SCHEDULE

TAIWAN ~~-9 hrs~~ + 1 day
~~+9 hours~~

STATE OF OREGON

GOVERNOR ATIYEH'S TRADE MISSION TO TAIWAN AND KOREA

ITINERARY

May 1, 1984 - Tuesday

7:00 a.m.	Check in at Portland International Airport. Assemble at the Western Horizon Club, Concourse K, near gate 44.
8:25 a.m.	Depart on Western Airlines Flight #450 to San Francisco.
9:55 a.m.	Arrive in San Francisco
1:00 p.m.	Depart San Francisco on China Airlines Flight #1 to Taipei.

May 2, 1984 - Wednesday

7:10 p.m.	Arrive in Taipei. Mission members to be met at airport and ushered through customs and immigration. Transfer to Grand Hotel.
Evening	Open

May 3, 1984 - Thursday

7:45 a.m.	All Mission Members Breakfast at American Club with representatives of the American Chamber of Commerce.
9:30 - 10:30	Economic and Commercial Briefing by American Institute on Taiwan (A.I.T.).
Rest of Day	Business Members Individual business appointments in accordance with their schedules. Official Party Courtesy calls on government officials
6:00 - 7:30 p.m.	All Mission Members State of Oregon reception at Grand Hotel.

May 4, 1984 - Friday

All Day	Business Members Individual Business Appointments
Morning	Official Party Official calls

May 4, 1984 - Friday Cont.-Official Party

Approx. Noon	Depart for Taichung (Capital of Province of Taiwan - three hour drive)
Late Afternoon	Meeting with Governor T. H. Lee. Proceed to Zun Moon Lake Resort.

May 5, 1984 - Saturday

	Business Members
Morning	Individual Business Appointments
Afternoon	Open
	Official Party
Afternoon	Return to Taipei

May 6, 1984 - Sunday

	All Mission Members
All Day	Open for sightseeing, shopping, and relaxation.

May 7, 1984 - Monday

	Business Members
All Day	Business Appointments
	Official Party
All Day	Official calls and appointments with business members.

May 8, 1984 - Tuesday

Morning	Transfer to Airport
1:15 p.m.	Depart for Korea on Cathay Pacific Flight #410.
4:30 p.m.	Arrive at Kimpo Airport
	Mission to be met by David Rearwin, Director U. S. Trade Center. Transfer to Hotel Shilla.
Evening	Open

May 9, 1984 - Wednesday

8:00 - 9:00 a.m.	All Mission Members Breakfast briefing chaired by Mr. Norman D. Glick Commercial Counselor, American Embassy and Mr. R. A. Sholts, President, American Chamber of Commerce in Korea at Hotel Shilla.
All Day	Business Members Individual business appointments in accordance with their schedules at the U. S. Trade Center
10:00 a.m.	Official Party Only Courtesy call on Ambassador Richard Walker 8th Floor Chancery Building Mr. Glick will accompany
	Official Party Only Courtesy call on the Honorable Nam, Duk Woo, Chairman Korea - U. S. Economic Council (former Prime Minister) at the 7th floor, World Trade Center Korea Building - Mr. Rearwin will accompany.
Lunch Open	
p.m.	Official Party Only Courtesy call on His Excellency, President Chun, Doo Hwan, at the Blue House (KUSEC will arrange) Ambassador Walker will accompany.
6:00 - 7:30 p.m.	All Mission Members Oregon Trade Mission Reception at Ambassador Richard Walker's Residence.

May 10, 1984 - Thursday

All Day	Business Members Individual Business appointments in accordance with their schedules at the U. S. Trade Center
	Luncheon hosted by Dr. Nam, Duk Woo, Chairman, Korea U. S. Economic Council.
9:00 a.m.	Official Party Only Breakfast meeting with Dr. Kim, Seong Jin, President International Cultural Society of Korea (Former Minister of Culture and Information).
10:00 a.m.	Courtesy call on Dr. Kim, Young Joon, Founder Han Yang University and Dr. Lee, President Han Yang University

May 10, 1984 - Thursday Cont. - Official Party

10:30 a.m.	Governor will receive honorary doctorate in International Economics from Han Yang University - Mr. Rearwin will accompany.
3:00 p.m.	Courtesy call on the Honorable Kum, Jin Ho, Minister, Ministry of Commerce and Industry 5th Floor, unified Government Building (KUSEC will arrange) - Mr. Glick will accompany.
6:00 - 8:00 p.m.	Official Party and Agriculture Only Dinner Hosted by the Honorable Lee, Hee-Il, Chairman Korea Flour Mills Industrial Association.

May 11, 1984 - Friday

9:00 a.m.	Depart Hotel Shilla via Embassy bus for DMZ - (Mr. Rearwin will accompany)
10:30 a.m.	Briefing by U. S. Military
11:00 - 12:00	Tour to DMZ
12:00 - 1:00 p.m.	Lunch with Oregon State GI's at the DMZ cafeteria
1:00 - 2:00 p.m.	Leave for Il San - Holt Center
2:00 - 3:00 p.m.	Visit Holt Center
4:00 p.m.	Return to Seoul
6:00 - 9:00 p.m.	All Mission Members Dinner and entertainment hosted by Dr. Kim, Seong Jin, President, International Cultural Society of Korea at the Korea House.

May 12, 1984 - Saturday

a.m.	Business Members Follow up business appointments in accordance with their schedules at the U. S. Trade Center.
a.m.	Official Party Open
p.m.	All Mission Members Open for sightseeing, shopping, and relaxation

May 13, 1984 - Sunday

9:30 a.m.	Check out and meet in Hotel Shilla lobby for departure for Kimpo Airport. Mr. Chung, GSO, will pick up baggage.
11:40 a.m.	Leave for Taipei via Thai Airlines #623
1:00 p.m.	Arrive Taipei
4:15 p.m.	Depart Taipei on China Airlines Flight #4.
12:30 p.m.	Arrive San Francisco
4:35 p.m.	Depart San Francisco on Western Airlines Flight #401
6:05 p.m.	Arrive Portland

DF:jh
4/21/84

BACKGROUND

OREGON TRADE DELEGATION

TO

TAIWAN AND KOREA

GOVERNOR'S OFFICIAL PARTY

Governor Victor Atiyeh
Dolores Atiyeh
Senator Ken Jernstedt
Genevieve Jernstedt
Douglas Frengle

OTHER STATE OFFICIALS

Ken Meier, Assistant Director, Department of Agriculture
David Lutjen, International Trade Specialist Oregon Economic Development Department

BUSINESS DELEGATION

*Peter Chun, President, Thermo Industries, Inc.
Steve Felkins, Director, Port of Astoria
Horrace Harrison, Jr., President, Sunrise Shipping Agency, Inc.
Dr. Young Kwon, Special Consultant, CH2M Hill International
Ken Moore, International Sales Manager, Jeld-Wen, Inc.
Ralph Ward, President, Oregon Wheat Growers League

* Jay Wu

* Korea only

GOVERNOR ATIYEH'S TRADE MISSION TO TAIWAN - KOREA
MAY 1 - 13, 1984

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JH
4/21/84

Top 25 U.S. Markets

U.S. Domestic and Foreign Merchandise Exports, 1983
F.A.S. Value

		$ billions
	World Total	**$200.5**
1.	Canada	38.2
2.	Japan	21.9
3.	United Kingdom	10.6
4.	Mexico	9.1
5.	West Germany	8.7
6.	Saudi Arabia	7.9
7.	Netherlands	7.8
8.	France	6.0
9.	South Korea	5.9
10.	Belgium & Lux.	5.0
11.	Australia	4.8
12.	Taiwan	4.7
13.	Italy	3.9
14.	Singapore	3.8
15.	Switzerland	3.0
16.	Egypt	2.8
17.	Venezuela	2.8
18.	Spain	2.8
19.	Hong Kong	2.6
20.	Brazil	2.6
21.	China	2.2
22.	South Africa	2.1
23.	Israel	2.0
24.	U.S.S.R.	2.0
25.	India	1.8

Leading U.S. Suppliers

U.S. General Merchandise Imports, 1983
Customs Value

		$ billions
	World Total	**$258.0**
1.	Canada	52.1
2.	Japan	41.2
3.	Mexico	16.8
4.	West Germany	12.7
5.	United Kingdom	12.5
6.	Taiwan	11.2
7.	South Korea	7.1
8.	Hong Kong	6.4
9.	France	6.0
10.	Italy	5.5
11.	Indonesia	5.3
12.	Brazil	4.9
13.	Venezuela	4.9
14.	Nigeria	3.7
15.	Saudi Arabia	3.6
16.	Algeria	3.6
17.	Netherlands	3.0
18.	Singapore	2.9
19.	Switzerland	2.5
20.	Sweden	2.4
21.	Belgium & Lux.	2.4
22.	Neth. Antilles	2.3
23.	China	2.2
24.	Australia	2.2
25.	India	2.2

U.S. Trade Balances

Listing of U.S. Merchandise Trade Balances
General Imports, Customs Value; Domestic and Foreign Exports, F.A.S. Value

U.S. Surplus Positions		$ billions
1.	Netherlands	+4.8
2.	Saudi Arabia	+4.3
3.	Belgium & Lux.	+2.6
4.	Australia	+2.6
5.	Egypt	+2.5
6.	U.S.S.R.	+1.7
7.	Spain	+1.2
8.	Portugal	+0.9
9.	Singapore	+0.9
10.	Israel	+0.8
11.	Pakistan	+0.6
12.	Kuwait	+0.6
13.	Ireland	+0.6
14.	Colombia	+0.5
15.	Lebanon	+0.5
16.	Switzerland	+0.5
17.	Turkey	+0.5
18.	Iraq	+0.5
19.	Jordan	+0.4
20.	Panama	+0.4
21.	Morocco	+0.4
22.	United Arab Emirates	+0.4
23.	Greece	+0.3
24.	Libya	+0.2
25.	Yugoslavia	+0.2

U.S. Deficit Positions		$ billions
1.	Japan	−57.5
2.	Canada	−19.3
3.	Mexico	−7.7
4.	Taiwan	−6.5
5.	West Germany	−4.0
6.	Hong Kong	−3.8
7.	Indonesia	−3.8
8.	Algeria	−3.0
9.	Nigeria	−2.9
10.	Brazil	−2.4
11.	Venezuela	−2.1
12.	United Kingdom	−1.8
13.	Netherlands Antilles	−1.7
14.	Italy	−1.5
15.	Bahamas	−1.2
16.	South Korea	−1.2
17.	Iran	−0.9
18.	Sweden	−0.8
19.	Ecuador	−0.8
20.	Angola	−0.8
21.	Congo	−0.8
22.	Gabon	−0.6
23.	Trinidad & Tobago	−0.6
24.	Norway	−0.5
25.	Malaysia	−0.4

TAIWAN

TAIWAN

	1982	1983
EXPORTS TO TAIWAN	$163,212,010	$192,546,726
IMPORTS FROM TAIWAN	$100,260,276	$104,623,611
TOTAL TRADE	$263,472,286	$297,170,337

MAJOR EXPORTS TO TAIWAN, 1982:

1)	Unmilled wheat	$106,068,786
2)	Barley	21,919,877
3)	Barley for malting purposes	13,798,700
4)	Soybeans	7,380,527
5)	Yellow corn	3,895,663
6)	Peas	2,317,390
7)	Whole cattle hides	1,849,614
8)	Sodium carbonate	1,220,564
9)	Unwrought lead (except alloyed)	800,249
10)	Carbon steel waste and scrap	511,287

MAJOR IMPORTS FROM TAIWAN, 1982:

1)	Footwear	$23,252,899
2)	Apparel/clothing	12,833,248
3)	Plywood	6,487,129
4)	Television sets (color and black/white)	6,228,374
5)	Telephone answering machines	4,922,481
6)	Toys	2,466,717
7)	Religious articles	1,305,998
8)	Furniture, and parts of	1,223,380
9)	Christmas tree lighting sets	1,196,663
10)	Electric pocket calculators	1,140,969

All currency is in U.S. dollars.
All figures denote trade between the Oregon Customs District and Taiwan.

TAIWAN

Restructuring Of Economy Buoys 1984 Import Market

By Christine Carter

U.S. exports to Taiwan in 1984 are likely to register a 10 percent increase over 1983. Although overshadowed by the increasing bilateral trade deficit with Taiwan ($6.54 billion in 1983), U.S. exports should total $4.9 billion in 1984. Solid opportunities exist for U.S. firms to participate in the gradual restructuring of Taiwan's economy from a labor-intensive to a technology-intensive base; exports of high-technology equipment and know-how are expected to grow significantly in the medium to long term.

U.S. exports 1983—$4,655.8 million
U.S. imports 1983—$11,204.2 million

In 1983, American sales to Taiwan reached a record level of $4.67 billion, a 14 percent increase over the 1982 total and a 12 percent increase over the previous high of $4.18 billion in 1980. This growth represents a reversal of the absolute decline in U.S. exports which began in 1980 and continued through the first half of 1983. Those U.S. exports which are expected to continue their growth are corn, soybeans, generators, parts for office machines, chemical mixtures, and aircraft parts.

After a disappointing performance in 1982, last year the Taiwan economy experienced a rapid recovery which is expected to continue through 1984. The Taiwan economy gained momentum in the second half of 1983 in response to the recovery of the global economy, and the U.S. economy in particular. Following GNP growth of only 3.76 percent for 1982, the real GNP growth rate for all of 1983 is estimated at 7.14 percent and is projected at 7.5 percent for 1984.

Inflationary pressures are mounting in Taiwan. In 1983, Taiwan continued to enjoy an excellent credit rating; prices were stable and the debt service ratio was less than 8 percent. However, Taiwan's trade surplus grew dramatically last year and resulted in a 50 percent increase in net foreign assets to $13 billion and a rapidly expanding money supply. Inflation in 1984 is projected at 3.3 percent.

While imports grew only 6 percent last year over 1982 values, Taiwan's exports are estimated to have increased 13 percent in 1983. Electronic products displaced textiles as Taiwan's largest export and will dominate Taiwan's export statistics in 1984. As a result of the surge in exports and the recovery of Taiwan's domestic economy, in 1983 industrial production expanded more than 11 percent, idle industrial capacity decreased to 20 percent, and the volume of Taiwan's raw materials and finished goods inventories declined. Both the domestic economic recovery and the growth in Taiwan's exports—expected to increase 14.4 percent in 1984—will stimulate U.S. exports to Taiwan.

The United States is in a favorable position to supply Taiwan's raw material and capital goods needs. The U.S. products likely to experience rapid and sustained growth in exports to Taiwan include computers and peripherals, high-technology machine tools, telecommunications equipment, medical equipment, and electronic components and electronics production and test equipment. Agricultural products will continue to account for the bulk of U.S. exports to Taiwan, and raw material exports, with the exception of coal, will remain strong.

Although the United States has registered a trade deficit with Taiwan since 1967, the imbalance has increased dramatically in the last four years and has consequently become our most serious bilateral trade problem. The deficit is expected to decrease to $5.9 billion in 1984.

American business has the opportunity to participate in several major projects in Taiwan. U.S. corporations are candidates to supply material and services for the construction of 12 large incinerators and 40 sanitary landfill projects, the expansion of both China Steel and the National Palace Museum, and the construction of a grain silo in Kaohsiung. In addition, opportunities for U.S. firms exist in supplying the sophisticated construction work and switching and control systems for railway operations for Taipei's metropolitan rapid transit system as well as the wastewater control and processing equipment for Taiwan Sugar Corporation's pork processing plant.

For additional information on Taiwan, call the ITA desk officer on 202-377-4957.

International
Marketing Information
Series

Overseas Business Reports

October 1981 OBR 81-28

OBR

Marketing in Taiwan

Supersedes 79-34
Prepared by Betty W. Patrick
Office of Country Marketing

U.S. DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

Contents

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U.S.-Taiwan Relations

U.S. Public Law 96-8 (Taiwan Relations Act) was passed and became effective April 10, 1979, following the decision to establish diplomatic relations with the Peoples' Republic of China on January 1, 1979. The Act authorizes the continuation of commercial, cultural, and other relations between the people of the United States and the people on Taiwan. One prime objective was to assure that existing business relations with Taiwan would not be jeopardized. The Act stipulates that the U.S. Government will continue to encourage trade and investment between the United States and Taiwan.

Programs, transactions, and other relations with Taiwan are conducted by or through the American Institute in Taiwan (AIT), a nonprofit corporation incorporated under the laws of the District of Columbia. The Institute has its main office in Arlington, Virginia, and subsidiary offices in Taipei and Kaohsiung, Taiwan. The Institute also maintains the American Trade Center as part of its Taipei offices.

The Coordination Council for North American Affairs (CCNAA) is Taiwan's counterpart organization to AIT in the United States. Addresses for both AIT and CCNAA may be found under the heading, "Sources of Economic and Commercial Information," page 24.

Foreign Trade Outlook

Introduction

During the past three decades, Taiwan has developed from an agricultural to an industrial economy. With the exception of 1974 when the economy stagnated briefly as a result of worldwide recession, economic growth has been rapid and sustained. The secret of success has been, and will continue to be, the emphasis given to international trade and to domestic and foreign investment.

Taiwan is the United States' ninth largest trading partner worldwide, and consistently registers a trade surplus with the United States. On the other hand, as Taiwan's largest supplier, Japan enjoys a consistent surplus in bilateral trade. These imbalances have been a matter of serious concern and, as a result, Taiwan authorities have attempted since 1972 to increase imports of American products and to decrease dependency on Japanese goods. Taiwan has favored procurement from the United States in the application screening process by restricting certain classes of goods from Asian nations and, since 1978, has sent special buying missions to the United States. To date, these missions have purchased approximately $5.5 billion worth of U.S. products. Reversing the long-running imbalance on the merchandise trade account cannot be done overnight, but progress is being made. With the continuing efforts of Taiwan, and most importantly, with the efforts of American businesses, the rate of improvement should accelerate.

Although growth in U.S. exports to Taiwan is expected to continue, serious competition for the U.S. share of the market is emerging. In order to be less vulnerable to economic slumps in the United States and Japan, its two major trading partners, Taiwan has implemented a program to diversify trade. Measures have been taken to improve trade ties in other regions of the world, particularly with Western Europe, and they are proving successful. American suppliers should therefore intensify promotion efforts in order to sell the advanced-technology capital goods that Taiwan requires.

Table 1 shows the value of principal imports from the world; table 2 shows value of selected U.S. exports to Taiwan, by major commodities.

Best Export Prospects

Prospects are very good for the sale of sophisticated industrial, manufacturing, and research equipment, and design and engineering services. While price is extremely important in selling to Taiwan, financing, delivery, and after-sales service also are highly important. American firms that pay attention to these considerations and pursue opportunities aggres-

The information supplied in this report is not intended to serve in lieu of legal counsel. Such advice may be obtained from attorneys in the United States who specialize in foreign law. A list of attorneys may be obtained from the Trade Facilitation and Information Division, Office of Export Marketing Assistance, International Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230, or from Department of Commerce District Offices located in 47 cities around the United States. More detailed information on current economic developments in Taiwan and an analysis of their implication for American business interests may be obtained by ordering the most recent Foreign Economic Trends Report from the Department of Commerce in Washington, D.C., or from the nearest District Office. Political and other background information on Taiwan is available in the Background Notes series of reports prepared by the U.S. Department of State. These may be ordered from the Government Printing Office Bookstore, U.S. Department of State, Washington, D.C. 20520. Annual subscriptions for all of the reports appearing in the Foreign Economic Trends and Background Notes series may be purchased by writing to the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Table 1.—Value of Principal Imports from the World

(Millions of dollars)

Commodity	*1977*	*1978*	*1979*
Agriculture, Forestry, and Fishery Products	1,179	1,466	2,083
Minerals	1,414	1,809	2,552
Chemical and Pharmaceutical Products	1,025	1,305	1,817
Basic Metal	841	1,104	1,479
Machinery	893	1,212	1,587
Electrical Machinery and Appratus	869	1,337	1,630
Transportation Equipment	602	831	1,176
Total	8,511	11,027	14,774

Source: Taiwan Statistical Data Book, 1980.

Table 2.—Selected U.S. Exports to Taiwan by Major Commodities

(Millions of dollars)

Commodity	*1978*	*1979*	*1980*
Nonagricultural Products			
Machinery	637.8	962.3	1,621.2
Office Machines, Computers and Equipment	37.5	44.5	81.0
Electronic Components and Parts	80.1	84.2	124.7
Telecommunications and Sound Reproducing Equipment	107.7	110.0	163.7
Aircraft and Parts	147.2	163.9	260.9
Railroad and Road Vehicles and Parts.	66.4	79.6	90.0
Scientific and Control Instrumentation	48.9	71.8	99.9
Photo Equipment, Optical Goods and Timing Apparatus	40.6	22.5	35.9
Chemicals	226.4	448.1	501.6
Iron and Steel	40.3	59.8	74.2
Coal, Coke and Briquets	13.6	17.9	32.0
Agricultural Products			
Corn	195.7	274.7	271.5
Wheat	77.6	115.8	103.7
Soybeans	254.6	308.9	261.7
Cotton	141.5	135.7	203.5
Tobacco	55.1	92.5	37.0
Total	2,341.9	3,271.3	4,336.6

Source: U.S. Department of Commerce, Bureau of the Census.

sively will secure growing sales in the Taiwan market and assist the United States in balancing its unfavorable bilateral trade account.

The following is a brief review of the 10 product categories that are considered to have the highest sales potential for U.S. suppliers to Taiwan over the next few years.

INDUSTRIAL PROCESS CONTROLS.—Over the next few years, Taiwan plans to step up development of technology-intensive industries such as petrochemical, chemical, basic metals, cement, and portions of the food processing industry. These developments will increase demand for sophisticated process control instruments such as instruments for level measurement, flow measurement, pressure measurement, temperature control, power control, chemical analysis, and physical analysis.

LABORATORY, SCIENTIFIC, AND ENGINEERING INSTRUMENTS.—The development of high-technology industry is crucial to Taiwan's development plans for the 1980's. Under a program of special incentives, many private firms and some academic institutions are increasing their budgets for research and development. The market should grow at a rate of 10 to 20 percent annually with the following products considered to be in demand: Microscopes (optical and electron), oscilloscopes, X-ray apparatus for laboratories, spectrophotometers, atomic absorption, micrometers, water meters, hydrometers, gas meters, mechanical appliances for testing physical properties and industrial materials, centrifuges, laser instruments, and compressibility testing machines.

COMPUTERS AND PERIPHERAL EQUIPMENT.—The demand for sophisticated computers and peripheral equipment is continuing to grow significantly in Taiwan. In order to improve production efficiency and reduce production costs, many large companies are adopting computerized operations. A fast growing wage rate in the manufacturing sector is likely to accelerate the pace of computerization in industry. Best sales prospects include microprocessor computers, graphic computer systems, personal computer systems, Chinese/English line printers, flexible discs, data terminals, CRT terminals, Chinese data processing systems, keypunch units, disc products, small business computer systems, and programmable data terminals.

FOOD PROCESSING EQUIPMENT.—Food manufacture on Taiwan has been expanding since 1961. The major food processing industries are sugar refining, food canning, rice milling, wheat flour milling, and vegetable oil extraction with sugar and canned food industries being the most important. Canned foods are mostly exported. The majority of the food processing plants are traditional, family-type businesses, which face serious competition from the rapidly growing modernized large-scale plants. Although these smaller firms are eager to upgrade production patterns to meet the competition, the six to eight large plants will continue to be the main end-users of advanced food processing equipment. Best sales prospects include grading machines; vacuum evaporation equipment; fitting machines; food freezing equipment (with the use of liquid nitrogen or liquid freon); rapid freezing systems; high-temperature, short-time aseptic canning facilities; sophisticated, food-product packaging equipment; and related printing equipment and technology.

TELECOMMUNICATIONS EQUIPMENT.—The Taiwan market for telecommunications systems has been expanding significantly in recent years. The high growth of income and rapid expansion of foreign trade are major contributors to a booming market. Some of the major expansion projects in this area are increasing local telephone facilities on a large scale, expanding

international and domestic toll communications facilities, promoting new services such as push-button telephones, intensifying research, and development in the field of telecommunications science and technology. Also, modernization of the military sector provides trade opportunities for special telecommunications equipment. Best sales prospects include microwave radios; communications test systems; transmission test systems; telephone sets; electronic telephone sets; system noise monitors; automatic cable tester systems; computerized branch exchanges; precision, automatic noise figure indicators; wire wrapping and unwrapping tools; integrated circuit inserters and extractors; and digital, key telephone systems.

DRUGS AND PHARMACEUTICALS.—More than 90 percent of Taiwan's domestic market for Western-type drugs and pharmaceuticals depends on imports, although Taiwan does have a thriving Chinese medicine industry. These two forms of medicine coexist easily since Taiwan's population uses both. Annual growth of imported drugs and pharmaceuticals over the past few years has averaged more than 19 percent and this growth rate seems likely to continue.

CONSTRUCTION MACHINERY AND BUILDING PRODUCTS.—In recent years construction has attained the highest growth rate of the entire Taiwan business spectrum. For the most part, Taiwan has been self-sufficient in most categories of building materials and in some building equipment. In the next few years, it is expected there will be an increased demand for high-quality building supplies and sophisticated equipment such as air-conditioning machines, fans and blowers, hand tools, elevators, circuit breakers, switchgear assemblies and switchboards, panelboards and distribution boards, electricity meters and standard meters insulating fittings, structures and structural parts of iron and steel, cast-iron pipe fittings, building wire and cable, and asbestos products.

ELECTRONIC COMPONENTS.—The electronics industry has achieved the highest growth rate of all major industries in Taiwan. It is export oriented and the second largest foreign exchange earner. Electronic components make up 84 percent of total electronic imports. Products with best sales prospects include integrated circuits digitalic, linear, monolithic, and hybrid; tuners for TV receivers; semiconductors other than integrated circuit—silicon transistors, selenium transistors, other transistors, diodes, silicon rectifiers, display including LED, LCD, and digital tubes, crystal valves; reactors; printed circuit boards; ferrite cores; coils; fixed and variable capacitors; ceramic, polyester film, electrolytic; and tubes electronic microwave, cathode ray for color TV, and electronic tubes for industrial use.

POLLUTION CONTROL EQUIPMENT.—Industrial pollution is a serious problem in Taiwan. The ratio of existing equipment investment for pollution control and the paid in capital of individual firms is less than 1 percent. Growing pressure on factories to control pollution should speed up growth in this market. Best sales prospects include professional engineering services in industrial/municipal water and wastewater treatment, air pollution abatement equipment, environmental planning studies, filtration systems, sludge concentrating systems, chlorine analyzers, turbidimeters, conductivity meters, spectrophotometers, BOD apparatus, water quality test kits, hydragard automatic liquid samplets, filters, screens and strainers, flow recording and sampling equipment, wastewater treatment systems, pressure reducing and check valves, in-line separators, pulsed flourescent ambient SO_2 analyzers, and chemicluminescent NO/NO_2 ambient air analyzers.

MEDICAL INSTRUMENTS AND EQUIPMENT.—Taiwan's strong economy has resulted in a higher standard of living for Taiwan's citizens, who continue to demand more and better services from both public and private medical institutions. A proposed national health insurance program may go into effect in 1981, and several large hospitals are undertaking major expansions that will generate substantial purchases of medical apparatus (almost all from abroad) during the next few years. Best sales prospects are spectrophotometers, clinical analyzers, double-beam spectrophotometers, vision testers, tonometers, aspirators, phacoemulsifiers, respiratory intensive care systems, flowmeters, ocutomes, fragmatomes, fetal monitors, neonatal monitors, Ph meters, automatic computing densitometers, sterile procine skin dressings, X-Y recorders, transducers, and patient monitors.

Industry Trends

Economic Progress

Taiwan officials have implemented a successful economic development program over the past two decades. The result has been the emergence of one of the fastest growing economies in the world. In the years since the launching of the first Four-Year Economic Development Plan in 1953, real gross national product (GNP) has increased at an average annual rate of almost 10 percent and manufacturing by about 15 percent a year.

There have been two distinct phases of growth to date. The first, extending from 1953 to 1962, stressed stability and the establishment of a solid economic base. During this period, Taiwan generally followed a four-pronged policy approach, which consisted of a strengthening of the agricultural base, development of a physical and social infrastructure, achievement of price stability, and emphasis on import-substitution industries. The result was a system of power, transportation, and communications facilities, second only to Japan in Asia and a secure base for an industrial economy supported by a productive agricultural sector. With increased per capita income and purchasing power, these improved conditions enhanced the climate for industrial activity and enabled local producers to rely more confidently on the development of domestic markets. By the early 1960's, Taiwan was able to pursue a pattern of self-sustaining growth, which launched the island into its second phase of rapid industrial development.

The Four-Year Economic Development Plans covering 1961 to 1972 called for intense industrialization. Primary consideration was assigned to the improvement of the investment climate and the promotion of exports. Midway through the third Economic Development Plan, the economic indicators began to grow. In 1963, real GNP increased over 9.4 percent largely due to the increased contribution of industry (see table 3). For the first time in the history of Taiwan, industry represented a greater share of net domestic products than agriculture. Industry was concerned with import substitution. Priority was assigned to such industries as cotton, textiles, clothing, shoes, and leather products. This was designed to alleviate the pressure caused by scarce foreign exchange. During this period, food processing was the only major export industry. As the orientation of industry shifted to the promotion of exports, the profile of growth industries changed. The island's inexpensive labor force, coupled with exchange reforms and export promotion, resulted in the acceleration of such light, basic industries as textiles, apparel, and wood and paper products. As the composition of industry with export capabilities shifted away from agricultural products, foreign markets began to open up, and industry moved into the production of more sophisticated products such as electronics and plastics.

By 1977, GNP had reached $21.4 billion and per capita GNP, $1,282. Industry's contribution to net domestic product had increased from 17.7 percent in 1953 to 43.7 percent in 1977. At the same time, the share held by agriculture dropped from 38.3 percent to 12.5 percent. Taiwan's 1978 economic performance was its best ever. The rate of real growth in GNP was 13.9 percent, and its value was $26 billion. Industrial production grew by 25 percent, and agriculture production as a percentage of total output showed further decline. In 1979, GNP dropped to 8.1 percent, caused principally by escalating crude oil prices, but the growth rate still outpaced other non-oil exporting countries.

Table 3.—Growth of Real Gross National Product in Taiwan, 1952-80

(NT$ Million, 1976 Prices[1])

Year	*GNP*	*% Increase*
1952	89,864	12.05
1953	98,239	9.32
1954	107,641	9.57
1955	116,349	8.09
1956	122,748	5.50
1957	131,684	7.28
1958	140,323	6.56
1959	151,197	7.75
1960	160,978	6.47
1961	171,970	6.83
1962	185,467	7.85
1963	202,852	9.37
1964	227,816	12.31
1965	252,909	11.01
1966	275,691	9.01
1967	304,799	10.56
1968	332,439	9.07
1969	362,370	9.00
1970	403,210	11.27
1971	455,226	12.90
1972	515,825	13.31
1973	581,928	12.82
1974	588,459	1.12
1975	613,414	4.24
1976	696,101	13.48
1977	764,706	9.86
1978	870,621	13.85
1979	940,973	8.08
1980	1,003,599	6.66

[1]Exchange Rate: NT$36 = US$1.

Source: Directorate-General of Budget, Accounting and Statistics.

The increased emphasis being given to the heavy, basic industries (such as iron and steel, aluminum, shipbuilding, and machinery) and to the more capital intensive, higher technology industries (such as electronics and petrochemicals) are resulting in greatly increased opportunities for overseas suppliers and foreign investors. Likewise, Taiwan's infrastructure development program presents many additional opportunities.

Economic Priorities and Growth Sectors

The basic elements of the authorities' plan to further industrialize Taiwan were set forth in the first Six-Year Economic Development Plan (1976-81). The Plan called for strengthening the economic structure through deemphasis on labor-intensive, light industry and the promotion of technologically oriented, capital-intensive, sophisticated industrial operations. Specifically, the Plan aimed for completion of the 10 major infrastructure projects followed by an additional 12 projects discussed below. The basic objective is to raise Taiwan to developed-nation status by

the end of the 1980's.

In order to ensure a continuous economic development that takes future needs and contingencies into consideration, the new Ten-Year Economic Development Plan covering the period 1980 to 1989 has been implemented. Whereas the availability of cheap energy, an ample supply of low-cost labor, and rapid expansion of foreign trade has contributed to Taiwan's economic growth, these conditions could not be expected to continue into the 1980's. The Ten-Year Plan focuses on changes in these factors of production.

To combat the problem of escalating costs of imported oil and increasing energy consumption by the industrial sector, the Plan calls for diversifying energy sources by shifting to coal and nuclear power, making major industries more energy efficient through technological improvements and the use of energy-saving machinery, as well as improving the industrial structure by expanding the share of total industrial output produced by less energy-intensive industries.

As Taiwan's industrial structure continues to be upgraded, the need for a labor force that is better educated and more highly skilled is crucial. To that end, the authorities have drafted a "Science and Technology Development Program" to intensify scientific and technological education, recruit overseas Chinese experts to serve the economy, and to strengthen on-the-job vocational training of mid-level technical personnel.

In view of the importance of foreign trade to Taiwan's economy as well as growing export competition worldwide, major emphasis has been placed on export promotion measures. This includes upgrading and controlling the quality of commercial and industrial products to meet the competition, diversifying export markets and expanding the share of existing markets, and reducing tariff rates. Tariff reduction would not only make goods imported from Taiwan's trading partners more competitive but could also help combat inflation by decreasing the retail cost of imports. This decrease in the cost of imports would also help Taiwan's industries, which depend so heavily on imported capital goods and raw materials.

The Ten-Year Plan calls for an annual growth rate of 7.9 percent, which might elsewhere in the world appear optimistic in light of economic slowdown worldwide. However, it is not too ambitious when compared with the past performance of Taiwan's economy which registered an average annual growth rate of 9.2 percent from 1953 to 1979. All previous economic development plans have proceeded on target; it is anticipated that the present Plan will also be successful.

Twelve Major Projects

Of major significance to Taiwan's economic development has been the completion of the "10 major projects" in the 1970's. These have been a major step in the transition to an industrialized economy. Between 1964 and 1973, economic growth was very rapid, averaging about 10 percent annually, and had largely outgrown the island's infrastructure—growth had outstripped power supplies; trade and travel had outgrown ports, rail facilities, roads, and airports; and industry had to rely on imports of steel and petrochemicals to keep producing. To solve the problem, the authorities initiated 10 projects to bring the infrastructure in line with long-range growth needs. These included the North-South Freeway, Taichung Harbor, Taoyuan International Airport, Kaohsiung Shipyard, nuclear power plants, an integrated steel mill, and a petrochemical development program.

With the completion of these 10 projects, 12 new major endeavors are in various stages of development.

Round-the-Island Railway Networks.—The network, as planned, includes three projects: the north link line, east line track widening, and the south link line. The north link line was completed in December 1979. The track for the east line (Taitung-Hualien) will be widened to be of the same standard as that for the west line. This project will cost about $80 million and will be completed in 1982. The south link line will connect Taitung and Pingtung, a distance of 84 kilometers. Total construction expense is estimated at $135 million. Completion date for the project is June 1986.

THREE NEW CROSS-ISLAND HIGHWAYS.—These highways, totaling 265.6 kilometers, will connect Chiayi and Yushan, Shuili and Yushan, and Yushan and Yungli. This project was started in July 1978 and is to be completed in June 1985. The budget is $102 million.

KAOPING REGION TRAFFIC IMPROVEMENT.—Broadening of highways to meet the needs of growing traffic volume in this highly industrialized region.

CHINA STEEL MILL-FIRST STAGE, SECOND PHASE.—With a total construction fund of $1.4 billion, the China Steel Corporation is slated to install additional equipment with a capacity of producing 710,000 metric tons of hot rolled plate, strip and steel, 690,000 metric tons of cold rolled strip, sheet and base plate per year, and bring total mill production to 3.25 million metric tons.

The United States Steel Corporation was contracted to do the design work. The project is scheduled for completion by June 1982.

NUCLEAR PLANTS #2 AND #3.—Units 1 and 2, with 985-megawatt capacity each, will be installed in Nuclear Power Station #2 in 1981 and 1982 respectively at a total cost of $1.5 billion. Installation of Units 1 and 2, each with 951 megawatts in Nuclear Station #3 will be completed in 1984 and 1985 respectively at a cost of $1.8 billion.

TAICHUNG HARBOR PHASE 2 AND 3.—Phase 2 involves a total construction fund of $192 million to achieve a total cargo handling volume of 4.5 million metric tons annually. This project includes the completion of an outer dike at the southern and northern sides of the harbor together with five deep-water wharves and scheduled for completion in 1980. Some $273 million is slated for phase 3 of the project, which will bring the annual cargo handling volume to 11 million metric tons, and a fishing port. These are scheduled for completion in October 1982.

NEW COMMUNITY AND HOUSING PROJECTS.—New communities in Linkou, Nanken, Taichung Harbor, Tapingting, and Cheng-Ching Lake are planned to accommodate a population of approximately 314,000. The housing projects call for 88,100 units to be built and 62,516 to be repaired.

IMPROVEMENT OF FARM DRAINAGE SYSTEMS.—This long-term project involves the improvement of the island-wide farm irrigation and drainage systems covering an area of 199,969 hectares. It is expected to be completed this year. The estimated cost is $38 million.

WEST COAST AND RIVER DIKES RECONSTRUCTION.—A long-term program is underway to reconstruct dikes on the west coast and rivers throughout the island.

FOUR-LANE HIGHWAY BETWEEN PINGTUNG AND OLUANPI.—The highway sector between Pingtung and Oluanpi, 110 kilometers, will be rebuilt by 1982 into a higher standard four-lane highway at a cost of approximately $55 million.

FARM MECHANIZATION.—A fund of $110 million has been appropriated to promote farm mechanization between 1978 and 1982.

COUNTY AND CITY CULTURAL CENTERS.—Sizable aquariums, science museums, libraries, and music halls will be built in counties and cities on the island between 1979 and 1983.

Public Role in the Economy

Taiwan has a free market economy based on private ownership as the means of production and distribution. The authorities espouse an effective laissez faire philosophy about Taiwan's private sector, although there is public ownership in certain industries and considerable centralized planning for the economy. The authorities also formulate separate long-range plans for transportation, electric power, and labor force development.

While the authorities have played a very active role in the planning of industrial development, its share of ownership and operation of industries has declined. The private sector now dominates almost all industries except those considered to be of strategic importance (power, petroleum refining, aluminum, steel, and certain chemical facilities). The public corporations include the following: Chinese Petroleum Corporation, Taiwan Metal Mining Corporation, Taiwan Fertilizer Company, Taiwan Power Company, Taiwan Sugar Corporation, Taiwan Aluminum Corporation, China Steel Corporation, Taiwan Machinery Manufacturing Corporation, China Shipbuilding Corporation, BES Engineering Corporation, Taiwan Alkali Company, China Petrochemical Development Corporation, Chung-Tai Industries Corporation, and China Phosphate Industries Corporation.

In addition to overall economic development planning, the authorities have traditionally exercised some degree of control over the economy through specific industry expansion plans, price controls, and other special economic measures taken to achieve stabilization and growth.

Distribution and Sales Channels

Major Marketing Areas

Taiwan's population of almost 18 million is involved in a continuing process of urbanization. More than 27 percent of the island's inhabitants live in the five major urban centers along the west coast: Keelung, Taipei, Taichung, Tainan, and Kaohsiung.

