

# Services Policy of Korea

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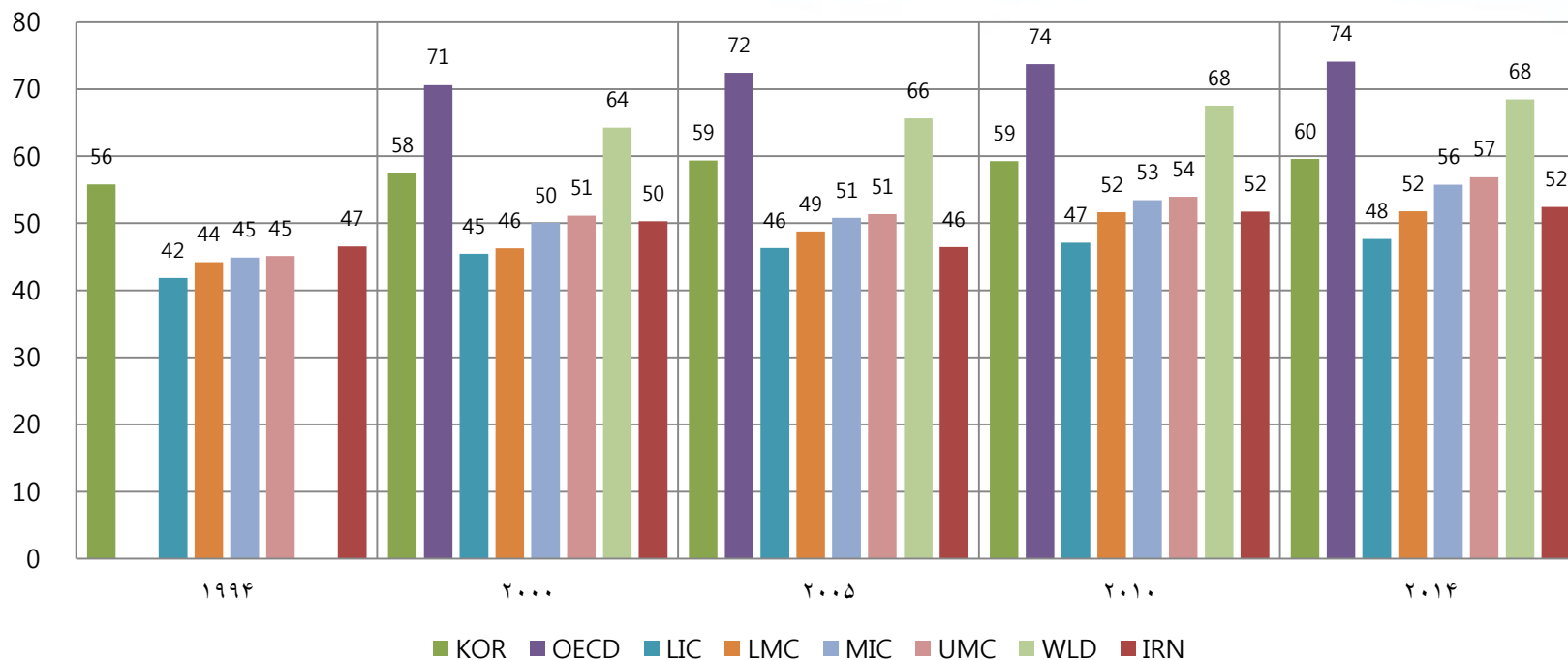
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# 1. Economic Aspects of Services

- Services industry has explained major part of an economy and its share to GDP has been growing over time.  
The share of the services industry increases accordingly to the income level of an economy.

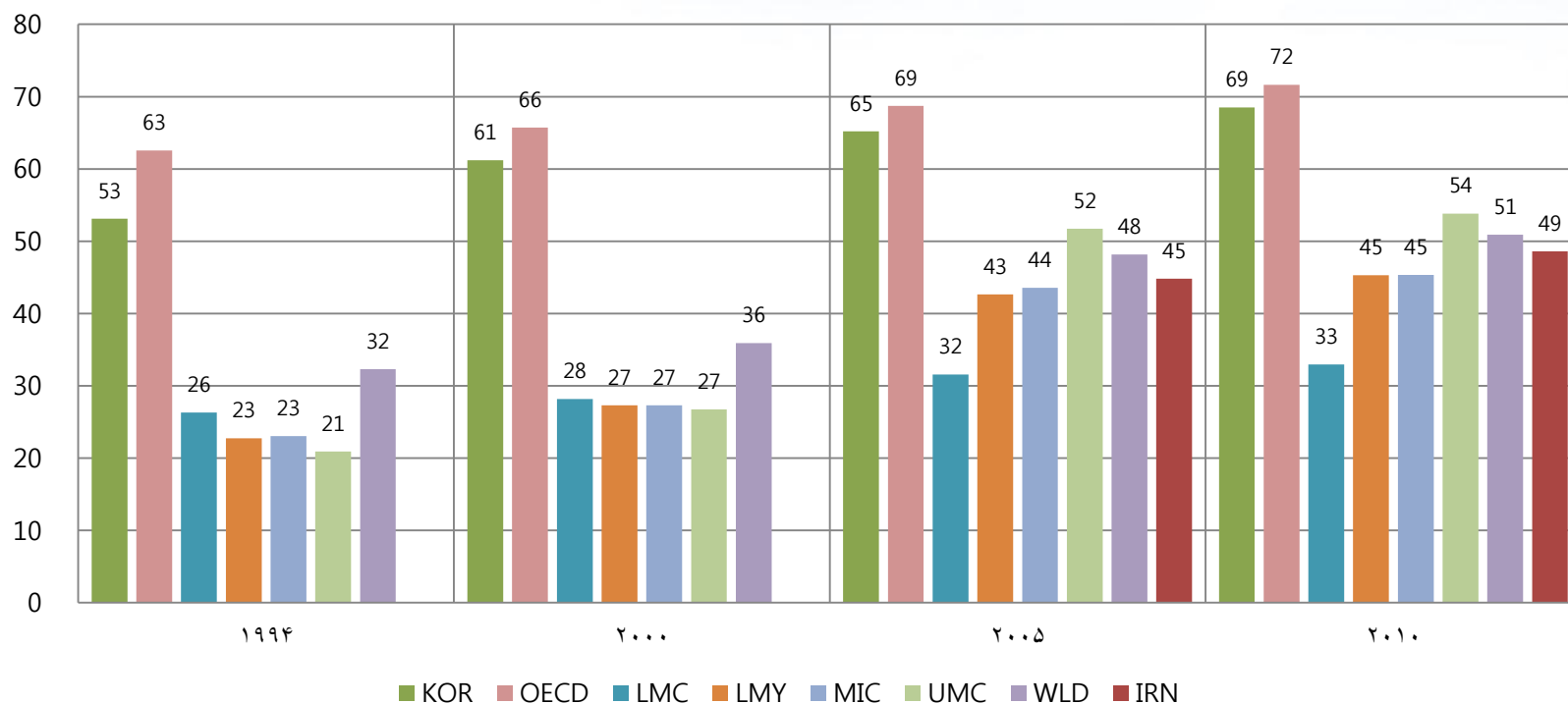
**Services (VA, % of GDP)**



# 1. Economic Aspects of Services

- Services industry has played an important role in employment of an economy as well and its share in total employment has been continuously increasing over last two decades. The employment level gets significantly larger as the income level of an economy increases.

## Employment in Services (% of total employment)

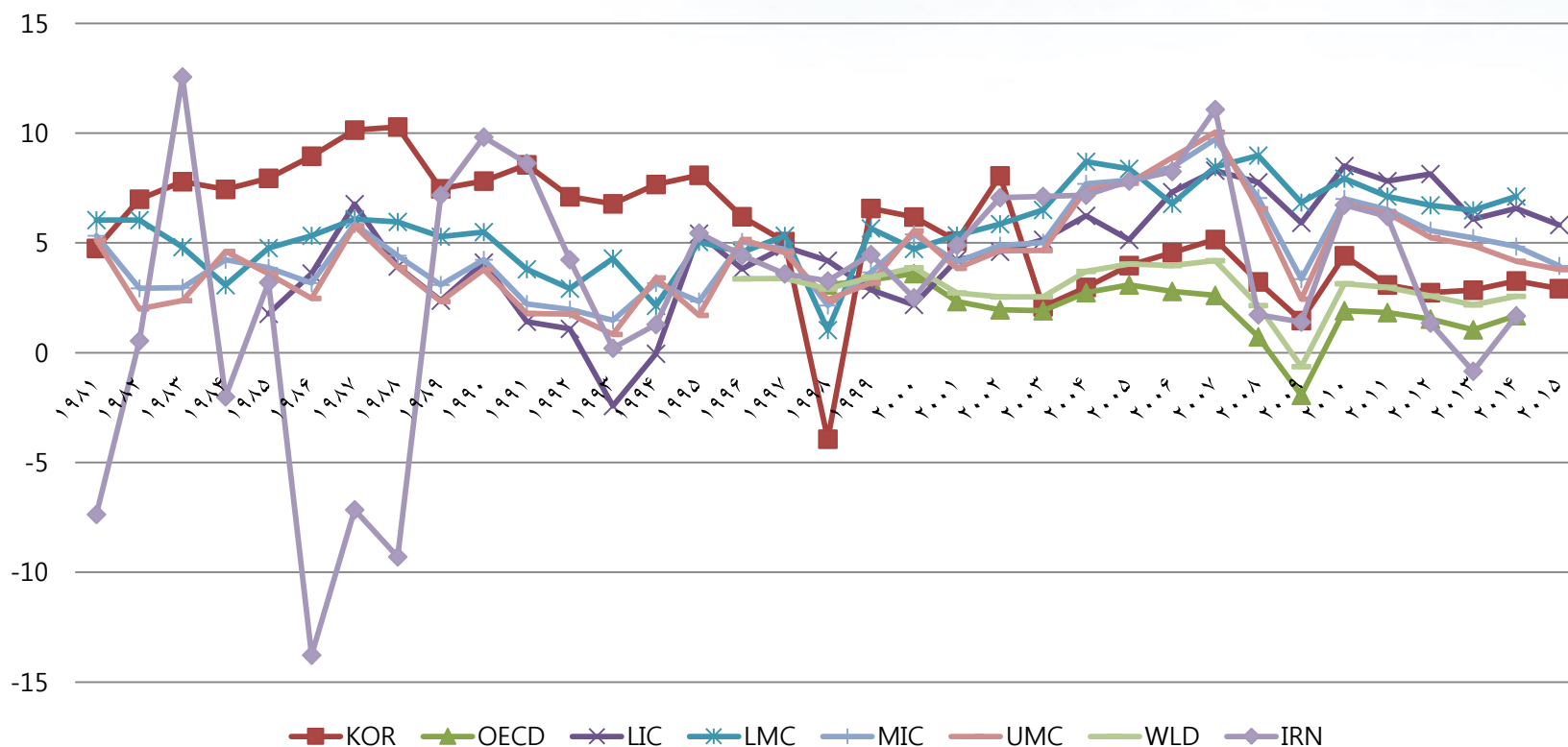




# 1. Economic Aspects of Services

- Services industry of an economy has grown accordingly to its overall economic performance. Developing economies have shown better performances than high income economies.

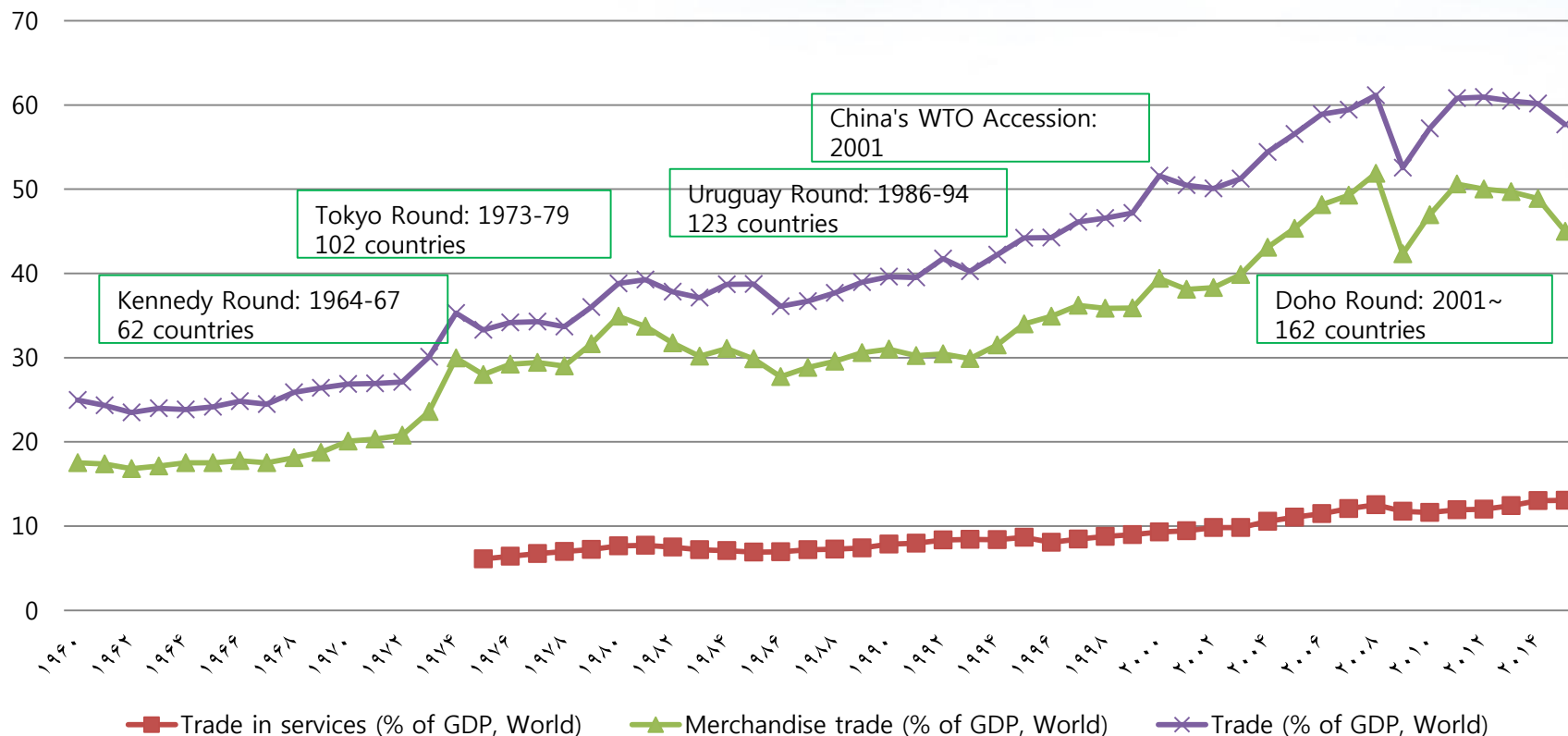
**Services (VA, annual % growth)**



# 1. Economic Aspects of Services

- Global trade has drastically expanded and hence the ratio of global trade to global GDP has grown from less than 30% in the early 1970's to about 60% in the late 2000's. Multilateral trading system has been recognized as an important contributor to such drastic expansion of global trade.

