, relations have improved somewhat, as seen in the efforts to definitively resolve the 'comfort women' issue.

Japan has been hit by South Korea's increasing economic strength in sectors where Koreans are

the names of over 1 000 World War II war criminals, including 14 'Class A' war criminals⁵⁴.

Diplomatic relations were established in 1962, but the issue of ethnic Koreans in Japan remains particularly sensitive. The **two countries clashed over fishing rights and the exploitation of undersea mineral resources, as well as over the name of the Japan Sea**, which the South Koreans want changed to 'East Sea'. Tensions have also often emerged about the Dokdo islands, which are garrisoned by South Korea, but claimed by Japan under the name Takeshima.

Anti-Japanese sentiment is widespread in Korea. Following public opinion protests and strong parliamentary opposition, South Korea cancelled the planned signing of two agreements with Japan, the General Security of Military Information Agreement (GSOMIA) and the Acquisition and Cross-Servicing Agreement (ACSA) in 2012⁵⁵. The absence of a formal military alliance between the two countries is an anomaly considering their geographical proximity, cultural similarities, and shared security threats (such as North Korea)⁵⁶.

Since early 2015, relations have improved somewhat, as exemplified by attempts to definitively resolve the 'comfort women' issue⁵⁷. A 'final and irreversible' agreement between the two countries was signed on 28 December 2015, which has gradually been implemented in the course of 2016. The South Korean government set up the Foundation for Reconciliation and Healing on 28 July 2016, and Japan promised 1 billion yen (roughly USD 9 billion) to the Foundation in August 2016⁵⁸.

Public perception of the 'deal' in South Korea remains hostile, with surviving comfort women rejecting disbursements from the Foundation, demanding a public apology from the Japanese government, and disputing the credibility of any deal reached without their consent. Civil society groups led by the South Korean Council for Women Drafted for Military Sexual Slavery by Japan also oppose the deal. However, the South Korean government is unlikely to renegotiate or abandon the deal, for fear of damaging relations with Japan and the US⁵⁹.

Japan has been, somewhat, hit by the economic rise of South Korea, since the Koreans have grown strong in industrial sectors (such as automobiles and electronics) that are **in direct competition with Japanese**

⁵⁴ Japan PM Abe sends ritual offering to Yasukuni Shrine for war dead, 17 October 2016: <http://www.reuters.com/article/us-japan-yasukuni-idUSKBN12G0ZN>

⁵⁵ Oxford Analytica, Popular backlash sinks South Korea-Japan cooperation (4 July 2012).

⁵⁶ The Diplomat: <http://thediplomat.com/2016/09/the-limits-of-the-japan-south-korea-military-relationship/> (21 September 2016)

⁵⁷ Foreign Affairs, [Japan's Discomfort Women. How Abe Can Improve Relations with South Korea](http://www.foreignaffairs.gov.au/news/analysis-japan-s-discomfort-women-how-abe-can-improve-relations-with-south-korea-20150113) (13 January 2015)

⁵⁸ Reuters, <http://www.reuters.com/article/us-japan-southkorea-comfortwomen-idUSKBN0UB0EC20151229>

⁵⁹ The Diplomat: <http://thediplomat.com/2016/09/south-korea-japan-comfort-women-agreement-where-do-we-go-from-here/> (6 September 2016)

competing directly with Japanese producers.

producers. Korea's successful conclusion of FTAs with both the EU and the US has placed South Korea in a rather 'uncomfortable' position.

4.5 Other diplomatic initiatives

South Korea has participated in UN peacekeeping missions since 1993.

In recent years, South Korea has successfully raised its international profile, and it has **participated in the UN peacekeeping missions since 1993.** Between 2003 and 2008, South Korea deployed the third-largest contingent — after the USA and the UK — to the multinational Iraqi Freedom operation⁶⁰. South Korea later dispatched some 350 soldiers to protect civilian aid workers in Afghanistan. In addition, about 608 troops are currently allocated to UN peacekeeping missions⁶¹.

South Korea has been a member of the OECD's Development Assistance Committee since 2010. It was the first country to switch from being an aid recipient to being an aid donor.

Since 2010, **South Korea has been a member of the Development Assistance Committee (DAC)**, the OECD's exclusive club of donors⁶². It is the first country to have made the transition from aid recipient to aid donor. In 2015, it provided USD 1.9 billion in net official development assistance (ODA), equating to 0.14 % of its gross national income (GNI), and marking an 8.3 % increase from 2014. This makes the country the 24th largest DAC provider in terms of ODA as a percentage of GNI, or 14th largest in terms of volume. Nonetheless, the 2015 figure fell short of its ODA/GNI target of 0.25 %, as has been the case since 2008 caused by the global economic downturn. A new target of 0.3 % has been set for 2030⁶³.

South Korea provides substantial funding for humanitarian aid to North Korea.

Additionally, **South Korea provides substantial funding for humanitarian aid to the Democratic People's Republic of Korea** (North Korea). The ODA-eligible portion of its assistance to North Korea was estimated at approximately USD 13.3 million in 2014⁶⁴.

⁶⁰ German Institute for Global and Area Studies, South Korea as a Global Actor: International Contributions to Development and Security (2012)

⁶¹ UN, Troop and police contributors, as of 31 August 2016:

<http://www.un.org/en/peacekeeping/resources/statistics/contributors.shtml>

⁶² DAC members' annual development assistance must exceed either USD 100 million or 0.2 % of their GDP. South Korea spent USD 800 million in 2008 (0.09 % of GDP) and plans to increase this continuously, to reach 0.255 of GDP by 2015.

⁶³ OECD, <http://www.oecd.org/dac/korea.htm>

⁶⁴ Congressional Research Service, 'Foreign Assistance to North Korea', April 2014

5 Economy, social indicators, trade and investment

5.1 Economy and social indicators

After decades of impressive growth, South Korea's economy has slowed down and is facing a number of structural problems.

South Korea's economy features large productivity gaps between manufacturing and services, large and small firms, and regular and irregular workers.

South Korea is experiencing slower growth and low inflation.

After decades of impressive economic progress, South Korea's growth has slowed, and the economy is facing a number of structural headwinds, including: unfavourable demographics; heavy export reliance; corporate vulnerabilities; labour-market distortions; lagging productivity; a limited social safety net; and high household debt. Problems in the labour market raise inequality and poverty⁶⁵. **South Korea is one of the world's most heavily industrialised economies** as industry's contribution is estimated to reach more than three-quarters of the export mix, according to the Ministry of Trade, Industry and Energy. **Korea has a dualistic economy, characterised by large productivity gaps between manufacturing and services, large and small firms, and regular and non-regular workers. State involvement in the economy** (e.g. agriculture, mining and energy, financial services, broadcasting and media, and transport) **persists**. Despite the Government's commitment to privatisation of some state-owned enterprises, there has been virtually no change in this area.