Taiwan's 59,500 manufacturing concerns are concentrated near the capital of Taipei, along the west coast highway and rail lines, and near the industrial districts and export processing zones. Taipei is not only the administrative seat, but it is also the principal cultural and economic center and the hub of transportation. Kaohsiung is the largest port, second largest city, and main industrial complex. It is also the site of the largest of the island's three export processing zones.

While much business can be conducted in Taipei, it is now essential for U.S. suppliers wishing to meet strong Japanese and growing European competition to visit plants and firms

outside of Taipei, especially in the Taichung and Kaohsiung areas. Factory managers play important roles in procurement decisions. The possibility of doing business with smaller but growing companies that do not have offices in the capital is enhanced by personal contact.

Importers, Agents, Distributors

There are three basic channels of distribution in Taiwan: private traders (importer-wholesalers who buy and sell for their own account), end-users (manufacturers, public utilities, hospitals, schools, etc.), and publicly owned trading agencies (Central Trust of China and Taiwan Supply Bureau). Any of these may import directly or through local Taiwan commission agents appointed by the supplier.

Imported machinery and equipment are generally sold directly to the end-user or through an agent or importer. Industrial users enjoy certain benefits such as special import credits and utilization of deferred payment instruments. The agent, however, plays an important role in sales promotion and in providing aftersales service. Where official procurement is involved, almost all purchases are accomplished by open bidding. U.S. suppliers interested in opening this market must have capable representatives in Taiwan who can identify requirements for their types of equipment at the planning stage of a project. At U.S. exhibitions in Taipei, however, some purchases are made on the floor during the event.

Local representation in Taiwan is becoming increasingly necessary for successful marketing. U.S. suppliers have a number of alternatives: set up a branch sales office, establish a regional office in another Asian city to service the Taiwan market, appoint one of the American trading firms in Taiwan as representative, or select a local trading firm to act as agent. (See section on authorized importers under Trade Regulations.)

U.S. suppliers seeking representation in the Taiwan market can obtain assistance through the Agent Distributor Service (ADS) offered for a nominal fee by the U.S. Department of Commerce District Offices. The American Trade Center, which opened in 1974, offers "REP-FIND" services for those firms planning to visit Taipei. These services include bonded entry of demonstration equipment and samples, identification and contacting of prospects, and hiring for the account of the U.S. firm a qualified interpreter/secretary. In effect, the visitor will have ready on arrival a temporary office and staff. He/she can devote his/her full time to interviewing agency prospects and potential customers.

Selling Factors

PERSONAL CONTACT.—In selling to manufacturers, personal contact is important not only because of the value Asians place on personal discussions but also because such discussions serve to bring the end-user in touch with new processes and equipment. Taiwan businesspeople are open to new ideas and technology, but their knowledge of what is available may be limited. Frequently, Taiwan firms in the market for equipment to expand and modernize their plants are not aware of what U.S. suppliers can offer, and by default the contract may be given to a Japanese firm. Such occurrences reflect the underrepresentation of U.S. suppliers in Taiwan and the weak dissemination of catalogs and similar information by U.S. manufacturers.

With the competition offered by Japanese suppliers who often visit potential and existing customers throughout Taiwan, American suppliers should consider (1) making visits to Taiwan to augment the efforts of the local representative; (2) holding more demonstrations, seminars, and exhibitions of their products utilizing such facilities as the American Trade Center; (3) increasing distribution of technical data and descriptive brochures to possible buyers, teachers and industry associations (the Commercial Library at the Trade Center displays catalogs of American firms); and (4) improving followup on initial sales leads.

Discussions with potential Taiwan buyers should exhibit knowledge of developments and technology in the customer's industry and underline how the purchase of a U.S. product will specifically benefit the customer's operations, particularly with respect to cost reduction and quality improvement. To sell, it is essential that the supplier be able to talk in terms of solving the problems faced by the industrialist. To make a sales presentation couched in these terms, plant visits are necessary. This gives the supplier the opportunity to talk to plant engineers and other plant managers and thereby help pave the way for a favorable procurement decision. Typically, after consulting plant engineers, purchase decisions are made by the headquarters staff of the company whose offices are often in the downtown area rather than at the plant location.

DELIVERY.—The ability to supply goods in a prompt and timely manner is a positive factor when competing in any market. Delivery schedules take on an added significance in the Taiwan importer's purchasing decisions because prevailing high interest rates become costly if delivery is delayed. Under these conditions, fast turnover and prompt delivery become crucial considerations to the buyer.

Japan, of course, has a very favorable advantage in respect to delivery time. Goods shipped to Taiwan from the United States take considerably longer. While little can be done to reduce transit time direct from the United States, the possibility of maintaining stocks of rapid-turnover goods needs to be given more serious consideration in the future. In addition, American suppliers should make every effort to handle foreign orders on a priority basis to speed delivery as much as possible. Production schedules should be more flexible, promised delivery dates more accurate, and the importer should be made aware that the U.S. supplier is doing everything possible to effect delivery in a timely manner.

SERVICING.—When foreign exchange was scarce in Taiwan and imports were at a minimum, owners of machinery learned to rely on their own resources or those of the many small machine shops to repair machinery. Equipment parts were often replaced by locally tooled spares. This tradition is still prevalent. But with heavy competition among foreign suppliers, servicing has become a more important factor in selling.

Japan's proximity to Taiwan allows Japanese manufacturers to send teams of specialists at low cost to offer skilled advice in installation, maintenance, and repair. Some agents for U.S. firms have qualified maintenance personnel. Emphasis has been given recently to training such personnel in formal programs in the United States. American firms should give consideration to establishing regional servicing facilities that can effectively support equipment sold in Taiwan.

PRICING.—U.S. goods have a reputation in Taiwan for quality and performance; yet the people on Taiwan tend to be very price conscious and often regard the U.S. label as too expensive. Two important factors help to explain this. First, a tight money policy has resulted in very high local interest rates that favor the smallest possible outlay of capital. Second, in an export-oriented economy where finished products must be able to meet keen competition, many local manufacturers feel it essential to buy raw materials and equipment from the least expensive source. Under these conditions, goods from Japan and other countries are frequently considered to be a better buy, even though it is widely recognized that their quality and durability often do not compare with products made in the United States.

The currency realignments of recent years have made U.S. goods more price competitive vis-a-vis the Japanese, but in the face of rising raw material costs U.S. suppliers must continue to take all possible steps to maintain this advantage. U.S. exporters might consider (1) adapting their products for the Taiwan market by stripping them down to the basic production unit; (2) taking into account in their price quotations, as their competitors do, the repeat business generated by the demand for spare parts and components and auxiliary equipment; (3) emphasizing and selling the idea that the superior quality of U.S. products ultimately results in lower production costs; and (4) investigating possible warehousing arrangements that would allow larger shipments and cheaper freight rates for the trans-Pacific voyage.

Franchising

Opportunities for foreign franchising in Taiwan are limited due to a reluctance by the authorities to approve any foreign operation in a field that a local entrepreneur is capable of exploiting. Most types of foreign investment are generally encouraged, but franchising operations are subject to vigorous scrutiny and must fulfill stringent requirements. Only when the technology is unavailable in Taiwan and the authorities feel the proposed venture is needed to improve the standard of living is a favorable decision made; e.g., hotel management and leasing of sophisticated equipment.

There are no laws specifically relating to franchising. Such operations fall under the Statute for Technical Cooperation. Any foreign investment application that does not fall under the Statute for the Encouragement of Investment or the Patent and Trademark Laws is subject to the Statute for Technical Cooperation.

Public Procurement

The Central Trust of China, through its procurement and services mission in New York, imports various products for administrative and military organizations and for public and private enterprises. The Taiwan Supply Bureau handles imports of similar kind for the Taiwan Provincial Government and others. Public enterprises may import for themselves but usually do not.

At the beginning of each fiscal year, every official organization must file a detailed estimate of its import needs for that year. If approved, the necessary foreign exchange is set aside for allocation at the appropriate time. Approval is granted on two conditions: (1) if the proposed import is not available locally in adequate quantity or quality, and (2) if available locally, the domestic price is 15 percent higher than the landed cost (c.i.f. cost, plus import duty and surtaxes).

Once approved, the procurement must be

handled by one of the two public trading agencies, the Central Trust of China or the Taiwan Supply Bureau. In some cases, the end-user may request a "restricted tender" and designate a specific foreign supplier; in cases where suppliers are limited, negotiation may be undertaken. However, a requirement that "approved equals" must be considered tends to inhibit the gearing of specifications to certain suppliers. Thus, in practice, most procurement is open to competitive worldwide bidding.

In the case of bidding, the Central Trust or the Supply Bureau announces scheduled procurement in newspapers and bulletin boards, with invigations to bid made available at advertised localities. Sometimes, notices also are issued abroad throughout the Central Trust's branch offices when open bids call for supplies from a specific country. Otherwise official invitations to bid are obtainable only from the Procurement Division, Central Trust of China, Taipei, Taiwan. Bids may be tendered direct by the foreign supplier or through his/her local Taiwan agent with a power of attorney. Each bidder must pay a bid bond of 1 percent of the bidding price which is returned if the bid is unsuccessful. The successful bidder must deposit a performance bond equivalent to 5 percent of the contract value within 14 days after the notice of award. Cargo delivery must conform to the terms of the contract. Normally, payments are made by letters of credit without the extension of foreign credit to save interest payments in foreign exchange.

In addition to handling all procurement for official end-users, Central Trust and the Supply Bureau also are authorized to buy certain items for their own account. These are usually essential foods or raw materials that, if bought in bulk when the world market price is lowest, would save foreign exchange as well as permit regulation of the supply to be allocated domestically. Included are crude oil and petroleum products, fertilizers, tallow, rubber, leather, timber, glass, cement, motor vehicles, chemicals, metals, foods, and textile materials.

Transportation and Utilities

Taiwan's transportation and communications facilities are among the best in Asia. Situated on the edge of Asia's continental shelf, 750 miles south of Japan, and 200 miles north of the Philippines, Taiwan is at a crossroads of one of the busiest air and sea routes in East Asia. Transportation between Taiwan and the rest of the world is well developed, and major East Asian cities can be reached in a few hours by air. Most of the communications facilities are publicly owned and operated. They are modern and provide excellent service to the public.

Shipping from the United States

OCEAN FREIGHT.—Taiwan is serviced by scheduled American, Japanese, and other foreign flag lines. Depending on the vessel and the number of stops en route, shipping time from San Francisco to Taiwan ranges from 13 to 15 days. From New York, the time varies from 25 to 30 days. Most imports enter Taiwan via the two ports of Keelung and Kaohsiung. These ports can accommodate oceangoing cargo ships at alongside berths. In the past, the rapid growth in Taiwan's foreign trade placed an increasing burden on existing harbor facilities. During the peak of the shipping season both Kaohsiung and Keelung were so busy that ships had to be diverted to Hualien, where inland transportation facilities were not as well developed. To ease congestion, a new ocean port was constructed in central Taiwan, near Taichung. The first phase of construction was completed in 1976 and the harbor was opened to traffic. When finished in 1982, the harbor will be able to handle an annual volume of 12 million metric tons and accommodate vessels up to 200,000 dead weight tons (DWT).

Keelung can handle vessels of 25,000 DWT, Kaohsiung vessels up to 100,000 DWT, and Taichung can handle vessels to 50,000 DWT. Both Kaohsiung and Keelung have piers for handling containerized cargo, which has been increasing rapidly.

AIR FREIGHT.—Taiwan has two major airports: Chiang Kai-shek International and Kaohsiung. The Chiang Kai-shek Airport, one of the most modern in Asia, is located about 25 miles south of Taipei. It was completed in 1978. In addition to China Air Lines (CAL), the flag carrier, a number of other internaitonal airlines, including Northwest and Flying Tigers, maintain scheduled passenger and aircargo service between Taipei and other major cities in the Far East and the United States, while one all-cargo carrier provides scheduled air freight service to European countries.

Domestic Transportation System

RAILROADS.—Taiwan's railroads are operated by the Taiwan Railway Administration. The rail system consists of two separate lines. The west coast trunk line double track links the main ports of Keelung in the north and Kaohsiung in the south and serves most of the industrial centers and key cities of Taiwan. There are 416 kilometers of branch lines con-

The American Institute in Taiwan supplies the U.S. Department of Commerce with information on the Taiwan economy as well as commercial developments and market information.

ADVERTISING AGENCIES.—Taiwan has a number of advertising agencies to assist in preparing and placing advertisements in the mass communications media. Generally speaking, these agencies sometimes run advertising copy taken from their client—a parent company—rather than create their own. The *1980 Taiwan Buyers' Guide* lists nine agencies and an additional four American agencies are Needham (listed above), Brantingham and Associates, Cambridge Advertising Company, Ltd., and Trade Winds, Inc.

Credit

Availability of Capital

To achieve price stability and orderly economic growth, Taiwan authorities acting through the Central Bank have traditionally sought to encourage savings and restrict credit. The rate of saving has increased steadily.

All local banks, mutual loan and savings companies, credit cooperative associations and credit departments of farmers' associations are authorized to accept demand, savings, and time deposits. Foreign banks are permitted to accept only demand deposits (checking accounts), passbook ordinary deposits, and notice deposits. All appointed foreign exchange banks are authorized to accept Hong Kong and U.S. dollar demand deposits and time deposits for redeposit with the Central Bank. Deposits in other currencies can be accepted only after conversion to Hong Kong or U.S. dollars. Only foreign currency deposits made by bank draft or inward remittance may be transferred abroad (i.e., cash deposits and traveler's check deposits cannot be remitted out).

Taiwan companies rely primarily on banks to supply operating capital and financing for expansion. New Taiwan (NT) dollar loans are available at virtually all financial institutions, but foreign currency financing (including financing of imports) can be transacted only by appointed foreign exchange banks. The cost of NT dollar funds is high. The Central Bank's rediscount rate is 12 percent, and the interest rates that are charged by other banks range from 11 percent per year for export credit to 14.75-16.80 percent per year for short-term unsecured NT dollar loans.

Since exchange controls dictate that every outward remittance (including loan repayments) must be approved, foreign currency loans are subject to a number of restrictions. Under regulations, all long-term (i.e., with a maturity in excess of 1 year) foreign currency financing must be specifically approved by the Central Bank of China and must be denominated in one of the seven authorized currencies. Thus virtually all offshore term obligations incurred by foreign-invested enterprises are for projects outlined in the Foreign Investment Application (FIA), which must specify both the sources of the financing and its purpose.

For normal short-term financing needs, offshore borrowing is restricted to export promotion loans, for which repayment must come from the proceeds of exports. To control the money supply, the Central Bank has established a ceiling for export loans against foreign exchange settlement for each individual foreign bank.

Sources of Financing

BANKING SYSTEM.—The banking system in Taiwan is composed of commercial banks, development banks, investment and trust companies, savings and loan associations, and credit cooperatives. The official and the private sectors are involved in banking. By the end of 1980, loans and investments of the private sector totaled $22.8 billion, up 22.9 percent over 1979.

Taiwan's banking system is supervised by the Central Bank of China. The Central Bank is responsible for regulation of money and credit, management of foreign exchange, bank examination, and economic research. It also acts as the fiscal agent for the central-level administration. Only the appointed foreign exchange banks can process transactions involving foreign exchange; in this capacity they act only as agents for the Central Bank of China.

The Bank of Taiwan is the island's largest bank. Aside from its commercial banking activities, it acts as the fiscal agent for the provisional-level administration, and issues New Taiwan (NT) dollar notes as agent of the Central Bank. The City Bank of Taipei is the fiscal agent for Taipei municipality.

Foreign banks are not permitted to establish more than one branch on Taiwan. Since 1958, 21 foreign banks have opened branches in Taipei. In 1980, for the first time, five European banks opened branches in Taiwan and more are expected in 1981. A list of American banking and financial services institutions can be found in the appendix.

There also are 278 credit departments of farmers' associations, which receive deposits and extend loans to members of the association. They also serve as agents of the Land Bank and the

Cooperative Bank, both of which specialize in the extension of farm credit. Seventy-five credit cooperatives engage in commercial banking for their members while eight medium business banks and savings and loan associations accept deposits from members, and extend loans (usually up to 70 percent) against these deposits.

There are three finance companies in Taiwan. Because standards for the opening of checking accounts are rigid, most of the general public uses cash to settle commercial transactions.

There are two development banks in Taiwan. The China Development Corporation specializes in medium- and long-term lending to private industry, and supplements its capital with credits from international and foreign financial institutions. The Taiwan Land Development and Trust Corporation is owned by the administration, Taiwan Sugar Corporation, and several banks, and finances tidal land reclamation, construction of industrial estates, and other development projects. The Bank of Communications has recently been reorganized as a development bank.

The Export-Import Bank of Taiwan, patterned after the Export-Import Bank of the United States (Eximbank), was established in 1979. The Bank's refinance program offers loans repayable in 2 to 7 years at an annual interest rate of 8.5 percent.

INVESTMENT AND TRUST COMPANIES.—Despite the rapid growth in savings, Taiwan has experienced a shortage of long- and medium-term capital from domestic sources to finance the development of the infrastructure and heavy industry. In addition, many companies have found it necessary to turn to such sources as family connections or the unorganized money market (where interest rates average 16 to 34 percent per annum) to obtain financing. According to some estimates, borrowing from such sources accounts for as much as one-fifth of the domestic capital supply. For this reason, among others, the authorities in early 1971 provided for the establishment of trust and investment companies in Taiwan. Now eight in number, these combine the features of a trust company, an investment bank, a development bank, and an industrial finance company. As such, they are equipped to provide financing in the form of term loans, equipment leasing, and securities underwriting, in addition to other forms of lending. Funds are obtained through the sale of trust certificates, which usually guarantee a minimum rate of return and pay dividends according to the issuing company's profitability.

TAIWAN STOCK EXCHANGE.—The Taiwan stock market, located in Taipei, is still in the developmental stages with only about 102 companies listed. Activity on the exchange varies widely.

The Taiwan Stock Exchange was established in February 1962 with an original capital investment of $250,000. This represented the investment of 43 public and private banks and enterprises. It is the only exchange in Taiwan and operates under the supervision of the Securities and Exchange Commission (SEC). There are 25 member brokers and 9 traders on the floor of the exchange. (Brokers are defined as those who trade in securities on behalf of their clients, whereas traders conduct business for their accounts.) Securities traded include stocks, corporate bonds, and public bonds. The market price for an individual security is determined by bids and offers made by various dealers on the trading floor. To prevent violent price fluctuations in individual securities, the SEC sets a daily limit for the maximum rise or fall of a security's market price.

The stock exchange had not been a significant source of new funds until October 1976. To stimulate investments in the market and to stop a decline in share prices, the SEC announced that income tax on securities transactions would be excluded from annual personal income taxation for 2 years. (This exclusion was extended through 1979.)

PUBLIC FINANCE.—Modest surpluses in budgets last 17 consecutive years produced monetary and price stability. Therefore, Taiwan has not needed to rely on the issuance of bonds to meet deficits. Instead, it has used surpluses to direct funds in low interest loans to various sectors of the economy.

A shift in development toward heavy industry will require increased expenditure in the form of outlays for infrastructure projects. Since nearly half of public expenditures are for general administration and defense, external credits have been sought in the past to finance long-term development projects. In recent years, price stability, together with increases in per-capita income and a highly successful national savings program have made more long-term capital available from domestic sources, so that the authorities have reportedly decided to issue new bonds to help finance important development projects.

FOREIGN FINANCING.—The U.S. foreign aid program played a significant role in the early development of Taiwan's economy. It was terminated in 1963. After that, Taiwan's external capital sources have been mainly the World Bank and Asian Development Bank until 1971 as well as other foreign financial institutions and private foreign investment. Taiwan is becoming increas-

Board of Foreign Trade for approval on a case-by-case basis. Items still on the controlled list include certain luxury goods, alcohol, goods subject to regulation and allocation, and goods that the authorities believe should be produced locally in sufficient quantity and quality to meet domestic needs and whose ex-factory prices are not more than 10 percent higher than the c.i.f. prices of comparable imported goods.

Prohibited items are those regarded as dangerous or unessential to the economy. The prohibited list includes only caviar, cloisonne, narcotics, and firearms.

Licenses to import goods on the permissible list are granted liberally. In general, the import permit is issued automatically for permissible goods whether the applicant is a registered trader, end-user, or public trading agency. However, in the case of many items, import permits are granted only to end-users or to public agencies. Items on the controlled list are licensed restrictively. Under Board of Foreign Trade rules, imports of controlled goods generally are handled by public trading agencies. However, for the import of raw materials, machinery, and equipment for their own use, factories and other end-users may import controlled items if they follow certain procedures. (The bulk of all machinery imports are items on the permissible list that traders may import.) Goods on the prohibited list may not be authorized for entry into Taiwan.

The Board of Foreign Trade announced that 2,110 items of commodities were exempt from import licensing in July 1981. The license-exempted items account for about 7 percent of the total importable goods. The list will be made public in the near future.

AUTHORIZED IMPORTERS.—Goods may be brought into Taiwan by any one of three major groups of importers: end-users, public trading agencies, and private traders. End-users include enterprises, both domestic and foreign engaged in manufacturing, mining, fishing, and other fields, as well as hospitals, cultural organizations, and tourist hotels. The main public trading agencies are the Central Trust of China and the Taiwan Supply Bureau.

Registration with the Board of Foreign Trade is required of all traders, who must have minimum paid-in capital of NT$2 million ($56,000) and first export over $200,000 worth of goods in a single year. This restriction limits the number of companies able to import and market foreign goods in Taiwan and encourages the establishment of large, stable import/export operations. A registered trader may import and sell on his or her own account or operate on a commission basis as the local agent of a foreign supplier.

Until November 1977, Taiwan companies acting as agents of foreign firms had to register under the Control of Agents Regulations, in addition to the regular registration with the Board of Foreign Trade. With the abolition of those regulations, foreign suppliers are free to deal directly with end-users; i.e., exclusive local agents are no longer necessary in presenting bids and quotations to buyers. However, designated agents often offer advantages to the American firms seeking to sell in Taiwan. For example, agents can keep abreast of portending and newly issued public invitations to bid, maintain inventories, and provide aftersales service. Consequently, most successful U.S. companies still employ agents.

ENTRY REQUIREMENTS.—Regulations require that all imports be carried by ship except commodities of high value in relation to weight or are urgently needed. Such goods may be shipped by air. Most imports enter at the principal seaports of Keelung, Kaohsiung and Taichung. Goods bound for the east coast may enter at the secondary international seaport of Hualien. Air freight enters through the international airports at Taoyuan and Kaohsiung.

In general, imports must be sent to Taiwan directly from the producing country. With the prior approval of the Board of Foreign Trade, certain goods may be shipped from a free port or entrepot outside the producing country.

Shipping Documents

Documents required for shipments to Taiwan include the commercial invoice, bill of lading or air waybill, packing list, and certificate of origin. Shipments of agricultural products, plants, and animals may require certificates of inspection or quarantine issued in the country of origin and are subject to inspection and quarantine upon importation into Taiwan.

The commercial invoice must show the import license number and must be itemized as to f.o.b. value, insurance, freight, and other charges. There is no requirement as to form. The commodity description and value shown on the commercial invoice must agree with those on the import license.

There is no requirement as to the form of a bill of lading. However, all marks and case numbers appearing on packages must be shown. Customs does not permit the grouping of marks of numbers on a shipment of mixed commodities.

A general discharge permit, secured by the shipping agent prior to the arrival of the cargo, is the authority for the discharge of cargo from the vessel.

The importer may request a survey at the port of export and a certificate stating that the goods meet the specifications of the order.

Remittances for imports are made only against the shipping documents forwarded to designated exchange banks.

Marking and Labeling Requirements

There are no specific regulations governing the labeling of goods imported into Taiwan. It is recommended, however, that labels on containers of prepared foods and pharmaceuticals show a quantitative analysis of the contents.

Rules governing the marking and numbering of foreign import cargo are as follows:

All import cargo must bear a mark of distinctive design, a set of three or more letters or a combination of design and letters indelibly painted, stenciled, stamped, or burned on the packing or on the cargo itself.

For cargo packed in cases, boxes, crates, casks, drums, or cylinders, each container should bear a separate number, which is not repeated for 2 years. Bags or bales also must bear a nonrecurring number, date, or set of three or more letters.

In addition, each package of a consignment must be numbered consecutively. However, numbering is not essential for large lots of cargo except when packed in cases, boxes, or crates, provided that each package of the consignment contains cargo of identical weight.

There are no special packing requirements for goods destined for Taiwan, but precautions against rough handling, pilferage, water seepage, and high heat and humidity are recommended.

Senate Concurrent Resolution 40, adopted July 30, 1953, invites U.S. exporters to inscribe, insofar as practicable, on the external shipping containers in indelible print of a suitable size: "United States of America."

Free Zones and Warehousing

FREE ZONES.—Three zones have been designated for the bonded processing of imported materials into finished goods for export. The free zones are specially established industrial areas. Industries in the three zones are exempt from all duties and taxes on imports of machinery, equipment, and materials used in production for export. Generous tax incentives and necessary facilities are provided to encourage foreign firms to locate in these zones. The Kaohsiung Export Processing Zone is located on a peninsula in the harbor at Kaohsiung. The Nantze Zone is less than 15 miles away, while the Taichung Export Processing Zone is on the west coast in central Taiwan, near the Taichung Port facility.

There are 303 factories in the three zones, including 128 at Kaohsiung, 130 at Nantze, and 45 at Taichung. Employment at the end of 1980 was 80,000 with combined sales of more than $1.2 billion. Because the three zones are operating at capacity, a new export processing zone is planned for a still-to-be-determined location.

Information on these zones is available from the Export Processing Zone Administration. Nantze, Kaohsiung, Taiwan.

Although investors may choose to locate in one of the export processing zones to avoid paying duty on imported capital equipment and raw materials, they may also obtain similar duty-free status for a factory located elsewhere by establishing a bonded enterprise. Customs bonded factories may be established for enterprises that are "exclusively engaged in the manufacture of export goods not for domestic sales and have a paid-up capital of more than NT$5 million" (approximately $140,000).

SCIENCE-BASED INDUSTRIAL PARK.—The Hsinchu Industrial Park was formally opened in late 1980 for the purpose of developing science and technology so as to bring the economy into a higher plateau of sophistication. Located 45 miles south of Taipei and accessible to a number of leading universities and research institutes, the park will be active in project development and engineering as well as being a manufacturing zone. It will operate as a bonded, duty-free area with a computerized inventory control system. So far, 17 firms (foreign and domestic) have been approved to set up plants and factories, and when the park is eventually completed, it will be able to accommodate 200.

WAREHOUSING.—Adequate bonded storage facilities are available in Taiwan and are limited almost entirely to those under the direct supervision of the Inspector General of Customs. Goods may be entered into bonded warehouses on arrival in Taiwan, provided the consignee has made prior application to Customs for such entry. Within prescribed time limits, the goods may be reexported free of import duty.

Samples and Advertising Matter

Samples and other advertising materials are subject to Customs examination. Those of no commercial value are admitted duty free; those having commercial value, such as pens and calendars, are dutiable under the appropriate tariff classifications. Advertising materials should be sent early since customs classification and clearance of such articles often take time.

Technical Standards and Requirements

Three measurement systems are used in Taiwan: Chinese, English, and metric. The metric system has been adopted, but the English system is used locally in some instances.

The Central Bureau of Standards is the highest agency responsible for establishing industrial standards. The Bureau usually adopts or follows the standards of those developed countries which first export or register a product in Taiwan. This has been especially true for instruments and electronic equipment.

Investment in Taiwan

Foreign Investment

Foreign investment in Taiwan from 1952 through 1980 totaled $2.7 billion. This huge amount of foreign and overseas investment can be attributed to the excellent investment climate. Of the total, $1.8 billion was invested by non-Chinese foreigners and the remaining approximately $965 million by "Overseas Chinese." (The Taiwan authorities record investments by non-Chinese foreign residents by country of origin, but investments by foreign residents of Chinese ancestry are recorded as "Overseas Chinese" investments, regardless of country of residence.) Investments in the electrical and electronic industries have absorbed well over $852 million, another $388 million has gone to the chemical industry and machinery and apparatus manufacturing took approximately $164 million. The United States led the list of foreign investors with a total of $776.3 million, and Japan ranked second with $457.7 million.

More than half of the U.S. investment in Taiwan concentrated in the electronics industry, where such firms as RCA, Motorola, and Zenith carry on assembly operations and manufacturers such as IBM, Corning Glass, and General Instrument produce components. Other significant areas of U.S. investment include chemicals, plastics machinery and metal products, banking, insurance, and other services.

Investment Policy

Officials place a high priority on attracting new foreign investment to Taiwan. Recognizing the importance of foreign investment to its development plans, Taiwan has sought to maintain a climate conducive to attracting foreign business. Foreign investors are needed to provide much of the technology and know-how required to develop sophisticated industries. They are also needed in certain manufacturing industries to help secure overseas markets that may be precluded to local manufacturers.

The investment policy in the past has drawn labor-intensive industries but has now been modified in an effort to shift to more capital-intensive and high-technology industries (including petrochemicals, steel, and shipbuilding). Taiwan offers U.S. firms an attractive investment climate: rapid development of the economy and the increasingly equitable distribution of income; political stability; a comparatively low rate of inflation; established adequate infrastructure and viable supporting industries; an educated, easily trained work force at competitive wages; absence of labor strife; and a positive, consistent attitude of the authorities toward foreign investment in most sectors.

The attitude toward foreign investors is best illustrated by the tax incentives offered, the wide range of services available to investors, and efforts to prepare comprehensive economic plans as a guide for both the public and private sectors. The Statute for Encouragement of Investment provides liberal tax and other incentives to attract foreign capital.

Generally, the authorities welcome foreign investment if it falls in one of the following four categories: (1) those productive and manufacturing endeavors needed in Taiwan; (2) those enterprises with export markets; (3) those which will improve and develop Taiwan's industry, mining, and communications; and (4) those that promote economic and social development.

Taiwan is capable of absorbing considerable new investment. The 12 major industrial and infrastructure development projects offer many opportunities for the sale of U.S. goods and services and, with much of the required capital expected to come from foreign sources, new opportunities for U.S. investment as well. Once the 12 major projects are completed, more funds will be required for development of other aspects of the economy.

Initial contact should normally be made with the Industrial Development and Investment Center (IDIC), a service organization established to assist potential investors in their initial investigations and throughout the investment process. Inquiries may be addressed to the Director, Industrial Development and Investment Center, Ministry of Economic Affairs, 5th floor, 7 Roosevelt Road, Section 1, Taipei, Taiwan. Prospective American investors can contact the following investment service organization in New York that works closely with IDIC: CCNAA Investment and Trade Office, 515 Madison Avenue, New York, New York 10022. Also, representatives at the Coordination Council and its branch offices in the United States offer assistance. (See the section on Sources of Economic and Commercial Information.)

Forms of Business Organization

In Taiwan, the Civil Code stipulates that a business may be organized as a proprietorship, a partnership, or as a company. Any person, whether an alien or a citizen, may engage in business as a sole proprietor, a partner, or as a stockholder. The various forms of doing business are roughly similar to those in the United States and Europe. As far as proprietorships and partnerships are concerned, the only difference is that for tax purposes they are considered entities separate from the individuals constituting them. In other words, the proprietorship or partnership is required to file tax returns, declaring income from all sources including the profits or share in the profits, after tax, of the firm owned or in partnership.

Under the Chinese Company Law, a company is defined as an entity organized and incorporated to make a profit. Companies are divided into five types, differentiated by the number of shareholders and the extent to which they are liable for the obligations incurred by the organization. Almost every important enterprise in Taiwan, commercial and industrial, is organized as a "Company Limited by Shares," which most nearly corresponds to a corporation in the United States. Under this type of business organization, seven or more shareholders are required, each of whom is liable only to the extent of his/her capital contribution.

Foreign companies may set up operations in Taiwan in any of the following forms: As a company organized under the Chinese Company Law and the Statute for Investment by Foreign Nationals, as an ordinary domestic company, as a branch, or by appointing an agent.

FOREIGN INVESTED FIRMS.—Most foreign investors establish their operations in Taiwan as a company organized under the Chinese Company Law and the Statute for Investment by Foreign Nationals. A foreign investor who comes in under the Statute may supply cash, machinery and equipment, raw materials, technical know-how, or a combination thereof to either a new or an existing company. The basic criterion for eligibility under the Statute is that the foreign company engage in general manufacturing, production of exportable products or any other business conducive to the development or improvement of any important industrial, mining, or communication sector of the economy or to the general economic and social development of the country. The investment may be used to set up a new firm or to expand existing facilities through increased capitalization or buying into an existing business. Although joint ventures are frequent, local participation is not required by law or policy.

Both the foreign investor and the enterprise he/she invests in enjoy privileges under the Statute. The original capital and any subsequent approved additions may be repatriated at the rate of 20 percent per year commencing 2 years after the completion of the approved investment plan. A higher percentage rate would require special approval. Dividends may be repatriated at any time, so long as the dividends declared do not exceed the profit or accumulated profit per the tax return. Companies formed under the Statute are exempt from the residence requirement normally applicable to shareholders and officers.

An export enterprise also may avail itself of exchange settlement benefits and exemption from import taxes by applying to locate in an Export Processing Zone.

DOMESTIC COMPANY.—Investors who cannot, or do not wish to, qualify for investment under the Statute for Investment by Foreign Nationals may join in organizing an ordinary domestic company under the Company Law. The foreign shareholders of such a company are not entitled to the incentives and privileges enjoyed by foreign investors under the Statute for Investment by Foreign Nationals—such as repatriation of capital—but otherwise are entitled to all the privileges and are subject to all the responsibilities of local businesses.

BRANCH.—A foreign company may operate in Taiwan by setting up a branch. No foreign company is allowed to do business or to establish a branch office in Taiwan unless it has been recognized by appropriate authorities. Thus, the first step in establishing a foreign branch is to apply for official recognition of the foreign company.

AGENT.—A foreign company may appoint a registered, profit-seeking enterprise in Taiwan as its agent to conduct business on its behalf. A recognized branch office of a foreign company may act as agent for another foreign company.

Licensing Agreements

In addition to equity and loan investment, foreign companies can furnish technical know-how or patent rights to existing enterprises as capital investment or for fixed royalty. Licensing and technical assistance agreements may be concluded between foreign companies and Taiwan firms covering a wide range of industrial and consumer products. Such an agreement whereby the foreign company agrees to furnish the Taiwan firm with technical skill or patent rights, not as capital stock but for fixed royalty, falls under the Statute for Technical Cooperation. Japan has been the leader in the field of licensing and technical agreements in Taiwan.

Incentive Legislation

The incentive laws, procedures, and guidelines for foreign investors are set forth in the Statute for Investment by Foreign Nationals and the Statute for the Encouragement of Investment. Incentives are provided for foreign investment in a wide range of industries with special attention being given to certain high-priority industries: electrical machinery, automotive equipment, precision machine tools, minicomputers, computer terminals and peripherals.

In addition to tax incentives (discussed below), Taiwan offers foreign investors the same incentives that are afforded domestic investors. They are allowed the following: 100-percent ownership of the invested enterprise; remittance of all net profits and interest; annual repatriation of 20 percent of the invested capital permitted commencing 2 years after the completion of the approved investment plan; and to employ foreign nationals in supervisory, technical, or advisory positions.

Investment Procedures

The simplification of investment procedures is one of the most important measures adopted in Taiwan to improve the investment climate. Generally, a decision on approval will be made with 3 to 4 weeks following the formal submission of the application, provided all the necessary supporting documents, certificates, and credentials are attached.

Prospective investors should perform the following tasks:

- Apply to Investment Commission of the Ministrty of Economic Affairs, 73 Kuling Street, 7th Floor, Taipei, Taiwan. In case the projected enterprise is to be established in an export processing zone, apply directly to the Export Processing Zone Administration, MOEA (Nantze, Kaohsiung Hsien, Taiwan)
- Remit capital into Taiwan after the investment application is approved (notify the Commission after remittance is made)
- Apply to Investment Commission for company registration
- Apply to the local administration for registration as a profit-seeking enterprise
- Purchase or lease land for plant site. Investors may apply for assistance from the Industrial Development Bureau of the Ministry of Economic Affairs
- Apply to the local administration for registration of the establishment of and for a license for construction of factories
- Apply to the regional office of the Taiwan Power Company for supply of electricity
- Apply to the local municipal or county government for factory registration.

A wide range of investment services is offered free of charge by the IDIC to investors and potential investors. Such services include, but are not limited to the supply of data and information for pre-investment studies; arrangement for potential investors to visit related factories and agencies in charge of matters relating to investment; assistance in the selection and purchase of industrial land; assistance in applying for enjoyment of various benefits and incentives provided by law; and after an investment is made, assistance in solving problems the invested enterprise may encounter.

An investor in Taiwan can always be assured of local support for his/her productive activities. Experienced contractors can undertake almost all types of construction. Financing facilities are available from a number of foreign banking institutions. There are also law offices and accounting firms in addition to advisory agencies such as data processing centers and management and engineering consultants capable of performing extensive services to meet operational requirements.

*Industrial Property Rights**

Taiwan is not a party to any of the international conventions on patents, trademarks, and copyrights. The bilateral Treaty of Friendship, Commerce, and Navigation of November 4, 1946 remains in effect and entitles U.S. citizens to the same treatment for patent and trademark rights in Taiwan as Taiwan extends to its own people. The protection provided U.S. firms under the Treaty is less extensive than that available under the international conventions.

Patent, trademark, and copyright registrations may be obtained by filing applications with Taiwan authorities pursuant to the Patent Act of 1949, as amended in 1979; the Trademark Law, effective 1972; and the Revised Copyright Law of 1964, as appropriate. Inquiries regarding patent and trademark matters should be addressed to the National Bureau of Standards, 61-1 Sungchiang Rd., Taipei, Taiwan. Inquiries on copyrights should be addressed to the Copyright Screening Committee, Ministry of Interior, 107 Roosevelt Road, Section 4, Taipei, Taiwan.

*Prepared by Foreign Business Practices Division, Office of International Services, International Trade Administration, U.S. Department of Commerce.

PATENTS AND TRADEMARKS.—Foreign persons may file for patents through an authorized agent of Chinese nationality on any new invention of productive utilization value. The term of patent protection for an invention is 15 years from publication date. Applications are examined for novelty. Prior publication or public use of the invention destroys its patentibility. Applications are published for a 3-month opposition period. If a patent is not adequately worked, its compulsory licensing or revocation is possible. A patent confers upon the holder exclusive rights to manufacture, sell, or use the patented item.

Trademark protection can be obtained for specially distinctive words, devices, marks, or combinations thereof which meet the approval of the authorities. The granting of a trademark confers upon the registered owner the exclusive right of its use for 10 years from the date of registration, renewable for 10 years at a time. The first applicant is entitled to registration. Applications are examined and published for a 3-month opposition period. Trademark registrations must be used within 1 year of registration and such use not discontinued for 2 years. A foreigner having no residence or place of business in Taiwan cannot register a trademark unless he/she appoints an agent having a residence or place of business in Taiwan.

COPYRIGHTS.—Taiwan is not a member of any international copyright convention, and reproduction of foreign works not copyrighted in Taiwan is prevalent. A specific copyright registration in Taiwan may be necessary on a work to prevent unauthorized reproductions.

Taxation

Although there are 19 taxes levied, Taiwan offers foreign investors a number of tax exemptions and benefits under the Statute for Encouragement of Investment.

Major taxes relating to foreign investment are discussed below.

INCOME TAX.—A Business Income Tax is levied on the net profit of a productive enterprise after deduction of all costs, expenses, losses and other taxes. Rates range from 15 to 25 percent.