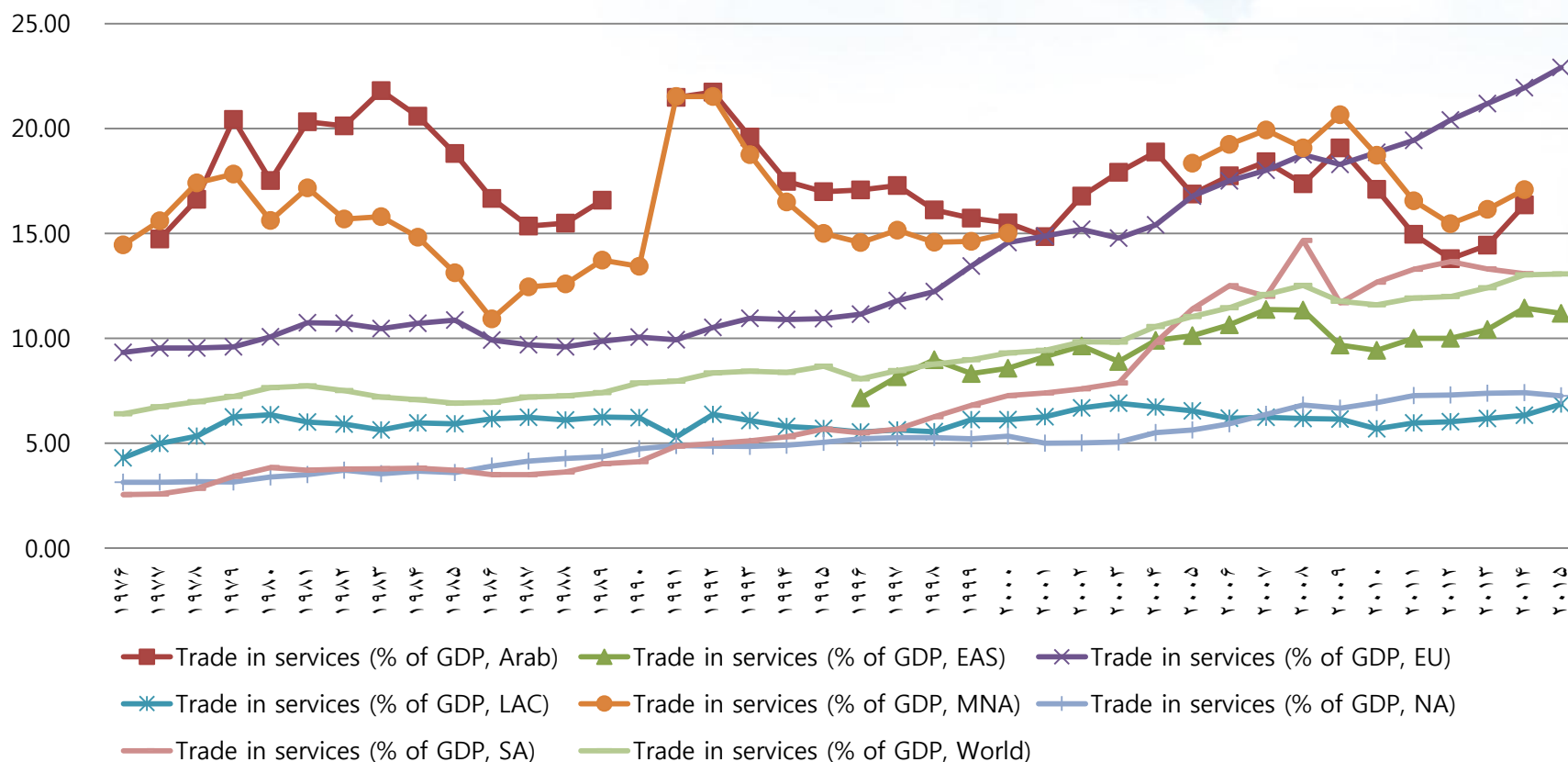
## Changes in Trade (% of GDP, World)



# 1. Economic Aspects of Services

- Global services trade (as the ratio to GDP) has slowly yet steadily grown.  
Services trade of EU has grown fast since early 1990's and led the overall global trend.  
Services trade of Arab and Middle-eastern and North African has been larger than most other regions.

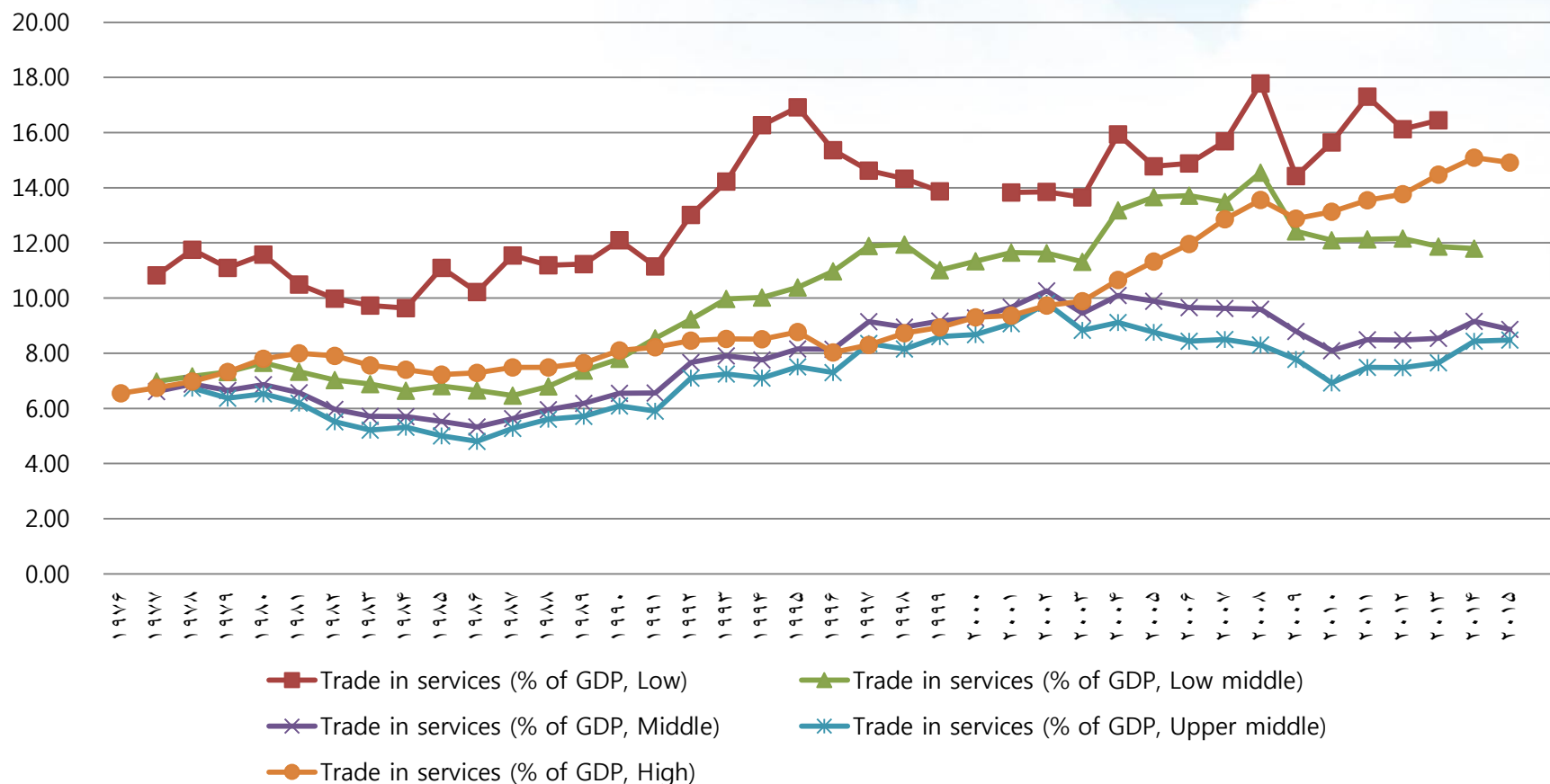
## Trade in Services (% of GDP, by region)



# 1. Economic Aspects of Services

- The ratio of trade in services to GDP has grown steadily.  
High income countries have shown a consistent strong increase in trade in services.  
Low and low-middle income countries also have shown a higher ratio of trade in services to GDP.

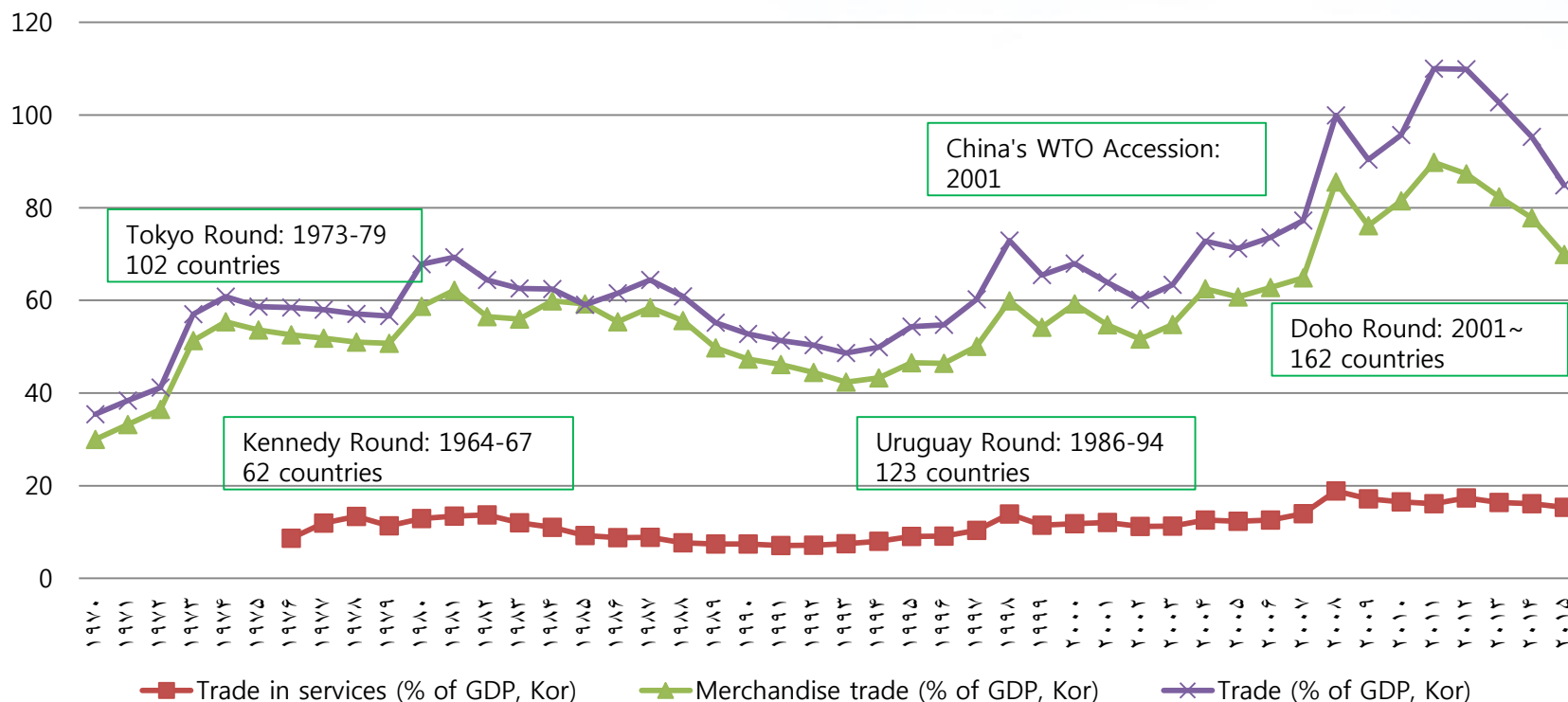
## Trade in Services (% of GDP, by income)



# 1. Economic Aspects of Services

- Korea has been considered as one of the biggest beneficiaries of the current multilateral trading system. In 1995, the year when the WTO launched, the ratio of trade to GDP was around 50% and it has reached to around 110% in 2011.
- China's accession to the WTO in 2001 has played a significant role in not only global trade expansion but Korea's trade expansion as well.