South Korea was the world's 11th largest economy⁶⁶, with a Gross domestic product (GDP)⁶⁷ in current prices of EUR 1 234 billion in 2015. In 2015 GDP growth slowed down to 2.6 %, but is still higher than the OECD average of around 2 %. **Economic growth is estimated to be 2.7 % in 2016, down from 3.3 % in 2015, but is projected to pick up, reaching 3 % in 2017**, thanks in part to faster world trade growth that will boost Korean exports and business investment, with inflation remaining subdued⁶⁸, at 0.7% in 2015, reflecting sluggish growth and falling oil prices.

The openness of the Korean economy to international trade, and its integration into the world economy continued to be reflected by the high ratio of its trade (exports plus imports) in goods and services to GDP that stood at 84.8 % in 2015⁶⁹. International trade and foreign direct investment (FDI) trends reflect the continued importance of the Asia-Pacific as Korea's main regional market and supplier, though China - its largest trading partner - , the EU, and the United States remain its major individual trading and FDI partners.

⁶⁵ IMF: <https://www.imf.org/en/News/Articles/2016/08/12/19/30/PR16377-Korea-IMF-Executive-Board-Concludes-2016-Article-IV-Consultation>

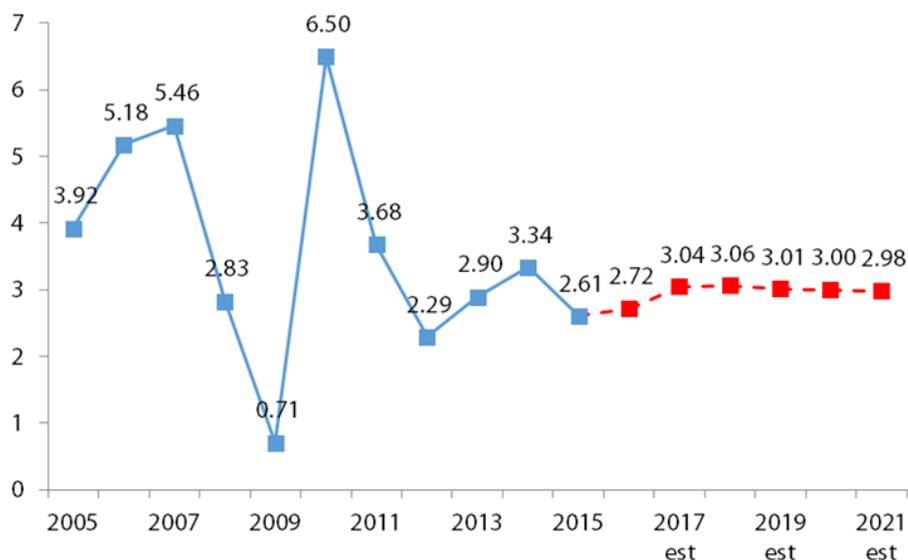
⁶⁶ Gross domestic product (GDP) at market prices is defined by the OECD as 'the expenditure on final goods and services minus imports: final consumption expenditures, gross capital formation, and exports less imports'. It can be measured both in U.S. dollars and Purchasing Power Parities (PPPs).. <https://knoema.com/nwnfkne/world-gdp-ranking-2016-data-and-charts-forecast>

⁶⁷ World Bank: <http://www.worldbank.org/en/country/korea/overview>

⁶⁸ IMF, Real GDP (percent change): <http://www.imf.org/en/News/Articles/2016/08/12/19/30/PR16377-Korea-IMF-Executive-Board-Concludes-2016-Article-IV-Consultation>

⁶⁹ WTO, Trade Policy Review: https://www.wto.org/english/tratop_e/tpr_e/tp446_e.htm

Figure 2:
South Korea's GDP growth (%) - Estimates from 2016 onwards

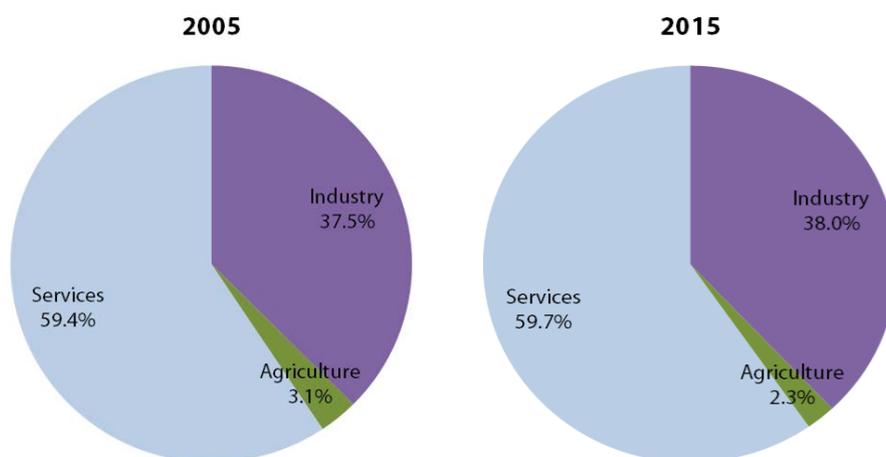


Source: IMF, World Economic Outlook Database, October 2016

Manufacturing industry, led by the export-oriented automotive and consumer electronics sectors, is still an important driver of economic growth.

In 2015 shipbuilding, steel and petrochemicals accounted for 20.5 % of the value of exports. **The manufacturing industry**, led by the export-oriented automotive and consumer electronics sectors, **remains a major driver of economic growth, contributing to about 38 % of GDP, 17 % of total employment and around 85 % of total merchandise exports in 2015.** The service sector is dominated by SMEs. The contribution of **services to GDP and total employment increased slightly to 59.7 % and 69.8 % respectively**, and represented 17.8 % of total exports in 2015. **The agriculture sector remains heavily protected and contributed to 2.3 % of GDP**, little more than its support of 1.8 %⁷⁰.

Figure 3:
South Korea's economic sectors (in % of GDP)



Source: World Bank

The labour market is divided between regular and irregular workers, with

The labour market is segmented into regular and non-regular workers. The latter earn only 62 % as much per hour as regular workers, boosting inequality and relative poverty. **The employment of women is constrained**

⁷⁰ WTO, Trade Policy Review : https://www.wto.org/english/tratop_e/tp446_e.htm

the latter earning only 62 % of the hourly rate paid to regular workers.

Labour market reforms are needed to promote inclusive growth and social cohesion.

South Korea ranks fifth out of 190 countries in the World Bank's 'Ease of doing business 2017' report.