A consolidated Income Tax is levied on an individual's gross consolidated income. Rates range from 6 to 60 percent. For a person having no domicile or residence within Taiwan, 15 to 35 percent of the dividends received from invested enterprises is withheld.

CUSTOMS DUTY.—This is levied on the basis of the duty paying value (c.i.f. value plus 15 percent) of imported goods.

Tariff rates on imported machinery and equipment are about 15 percent, and on raw materials, 11 percent.

BUSINESS TAX.—This is levied on a profit-seeking enterprise's gross business revenue each month. Rates vary with different types of businesses: manufacturing industries, 0.6 percent; transportation services, 1.2 percent; hotels, 1.5 percent; and banking institutions, 4 percent.

LAND TAX.—Levied on the assessed land value each year. The rate is 1.5 percent for factory operations.

HOUSE TAX.—Levied on the assessed value of buildings. Rates vary with types of buildings: business buildings, 3 percent; residential buildings, 1.38 percent; and buildings for manufacturing operations, 1.5 percent.

HARBOR DUES.—These are levied together with customs duty on imported goods that pass through any harbor of Taiwan. The present rate is 4 percent of duty-paying value of imported goods. On those imported raw materials for processing and export, harbor dues are only 1 percent.

Incentives

The Statute for Encouragement of Investment also provides a broad range of incentives for a variety of industries. These include the following:

- Business income tax exemption for 5 years or accelerated depreciation of fixed assets for newly established encouraged productive enterprises
- Business income tax exemption for 4 years or accelerated depreciation of fixed assets for encouraged productive enterprises at the time of increasing capital and expanding machinery and equipment
- Business income tax limited to 22 to 25 percent of total annual income
- Export sales exempted from business tax
- Special encouraged industries are exempted from import duty on imported machinery and equipment
- Productive enterprises may apply for installment payment of import duty on imported machinery and equipment
- Import duties paid or payable on imported raw materials used in export products may be refunded or bonded.

As of July 1977 new tax laws have been passed to further encourage investment. Several laws worth noting are explained below.

Besides the 4- and 5-year business income tax exemption laws, the new law allows important eligible enterprises to defer the beginning of the tax-free period for up to 4 years after the utilization of the new equipment. Eligible industries are classified as capital intensive or high-technology industries. This term along with "important" are defined in the Categories and Criteria of the Productive Enterprises Eligible for Encouragement.

Another beneficial regulation provides that research and development expenditures are allowed to be listed as legitimate business expenses.

Subject to their meeting certain general and special criteria, the following manufacturing industries are eligible for tax incentives:

- Food processing
- Pulp and paper
- Rubber processing
- Chemicals/petrochemicals
- Nonmetallic mineral processing
- Basic metals
- Machinery
- Electrical equipment
- Electronic equipment
- Transportation equipment
- Ceramics
- Textiles
- Construction materials
- Clinical and surgical instruments
- Photographic and optical instruments
- Watches, clocks, and parts thereof
- Precision instruments.

Potential investments that do not fall into these categories but meet criteria similar to those used in establishing the foregoing list also may qualify for incentives, including the following:

- Handicrafts
- Mining
- Forestry
- Fishery
- Agriculture
- Transportation
- Warehousing
- Public utilities
- Housing
- Tourist hotel operations
- Heavy construction.

Labor Force

Taiwan, known for its plentiful supply of inexpensive labor, has recently entered a new phase. A shortage of both skilled and unskilled workers has emerged and can be expected to continue. The problem is a result of the rapidly expanding economy and is exacerbated by the large numbers of workers required to complete the major infrastructure and overseas projects. As these projects are completed over the next few years, many of these workers will become available to industry.

At the same time, however, there are always new major projects on the horizon necessary to accommodate future industrial development. If the economy continues to expand rapidly, then the labor shortage will become chronic. In 1980, the unemployment rate was only 1.9 percent; since 1968, it has risen over 2 percent in only 1 year when the economy was recovering from the 1974 oil crisis. In some industries, electronics in particular, the labor shortage is already serious. Although authorities estimate that the additional potential labor force is 3 million above the current 6.5 million workers, industries hard hit by the labor shortage have not been able to attract significant numbers of workers from the potential to the actual labor force. To obtain workers, companies have been forced to compete with each other, thereby raising the wage rates. Supervisory and management personnel also are in short supply.

Nevertheless the labor force is one of Taiwan's major resources. Virtually all potential workers coming into the job market have a minimum of a ninth grade education with emphasis on technical and vocational training. Trained personnel will have as much as 6 years of additional formal education. Workers are diligent and adept at learning new skills.

PAYMENTS AND BENEFITS.—While wages have been rising over the past few years, both skilled and unskilled labor of manufacturing is available at a rate, which is 20 percent of comparable U.S. rates, even after adjustment for productivity. Supervisors and executives are paid accordingly. An increase of at least 25 percent per year is forecast for the foreseeable future. This is in line with other Asian wage trends.

Fringe benefits for workers in Taiwan are 20 to 25 percent of the base wage rate. Benefits include an annual bonus of about 1 to 3 month's salary, uniforms, and insurance (80 percent paid by the company). Many employers provide their workers with free accommodations or a meal allowance.

WORKING HOURS.—The standard work week in factories is six 8-to-10 hour days. While two-shift operation is not common as yet in Taiwan, this is becoming a reality as industries become more capital-intensive. While productivity is still somewhat lower than that of equivalent U.S. workers, it is improving rapidly primarily because of improvements in manufacturing techniques and management.

MANPOWER DEVELOPMENT PROGRAMS.—In an effort to keep manpower supply in balance with demand in the face of Taiwan's high rate of economic growth, a highly organized manpower development planning process has been adopted. Projections of industrial labor demand and supply, by industry and by occupation, are made, which are available for annual periods. To meet projected needs, the authorities have developed a variety of vocational education and training programs aimed at keeping the output of trained manpower closely aligned with emerging requirements. Highest priority is being given to the training of workers in the metalworking crafts—e.g., tool makers, machinists, plumbers, welders, skilled workers in precision instrument manufacture, electricians, and related electrical and electronics workers. In addition to publicly operated schools, cooperative training programs and special courses are being given increasing attention.

Most larger firms established in Taiwan operate a variety of in-plant training programs as a matter of self-interest. The smaller and medium-sized firms, however, have generally neglected such activity, offering training to new workers strictly on an on-the-job basis. Accordingly, to encourage such firms to strengthen their activities, a law passed in April 1973 requires all firms employing 40 or more persons to contribute 1.5 percent of their payroll to the National Vocational Training Fund Board, which finances training activities for contributing companies. Although this statute is still in effect, contributions to the Fund have been suspended since December 1974.

Labor Relations

Taiwan does not have an active labor movement and the authorities do not interject themselves into wage negotiations. Strikes are virtually unheard of. The average employment period for production work is 3 years.

Both industrial and craft unions operate in Taiwan under the Trade Unions Act of 1949, but unionism is not prevalent in Taiwan. For certain industries and all levels of public employment, unions may not be formed.

The unions' primary function is in the settlement of disputes, usually arising out of the dismissal of workers. The procedure for settlement begins with a factory council composed of labor and management representatives. If the dispute cannot be resolved satisfactorily at this level, it is submitted first to an ad hoc conciliation board and ultimately, though rarely, to an ad hoc arbitration board whose decision is binding.

Strikes and lockouts are permitted by law in nongovernmental enterprises other than public utilities, transportation, and communications, except in times of national emergency or during conciliation and arbitration proceedings. In practice, however, since Taiwan continues to be technically and legally in a state of emergency, strikes are prohibited.

Investment in Industrial Districts

To encourage investment and assist investors in the acquisition of plant sites, more than 50 tracts of land with good accessibility and power and water supplies have been designated as industrial land. As such their use is not restricted to agriculture, but they may be purchased for factory sites or other commercial purposes. The assessed value serves as a guide to the purchase price, which is determined by negotiation between buyer and seller. Land experts of the IDIC help investors locate plant sites and negotiate purchases in case private land is involved. If an agreement cannot be reached, the buyer can apply for land requisition at an arbitrated price, but this is usually a lengthy process. All arrangements for roads, sewage systems, drainage systems, and public utilities must be made by the buyer.

Because of the difficulties involved in negotiating a purchase price and arranging for utilities, most investors have chosen to locate their plant facilities in one of the island's 15 industrial districts, or in one of the 3 export processing zones. The districts, each administered by the agency that developed it, are complete with roads, drainage and sewage systems, water supply (either from city mains or from district waterworks), electric power, telecommunications, road lights, sewage treatment plants, and a service center. In addition, there are also standard factory buildings available for lease to investors. Prices of land within the industrial districts are generally quite reasonable, as they are set just high enough to cover the cost of development. Arrangement of public utilities building permits, and the like is eased by dealing through the district administration.

Guidance for Business Travelers

Entrance Requirements

Visitors to Taiwan must have a valid passport and a visa. Visas may be obtiained gratis from Taiwan's representative offices overseas. Transit visas are valid for 3 months from the date of issue and are good for a 2-week stay; they may not be extended. Tourist visas are valid for 6 months from the date of issue and are available in two types. Type A is good for a 1-month stay and may be extended for one additional month. Type B is valid for 2 months and may be extended twice for 6 months. Business people who wish to stay for more than 6 months must apply to the Ministry of Foreign Affairs in Taipei for an entry visa.

Quarantine regulations require the traveler to produce a current (not more than 3 years old) smallpox vaccination certificate upon arrival. However, it is advisable for the traveler to have an international immunization record and to keep it up to date. Travelers to Taiwan who are from, or have passed through, cholera-infected areas require inoculations more than 7 days but less than 6 months prior to arrival.

Pertinent Treaties

A Treaty of Friendship, Commerce, and Navigation reciprocally grants rights of residence and trade in Taiwan and the United States and confers unconditional, most-favored-nation treatment in commercial matters.

Foreign Exchange Controls

Taiwan's strict exchange control system is administered by the Foreign Exchange Department of the Central Bank of China. The Central Bank regulates all foreign exchange transactions and designates authorized foreign exchange banks. Unlimited conversion from authorized currencies into New Taiwan (NT) dollars is permitted but this function and foreign currency financing of imports and exports is limited to appointed foreign exchange banks. Generally, all transactions involving foreign currencies require a license or prior permission.

The basic unit of exchange is the NT dollar. The NT dollar has traditionally been pegged to the U.S. dollar, most recently at the rate of NT$38=US$1. The exchange rate is allowed to float within a limited range since the establishment of a foreign exchange market early in 1979.

No more than NT$8,000 in cash may be brought in or taken out of Taiwan. Traveler's checks and bank drafts need not be declared. Unlimited foreign currency may be brought in and, if declared on arrival, may be taken out. Without a declaration, not more than $1,000 in cash or the equivalent in any other foreign currency may be taken out.

Foreign currencies may be exchanged at designated banks, hotels, and shops. To convert NT dollars back to foreign exchange just prior to departure from Taiwan, appropriate exchange conversion receipts proving prior conversion of foreign currency to NT dollars must be in the foreigner's possession.

Language, Business Hours, Holidays

COMMERCIAL LANGUAGE.—While Mandarin Chinese is the official language, a southern Fukien dialect known as Taiwanese is spoken by the majority of the people. Mandarin Chinese is the language of business; however, many businesspeople speak and understand English to some extent, and many business firms correspond in English. Japanese is also widely used. Catalogs, promotional literature, and instructions are acceptable in English.

BUSINESS HOURS.—Most offices, public and private, are open from 8:30 a.m. to 5:30 p.m. on weekdays with 1 hour for lunch, but close at 1 p.m. on Saturday. Banks close at 3 p.m. daily and are open until 1 p.m. on Saturday. Department stores, shops, restaurants, hospitals, barber shops, or other service establishments remain open as late as 10 p.m. and are open over weekends and even on public holidays, except for Chinese New Year.

HOLIDAYS.—Public and business offices close on the following statutory holidays: January 1 and 2, New Year Celebration; Chinese New Year's Eve (afternoon), Chinese New Year Holiday, and following day (moveable dates); March 29, Youth Day; April 5, Tomb Sweeping Day: Dragon Boat Festival (afternoon) (moveable date); Moon Festival (moveable date); September 28, Confucius' Birthday; October 10, National Day; October 25, Taiwan Retrocession Day; October 31, Chiang Kai-shek's Birthday; November 12, Dr. Sun Yat-Sen's Birthday; and December 25, Constitution Day.

Sources of Economic and Commercial Information

General information on the Taiwan market (i.e., economic trends, commercial developments, production, and trade) may be obtained from the East Asia Marketing Group, Office of Country Marketing, International Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230.

The American Institute in Taiwan (AIT), an unofficial organization incorporated under the laws of the District of Columbia, represents U.S. interests in Taiwan. Economic/Commercial Officers are available to brief and assist American business people visiting Taiwan, and they may be contacted at the American Trade Center.

The American Trade Center in Taipei is located at 261 Nanking East Rd., Section 3. The telephone number is 781-2171; TELEX number is 23890 USTRADE.

Representation in the United States

The Coordination Council for North American Affairs (CCNAA), the unofficial counterpart to AIT, represents Taiwan's interests in the United States. CCNAA is headquartered at 5161 River Road, Washington, D.C. 20016. The Economic Division is located at 4301 Connecticut Avenue, N.W., Washington, D.C. 20008. The telephone number is (202) 686-6400. Branch offices of the CCNAA are in the following cities:

Atlanta, Georgia 30303: Peachtree Center, Suite 1602 Cain Tower, 229 Peachtree Street, N.E. Telephone (404) 522-0182/0183

Chicago, Illinois 60606: 222 N. Dearborn Street, 9th Floor,
Telephone: (312) 372-1213/1214

Honolulu, Hawaii 96817: 2746 Pali Highway,
Telephone: (808) 595-6347/6348

Houston, Texas 77002: 810 World Trade Building, 1520 Texas Avenue,
Telephone: (713) 228-0059

Los Angeles, California 90010: 3660 Wilshire Boulevard, Suite 1050,
Telephone: (213) 389-1215

New York, New York 10017: 801 Second Avenue,
Telephone: (212) 697-1250

San Francisco, California 94104: 300 Montgomery Street, Suite 535,
Telephone: (415) 362-7680

Seattle, Washington 98104: 413 Lyon Building, 607 Third Avenue,
Telephone: (206) 682-4586.

In addition, the CCNAA Investment and Trade Office is at 515 Madison Avenue, New York, New York 10022. The telephone number is (212) 752-2340. The China External Trade Development Council—with offices in New York, Chicago, Dallas, Los Angeles, and San Francisco—has information on Taiwan manufacturers and suppliers.

Publications

The following is a list of publications available from public and private sources to provide the trader and investor with detailed economic and commercial information on Taiwan.

PUBLIC.—

Board of Foreign Trade, *Foreign Trade Handbook.*

Central Bank of China, Economic Research Department, *Taiwan Financial Statistics Monthly.*

China Productivity Center, *Taiwan Buyers-Guide.*

Directorate-General of Budget, Accounting and Statistics, *Commodity-Price Statistics Monthly, Taiwan District. Monthly Bulletin of Labor Statistics. Monthly Statistics, National Income: National Accounts in Taiwan* (annual). *Statistical Abstract.*

Economic Planning Council, *Industry of Free China* (monthly). *Long-Range Economic Development Plan, 1971-80. Taiwan Statistical Data Book* (annual).

Export Processing Zone Administration, *Export Processing Zones: Development, Production and Sales.*

Industrial Development and Investment Center. *A Brief Introduction to the Investment Climate. Customs Law. Economic Progress and Investment Climate. Foreign-Invested Enterprises in Taiwan. Regulations Governing Customs Bonded Factories. Statute of Encouragement of Investment. Enforcement Rules of the Statute for Encouragement of Investment. Statute for Investment by Foreign Nationals. Statute for Technical Co-operation. Taxes in Taiwan.*

Inspectorate-General of Customs, Statistical Department, *The Trade of China (Taiwan),* annual. *Monthly Statistics of Trade.*

PRIVATE.—

China Publishing Company, *China Yearbook.*

Chung Hwa Information Service, *Free China Weekly.*

Citibank, *Investment Guide to Taiwan.*

Deloitte Haskins and Sells, *Taxation in Taiwan.*

Far Eastern Economic Review, *Yearbook, Review of Taiwan.*

Importers and Exporters Association of Taipei, *Taiwan International Trade* (monthly).

Pan-Orient Corporation, *Business and Industry Taiwan* (weekly).

Price Waterhouse, *Doing Business in Taiwan.*

SGV-Soong and Company, *Doing Business in Taiwan* (annual).

The Research Institute of America, *The Business Guide to Taiwan.*

TSU, E.T., *Business Directory of Taiwan.*

APPENDIX

List of U.S. Banking and Financial Services Institutions in Taiwan

American Express International Banking Corporation
Taipei Branch
137 Nanking East Rd.
Section 2, Taipei
Telephone: 563-3182

Bank of America N.T. & S.A.
Taipei Branch
205 Tun Hua North Rd.
Taipei
Telephone: 731-4111

Bank of California
8 Hsiang Yang Rd.
Taipei
Telephone: 311-0551

Bankers Trust Company
8/F, 46 Kuan Chien Rd.
Taipei
Telephone: 361-7228

The Chase Manhattan Bank, N.A.
Taipei Branch
72 Nanking East Rd.
Section 2
Taipei
Telephone: 521-3262

Chemical Bank
Taipei Branch
261 Nanking East Rd.
Section 3
Taipei
Telephone: 741-1181

Citibank, N.A.
Taipei Branch
742 Min Sheng East Rd.
Taipei
Telephone: 731-5931

Continental Illinois National Bank & Trust Company of Chicago
62 Nanking East Rd.
Section 2
Taipei
Telephone: 521-0242

The First National Bank of Boston
Taipei Branch
5/F, 137 Nanking East Rd.
Section 2
Taipei
Telephone: 563-3443

Irving Trust Company
Taipei Branch
10 Chung King South Rd.
Section 1
Taipei
Telephone: 311-4682

Kaplan, Russin, Vecchi & Parker
5F, Citicorp Center
742 Min Sheng East Rd.
Taipei
Telephone: 752-8756

Manufacturers Hanover Trust Company
4/F, 261 Nanking East Rd.
Section 3
Taipei
Telephone: 772-2562

Morgan Guaranty Trust Company of New York and Taipei, Taiwan
Bank Tower, 10th Floor
205 Tun Hua North Rd.
Taipei
Telephone: 772-2333

Ranier National Bank
Taipei Branch
125 Sung Chiang Rd.
Taipei
Telephone: 536-3244

Seattle-First National Bank
Taipei Branch
333 Nanking East Rd.
Taipei
Telephone: 773-3433

Security Pacific National Bank
261 Nanking East Rd.
Section 3
Taipei
Telephone: 752-4237

Taiwan First Investment & Trust Co., Ltd.
4/F, 742 Ming Shen East Rd.
Taipei
Telephone: 752-5353

United California Bank
Taipei Branch
221 Nanking East Rd.
Section 3
Taipei
Telephone: 752-5353

REPUBLIC OF CHINA

REPUBLIC OF CHINA

REPUBLIC OF CHINA

Published 1981 in the Republic of China
by the Kwang Hwa Publishing Company
3-1 Chung Hsiao East Road, Sec. 1
Taipei, Taiwan, 100
Republic of China

Printed and bound in Taipei, Taiwan
Republic of China

Distributed by China TV Cultural Service Center
19, Jen Ai Rd., Sec. 3, Taipei
Republic of China

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CPC – 190 mm X 130 mm

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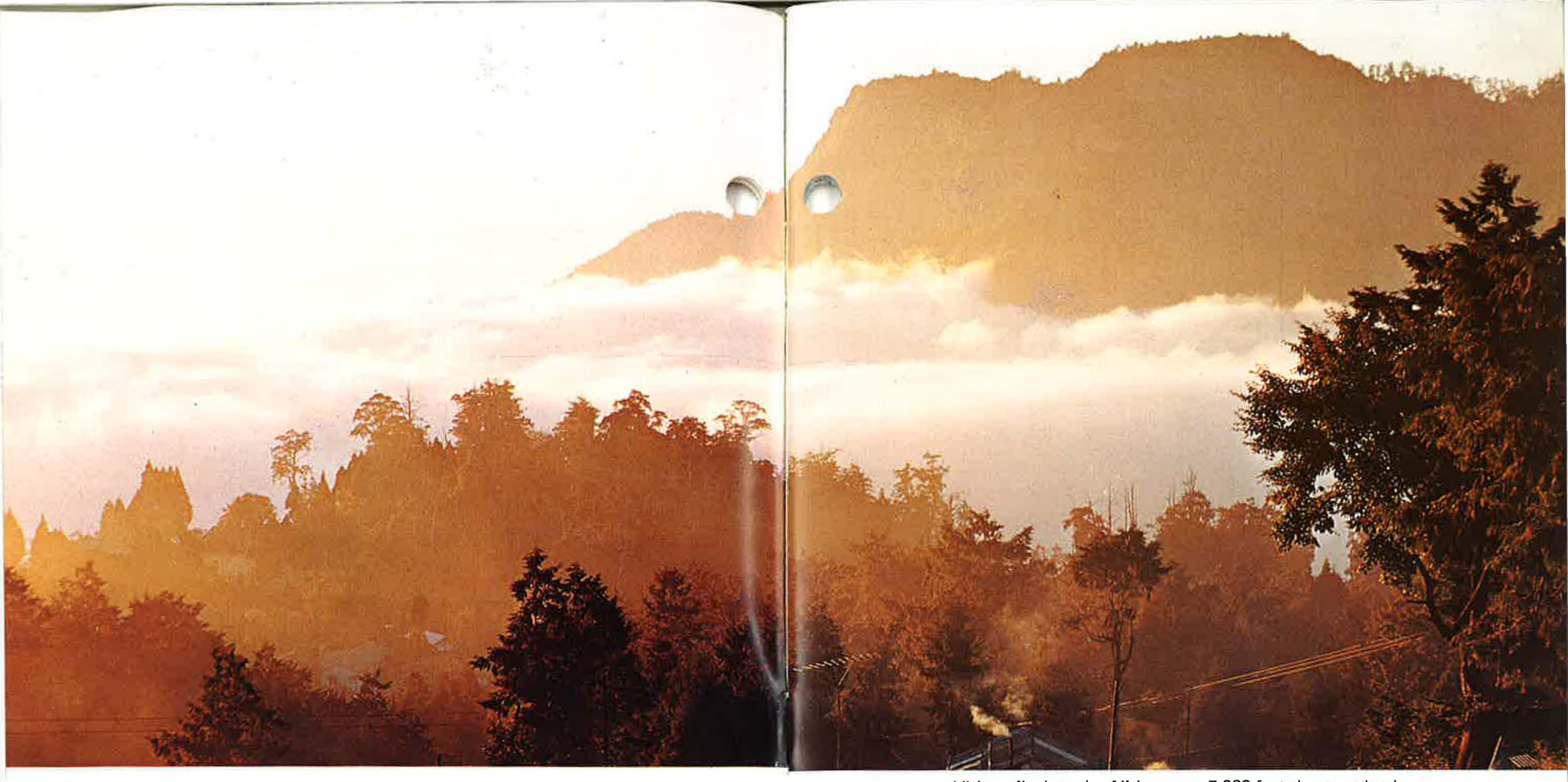
Photos by courtesy
of Kwang Hwa Film Syndicate
Price: NT$15

REPUBLIC OF CHINA



Visitors flock to the Alishan area, 7,000 feet above sea level, for a view of the sacred tree and the sea of clouds.

Major statistics of Taiwan,
a province of the Republic of China

SIZE: Nearly 14,000 square miles, or about the same as Holland.
TOPOGRAPHY: 75 per cent upland with mountains rising to 13,000 feet.
CLIMATE: Subtropical with average temperature

of about 71 F. in the north and 76 in the south.
POPULATION: 17.5 million.
CITIES: 1 over 2 million (Taipei), 1 over million (Kaohsiung) and 2 over 500,000 (Taichung and Tainan).
PEOPLE: All Chinese except for about a quarter million aborigines.
LANGUAGES: Chinese in the Peiping, Amoy and

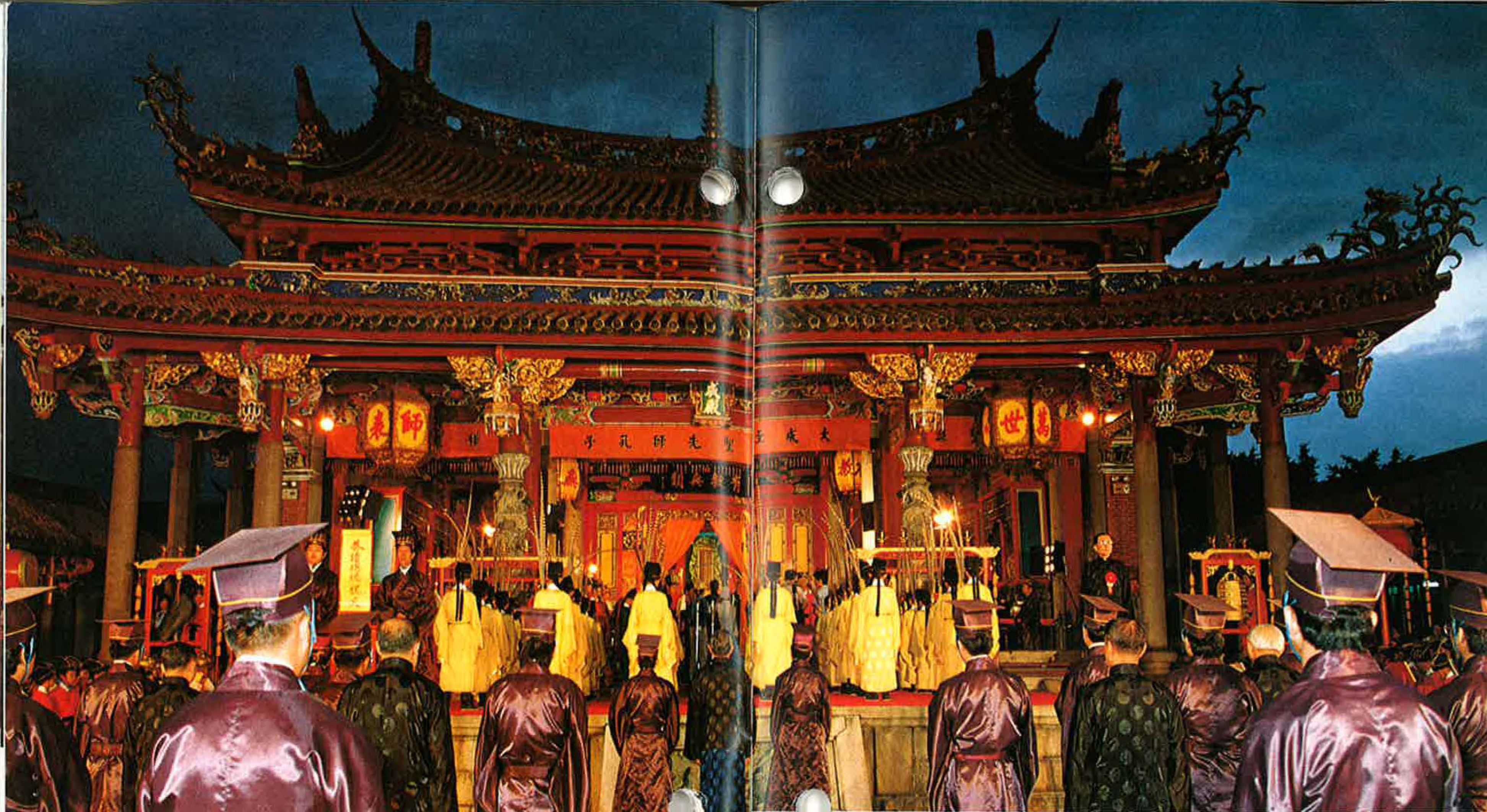
Chiang Kai-shek Memorial Hall and Park in Taipei.

Hakka dialects. Peiping dialect (Mandarin) is taught in the schools. English widely understood.
HISTORY: Chinese immigration for the last 1,400 years. Brief Dutch and Spanish colonial periods in the 17th century and Japanese occupation from 1895 to 1945.
GOVERNMENT: Republic of China since 1945.

Written constitution and free democratic elections. Presidential-cabinet system.
GROSS NATIONAL PRODUCT: US$26 billion.
FOREIGN TRADE: US$30.8 billion with favorable balance of more than US$1.3 billion.
PRINCIPAL TRADING PARTNERS: United States, Japan and Hongkong (exports); Japan,

View of one container terminal at Kaphsiung Port.

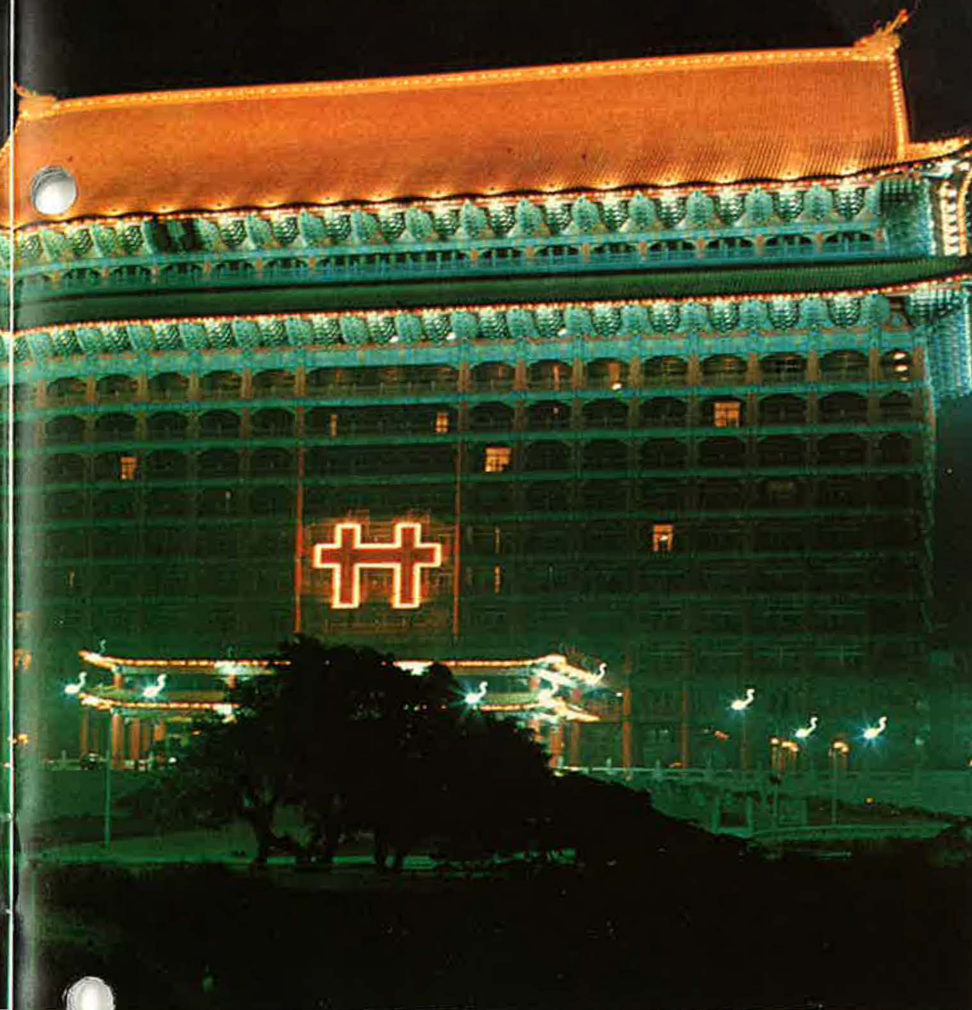
United States and Kuwait (imports).
LEADING INDUSTRIES: Textiles, electrical and other machinery, petrochemicals, ships, processed foods.
LEADING AGRICULTURAL PRODUCTS: Rice, sweet potatoes, fruit, vegetables and fish.
TRANSPORTATION: International by air (12 airlines) and ship. Domestic by air, rail and bus to all parts of the island.



Memorial services are held September 28 at the Taipei Confucius Temple.

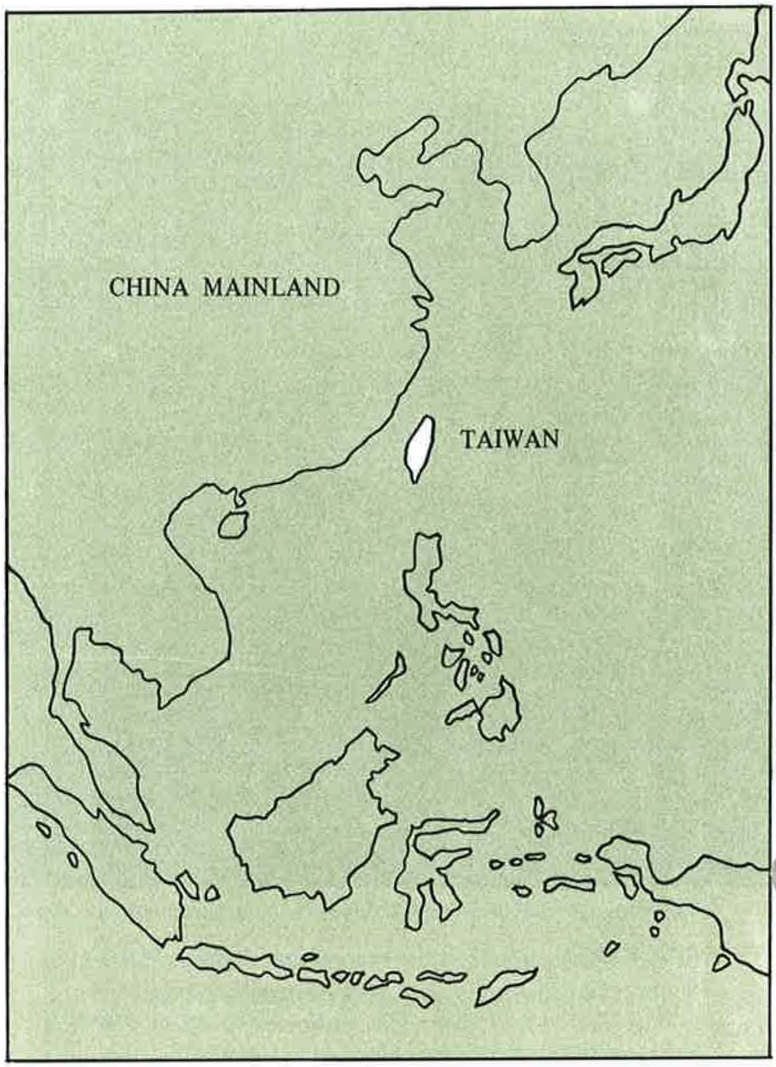
COMMUNICATIONS: 3 million telephones linked to the world by satellite, cable and radio. Three television stations and 146 radio stations.
LIVING STANDARD: Per capita income of US$1,722
CULTURE: Chinese with outstanding cuisine, opera, painting and calligraphy, and a museum with 250,000 of China's greatest art treasures.
RELIGION: Buddhism, Taoism, Christianity

and Islam with freedom of religion guaranteed by the Constitution.
EDUCATION: More than 26 per cent of the population in school and nine years of schooling free and compulsory.



Taipei's Grand Hotel of traditional Chinese architecture glittering at night.

SPORTS: Baseball, soccer, basketball and many others. Some of the best golf courses in Asia.
TOURISM: More than 1.3 million visitors in 1979. Visas readily obtainable and no restrictions on internal travel.



Taiwan is situated at the crossroads of East Asia.

THIS IS TAIWAN

The island province of the Republic of China

Visitors are warmly welcome in the Republic of China's island province of Taiwan.

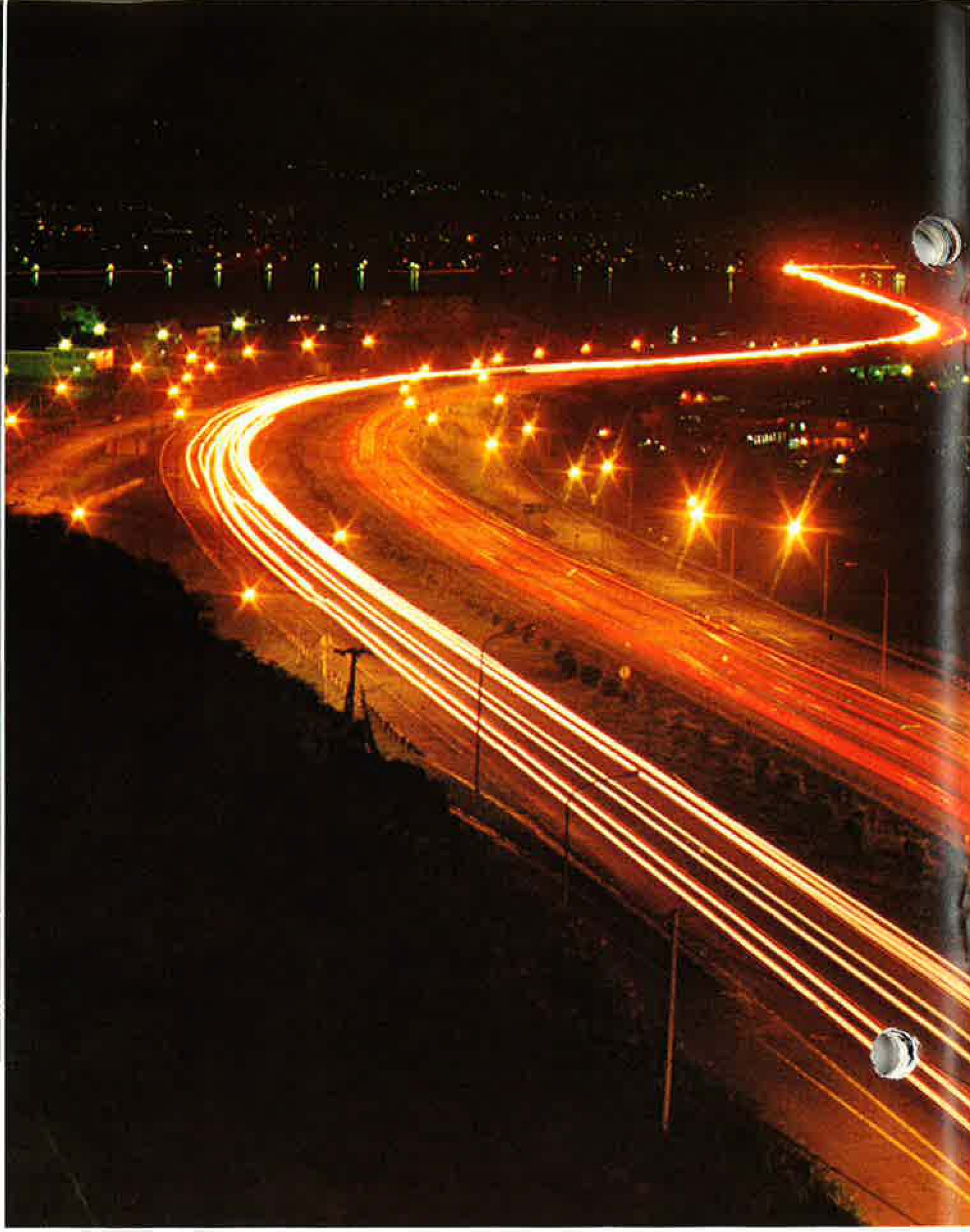
SIZE

In size, Taiwan ranks 37th among the islands of the world. Including 78 offshore islands, it has a land area of 13,885 square miles (35,981 square kilometers). The mainland of China is about 100 miles to the west across the Taiwan Straits. Japan and Korea are to the northeast, the Philippines to the south and Hongkong almost due west of the island's southern tip.