## Changes in Trade (% of GDP, Korea)



### 2.1 Definitions of Services

**Definitions of Services:** The WTO's General Agreement on Trade in Services (GATS) was signed during the Organization's ministerial meeting in Marrakesh in 1994. At the time, GATS defines the four mode in which services are supplied.

- **Mode 1 (Cross-border Supply):** Services supplied from the territory of one Member into the territory of any other Member.  
An example is distance education services provided by suppliers (i.e. Professors) in one country through electronic means to consumers (i.e. students) in another country.
- **Mode 2 (Consumption abroad):** Services supplied in the territory of one Member to the service consumer of any other Member.  
Examples are tourism or education in another country. Ship-repair abroad, where only the property of the consumer moves is another example.
- **Mode 3 (Commercial Presence):** Services supplied by a service supplier of one Member, through commercial presence in the territory of any other Member.  
An example is a hotel group owned by citizens of one country establishing a branch hotel by means of foreign direct investment (FDI) in another country.
- **Mode 4 (Movement of Natural Persons):** Services supplied by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member.  
An example is an architect of one country supplying services through his physical presence in another country.

### 2.2 Scope and Application of Services Agreements

→ Article I:1 stipulates that the GATS applies to measures by Members affecting trade in services. It does not matter in this context whether a measure is taken at central, regional or local government level, or by non-governmental bodies exercising delegated powers.

→ The GATS applies in principle to all service sectors, with two exceptions.

Article I(3) of the GATS excludes “services supplied in the exercise of governmental authority”. These are services that are supplied neither on a commercial basis nor in competition with other suppliers. Cases in point are social security schemes and any other public service, such as health or education, that is provided at non-market conditions.

Further, the Annex on Air Transport Services exempts from coverage measures affecting air traffic rights and services directly related to the exercise of such rights.

### 2.3 Key Disciplines of the GATS: General Obligations

- **Most-favoured-nation (MFN) treatment:** Favour one, favour all. MFN means treating one's trading partners equally on the principle of non-discrimination. Under GATS, if a country allows foreign competition in a sector, equal opportunities in that sector should be given to service providers from all other WTO members. (This applies even if the country has made no specific commitment to provide foreign companies access to its markets under the WTO.)

MFN applies to all services, but some special temporary exemptions have been allowed. When GATS came into force, a number of countries already had preferential agreements in services that they had signed with trading partners, either bilaterally or in small groups. WTO members felt it was necessary to maintain these preferences temporarily. They gave themselves the right to continue giving more favourable treatment to particular countries in particular services activities by listing "MFN exemptions" alongside their first sets of commitments. In order to protect the general MFN principle, the exemptions could only be made once; nothing can be added to the lists. They are currently being reviewed as mandated, and will normally last no more than ten years.

- **Transparency:** GATS Members are required, inter alia, to publish all measures of general application and establish national enquiry points mandated to respond to other Member's information requests.
- Other generally applicable obligations include the establishment of administrative review and appeals procedures and disciplines on the operation of monopolies and exclusive suppliers..



### 2.3 Key Disciplines of the GATS: Specific Commitments

- **Market Access:** Market access is a negotiated commitment in specified sectors. It may be made subject to various types of limitations that are enumerated in Article XVI(2). For example, limitations may be imposed on the number of services suppliers, service operations or employees in the sector; the value of transactions; the legal form of the service supplier; or the participation of foreign capital.

The market access provisions of GATS cover six types of restrictions that must not be maintained in the absence of limitations. The restrictions relate to

- (a) the number of service suppliers
- (b) the value of service transactions or assets
- (c) the number of operations or quantity of output
- (d) the number of natural persons supplying a service
- (e) the type of legal entity or joint venture
- (f) the participation of foreign capital.

These measures, except for (e) and (f), are not necessarily discriminatory, i.e. they may affect national as well as foreign services or service suppliers. The operation of the quota-type measures falling under (a) to (d) may be made contingent on an economic needs tests (ENT).

- **National Treatment:** A commitment to national treatment implies that the Member concerned does not operate discriminatory measures benefiting domestic services or service suppliers. The key requirement is not to modify, in law or in fact, the conditions of competition in favour of the Member's own service industry. Again, the extension of national treatment in any particular sector may be made subject to conditions and qualifications.

### 2.4 The List of Services in the GATS

- For purposes of structuring their commitments, WTO Member have generally used a classification system comprised of 12 core service sectors (document MTN.GNS/W/120):
  - Business services (including professional services and computer services)
  - Communication services
  - Construction and related engineering services
  - Distribution services
  - Educational services
  - Environmental services
  - Financial services (including insurance and banking)
  - Health-related and social services
  - Tourism and travel-related services
  - Recreational, cultural and sporting services
  - Transport services
  - Other services not included elsewhere
  
- These sectors are further subdivided into a total of some 160 sub-sectors. Under this classification system, any service sector, or segments thereof, may be included in a Member's schedule of commitments with specific market access and national treatment obligations. Each WTO Member has submitted such a schedule as required by the Agreement (Article XX:1).

## 2. Services in Trade Agreements

### 2.5 A Sample Schedule of Commitments

Modes of supply: (1) Cross-border supply; (2) Consumption supply;  
(3) Commercial presence; (4) Presence of natural persons

Sector or sub-sector	Limitations on market access	Limitations on national treatment	Additional commitments
<b>I. HORIZONTAL COMMITMENTS</b>			
ALL SECTORS INCLUDED IN THIS SCHEDULE	(4) Unbound, other than for (a) temporary presence, as intra-corporate transferees, of essential senior executives and specialists and (b) presence for up to 90 days of representatives of a service provider to negotiate sales of services.	(3) Authorization is required for acquisition of land by foreigners.	
<b>II. SECTOR-SPECIFIC COMMITMENTS</b>			
4. DISTRIBUTION SERVICES C. Retailing services (CPC 631, 632)	(1) Unbound (except for mail order: none). (2) None. (3) Foreign equity participation limited to 51 per cent. (4) Unbound, except as indicated in horizontal section.	(1) Unbound (except for mail order: none). (2) None. (3) Investment grants are available only to companies controlled by Arcadian nationals. (4) Unbound.	

## 3.1 Korea's Trade Policy Review: 1996

- Korea's services sector accounted for about 60% of GDP. The Secretariat's report noted that Korea had assumed commitments in over 80 sectors, followed by additional offers in the extended negotiations on financial services, basic telecommunications and maritime transport. However, it also noted that significant portions of the transport, communications, financial and business services industries are still restricted for foreign investors.
- Telecommunications and financial services was reported to be among the most dynamic segments in the late 90's, benefiting from demand trends, product and process innovation, and gradual policy reform. Liberalization moves in telecommunications had been partly synchronized with international developments, including current WTO negotiations. External opening of virtually all basic telecom services was scheduled for 1998, following domestic liberalization and deregulation.
- Growth of the financial sector had relied in particular on savings institutions, insurance companies and investment houses in the late 90's. The Government sought to promote segments which had been retarded by previous controls, such as the long-term bond market. A general limitation on foreign shareholdings, 15 per cent across all sectors, was to be reviewed with the possibility of complete elimination in 1998-99. Korea's accession to the OECD in 1997 helped to promote further liberalization.

## 3.1 Korea's Trade Policy Review: 2016

- The share of services to GDP and total employment increased slightly to 59.7% and 69.8% in 2015; the same year they represented 17.8% of total exports. Labour productivity of the services sector is only half that of the manufacturing sector, reflecting policies favouring the manufacturing sector (including tax incentives and sector-specific supports). Foreign equity restrictions apply to several services sectors, notably facilities-based basic telecommunications, air transport and maritime services. The Government has been encouraging banks, which had a traditionally close relationship with large conglomerates and their subsidiaries, to shift lending to consumers and SMEs, and to invest overseas. None of the major players in both fixed-line and mobile phone market are state owned. Restrictions are also applied on the access of large retailers (super supermarkets) to traditional markets. Korea has made commitments beyond GATS in the context of some RTAs, although its GATS commitments remain unchanged.
- In line with its traditional strategy of encouraging export-led growth based on manufactures, Korea continues to run a rising surplus in merchandise trade and a deficit in services. The merchandise trade surplus considerably exceeded the deficit in services. Consequently, despite the real exchange rate appreciation, the current account registered a substantially larger overall surplus, averaging 6% of GDP during 2012-15 (7.7% in 2015) compared to 1.9% over 2007-11, reflecting weak domestic demand and falling global oil prices.
- Korea recognizes that the performance of its services sector lags behind those of developed countries, in large part due to a policy focus on manufacturing and a wide spectrum of regulations. In this light, the government is pushing for the enactment of the Service Industry Development Act, and in July 2016 unveiled the Service Sector Development Plan as a comprehensive measure to foster the service sector.

# 3. Services Liberalization of Korea

## 3.2 Level of Services Liberalization: the Uruguay Round

- In the Uruguay round, Korea was in line with other developing countries preferring gradual liberalization in services. MOFAT reported that Korea's services openness reached 50%.
- Financial services and telecommunications services were liberalized upon the request by the United States. Services such as legal, education, hospital (medical), and postal, broadcasting were not part of liberalization.

Sector		Korea	U.S.	EU	Japan	Canada	Thailand
Business	46	31	34	41	32	35	19
Communication	24	9	15	13	15	8	5
Construction and related engineering	5	5	5	5	5	5	3
Distribution	5	4	4	4	4	5	1
Education	5	-	2	4	4	-	-
Environmental	4	3	4	3	4	4	-
Financial	17	15	16	16	16	16	13
Health-related and social	4	-	4	2	3	2	2
Tourism and travel-related	4	3	4	2	3	2	2
Recreational, cultural and sporting	5	-	4	3	4	-	1
Transport	35	8	15	17	16	20	11
Other	1	-	-	-	-	-	-
Total	155	78	107	110	105	95	55

Source: Ministry of Foreign Affairs and Trade, 1994

Note: Services Openness = # of liberalized sectors / total # of negotiated sectors

## 3.3 Level of Services Liberalization: STRI Comparison

- The Service Trade Restrictions Index (STRI), provided by the OECD, helps identify which policy measures restrict trade.

The STRI indices take the value from 0 to 1, where 0 is completely open and 1 is completely closed. They are calculated on the basis of information in the STRI database which reports regulation currently in force in 2014. (MFN-based)

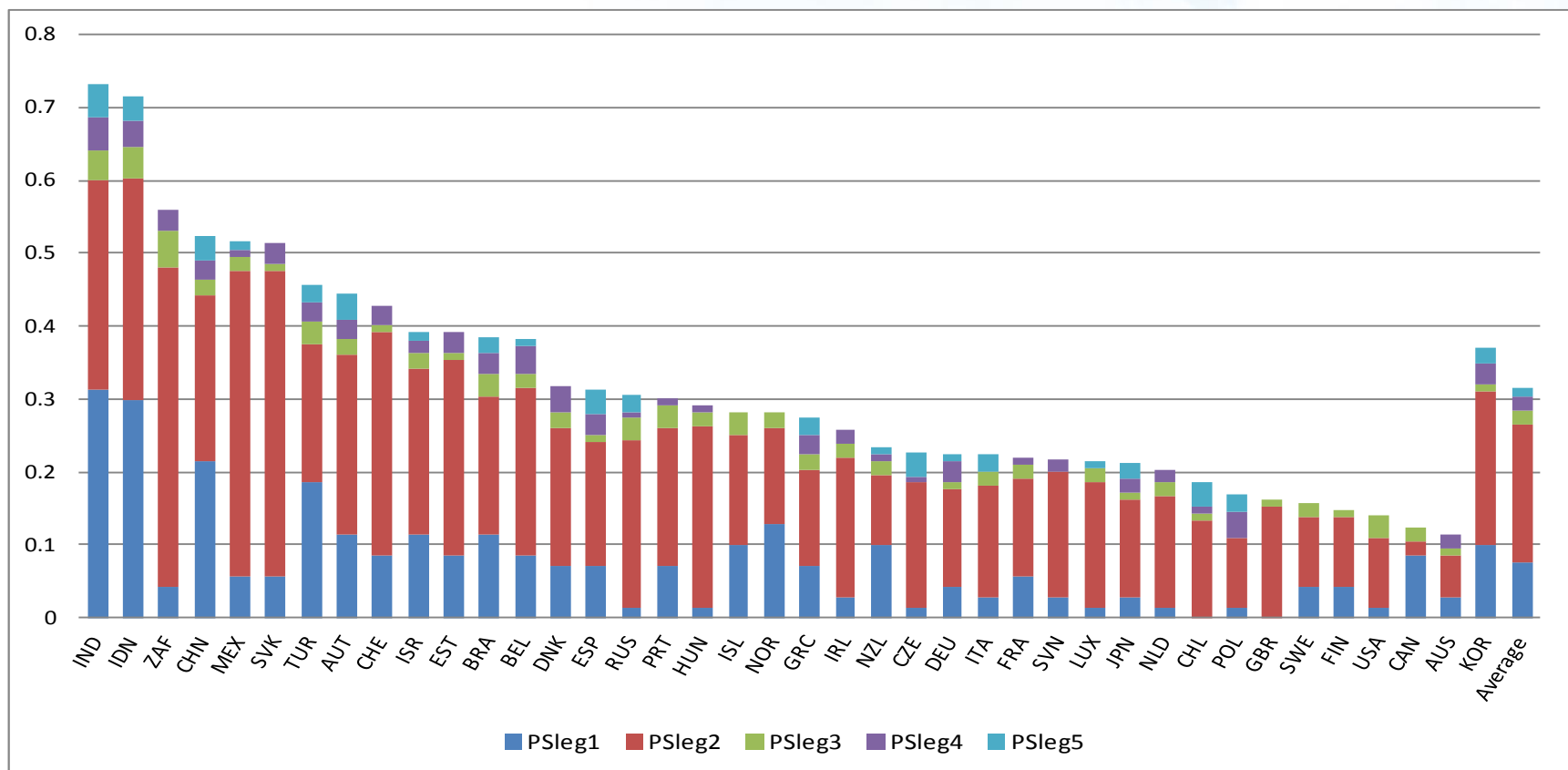
It provides policy makers and negotiators with information and measurement tools to open up international trade in services and negotiate international trade agreements. It can also help governments identify best practice and then focus their domestic reform efforts on priority sectors and measures.