The perception of government corruption has re-emerged under

by the limited take-up of maternity and parental leaves. **The youth (15-29) employment rate of 41.5 % is one of the lowest in the OECD**⁷¹. In 2015, the total employment rate was 65.7 %, as of the working-age population. The 2015 Tripartite Agreement between management, labour and the government lays the groundwork for reforms aimed at **expanding youth employment and alleviating labour market dualism**⁷².

With one of the lowest birth rates in the world, South Korea is also one of the world's most rapidly aging societies. The fraction of the population that is of working age is projected to peak in 2017 and the overall population is expected to start declining after 2025, with negative implications for domestic demand⁷³. Beginning in 2016, the mandatory retirement age at firms with over 300 workers must be at least 60 and this rule will be extended to smaller companies in 2017.

Total social spending amounts to only around 10 % of GDP, less than half the OECD average. In addition, the country has not yet built a comprehensive social safety net⁷⁴.

South Korea is fifth out of 190 countries in the World Bank's '**Ease of doing business 2017' report**⁷⁵ — **falling one rank from 2016**. Doing Business presents results for two aggregate measures: the distance to frontier score and the ease of doing business ranking. The Government has continued to improve its regulatory framework to reduce the burden of doing business.

According to the OECD, in 2014 **the Government** revised the Framework Act on Administrative Regulations introducing a '**cost-in, cost-out' approach to avoid introducing unnecessary new regulations**. It seeks to cap the total cost of regulations, as a new regulation can be adopted only when an existing one with an equivalent cost is identified and removed. By January 2015, the number of economic regulations (total of 9 876) was cut by 10 %. **Administrative burdens and complex regulatory procedures are a particular burden on SMEs**, constraining market entry, productivity gains and scaling up. Recognising the costs of overly burdensome regulation, the government has introduced several initiatives, such as the 'Shinmungo', which allows citizens to suggest regulatory reforms, the 'Regulatory Guillotine' and the 'Thorn under the Nail', which focuses on SMEs.

Park's presidency has witnessed the re-emergence of perceived government corruption, a longstanding and recurring issue in South Korean politics (see

⁷¹ OECD: <http://www.oecd.org/eco/surveys/Korea-2016-OECD-economic-survey-overview.pdf>

⁷² OECD Korea is implementing many previous OECD recommendations, <http://www.oecd.org/eco/surveys/Korea-2016-OECD-economic-survey-overview.pdf>

⁷³ IMF: <http://www.imf.org/external/pubs/ft/scr/2016/cr16278.pdf>

⁷⁴ OECD Economic Surveys: Korea 2016, <http://www.oecd.org/eco/surveys/Korea-2016-OECD-economic-survey-overview.pdf>

⁷⁵ World Bank: <http://www.doingbusiness.org/data/exploreeconomies/korea>

Park's presidency. This has been a longstanding and recurrent theme in South Korean politics.

Several government agencies are responsible for combating government corruption, including the Board of Audit and Inspection.

Tax reforms were carried out in 2013 with a view to creating a 'competitive, fair, and principles-based

above, 'Political situation in South Korea', page 6, on the ongoing scandal surrounding President Park and her friend Choi Soon-sil).

South Korea ratified the **United Nations Convention against Corruption**⁷⁶ on 27 March 2008; is a party to the **OECD Convention on Combating Bribery of Foreign Public Officials**⁷⁷ in International Business Transactions since 1999; and is a member of the **Asia Pacific Economic Cooperation Anti-Corruption and Transparency Experts Task Force**⁷⁸ (**APEC ACT**). The Improper Solicitation and Graft Act of Korea (the Act), commonly known as the 'Kim Young-ran Act'⁷⁹, provides criminal penalties for official corruption. By law, public servants above a certain rank must register their assets, including how they were accumulated, thereby making their holdings public⁸⁰.

Several government agencies are responsible for **combating government corruption including the Board of Audit and Inspection**⁸¹, which monitors government expenditures, and the **Public Service Ethics Committee**⁸², which monitors civil servants' financial disclosures and their financial activities. Since February 2008, the **Anti-Corruption and Civil Rights Commission** manages the public complaints and administrative appeals on corrupt government practices.

In 2008 a **Financial Intelligence Unit**⁸³ was also established to cooperate with the US and United Nations efforts to identify and shut down sources of terrorist financing.

According to the **Transparency International Global Corruption Perceptions Index (2015)**⁸⁴, South Korea ranks 37th out of 168 countries, scoring 56 out of 100, with 0 being highly corrupt and 100 very clean.

Tax reform was undertaken in 2013 under the vision of a 'competitive, fair, and principles-based tax system' that included tax incentives for R&D, SMEs and mergers and acquisitions. The government introduced in 2014 '**Three Tax Schemes**' initiative which includes the following⁸⁵:

⁷⁶ United Nations Convention against Corruption, South Korea:

<https://www.unodc.org/unodc/en/treaties/CAC/signatories.html>

⁷⁷ the OECD Convention on Combating Bribery of Foreign Public Officials, South Korea :

<http://www.oecd.org/daf/anti-bribery/korea-oecdanti-briberyconvention.htm>

⁷⁸ Asia Pacific Economic Cooperation Anti-Corruption and Transparency Experts Task Force, : http://www.apec.org/~media/Files/Groups/ACT/04_amm_032rev1.pdf

⁷⁹Expansive Korean Anti-Corruption Law Comes into Force on 28 September 2016 :

<http://www.lexology.com/library/detail.aspx?g=5b8f7394-fa99-4db5-9dca-197314d36497>

⁸⁰ <http://www.apec.org/groups/som-steering-committee-on-economic-and-technical-cooperation/working-groups/anti-corruption-and-transparency.aspx>

⁸¹ the Board of Audit and Inspection: http://english.bai.go.kr/bai_eng/index.do - in English

⁸² the Public Service Ethics Committee:

<http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan019099.pdf> - in English

⁸³ the Financial Intelligence Unit: <http://www.kofiu.go.kr/eng/sub1/1.jsp> - in English

⁸⁴ Transparency International - Scores range from 0 (highly corrupt) to 100 (very clean):

<http://www.transparency.org/country#KOR>

⁸⁵ OECD: <http://www.oecd.org/eco/surveys/Korea-2016-OECD-economic-survey-overview.pdf>

tax system' including tax incentives for R&D, SMEs and mergers and acquisitions.

- Providing a 10 % tax credit for firms (5 % for conglomerates) that have granted a wage increase that is higher than the average of the preceding three years.
- Cutting the tax rate on dividends from 14 % to 9 %, with an aim to revitalise the stock market.
- To encourage companies to increase investment, wages and dividends, an additional tax of 10 % is levied on those companies in which investment, wage payments and dividends do not reach a certain level.