WEATHER

Weather is subtropical with long hot summers and brief but nippy winters. The average temperature is 70.9 F. in the north and 75.7 F. in the south. Taiwan's 245-mile length affects the rainfall picture. Northern Taiwan is wetter than the south with a long rainy season in the winter. Both north and south have frequent thunder-showers in the summer. Taipei's rainfall averages 82 inches a year.

Arable plains are concentrated on the west coast along the Taiwan Straits. Taipei is situated in the northern basin. Most of Taiwan is mountainous, with large plains, in the west and east coast. Peaks rise to 13,000 feet. Yushan (Mt. Morrison) is taller than Mt. Fuji in Japan. Higher elevations are snow-covered in winter and there is a brief skiing season at Mt. Hohuan.



Night view of the Taiwan Area National Sun Yat-sen Freeway.

TRANSPORTATION

Taiwan, which is often called Formosa in the West, is easily reached from anywhere in the world. 12 international airlines have flights to Taoyuan most originating in Japan, Korea, Hongkong and the Philippines. China Airlines has nonstop flights to and from the United States. Many shipping lines offer service to Keelung in the north, the port for Taipei, and Kaohsiung in the southwest, the biggest harbor and second largest city.

Intraisland transportation is modern and fast by plane, express train, freeway bus and private car. Electrification of the west coast mainline railroad is completed. Taiwan Area National Sun Yat-sen Freeway linking Taipei and Kaohsiung was opened late in 1978. Offshore islands are reached by plane or ferry. Regular helicopter service is offered to the high mountain country. Hotels of international standard are found in all major cities and at major resorts. Many new ones are opening in 1980 and 1981.

HISTORY

Taiwan has always been essentially Chinese. Settlers from the mainland began arriving early in the Christian era and started to come in large numbers early in the 17th century. Aborigines were resettled in the high mountain country. There were brief Dutch and Spanish colonial periods in the mid-17th century. Japan occupied the island in 1895 as a spoil of war and held it until 1945.

The first step toward the return of Taiwan to the Republic of China was taken by President Chiang Kai-shek at Cairo together with U.S. President Franklin D. Roosevelt and British Prime Minister Winston Churchill.

The three statesmen declared in November, 1943, that after the conclusion of the war Japan should be required to return to China the three northeastern Chinese provinces, Taiwan and the Penghu Islands (Pescadores).

The Potsdam Declaration of July, 1945, decreed that the "terms of the Cairo Declaration shall be carried out." This was accepted by the Japanese government September 3, 1945 in the instrument of surrender.

Taiwan was retroceded to the Republic of China on October 25, 1945, and then turned into the redoubt of the National Government for the continuing struggle against the Chinese Communists. When the Communists usurped the Chinese mainland with Japanese weapons given them by the Soviet Union, the Government and sizable military forces crossed the Taiwan Straits and undertook the economic, social, political and cultural reconstruction of the island.

The Taiwan of three decades ago had a population of less than 8 million. Industry was undeveloped. People depended on agriculture and fishing for a livelihood. There were no hotels of international standard. To most people of the world, Taiwan was still Formosa (the name given by the Portuguese) and not so many were sure of the island's location even under the name. Today's Taiwan is known around the world for its fast developing economy, industrialization and one of Asia's highest standards of living. The name "Formosa" is largely forgotten. Well over a million tourists a year visit Taiwan with full awareness of where they are.

PEOPLE AND LANGUAGES

Aside from a quarter of a million aborigines, the population is Chinese. About a million and a half mainlanders came to the island in 1945 and afterward. The rest of the population is made up of Chinese descended from those who reached Taiwan before 1895. Most came from Fukien and Kwangtung provinces. The Hakkas, who make up about 15 per cent of the population, originally came from farther north. The national language (the Peiping dialect, also called Mandarin in English) is taught in the schools and spoken by nearly all the people. Fukien dialect is also widely spoken, and the Hakkas have their own dialect. The aborigine languages are akin to those of the Philippines and Malaysia. The universal characters of Chinese bring the people together with one common written language.

Taiwan's population passed the 17.5 million mark late in 1979. The population density is the highest in the world at nearly 485 per square kilometer.

CENTRAL GOVERNMENT

The Central (or National) Government is based on the five-power system originated by Dr. Sun Yat-sen, the Republic of China's founding father. Under the President of the Republic are five yuan (branches of government): Executive, Legislative, Judicial, Control and Examination. The Examination Yuan implements and safeguards a civil service which has provided persons of merit for government employment for the last 2,500 years.

The President and Vice President of the Republic are elected for six-year terms by the National Assembly, which is chosen by universal suffrage. The Executive Yuan resembles the cabinet of a Western country. The President of the Executive Yuan (Premier) is nominated and appointed by the President of the Republic with the consent of the Legislative Yuan. Vice premier and ministers are appointed by the President of the Republic upon recommendation of the Premier. The Executive Yuan is responsible to the President of the Republic.

The cabinet is made up of Ministries of Interior, Foreign Affairs, National Defense, Finance, Education, Justice, Economic Affairs and Communications, two Commissions (Mongolian-Tibetan and Overseas Chinese Affairs) and four Offices (Information, Comptroller General, Personnel Administration and National Health Administration).

Lawmaking at the Central Government level is the function of the Legislative Yuan, which is elected by direct suffrage. The Control Yuan has powers of consent, impeachment, censure and audit. Elections for additional members to reflect the population increase and to fill vacancies in the National Assembly and Legislative Yuan and Control Yuan are held regularly: every three years for legislators and every six years for members of the National Assembly and the Control Yuan.

The Taiwan Provincial Government and Taipei and Kaohsiung Special Municipalities are under the jurisdiction of the Executive Yuan. Taipei became a Special Municipality July 1, 1967 and Kaohsiung 12 years later. This gives the co-equal status with Taiwan Province. The city population of Taipei and Kaohsiung exceeded 2.1 million and 1.1 million mark respectively at the end of 1979. Areas are 105.1 and 43.9 square miles respectively. The City Council were chosen by the people.

PROVINCIAL GOVERNMENT

The Taiwan Provincial Government has its seat at Chunghsing New Village near Taichung in central Taiwan. The Provincial Government Council is the policymaking body for the province. It has 21 members and the Governor is ex offcio chairman. Legislative powers are exercised by the Provincial Assembly of 77 members. Twelve are women and four are aborigines. Provincial and local elections are

President Chiang Ching-kuo meeting the people on one of his frequent trips around the island.

held every four years.

The province has three municipalities and sixteen counties. The cities are Taichung, Tainan and Keelung. Counties are Taipei (not including Taipei City), Ilan, Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Nantou, Yunlin, Chiayi, Tainan, Kaohsiung, Pingtung, Taitung, Hualien and Penghu. Mayors, county magistrates and municipal and county council members are chosen by secret ballot.

The Republic of China has had three Presidents: Chiang Kai-shek, Yen Chia-kan and Chiang Ching-kuo. The term of office is six years. President Chiang Kai-shek was elected under the constitution in 1948 and re-elected in 1954, 1960, 1966 and 1972.

THREE PRESIDENTS

President Chiang Kai-shek died at the age of 87 in 1975. He was succeeded by the Vice President C. K. Yen. President Yen decided against becoming a candidate for election in 1978 and recommended that his party, the Kuomintang, nominate Chiang Ching-kuo, who had been Premier since 1972, as its candidate for the presidency. Premier Chiang Ching-kuo, who is also chairman of the Nationalist Party, was nominated by acclamation, elected by the National Assembly on March 20, 1978 and inaugurated President on May 20. Shieh Tung-min, a Taiwan native son, was elected and sworn in as Vice President.

LAND REFORM

In accordance with the political philosophy of Dr. Sun Yat-sen, the Chinese Government carried out the world's most successful land reform program in three stages from 1949 through 1953. Farm rents were reduced from a range of 50-70 per cent to 37.5 per cent of the annual yield of the main crop. Then the government sold agricultural land to tenant farmers at prices equal to 2.5 times the value of the annual crop yield, payable in 20 semi-annual installments.

Finally, the Land-to-the-Tiller Act of 1953 limited the holdings of landlords to 7.5 acres of medium-grade paddy field. Land exceeding this amount was purchased by the government and resold to tenants on the same terms as in the sale of public lands. Owner-farmers made their last payments in the winter of 1962. The landlords received the full amount paid by the farmers—30 per cent in the stocks of government enterprises

The verdant checkerboard of prosperous farms reflects the success of Taiwan's land reform program.

and 70 per cent in commodity bonds. Many landlords parlayed their stocks in the government enterprises into careers as industrialists. More than 500,000 families benefited from land reform. Nearly 90 per cent of farmers own the land they till. Per acre yield of rice has increased by nearly 60 per cent in 20 years; farm income has more than doubled. The Government has been compelled to cut back on the target for production of rice; there is more than can be eaten or exported and not enough granary space for storage.

ECONOMY

Agricultural prosperity led to industrial development. The first Four-Year Economic Development Plan got under way in 1953. The sixth of the four-year plans was terminated before completion because of the economic recession of the mid-1970s. A new six-year plan got under way in 1976.

Steady economic growth together with stability has given Taiwan one of the highest living standards in Asia. The gross national product grew by 8.48 per cent in 1977, 12.79 per cent in 1978 and 8.1 per cent in 1979 per capita income reached US$1,421 in 1978 and US$1,722 in 1979. In keeping with President Chiang Ching-kuo's instructions to seek growth with stability and stability with growth, inflation was kept under tight rein.

FARM PRODUCTION

Farm production was down slightly in 1978, principally because of the cutback in rice cultivation. The output of rice rose from 640,000 metric tons in 1945 to more than 2.7 million metric tons in 1977, 2.44 million tons in 1978 and 2.43 million tons in 1979. Other principal crops are sweet potatoes, sugar cane, citrus, bananas, other fruit, vegetables (especially

Semitropical fruits grown in Taiwan include these delicious grapes.

asparagus and mushrooms, for canning and export) and tea. Large amounts of wheat, maize and soybeans, are imported from the United States. Seafood sold by the large deep-sea fleet constitutes the leading export of the agricultural sector.

INDUSTRY

Industry grew by 8.8 per cent in 1979. In the year, manufacturing industry grew by 7.8 per cent, heavy industries by 7.5 per cent and light industry by 8.1 per cent. This reflects the Government's efforts to emphasize technology-intensive industry in order to upgrade the economic structure. Principal industrial products are textiles, electrical machinery and apparatus, other machinery, cement, fertilizer, plywood, plastics, ships, steel products, shoes and petrochemicals. Color television output went over the 2 million-set mark in 1978 and over 1.14 million in 1979. Taiwan has been the world's ranking producer of black and white TV sets for several years.

New industries of the Republic of China lead the world in exports despite quotas and other restrictions by importing countries. To mention only a few products, Taiwan is No.1 in shoes, sweaters, Christmas tree lights and umbrellas, and is the only shipbuilder to have delivered supertankers (of 450,000 tons) since the shipping glut put many of the big carriers in mothballs.

China Shipbuilding Corporation's Kaohsiung shipyard has a capacity of 1.5 million tons a year.

TRADE

Two-way trade totaled US$23.7 billion in 1978 with a favorable balance of more than US$1.6 billion and the 1979 fiqure was US$30.8 billion. The United States is first among Taiwan's customers, taking more than one third of exports, with Japan second and Hongkong third. The lion's share of imports comes from Japan (because of proximity, price, service and precedent) with the United States second and Kuwait third. Imports of petroleum exceeded US$2 billion in 1979. Power generation, which is growing by more than 10 per cent annually to keep the wheels of industry turning, depends heavily on oil to fuel thermal plants. Nuclear plants are under construction and five additional hydroelectric generators will be added to the extant 29.

INVESTMENT

Foreign and overseas Chinese investment has climbed over US$2.25 billion with about a third of it from the United States and a sixth from Japan. The overseas Chinese contribution has been increasing. Investment incentives include tax holidays, 100 per cent foreign ownership, unlimited repatriation of profits and liberal repatriation of capital. Three export procession zones have been established, two at Kaohsiung in the south and a third in centrally located Taichung. These zones combine the advantages of free port and industrial estate, and have attracted investments by many foreigners and overseas Chinese. Inudstrial zones are being developed throughout the island, including one that will emphasize advanced technology, research and development.

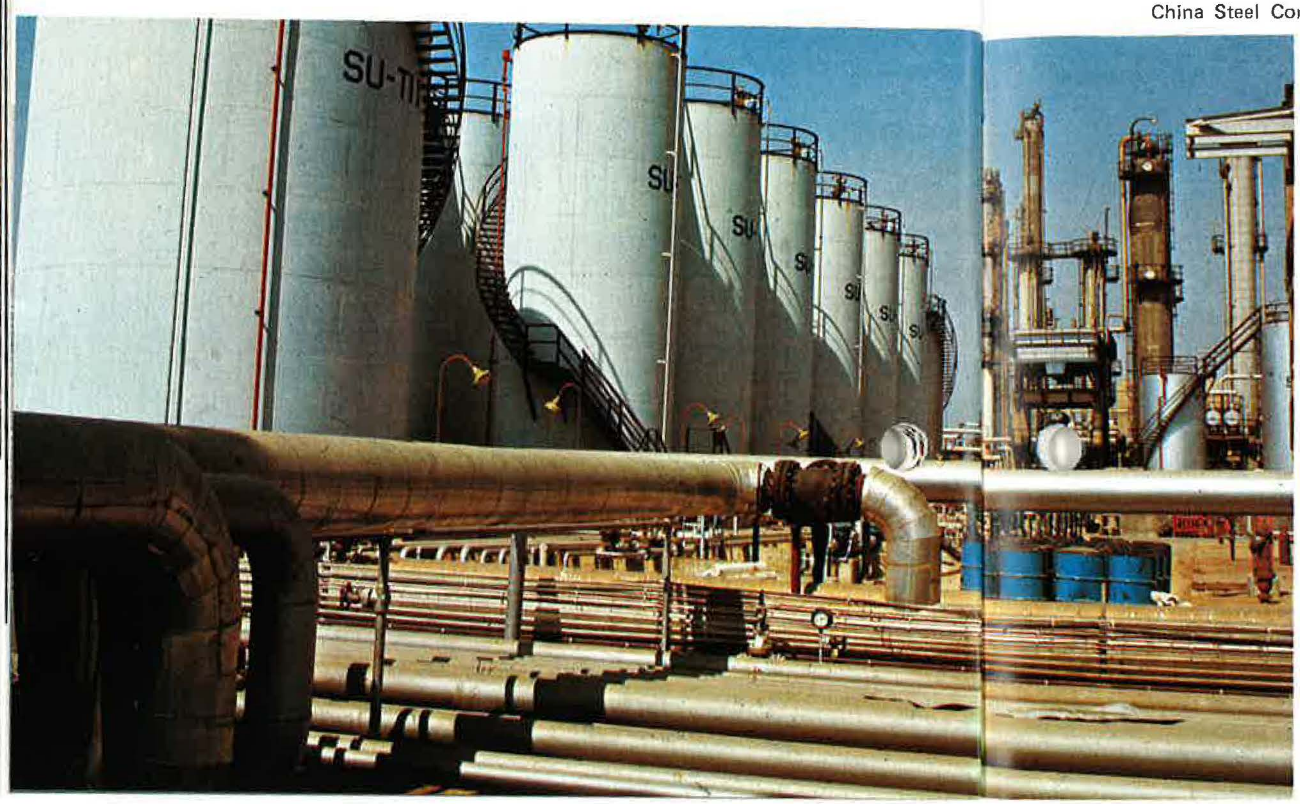
TEN PROJECTS

A US$7 billion program of infrastructure and industrial development was undertaken during the 1970s to prepare the Republic of China for developed country status in the 1980s. Most of these projects had been completed by 1979. Some of the Ten Major Construction Projects are continued into this decade by the newly conceived Twelve Projects.

The Ten Projects:

- Three nuclear power plants, two in the north and one in the south.
- Taiwan Area National Sun Yat-sen Freeway linking Keelung, the northern port, with Kaohsiung in the southwest by way of the capital city of Taipei.
- Integrated steel mill with initial capacity of 1.5 million tons annually.
- Electrification of the west coast mainline railroad.
- Petrochemical industry complex.
- Chiang Kai-shek International Airport to serve Taipei.

Chinese Petroleum Corp. is expanding petrochemical projects (left), and the China Steel Corp. mill (right) raising its output to more than 3 million tons.



- Kaohsiung shipyard building a million tons annually and repairing another 1.5 million tons of shipping.
- Suao-Hualien railroad opening up the sparsely settled east coast and paving the way for a round-the-island system.
- Suao port to reduce overcrowding at Keelung.
- Taichung port to serve the agricultual and rapidly industrializing central west coast and possibly in the end to surpass Kaohsiung in capacity.

TWELVE PROJECTS

The Twelve Projects have been getting under way since 1979.
They are:

- Construction of the round-the-island railway by widening the Hualien-Taitung line and building a line from Taitung to Kaohsiung. Completion is set for 1986.
- Building of three additional cross-island highways.
- Extension of the Taiwan Area National Sun Yat-sen Freeway from Kaohsiung to Pingtung.
- Addition of a second stage to the China Steel Corporation mill at Kaohsiung, raising output to more than 3 million tons.
- Construction of second and third nuclear power plants. Nuclear generation of electricity will exceed 5 million kilowatts by 1985.
- Development of new towns and construction of public housing.
- Improvement of farm drainage.
- Repair and construction of river levees and sea dikes.
- Widening of the Pingtung-Oluanpi highway.
- Expediting of farm mechanization.
- Second and third stages of Taichung harbor construction to raise capacity to 12 million tons.
- Building of civic centers in each county and major city to provide libraries, auditoriums and other cultural attributes.

DEFENSE

Taiwan is a vital link in the chain of islands stretching from Japan to Indonesia. It is the free world's first line of defense in the Western Pacific. Modern armed forces of half a million men are among the best trained and equipped in East Asia. They are backed up by a force of 2,3000,000 reservists.

The Republic of China pays the full cost of supplying and maintaining its army, navy and air force. Increasingly, the weaponry is coming from Taiwan

Cadets of the Air Force. Army, Navy and Political Warfare Academies saluting the President on National Day.

arsenals. F5E fighter planes are built in the Republic of China. Surface-to-surface missiles and rockets are now made at home, as are many hand weapons and much of the ammunition.

Military forces of the Republic of China are on the alert to repulse any Communist aggression against Taiwan or the offshore island groups of Kinmen (Quemoy) and Matsu. The ROC also awaits the opportunity to assist the 850 million people of the Chinese mainland in throwing off the yoke of Communist tyranny and regaining their freedom. In doing so, the nation will be carrying out the Last Will and Testament of President Chiang Kai-shek.

EDUCATION AND CULTURE

A new education law will make the nine-year program of free education compulsory. Nearly 100 per cent of children aged 6 to 12 are graduating from primary schools (which means they are literate) and 95 per cent are going on to junior high school. The more than 100 colleges and universities have enrollment in excess of 300,000. With the demand for graduates of academic high chools declining, the Government is emphasizing vocational education. Eight universities are offering doctoral programs.

Taiwan is one of the healthiest places in East Asia. Malaria and most communicable diseases have been eliminated. The daily calorie count is nearly 2,800, higher than that of Japan. Protein consumption is second to that of the Japanese in Asia.

Chinese culture emerged early and has remained among the world's most distinguished. Only in the Republic of China's province of Taiwan has the full measure of Chinese culture been respected, promoted and advanced. The old have been preserved and the new added in painting, calligraphy, drama, literature, music and many folk arts.

Cheerful children attending a drawing contest.

Chinese opera is one of the great theater arts of the world, combining music, dancing, acting mime, costuming, acrobatics and nearly every other dramatic form known to man. The old stories, long proscribed by the Chinese Communists on the mainland, are freely presented in their classic form.

The Chiang Kai-shek Memorial Hall in Taipei is open with its special theater for Chinese opera as well as facilities for other cultural presentations. The National Palace Museum in suburban Taipei, open

Chinese opera is a wonderful world of color and action, combining acting with song, dance and acrobatics.

365 days a year, has the richest collection of Chinese art treasures in the world—nearly a quarter million items, including magnificent porcelains, jades, paintings, calligraphy, bronzes, sculptures, lacquerware and ancient books.

Culture is actively encouraged by the government through the Chinese renaissance movement. There are no restrictions on cultural creativity except that of giving aid and comfort to Communism.

THE GOOD LIFE

Taiwan is the most prosperous province in the history of China. For the people, this means television sets, air-conditioners, motorcycles, cars and telephones. The 3 millionth telephone set was installed in 1980. The telephone company says that in another year or so there will be no wait for a phone.

For the housewife, prosperity means washing machines and other labor-saving devices. It also implies the opportunity to put the children in a day school and make her contribution to the family exchequer and to the needs of the country.

VISITORS FROM AFAR

Free China is especially pleased to have visitors coming from afar. 1.34 million tourists came in 1979 to set another record. Only 17,000 arrived in 1958. Hotel space was tight in the mid-1970s but is now sufficient to take care of all who wish to see the "island beautiful" and the Taiwan "economic miracle."

Both Taipei and Kaohsiung are on international air routes. Taiwan is only an hour from Hongkong and a little over two hours from Tokyo, Osaka or Seoul. The nonstop CAL flight from the United States takes less than 14 hours.

Taipei gateway--Chiang Kai-shek International Airport.

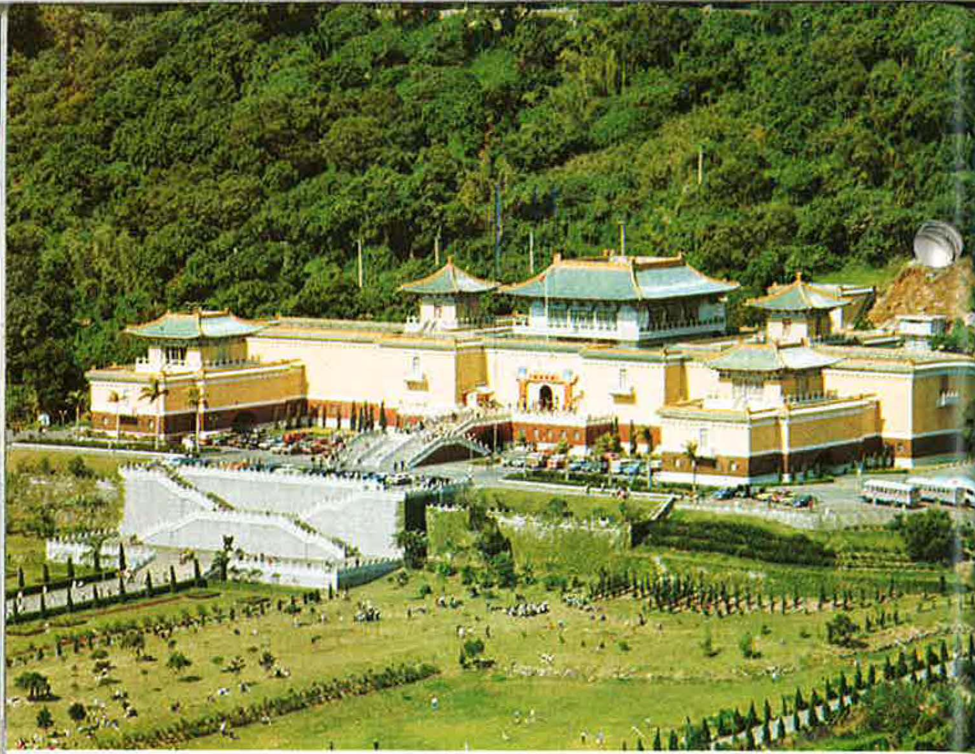
Visitors give Taiwan high marks for friendly hospitality. That and the evergreen mountain scenery and seascapes impress tourists most. Chinese food of a dozen provincial specialties also rates high. Only a few years ago, the average stay was less than four days. This has been increased to a week by the enhanced accessibility of attractions "down island" from Taipei. The whole island can be seen in a week for about US$200, including transportation, accommodations and meals.

TAIPEI GATEWAY

Most visitors still enter the Republic of China through Taipei, which is being served by a new international airport completed in February 1979. Although

the Chiang Kai-shek International Airport is farther from the city than the old Sungshan International, transportation time to major hotels is not much longer. The CKS airport is just off the Taiwan Area National Sun Yat-sen Freeway.

As a bustling, many-faceted city of more than 2 million people, Taipei alone can keep the tourist busy for several days. At the top of the "must see" list is the National Palace Museum with its collection of nearly a quarter million treasures of Chinese art and culture. The jades, porcelains, paintings, calligraphies, bronzes, sculptures, lacquer and enamal wares, tapestries and embroideries are among the finest in the world.The National Palace Museum is open every day in the year



The National Palace Museum houses one of the world's largest collection of Chinese art objects.

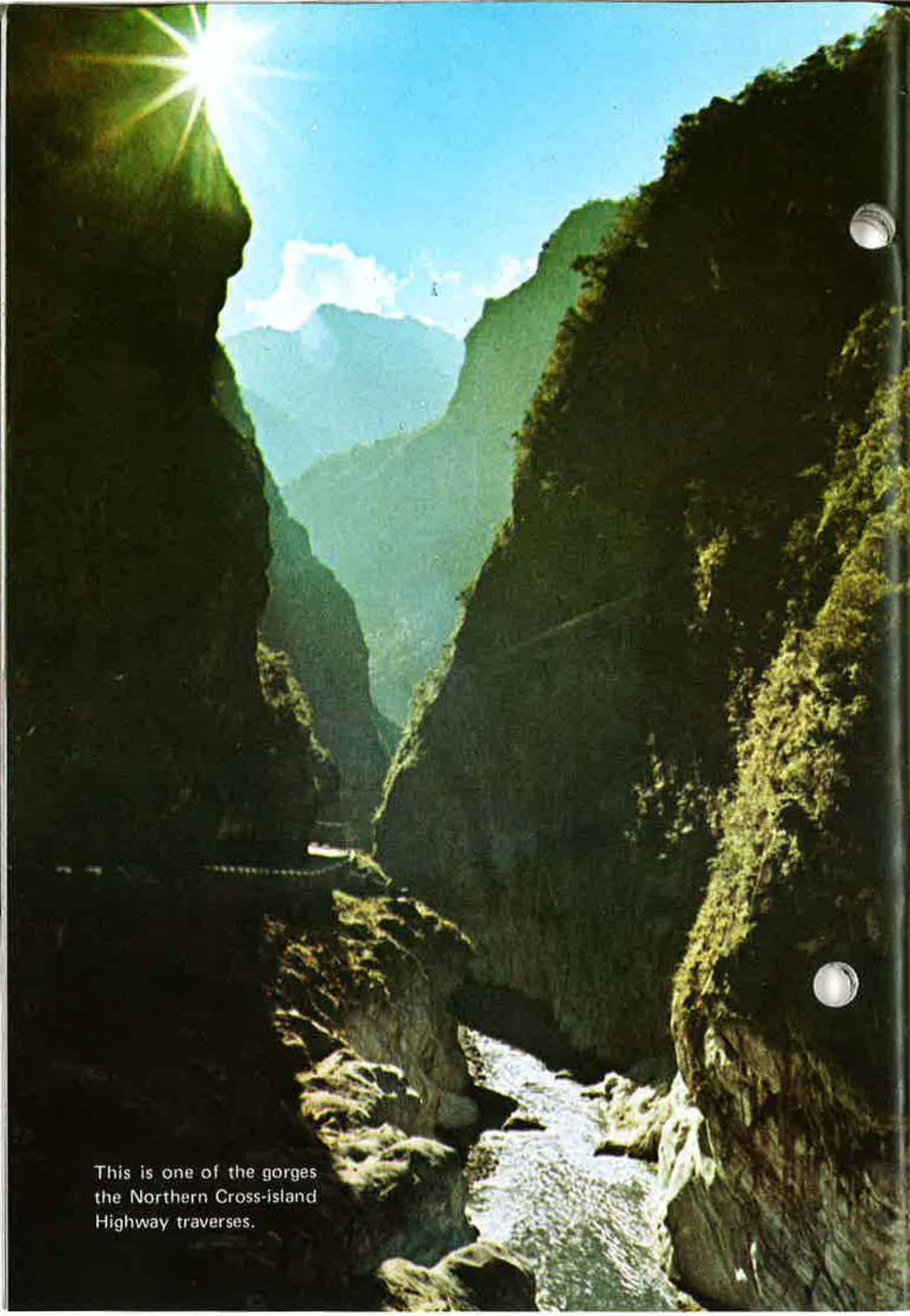
and at an admission charge of only about US$50 cents is one of the great cultural bargains of the world. Bus or taxi fare to the garden-like suburban setting is inexpensive. There are frequent guided tours. Inscriptions in Enblish and Chinese describe the exhibits.

Taipei has several other museums of interest, several major temples, championship golf courses, Chinese theater restaurants and opera performances. Restaurants serve Japanese, Korean and Western food as well as all major Chinese cuisines. Although places of entertainment close at midnight, there is no curfew. The Grand Hotel is ranked among the best in the world. Others are as good as the top hotels of Tokyo, Seoul and Hongkong with somewhat lower rates.

This dragon boat, one of the tiny ivory treasures housed in the National Palace Museum, is only 3.6 cm high and 5 cm long.

ONE-DAY TRIPS

A number of one-day excursions are available from Taipei. The most popular is to Taroko Gorge on the east coast. This narrow cleft reaching from the Pacific Ocean to the 12,000-to 13,000-foot peaks of the Central Mountain Range is a scenic spectacle ranking with those of the American West. The Taroko area is the center of Taiwan aborigine culture with dancing and songs brought to the island more than a thousand years ago from the tropical lands to the south. Marble quarries and procession plants are found near the small city of Hualien, gateway to the gorge and the East-West Cross-Island Highway which lies beyond.



This is one of the gorges the Northern Cross-island Highway traverses.

Also on the east coast as well as in the hills just north of Taipei are hot spring spas with both big hotels and small inns. Taipei has been connected to Hualien by a new railroad tunneling through the Central Mountain Range. Visitors now can go by air or train.

In half a day, the Taipei sightseer can view the northern seascape, including the strange sandstone formations of Yehliu and the seaport city of Keelung, where it rains more than 300 days in most years. Another half a day can be spent visiting Wulai, which has a waterfall, aborigine village and the only passenger-carrying cableway in Taiwan.

CENTRAL TAIWAN

Sun Moon Lake, the favorite destination of Taiwan honeymooners, is an easy two-day trip by train to Taichung, a city of half a million, and then by bus into the mountains. Hotels overlook the serene and peaceful lake, which was built to generate hydroelectricity. A little farther south is Alishan at an elevation of 7,500 feet. The trip up the mountain by narrow gauge forestry railroad is a study in botanical change, starting from pineapple fields and ranging through giant bamboo groves into pine and fir country. The resort lies above a "sea of clouds." From a nearby lookout, the sun can be seen rising from behind Yushan (Mt. Morrison), a peak of over 13,000 feet. The Alishan visit can be made from Taipei in two days, but three is more comfortable.

IN THE SOUTH

Well to the south are Tainan, the old capital of the island, and Kaohsiung, the center of Taiwan's heavy industry. Dutch fortifications dating from the 17th century may be viewed at Tainan. Kaohsiung has parks, golf courses and the romanic River of Love as well as factories, steel mill and shipyard. The natural harbor is one of the finest in the world.

At the end of the island, looking southward to the Philippines, eastward to the Pacific and westward to the China Sea and Taiwan Straits, is the Oluanpi lighthouse and Kenting beach resort. Snorkeling along coral reefs is outstanding here. The swimming season extends through spring, summer and fall. There is a tropical botanical garden.

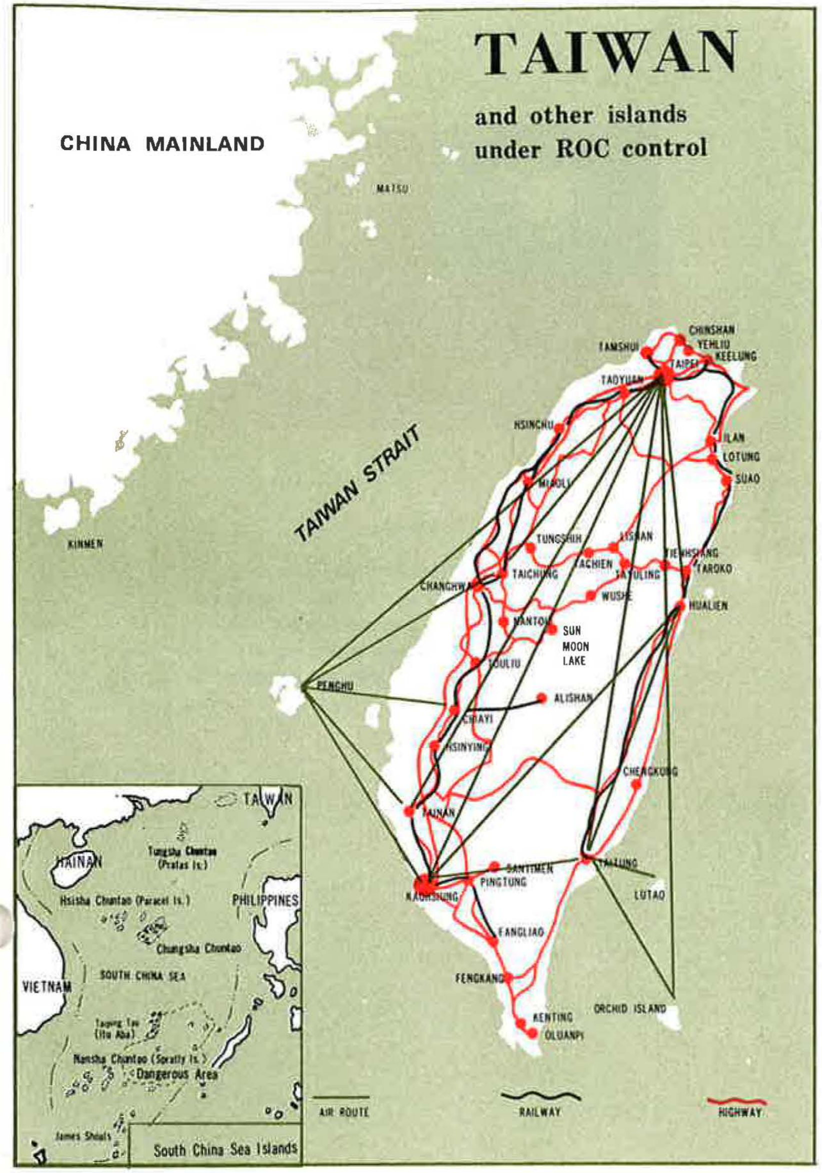
Another excursion is the ferryboat ride from Keelung in the north to Hualien on the east coast. On one side is the Blue Pacific stretching east to Hawaii and Mexico, on the other the sharply ascending mountains of the Central Range.

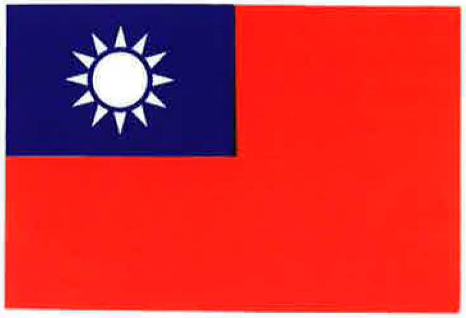
FREEDOM OF TRAVEL

Except in the high mountains, where lost hikers are not uncommon, the tourist is free to wander off on his own. Crime against the person is rare in the Republic of China. Hold-ups and muggings are almost unknown. If the exploring visitor loses his way, he will sooner or later finds someone who speaks English. Japanese is also widely understood.

Intraisland transportation is convenient, frequent and cheap by plane, train, bus and taxi. Except for some mountain areas, no special permission is required to travel anywhere. Identification need be shown only for plane travel. Visits to farms and factories can be specially arranged. Information is available from travel bureaus.

The spirit of Taiwan tourism is that, as Confucius said, there is no greater pleasure than greeting friends who come from afar. All who come to the Republic of China's island province are regarded as friends. They quickly discover that Taiwan is a great place to visit and a great place to live.





Flag of the Republic of China

The 12 points of the White Sun represent the 12 two-hour periods of the day. Together they symbolize the spirit of unceasing progress. The three colors of blue, white, and crimson represent respectively the Three Principles of the People.

KOREA

KOREA

	1982	1983
TOTAL EXPORTS TO KOREA	$330,539,714	$412,238,095
TOTAL IMPORTS FROM KOREA	$168,385,690	$171,893,029
TOTAL TRADE	$490,925,404	$584,131,124

MAJOR EXPORTS TO KOREA, 1982:

1)	Unmilled wheat	$281,288,838
2)	Carbon steel waste and scrap	12,042,311
3)	Western Hemlock logs	7,907,935
4)	Yellow corn	8,035,831
5)	Grain sorghum, except seed	5,264,403
6)	Whole cattle hides	4,850,400
7)	Soybeans	1,449,440
8)	Douglas Fir logs and timber	1,032,575
9)	Parts of oil and gas field lifting equipment	422,383
10)	Alloyed copper waste and scrap	418,035

MAJOR IMPORTS FROM KOREA, 1982:

1)	Footwear	$90,655,593
2)	Television sets (color and mono)	28,549,834
3)	Ropes, cables, and cordage other than wire strand	2,973,386
4)	Tires (automobile, truck and bus - new and used)	1,917,520
5)	Steel parts	1,531,284
6)	Apparel/clothing	1,431,687
7)	Apparatus to check electrical quality	1,177,971
8)	Leather handbags	1,162,112
9)	Plates and sheets of iron or steel	968,319
10)	Electrical relays pertaining to electrical circuits	832,238

All currency is in U.S. dollars.
All figures denote trade between the Oregon Customs District and Korea..

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U.S. Department of Commerce
International Trade Administration

Foreign Trade Outlook

Introduction

The Korean market has produced exceptional opportunities in recent years, and the country's record of dynamic growth augurs well for U.S. exporters. Building upon an already diversified industrial base, Korea's planners have targeted the next decade for the country's emergence as a developed economy. To accomplish this objective, Korea will require increasingly sophisticated products and technologies.

Contents

As a result of annual growth of real GNP averaging about 10 percent for almost two decades, Korea has entered the 1980's with its international trade totaling over $35 billion. Although export oriented, its economy is drawing increasing strength from domestic growth. The economy nonetheless continues to be sensitive to downturns in the growth of its few major trading partners. Moreover, soaring oil import costs and other sources of inflation have tested Korea's proven ability to continue its rapid growth.

Korea's imports from other parts of the world exceeded $20.3 billion in 1979, an increase of 36 percent over 1978. Except for a small decline in imports of transportation equipment, almost all other categories showed large gains. Imports of grains were up 58 percent and other food items, 51 percent. Other categories registering above average growth were chemicals, mineral products, and nonferrous metals: in part due to significant price increases. In particular, Korea has become a key market for expensive and complex projects in such areas as power generation and telecommunications.

The U.S. share of Korea's import market rose from 20 percent in 1978 to 23 percent in 1979. In contrast, Japan's share dropped from 40 to 33 percent. The previous edition of this report noted that in 1975 Korea was the 15th largest market for U.S. exports. Korea ranked 11th in 1979. Moreover, Korea was the second largest market for U.S. exports in the East Asia region, after Japan. Table 1 shows selected U.S. exports to Korea by major commodities.