- The policy measures are categorized under five policy areas:
1. Restrictions on foreign ownership and other market entry conditions
  2. Restrictions on the movement of people
  3. Other discriminatory measures and international standards
  4. Barriers to competition and public ownership
  5. Regulatory transparency and administrative requirements

# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Legal

Korea: 0.37 (27/40)      Average: 0.316

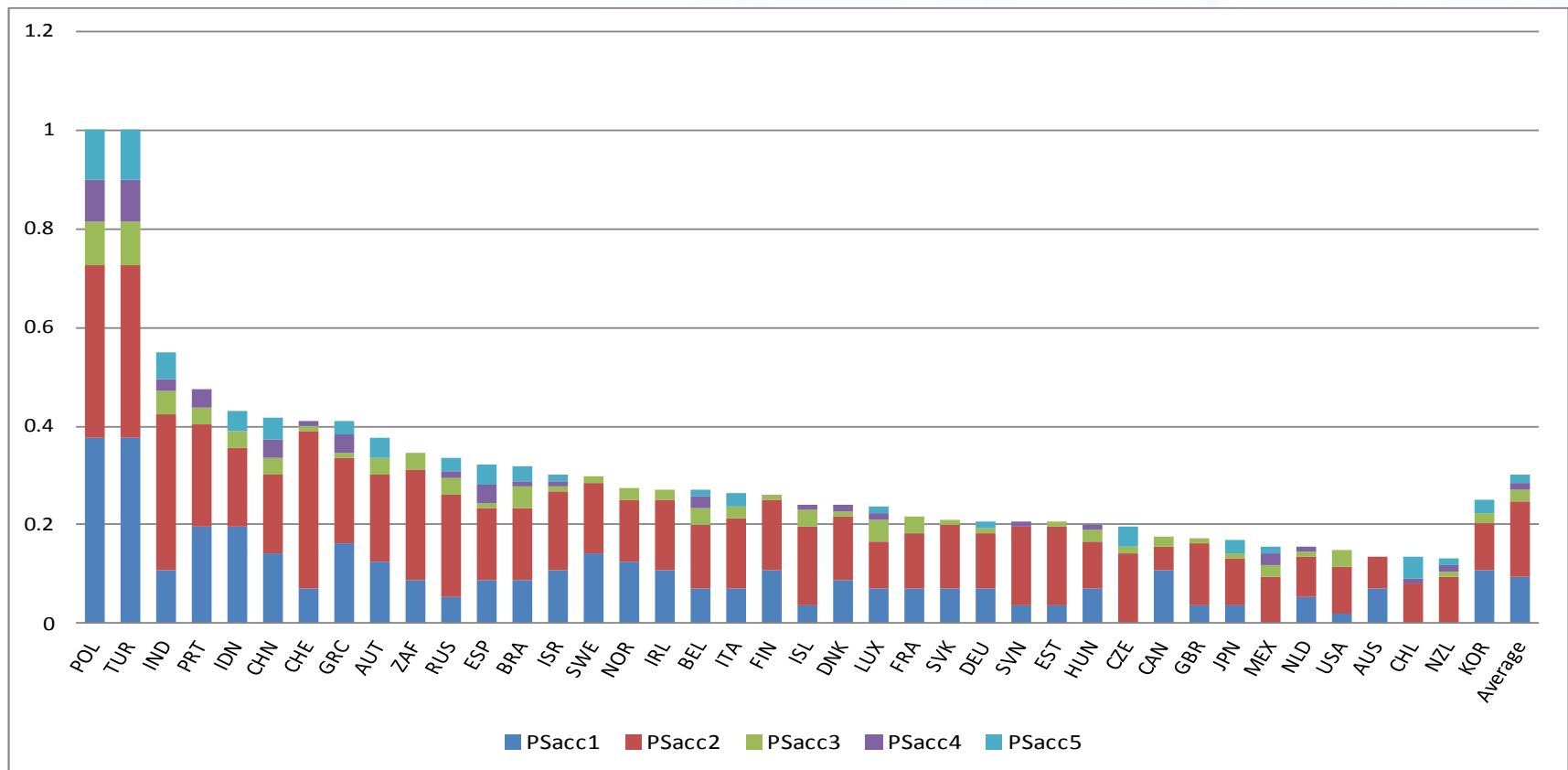




# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Accounting

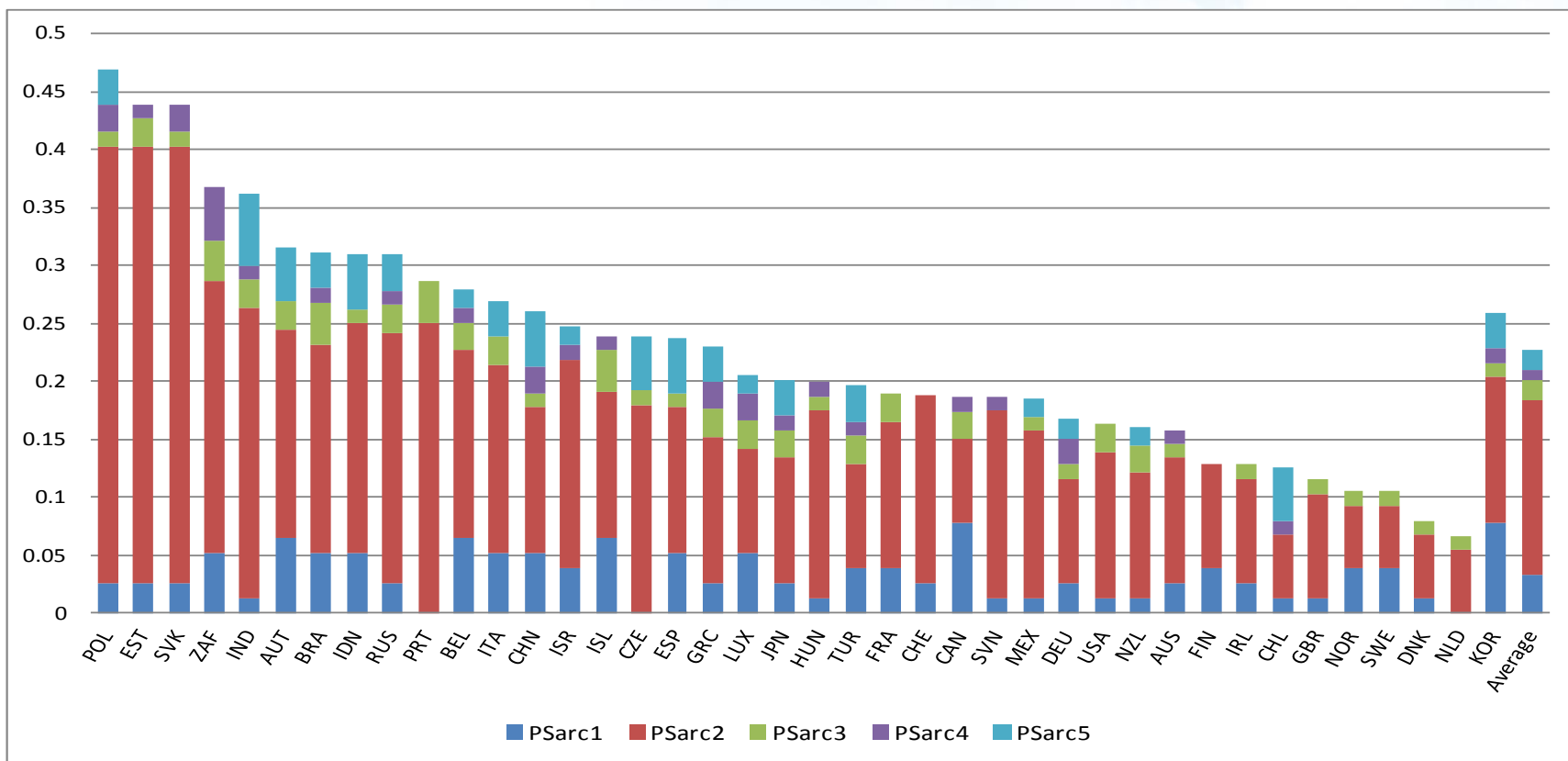
Korea: 0.254 (20/40)      Average: 0.304



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Architecture

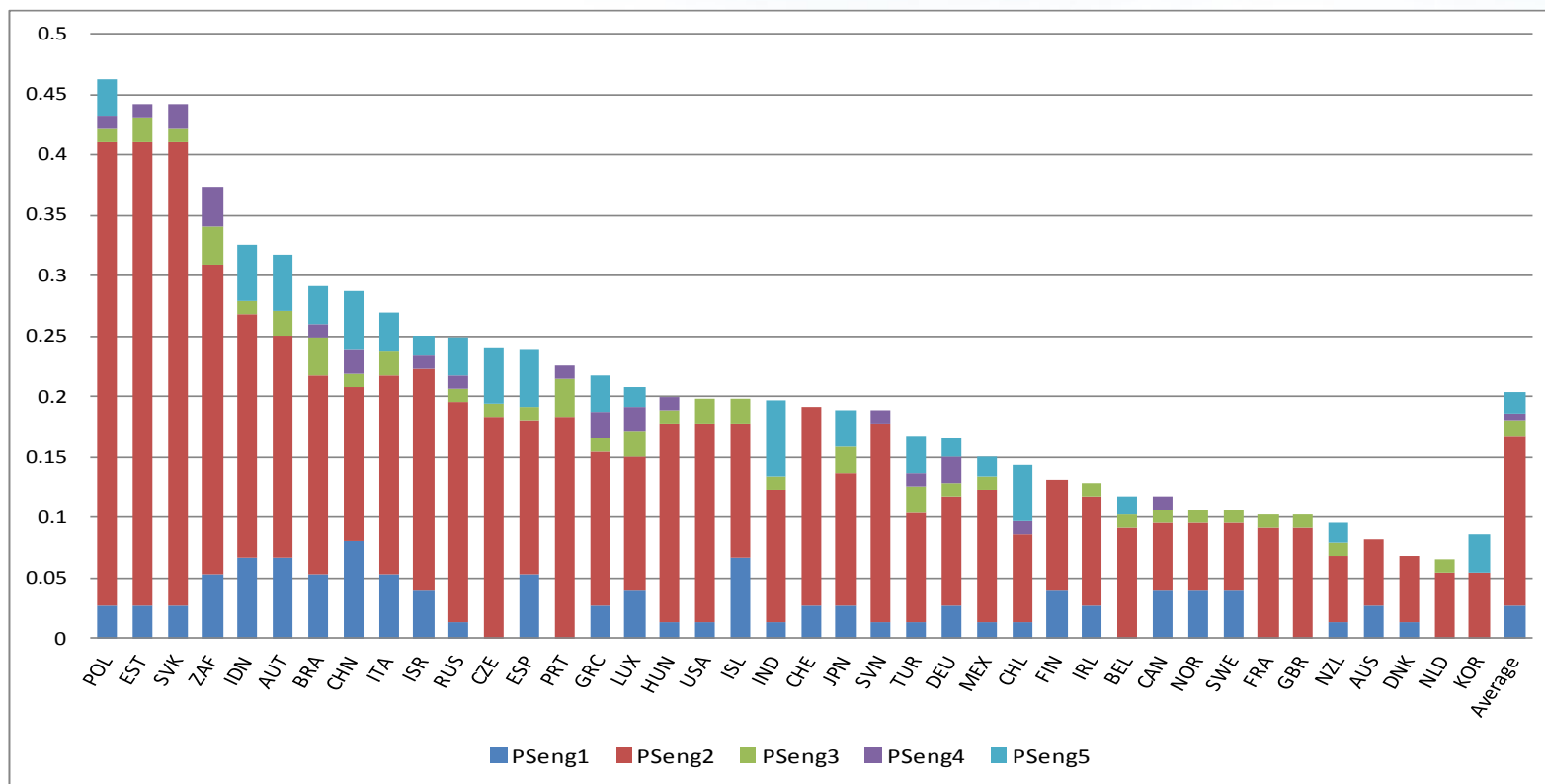
Korea: 0.259 (27/40)      Average: 0.227