South Korea is also a member of the OECD Global Forum on tax transparency, which is the premier international body for ensuring the implementation of the internationally agreed standards of transparency and exchange of information in the tax area⁸⁶.

5.2 International Trade

The South Korean government published its New Trade Roadmap in June 2013, aimed at maintaining an open trade policy and putting South Korea at the forefront of the creative economy.

Tariff barriers remain one of South Korea's principal trade policy instruments.

The Korean Government set out a direction for the country's trade policy by releasing the **New Trade Roadmap in June 2013**⁸⁷. Its objective is to become a win-win trading nation at the forefront of the creative economy. Policy directions in the Roadmap, include the aim to maintain open trade policy and to establish trade strategies that allow win-win relations between Korea and its trading partners. The openness of the economy to international trade continued to be reflected **by the high ratio of its trade (imports and exports) to GDP that stood at about 85 % in 2015**.

The tariff remains one of South Korea's main trade policy instrument. According to the WTO, the average applied MFN tariff rate increased from 13.3 % in 2012 to 14.1 % in 2016.

In February 2014, South Korea issued the '**Three-Year Plan for Economic Innovation**', aimed at increasing GDP growth and improving economic fundamentals and building an enabling environment for a creative economy by stepping up structural reforms in four areas: public institutions, labour, finance and education.

In spite of Korea's efforts in pursuing trade liberalisation with its major trade partners, the OECD index of trade and investment barriers was the 2nd highest in the OECD area in 2013, which partly explains Korea's 3rd lowest FDI stock (in the OECD area) at 13 % of GDP in 2014⁸⁸.

As of 2015 South Korea's geographical distribution of trade was the following:

- exports went mostly to Asia (56.3 %), North America (14.1 %) and Europe (12.6 %); and
- the top importing regions were Asia (46.9 %), Europe (17.3 %) and the Middle East (15.7 %), while the Middle East lost much of its share compared to 24.6 % in 2012 due to a drop in crude oil prices⁸⁹.

⁸⁶ OECD: <http://www.oecd.org/tax/transparency/>

⁸⁷ <http://english.motie.go.kr/?p=5460>

⁸⁸ OECD (2016a), WTO: WT/TRP/S/346/ :

https://www.wto.org/english/tratop_e/tpr_e/tp446_e.htm

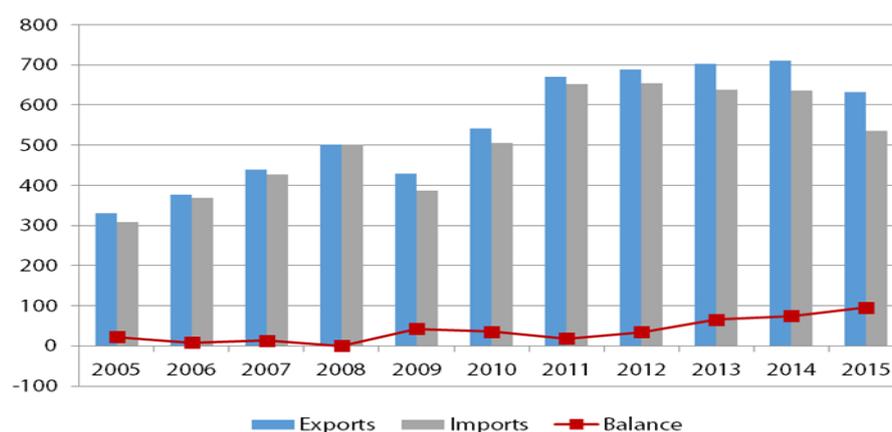
⁸⁹ Korea International Trade Association, K-Statistics (last viewed online on 24 June 2016).

Figure 4: South Korea's top five trade in goods partners (2015)

Origin of imports				Destination of exports				Total trade			
#	Origin	€ million	%	#	Destination	€ million	%	#	Partner	€ million	balance
1	China	81 343	20.7	1	China	123 591	26.0	1	China	204 934	+ 42 248
2	EU 28	51 558	13.1	2	USA	63 197	13.3	2	USA	103 045	+ 23 349
3	Japan	41 328	10.5	3	EU 28	43 789	9.2	3	EU 28	95 347	- 7 769
4	USA	39 848	10.1	4	Hong Kong	27 416	5.8	4	Japan	64 381	- 18 276
5	Saudi Arabia	17 631	4.5	5	Vietnam	25 030	5.3	5	Vietnam	33 867	+ 16 193
All imports:		393 419	100	All exports:		474 758	100	Balance of trade:		+ 81 339	

Source: DG Trade, Eurostat

Figure 5: South Korea's trade in goods and services (in USD billion)⁹⁰



South Korea is an active member of the WTO while retaining its developing country status.

The government has been rigorously pursuing market opening opportunities through regional trade agreements (RTAs) as well as multilateral initiatives.

South Korea, a long-standing advocate of the WTO regime, grants at least MFN treatment to all its trading partners. **South Korea participates actively in WTO work, including negotiations of the Doha Development Agenda.** The country participated in the WTO Information Technology Agreement (ITA) expansion negotiations and has been actively engaging in the negotiations for the Environmental Goods Agreement (EGA). It ratified the WTO Trade Facilitation Agreement on 30 June 2015 and the revised Government Procurement Agreement in January 2016. South Korea is also a party to the Trade in Services Agreement (TISA) negotiations.

Whilst maintaining its developing country status within the WTO, South Korea has been eligible for various Generalised scheme of preferences (GSP) regimes, such as Australia, Belarus, Kazakhstan, and the Russian Federation. **The country continues to provide duty free regimes to most imports from the Least Developed Countries (LDCs).** It remains a major donor to WTO trade related technical assistance (TRTA) activities, with a total contribution to the Doha Development Agenda Global Trust Fund of CHF 4.6 million⁹¹. The Government has been rigorously pursuing market

⁹⁰ Source: The World Bank

⁹¹ The World Trade Organisation (WTO):

https://www.wto.org/english/thewto_e/countries_e/korea_republic_e.htm

Rice is still excluded from liberalisation. Import quotas were replaced on 1 January 2015 with a tariff-rate quota of 5 % and a virtually prohibitive 513 % out-of-quota duty.

opening opportunities through not only multilateral initiatives, but also regional trade agreements (RTAs). See below the summary of trade agreements that South Korea has concluded or is about to be concluding. It seems that **rice remains excluded from liberalisation from all FTAs** and import quotas were replaced on 1 January 2015 by a tariff rate quota of 5 % and virtually prohibitive 513 % out of quota duty⁹².