The Korean Government is committed to a long-term policy of liberalization of the economy, including the financial structure, imports monopolies, and capital flows. To reach developed country status, and recognizing that Korea's competitive edge will not remain in labor-intensive industries, Korea aggressively has moved into development of heavy and chemical industries. This indicates that there will be substantial new opportunities for U.S. companies to participate in capital-intensive, high-technology projects.

Best Export Prospects

The wide range of industrial development in Korea as well as increased interest in providing

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Table 1.—Selected U.S. Exports to Korea by Major Commodities
(Millions of dollars)

Commodity	1977	1978	1979
Total	2,369	3,160	4,170
Agricultural products			
Wheat	202	215	258
Corn	119	209	319
Rice and barley	51	1	44
Hides and skins except furskins	94	115	129
Cotton	315	378	398
Animal fats and oils	38	41	58
Nonagricultural products,			
Chemicals	105	169	377
Metalworking machinery	14	46	73
Office machines, computers, and parts	32	43	48
Telecommunication equipment	68	83	71
Electronic components and parts	145	166	196
Other machinery	289	321	596
Road motor vehicles, engines, and parts	29	85	107
Commercial aircraft, engines, and parts	89	146	186
Logs and lumber	51	84	90
Pulp and waste paper	52	55	114
Iron and steel scrap	98	118	153
Nonferrious metal scrap	33	58	61
Coal	28	41	60
Phosphate fertilizer	36	46	57

medical and social services provides numerous opportunities for U.S. exporters. Although there are many more best prospects, 11 product areas have been identified as having good longer-term prospects. They are: metalworking and finishing machinery; materials handling equipment; power generation, transmission, and distribution equipment; construction and mining equipment; process control instrumentation; communications equipment; scientific and laboratory instrumentation; computers and peripheral equipment; medical equipment; electronics industry production and test equipment and electronic components; and textile and apparel machinery. The Industry Trends section below provides some explanation for the selection of these products; additional analysis of each product category is available in the annual Best Prospects Report prepared by the American Embassy in Seoul, Korea, which can be obtained from the Japan/Korea/Hong Kong Branch, Office of Country Marketing, International Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230.

Industry Trends

GNP Development

The Korean economy has grown rapidly since the early 1960's. During 1962–78, gross national product (GNP) grew at a real average annual rate of 9.5 percent, exceeding the expectations of the First, Second, Third, and Fourth Five-Year Plans. In 1978, GNP reached $47.4 billion in current prices ($28.7 billion in 1975 prices), achieving a real growth rate of 11.6 percent. GNP per capita reached $1,279, compared with $965 in 1977 and $87 in 1962.

Forecasts for economic growth based on the Economic Management Plan (1979–81) are that GNP will grow at an average annual rate of 9.3 percent during 1979–81. GNP is projected to reach $86 billion in 1981 with per capita GNP at $2,210.

Principal Growth Sectors and Economic Priorities

Korea's economic growth has been led by increases in the mining and manufacturing and social overhead capital and other service sectors. From 1962 to 1978, mining and manufacturing grew at an average annual rate of 17.4 percent and social overhead capital grew at 10.2 percent. Agricultural production has lagged behind the industrial sectors, increasing at an average annual rate of only 3.9 percent.

A significant shift in the industrial structure has occurred. The percentage share of mining and manufacturing GNP steadily increased from 11.6 percent in 1962 to 32.9 percent in 1978, while agriculture, forestry, and fisheries declined from 43.5 to 19.1 percent in the same period. Export growth also has contributed greatly to overall economic growth. Commodity exports grew by an average rate of 41.2 percent annually during 1962–78.

The Fourth Five-Year Economic Plan emphasizes economic self-reliance, social development, and the enhancement of technology and productivity. To meet these objectives, the Plan aims at: (1) boosting grain production and improving farm income through promotion of the "Saemaul Movement," a program initiated early in the decade to assist agricultural development; (2) strengthening import substitution through active continuation of heavy and chemical industries development; (3) promoting education, including vocational and technical training and improving the social welfare system; and (4) developing technology and (5) stabilizing prices. During the Plan period, the average sectoral growth of GNP is projected to be 4 percent in agriculture, forestry and fisheries; 12–15 percent in mining and manufacturing; and 6–8 percent in social overhead capital and other services. The ratio of gross investment in GNP is forecast at

28–30 percent. Among the investment ratios, private and government savings are projected at 20–25 percent and 6–8 percent, respectively. With respect to external transactions, visible exports are projected to grow at a 16 percent annual rate, with visible imports scheduled for an annual growth of 12 percent.

Key growth sectors in the economy are those chosen for a special industrial development program announced in January 1979 that would inject $46 billion in government investment funds into facility expansion projects by 1986. Some of the major goals of the development program are discussed below.

Iron and Steel.—Korea's annual production capacity of crude steel in 1978 totaled 7.8 million tons. By 1980 annual production capacity is targeted to reach 20.6 million tons with Korea becoming the 10th largest producer in the world. Korea's only integrated steel plant, the state-controlled Pohang Steel Co. (POSCO), is expanding its production capacity from the current 5.5 million tons to 8.5 million tons (crude steel basis) by 1981, under its fourth-phase expansion project. POSCO's capacity will be further expanded to 9.5 million tons by 1982 and 13.2 million tons by 1986. The Korean Government has selected POSCO to construct a second integrated steel mill by 1982, at a cost of $2 billion, which will have an initial capacity of 3 million tons of crude steel per year. The capacity of "POSCO II" will be expanded in four stages to reach 12 million tons. Through the construction of POSCO II, the Korean Government hopes to help overcome Korea's shortage of crude steel, which is now estimated to reach 7.8 million tons by 1986. Plans for a third integrated steel mill, which would also have an annual capacity of 12 million tons, are now under review by the Government.

Machinery.—Machinery is slated to become Korea's major export industry by 1986 with exports of $10 billion. A total of $1.6 billion will be invested in the machine industry to raise the self-sufficiency ration in machinery to 88 percent by 1981 as part of the Machine Industry Development Program of the Fourth Five-year Economic Development Plan. Machinery production is projected to rise to $5 billion by 1981 compared with $2.1 billion in 1977, with a wide range of heavy machines produced including metalworking machinery, power generation equipment, and construction machinery. The Korean Government has undertaken a comprehensive set of measures to help the local machinery industry meet these goals, including subsidized loans, import protection and other incentives to selected firms. A key element in reaching Development Program goals is significant new private investment in the Changwon Machine Industrial Complex, which has been under development since 1974. Approximately 200 plants are to be located in the Changwon Complex. There are currently 61 plants in operation and 25 others under construction. By 1981 the Changwon Complex is expected to produce more than 40 percent of total Korean machinery output and more than 50 percent of total machinery exports.

Shipbuilding.—Korea expects to become one of the five largest shipbuilders in the world by 1986 with an annual capacity of 6.5 million gross tons. Plans call for prior approval for installation of private shipbuilding facilities so as to effectively promote expansion projects, financial support for the exportation of yachts and marine structurals as well as oceangoing vessels, and an updating of the 1967 Shipbuilding Industrial Development Law. Small shipyards also will be expanded and developed into export industries by means of increased financial assistance from the Government. A shipbuilding industrial development plan designed to meet the 1981 export goal of $1.2 billion calls for domestic shipyards to increase their construction capacity from 2.77 million gross tons in 1977 to 4.25 million gross tons in 1981, and their renovation capacity from 10.7 million metric tons in 1977 to 14.6 million metric tons by 1981. As of May 31, 1979, overseas orders for shipbuilding totaled $194 million, or 39 percent of the year's target of $500 million, for 19 vessels.

Automobiles.—The Korean Government plans to invest $7.1 billion in both domestic and foreign capital by the end of 1986 for the development of three major automobile makers—Hyundai, Saehan, and Kia. The plan envisages expanding the nation's annual automobile production capacity from the current 278,400 units in a move to raise annual automobile exports to $1.4 billion and advance Korea to ninth place among the world's automobile producing nations. The proportion of domestically produced automotive parts used is expected to increase rapidly as the Automotive Parts Manufacturers Development Plan takes effect. The Ministry of Commerce and Industry tentatively has designated 115 firms as potential specialized makers of automobile parts. Designated firms will receive administrative and financial support. Specific automotive parts covered include: bolts and nuts, gaskets, fuel pumps, oil pumps, switches, bulbs, drive shafts, shock absorbers, steering wheels, steering knuckles, springs, horns, thermostats, seat belts, rocker arms, and hub drums. In the first 7 months of 1979, four domestic automobile and automotive parts makers exported a total of $65 million, an increase of 69 percent over the same period in 1978 and 50 percent of 1979's $130 million export goal. Automotive parts accounted for $20 million of the total. Through July 1979 automobiles were exported to 51 countries and automotive parts to 70 nations.

Electronics.—Korea ranked 11th among the world's producers of electronic products in 1978 with a production value of $2.3 billion, up from $56 million in 1968. During the 10-year period, exports of electronic products grew at an average rate of 53 percent and in 1978 accounted for 11 percent of Korea's total exports. According to the "Long-Term Demand Prospects and Plant Construction Plan," prepared by the Korean Fine Instruments Center, $2.6 billion will be invested in the Korean electrical and electronic products industry during the next 9 years. A total of 944 new plants will be built, 230 plants to make home appliances, 209 to make industrial apparatus and 496 to make components. By 1986 Korean production value of electrical and electronic products is expected to reach $12.7 billion. Exports are projected at $7.3 billion with domestic consumption reaching $8.4 billion, of which $3 billion is to be imported. Government development plans envisage the production of 57 new electronics products by 1981. The Government will provide assistance to the manufacturers of nine high-priority items—fabricated silicon waters, fabricated wafers for LEDs, minicomputers and microcomputers, microprocessors, computer peripherals, data transmission equipment, electronic communications switching systems, computer terminals, and software. The 48 projects to be developed by the private sector will be monitored closely. Much of this production will take place in the Gumi Electronics Industrial Complex.

Petrochemicals.—By 1986 Korea has a goal of total annual production capacity of 1.5 million tons, which would raise Korea's petrochemical self-sufficiency ratio to 83 percent and make Korea the world's 10th largest producer of petrochemicals. Various expansion projects are planned for the Ulsan and Yochon Petrochemical Industrial Complexes and plans to build a third petrochemical complex at Yochon by 1984 also have been announced. Broad outlines for the proposed new complex call for the construction of a 350,000 ton-per-year naphtha cracking center, plus nine downstream plants requiring an investment of approximately $1.5 billion in domestic and foreign funds. The Korean Government is reportedly working out a master plan for a fourth petrochemical industrial complex that would start being constructed in the early 1980's. Likely to be sited at Ulsan or Onsan, the fourth complex also will have a naphtha cracking plant with annual capacity of 350,000 tons of ethylene, and downstream plants.

Cement.—Plans call for annual output of cement to rise from 16 million tons in 1978 to 28.6 million tons by 1982 and 40 million tons by 1986, placing Korea sixth among world cement producers. Ssangyong Cement Company will be the largest domestic cement manufacturer with production of 11.6 million tons by 1982, followed by Tong Yang Cement with 6.1 million tons. Tong Yang Cement Co. plans to expand its facilities by adding two kilns, each with a daily capacity of 4,200 tons, that will be financed in part by a $60.4 million loan from the U.S. Export-Import Bank.

Nonferrous Metals.—By 1986 Korea hopes to attain self-sufficiency in refining and production of copper, lead, zinc, and aluminum ingots. Construction of a new nonferrous metal industry complex is underway at Onsan. The Onsan Copper Refinery has commenced operation of its 80,000 ton-a-year refinery, which cost $180 million to build. The plant also will produce 260,000 tons of sulfuric acid, 1,500 kg of gold and 23,500 kg of silver each year. Korea's zinc metal production capacity is to be increased from the present level of 80,000 tons per year to 130,000 tons per year by 1983. The Government is now studying the feasibility of building a 100,000 ton-per-year aluminum refinery to produce the 42,500 tons of aluminum currently being imported as well as exportable surplus.

Textiles.—Korea's textile and apparel industry continues to be its principal foreign exchange earner. Government plans call for continued expansion with Korea becoming the number one world textile exporter by 1986 with $10 billion in exports and 10 percent of the world market share. The Korean textile industry has an ambitious plan to boost Korea's exports of textile products that will require investment of about $1.1 billion by 1981. The Government is directing industry toward import substitution for fibers and yarns and toward improvement of product quality rather than general expansion in the fabric field. In 1979 there was an expansion of synthetic fiber production facilities designed to reach total capacity of 1,387 tons per day with 273.8 tons of nylon yarn, 602 tons of polyester fiber, 345.5 tons of acrylic fiber, 33 tons of polypropylene fiber, 109.2 tons of viscose fiber and 15.5 tons of acetate fiber. To help further expansion, the Ministry of Commerce and Industry has drafted a bill that, if passed, provides for the formation of a fund for textile industry modernization, the replacement of worn-out facilities, and the establishment of integrated textile industry estates. The acquisition of foreign technology and development of new and high-quality products would be fostered.

Government Role in the Economy

Korea has a free market economy based on private ownership of the means of production and distribution. However, the Government does own part or all of approximately 35 companies, which are organized and operated as private companies with independent management. Some of these firms are: Agriculture Development Corporation, Chinhae Chemical Co. Ltd., Korea General Chemical Industry Corp., Korea Electric Co., Korea Fertilizer Co., Ltd., Dai Han Coal Corp., Korea Trade Promotion Corp., Korea Oil Corp., Yong Nam Chemical Co., Ltd., Korea Housing Corp., and Pohang Iron and Steel Co. Ltd. In addition, the Government traditionally has controlled the economy through its overall economic development plans, specific industry expansion plans, price controls, and other special economic measures taken to achieve stabilization and growth.

Distribution and Sales Channels

Major Marketing Areas

Most large Korean firms maintain headquarters in Seoul, the nation's capital and leading industrial center. About one-third of the value added in manufacturing is accounted for by industry in this area. However, a growing number of important firms have head offices in other main cities.

Other key industrial cities are Pusan, Daegu, Inchon, Suwon, Masan, Ulsan, and Pohang. Many of these specialize in certain industries. For example, Daegu, is known for textile manufacturing; Pusan is important in food processing, shipbuilding, plywood, and rubber products; Ulsan is a center for the chemical and petrochemical industry and the site of the impressive new Hyundai shipyard; Seoul is prominent in the wearing apparel field and paper and printing; Masan is the site of a free export zone. Additional industrial areas are under development. For example, Gumi is the site of the new electronics complex, and a new machinery complex has been established at Changwon. Yochun is the site of the new chemical and petrochemical industry.

Importers, Agents, Distributors

Local representation in the Korean market is crucial for successful penetration. In marketing their products in Korea, U.S. suppliers have a number of alternatives. These include establishment of a branch sales office managed by home office personnel, appointing one of the U.S. trading firms in Korea as their representative, selecting a registered trading firm to act as their agent, or making a registered offer agent their agent in Korea. Frequently, foreign suppliers will appoint several agents to represent the company's different product lines or will pursue a mix of the above alternatives, such as establishing a branch office with responsibility for formulating and executing a general sales campaign in the country and for supervising other agents. Distribution methods vary with the product and with individual situations and must be tailored to fit the particular conditions.

U.S. suppliers seeking representation in the Korean market may obtain help and advice through the Agent Distributor Service (ADS), which is offered for a nominal fee by the U.S. Department of Commerce District Offices. The U.S. Trade Center offers REPFIND services for those firms scheduling a visit to Seoul. These services include temporary free entry to demonstration equipment and samples, identification and contacting of prospects, and hiring for the account of the U.S. firm a qualified interpreter/secretary. In effect, upon arrival, the visitor will have ready a temporary office and staff in Seoul and can then devote full time to interviewing agency prospects and potential customers. Other sources of assistance are the Korean Traders Association (KTA) (to which all licensed traders belong), the Korea Trading Agents Association (to which all offer agents belong), the Korea Chamber of Commerce and Industry, and the U.S. branch banks in Seoul. The KTA maintains an office in New York City.

Registered Traders.—By law only registered traders are authorized to import goods in their own names. All imported merchandise is handled by registered traders with the exception of goods brought into Korea by end-users under foreign economic assistance programs, goods imported in connection with foreign private investment, raw materials and components imported for processing and then reexported, and Korean Government procurement.

Trader's licenses are issued by the Government on the basis of the applicant's export performance. (Criteria for obtaining a license are discussed in the Trade Regulations Section.) A growing number of manufacturing firms export their products and are registered traders. This enables the manufacturer to import needed raw materials and equipment for his operation without recourse to a middleman. However, not all registered traders conduct a general import business. As of December 31, 1978, 3,148 firms were registered traders with a substantial number of these acting as agents for foreign suppliers. In 1974, the Government established criteria for so-called conglomerate trading companies, and to date 10 Korean firms have qualified.

Appointing a registered trading firm rather than an offer agent as the supplier's agent has an advantage in that such a firm can handle the paper work of importing and can also import for its own account. As registered traders split their business between exports and imports, however, they may not be able to give as much attention to importing as do offer agents. Although large trading firms may be better known, they may not be able to devote as much attention to a single principal as do some of the smaller firms. On the other hand, because of their size, large trading firms may be more influential as a representative and may be more willing to extend credit or to vouch for a prospective client.

Offer Agents.—There are about 1,400 offer agents or commission agents registered with the Ministry of Commerce and Industry. These include 65 branches or liaison offices of foreign firms, of which 19 are U.S. and 21 are Japanese. These agents act as representatives of foreign manufacturers and suppliers and make offers on behalf of their principals. Unless they are also registered traders, however, they are not authorized to import on their own or to hold title to imported merchandise. In many cases, offer agents pay a small fee to registered traders to overcome this limitation.

Foreign Trading Companies.—Nineteen U.S. trading firms in Korea handle a diversified line of products and represent primarily, but not exclusively, U.S. suppliers. Several trading firms are managed by Europeans. Much of Japan's trade with Korea is handled by the Korean branches of 21 Japanese trading firms which include all the giant Japanese trading houses, such as Mitsui, Mitsubishi, C. Itoh, and Nissho-Iwai. Both Japanese and U.S. trading firms are registered as commission or offer agents.

Selecting a U.S. trading firm in Korea to act as an agent may offer the advantage of having a representative of the firm who is keeping an eye open not only for sales, but for other interests as well. There is also the advantage inherent in a bond of language and a common way of doing business. Like the large Korean trading firms, however, U.S. firms may sometimes handle too many agencies for maximum effectiveness or may not be aggressive in searching out new business, concentrating instead on larger and well-known Korean clients.

Commissions.—Registered traders or agents usually receive a 3 to 8 percent commission. In the few cases in which there is a secondary step in the distribution system, with a wholesaler acting as an intermediary between the end-user and the import agent, the wholesaler earns commissions ranging between 5 and 30 percent. The price the end-user pays for imported machinery is usually about 15 percent higher than the supplier's initial price quotation.

Selling Techniques

To be competitive a U.S. firm must consider other key areas of an effective sales effort once it has obtained a local representative. These key areas are: credit, continued personal contact, delivery, servicing, availability of spare parts, and pricing. Credit is discussed in a separate section. The other factors are outlined below.

Personal Contact.—In selling to manufacturers, personal contact is important not only because of the value placed on personal discussions in the Orient, but also because such discussions serve to bring the end-user in touch with new processes and equipment. Korean businesspeople are open to new ideas and technology, but their knowledge of what is available may be limited. Frequently, Korean firms in the market for equipment to expand and modernize their plants are not aware of what U.S. suppliers can offer, and the contract may go to a Japanese firm by default. Such occurrences reflect, in general, the underrepresentation of U.S. suppliers in Korea and the less-than-adequate dissemination of catalogs and similar information by U.S. suppliers.

In view of the competition offered by Japanese suppliers, who often visit potential and existing customers throughout Korea, U.S. suppliers should consider: (1) making visits to Korea to augment the efforts of the local representative;

(2) holding more demonstrations, seminars, and exhibitions of their products in Korea, utilizing such facilities as the U.S. Trade Center in Seoul; (3) increasing the distribution of technical data and descriptive brochures to potential buyers, teachers and industry associations (the Commercial Library at the U.S. Export Development Center in Seoul displays catalogs of American firms); and (4) improving the follow-up on initial sales leads.

U.S. suppliers should be knowledgeable of developments and technology in the potential customer's industry and should be able to emphasize how purchasing their product will specifically benefit the customer's operations, particularly with respect to cost reduction and quality improvement. Plant visits are a virtual necessity for effective sales presentations. Such visits give the supplier the opportunity to talk to plant engineers and foremen and thereby help pave the way for a favorable procurement decision. Although purchasing decisions are made by the headquarters staff of the company, whose offices are often in downtown Seoul, engineers located at the plant typically will be consulted and their recommendation given strong consideration.

Delivery.—The ability to supply goods in a prompt and timely manner is a positive factor when competing in any market. Delivery schedules take on an added significance in the Korean importer's purchasing decisions because of the Government's requirement for advance import deposits and the prevailing high interest rates. In most instances, Korean importers must deposit foreign exchange certificates, equal to or greater than the value of the goods to be imported, in noninterest bearing accounts when the import license and letter of credit are issued. The importer's capital is thus tied up for the length of time required for the goods to arrive in Korea after the import license is issued. Even if he is able to borrow the money from a local bank to make the advance deposit, his interest payments (prime lending rate rose to 24.5 percent in January of 1980) become extremely costly if delivery is in any way delayed. Under these conditions, fast turnover and prompt delivery become crucial considerations to the buyer. A few sales have been won by the U.S. firm's agreeing to postpone issuance of the letter of credit until after shipment of the goods, thus reducing the carrying costs to the Korean buyer.

Japan, of course, enjoys a significant advantage with respect to delivery time. Shipping transit time from Yokohama to Pusan is 24 hours and from Kobe to Pusan 18 hours, while goods shipped to Korea from the United States take considerably longer. Although little can be done to reduce transit time direct from the United States, the possibility of maintaining stocks of rapid-turnover goods will require more serious consideration in the future, as will other methods designed to combat Japan's competitive advantage of close proximity. At present, only a few agents for U.S. firms stock equipment in Korea. These are primarily in the instruments, office equipment, and spare parts fields.

In view of the above, U.S. suppliers should make every effort to handle foreign orders on a priority basis to speed up delivery as much as possible. Production schedules should be more flexible, promised delivery dates should be more accurate, and the importer should be made aware that his U.S. supplier is doing everything possible to effect delivery as efficiently as possible.

Servicing.—In the lean years following the Korean conflict, when foreign exchange was exceedingly scarce and imports were kept to a minimum, owners of machinery learned to rely on their own resources or on the many small machine shops to repair machinery. Equipment parts were often replaced by locally tooled spares. This tradition still remains but, with heavy competition among foreign suppliers in the Korean market, servicing has become a more important part of selling.

Japan's proximity to Korea allows Japanese manufacturers to send teams of specialists at little cost to offer skilled advice in installation, maintenance, and repair. Some agents for U.S. firms have qualified maintenance personnel familiar with the equipment being sold, and some emphasis has been given recently to training such personnel in formal programs in the United States. U.S. firms should give consideration to establishing regional servicing facilities which can effectively support equipment sold in Korea.

Private traders and offer agents often have engineers available to install equipment. For specialized installations, however, the best sources of assistance should be the Korea Institute of Science and Technology, the National Industrial Standards Research Institute, the Korea Institute of Machinery and Metals, and other Government laboratories. Importers of equipment normally have close relations with members of the Government laboratories and institutes and are able to call upon their services. Fees are not fixed and are negotiable. For complex installations requiring a great deal of time and specialized technicians, U.S. manufacturers should budget approximately the same amount as that required for similar installations in the United States.

Pricing.—U.S. goods have a reputation among Korean buyers for quality and performance; yet Koreans tend to be very price conscious and often regard the U.S. label as being too expensive. Two important factors help to explain the price consciousness of Korean customers. First, the general shortage of funds has resulted in very high local interest rates, which favor the smallest possible outlay of capital. Second, in an export-oriented economy where finished products must be able to meet keen competition in the world market, many local manufacturers believe that it is essential to buy raw materials and equipment from the cheapest source. Under these conditions, goods from Japan and other countries are frequently considered to be a better buy, even though it is widely recognized that their quality and durability often do not compare with products made in the United States.

U.S. exporters might consider: (1) adapting their products for the Korean market by stripping them down to the basic production unit; (2) taking into account in their price quotations, as their competitors do, the repeat business generated by the demand for spare parts and components and auxiliary equipment; (3) emphasizing and selling the idea that the superior quality of U.S. products ultimately results in lower production costs; and (4) investigating possible warehousing arrangements in Korea that would allow larger shipments and cheaper freight rates for the trans-Pacific voyage.

Wholesale and Retail Channels

The market for most consumer products is concentrated in the major cities. Retail distribution is accomplished through a network of millions of outlets, the majority of which are small one-family stores, stalls in markets, or street vendors. There are several middle-sized department stores in Seoul and Pusan, serving retail customers from the immediate vicinity. In addition there are approximately 1,100 supermarkets throughout the country.

Wholesalers tend to dominate the distribution system and are often in a position to dictate terms of manufacturers. Traditionally, the wholesaler obtains considerably longer credit terms from the manufacturer than he extends to the retailer, sometimes earning substantial interest on the difference.

Local manufacturers require that wholesalers tender an inventory consignment bond or, alternatively, take a lien on the wholesaler's property. Because of the inherently dominating position of the wholesalers, some large manufacturers have set up their own national distribution networks. The chain store and supermarket concept is developing rapidly, with 38 major retail chains and thousands of stores, but most retail trade continues to be conducted by small family establishments.

Franchising

Franchising as practiced in the United States is still unknown in Korea. There are no regulations prohibiting franchise operations; however, franchise operations would be subject to the same laws as those which govern other types of business organizations.

Wholesale and Retail Sales

The Seoul wholesale and retail trade index shows that average wholesale trade grew from 100 in 1975 to 196.8 in 1978 and that retail trade increased to 212.9 during the same period.

Government Procurement

The Office of Supply, Republic of Korea (OSROK), is responsible for supervising the procurement of government agencies and government-owned enterprises in which the Government holds a majority share. Formal public invitations to bid are issued for all procurement, although occasionally OSROK is obligated to purchase under negotiated procurement, as in the case of spare parts for specialized equipment. Purchases are financed either by government-owned foreign exchange (KFX) or by loan and credit funds from foreign aid programs and international financial organizations. The invitation to bid specifies which source of financing is to be used to pay for the goods and services.

In the case of foreign aid funds, procurement is usually limited to the country extending the credit; in the case of KFX funds, on the other hand, bidding is worldwide. In general, the deadline for receiving bids is 40 calendar days after the invitation to bid is used. By law, the award is made to the lowest qualified bidder conforming to the terms and conditions of the bid invitations, taking into account the price, delivery time, quantity, specifications, and financial terms most advantageous to the Government. Bids for a single product valued at $100,000 or more are in two parts, the first consisting of specifications and details of the offer (excluding price) and the second consisting of price alone. Only bidders whose specifications have been accepted are eligible to have their price bids opened during the evaluation by the end-user agency.

Procurement needs for the government agencies are formulated by the ministries and agencies concerned and then screened by the Ministry of Commerce and Industry to see whether those requirements can be met from local sources. If not, the Ministry of Finance allocates the necessary foreign exchange funds. Specifications are normally drawn up by the government agency requesting the goods and services, and these agencies frequently call upon representatives of foreign suppliers for information and assistance. Thus, if the U.S. supplier wishes to participate in Korean Government business, it is helpful to have a local representative. Having a local representative also proves useful in keeping abreast of developments in procurement plans of government agencies and of invitations to bid.

If the bid is made by the supplier's agent in Korea, he must be registered with the Ministry of Commerce and Industry as an agent of the supplier with the authority to make offers on his behalf. If the supplier or manufacturer submits a tender directly to OSROK, the bid must be certified by the Korean Mission or Consulate covering the region in which the supplier is located, or by the local chamber of commerce, as having been made by the manufacturer or supplier making the offer.

Transportation and Utilities

Shipping from the United States

Ocean.—Ocean shipping to Korea from the United States takes a minimum of 21 days from the East Coast to 14 days from the West Coast if the shipment is direct, and longer if routed through other ports. Most imports enter Korea through Pusan, the country's major port, or through Inchon which is the port of Seoul. Other major ports include Gunsan, Mukho, Masan, Pohang, and Mokpo. The Pusan harbor has cargo handling capacity for up to 14 million tons and Inchon 9.2 million tons; both ports are undergoing improvement and expansion projects. Both Pusan and Inchon are serviced by American, Japanese, and other foreign flag lines, including about 520 Korean flag carriers owned by 68 shipping companies that serve the United States and other countries. As of the end of September 1979, there were 523 oceangoing vessels with a combined tonnage of 4,638,000 tons including 105 vessels (1,040,148 tons) secured on a conditional (acquisition of title) bare charter basis. All the oceangoing vessels under the management of the Korean shipping firms, including "other chartered vessels", numbered 546 totaling 4,927,216 tons. Each month, over 1,500 international ships, primarily from Japan and the United States, land at Korea's ports.

Containerized shipping has been increasing rapidly, with an annual growth rate of about 12 percent. A container terminal has been completed in Pusan, and Inchon's container terminal began operations in 1974.

Air Freight.—Korea has three international airports that have facilities for handling jet aircraft: Kimpo Airport for Seoul and Inchon, the Pusan-Kimhae Airport, and the Cheju Island Airport. Kimpo Airport is served by six international airlines that handle cargo: Korean Airlines, Northwest Airlines, Japan Airlines, Cathay Pacific Airlines, Flying Tiger Airlines, and Braniff International. Kimpo airport is implementating expansion plans.

Recent improvements in the nation's highway network and the extensive use of coastal shipping makes it possible for cargo to be forwarded within Korea with little delay. The three largest Korean freight forwarders are Hanjin Transportation, Dong Bang Forwarding Co., and Korea Express Co.

Domestic Transportation Systems

Road.—Road transportation is expanding rapidly. An extensive highway network for shipping materials and products is already in place, and all major cities are connected by hard-surfaced roads. The total road mileage is 45,955 kilometers of which 13,544 are paved. In June 1970, a 428-kilometers four-lane expressway connecting Seoul and Pusan was completed. At the end of 1978, the total expressway length was 1,225 kilometers. Two new two-lane expressways with a combined length of 129 kilometers were inaugurated on October 14, 1975 in the rugged mountain area of Kangwon-do. The roads span the 97 kilometers linking Saemal with Kangnung and the 32 kilometers between Kangnung and Mukho. They are extensions of the first leg of the 104-kilometer Yongdong Expressway stretching to Seoul, which was opened in December 1971.

During the Fourth Five-year Plan, a 128 kilometer expressway from Daegu to Pusan through Masan will be completed. By 1981, it is projected that expressways will connect nearly every district of the country in a "one-day" travel network.

There are about 1,050 privately owned trucking companies serving major cities and urban areas. Of the total, 21 handle route cargo and the remainder local cargo. Road freight rates vary depending upon the kilometric tonnage transported and are US$171 for 411–460 kilometers/4.5 tons and $313 for 411–460 kilometers/12 tons for one way. Discounts of 20 percent are allowed for round trip.

Coastal Shipping.—With the expansion and improvement of ports, intercoastal freight service is of major importance in the transportation network. Although there are 1,300 ports scattered along the coastline, only 14 are suitable for large trans-ocean ships. In 1978, the total volume of marine transportation within the country totaled 17.2 million metric tons; that of marine transportation to and from overseas ports totaled 77.9 million metric tons.

Air.—Domestic air transportation has been steadily expanding to service all major cities and industrial estates. At present, 17 major cities in Korea are connected by daily service with Seoul. In 1978, the number of domestic passengers was 1.5 million and international air passengers 2.7 million. The U.S. Export-Import Bank (U.S. Eximbank) approved a $24 million loan for the expansion of Seoul's Kimpo International Airport in a 5-year project ending in 1979. Korea Airlines introduced Boeing 747 and DC–10 flights between Los Angeles and Seoul. Northwest Orient introduced daily DC–10 flights from Seoul to New York in June 1973, and Japan Airlines implemented 747 service between Tokyo and Seoul in July 1973. Korean Airlines is expanding its route system almost continuously. KAL inaugurated its direct Boeing 747 flight on the Seoul-New York route in 1979; and the opening of the Pusan-Tokyo and Pusan-Abu Dhabi routes is to follow soon.

Rail.—The total share of freight carried by rail has increased in recent years despite increased expressway and harbor construction. Due to subsidization, the freight rate structure is extremely attractive. All major urban areas are connected by railroad. At the end of 1978, the total mileage was 5,788 kilometers. The government-owned and operated Korea National Railway (KNR) maintains a commercial network of 3,153 kilometers.

During the Fourth Five-year Plan, the electrification and double-tracking of certain lines continues, with foreign exchange costs for these projects amounting to $29 million. The major ports of Pusan and Inchon are connected to Seoul by double tracks.

Utilities

Fuel.—Oil, coal, and wood are the main fuels.

Electricity.—Electricity is available in all industrial areas and towns. Installed capacity was 6.9 megawatts in 1978, and production reached 31.5 billion kilowatt hours. Reserve power capacity is reported to be 7.7 percent. Electricity production is primarily thermal, but one nuclear powered generating plant has been completed and several others are under construction or planned for the near future. Korea's Fourth Five-Year Plan provides for an extensive program of rural electrification, and the Government proposes to complete the rural electrification project by the early 1980's. The Fourth Five-Year Plan calls for an increase in installed capacity to 10.4 megawatts by 1981. The government-owned Korea Electric Company (KECO) controls most electric power generation and all distribution in Korea. Industrial power rates vary in accordance with the consumer, amount used, voltage, and other factors.

Water.—The Fourth Five-Year Plan also continues a comprehensive development scheme for water resources. Projects are currently underway in many major water areas to meet increasing demands and to develop an adequate and suitable industrial water supply. The capacity of water supply systems in Taegu, Kwangju, Masan, Chinhae and Changwon will be expanded during 1980–82 at a total investment of 73.8 billion won ($152.6 million) including $60 million in foreign capital, by a total of 1 million tons daily in these cities. Rates vary depending on industrial areas, with $0.01446 basic rate and $0.4132 excess rate per cubic meter in Seoul.

Communications.—Although they have improved dramatically in recent years, communications facilities remain inadequate. The number of telephone subscribers was 1,916,878 in 1978. Long distance facilities increased to 39,648 circuits in 1978, and overseas telegraph, telephone, and television connections are now handled by communications satellite. In the evening it is possible to reach a party in the United States within 10 minutes. A second earth station for the Indian Ocean satellite system at Kumsan, partially financed with U.S. Eximbank support, was completed in 1977.

The Ministry of Communications operates a 2,900 line telex system. Communications with industrial estates are possible. Telecommunication charges from the United States as of the beginning of 1980 were approximately $2.45 per minute for telephone calls, under $3 per minute for telex and under $.50 per word for telegraph. There are severe delays in obtaining installation of new telex or telephone lines in Korea although in certain cases it is possible to purchase a working line from the previous subscriber.

Advertising and Research

Advertising Media

The basic media for advertising in Korea are, in order of importance, newspapers, radio, television, magazines, and movies.

Newpapers.—As over 90 percent of the Korean population is literate, newspapers are the most commonly used medium for advertising. There are 27 daily newspapers in the country. Of the total, 13 are located in Seoul, including two English language newspapers (Korea Herald and Korea Times) and one Chinese newspaper (Han Hwa Daily News). All of the Seoul newspapers are circulated throughout the nation. The four major newspapers, which have an individual circulation of over a half million, are the Dong-A Ilbo, the Chosun Ilbo, the Han Kook Ilbo, and the Joong Ang Ilbo.

Advertising rates in the larger newspapers vary for a single-column centimeter from a high of 23,000 won to a low of 15,000 won.

Radio.—Radio advertising is the second most common medium, and there were nearly 12.3 million radios as of December 31, 1978. There are four privately owned radio broadcasting stations in Seoul: MBC, CBS, TBC, and DBS. With 19 stations, MBC has the largest network, followed by CBS with four and TBC with two.

Prime time is from 7 to 9 a.m. and noon to 1 p.m. during the day. The prime time rate in Seoul for a 20 second spot is 45,700 won.

Television.—Television is rapidly becoming an important advertising medium. At the end of December 1978, there were 5,135,496 sets, and this number is increasing rapidly.

The prime time is from 8 to 10 p.m. There are two commercial television stations in Seoul, MBC-TV and TBC-TV. MBC has relay stations in Pusan, Daegu, Kwangju, Jeonju, Taejon, Ulsan, Masan, and Cheju', and TBC has a station in Pusan. The prime rate in Seoul ranges from 434,000 to 599,000 won for 20 seconds.

Magazines.—There is a wide range of weekly and monthly magazines, with circulations ranging from an estimated 10,000 to 180,000. Many of the magazines are of interest to women. The rate in the leading magazine for a single page black and white advertisement with an offset picture is 250,000 won.

Film.—All motion picture houses project advertising strip or stills, ranging in length from 30 seconds to 1 or 2 minutes, in both color and black and white. The advertiser may prepare his own material or use the services of an advertising agent.

Market Research Services

The Korea Marketing Association was established in Seoul in 1970 under the administration of the Ministry of Commerce and Industry. It provides information in such related fields as market development planning, marketing of various products, and export marketing. The Center is also a repository for statistical data for use in market research and development. In addition, there are a number of privately owned research firms engaged in contract research work, including Korea Management Development Institute, ASI Market Research Inc. (Korea), Korea Industrial Development Research Institute, International Management Institute of Korea University, and Industrial Management Research Center of Yonsei University.

The American Embassy in Seoul supplies the U.S. Department of Commerce with information on the Korean economy as well as commercial and market information. There are also a limited number of market studies available to U.S. companies through the Office of Export Planning and Evaluation, International Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230.

Advertising Agencies.—Korea has a number of advertising agencies able to assist in placing advertisements in any of the mass communications media. Representative agencies are: Hapdong Advertising Agency, Union Advertising, Inc., Korea First Advertising Company, International Marketing Corp., and Pacific Media-Korea. All have headquarters in Seoul.

Credit

Availability of Capital

Korean corporations reply primarily on banks to supply operating and capital expansion financing. Banks in Korea are divided into two broad groups: commercial banks, which offer short-term financing, and specialized banks, which offer long-term credits. The 32 foreign branch banks in Korea also extend medium-term loans in local and selected foreign currencies. All foreign loan transactions, whether quaranteed or not, require government authorization. The cost of won funds is high by Western standards, and funds are usually tight. Commercial banks in early 1980 were required to pay 24 percent for 1-year deposits. The previous rate in effect until January 1980 was 18.6 percent. Depending on the fund sources and type of use, interest rates will range up to 25 percent per annum for won loans, with a prime rate of about 24.5 percent.

Term lending, as it is known in the United States, is usually not practiced by the Korean commercial banks. In general, Korean commercial banks grant short-term loans against promissory notes. It is not uncommon for these notes to be renewed on a continuing basis.

Most Korean commercial banks take security in the form of mortgages on land and, less frequently, equipment. As a rough rule, the value of the land and buildings, as determined by the Korea Appraisal Board, must be equal to 125 percent of the loan amount. By the end of 1978, the total amount of won loans and discounts outstanding was 6,609 billion won.

Sources of Financing

Korean Banking System.—Government and semigovernment banking institutions dominate Korea's banking system. The supervisory institution is the Bank of Korea (BOK). Established in 1950 as the central bank of the country, it serves as the bank of issue and as the depository for government funds. The Bank's operations are administered by the Monetary Board, which was also established in 1950, and is presided over by the Minister of Finance. The Board formulates the country's monetary, credit, and exchange policies, and has broad powers over the operations of the Bank and the banking system as a whole, with the exception of the Korea Development Bank, which is specifically exempt from the Board's control.