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Engineering

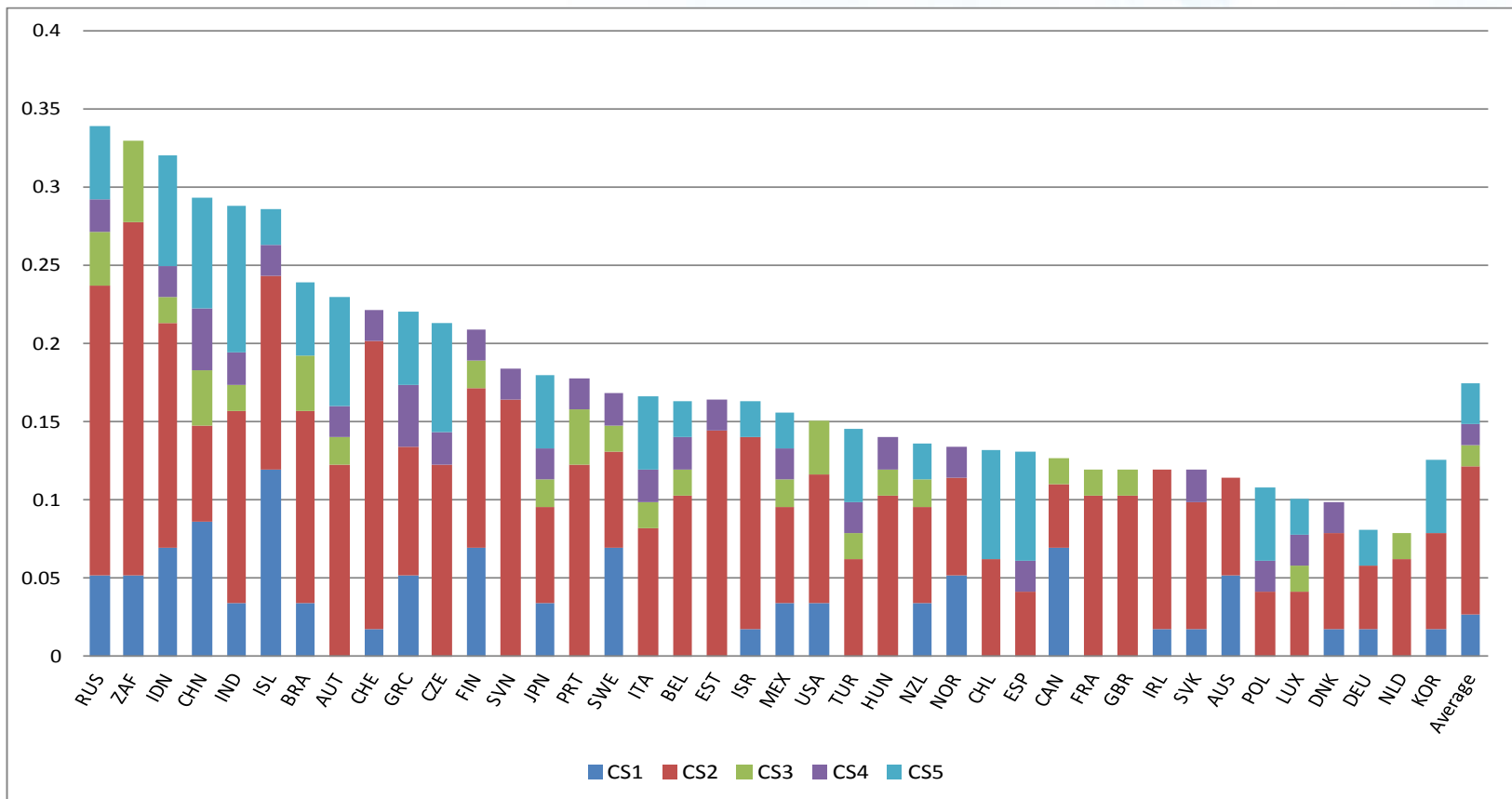
Korea: 0.086 (5/40)      Average: 0.203



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Computer

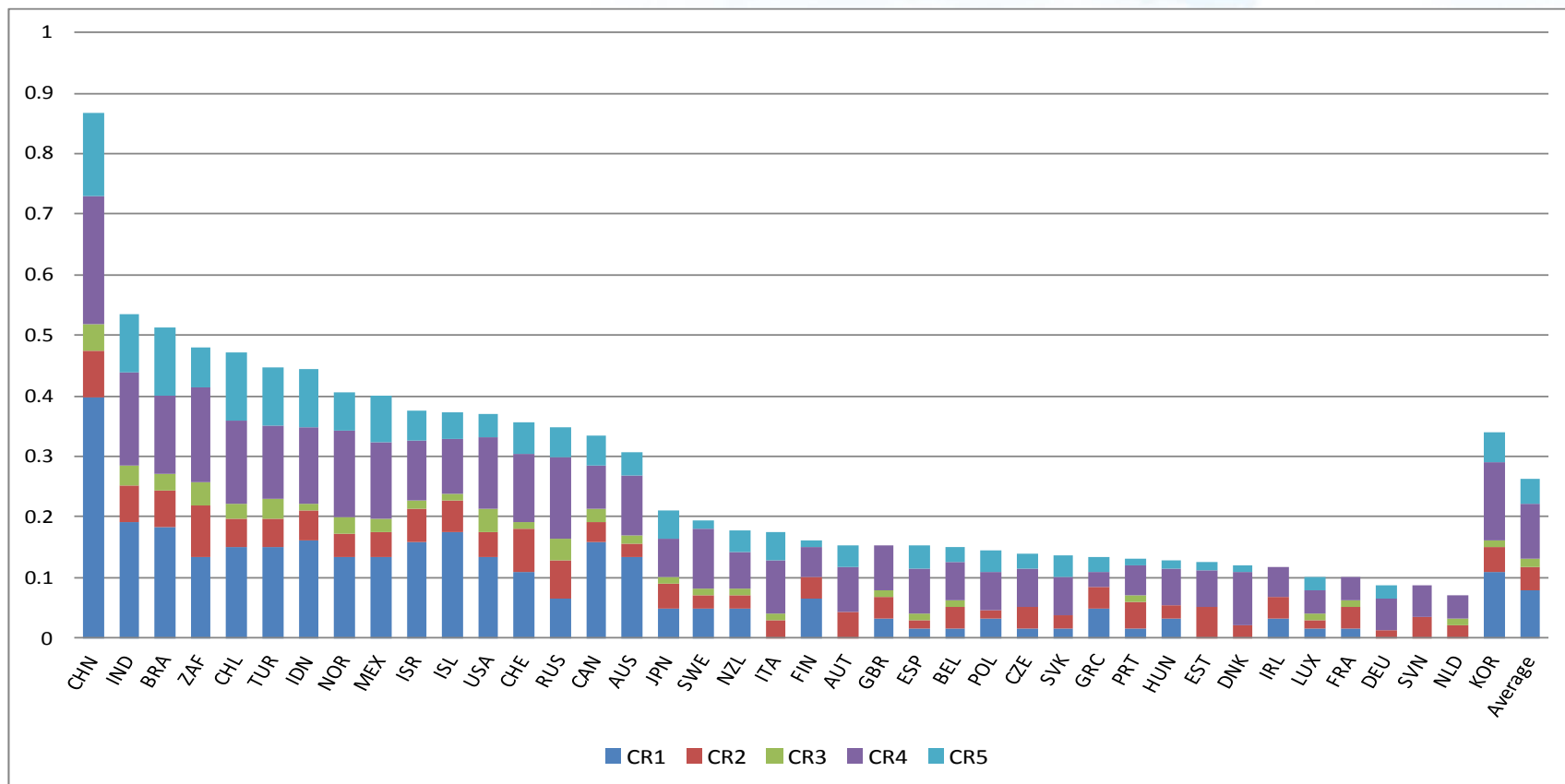
Korea: 0.126 (11/40)      Average: 0.175



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Courier

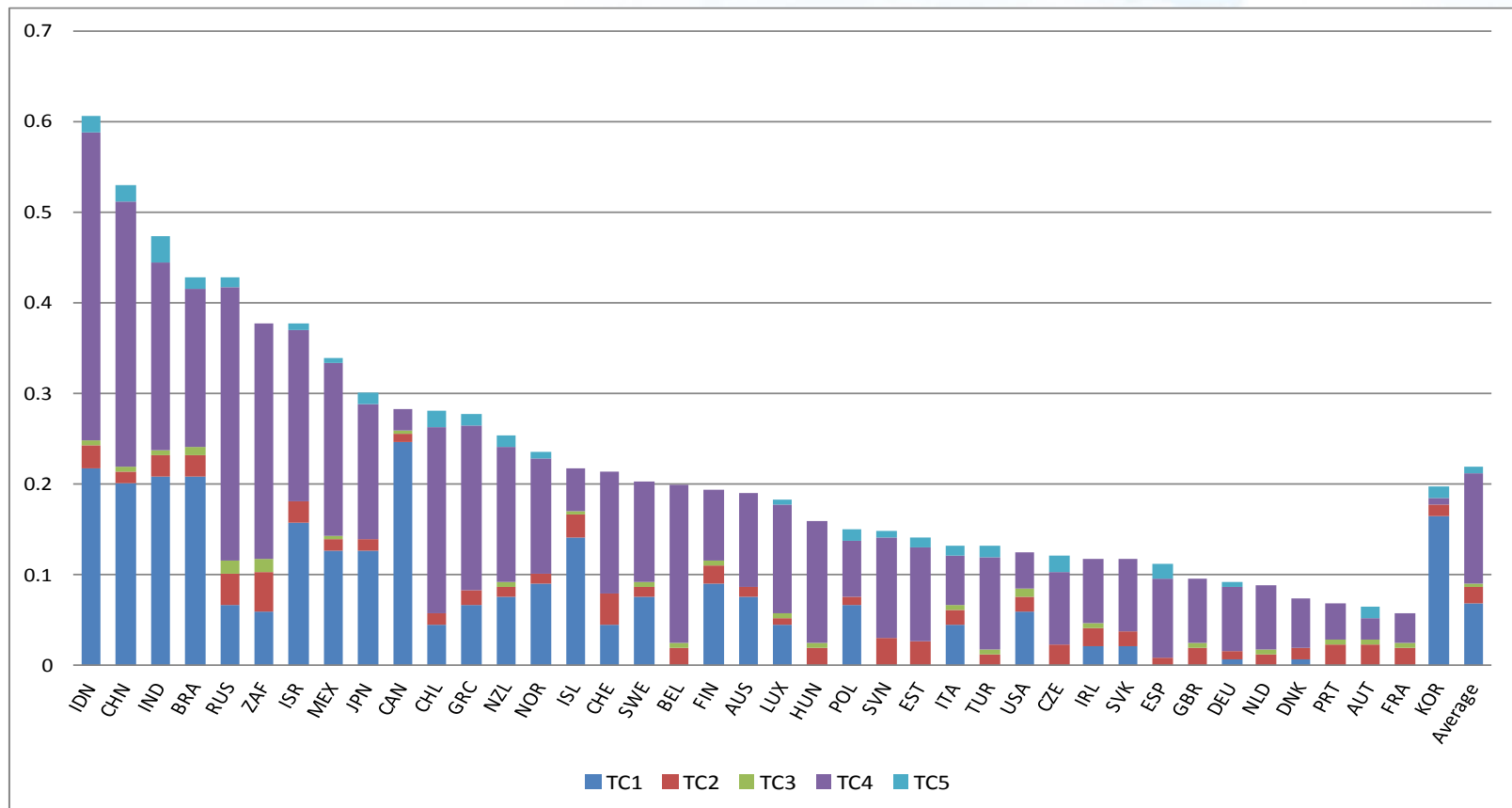
Korea: 0.338 (26/40)      Average: 0.263