Figure 6:

A summary of trade agreements that South Korea has concluded or is about to conclude

FTAs in effect (date of entry into force)	FTAs under negotiation	Negotiations in process to be resumed or started
Free Trade Agreement with the Republic of Chile (April 2004)	Free Trade Agreement with 6 Central American countries: Panama, Costa Rica, Guatemala, Honduras, El Salvador, Nicaragua (KCAFTA) (Negotiations concluded in November 2016)	Free Trade Agreement with Indonesia
Free Trade Agreement with Singapore (KSFTA) (March 2006)	Free Trade Agreement with the Regional Comprehensive Economic Partnership (RCEP)	Free Trade Agreement with Japan
Free Trade Agreement with the European Free Trade Association (EFTA) States (September 2006)	Free Trade Agreement with the Republic of Israel	Free Trade Agreement with Mexico
Framework Agreement on Comprehensive Economic Cooperation with Member Countries of the Association of Southeast Asian Nations (ASEAN) (June 2007 - Trade in Goods, May 2009 - Trade in Services) and September 2009 - Trade in Investment)	Free Trade Agreement with Ecuador	Free Trade Agreement with the Gulf Cooperation Council (GCC)
Comprehensive Economic Partnership Agreement with India (January 2010)	Free Trade Agreement with Japan and China	Free Trade Agreement with the Southern Common Market (MERCOSUR)
Free Trade Agreement with Peru (KPFTA) (August 2011)		Free Trade Agreement with Malaysia
Free Trade Agreement with the United States of America (KORUS) (March 2012)		
Framework Agreement Establishing a Free Trade Area and Agreement on Trade in Goods with Turkey (May 2013) Agreement on Trade in Services and Investment with the Republic of Turkey signed but not yet in effect		
Free Trade Agreement with Australia (KAFTA) (December 2014)		
Free Trade Agreement with Canada (CKFTA) (January 2015)		

⁹² WTO: WT/TPR/S/346, page 9.

[Free Trade Agreement with the EU \(December 2015\)](#)

[Free Trade Agreement with New Zealand \(December 2015\)](#)

[Free Trade Agreement with the Socialist Republic of Vietnam \(December 2015\)](#)

[Free Trade Agreement with the People's Republic of China \(December 2015\)](#)

[Free Trade Agreement with the Republic of Colombia \(July 2016\)](#)

South Korea is heavily exposed to spill overs, particularly from China, its largest trading partner.

With one of the highest shares of exports of GDP amongst advanced economies, **South Korea is heavily exposed to spill overs, particularly from China, its largest trading partner.** China's slowing growth and rebalancing trade model and structural changes, including moving up the value chain may affect industrialised economies involved in the Asian value chain, such as South Korea. The **Chinese economy is shifting towards a more sustainable path based on domestic consumption, away from its previous roots in strong exports and investment-led manufacturing sector.** According to the IMF, this trend threatens to cut real income in South Korea by an estimated 0.3 %, and real wages by 0.18 %, while also reducing Korean exports to China by 2.09 % and imports from China by 12.5 %. The Chinese **service sector is growing more rapidly than manufacturing**, which could reduce Korean exports to China by 0.25 % and imports from China by 1.5 %. Finally, within Chinese **manufacturing, technologically intensive sectors are growing faster, moving up the value chain and making China more competitive in industries** that Korea and other countries previously occupied. This third trend could cut South Korean income by 0.08 % and real wages by 0.05 %.

China - South Korea Free Trade and Economic Integration Agreement entered into force in December 2015. Tariffs would be eliminated for over 90% of all tariff lines within 20 years of entry into force. Follow-up negotiations on services and investment liberalisation are to begin within 2 years of entry into force.

The 10th round of negotiations on a trilateral Free Trade Agreement (FTA) among South Korea-China-Japan were held in Seoul on 4-9 April 2016.

5.3 Investment

The main legislation governing foreign investment, the [Foreign Investment Promotion Act](#), was amended in January 2016 to attract investment from global companies.

Foreign investment is regulated under **the Foreign Investment Promotion Act, which was amended in January 2016 to attract investment** from global companies by simplifying FDI procedures, and allowing exceptions to the Monopoly Regulation and Fair Trade Act. FDI in a few sectors remains restricted: out of 1 145 categories of businesses, foreign investment is not permitted in 5.2 % of businesses activities (such as nuclear power generation, broadcasting, and rice and barley growing), and is partially

permitted in 2.5 % of business activities (such as transport services, broadcasting and telecom services, and some financial services)⁹³.

Several of South Korea's trade agreements contain investment provisions.

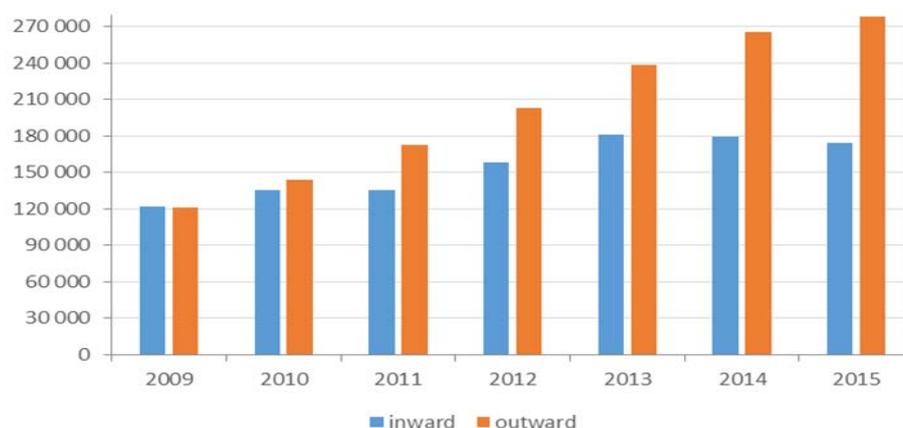
Korea is a member of the World Bank's Multilateral Investment Guarantee Agency, **the International Convention on the Settlement of Investment Disputes between States and nationals of other States (ICSID Convention)** and a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. **Several of its trade agreements contains investment provision**, such as those with Australia, Canada, Chile, China Columbia, India, Peru, Singapore and the United States⁹⁴. Korea has 95 bilateral investment treaties (BITs) in force.

Foreign Direct Investment (FDI) rose by 18.8 % to USD 10.5 billion in the first half of 2016.

The Ministry of Trade, Industry and Energy of South Korea announced on 4 July 2016 that the officially registered amount of **Foreign Direct Investment (FDI) rose by 18.8 % to USD 10.5 billion in the first half of 2016**, compared to USD 8.9 billion in the same period in 2015. Increased investment from the EU and China contributed to increased FDIs⁹⁵. Overall, companies from the EU invested some USD 4.2 billion in the first half of 2016, soaring 221 % over the same period in 2015. China's investment was worth USD 0.71 billion, rising 79.5 % over the same period in 2015. About 60 to 70 % of EU companies use South Korea as a stepping-stone to access the Chinese market. Korea's 2013 'Eurasia Initiative' aims to boost connectivity and economic ties with Europe.