The Korea Exchange Bank (KEB) was established in 1966. The KEB has assumed most of the foreign exchange functions previously performed by the BOK. In addition to its wholly owned subsidiary, the Korea Exchange Bank of California, it has branch offices in Los Angeles, Chicago, New York, Tokyo, Osaka, Hong Kong, Kowloon, Paris, Singapore, London, and Frankfurt. It also is represented in Toronto, Guam, Sao Paulo, Vienna, Milan, Jakarta, Bangkok, Beirut, Brussels, and Panama City.

The Korea Development Bank (KDB), which is under the jurisdiction of the Ministry of Finance, acts as an intermediary for channeling government funds and foreign loans to industry. The loans extended by the KDB are heavily concentrated in the manufacturing and electric power sectors and are mostly medium or long-term loans for large industries.

The National Agricultural Cooperative Federation (NACF) emphasizes service to the agricultural sector. It extends loans to farmers and provides commercial banking facilities for farmers and urban customers.

The Medium Industry Bank (MIB), the Citizens National Bank (CNB), the Korea Housing Bank (KHB), and the Export-Import Bank of Korea are government-controlled banks designed to meet the needs of certain sectors of the economy. The purpose of the MIB is to finance small and medium-size industries. It is engaged in short-term operational financing and longer-term capital lending. The CNB specializes in extending loans and accepting mutual installment deposits and ordinary deposits. In principle, to avoid competition with commercial banks, it is limited to granting loans only to those persons having a deposit account with the bank. The KHB was established in July 1957 to make home building loans available to middle-income families. Like its U.S. counterpart, the Export-Import Bank, which opened for business in July 1976, provides support for Korean export industries.

There are 15 domestic commercial banks currently in operation, of which 5 operate nationwide. There are 634 branch facilities throughout the country. The five so-called city banks are the Hanil Bank, the Commercial Bank of Korea, the Choheung Bank, the First Bank of Korea, and the Bank of Seoul & Trust Co. With the exception of the Commercial Bank of Korea, the Government is the largest single shareholder in these banks, which provide conventional commercial banking facilities and are authorized to handle international business through correspondent banks.

In 1967, the Korean Government began granting permission to foreign banks to open branches in Korea, and 32 such branches have since been opened in Seoul, of which 12 are American, 5 French, 4 Japanese, 4 British, 2 Canadian and 5 others. In addition, 19 foreign banks, including 8 American and 9 Japanese banks, maintain representative offices in Seoul.

The Korea Development Finance Corporation (KDFC), incorporated in 1967, is a private institution which makes loans in both foreign and local currencies to private manufacturers and assists in the establishment of joint ventures. The KDFC's capital is based on foreign loans and stock subscriptions from the International Finance Corporation, foreign banks, Korean banks and private investors, and the Korean Government. This is Korea's first private institutional source for long-term industrial loans and equity financing.

Korean Stock Market.—The Korean capital market is still relatively thin, and the Korean Government is actively engaged in efforts to further the development of the securities market as one response to this problem. Three hundred and fifty-five firms are presently listed on the exchange.

In the past, bank time deposits offered a much higher return than the cash dividend yield on stock. In addition, bank deposits were safer and mostly tax free. The reduction in time deposit rates that accompanied the August 1972 Decree was to set in motion an adjustment of relative yields that were likely to make investment in stocks more attractive; but rates were raised again as a result of recent price hikes.

Foreign Financing Sources.—In the last decade, Korea has obtained substantial loans and credits from foreign aid programs (primarily the United States and Japan), and from international finance organizations, such as the International Bank for Reconstruction and Development and the Asia Development Bank. As the level of foreign aid programs decreases, there is a rising dependency on commercial loans and credits, such as those extended by export-import banks. The U.S. Export-Import Bank has played an important role in financing U.S. exports in recent years.

List of Banking Institutions

The following is a list of banking institutions in Korea:

The Bank of Korea
110, 3-Ka, Namdaemoon-ro
Choong-Ku, Seoul 100
CPO Box 1448 Seoul

Korea Exchange Bank
10, Kwanchul-dong, Chongro-ku
Seoul 110
CPO Box 2924, Seoul

National Agricultural Cooperative Federation
75, 1-ka, Choongjeong-ro
Seodaemoon-ku, Seoul
CPO Box 1051 Seoul

The Medium Industry Bank
361, 2-a, Ulchi-ro
Choong-ku, Seoul 100
CPO Box 4153 Seoul

The Korea Development Bank
140-1, 2ka, Namdaemoon-ro,
Choong-Ku, Seoul 100
CPO Box 28 Seoul

The Bank of Seoul & Trust Co.
10-1, 2-Ka, Namdaemoon-ro
Choong-Ku, Seoul 100
CPO Box 276 Seoul

The Cho-Heung Bank, Ltd.
14, 1-ka, Namdaemoon-ro
Choong-ku, Seoul 100
CPO Box 2997, Seoul

The Commercial Bank of Korea, Ltd.
111, 2-ka, Namdaemoon-ro
Choong-ku, Seoul 100
CPO Box 126, Seoul

Korea First Bank, Ltd.
43-1, 1-ka, Choongmoo-ro
Choong-ku, Seoul 100
CPO Box 2242 Seoul

The Hanil Bank, Ltd.
118, 2-ka, Namdaemoon-ro
Choong-ku, Seoul 100
CPO Box 1033 Seoul

The Bank of Pusan, Ltd.
8, 1-ka, Shinchang-dong,
Choong-ku, Pusan 600
PO Box 73 Pusan

The Daegu Bank, Ltd.
20-3, Namil-dong
Choong-ku, Taegu 630
PO Box Taegu 122

Gyeong Nam Bank, Ltd.
172 Chang-dong
Masan City 610

The Che-ju Bank, Ltd.
1349, 2 do, 1-dong
Cheju City

The Kangwon Bank Ltd.
72-3, Woonkyo-dong,
Chunchon, Kwangwon-do

The Citizens National Bank
9-1, 2-ka, Namdaemoon-ro
Choong-ku, Seoul 100
PO Box 815, Seoul

Korea Development Finance Corp.
60, 1-ka, Yeoido-dong
Yungdungpo-ku, Seoul 160

The Korea Housing Bank
61-1, 1-ka Taepyung-ro
Choong-ku, Seoul 100

Korean branches of American banks are:

The Chase Manhattan Bank, N.A.
50, 1-ka, Ulchi-ro,
Choong Ku, Seoul 100

Bank of America, NT & SA
250, 2-ka, Taepyungro,
Choong-ku, Seoul 100

Citibank N.A.
28, Sokong-dong,
Choong-ku, Seoul 100

The First National Bank of Chicago
286, Yang-dong
Choong-ku, Seoul 100

American Express Int'l Banking Corp.
286, Yang-dong,
Choong-ku, Seoul 100

Continental Illinois Bank of Chicago
286, Yang-dong,
Choong-ku, Seoul 100

Citibank N.A. (Pusan)
257-5, Buchun-dong,
Pusanjin-ku, Pusan City

Bank of America NT & SA (Pusan)
77-1, Choongang-dong,
Choong-ku, Pusan City

Morgan Guaranty Trust Company of New York
250, 2-ka, Taepyung-ro,
Choong-ku, Seoul 100

Chemical Bank
250, 2-ka, Taepyung-ro,
Choong-ku, Seoul 100

Manufacturers Hanover Trust Company
286, Yang-dong,
Choong-ku, Seoul 100

Bankers Trust Company
91-1, Sokong-dong,
Choong-ku, Seoul 100

In addition, the following U.S. banks have representative offices in Seoul:

The Chase Manhattan Bank, N.A. (Pusan)
5-1, 1-ka, Dongkwang-dong,
Choong-ku, Pusan City

Marine Midland Bank (Seoul)
91-1, Sokang-dong,
Choong-ku, Seoul 100

Security Pacific National Bank (Seoul)
286, Yang-dong
Choong-ku, Seoul 100

United California Bank (Seoul)
10-1, 2-ka, Namademoon-ro,
Choong-ku, Seoul 100

Wells Fargo Bank N.A. (Seoul)
286, Yang-dong
Choong-ku, Seoul 100

Union Bank (Seoul)
286, Yang-dong,
Choong-ku, Seoul 100

The First National Bank of Boston (Seoul)
17-7, 4-ka, Namdaemoon-ro,
Choong-ku, Seoul

Crocker National Bank (Seoul)
250, 2-ka, Taepyung-ro,
Choong-ku, Seoul 100

Importance of Credit in Selling to Korea

The low level of equity capital in many Korean firms, the resultant high debt-equity ratio, and the high interest rates on routine commercial bank loans all make credit a very important factor in selling to Korea. The advance import-deposit system, under which the deposit margin decreases with the length of payment time, accentuates the demand for purchases on credit terms. The general unwillingness of U.S. suppliers to sell on credit, or to accept commercial risk unless guaranteed by a bank in Korea, are in contrast to the selling practices of Japanese and other foreign suppliers. Although a ceiling is placed on the amount that can be imported on a short-term credit basis of up to 180 days, Japanese firms have taken up a much larger portion of this ceiling than have firms in the United States, even though shipping time from Japan is less than that from the United States.

Before extending credit, American suppliers usually prefer to secure a foreign currency guarantee from the Korea Exchange Bank. This process requires that the Korean end-user secure from a commercial bank a guarantee denominated in won, which the commercial bank is formally only willing to grant if it holds a first or second mortgage on the firm's assets (the only sort of collateral that Korean banks will accept), and if the margin between the value of the mortgage and the firm's debts to the bank is substantial. Japanese firms are more willing to accept the local won guarantee and often extend credit on the basis of the firm's general reputation in Korea.

The financing package is a critical factor in selling major equipment to Korean end-users. Korea has been a major recipient of U.S. Export-Import Bank credits, and the demand for these has outstripped the supply. U.S. sellers of industrial machinery and other big-ticket items should be prepared to discuss alternative financing packages with their Korean prospects.

Trade Regulations

Import Tariff Systems

Tariff Structure.—Korea maintains a three-column import tariff schedule comprised of general rates, temporary rates, and GATT rates. There also is a separate set of concessional tariff rates relating to trade negotiations among devoloping countries (TNDC rates). Very few special temporary rates, GATT rates and TNDC rates are now in effect. The 1967 revision of the Customs Law authorizes the Executive to specify special tariff rates within 50 percentage points of the tariff schedule under certain circumstances.

Two separate special tariff schedules, effective until the end of 1979, were announced, one on February 13, 1979, and the other on May 17, 1979 under this authority, officially designated as the Flexible Tariff Systems. The principal effect of that action was to group under one listing the items benefiting from special reduced rates on the basis of the above-mentioned authority. Wheat, soybeans, beef tallow, cotton, Bunker C oil, raw rubber, cement, rolls for rolling mills of cast iron, ferrous waste and scrap, ferrite magnet, other raw materials for export processing, and construction supplies for heavy and chemical industry plants make up the 66 items in the current elastic tariff schedule. An additional 43 items, mostly petrochemicals are expected to be added to the existing list soon. The elastic tariff system is designed primarily to ensure effective support for the development of export industries and heavy and chemical industries and to help stabilize the domestic prices of related products.

Most Korean duties are assessed on and ad valorem basis. Specific rates apply to a few items and both ad valorem and specific rates apply on a few others. The dutiable value of imported goods is the normal c.i.f. price at the time of import declaration. Tariffs are payable in won before goods are permitted to clear customs.

Under the 1979 tariff, industrial raw materials and equipment for basic industries not locally produced are subject to ad valorem duty rates ranging from 5 to 20 percent; goods produced by domestic industries receiving import protection are subject to duties ranging from 25 to 60 percent; and rates of duty on nonessential imports range between 80 to 150 percent.

Import duties are not assessed on capital goods and raw materials imported in connection with foreign investment projects. Authorization to import on a duty-free basis those equipment items and supplies designated in the foreign investment application to the Economic Planning Board (EPB) usually accompanies the EPB's approval of a foreign investment project.

In addition, raw materials used in the production of export goods are exempt from duty and certain machinery, materials and parts used in designated industries may enter Korea either duty-free or at reduced rates.

Information regarding Korean import duties applicable to specific products may be obtained free of charge from the Japan/Korea/Hong Kong Branch, Office of Country Marketing, U.S. Department of Commerce, Washington, D.C. 20230 or from any Department of Commerce District Office. Inquiries should contain a complete product description, including BTN, SITC, or U.S. Schedule B Export Commodity numbers.

Customs Surcharges.—No customs surcharges, as such, are currently levied against goods imported. Since 1973, however, a temporary import surcharge law has been in effect. Under the law, the Government may impose import surcharges, up to a uniform rate of 30 percent of the dutiable value of imports, whenever balance-of-payment considerations dictate that import levels be controlled. Implementation of the law requires a Presidential Decree, which has yet to be issued.

Defense Tax.—On July 16, 1975, the Government promulgated the National Defense Tax Law. This law was amended on December 28, 1979, to remain in force until 1985. Taxable items range from commodity imports to luxury consumer goods and services, property, and corporate incomes. The defense tax is assessed at the rate of 2.5 percent of the c.i.f. value of all imports, excluding those imported duty free in accordance with the Foreign Capital Inducement Law and other pertinent laws. The tax applies to imports reported for customs clearance on and after July 16, 1975.

Customs Classification.—The tariff classification is based on the Customs Cooperation Council Nomenclature (CCCN), which is similar to Brussels Tariff Nomenclature (BTN). A ruling regarding the customs classification on items not shown in the tariff schedules or the dutiable status of goods on which there is some question may be obtained in advance of shipment upon written application to the Collector of Customs in Seoul. It is desirable, although not mandatory, that samples be submitted with the application. Should this be impractical or impossible, photographs, specifications, and descriptive literature may be required, and it would be prudent to forward these with the application.

Value Added Tax.—In December, 1976, the Government carried out an overall tax reform on a grand scale, including introduction of a value added tax (VAT) and special excise tax system in the field of indirect taxation. Eighteen tax laws were newly enacted or amended under the reform. The traditional indirect tax system including a cascade-type business tax was replaced by the consumption-type value added tax and the supplementary special excise tax system, mainly to simplify the tax system and its administration. At present, a single flat rate of 10 percent is applicable on all imports of items subject to the value added tax (VAT= 10% of c.i.f. Value + Customs levies).

Nontariff Import Controls

Import Licensing.—An import license, obtainable from the Korea Exchange Bank or from any one of the other Class A foreign exchange banks, is valid for 6 months. A license is required for every transaction and before a letter of credit may be opened in favor of a foreign supplier. Under the system of licensing introduced in July 1967, all commodities may be freely imported (i.e., applications for import licenses will be approved automatically) unless they are included on a negative list, which includes commodities that are either prohibited or restricted. The negative list is revised by the Ministry of Commerce and Industry every 6 months and is published as the Semi-Annual Trade Plan.

Applications for licenses for the import of items currently in the restricted category are approved on a case-by-case basis after screening by the government agencies concerned, or by the manufacturers associations. Included in the restricted categories are such items as selected foods, domestic appliances, certain pumps and boilers, various chemical elements and compounds, varnishes, lacquers and some pigments, essential oils and resinoids, synthetic fibers, metalworking machine tools, and certain types of office equipment. As soon as local producers can match a foreign-made product, the Government's policy is to provide protection to the local industry by restricting the importation of foreign items. However, the Government will not restrict importation of good where local manufacturers cannot meet the precision and quality standards required by the local market.

Quotas are established by the Ministry of Commerce and Industry for a number of restricted items. The importation of quota items is linked in various complex ways to the import performance and the record of producers of domestic raw materials used for exports. This linked quota system is designed to encourage exports and the increased use of domestic raw materials by granting the exclusive right of import of attractive quota items to such exporters and raw materials producers.

All applications for import licenses must be accompanied by firm offers issued by a foreign supplier, in most cases through the supplier's qualified local agent. Such proforma invoices are then checked to see whether the offer prices exceed the maximum import prices set by the Government. Only firms that are registered as foreign traders are eligible to receive import licenses.

Licensing of Traders.—According to Korean trade law, all persons desiring to engage in foreign trade must register with and obtain a license from the Ministry of Commerce and Industry. Exceptions are granted for government procurement, foreign aid-financed goods imported by end-users, and imports entering Korea for processing and reexport or imported in connection with foreign investment projects.

An applicant for a new trading license must have a paid-in-capital of not less than 50 million won and must have met one of the following requirements: (1) received letters of credit totaling $500,000 or more; or (2) signed a consignment processing contract for net foreign exchange earnings of at least $150,000; or (3) manufactured and supplied export goods valued at more than $500,000 through the use of local letters of credit during the 6 months prior to the license application; or (4) received letters of credit totaling $200,000, as well as a recommendation of the Office of Fisheries Administration (only for those licensed and approved under provisions of Articles 8, 11, 12 and 23 of the Marine Products Industry Law).

Even firms already licensed and registered as traders may not import general commodities until exports valued at $1 million have been achieved. A minimum of $1 million export sales must be maintained annually in order to qualify for the renewal of a trade license. As of January 1, 1980, 2,208 firms were registered traders.

In 1975, the Ministry of Commerce and Industry established criteria for the designation of conglomerate trading firms eligible for a series of preferential measures tied to the importation of major raw materials, participation in international tenders, and the like. The revised criteria as in effect on January 1, 1980, are: (1) firm must have gone public; (2) annual export sales corresponding to at least 2 percent of all Korean exports; (3) a product line of at least five major export items (those with annual export records of at least $1 million); (4) at least 20 overseas branches. As of January 1, 1980, the Ministry had designated 10 firms as consolidated trading houses. These are Samsung Company, Dai Woo Industrial Company, International Chemical Company (ICC), Hyundai Corp., Sun Kyong Ltd., Bando Trading Company, Kum Ho & Company, Hyosung Moolsan Company, Ssangyong Trading Company, Korea Trading International, Inc. (established specifically to help small, independent manufacturers market their products abroad).

"Offer agents" must submit their agency agreement to the Ministry of Commerce and Industry for registration. To remain qualified, a registered offer agent must earn a minimum of $50,000 in sales commissions annually.

Early in 1976, the Ministry of Commerce and Industry delegated to the Korea Trading Agents Association the authority to handle applications for the registration of local trading agents. Applications for the registration of foreign trading agents continue to be handled by the Ministry.

As of January 1, 1980, there were 1,508 offer or commission agents registered with the Ministry of Commerce and Industry. They include 65 branches or liaison offices of foreign firms, of which 19 are American, 21 are Japanese, and 10 are Hong Kong based firms. These agents act as representatives of foreign manufacturers and suppliers and make offers on behalf of their principals. Unless they are also registered traders, however, they are not authorized to import on their own. In many cases, offer agents pay a small fee to registered trading firms who import for them.

Import Deposit Requirements.—Korea maintains advance import deposit requirements on most categories of private sector imports. Requirements for imports financed with government-owned foreign exchange (KFX) are met by the deposit of local currencies at the importer's bank when the import letter of credit is opened or, in the case of imports financed by documents against acceptance (D/A) and documents against payments (D/P), either at the time of application for an import license or when the license is approved. (See Exchange Controls section.) For most KFX imports under sight letters of credit, local currencies (cash or certified check issued by banking institutions) equivalent of 110 percent of the f.o.b. value plus 10 percent must be deposited. A 200 percent deposit is required for items categorized as nonessential or luxury goods. The advance deposit rates for goods imported on a D/A and a D/P basis range from 5 to 200 percent depending upon the type of goods being imported.

Imports by the private sector under loan and credit funds from international finance organizations and foreign aid programs are subject to prior cash payments (in won) of part of the import settlement.

Shipping Documents

Documents required for nearly all surface shipments to Korea are a full set of clean, on board, ocean bills of lading, made out to an exchange bank designated by the importer; marine insurance policy or certificate, in duplicate, endorsed in blank for 110 percent of the invoice value (for c.i.f. shipments); signed commercial invoice in quintuplicate; and packing list in duplicate. A certificate of origin in duplicate is required only for shipments of certain selected goods from certain selected countries. Such a certificate must be issued by a Korean Consulate and show the marks, numbers, commodity descriptions, quantities, prices and the country of origin. Exporters should bear in mind that before the importer can open a letter of credit it must possess a notarized pro-forma invoice legalized by a Korean Consulate, unless such pro-forma invoice or firm offer has been issued to the importer by an authorized local agent of the foreign supplier.

To minimize delays in the clearance of livestock imports, it is advisable to obtain certain quarantine certificates issued by appropriate governmental agencies of the exporting country. The same is applicable for dogs, cats, and other pets, except that in those cases a certificate should be issued by the appropriate agency in the last country in which the pet resided. Dogs and cats require current rabies vaccination certificates in addition to health certificates.

An application for a quarantine certificate must be filed with the National Veterinary Quarantine Station upon arrival of the live-stock in Korea. The issuance of such a certificate is required before customs clearance is permitted. Sanitary certificates also are required for shipments of plants and vegetable products.

Certificates of inspection and statements of authority to manufacture, issued by the appropriate authority in the United States, are required for shipments to Korea of pharmaceuticals, medical instruments, sanitary materials, and cosmetics. Such certificates are required for each item in these categories, except such as may be exempted by the Korean Ministry of Health and Social Affairs or where such or similar certificates have been previously submitted.

Marking and Labeling Requirements

All commodities must be labeled and marked to show the country of origin, except where unnecessary according to international practices.

No special packing requirements are in effect for imports into Korea, but care should be taken that items are packed so as to avoid loss through damage, rough handling, pilferage, or deterioration.

Senate Concurrent Resolution 40, adopted July 30, 1953, invites U.S. exporters to inscribe, insofar as practicable, on the external shipping containers in indelible print of a suitable size: "United States of America."

Free Zones and Warehousing

Free Zones.—The Government has designated two free export zones for the bonded processing of imported materials into finished goods for export. The free export zones are specially established industrial areas where foreign invested firms can manufacture, assemble, or process export products using freely imported, tax-free raw materials or semifinished goods. Generous tax incentives are provided for foreign invested firms, and the Government constructs various facilities for sale or lease, including plant sites or factory buildings for the initial occupant industries. The Masan Free Export Zone, established in 1971, is located near Pusan at the southern end of the country. The Iri Free Export Zone opened in March 1975 and is still recruiting foreign occupants. It is located near Gunsan on the western coast of Korea. Information on free export zones may be obtained from the Director, Bureau of Industrial Estates Management, Ministry of Commerce and Industry, 4th Floor, Unified Government Building, 77 Sejong-ro, Chongro-ku, Seoul 110, Korea.

Warehousing.—Adequate bonded storage facilities are available in Korea; all of which are under the direct supervision of the Collector of Customs. Storage of goods in such "bonded storage places" is restricted to 4 months. The maximum storage period in a bonded warehouse is 24 months, although extensions may be granted on request. The Customs Law also provides that privately owned and operated bonded warehouses may be established with the approval of the Collector of Customs. There are currently over 100 licensed commercial bonded warehouses in Korea. In addition, approximately 110 manufacturing enterprises operate as licensed private bonded facilities. With the permission of a Collector of Customs, goods stored in bonded facilities may be repacked, stored, divided and combined, or repaired, provided that the nature and quality of the goods is not changed in so doing.

The above storage periods do not apply to the storage of live animals or plants, perishable merchandise, or other commodities that may cause damage to other merchandise or to the warehouse. The Collector of Customs bears no responsibility for goods while they are stored in customs facilities.

Samples and Advertising Matter

Pursuant to Article 30 of the Korean Customs Law, advertising matter and samples of merchandise are exempt from customs duties, provided that such items are used solely for these purposes. All other samples and advertising matter are subject to payment of normal commercial duties. In general, duty-free entry of advertising matter is left to the discretion of the customs officials at the ports of entry and at post offices.

Technical Standards and Requirements

In Korean foreign trade, metric weights and measures are in common use. However, the domestic system presently used in Korea is a combination of several systems of weights and measures, including metric, pound, yard, and chockkwan (the traditional oriental system of weights and measures, which originated in China). A Weights and Measures Law, promulgated on May 10, 1961, specified that only the metric system of weights and measures was to be used after January 1, 1964. This legislation has not yet been applied to export-import cargoes, however.

Electric current is 60 cycles, 100/200 volts, a.c., single and three phase.

As of 1978, all American appliances functioned on the 100-volt, 60 cycle A.C. current. However, the Government has already begun a program to change over to 220-volt by 1982. Locally made electric appliances will be required to have converters so that they will function on 100 and 220 volts.

The Industrial Standardization Law of September 1961 established the Korean Bureau of Standards and the Council for Industrial Standardization. The Bureau establishes and publishes standards and urges voluntary adherence. Thus far, standards have been published for mechanical, electrical, civil and metallurgical engineering; mining; construction; the textile and chemical industries; foodstuffs; and ceramics. Local firms meeting the standards are allowed to place the mark "KS" on their products, and government organizations are urged to purchase such products. As past and pending standardization legislation is patterned on American models, equipment acceptable in the United States will be acceptable in Korea.

Investment in Korea

U.S. Investment in Korea

U.S. direct investment approvals in Korea from 1962 to December 1978 amounted to $293.9 million in 123 projects, 21.9 percent of total foreign direct investment approvals of $1,008.4 million in 857 projects. Japanese investment was $583.6 million in 665 projects or 57.9 percent of the total. Foreign equity investment approvals culminated in a record high in 1973 of $264.7 million. Approvals were $72.7 million in 1977 and $148.7 million in 1978.

The major fields of foreign investment are chemicals (19.2 percent), tourism and hotels (16.2 percent), electric and electronics (13.0 percent) textiles and garments (9.9 percent) machinery and parts (7.6 percent), petroleum (7 percent), and steel and metals (4.8 percent). Major U.S. investments are in chemicals, electrical machinery and electronics, petroleum, transportation equipment, fertilizers, and electricity. Some of the larger American investors in Korea are Gulf Oil, Union Oil, Caltex, Dow, Skelly, Swift, Control Data, Motorola, General Motors, Fairchild Semiconductor, IBM, Chemtex, and Sperry Rand.

Korean Policy on Investment

Korea welcomes foreign direct investment, particularly from the United States. As its $14 billion heavy and chemical industry development plan requires large inputs of foreign capital (60 percent financing anticipated from foreign sources), there are many opportunities for prospective investors. A special office in the Korean Economic Planning Board assists potential investors in their initial investigations and offers help in carrying out the necessary procedures. Inquiries may be directed to the Bureau of Economic Cooperation, Economic Planning Board, Seoul, Korea. An additional source of assistance is the Korea-U.S. Economic Council located at C.P.O. Box 6754, 10-1, 2-ka Hoehyun-dong, Choong-ku, Seoul, Korea, or its American counterpart, the U.S.-Korea Economic Council at Suite 2-L, 88 Morningside Drive, New York, N.Y. 10027. Korean Government representatives at its Embassy and Consulates in the United States also stand ready to assist. (See Sources of Economic and Commercial Information Section).

Korea's Foreign Capital Inducement Law offers liberal tax and other incentives to foreign investors. Four principles govern Korea's encouragement of foreign equity investment: (1) the contribution that the investment will make to the improvement of the balance of payments, (2) introduction of advanced technology into the economy, (3) establishment of industries providing for increased employment of Korean labor, and (4) utilization of domestic resources.

The Korean Government has recently raised the minimum allowable foreign investment in Korea to a uniform level of $500,000 from the previous $50,000 to $200,000, retroactive to September 8, 1979, with the exception of the $200,000 minimum requirement for investment by a Korean resident overseas. The action has been taken in a move to meet the increasing demand for foreign investment in those industrial areas that require capital-intensive and high-technology industries as the national economy expands with rapid industrialization. The categories of industries in which foreign investment is permitted are classified by the new guidelines as follows:

(1) Large-scale facilities that cannot be built/operated independently by domestic enterprises, and industries for the production of metal, machinery, electric/electronic products;

(2) Export-oriented projects for which overseas markets cannot be effectively explored independently by domestic enterprises;

(3) Projects contributing to the development/utilization of domestic resources;

(4) Chemical industrial and other projects deemed necessary by the Economic Planning Minister.

The principle of restricting foreign equity to 50 percent or less will be maintained, except for: (a) multinational enterprises requiring highly sophisticated technology and management techniques, (b) projects contributing to diversification of investment sources, (c) electronic/machinery industries to be accommodated within the Kumi-Changwon Estates, (d) industries to be accommodated within free export zones.

The Government has issued guidelines favoring investments directed to the development of the country's heavy industry and has also established 17 industry categories, each with different conditions, to govern foreign investment; e.g., minimum capital to be invested, percentage of foreign ownership, permitted production capacity, and export requirements to be met. The Government is currently reviewing once again the conditions of the Foreign Capital Inducement Law and further modifcations to the Law are anticipated.

Forms of Business Organization

In principle, foreigners are permitted to operate in the following types of organizations: joint stock corporation, limited partnership, unlimited partnership, limited company, and branch.

Joint Stock Company.—The joint stock corporation (Chusik Hoesa) is the company structure most commonly utilized by foreign investors. The legal concept and regulations of the joint stock company in Korea are similar to those found in the United States, Japan, and Germany. To establish a joint stock company, Articles of Incorporation must be drawn up and notarized. Seven or more promoters, none of which need be Korean, are required for the incorporation of a joint stock company. After incorporation the number of shareholders may be reduced to one. The minimum par value of a share is W500, and shares may be registered as bearer, common, or preferred. Common shares must carry voting rights.

The application for registration must then be submitted to a District Court. Upon registration and payment of the registration tax (2 percent of capital for Seoul and Pusan and 0.4 percent for other areas), the company acquires the status of a juridical person. At such time it may enter into contracts, acquire rights and obligations, possess intangible property such as patents and copyrights, own real estate, establish commercial credit, and undertake business transactions.

Within 30 days of the commencement of business a company must apply to a district tax office for a business license. The license must then be certified twice yearly by government authorities.

An annual independent audit by a certified public accountant is not required, except for those companies listed on the Korea Stock Exchange; local banks and branches of foreign banks; foreign investment companies remitting dividends overseas; companies remitting royalties overseas, to the extent of the sales on which the royalties are based; and Korean branches remitting gains of over 100 percent of its authorized operating capital or over 50 million won during a specific business year. A number of international auditing firms are represented in Korea.

Branch of a Foreign Corporation.—Licenses issued by the Bank of Korea are required for the establishment of branches (branch offices, branch shops, liaison offices, etc.) by foreign corporations intending to make remittances of gains to their head offices overseas, according to the new rules enforced by the Ministry of Finance on September 15, 1979. Formerly, no such license was required. However, foreign branches requiring no remittance of gains will continue to be required to simply file "reports on establishment" with the Bank of Korea. Other significant points of the new "Regulations Concerning Establishment of Foreign Enterprises' Branches" are as follows:

1. The licenses will have to be renewed every 3 years, unless otherwise-approved in accordance with a pertinent law.
2. Prior to the issuance of such licenses, prior consultation with other government agencies concerned will be held with respect to possible adverse influence on the domestic economy/security.
3. In the case of foreign branches requiring remittance of gains, prior approval of the Bank of Korea will be required for the inducement of over $1 million of operating capital.
4. Money lending, acquisition of securities and other deals not specifically covered under the license will be banned; acquisition of securities deemed necessary for the discharge of functions permitted in accordance with a pertinent law will be allowed, provided approval of the governor of the Bank of Korea is secured.
5. No remittance of gains accrued from businesses not covered by the license will be approved.
6. In a move to ensure effective management of foreign exchange transactions, each branch will be required to designate a single foreign exchange bank through which all foreign exchange transactions will be dealt.

Appointment of an Agent.—Foreign exporters who wish to be represented in Korea but cannot justify an office of their own may appoint an agent to act on their behalf. An individual with special qualifications may be chosen, although the customary practice is to select from among the hundreds of offer agents and registered traders currently operating in Korea.

Acquisition of Stocks.—Foreign acquisition of existing stocks or shares is prohibited under the Foreign Capital Inducement Law. Investment may be made by subscribing to stock or shares of a newly established corporation or by subscribing to a new issue of an existing enterprise. Capital for subscription may be in cash, kind, industrial property rights, technology related to industrial property rights, and rights to the use of such technology.

Licensing Agreements

Licensing and technical assistance agreements provide another alternative means of entry to the Korean market. Korea regulates patent and trademarks for the protection of industrial property rights, provided that such patents and trademarks are registered in Korea.

There are no specific limitations on licensing agreements. Approval of agreements is based on internal and unpublished policy guidelines of the Economic Planning Board. It may be said in general, however, that priority is given to technical and licensing agreements in the export and highly sophisticated machinery industries.

In April, 1979, the Korean Government substantially liberalized restrictions on the inducement of foreign technology under the second phase of its liberal technology inducement plan. Under the second phase: (1) prior approval of the competent ministry will be required only for nuclear energy and defense industries; (2) for other industries, the Minister of Economic Planning Board may approve foreign technology transfer proposals (without having them put through the complicated procedures of review by the ministries concerned), provided that the contract terms fall under the following criteria: a contract (payment of royalty) period of 10 years or less, downpayment of $500,000 or less, running royalties of 10 percent or less of net sales, or a fixed fee of $1 million or less. However, no inducement of foreign technology will be allowed in the following instances: (a) contracts designed simply to allow the use of designs, brands, or trademarks, (b) contracts designed to sell raw materials or components only, (c) contracts containing unfair and restrictive terms on exports, etc., (d) contracts for outdated, low-grade, and declining technology, (e) contracts for specific technology designated by the Minister of Science and Technology for domestic (independent) development, and (f) such other contracts as may be deemed unnecessary by the Minister of the Economic Planning Board.

From 1962 through December 31, 1978, 1,210 technical assistance and licensing agreements had been concluded by Korean enterprises. The United States accounted for 282, and Japan, 717; 29.4 percent of these agreements were related to machinery and parts, 19.1 percent to the electric and electronics industry, 17.3 percent to petroleum refining and chemical engineering, 9.4 percent to the metallurgical industry, and 24.8 percent to other industries (textiles, communications, shipbuilding, power generation, etc.). Total remittances of royalty payments since 1962 have amounted to $256.7 million, with 27.7 percent going to the United States and 45.6 percent to Japan.

Investment Regulations

Application Procedure.—With the exception of investments in the free export zones, all foreign direct investment, technology assistance agreements, and the repayment of loans exceeding 3 years and $200,000 are regulated by the Foreign Capital Inducement Law (1966, amended in 1973) and its Enforcement Decree. An application for approval of a foreign investment must be submitted to the Economic Planning Board (EPB) in quintuplicate, together with necessary supporting documents including the project plan, a certification of nationality, articles of incorporation of a new firm, a proxy authorization, and, when applicable, a joint-venture agreement. It is desirable that the application for authorization be submitted in the Korean language. Joint-venture agreements should be submitted in English. Reliable Korean law firms are available to assist in preparing joint-venture agreements and to provide translation services.

The application should discuss in detail the nature and scope of the proposed foreign investment. All ambiguities should be clarified in the initial planning stages, so as to minimize the risk of problems arising once production has begun. Agreements regarding government concessions and exemptions should be stipulated in writing and affirmed by the highest government officials. Following an initial screening by the Bureau of Economic Cooperation, Economic Planning Board, the application will be forwarded to the competent ministry, depending upon the nature of the proposed investment. The ministries are required by law to submit an opinion to the EPB within 20 days (10 days for a foreign investment of less than $1 million) from the date of the receipt of the application. The investment application will then be forwarded to the Minister of the Economic Planning Board for clearance.

The final clearance comes from the Foreign Capital Inducement Deliberation Committee (FCIDC). The FCIDC reviews the established criteria as well as the comments and recommendations received from the ministries and the Screening Committee. If FCIDC approves the application, the Minister of the Economic Planning Board authorizes the proposed foreign investment project and advises the applicant accordingly. Under special conditions, the Minister may approve an investment application without FCIDC's clearance notifying the FCIDC of the action taken. There are two special conditions: (1) investments up to $1 million and (2) licensing agreements for all industries other than those related to nuclear energy and defense industries, with a contract period of 10 years or less, downpayment of $500,000 or less, and running royalties of 10 percent of net sales or less, or a fixed fee of $1 million or less. The entire review procedure is usually completed within 30 to 40 days.

Should an application be disapproved during the clearance procedure, the applicant may consult with officials in the Bureau of Economic Cooperation of the Economic Planning Board to determine the reasons for the disapproval and, if possible, to make adjustments that will be mutually agreeable.

Profit Remittance.—Remittance of profits is guaranteed by the Government, although approval must be obtained from the Ministry of Finance before remittances may be made.

Ninety days before the end of each fiscal year, firms operating under the Foreign Capital Inducement Law must submit a schedule of projected remittances for the forthcoming year to the Economic Planning Board and the Ministry of Finance. When an application for a remittance is submitted, the Ministry of Finance is authorized to examine the company books if the remittance appears "excessive." In most cases, the determination of eligibility is a simple procedure, and the requested amount of foreign exchange is promptly released.

Foreign firms not covered by the Foreign Capital Inducement Law are allowed to make remittances directly through a foreign exchange bank after obtaining government approval, a procedure that takes from 1 to 3 months.

Capital Remittance.—After 2 years of operation, a firm may repatriate each year up to 20 percent of its invested capital. When a business enterprise is liquidated, the total amount of foreign investment capital may be repatriated.

Reinvestment of Dividends.—In most cases, reinvestment of dividends is allowed as a matter of course. When such reinvestment exceeds the amount of the original investment, however, specific approval must be obtained from the Minister of the Economic Planning Board.

Industrial Property Rights

Patents and Trademarks.—Korea announced its intention to join the "Paris Union" International Industrial Property Convention effective

May 4, 1980, and it implemented a revised Trademark Law on January 1, 1980. In addition, through court decisions, Korea is providing greater protection for well-known foreign trade marks. Patents and trademarks fall under the jurisdiction of the Ministry of Commerce and Industry.

Patents are granted for a 12-year period and are not renewable. Trademarks registered with the Patent Bureau are protected by law for 10 years and may be renewed indefinitely for 10-year periods. Trademarks must be used to remain valid, and those not used within a year of registration may be subject to cancellation.

Through a reciprocal provision of the Treaty of Friendship, Commerce and Navigation between the United States and Korea, U.S. investors may register patents and trademarks directly in Korea. In the absence of a commercial agreement, foreigners must file for patent or trademark registration through a licensed agent. Firms desiring counsel in patent or trademark matters may obtain a list of English-speaking patent attorneys from the Korea Patent Attorney's Association, Room No. 307, Sambo Bldg., 113-1, Banpo-dong, Kangnam-ku, Seoul. The cost of acquiring patent and trademark rights is nominal.

Items construed as vital to national defense or to the public interest are not patentable. Food, beverages, and pharmaceutical products fall within this category, although related processess may qualify for coverage.

Copyrights.—Korea is not a member of the Universal Copyright Convention (UCC), nor has it entered into any other agreement with the United States for mutual protection of copyrights. Under Korea's Copyright Law, only Korean nationals may apply for copyright registration of books and other literary works and enforce such registration against unauthorized users. Although foreign publishers may not apply for copyright protection of their works, the Bureau of Culture of the Ministry of Culture and Information, which administers the Copyright Law, has agreed to a procedure whereby Korean book publishers who have licenses from U.S. publishers to publish in Korea may apply for local copyright protection of the latter's U.S.-copyrighted books. Books copyrighted under these procedures will thereby be entitled to the full protection of the Copyright Law.