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Telecommunications

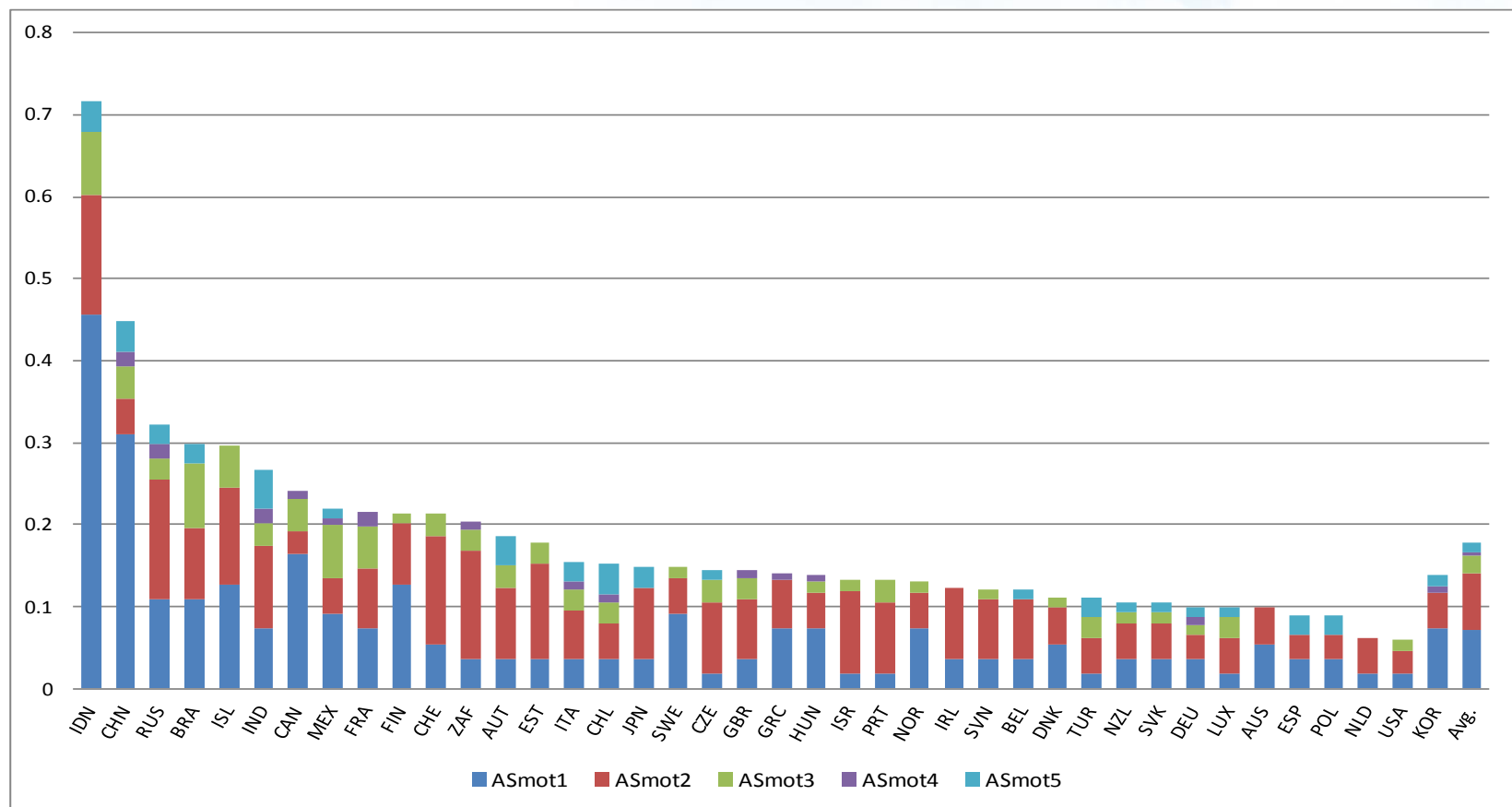
Korea: 0.197 (22/40)      Average: 0.22



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Motion Picture

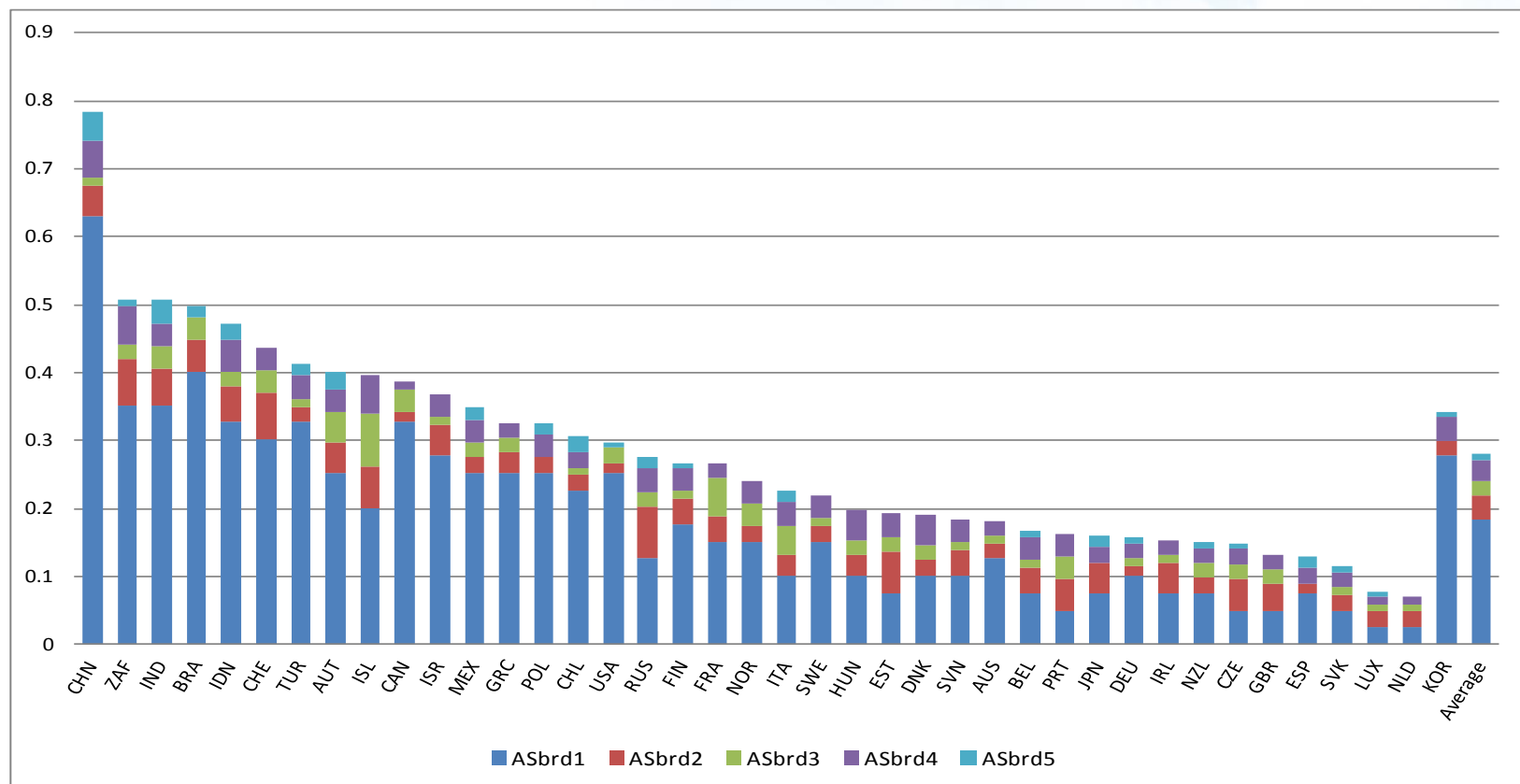
Korea: 0.138 (18/40)      Average: 0.178



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Broadcasting

Korea: 0.342 (28/40)      Average: 0.279

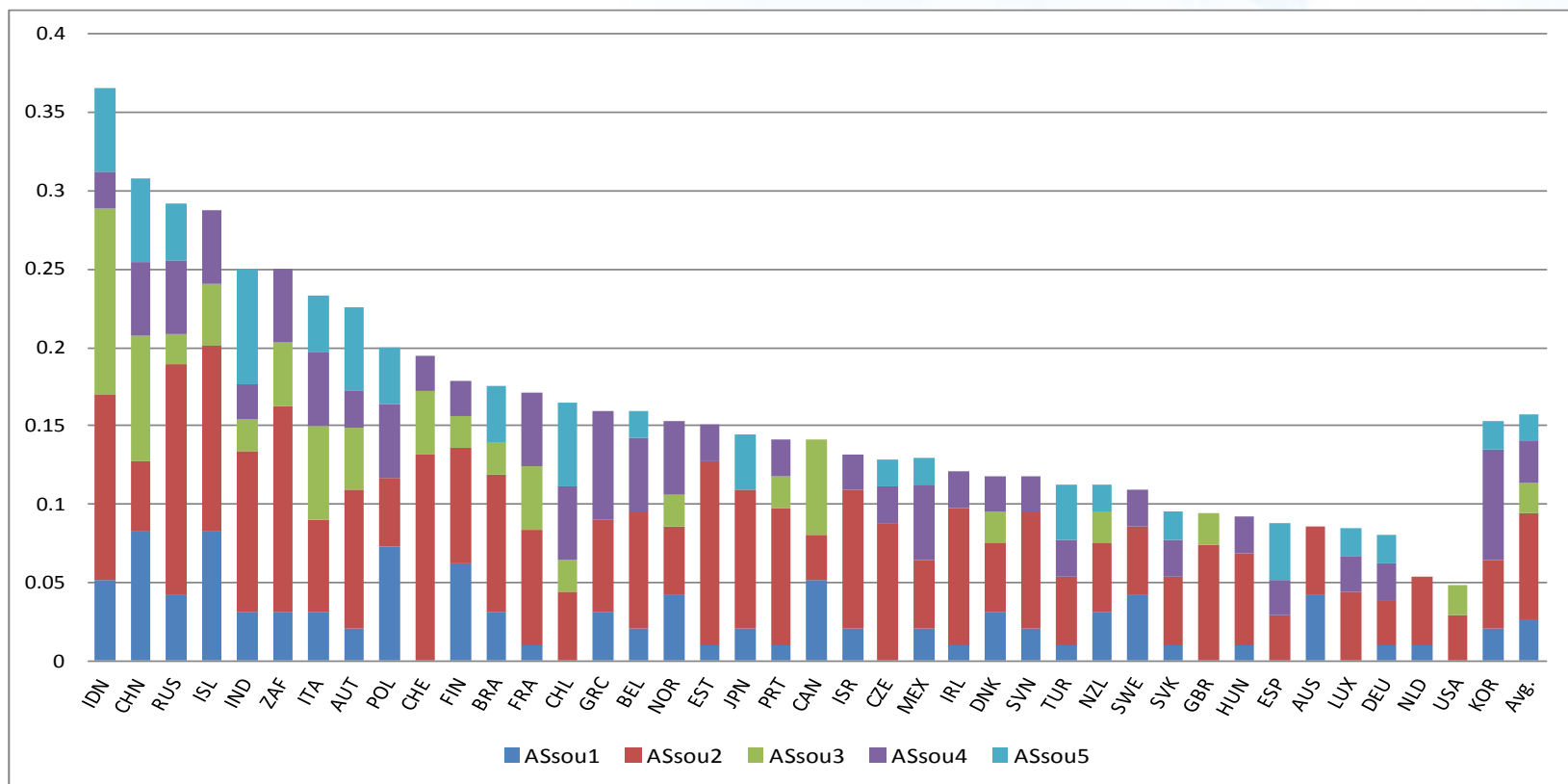




# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Sound Recording

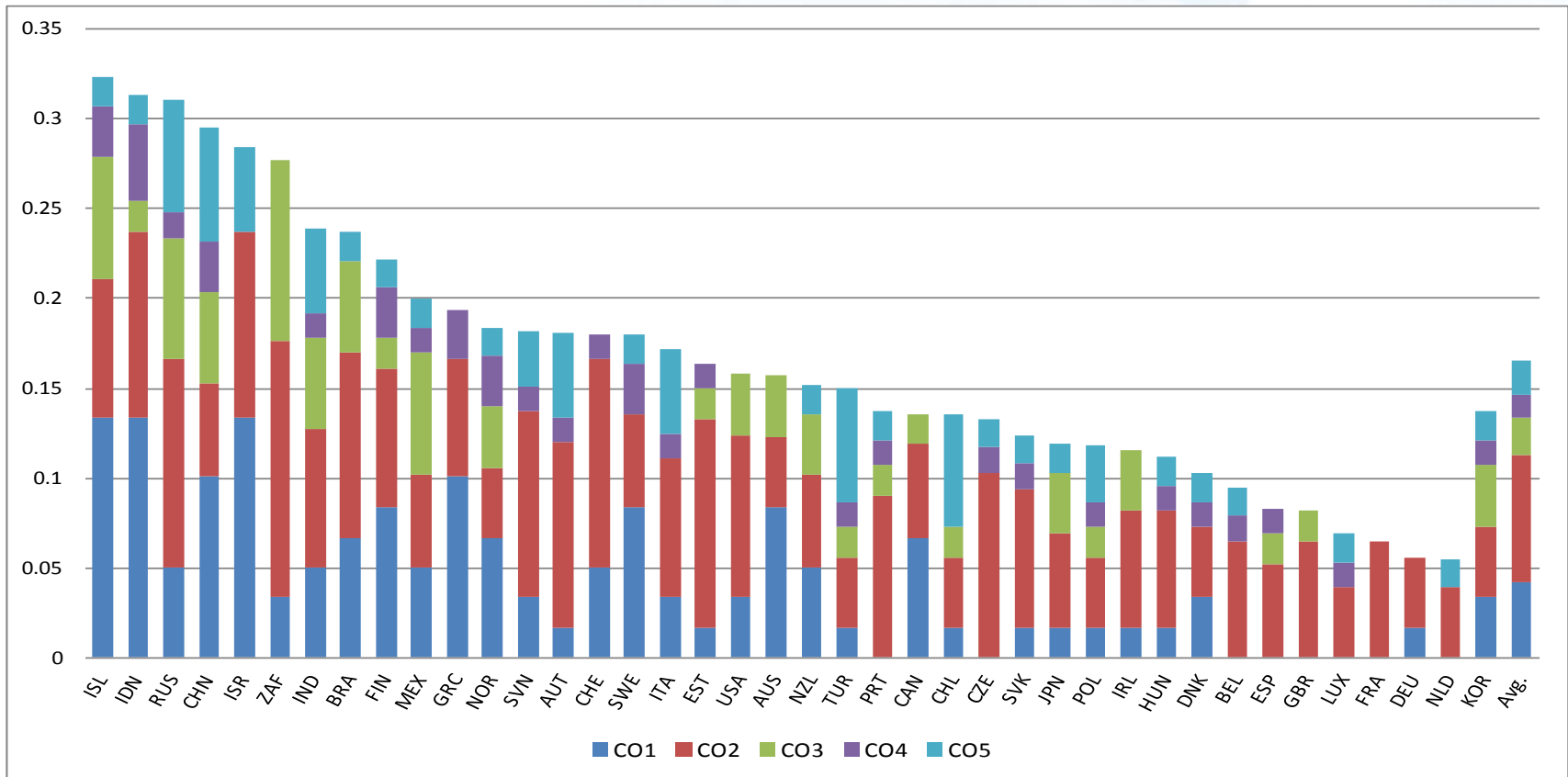
Korea: 0.153 (24/40)      Average: 0.158