The FDI inflows (on a balance of payment basis) decreased in 2015 to USD 5 billion, according to the OECD, mainly due to barriers to trade, business environment and other domestic restrictions, making regulatory reform key to attracting more FDIs. **FDI inward stocks are largely allocated to manufacturing (38 % in 2014) and to services** (61 % in 2014) (of which finance and insurance 29 %) and, mainly originated in the EU (37 %), Japan (28 %) and the US (19 %).

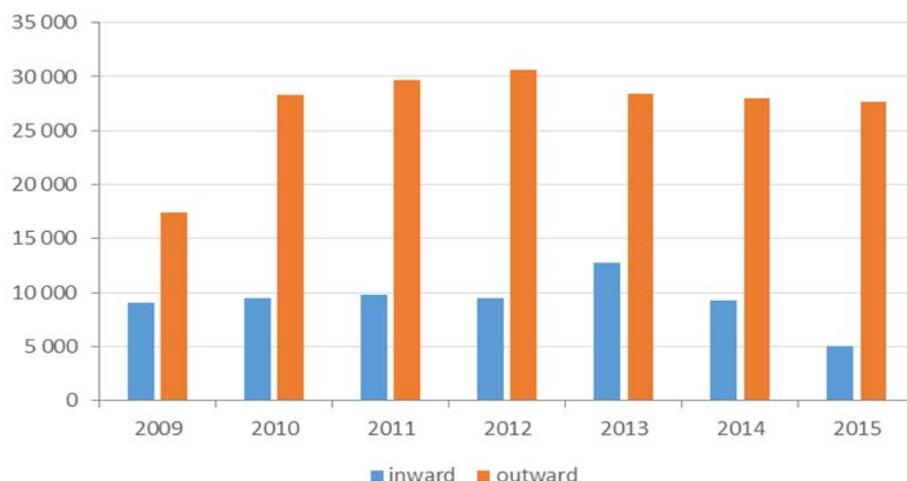
Figure 7:
South Korea's FDI stocks (in USD million)



Source: UNCTAD

⁹³ The Korea Trade-Investment Promotion Agency (KOTRA): http://english.kotra.or.kr/foreign/biz/KHENKO040M.html?TOP_MENU_CD=INVEST
⁹⁴ UNCTAD: <http://investmentpolicyhub.unctad.org/IIA/CountryBits/111>
⁹⁵ FDI in Korea hits new record high in 1st half, 7.7.2016 : <http://www.korea.net/NewsFocus/Business/view?articleId=138383>

Figure 8:
South Korea's FDI flows (in USD million)



Source: UNCTAD

The UK's withdrawal from the EU would only have a minimal impact on South Korea's economy.

According to vice minister Lee Kwan-sup, the withdrawal of the UK from the EU would be likely to have only a minimal impact on Korean economy⁹⁶, given that exports to the UK amounted to USD 7.39 billion, or 1.4 % of total exports in 2015. Korean investments amounted to USD 260 million, which was 1.2 % of the total foreign investments in Britain.

6 The EU and South Korea

6.1 Political relations

The EU's relations with the Republic of Korea go beyond economic and commercial ties. The two sides are boosting cooperation on a wide range of global and regional issues.

EU relations with the Republic of Korea go beyond the economic and commercial realm, with increasing cooperation on a wide range of global and regional issues, such as non-proliferation of weapons of mass destruction; climate change; human rights; cooperation in the fight against terrorism; the Sustainable Development Goals; energy security; as well as bilateral issues of mutual interest such as research and development, education and innovation⁹⁷.

At the EU-Korea Summit of October 2010, the relationship was officially upgraded to a strategic partnership, based on shared values, common issues of global concern and the increasing role of both partners on the world stage. The eighth and most recent bilateral summit between the EU and South Korea took place on 15 September 2015 in Seoul⁹⁸.

The **2010 EU-Korea Framework Agreement** provides the framework for a Strategic Partnership, and comprehensive cooperation, including political and social dialogues during the last years through regular summits,

⁹⁶ 'Ministry of Trade, Industry and Energy: Brexit' Likely to Have Minimal Impact on Korean Economy, 2016-06-24, <http://english.motie.go.kr/?p=6618&paged=3>

⁹⁷ The 22nd ACTWG meeting was held in Lima, Peru on 23 February 2016:

<http://www.apec.org/groups/som-steering-committee-on-economic-and-technical-cooperation/working-groups/anti-corruption-and-transparency.aspx>

⁹⁸ Council: <http://www.consilium.europa.eu/en/meetings/international-summit/2015/09/15/>

ministerial meetings and other consultations. The Framework Agreement was signed on 10 May 2010 and entered into force on 1 June 2014. This overarching political cooperation agreement has a legal link to the **Korea-EU Free Trade Agreement (FTA)**.

The enhanced EU-South Korea Strategic Partnership provides the basis for **strengthened cooperation and dialogue across the board**. Since 2014, a number of Partnership Instrument (PI) projects in Korea have emerged as a result of the collaboration between the EU and Korean public authorities, civil society organisations, business promotion agencies, and academia.

Figure 9:
Cooperation between EU and South Korea

Activities	Details
<p><u>Cooperation Agreement on Competition Policy and Customs Issues</u> Signed in 2009</p>	Encourages cooperation on investigations of international cartels or other anti-competitive practices
<p><u>EU Gateway to Korea</u> New version of the programme encompassing Korea launched in 2016</p>	Helps companies from EU countries to establish long-lasting business partnerships in Korea
<p><u>Industrialised Countries Instrument - Education Cooperation Programme (ICI-ECP)</u> Signed on 21 December 2016</p>	Ensures stronger cooperation on higher education and vocational training
<p><u>European Union National Institutes for Culture (EUNIC) Cluster in Korea</u> Framework adopted in 2015</p>	Develops common cultural projects and other forms of collaboration in cultural project activities
<p><u>Agreement on Scientific and Technological Cooperation</u> Signed in 2007</p>	Encourages cooperation in science and technology including a biennial EU-Korea Joint Science & Technology Cooperation Committee
<p><u>Agreement on Co-operation and Mutual Administrative Assistance in Customs Matters</u> In force since 1997</p>	

6.2 EU-South Korea bilateral economic and trade relations

South Korea is a very important partner for the EU. In 2015 it was the EU's eighth largest supplier and ninth largest export market.