Ownership of Land.—Foreign investors may legally own and lease land throughout Korea. In practice, however, the purchase of land has not been allowed unless provided for in the investor's contract under the Foreign Capital Inducement Law. Foreign nationals are subject to the regulations of the Alien Land Law, which requires firms with a foreign interest of 50 percent or more to obtain approval for land ownership from the Ministry of Home Affairs.

Property Guarantee.—All the property of foreign-invested enterprises is guaranteed and protected from requisition or expropriation. The same rights, privileges, and protection enjoyed by Korean nationals are extended to foreign nationals and enterprises, except in cases specifically prescribed by law.

Taxation

Korea offers foreign investors a number of tax exemptions and benefits under its Foreign Capital Inducement Law and other tax laws. Table 2 lists the major tax privileges. The foreign investor, creditor, or supplier of technology has the option to request that taxes not be exempted or reduced.

In addition, the following benefits are provided:

1. Tax Credit on Investment.—In the case of capital invested in shipbuilding, iron making, steel making, lead making, chemical fertilizer, power generation, chemical fibers, major automobile parts, machines, chemical pulp, soda ash, mining, marine and livestock products processing industries, national land development projects, and petrochemical, electronics and heavy and electric power industries, 8 percent of the total amount of investment may be deductible from the amount of income tax or corporation tax.
2. Nonapplication of Five-Fold Rates of Registration Tax.—On the registration of real estate or business offices, branches and factories of corporations in Seoul and Pusan, five-fold rates of tax are applied. Application of the five-fold rate of tax is withheld, in the case of foreign-invested enterprises engaged in manufacturing.
3. Exemption of Real Estate Speculation Control Tax.—In cases where land is invested in kind for the establishment of a foreign-invested enterprise under the Foreign Capital Inducement Law, the income tax and the additional corporation tax on capital gains may be exempted.
4. Deduction of Presumptive Dividend Tax.—For enterprises established under the

Foreign Capital Inducement Law, 50 percent of the amount of presumptive dividends is deductible from the tax.

5. Tax Exemption and Reduction for Disaster.—In cases where an enterprise is deemed unable to pay taxes because of a loss of more than 50 percent of the total amount of its business assets due to an "Act of God" or any other disaster, the corporation tax and business tax on the enterprise may be exempted or reduced according to the ratio of the value of the lost assets.

6. Depreciation Allowances.—In cases where a foreign investor, as defined in the Foreign Capital Inducement Law, takes 40% or more of the stock or shares of a domestic corporation, the computation method of depreciation may be changed with approval from the head of the competent district tax office. An application for change in the computation method must be filed within 30 days of the beginning date of the business year in which it is intended to apply the changed depreciation method.

On fixed assets used in certain designated businesses, additional depreciation is allowed over the ordinary depreciation. Depreciation is normally allowed on the basis of government specifications of the useful life of all fixed assets. The depreciable base of an asset is the original

Table 2.—Major Tax Reductions and Exemptions Applicable to Foreign Invested Enterprise in Korea

	Taxation Bases	Tax Rates	Tax Reduction or Exemption
Income Tax on Unincorporated Enterprises	Amount of Income or Earnings	6–62%	(1) Exemption for 5 years in proportion to the ratio of stock or shares owned by the foreign investors (2) 50% reduction of the above for following 3 years
Corporation Tax	(1) Income in Each Business year (2) Liquidation Income	(1) Open Corporation 20–35% (2) Closed Corporation 20–40%	(1) Exemption for 5 years in proportion to the ratio of stock or shares owned by the foreign investors (2) 50% reduction of the above for following 3 years
Wages and Salary Income Tax	Salary or Wage of Foreign Employee Working in Foreign Invested Enterprise	6–62%	Exemption for 5 years
Dividend Income Tax	Amount of Dividends Received	5–62%	(1) Exemption for 5 years on foreign investor (2) 50% reduction of the above for following 3 years
Tax on Technology Income	Amount of Income Received from Supplying Technology (Royalty)	6–62%	(1) Exemption for 5 years (2) 50% reduction of the above for following 3 years
Interest Income Tax	Interest or other income accruing from loan contract	5–62%	Full exemption for loans approved
Value Added Tax	Amount of CIF value plus customs duty	10%	Full exemption on imported capital goods
Customs Duty	Ad Valorem Basis (c.i.f. Price) for importation	5–62% by Commodities	Full exemption on capital goods approved
Property Tax	Assessed Value of Land, buildings, Vessels, Mining District, etc.	(1) Land 0.3–5% (2) House & Vessels 0.3–5% (3) Per/ha of Mine Lot W50	(1) Exemption for 5 years in proportion of the ratio of stock or shares owned by the foreign investors (2) 50% reduction of the above for following 3 years
Property Acquisition Tax	Acquisition Price of Real Estate, Motor Vehicles, Land, Buildings, and Ships	2%	(1) Exemption for 5 years (2) 50% reduction of the above for following 3 years

cost less a 10 percent allowance for salvage value.

Corporate tax returns are normally due 60 days after the close of an accounting period. The Ministry of Finance is charged with the ultimate responsibility for fiscal matters, with the enforcement and processing functions of collection handled by the Office of National Tax Administration. Tax audits on foreign investments should be expected each year.

Labor Force

At the end of 1978, Korea's labor force totaled 13.5 million. The agriculture, forestry, and fishing sectors accounted for 38.4 percent of the employed labor force. Other categories were mining and manufacturing, 23.2 percent; and social and overhead capital and other services, 38.4 percent (construction 6 percent and other 32.4 percent).

The labor force is one of Korea's main resources. With a 90 percent literacy rate and an emphasis in the school system on technical education and vocational training, there is a good supply of well trained, skilled workers and competent supervisory personnel. Korean workers are traditionally bright, hard-working, and aggressive.

Payments and Benefits.—Korea has no legal minimum wage system, although the Labor Standards Act authorizes the Director-General of the Office of Labor Affairs to set a minimum wage according to industry. Base wages make up only part of worker's income. Fringe benefits make up 50–60 percent of a wage-earner's salary and, in some cases, may amount to 80 percent of total compensation. In 1978, average monthly earnings for all workers were about $197. Highest average monthly earnings were paid by the petroleum refining industry ($597) and the lowest by the wearing apparel industry ($126).

In addition to an employee's base salary, bonuses of 100 percent or higher of monthly salary are paid several times a year. Many companies provide meals at lunch and commuter services. One month's average salary for every year of employment is given as severance pay by employers employing more than 16 workers.

Working Hours.—The standard work week is 48 hours-8 hours a day for 6 days. Working hours may be extended to 60 hours per week by mutual agreement, a practice that has become common in manufacturing and export industries. Further extension of overtime hours requires prior approval of the Office of Labor Affairs. Anything above the standard work week is considered overtime and is subject to compensation at 150 percent of the standard hourly rate. Minors, ages 13–16, are permitted to work 42 hours a week (7 hours a day). There are 14 legal holidays in Korea. In addition, employees are entitled by law to eight paid holidays a year if they have perfect attendance or if their attendance is 90% perfect.

Social Benefits.—An employer employing more than 16 workers must provide at least one physical examination a year. For an on-the-job injury, industrial accident compensation practice provides that the employer pay medical costs, 60 percent of the employee's ordinary wages during the period of medical treatment, and compensation for physical handicaps. In case of death, 1,000 days of wages and funeral expenses (90 days wages) must be furnished to the employee's family. For firms employing 16 or more workers, industrial accident compensation insurance is mandatory.

Labor Relations

There are three basic laws concerning labor: The Labor Standards Law, the Labor Union Law, and the Labor Dispute Settlement Law. In addition, a temporary special law dealing with foreign-invested enterprises has been appended to the latter law. This special law provides for the establishment of a Foreign-Invested Enterprises Labor Dispute Settlement Committee in the Ministry of Health and Social Affairs. In case of a suspension of operations or the closing of a foreign enterprise, the Korean Government must adjust labor disputes within 20 days. Foreign investors may be given up to 5 years exemption from having to recognize a union.

The labor union movement is still in the developing stage. Under the Labor Union Law, workers are entitled to form and participate in the activities of labor unions, to conduct collective bargaining, and to take collective action in order to maintain and improve working conditions. Use of violence and destructive acts in labor disputes are prohibited, and conciliation, mediation, and compulsory arbitration are the approved means of settlement. At the end of 1978, there were 17 industrial unions, all affiliated with the Federation of Korea Trade Unions (FKTU). The number of companies with a labor union chapter was over 5,000, most of which had concluded collective bargaining agreements. Agreements that have been concluded voluntarily need not necessarily be registered with the Office of Labor Affairs. Foreign investors wishing to enter into a collective bargaining agreement shall submit an application to the Office of Labor Affairs for a decision, which will be made within 30 days.

Investment in Industrial Estates

Korean law permits the building of new plants only in industrial areas. The Government's policy of decentralization, aimed at relieving congestion in Seoul, entirely prohibits new factory construction in the city. There is, however, no problem in selecting industrial estates. The Korean Government is building many industrial estates and is providing the necessary infrastructure facilities in coastal and inland areas. There is particular interest in attracting foreign investment to these areas.

There are 29 industrial estates classified in six groups: 12 local industrial estates, 2 special export industrial estates, 2 private industrial estates, 6 export industrial estates, 5 heavy and chemical industrial estates, and the Iri and Mason Free Export Zones. All offer low land costs, adequate power and water, transportation and support facilities, and special administrative assistance. All of the industrial estates are open to foreign as well as local enterprises.

Some of the more interesting estates to potential foreign investors are the Gumi Electronics Zone, established for the assembly of electronic items and the manufacture of electronic components, materials, and related industrial products; the Iri and Masan Free Export Zones (described in the Trade Regulations Section); the Changwon Industrial Complex designed as an integrated machinery manufacturing base; and the Yochun Petrochemical Industrial Estate designated as a petrochemical products manufacturing base.

Additional information on the industrial estates may be obtained from the Director, Bureau of Industrial Estate Management, Ministry of Commerce & Industry, 4th floor, Unified Government Bldg., 77 Sejong-ro, Chong-ro-Ku, Seoul.

Guidance for Business Travelers

Entrance Requirements

Visitors must have a valid passport, a visa to enter the country, and a quarantine certificate. Visas are granted gratis by any Korean diplomatic or consular post. Three kinds of visas are issued: a tourist visa valid for a stay of 60 days (except in the case of Japanese nationals, for whom a tourist visa is valid for 15 days), a transit visa valid for 15 days, and an entry visa for a stay of more than 60 days. Either of the two latter may be issued if the visit is mainly for business purposes. Visas may be extended for valid reasons, but application must be made prior to expiration of the original visa.

A tourist staying 120 hours or less need not obtain a visa, provided a confirmed air reservation is produced. In such cases, a shore pass is given on arrival, and an extension may be granted upon request. In addition, a visa is not required for transit passengers stopping over for up to 72 hours, provided that a valid passport is produced and for the condition that the traveler comes from an area where there is no Korean diplomatic or consular representative. Persons desiring to remain in Korea over 60 days must obtain a residence permit from the Ministry of Justice.

At present, no vaccination certificate is required under Korea's Quarantine Regulations, unless the visitor has come from an epidemic area. It is recommended that travelers, particularly those traveling to a number of countries, carry with them a current international immunization record.

Pertinent Treaties

A Treaty of Friendship, Commerce and Navigation signed by the United States and Korea in 1956 reciprocally grants to the citizens of one country the right of residence and trade in the territories of the other and confers national rights on them in the commercial field. Each country accords the other unconditional most-favored-nation treatment in commercial matters.

Foreign Exchange Controls

Under Korea's Foreign Exchange Control Law, all foreign exchange transactions are subject to control. The Law is administered by the Ministry of Finance and the Bank of Korea. Exchange certificates are required for all foreign exchange expenditures, except for payment of imports under U.S. Public Law 480, and for payments by the commercial banks in connection with their banking transactions.

All transactions between Korea and other countries must be denominated in one of 48 designated currencies, which include U.S. dollars, Japanese yen, Canadian dollars, Hong Kong dollars, British pounds, German marks, Italian lira, French francs, Swiss francs, Swedish krona, Australian dollars, Danish kroner, Belgian francs, Austrian schillings, Norwegian krones, and Dutch guilders.

With very few exceptions, all foreign exchange proceeds must be surrendered to the Korea Exchange Bank or to one of the designated foreign exchange banks (see below) against payment in won or against delivery of equivalent foreign exchange certificates. The exceptions are largely limited to transportation and insurance companies and to foreign nonresidents.

Foreigners may bring into Korea any amount of authorized foreign currency in any form. They make take out any authorized foreign currency originally brought in and declared to customs. Prior to departure, visitors also may convert won back to foreign exchange, up to the value of US$500, at any authorized foreign exchange bank.

The basic unit of exchange in Korea is the won. The exchange rate floats to the market price, with the Korea Exchange Bank acting as the center. The central bank authorities may regulate the supply and demand of funds in the foreign exchange market so as to stabilize the exchange rate, however, and the won was effectively stabilized at a rate of 485 won to US$1 from December 1974 to January 1980. After a devaluation of 20 percent announced January 12, 1980, the exchange rate was 582 won to US$1.

In addition to the Korea Exchange Bank, 58 banks, including 32 branches of foreign banks, have been authorized to deal in foreign exchange. These banks have been authorized to handle international business through correspondent banks. Previously, only the Bank of Korea and the Korea Exchange Bank had overseas correspondents.

Language, Business Hours, Holidays

Commercial Language.—Although Korean is the language of the country, many Koreans speak and understand English. Many business firms are able to correspond in English. Knowledge of Japanese is also fairly widespread. Catalogs, promotional literature, and instructions are acceptable in English.

Business Hours.—Most offices, government and private, are open from 0900 to 1700 on weekdays, with 1 hour at noon for lunch, and from 0900 to 1300 on Saturday. Banks close at 1600 daily, but are also open until 1300 on Saturday. Service establishments, such as department stores, shops, restaurants, hospitals, and barber shops, may remain open as late as 2200 and on weekends and public holidays. Except for Cheju Island and Chungchongbukdo province, a curfew is in effect from 2400 to 0400.

Holidays.—Public and business offices close on the following statutory holidays: January 1-3, New Year Celebration; March 1, Independence Movement Day; March 10, Korean Labor Day; April 5, Arbor Day; April 8 (lunar), Buddha's Day; May 5, Childrens Day; June 6, Memorial Day; July 17, Constitution Day; August 15, Liberation Day; September 23, Korean Thanksgiving Day; October 1, Armed Forces Day; October 3, National Foundation Day; October 9, Hangul (Korean Alphabet) Day; December 25, Christmas Day. On Labor Day, March 10, most business offices are closed. However, public offices remain open.

Sources of Economic and Commercial Information

General information concerning the Korean market (economic trends, commercial development, production, trade, etc.) may be obtained from the Office of Country Marketing, International Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230.

The United States is represented by an Embassy at 82 Sejong-Ro Chongro-Ku, Seoul. The telephone number is 72-2601 through 72-2619. The U.S. Export Development Office (EDO), is located in the same building and provides exhibition and conference areas for business visitors. Members of the staff of the Commerce and Industry Section of the Embassy are available to brief and assist American businesspeople and to discuss EDO programs designed to assist U.S. exporters. From the United States, mail may be directed to the Commerce and Industry Section or to the U.S. Trade Center through Armed Forces postal facilities. The address is American Embassy Seoul, APO San Francisco 96301.

Korean Government Representation in the U.S.

The Republic of Korea maintains an Embassy in the United States at 2320 Massachusetts Avenue, N.W., Washington, D.C. 20008. It also maintains Consulates General at the following U.S. locations:

500 North Michigan Avenue
Chicago, Illinois 60611

2756 Palihighway
Honolulu, Hawaii 96817

508 World Trade Building
1520 Texas Avenue
Houston, Texas 77002

Suite 1101
Lee Tower Building
5455 Wilshire Boulevard
Los Angeles, Califronia 90036

460 Park Avenue
New York, New York 10022

3500 Clay Street
San Francisco, Califronia 94118

Suite 2301
Harris Tower
233 Peachtree Street
Atlanta, Georgia 30303

Suite 1125
United Airlines Building
2033 6th Avenue
Seattle, Washington 98121

Suite 1405
New World Tower
100 North Biscayne Boulevard
Miami, Florida 33132

In addition, Korean Trade Centers are maintained at:

Hahn Kook (USA), Inc.
460 Park Avenue
New York, New York 10022

111 East Wacker Drive
Chicago Illinois 60601

Suite 660
Two Embarcadero Center
San Francisco, California 94111

Occidental Center
1149 South Hill Street
Los Angeles, California 90015

World Trade Center
Room 155
2050 Stemmons Freeway
Dallas, Texas 75258

1 Biscayne Tower
Suite 1984
Miami, Florida 33131

The Bank of California Center
900 4th Avenue
Seattle, Washington 98164

Suite 2501
Peachtree Center Building
229 Peachtree Street, N.E.
Atlanta, Georgia 30303

300 Town Center
Suite 1040
Southfield, Michigan 48075

ITM Building
Suite 824
2 Canal Street
New Orleans, Louisiana 70130

Watergate Building
Suite 630
600 New Hampshire Avenue, N.W.
Washington, D.C. 20037

All of these trade centers are operated by the Korea Trade Promotion Corporation (KOTRA), a government organization.

Korean banks with representation in the United States are:

Korea Exchange Bank
460 Park Avenue
New York, New York 10022

33 North Dearborn Street
Suite 400
Chicago, Illinois 60602

Korea Exchange Bank Agency
One Wilshire Building
Suite 2510
624 South Grand Avenue
Los Angeles, California 90017

Bank of Korea
40 Wall Street
New York, New York 10005

The Korea Development Bank
250 Park Avenue
Room 905
New York, New York 10017

The nongovernment Korean Trader's Association has a branch at:

Hahn Kook (U.S.A.), Inc.
460 Park Avenue
New York, New York 10022

The Korean Shipping Corporation is located at:

80 Broad Street
New York, New York 10004

Other Korean organizations located in the United States are:

Korean Trader's Association
(a private organization)
Hahn Kook (U.S.A.), Inc.
460 Park Avenue
New York, New York 10022

Korean Shipping Corporation
80 Broad Street
New York, New York 10004

U.S. Korea Economic Council
(a private organization)
88 Morningside Drive
New York, New York 10027

Publications

The following is a list of publications available from private and public sources that treat current economic and commercial matters in Korea and provide information on trade and investment.

Korean Government

Economic Planning Board
4th Five-Year Economic Development Plan (1977-1981)

Economic Planning Board
Major Statistics of Korean Economy (Annual)

Economic Planning Board
Korea Statistical Yearbook (Annual)

Economic Planning Board
Monthly Statistics of Korea

Economic Planning Board
Report on Mining and Manufacturing Survey (Annual)

Economic Planning Board
Economic Survey (Annual)

Economic Planning Board
Guide to Investment in Korea (Annual)

Economic Planning Board
(Slides, updated periodically)

Korea Development Institute
Long-Term Prospect for Economic and Social Development, 1977-1991), 1978

Office of Customs Administration
Statistical Yearbook of Foreign Trade (Annual)

Office of Customs Administration
Monthly Foreign Trade Statistics

Ministry of Communications
Statistical Yearbook of Communications (Annual)

Ministry of Agriculture & Forestry
Yearbook of Agriculture and Forestry

Office of Fisheries Administration
Yearbook of Fisheries Statistics (Annual)

Office of National Tax Administration
Statistical Yearbook of National Tax (Annual)

Banks

Korea Development Bank
Industry in Korea, 1976

Bank of Korea
Economic Statistics Yearbook

Bank of Korea
Quarterly Economic Review

Bank of Korea
Monthly Economic Statistics

Bank of Korea
The Korean Economy, Performance & Prospects

Bank of Korea
Financial System in Korea, 1978

Private

Korea Traders Association
Korean Trade Directory (Annual)

Korean Traders Association
Laws Relating to Foreign Trade, 1977

Korean Traders Association
Terminal Export-Import Notice of the Ministry of Commerce and Industry
(Semiannual)

Korea Trading Agents Association
Korea Trade Agents Directory (Annual

Korea Chamber of Commerce & Industry
Korean Business Directory (Annual)

The Korea Directory Company
Korea Directory (Annual)

Federation of Korean Industries
Korean Business Review (Monthly)

Korea Trade Promotion Corporation
Korea Business (Montly)

American Chamber of Commerce in Korea
Living in Korea, 1978

Hapdong News Agency
Korea Annual (Annual)

Market Profile—KOREA

Foreign Trade

Imports.—1979, $20,339 million; 1978, $14,972 million. Major suppliers: Japan (33%); United States (23%). Major imports from the world: crude oil and other fuels, nonelectrical machinery, electrical machinery and electronics, chemicals iron and steel products. From U.S.: food grains, raw cotton, electrical products, nonelectrical machinery, scrap iron.

Exports.—1979, $15,055 million; 1978 $12,711 million. Major markets: United States (29%); Japan (22%). Major exports: textile products, iron and steel products, electronic products, footwear, plywood, machinery. To U.S.: textiles electrical products, iron and steel products, footwear, plywood.

Trade Policy.—For balance-of-payments purposes, Korea maintains a broad spectrum of export incentives and import restrictions that it applies as necessary.

Trade Prospects.—Excellent prospects exist for U.S. suppliers of capital goods, services, and raw materials as Korea presses on with major development projects. Products identified as having the best incremental sales potential include metalworking and finishing machinery; materials handling equipment; power generation, transmission, and distribution equipment; construction and mining equipment; process control instrumentation; communications equipment; scientific and laboratory instrumentation; computers and peripheral equipment; medical equipment; electronics industry production and test equipment and components; textile and apparel machinery. For those companies whose product range does not include the above, there are also excellent opportunities for such products as chemicals, coal, scrap metals, logs, aircraft, antipollution equipment, energy-saving devices, processed foods, and a growing variety of other consumer goods.

Foreign Investment

The United States has the second highest value of foreign investment, with book value at the end of 1978 of $466 million. Major U.S. investments are in oil refineries, chemicals, automotive industry, electronic components, and textiles.

Investment Prospects.—U.S. investment actively sought, with emphasis on high technology, capital intensive projects. Favorable investment climate with wide range of incentives, especially for export-oriented industries.

Finance

Currency.—Korean won devalued January 1980 to, 580 won=US$1. Money supply at end of 1979 equal to $6,772 million, up from $5,607 million in 1978.

Domestic Credit and Investment.—Limited credit availabilities. Interest rate on 1-year time deposits 24%, export financing loans moving above 10%.

Balance of Payments.—Trade deficit covered by foreign loans and investments. Foreign exchange reserves at end of 1979, $5.7 billion.

Economy

GNP.—Estimated figures for 1979, $31.1 billion, in real terms. Per capita, GNP at current prices estimated $1,639. Percentage distribution of major sectors in 1978: agriculture, forestry, and fishery, 21%; mining and manufacturing, 30%; social overhead capital and services, 49%.

Agriculture.—24% of land cultivated, rice dominant crop. Other crops include barley, wheat, soybeans, potatotes.

Industry.—Characterized by rapid growth. Korean Government is promoting a change from labor-intensive, light industry to heavy and chemical industries. Petrochemical, nonferrous metal, electronics and machinery industries, shipyards, iron and steel mills, and free export zones being developed.

Commerce.—Wholesale price up 23.8% in 1979; consumer price index up 21.2%. Government stabilization policies taking effect.

Development Plans.—Fourth Five-Year Plan (1977-1981) and Heavy and Chemical Industry Development Plan (1973-1981) being implemented.

Basic Economic Facilities

Transportation.—Modern highway network being completed. Domestic and international air service well developed. Significant coastal and foreign shipping.

Communications.—Government and private radio and TV stations reach most areas. Major cities serviced by international telegraph and telephone circuits.

Power.—Electricity production 31.5 billion kWh in 1978. Generating capability presently meets demand.

Natural Resources

Land.—About 38,000 sq. miles, mostly mountainous.

Climate.—Similar to northeastern United States.

Minerals.—Major mineral resources are tungsten, anthracite coal, iron ore, copper, silver, lead, amorphous graphite, flourite, kaolin, and talc.

Forestry.—Forest resources depleted; reforestation is underway Korea imports substantial quantities of logs and wood pulp.

Fisheries.—Korea's waters, once rich in various marine species, being depleted through intensive fishing.

Population

Size.—Mid-year 1979, 37.6 million with annual growth of 1.6%. Capital city, Seoul, population 7.5 million. Second largest city, Pusan, 2.5 million.

Language.—Korean; English used generally in foreign trade.

Education.—Compulsory education through sixth grade. Literacy rate, 90%.

Labor.—Total labor force estimated at 14.4 million 1979; Average unemployment rate during 1979, 4%.

background notes

[South] Korea

United States Department of State
Bureau of Public Affairs

October 1983

Official Name: Republic of Korea

PROFILE

People

Noun and adjective: Korean(s). **Population** (1983): 40 million. **Annual growth rate:** 1.6%. **Ethnic groups:** Korean; small Chinese minority. **Religions:** Buddhism, Christianity, Shamanism, Confucianism. **Language:** Korean. **Education:** *Years compulsory*—6. *Number of students*—9,951,000. *Attendance*—of those eligible 91.65% attend middle school, 56.8% high school, and 13.9% college (1980). *Literacy*—over 90%. **Health:** 1 doctor/1,554 persons (1979). *Infant mortality rate*—32/1,000 (1982). *Life expectancy*—68 yrs. (1979). **Work force** (14,722,000, 1982): *Agriculture, forestry, and fishing*—30.6%. *Mining and manufacturing*—22.4%. *Services*—47%.

Geography

Area: 98,500 sq. km. (38,000 sq. mi.); about the size of Indiana. **Cities:** *Capital*—Seoul (1980 pop. over 8 million). *Other major cities*—Pusan (over 3 million), Taegu (1.7 million), Inchon (1 million), Kwangju (727,000), Taejon (651,000). **Terrain:** Partially forested mountain ranges, separated by deep, narrow valleys; cultivated plains along the coasts, particularly in the west and south. **Climate:** Temperate.

Government

Type: Republic, with power centralized in a strong executive. **Independence:** August 15, 1948. **Constitution:** July 17, 1948; revised 1962, 1972, 1980. **Branches:** *Executive*—president (chief of state). *Legislative*—unicameral National Assembly. *Judicial*—Supreme Court and appellate courts, Constitutional Court. **Subdivisions:** Nine provinces, four administratively separate cities (Seoul, Pusan, Inchon, Taegu).

Political parties: *Government party*—Democratic Justice Party (DJP). *Opposition parties*—Democratic Korea Party (DKP), Korean National Citizens Party (KNCP). **Suffrage:** Universal over age 20.

Central government budget (1983 projected): Expenditures, $13.9 billion.

Defense (1983 est.): 6% of GNP; about one-third of national budget. **Armed forces** (1982): About 600,000 active.

Flag: Centered on a white field is the ancient Chinese symbol of yin and yang, a divided circle of interpenetrating red (top) and blue (bottom), representing the union of opposites. At each corner of the white field is a different trigram of black bars, symbols of the elements from the ancient pan-East Asian *I Ching* or "Book of Changes." Together, the yin-yang and the four trigrams represent eternal unity.

Economy

GNP (1982): $65.944 billion. **Annual growth rate** (1961-81): 8%. **Per capita GNP** (1982): $1,680. **Consumer price index** (1982 avg. increase): 7.3%.

Natural resources: Limited coal, tungsten, iron ore, limestone, kaolinite, and graphite.

Agriculture, forestry, and fisheries: 18.1% of 1982 GNP. *Products*—rice, barley, vegetables, fish. *Arable land*—22% of land area.

Manufacturing and mining: 35.3% of 1982 GNP. *Products*—Textiles, footwear, electronics, shipbuilding, motor vehicles, petrochemicals, industrial machinery.

Social overhead capital and other services: 46.5% of GNP.

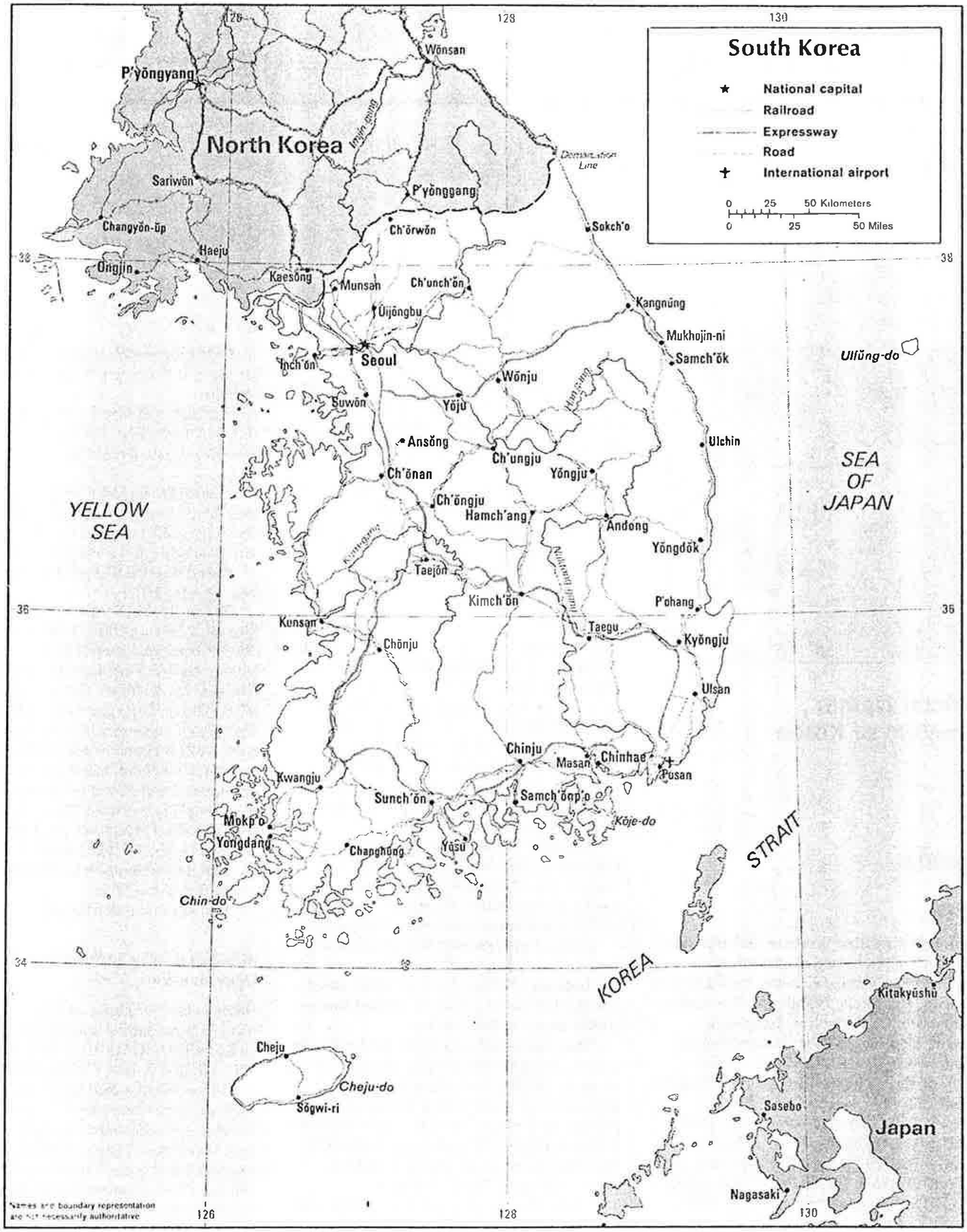
Trade (1982): *Exports*—$23.5 billion: textiles ($5.4 billion); transportation equipment ($3.4 billion), base metals and articles ($3.1 billion), electrical products ($2.1 billion), footwear ($1.2 billion), fish and fish products ($0.8 billion). *Major markets*—US, Japan, European Community, Middle East. *Imports*—$24.3 billion: crude oil ($6 billion), grains ($0.9 billion), machinery ($4.4 billion), chemicals and chemical products ($1.8 billion), base metals and articles ($1.7 billion), transportation equipment ($1.4 billion). *Major suppliers*—Middle East, Japan, US.

Official exchange rate (October 1983): About 780 won=US$1.

Fiscal year: Calendar year.

Membership in International Organizations

Official observer status at UN; active in many UN specialized agencies (FAO, GATT, IAEA, IBRD, ICAO, IDA, IFC, ICO, IMF, ITU, UNESCO, UPU, WHO, WIPO, WMO) and other international organizations (Asian-African Legal Consultative Committee, Asian People's Anti-Communist League, World Anti-Communist League, Colombo Plan, Economic and Social Commission for Asia and the Pacific, Geneva Conventions of 1949 for the Protection of War Victims, Asian Development Bank, INTELSAT, International Whaling Commission, Interparliamentary Union, INTERPOL); official observer status in African Development Bank and Organization of American States.


South Korea
National capital
Railroad
Expressway
Road
International airport
0 25 50 Kilometers
0 25 50 Miles
North Korea
P'yŏngyang
Wŏnsan
Sariwŏn
P'yŏnggang
Changyŏn-ŭp
Ch'ŏrwŏn
Sokch'o
Haeju
Ongjin
Kaesŏng
Munsan
Ch'unch'ŏn
Ŭijŏngbu
Kangnŭng
Mukhojin-ni
Samch'ŏk
Ullŭng-do
Inch'ŏn
Seoul
Wŏnju
Suwŏn
Yŏju
Ansŏng
Ch'ungju
Ulchin
Ch'ŏnan
Yŏngju
SEA OF JAPAN
YELLOW SEA
Ch'ŏngju
Hamch'ang
Andong
Yŏngdŏk
Taejŏn
Kimch'ŏn
P'ohang
Kunsan
Taegu
Kyŏngju
Chŏnju
Ulsan
Chinju
Masan
Chinhae
Pusan
Kwangju
Sunch'ŏn
Samch'ŏnp'o
Kŏje-do
Mokp'o
Yongdang
Changhŭng
Yŏsu
STRAIT
Chin-do
KOREA
Kitakyūshū
Cheju
Cheju-do
Sŏgwi-ri
Sasebo
Japan
Nagasaki
Names and boundary representation are not necessarily authoritative

GEOGRAPHY

The Republic of Korea (South Korea) occupies the southern portion of a mountainous peninsula, about 966 kilometers (600 mi.) long and 217 kilometers (135 mi.) wide, projecting southeast from China and separating the Sea of Japan from the Yellow Sea (known in Korea as, respectively, the East Sea and West Sea). Japan lies about 193 kilometers (120 mi.) east of Pusan across the Sea of Japan. The most rugged areas are the mountainous east coast and central interior. Good harbors are found only on the western and southern coasts.

South Korea's only land boundary is with North Korea, formed by the Military Demarcation Line (MDL) marking the line of separation between the belligerent sides at the close of the Korean war. The Demilitarized Zone (DMZ) extends for 2,000 meters (just over 1 mi.) on either side of the MDL. The North and South Korean Governments both hold that the MDL is not a permanent border but a temporary administrative line.

Seoul, the capital, is less than 48 kilometers (30 mi.) from the DMZ, near the west coast. Seoul's climate is hot and rainy in summer; winters are cold, dry, and windy, with generally light snowfall; mean January temperature is 5°C (23°F). Fall is traditionally Koreans' favorite season, with warm days, cool nights, and clear skies; such weather often lasts into mid-December.

PEOPLE

Korea was first populated by a Tungusic branch of the Ural-Altaic family, which migrated to the peninsula from the northwestern regions of Asia. Some of these peoples also settled parts of northeast China (Manchuria), and Koreans and Manchurians still show physical similarities—in their height, for example. The Korean people are racially and linguistically homogeneous, with no indigenous minorities.

South Korea's major population centers are mostly in the Seoul-Inchon area of the northwest and in the fertile plains in the south. The mountainous central and eastern areas are sparsely inhabited. Between 1925 and 1940, the Japanese colonial administration in Korea concentrated its industrial development efforts in the comparatively underpopulated and resource-rich north, resulting in a considerable movement of people northward from the agrarian southern provinces. This trend was reversed after World War II, when more than 2 million Koreans moved from the north to the south following the division of the peninsula into U.S. and Soviet military zones of adminstration. This southward migration continued after the establishment of the Republic of Korea in 1948 and during the Korean war (1950–53). About 10% of the people in the Republic of Korea are of northern origin. With about 40 million people, South Korea has one of the world's highest population densities—much higher, for example, than India or Japan. North Korea has about 19 million people and a substantially lower population density. Expatriate Koreans live mostly in China (1.2 million), Japan (600,000), the United States (500,000), and the Soviet Union.

Language

Korean is a Uralic language, remotely related to Japanese, Mongolian, Hungarian, and Finnish. Although there are dialects, the Korean spoken throughout the peninsula is mutually comprehensible. Chinese characters were used to write Korean before the invention of the Korean Hangul alphabet in the 15th century. These characters are still in limited use in South Korea; North Korea uses Hangul exclusively. Many older people retain some knowledge of Japanese from the colonial period (1910–45), and most educated Koreans can at least read English, which is taught in all secondary schools.

Religion

Korea's traditional religions are Buddhism and Shamanism. Buddhism has declined in influence from the heights it reached in the Koryo dynasty (A.D. 935–1292) but still commands the greatest number of adherents of any faith—about 16% of the population. Shamanism, the traditional spirit worship, is still widely practiced in rural areas. Although Confucianism remains the dominant cultural influence, its religious adherents are few and mostly elderly. Christian missionaries arrived in Korea in the 19th century and founded schools, hospitals, and other modern institutions throughout Korea. Today about 4 million Koreans, or 10% of the

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population, are Christian (about 75% Protestant)—the largest figure for any East Asian country except the Philippines.

HISTORY

According to legend, the god-king Tangun founded the Korean nation in 2333 B.C., after which his descendants reigned over a peaceful kingdom for more than a milennium. By the first century A.D., the Korean Peninsula, known as Chosun ("morning calm"), was divided into the kingdoms of Silla, Koguryo, and Paekche. In A.D. 668, the peninsula was unified under the Silla kingdom, rulership of which was taken over in 918 by the Koryo dynasty (from which is derived the name "Korea"). The Yi dynasty, which supplanted Koryo in 1392, lasted until the Japanese annexation of Korea in 1910.

Throughout most of its history, Korea has been invaded, influenced, and fought over by its larger neighbors. Major Japanese invasions occurred in 1592 and 1597, and the Chinese attacked in 1627. To protect themselves from such constant buffeting, the Yi kings finally adopted a closed-door policy, which earned Korea the title of "Hermit Kingdom." Though the Yis showed nominal fealty to the Chinese throne, Korea was in fact independent until the late 19th century, when Japanese influence became predominant.

In the late 19th and early 20th centuries, Japanese, Chinese, and Russian competition in Northeast Asia led to armed conflict. Having defeated its two competitors, Japan established dominance in Korea, annexing it in 1910. The Japanese colonial era was characterized by almost total control from Tokyo and by ruthless efforts to replace the Korean language and culture with those of the colonial power.

As World War II neared an end, the United States and the USSR agreed at Yalta that Japanese forces in Korea would surrender to the United States south of the 38th parallel and to the Soviet Union north of that line. This division of Korea was intended as a temporary administrative measure only. However, in 1946-47, the Soviet administration in the North refused to allow free consultations with representatives of all groups of the Korean people for the purpose of establishing a national government, and the United States and the Soviet Union subsequently were unable to reach agreement on a unification formula.