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Construction

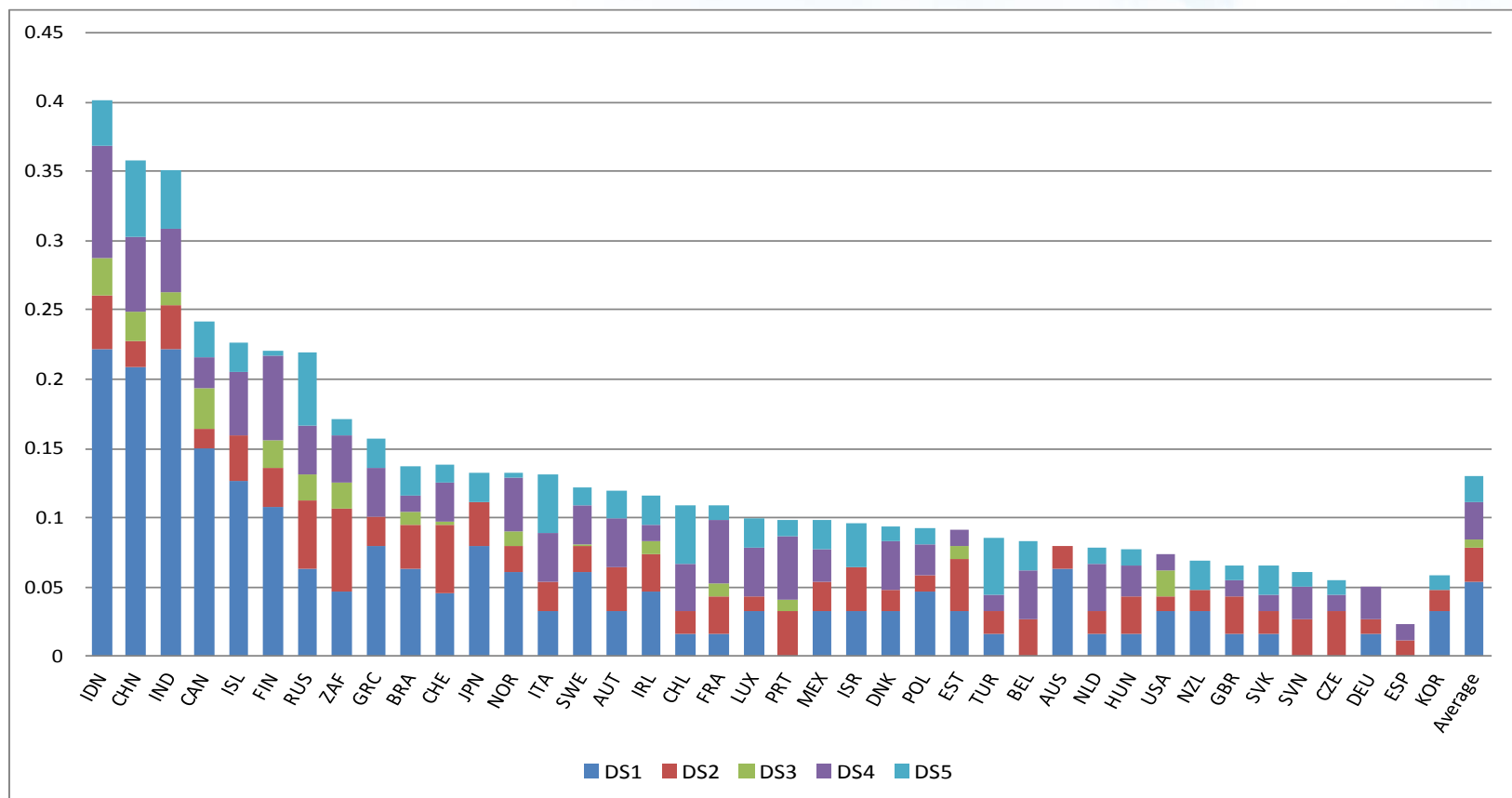
Korea: 0.136 (17/40)      Average: 0.166