From the commercial standpoint, **South Korea is a very important partner for the EU. In 2015 it was the EU's eighth largest supplier and ninth largest export market.** For South Korea, the EU has consolidated its position as the country's second largest supplier and largest export market. The Free Trade Agreement (FTA) between the EU and South Korea is the EU's first FTA with an Asian country, and has marked an unprecedented step forward in trade relations. It has been applied since July 2011 and it formally entered into force in 2015⁹⁹. Hence, July 2016 marked the end of the

⁹⁹ <http://www.consilium.europa.eu/en/press/press-releases/2015/10/01-korea-free-trade/>

progressive liberalisation of trade in goods and services, as the two parties committed to eliminate 98.7 % of duties in trade value within five years. On the fifth anniversary in 2016, import duties were eliminated on all products except a limited number of agricultural products.

The EU-South Korea FTA, a so-called new generation agreement, is more ambitious than any previous agreement in moving beyond tariff liberalisation.

The EU-South Korea FTA, a so-called new generation agreement, goes further than any previous agreements in moving beyond tariff liberalisation by tackling other non-tariff and regulatory barriers to trade in goods, specifically on the automotive, pharmaceutical, medical devices and electronics sectors as well as in services and investment (market access). The FTA includes provisions on trade-related issues, such as competition, government procurement, intellectual property rights and geographical indications, transparency in regulation, sustainable development, labour rights and the environment. These issues were generally excluded from free trade agreements negotiated by the EU in previous years.

The first five years of implementation of the EU-South Korea FTA have been positive for the EU as well as to South Korea. According to the Commission¹⁰⁰, EU exports to South Korea of goods increased cumulatively by around 57 % from EUR 32.5 billion in 2011 to EUR 48 billion in 2015. EU exports of fully liberalised goods increased by 57 % and those partially liberalised by 70 %.

The EU's trade deficit with South Korea was replaced with a surplus in 2013. In 2015 the surplus amounted to EUR 6 billion.

Imports of fully and partially liberalised goods from South Korea increased by 35 % and 64 % respectively. This gives a clear indication that the FTA has worked well also for South Korea¹⁰¹. As imports from South Korea amounted to EUR 42 billion, the **EU's trade deficit with South Korea was transformed into a surplus first time in 2013, and reached EUR 6 billion in 2015.**

The agreement includes provisions in areas such as competition policy, government procurement, intellectual property rights, transparency in regulation and sustainable development.

On 21 April 2015, the Commission acknowledged that South Korea, a fishing nation had carried out appropriate reforms of the legal systems and is equipped to tackle illegal fishing¹⁰². South Korea has to abide by the so called IUU Regulation, a set rules to combat illegal, unreported and unregulated fishing, when it trades in fish products with the EU¹⁰³.

¹⁰⁰ DG TRADE, Eurostat : EU Trade in goods with South Korea

<http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea/>

¹⁰¹ European Commission: DG TRADE, 1 July 2016:

<http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea/>

¹⁰² European Commission: http://europa.eu/rapid/press-release_IP-15-4806_en.htm

¹⁰³ OJ Regulation No 1005/2008, of 29 September 2008 [http://eur-](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:286:0001:0032:EN:PDF)

[lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:286:0001:0032:EN:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:286:0001:0032:EN:PDF)

Figure 10:
EU trade in goods and services with South Korea

	Imports	Exports
Trade in goods 2015 (in millions of euro)	42 350	47 841
% of EU total	2.5 %	2.7 %
South Korea's rank (for EU)	8	9
% of South Korea's total:	13.1 %	9.2 %
EU's rank (for South Korea)	2	3
Trade in services 2014 (in millions of euro)	5 959	11 917
% of EU total	1.0 %	1.6 %

Source: DG TRADE, European Commission; Eurostat

The trade in goods between Korea and the EU is concentrated on high-added-value and technology-intensive sectors.

In 2014, Korea was the EU's 11th largest trading partner in services, well behind the United States, China and Japan.

Trade in goods flows between Korea and the EU reflects their respective global trade patterns, with focus on high-added-value and technology-intensive sectors. The main categories of the EU's exports to Korea in 2015 included machinery and transport equipment, mechanical appliances, electrical machinery and cars, and chemicals and pharmaceutical products.

On the other side, Korea's most important export items to the EU included office and telecommunication equipment — including telecommunications and integrated circuits and electronic components — as well as motor vehicles and other electrical and non-electrical machinery.

In terms of trade in services, the EU is the world leader, with a current surplus of more than EUR 162 billion. In 2014, Korea was the EU's 11th largest trading partner in services, nearly EUR 18 billion in total, well behind the United States, China and Japan.

Trade in services between the EU and Korea has dramatically increased over the last few years. The EU's exports of services to Korea amounted to over EUR 11.9 billion, an 11 % increase from 2013. At the same time, imports increased rather moderately, from EUR 5.75 billion to EUR 5.96 billion in 2014. As a result, the EU's surplus in trade in services with Korea grew by almost 20 % and amounted to nearly EUR 6 billion in 2014. However, EU exports to Korea represent only about 1.6 % of the EU's total exports in services.

The EU's exports to Korea are highly concentrated in a few sectors, in particular: business services (28.8 %), sea transport (19.5 %), and royalties and license fees (16.5 %). Korean exports to the EU are also concentrated on business services (28 %), sea transport (19 %) and air transport (18 %)¹⁰⁴.

¹⁰⁴ EEAS - EU Delegation, Trade and Investment - 5th Anniversary of the FTA 2016: https://eeas.europa.eu/delegations/south-korea/11359/eu-korea-trade-fact-file-2016_en

6.3 EU–South Korea investment relations

Foreign Direct Investment (FDI) stock is a very good indicator of the strength of the economic relationship between the EU and South Korea.

Foreign Direct Investment (FDI) stock is a very good indicator of the strength of the economic relationship between the EU and South Korea. While financial flows are volatile, the data on stock reflects investors' long-term commitment.

The EU is one of the largest investor in the country with the United States and Japan. EU Foreign Direct Investment (FDI) stock in the Republic of Korea increased 35 % in 2014 from 2013 (latest EU data available), reaching EUR 43.7 billion, and accounting for over 20 % of the FDI stock in the Republic of Korea. According to South Korean statistics (see below table), EU investments dropped over 60% in 2015.

Korean investments in the EU experienced growth of 36 % in 2014 reaching a total stock of EUR 20.2 billion. Despite this increase, Korean investment stock in the EU is still far from the level of investment from the United States, Switzerland or offshore financial centres¹⁰⁵.