Korean Conflict

In the face of communist refusal to comply with the UN General Assembly resolution of November 1947 calling for UN-supervised elections throughout Korea, elections were carried out under UN observation in the U.S. zone of occupation, and on August 15, 1948, the Republic of Korea (ROK) was established there. The Republic's first president was the prominent Korean nationalist, Syngman Rhee. In September 1948, the Soviet Union established the Democratic People's Republic of Korea (DPRK) in the North under Kim Il Sung, a former guerrilla, who by some accounts served during World War II as a Soviet army major. Although Kim claimed authority over the entire peninsula, the UN General Assembly, on December 12, 1948, declared the ROK to be the only lawful government in Korea.

The United States withdrew its military forces from Korea in 1949. On June 25, 1950, North Korean forces invaded the Republic of Korea. In response, the UN, in accordance with the terms of its charter, engaged in its first collective action through the establishment of the UN Command (UNC), to which 16 member nations sent troops and assistance. At the request of the UN Secretary General, this international effort was led by the United States, which contributed the largest contingent. The UN forces initially succeeded in advancing nearly to the Yalu River, which divides the Korean Peninsula from China, but there large numbers of "people's volunteers" from the army of the People's Republic of China joined the North Korean forces. In December 1950, a major Chinese attack forced UN troops to withdraw southward. The battle line then fluctuated up and down the peninsula until the late spring of 1951, when it stabilized north of Seoul near the 38th parallel.

Armistice negotiations began in July 1951, but hostilities continued until July 27, 1953, when, at the village of Panmunjom, the military commanders of the DPRK forces, the Chinese people's volunteers, and the UNC signed an armistice agreement. Neither the United States nor the ROK is a signatory of the armistice per se, though both adhere to it through the UNC. No comprehensive peace agreement has ever replaced the 1953 armistice agreement, which remains in force. A Military Armistice Commission, composed of 10 members, 5 appointed by each side, is empowered to supervise implementation of the terms of the armistice.

The armistice called for an international conference to find a political solution to the problem of Korea's division. This conference met at Geneva in April 1954 but, after 7 weeks of futile debate, ended inconclusively.

Postwar Developments

Syngman Rhee served as president of the Republic of Korea until April 1960, when university students and others, rioting in protest against irregularities in the presidential election of that year, forced him to step down. A caretaker government was established, the constitution was amended, and in June national elections were held. The opposition Democratic Party easily defeated Rhee's Liberals, and in August the new National Assembly named Chang Myon prime minister. Chang's politically democratic but administratively ineffectual government, the Second Republic, lasted until May 1961, when it was overthrown in an army coup led by Major General Park Chung Hee.

After 2 years of military government under General Park, civilian rule was restored with the advent of the Third Republic in 1963. Park, who had retired from the army, was elected president (he was reelected in 1967, 1971, and 1978). In 1972, a popular referendum approved the Yushin ("revitalizing") Constitution, which greatly strengthened the executive branch's powers. Key provisions included indirect election of the president, presidential appointment of one-third of the National Assembly, and presidential authority to issue decrees to restrict civil liberties in times of national emergency. Park subsequently issued several such decrees, the best-known of which, EM-9, banned discussion of false rumors, criticism of the constitution or advocacy of its reform, and political demonstrations by students.

The Park era, marked by rapid industrialization and extraordinary economic growth and modernization, ended with the President's assassination in October 1979. Prime Minister Choi Kyu Ha assumed the presidency, as required by the constitution; his administration became the Fourth Republic. Choi immediately declared martial law to prevent disturbances in the confusion and uncertainty that marked the aftermath of the presidential assassination. The United States promptly reiterated its guarantee of the ROK's national security, lest North Korea try to take advantage of potential instability.

President Choi promised to hold early presidential elections and adopt a new constitution, but, by the late spring of 1980, he faced increasing demonstrations by campus activists and others. In mid-May, tens of thousands of students took to the streets of the capital; the government responded by intensifying martial law. Universities were closed, many political leaders and dissidents were arrested, and political activity was prohibited. When demonstrations continued in the city of Kwangju, army special forces units stationed nearby moved into the city. Excesses by these units sparked reaction by civilians, with casualties on both sides. By Korean official estimates, 170 persons died in these clashes; unofficial sources give substantially higher figures. The special forces units were withdrawn from Kwangju, and several days later, other army units restored central government authority in a surprise operation marked by minimal bloodshed. This confrontation between citizens and troops, the only such incident in modern Korean history, left a wound that has proven slow to heal. For many Koreans, the Kwangju incident evoked a mixed reaction of sorrow over the bloodshed and fear that domestic chaos might tempt North Korea to invade.

The political struggles that followed Park's death were matched by a struggle for leadership within the army. In December 1979, Major General Chun Doo Hwan began to expand his power, removing the army chief of staff. The following April, he assumed the directorship of the principal national security service, the KCIA. Chun retired from the army in the summer of 1980, after being promoted to four-star general. In September, under the procedures prescribed in the Yushin Constitution, he was named president by unanimous vote of the national electoral college.

In an October 1980 referendum, a new constitution was adopted, marking the beginning of the Fifth Republic. While retaining key features of earlier constitutions, including a strong executive and indirect election of the president, the new constitution also limited the president to a single 7-year term. In early 1981, elections were held under the new constitution for a National Assembly and an electoral college; the latter elected President Chun to a 7-year term beginning in March of that year.

With the adoption of the constitution, governmental power was consolidated and stability gradually restored. Although martial law ended in January 1981, the government, under laws enacted during the martial law period, retained broad legal powers to control dissent. An active and articulate minority of students, intellectuals, clergy, and others have remained critical of the Chun government and from time to time have organized demonstrations against it, but these actions have not had a major impact on the country's social and political stability.

Since the end of martial law, the government has pursued policies emphasizing social welfare, clean government, and "national reconciliation"—reduction of tensions between the government and its critics. It has purged a number of inefficient and dishonest officials and has relaxed rules on a broad range of subjects including military service, university admissions, foreign study and travel, and the national curfew. It has freed or reduced the sentences of more than 8,000 prisoners, including about 420 who had been detained for political reasons. The most prominent of the latter was opposition leader and former presidential candidate Kim Dae Jung, who was freed at Christmas 1982.

The government has taken other liberalizing steps as well, including the restoration of civil, political, and employment rights to some of its opponents. The National Assembly has gained gradually in assertiveness, although power remains concentrated in the presidency. President Chun, who is barred from succeeding himself, has pledged to hand over power to a successor when his term ends in 1988.

Principal Government Officials
(October 14, 1983)

President—**Chun** Doo Hwan
Prime Minister—**Chin** Eui Jong
Deputy Prime Minister; Chairman, Economic Planning Board—**Shin** Byung Hyun
Minister of Foreign Affairs—**Lee** Won Kyong
Minister of National Defense—**Yoon** Sung Min
Ambassador to the United States—**Lew** Byong Hion
Ambassador to the UN—**Kim** Kyong Won
Speaker of the National Assembly—**Chae** Mun Schick

The Korean Embassy in the United States is at 2320 Massachusetts Avenue NW., Washington, D.C. 20008 (tel. 202-483-7383; information office, 202-483-6892).

ECONOMY

The Republic of Korea's economic growth over the past 20 years has been spectacular. The nation has advanced in a single generation from being one of the world's poorest countries to the threshold of full industrialization, despite the need to maintain one of the world's largest military establishments. Lacking natural resources, Korea has relied instead on its greatest asset, its industrious, literate people.

The division of the Korean Peninsula in 1945 created two distorted economic units. North Korea inherited most of the mineral and hydroelectric resources and most of the existing heavy industrial base built by the Japanese. The south was left with a large, unskilled labor pool and the majority of the peninsula's agricultural resources. Although both the North and South suffered from the widespread destruction caused by the Korean war, an influx of refugees added to the South's already burdensome economic woes. For these reasons, the ROK began the postwar period with a per capita gross national product (GNP) far below that of the North.

The ROK's meager mineral resources include tungsten, anthracite coal, iron ore, limestone, kaolinite, and graphite. There is no oil, and energy is a concern for government economic planners. The country has embarked on an ambitious program to build nuclear power plants; the first of these went into operation in 1978, and eight more are under construction or on order.

The ROK was self-sufficient in rice production in 1977, but rising demand and several disappointing harvests have since made it a net importer. Korea is the fourth largest market for U.S. agricultural products and one of our 10 largest trading partners—a marked change from a decade ago, when South Korea was a major recipient of U.S. foreign assistance (U.S. direct aid programs in Korea ended in 1980).

The nation's successful program of industrial growth began in the early 1960s, when the Park government instituted sweeping economic reforms, emphasizing exports and labor-intensive light industries. The government also carried out a currency reform, strengthened financial institutions, and introduced flexible economic planning.

From 1963 to 1978, real GNP rose at an annual rate of nearly 10%, with average real growth of more than 11% for the years 1973–78. While Korea's national production was rising throughout the 1960s and 1970s, the annual population growth rate declined to the current 1.6%, resulting in a 20-fold increase in per capita GNP in those two decades. Per capita GNP, which reached $100 for the first time in 1963, now approaches $2,000, far above that of North Korea.

Internal economic distortions, the political and social unrest that followed the 1979 assassination of President Park, and the effect of world economic developments such as the drastic increase in world oil prices in 1979 triggered a severe recession in Korea in 1980. The economy recovered somewhat in the following 2 years, but it was not until the spring of 1983 and the strengthening of economic recovery in the United States that Korean economic performance began to take on the buoyancy of earlier days. Korea's economic planners have shifted their emphasis from high to stable growth; moreover, the economy is maturing. Double-digit growth will probably never be repeated, but long-term growth prospects remain extremely bright.

The continuing military threat from the North and the lack of foreign economic assistance require Korea to devote a third of its national budget to defense. In the face of the North Korean military buildup, Korea must continue these large defense expenditures while maintaining economic growth.

FOREIGN RELATIONS

South Korea is committed to the principle of peaceful settlement of international differences, a commitment best illustrated by its restrained response to a number of armed provocations over the past 15 years. These include the 1968 Blue House raid, the shooting down in September 1983 of a Korean Air Lines airliner by Soviet fighters, and the October 9, 1983 terrorist bombing in Rangoon, Burma, which killed six of the ROK's most valued leaders.

South Korea has cast its lot with the West and the noncommunist world. It is active in international affairs and seeks to enhance its already impressive stature in the world community. Although not a member of the UN, South Korea keeps an observer mission, headed by an ambassador, at the UN General Assembly and participates actively in the work of many of the UN's specialized agencies.

Following the ratification in 1965 of a treaty normalizing relations between Japan and Korea, the two nations have developed an extensive relationship centering on mutually beneficial economic activity. Although the two countries' historic antipathy has at times impeded cooperation, relations at the government level have improved steadily and significantly in the past several years.

Korea's economic growth, energy requirements, and need for basic raw materials and for markets have given economic considerations high priority in the country's foreign policy. In light of these concerns, Korean diplomacy in recent years has concentrated on broadening its international base of support within the Third World, the Association of South East Asian Nations (ASEAN), and the Middle East.

A recurrent theme in all phases of Korea's foreign relations is its perennial competition with the DPRK for world stature and recognition. In this effort, the ROK has been highly successful: while most countries recognize the reality of two Koreas, more maintain diplomatic relations with the ROK than the DPRK (117 versus 106, with 69 countries having relations with both). The South's network of international trading relationships is broader than the North's, and South Korea has been selected to host a series of prestigious international events, including the 1983 Interparliamentary Union conference, the 1984 International Monetary Fund and World Bank annual conference, the 1986 Asian Games, and the 1988 Summer Olympics (to be held in Seoul).

NEGOTIATING EFFORTS WITH NORTH KOREA

Throughout the postwar period, both Korean Governments have repeatedly affirmed their desire for reunification of the Korean Peninsula, but no direct communication or any other contacts took place between the two governments or their citizens except through the Military Armistice Commission, until 1971.

In August 1971, the DPRK and the ROK agreed to hold talks through their respective Red Cross societies with the stated aim of reuniting the many Korean families separated during the Korean conflict. Following a secret meeting on July 4, 1972, North and South Korea announced an agreement to work toward national reunification through peaceful means and to end the atmosphere of hostility that had formerly prevailed. Although officials exchanged visits, and regular communications were established through a North-South Coordinating Committee and the Red Cross, no substantive progress was made. The contacts quickly broke down and were finally terminated by the North. The breakdown of the talks reflected irresoluble differences, with Pyongyang insisting that immediate steps toward reunification be taken before discussion of specific issues and Seoul maintaining that, given the two sides' history of violence, any realistic approach to reunification must be a gradual, step-by-step process. The U.S. Government

Travel Notes

Customs: All travelers entering the ROK must have a visa, which may be obtained from a Korean Consulate. Tourist visas are good for 60 days. No immunizations are required of travelers from the US.

Transportation: International airports serve Seoul (Kimpo), Pusan (Kimhae), and Cheju Island. Extensive intercity air, rail, and bus service is available, as is an excellent network of local bus, taxi, and (in Seoul) subway services.

Telecommunications: Seoul is 14 time zones ahead of eastern standard time (13 hrs. during daylight-saving time). International direct-dial service is available to Korea's major cities. Internal telephone and telegraph services are good and are rapidly being modernized and upgraded.

Health: Health services are fair to good in most major cities. Many Korean physicians have been trained in Western medicine, and hospital services are adequate. Outside of the major hotels, water generally is not safe to drink.

Climate and clothing: Korea's temperate, four-season climate is like that of the eastern US. People dress more conservatively than in the US.

Scenic attractions: The Yi dynasty palaces in Seoul—Kyongbok, Changdok, and Toksu—are recommended, as are the National Museum of Korea and the Korean Folk Museum. The folk village at Suwon, located less than an hour's drive from Seoul, is a fine example of a "living museum." Sorok Mountain and Cheju Island are popular scenic attractions, while Pusan and Masan are examples of a modern Korean port and industrial site. The southeastern city of Kyongju has many fine antiquities. English is widely spoken at major tourist sites and facilities in the principal cities; in other areas, English speakers may be less readily found.

Principal holidays: Businesses and the US Embassy may be closed on the following holidays—National Day (Independence Day), August 15; New Year, January 1-3; Foundation Day (commemorating the founding of the nation by the god-king Tangun), October 3; Hangul Day (commemorating the creation of the Korean alphabet in 1446), October 9; Chusok (harvest moon festival), date varies, usually in August or September.

shares the ROK Government's view on this important point.

Despite these setbacks, President Chun has repeatedly suggested a summit meeting with President Kim of North Korea to discuss any and all proposals; an agreement to normalize inter-Korean relations pending reunification; and other specific measures to reduce tensions and promote humanitarian and cultural exchanges. In his January 1982 proposals, President Chun for the first time addressed the central political issue. He proposed that the North and South organize a conference to draft a constitution for a unified democratic Korean republic. The ROK intends to present draft constitution and urges the North to do likewise. The ROK maintains that a dialogue should be based on de facto recognition of each other's existing political, social, and economic systems. Seoul supports the recognition of both Koreas by the major powers in the region (the United States, USSR, China, and Japan), and the admission of both Koreas to the UN, pending peaceful reunification. North Korea rejects these ideas and continues to insist on preconditions to any dialogue with the ROK—removal of President Chun and withdrawal of U.S. troops.

U.S.-KOREAN RELATIONS

The United States remains committed, as it has for the past 30 years, to maintaining peace on the Korean Peninsula—a commitment vital to the peace and stability of the entire Northeast Asian region. The United States agreed in the 1954 Mutual Security Treaty to help the Republic of Korea defend itself from external aggression. In support of that commitment, the United States maintains about 39,000 troops in Korea, including the Second Infantry Division and several Air Force tactical squadrons. To coordinate operations between these units and the 600,000-strong Korean Armed Forces, a Combined Forces Command (CFC) has been established, headed by a U.S. four-star general who serves concurrently as Commander in Chief of the UN Command (CINCUNC). These U.S. forces effectively supplement the Korean people's ongoing and successful effort to deter aggression.

On Korean reunification, the United States believes that direct, government-to-government talks between the authorities of South and North Korea are necessary and that steps to promote greater understanding and reduce tension are needed to pave the way for reunifying the Korean nation. Because the United States believes that the fundamental decisions on the future of the Korean Peninsula must be taken by the Korean people themselves, it has refused to be drawn into separate negotiations with North Korea, as Pyongyang has suggested, on replacing the armistice agreement with a peace treaty. The United States stands prepared to participate in any discussions between the representatives of North and South Korea, if so desired by the two Korean governments and provided that both are full and equal participants in such talks.

Perhaps the most rapidly developing area in Korean-American relations is that of economics and trade. In 1982, Korea was the United States' ninth largest commercial partner, with a roughly balanced bilateral trade volume of nearly $12 billion. The United States seeks further expansion of that trade, as well as Korea's support in the global battle against protectionism, greater access to Korea's expanding market, and improved investment opportunities for U.S. business. Korean leaders seem determined to manage successfully the complex economic relationship, and there appears to be widespread recognition in Korea of the benefits to be gained from greater U.S. private sector involvement in the country's development process.

Since the 1950s, the U.S. relationship with the Republic of Korea has developed into one of our most important in Asia. The celebration in May 1982 of the centennial of Korean-American diplomatic relations and President Reagan's scheduled visit to Korea in the fall of 1983 underscore the special quality of U.S.-Korean relations and the determination of both governments to further develop that relationship.

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Deputy Chief of Mission—Paul M. Cleveland
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Counselor for Commercial Affairs—Norman D. Glick
Chief, Joint U.S. Military Advisory Group, Korea—Gen. Hugh Quinn

For subsequent personnel changes, consult *Key Officers of Foreign Service Posts.*

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The U.S. and Korea: Auspicious Prospects

January 31, 1984

United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by Paul Wolfowitz, Assistant Secretary for East Asian and Pacific Affairs, before the Asia Society, New York, January 31, 1984.

It is a pleasure to be here in the Asia Society once again. Several weeks ago, as I was considering the title for this speech, the air was filled with good omens. The two Korean children whom Mrs. Reagan had brought to America for heart surgery were returning home healthy. Relations between all elements of our societies had been warmed and buoyed by the strong message of support and human freedom that President Reagan had brought to Korea. And Korea had just announced that in 1983 its economy had grown 9% in real terms.

It was about this same time that I was looking at the very beautiful catalogue that was prepared for the recent exhibition of Korean folk art here at the Asia Society, entitled "Auspicious Spirits." I was struck by a particularly forceful painting of a dragon and by the accompanying text by Robert Moes, Curator for Oriental Art at the Brooklyn Museum:

> As everyone knows the Western dragon is the embodiment of evil, the serpent in the Garden of Eden, the symbol of Satan slain by St. Michael. The Far Eastern dragon is quite different, awesome but entirely benevolent. A dragon is the most auspicious of dreams; if a man dreams of one, he will enjoy great success; if a woman does, she will bear a son.

I have titled this speech, "The United States and Korea—Auspicious Prospects," partly as a tribute to the Asia Society's many contributions and to those that the new Korea Society undoubtedly will make and partly as a reflection of optimism about the growing and vital relations between Korea and the United States. But that Western dragon is a helpful reminder that those prospects must be fashioned from materials that are harsh and forbidding and by harnessing forces that are far from benevolent.

A hundred years ago, about the time that Korean folk artist was painting his blue dragon, President Chester A. Arthur received the first Korean mission to reach our shores. He greeted them with these words:

> This republic, while conscious of its power, or its wealth, and of its resources, seeks, as our history shows, no dominion or control over other nationalities and no aquisition of their territory but does seek to give and receive the benefits of friendly relations and of a reciprocal and honest commerce.

As the United States and Korea entered a new era, President Arthur and his lesser known successors were true to these words. Within a dozen years, Americans had helped Korea build its first electric plant, its first water works, its first trolley system, and its first railway. Two dozen years after that, inspired by President Woodrow Wilson's 14 points and spurred by groups in exile, including the famous "Liberty Congress" in Philadelphia, Koreans raised their voices for their own right of self-determination. In 1919 a Korean "declaration of independence" was read at Independence Hall in Philadelphia, the very spot at which our own Declaration of Independence was first proclaimed.

Friendly relations, economic progress, and political freedom remain the blessings Americans most want to share with the world. Unfortunately, the world will not always let things pass so peacefully.

A hundred years and a day after that first Korean delegation arrived on our shores, a Russian jet fighter tracked and downed Korean Air Lines Flight #007. Barely 6 weeks later, North Korean officers assassinated 17 South Koreans, including four Cabinet members, in Rangoon. This act of premeditated murder took the lives of some of Korea's most distinguished and talented leaders—men who, incidentally, were friends of the United States and, I am sure, of many persons in this room. Only a few weeks after that, a North Korean vessel was caught trying to infiltrate into South Korean waters.

Koreans must sometimes wonder why they, over the years and centuries, have so frequently borne contention, conflict, and tragedy. To Koreans the modern era must seem about as uncertain and dangerous as any period in the long history of the peninsula.

Security Concerns

There are today more soldiers and more weapons on the peninsula than there were in June 1950. North Korea devotes over 20% of its GNP to its military. It maintains a standing army of 800,000 men, including the largest commando forces in the world. The North fields twice as many maneuver battalions, armored vehicles, and tanks as the South. Along a front only 120 miles wide, the North fields three-fourths as many artillery pieces as the U.S. Army has worldwide. If the North should some day turn from assassination to invasion, it could mount an attack with little warning and sustain intensive combat for several weeks—even without any support from its major allies.

The security threat facing South Korea is quite real. Today it is easy to take for granted South Korea's restrained reaction to the Rangoon bombing. But it is not an exaggeration to say that at the time the peace of the entire region depended on the statesmanship of the South Korean leadership. It is against this background that we have received the latest North Korean proposals on talks, which I will discuss later on.

Today I would like to talk not just about the perils South Korea faces and its security needs but also about the promises it offers for the historic dreams of both our countries—economic well-being, political freedom, and friendship among nations. I speak of each of these aspects not to cover all topics but to adequately cover one topic—the future of Korea and our relations with it.

For security, economic growth, political development, and sound international relations are four related problems. They are intertwined. Without a secure environment, political and economic progress is endangered. Without political and economic progress, security is undermined. Without peaceful progress and strength, sound relations between countries, and the reduction of tension throughout the peninsula, will never be achieved or, once achieved, be long sustained.

President Reagan's trip to Korea last fall symbolized U.S. commitment to all four of these goals. It was a trip that he and the First Lady took despite threats to their personal safety from the North—threats that, given recent history, had to be taken seriously. Of the messages the President brought, none was more visible—whether in his appearance before the National Assembly or at the demilitarized zone (DMZ)—than his commitment to the security of South Korea.

Preventing war on the Korean Peninsula is a matter of the greatest importance, not only for our allies in the Republic of Korea but for regional and global security as well. In light of North Korea's past actions and its present capabilities, simple prudence requires that we and the Republic of Korea maintain a strong and credible military deterrent. President Reagan made clear to his Korean hosts that the United States will continue to do its part. Our ground forces will remain in Korea, because we believe that they, along with the air and naval forces we could bring to bear, add both strength and credibility to deterrence. In addition, we will continue to assist Korea's force modernization program by providing credits for the purchase of essential military equipment. Through those efforts and the substantial commitment of South Korea's own resources, we expect slow but steady progress toward a more secure balance on the peninsula.

In the coming years, the widening economic gap between the two Koreas will make the South ever more capable of reducing the military superiority the North enjoys today. We hope a strengthened South and our own continued commitment will convince the rulers in the North that a policy of military confrontation cannot succeed and that peaceful dialogue is the only sensible course. That is our hope for the future. But for today our faith rests in a strong deterrent and a proffered hand of peace, a combination that has prevented war for 30 years.

Economic Progress

Korea has used those 30 years of peace to build its economy at a phenomenal, almost unprecedented, rate. Without significant natural resources and highly vulnerable to world economic conditions, the Korean economy nonetheless grew at an average annual real rate of over 8% between 1961 and 1982. From a base in 1961 of $2.3 billion, Korea's gross national product today has grown to $70 billion, approximately the 25th largest in the world. In those 20 years, Korea's per capita income grew from roughly $80 to $1,800. Korea began as an aid recipient—on a massive scale—and has become one of the world's important industrial and trading powers. Korea today ranks among the world's leading manufacturers of such products as shoes, textiles, ships, and steel. Korean shipbuilders, to take just one example, are already the second largest in the world.

As Korea's industrial capacity has grown, so has our bilateral trade—from some $300 million 20 years ago to more than $12 billion in 1983. That is an increase of 4,000%. Now our ninth largest trading partner, South Korea ranks sixth as a market for U.S. exports and in the top three or four as a purchaser of U.S. agricultural products. All of the aid we provided Korea in its early, struggling years amounts to less than half of 1-years' trade today.

The phenomenal success of our ally, in some part due to our own efforts, should be a source of pride and comfort to Americans. But it is sometimes a source of discomfort as well. Satchel Paige, that great American folk philosopher who moonlighted as a baseball pitcher, once said: "Don't look back. Someone might be gaining on you." When American businessmen look back, they see that East Asian economies have been gaining. The labels "Made in Japan," "Made in Taiwan," and "Made in Korea" have become increasingly common; some Americans would say disturbingly so.

When President Arthur welcomed that first Korean mission 100 years ago, he said that America seeks "to give and receive the benefits . . . of a reciprocal and honest commerce." Our wish has not changed. Nor has our demand that the access to markets and the terms of trade must remain reciprocal and honest. At times for Korea, this does not always seem to be the case. Korea, we are told, trades unfairly, restricting imports and providing massive subsidies for export industries. Korea, it is also said, is concentrating massive resources in selected industries and targeting potentially vulnerable foreign competitors for extinction. Korea, it is finally charged, is a low-wage country and thus has an unfair advantage in international markets. In short, the argument proceeds, Korea is not playing by the rules of the game.

We lose no opportunities to emphasize to the Korean Government, as the President did during his recent visit, our belief that Korea, as a major beneficiary of the international free trade system, has a responsibility to defend that system. In our view, Korea's task should be to pare away barriers blocking access to its domestic market, despite political and bureaucratic difficulties, and to establish predictable and equitable conditions for foreign investors.

But each charge of unfair practices must be evaluated on its merits, not used as an excuse for protectionist instincts of our own. Certainly much of Korea's success is due not to unfair practices but to hard work and wise investment. But just as certainly there are aspects of Korea's policies which are not acceptable, such as Korea's own local content legislation and restrictions imposed on foreign businesses.

The economic leadership of Korea recognizes the need to open its market further and to reduce direct government intervention in the economy. There has been progress. Trade has been liberalized, and tariffs are being reduced. But there needs to be more. Korean economic planners know that without further liberalization, the transition toward full development will be retarded.

Today, as in the past, we are for a reciprocal and honest commerce. We seek no more; we are entitled to no less.

We, of course, have a parallel obligation to maintain the openness of our own economy. We must never forget that the American economy is heavily dependent on exports. One out of every seven jobs in manufacturing and one of every three in agriculture is due to exports. We have mechanisms to counter unfair trade practices, and we will not hesitate to use them. But we should not let them be perverted into mechanisms for restricting fair trade as well. If they are, I believe the prospects for reducing trade barriers in Korea—and in every other country to which we sell—will decline dramatically.

The growing prosperity of which I have spoken, so essential to Korea's security, is the direct result of the economic freedom Koreans enjoy. Economic freedom transforms the energy and creativity of a people into economic success. It does so in a manner that enhances, rather than restricts, the opportunity and fulfillment of peoples' lives.

Both security and economic freedom, in turn, are necessary to political freedom. Personal liberty, as well as national liberation, was the goal of those early Korean patriots who, inspired by Woodrow Wilson, bravely declared Korean independence in 1919. Their declaration proclaimed:

> [This] is the day of the restoration of all things, on the full tide of which we set forth without delay or fear. We desire a full measure of satisfaction in the way of life, liberty, and the pursuit of happiness, and an opportunity to develop what is in us for the glory of our people.

Their spirit remains alive in Korea today. The importance of political freedom, not only for its contributions to security and economic progress but also as a goal in its own right, is a third major theme of our policy toward Korea.

Political Freedom

In his speech to the Korean National Assembly, the President underscored our belief that democratic political systems are a source of fundamental national strength and stressed our support for progress toward more complete democracy in Korea. The President noted the security context within which Korea's political evolution must go forward. But he also emphasized that a political system that inspires broad popular support and participation is not a luxury enjoyed at the cost of national security but an essential element of that security. I remember the applause that greeted the President when he said that:

> The development of democratic political institutions is the surest means to build the national consensus that is the foundation of true security.

Steps already taken by the government, and others contemplated for the future, suggests to me a recognition that further liberalization has become an essential feature of Korea's political landscape. The Christmas amnesty in which record numbers of students and political prisoners were released is a positive development. President Chun's pledge to step down from the presidency when his term ends in 1988 and hand over power to a successor is an important step toward what would be the first peaceful and constitutional transfer of power in Korea's modern history. President Reagan made clear in both his public and private statements during his visit that such a commitment to democratic progress is essential to progress on all fronts and would have our full support.

We will continue to make our support for such efforts known through both public statements and private representations. But while we must not spare our efforts, we must not exaggerate the degree of our influence. Our proper role is to encourage the Koreans' own efforts for democracy while helping to provide the shield and support that make democratic development possible.

Discussions of democratic and economic rights in Korea all too often end here—with a pledge to urge and support efforts to promote democracy in the South. Today, because this group is dedicated to the well-being of all Asians, not just those living under friendly governments, I want to add a plea for progress toward individual freedom in North Korea as well.

Repression in the North

We do not know as much as we would like about life in North Korea. This itself is a measure of the strict controls the North Korean Government has imposed. But we know enough to say that North Korea is among the world's most repressive countries.

If you lived in North Korea, you could not choose your profession. You could not leave your village without permission—permission granted for only limited purposes. Your children would be drilled daily in rote homage to Kim Il-song and his family. Listening to foreign radio broadcasts or religious observance would be punished severely by measures including torture and imprisonment. It has been estimated that 100,000 such "ideological offenders" are held in camps. Right to trial, ready access to information from outside the country, free speech and assembly are, of course, nonexistent. Access to better jobs, schools, hospitals, and stores depend on security ratings based in part on the political behavior and class background of your relatives, not merely since 1950 but since the Japanese occupation of 1910.

This is a partial listing of the deprivations and degradations Koreans living north of the 38th parallel must endure. I hope that our attention to the need for political progress in the South does not prevent us from speaking out for the welfare of those unfortunate enough to live in the North.

Koreans in both the North and the South suffer an additional burden—the burden of division. For them the harsh confrontation between the North and South is a continuing personal tragedy. It divides families, distorts political life, absorbs valuable resources, and instills a pervasive fear and suspicion. The reduction of tensions within the peninsula is a fourth major theme of our policy toward Korea.

Reducing Tensions

We believe that the problems of a divided Korea must be addressed by the two Korean states and that a dialogue between them is, therefore, required. The obstacle to dialogue for these 30 years and more since an armistice was signed in Korea has been North Korea's refusal to recognize the legitimacy of the Republic of Korea and to deal with its government. It has spurned numerous offers over the years for direct, unconditional talks between North and South. Instead, too often North Korea has made known through deeds as well as words its antagonism toward the Republic of Korea and its willingness to employ any means, including military force, to achieve reunification on its own terms. The Rangoon attack was only the latest and most horrible in a series of attempts mounted by Pyongyang on the lives of South Korean leaders. Its record has bred deep skepticism in the South toward the North's proposed "solutions." These proposals customarily call for the withdrawal of U.S. forces and a change of government in the South as preconditions to dialogue. We share the skepticism of our Korean allies.

Recently we have had from the North yet another proposal. This time, the North seems to be expressing a willingness to talk not just with the United States but with the Government of the Republic of Korea. Despite a skepticism borne of repeated experience, we will consider their proposal carefully, for the chance of peace, however slim, is too precious to cast away.

As we do so, we will continue to be guided by the principle that the South must be a full and equal partner in any talks. We do not intend to move in ways that could undermine our alliance and the effectiveness of our deterrence. As always, we favor direct North-South discussions. If others are to be involved, both we and the South Korean Government have made known our preference for a four-party format, in which China would join us and the two Koreas at a conference table. We believe that China could make a constructive contribution to this process.

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At the same time, we will continue our efforts through the Miltary Armistice Commission to develop concrete measures for reducing the risk of miscalculation and war along the DMZ. In the past, we have proposed mutual notification of military exercises, for example, and mutual observation of such exercises—confidence-building measures, some of which have been adopted in Europe by NATO and the Warsaw Pact. There is no need to delay a discussion of such measures: the Military Armistice Commission forum is in place, and proposals are already on the table.

We will also continue to support the numerous proposals put forward by South Korea to reduce the pain that the division of the Korean Peninsula causes to its people, North and South. Proposals for family visitation—which could ease the burden of the more than 10 million Koreans who are members of divided families—exchanges of mail and other simple human measures could go far to reduce the stark isolation of the two Koreas from each other and prepare the way for discussion of the inevitably more complicated and difficult question of political reunification.

The problems of security, peace, and development that the Republic of Korea must confront, and which are a part of the life and outlook of its people, sometimes seem daunting. I would nevertheless contend—and Korean history seems to demonstrate—that the resilience, determination, and strength of its people will enable them to cope with those challenges successfully. And not merely to cope, but to overcome.

Conclusion

As a friend and ally of the Republic of Korea, the United States can take a measure of pride in its achievements and satisfaction in the benefits those achievements have brought to us. Korea's military strength serves our interest in the maintenance of peace and stability in Northeast Asia just as it serves Korea's own need for security. Its commitment to defense is buttressed by a remarkable willingness to bear the substantial costs of defense. Its economic development has transformed Korea from an aid recipient to one of our largest trading partners. Korea has become an increasingly active participant in international diplomacy, and more often than not its positions on issues far removed from Korea are similar to our own, because its interests, in an open international economic system and a stable and nonviolent political order, also coincide fundamentally with ours.

The South Korea of today is strikingly different from the one of 30, 10, or even 5 years ago, and the transformation has been as positive as it has been dramatic. And as South Korea has changed, so has the U.S.-Korean relationship. These facts are, I believe, still inadequately known to the American people. Perhaps it will take the Seoul Olympics of 1988 to bring home to Americans at large the nature of Korea today and of our ties with that country.

In the meantime, it will fall to us—in government and in groups such as this one—to pay heed to what is happening in Korea, to understand what developments there mean now and can mean in the future for our interests, and to spread the word.

I began this talk with reference to the recent exhibit here of Korean folk art and, in particular, to a dragon painted a century ago. I would like to end it with another and even earlier work from that same exhibit, a hand-carved Phoenix. In the West, the Phoenix has for centuries stood for a miraculous resurrection from the ashes. As such, it is an appropriate symbol of the remarkable postwar economic growth first of Japan and now of Korea.

In the East the Phoenix carries another meaning. It is a symbol of a people's desire for peace, prosperity, and good government. The hopes, skill, and industry of that 18th century artist bespeak auspicious prospects for Korea, not just in the remainder of this decade but in the decades to come. ■

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KOREA

New Policies And Sustained Growth Spur U.S. Exports

By Scott Goddin

U.S. exports to Korea are expected to increase 8 percent to over $6 billion in 1984. A wide-ranging revision of Korea's Fifth Five-Year Economic and Social Development Plan is expected to provide numerous opportunities in important sectors for U.S. exporters. Major facets of the revised plan will include improvement of living standards and balanced development between regions.

U.S. exports 1983—$5,924.9 million
U.S. imports 1983—$7,147.8 million

Opportunities should open up for U.S. suppliers of food processing and packaging equipment, health care services and equipment, and products and services designed to improve Korea's transportation and communications infrastructure. However, the revised plan is likely to call for delays in certain industrial and infrastructure projects in order to reduce Korea's foreign capital requirements—another of the plan's goals.

The Korean government announced its intention to revise the plan for the remaining years (1984-86) to bring the plan's assumptions into harmony with rapidly changing domestic and international economic conditions. Stronger than expected growth rates, lower inflation, and moderate energy prices have necessitated the new projections. Major goals of the revised plan include improved balance of payments (through increased national savings and exports), technological innovation, and greater autonomy for the private sector. Full details of the revision are not yet available.

In 1983, Korea's real GNP growth exceeded 9 percent, a rate once again approaching the exceptional growth rates attained during the "economic miracle" of the 1960s and 1970s. Despite the tragedies of KAL Flight 007 and the Rangoon assassination of four Cabinet members and 12 other government officials, economic expansion surpassed early projections of 7.5 to 8 percent for the year, with the government forecasting continued growth in the same range through 1986.

While expansion in early 1983 was fueled by a domestic construction boom and increased consumer spending, strong growth in exports and industrial production was registered in the last six months as traditional markets continued to recover. (Exports worldwide increased 8 percent and imports 7.5 percent in 1983.) Korean exports to the United States were up 27 percent over 1982, and U.S. exports to Korea increased 11 percent.

One of the major goals of the Korean economy in the 1980s is to upgrade and diversify its industrial base to accommodate technological and other changes in international trade. This transition should open up further opportunities for U.S. exporters, particularly in electronics, communications, and computers.

In an attempt to avoid unfavorable comparisons as a "second Japan," the Korean government has made a commitment to open up its markets to foreign goods and has recognized the importance of attracting foreign investment. Key economic planners seem to have accepted the fact that international competition will encourage the improvement of the quality and competitiveness of Korean exported goods.

To this end, the Korean government recently undertook two market liberalization measures designed to increase foreign access to its markets. Thirty-two items were added six months ahead of schedule to the automatic approval list for import licenses, largely as a goodwill gesture in the wake of President Reagan's visit to Korea last November. Liberalized items include certain categories of carpets and rugs, refrigerators, and main-frame computers.

A second, more substantive step was the announcement of a major tariff reform package aimed at reducing tariff levels to general OECD levels by 1988. While the Korean government retains an array of adjustment mechanisms which can be used to prevent import surges and market disruption, these recent measures should benefit U.S. exporters in both the short and long term.

An additional measure of major significance to potential investors in Korea is revision of the Foreign Capital Inducement Law which regulates foreign investment. The new regulations, which are scheduled to take effect in June, will ease investment approval procedures, remove restrictions on repatriation and reinvestment of profits, and restructure investment tax incentives. As the third largest developing country borrower, Korea is particularly concerned with attracting foreign investment. Areas of special interest to the U.S. investors will include electronics, communications, and services in support of the 1986 Asian Games and 1988 Olympics.

U.S. exports to Korea should grow approximately 8 percent to exceed $6 billion in 1984. Best prospects will continue to include a variety of agricultural products, analytical and scientific instruments, large-scale computers, electronics industry production and test equipment, machine tools, special construction equipment, and industrial raw materials (coal, chemicals, scrap metals, and logs). Demand for U.S. products which serve as inputs to Korean goods facing restrictions in foreign markets (i.e., textiles and footwear) may remain relatively slack (i.e., cotton and leather).

Major projects which will be of interest to U.S. firms in 1984 include construction and provision of equipment for the Seoul and Pusan subway systems, sewage treatment facilities, and a domestic telecommunications satellite. Construction of two nuclear power plants and expansion of Seoul and Pusan international airports may be delayed under the revised Five-Year Plan.

The Korean government has announced that it is sending a major purchasing mission to the United States in late February. The mission, which is expected to include 50 to 70 representatives of Korea's largest companies, will be aimed at reducing the U.S. deficit in bilateral trade with Korea, expected to exceed $1.4 billion for 1983. The mission will be lead by Minister of Commerce and Industry Kum, Jin Ho, who will meet with Secretary Baldrige in Washington on March 5 for the Eleventh U.S.-Korea Commerce Ministers' Meeting. The mission is expected to last approximately three weeks.

For additional information on Korea, contact the Commerce Department's desk officer on 202-377-4399.