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Distribution

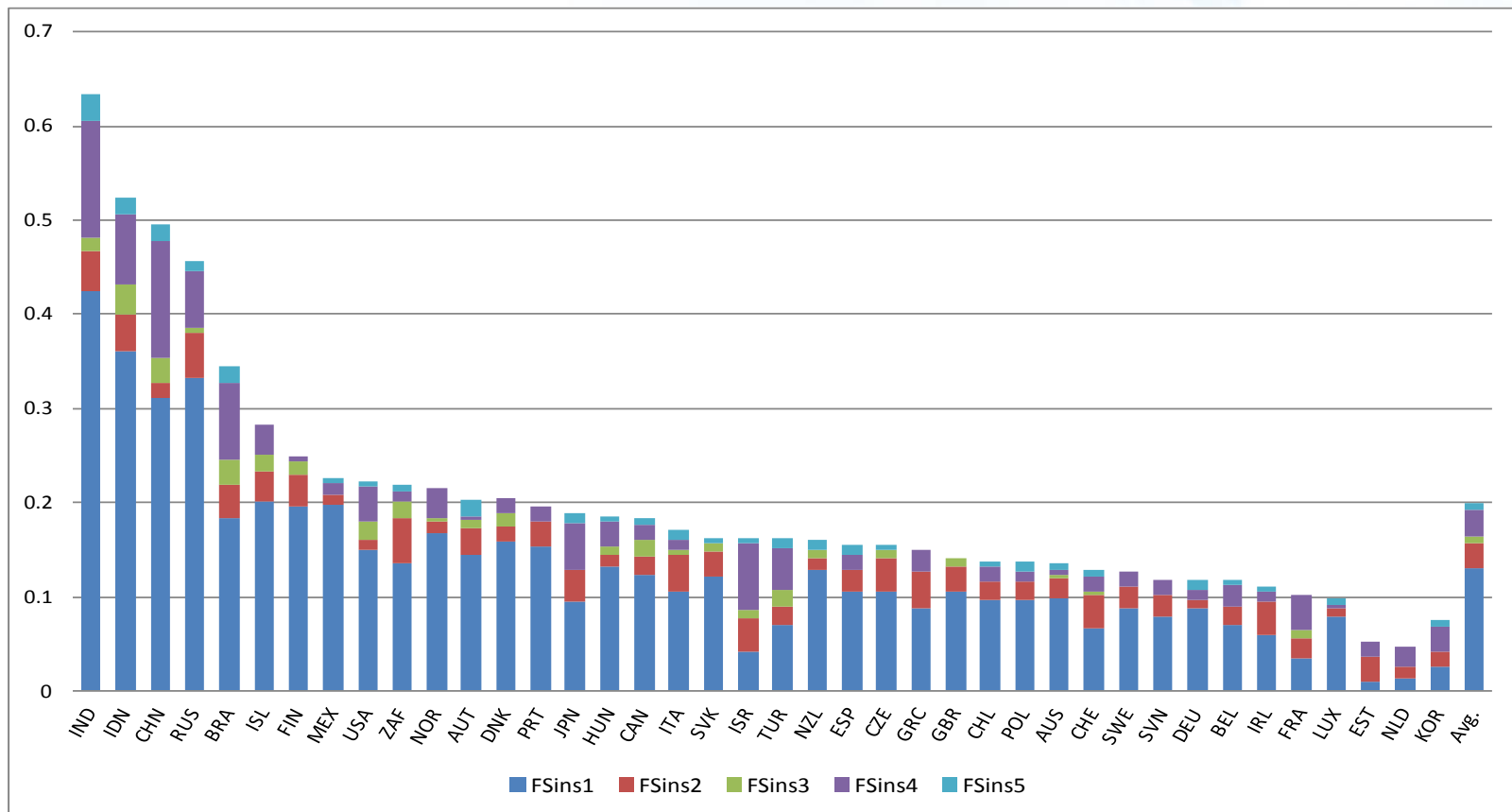
Korea: 0.058 (4/40)      Average: 0.129



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Insurance

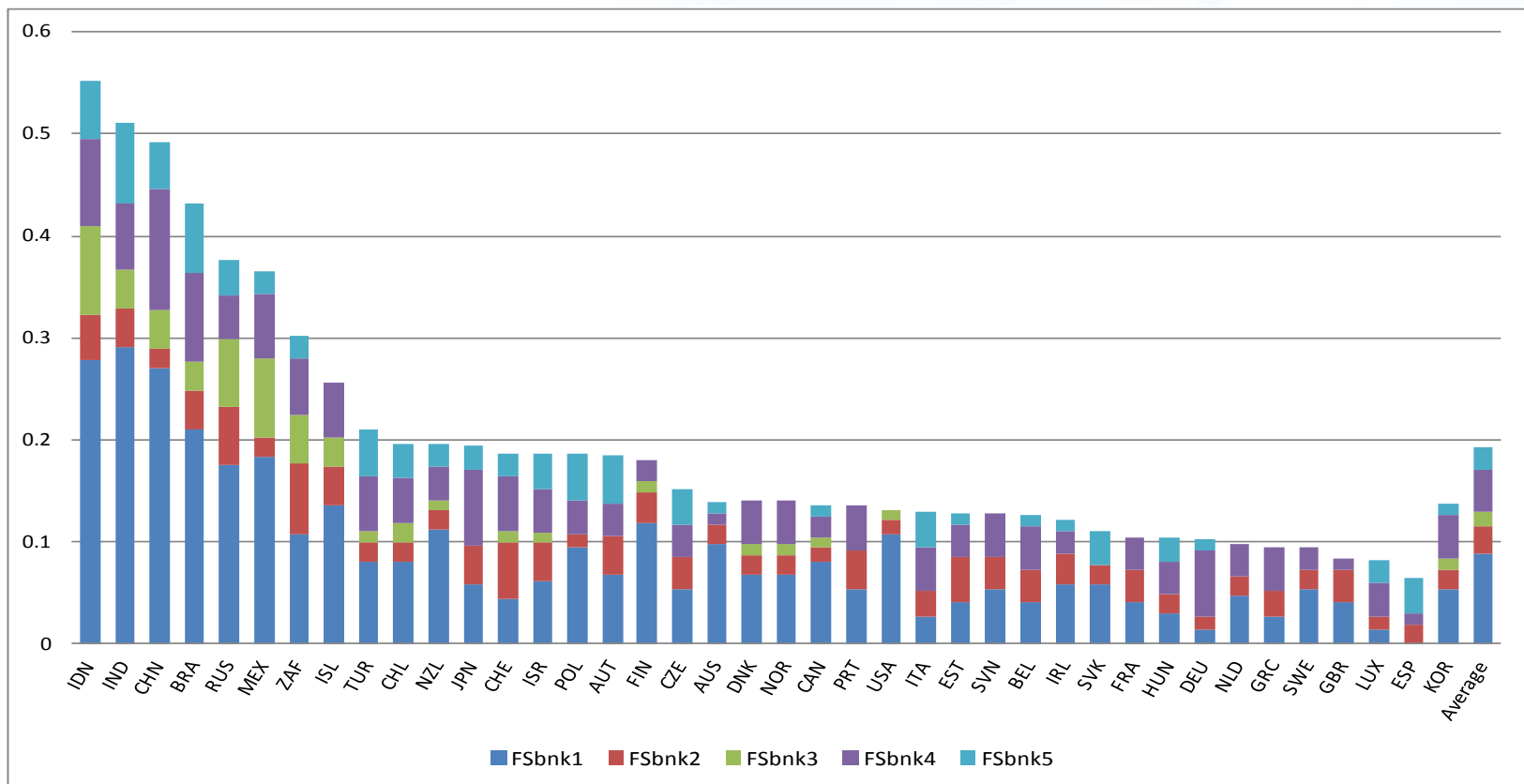
Korea: 0.075 (3/40)    Average: 0.199



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Commercial Banking

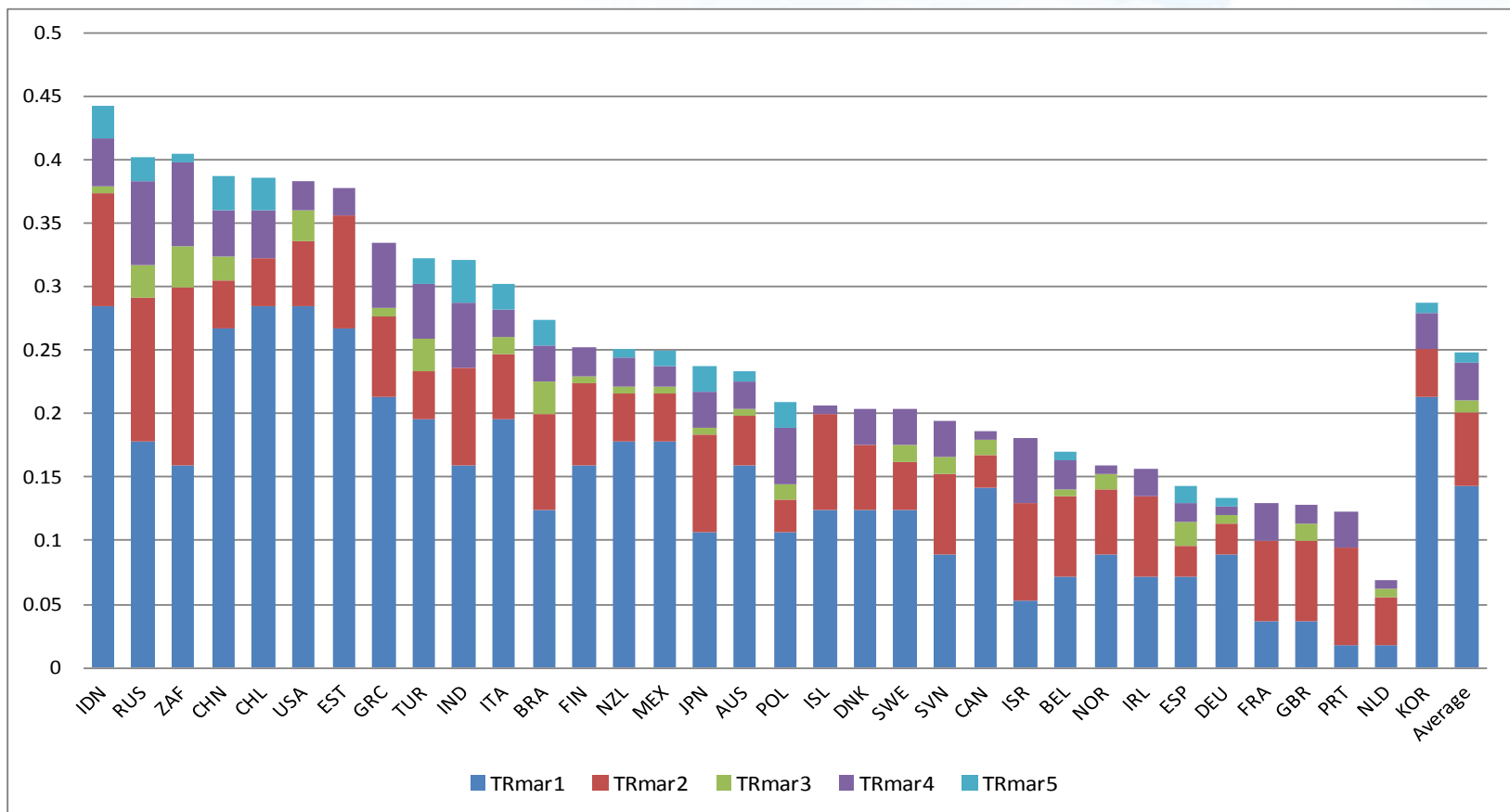
Korea: 0.137 (19/40)    Average: 0.192



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Maritime transport

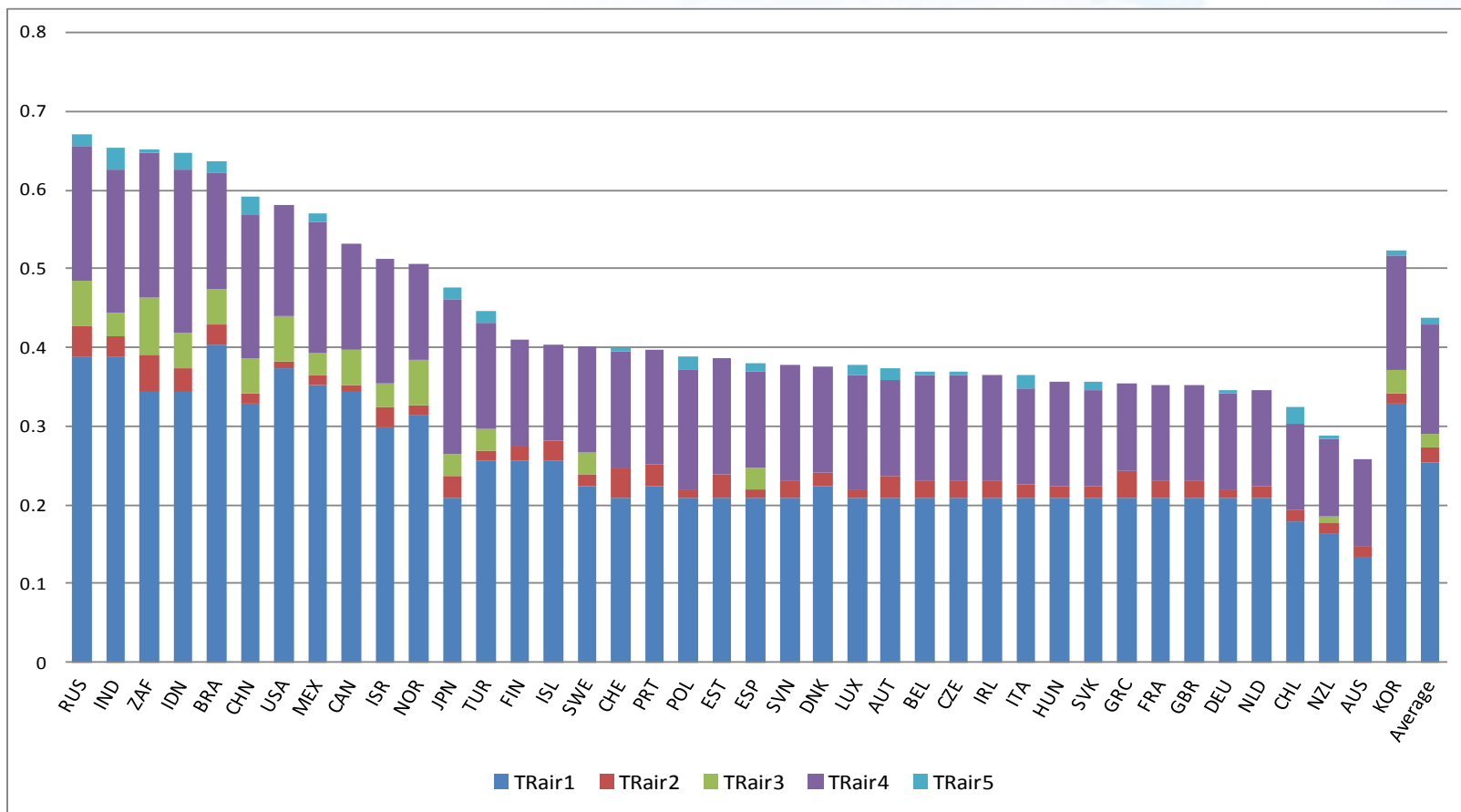
Korea: 0.287 (23/40)    Average: 0.249



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Air transport

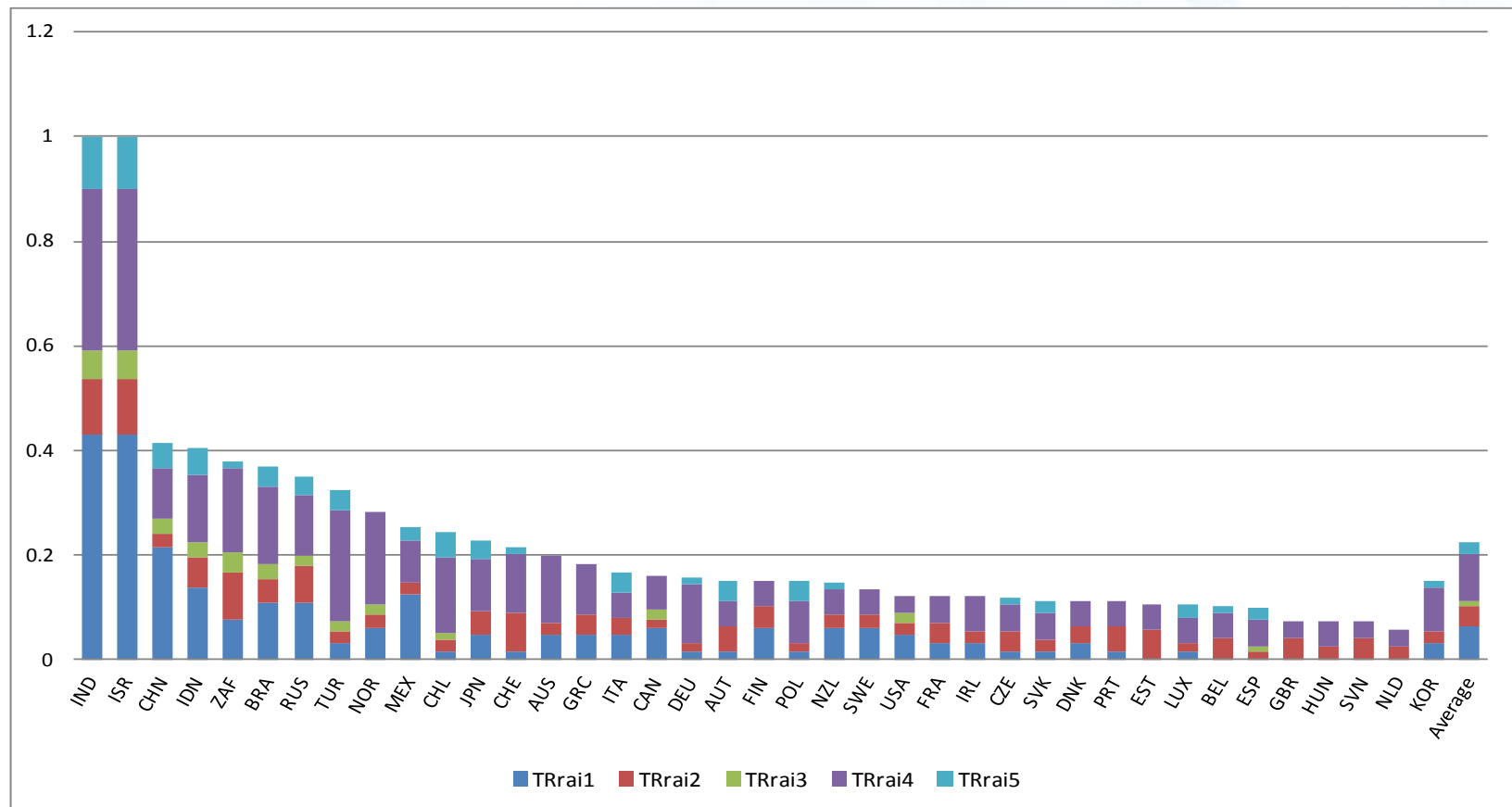
Korea: 0.523 (31/40) Average: 0.437



# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Rail freight

Korea: 0.149 (18/40)    Average: 0.223

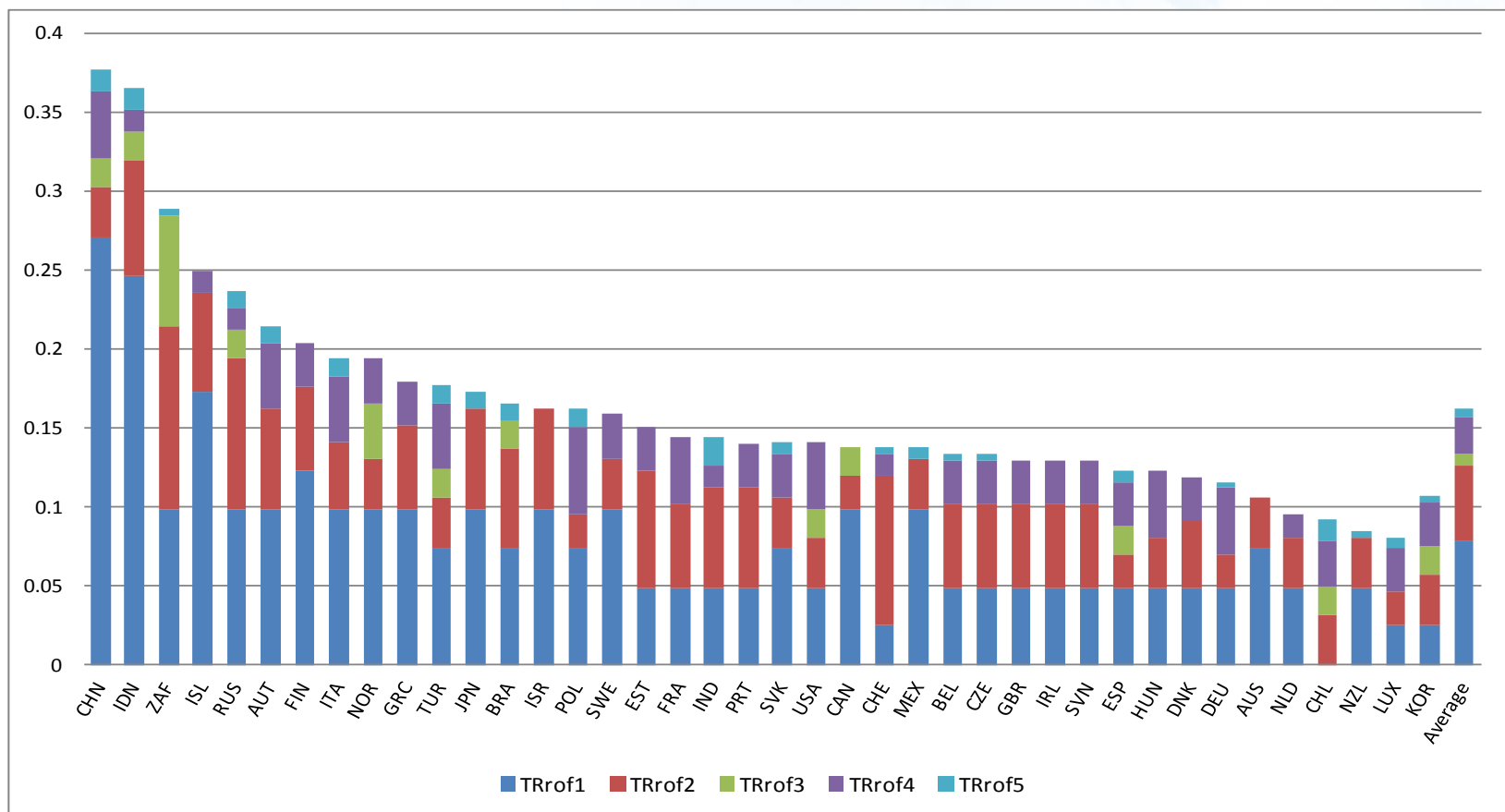




# 3. Services Liberalization of Korea

## 3.3 STRI Comparison: Road freight

Korea: 0.107 (6/40) Average: 0.162



## 3.3 Level of Services Liberalization: STRI summary

→ Among the OECD members, the levels of services liberalization of Korea perform above the average.

Korea is more liberalized than the average in 12 sectors such as accounting, engineering, computer, telecommunications, motion picture, sound recording, construction, distribution, insurance, commercial banking, rail freight, and road freight.

However, Korea is less liberalized than the average in six sectors such as legal, architecture, courier, broadcasting, maritime transport and air transport.

Like most of the countries on the index, the barriers in market entry and movement of people account for much of them.

# Thank You



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