Figure 11:
Main foreign investors in Korea in USD million (2008-2015)

Origin	2008	2009	2010	2011	2012	2013	2014	2015	2008-2015 % of Total
EU	6 339	5 297	3 196	5 192	2 714	4 802	6 504	2 495	30 %
US	1 328	1 486	1 975	2 372	3 674	3 525	3 609	5 479	19 %
Japan	1 424	1 934	2 084	2 289	4 542	2 690	2 488	1 665	16 %
Singapore	916	436	773	611	1 405	431	1 673	2 521	7 %
Hong Kong	223	773	93	572	1 670	976	1 061	1 515	6 %
China	336	160	414	651	727	481	1 189	1 978	5 %
Canada	90	303	480	739	394	388	572	1 268	4 %
Others	1 057	1 094	4 058	1 246	1 161	1 255	1 907	3 989	13 %
Total FDI	11 712	11 484	13 073	13 673	16 286	14 548	19 003	20 910	100 %

Source: MOTIE, FDI Statistics¹⁰⁶

¹⁰⁵ *ibid.*

¹⁰⁶ Ministry of Trade, Industry and Energy (MOTIE) of Korea, *FDI Statistics*, available at: <http://www.motie.go.kr/motie/py/sa/investstatse/investstats.jsp> [accessed on 15/03/2016].

6.4 The EU-South Korea FTA does not have an investment chapter

The EU–Korea FTA has provisions on pre-establishment investment but no provisions for investment protection standards or a dispute settlement mechanism.

The EU–Korea FTA contains several provisions on pre-establishment investment that relate to activities before the actual investment is made, investment liberalisation commitments¹⁰⁷, and payment¹⁰⁸. **However, the FTA does not have a comprehensive investment chapter that would include provisions on investment protection standards and a dispute settlement mechanism. The FTA could be revised to incorporate one.**

There are two main reasons for the absence of an investment chapter in the FTA¹⁰⁹. The first reason is that the EU did not have exclusive competence over foreign direct investment (FDI) when the first negotiation started in May 2007. FDI became the exclusive competence of the EU only after the Lisbon Treaty entered into force in December 2009¹¹⁰.

The second reason is that **most of the EU Member States already had bilateral investment treaties (BITs) in force with South Korea**. Only five Member States, namely Cyprus, Ireland, Malta and Slovenia, have not concluded BITs with Korea¹¹¹. This indicates that, without a comprehensive investment chapter in the FTA, the majority of the Member States could rely on their own BITs. Although each of the existing BITs was negotiated separately, they contain core investment protection standards such as most-favoured-nation treatment, national treatment, fair and equitable treatment and compensation in the case of direct or indirect expropriation.

7 Policy options - Recommendations

For its meetings with different stakeholders, the European Parliament delegation could consider the following policy options:

- **Highlight the existing common values shared between South Korea and the EU;** Underscore the need to apply a ‘zero tolerance’ policy to human rights violations, in particular to promote worldwide respect fundamental freedoms such as the right to peaceful assembly and freedom of the press; emphasise that both the EU and South Korea should continue to give the example that national laws should not be used to suppress freedoms, such as for instance freedom of expression;
- Recalls that the **UN sustainable development goals define the fight against corruption and bribery as a key target;** Highlight the merits of thorough and prompt investigations of all **allegations of**

¹⁰⁷ Chapter 7 on Trade in Services, Establishment and Electronic Commerce in the EU–Korea FTA (2010).

¹⁰⁸ Chapter 8 on Payments and Capital Movements in the EU–Korea FTA (2010).

¹⁰⁹ Jong Duk Kim & Jun Hyun Eom, Analysis on the Service and Investment Chapters of Korea’s FTAs: A Comparative Analysis of the Korea-US FTA vs. the Korea-EU FTA (2013), Research Paper of Korea Institute for International Economic Policy, vol.13(3), p.148.

¹¹⁰ Article 207(1) of the Functioning of the European Union (TFEU).

¹¹¹ UNCTAD: <http://investmentpolicyhub.unctad.org/IIA/CountryBits/111>

corruption, ensuring that the right steps are taken to restore political stability; encourage the establishment of a transparent monitoring system, which should include monitoring of the implementation of the new anti-bribery law, the Improper Solicitation and Graft Act of September 2016;

- Recognise the South Korean government's active role in ensuring **long-lasting security in the Korean peninsula**; Encourage enhanced cooperation in multilateral fora, particularly the United Nations Security Council, as the most effective means of confronting North Korea' nuclear aggression and creating peace and security in the region;
- Stress the need for a strong multilateral trading system, under the World Trade Organisation (WTO); **Welcome South Korea's active participation in and long-standing advocacy of the WTO regime** in ratifying its agreements, participating in negotiations and providing capacity-building assistance in the area of international trade;
- Emphasise that **the EU and South Korea are important trading partners** and the full implementation of the bilateral Free Trade Agreement (FTA) has contributed and should continue to contribute to the further expansion of trade flows for both sides;
- Acknowledge that **investment is the key to creating jobs and growth**; and that the EU is the top foreign investor in South Korea; encourage both sides to explore ways to include provisions on investment protection, while continuing discussion on other improvements to the FTA.
- 5 October 2016 - [Accession of Korea to the 1980 Hague Convention on the Civil Aspects of International Child Abduction](#) - (COM(2016)0372 – C8-0233/2016 – 2016/0173(NLE))
- 10 May 2016 - [Cooperation agreement on a civil Global Navigation Satellite System \(GNSS\) with Korea](#) - (05977/2016 – C8-0116/2016 – 2015/0265(NLE))
- 22 October 2014 - [Protocol to the Free Trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part, to take account of the accession of Croatia to the European Union](#) - (06035/2014 – C7-0113/2014 – 2014/0019(NLE))

Recent EP Resolutions

8 Table

People and geography		
Population	50 617 045	Source: World Bank (2015)
Capital city	Seoul	9 773 746
Other major cities	Busan	3 400 069
	Incheon	2 886 172
	Daegu	2 454 733
Surface area	100 266 km ²	Source: World Bank (2015)
Religion	Buddhism	22.8 %
	Christian	18.3 %
	Catholic	10.9 %
	no religion	46.5 %
Life expectancy at birth	women	85.5
	men	79.0
Literacy rate	98 %	Source: World Bank (2008)
Rankings		
Human development index	Score: 'Very high' Ranking: 17/188	Source: Human Development Index , United Nations Development Programme, 2015.
Press freedom	Score: 28.58/100 Ranking: 70/180	Source: World Press Freedom Index , Reporters Without Borders, 2016 (0 being the best possible score and 100 the worst)
Freedom in the world	Score: 'Free' Rankings: political rights: 2/7 civil liberties: 2/7	Source: Freedom in the world , Freedom House, 2016. (1 represents the most free and 7 the least.)
Ease of doing business	Score: 84.07/100 Ranking: 5/190	Source: Ease of Doing Business , The World Bank Doing Business index, 2017.
Corruption perceptions index	Score: 56/100 Ranking: 37/168	Source: Corruption Perceptions Index , Transparency International, 2015. (0 represents the highest level of corruption, 100 the lowest)

9 Map

Korean Peninsula

