Asia-Pacific Research and Training Network on Trade
Working Paper Series, No 62, March 2009

Duty-free market access in the Republic of Korea: Potential for least developed countries and Bangladesh

By Mostafa Abid Khan and Mohammad Farhad***

* Dr. Mostafa Abid Khan is Joint Chief, Bangladesh Tariff Commission (BTC). **Mohammad Farhad is a Research Associate at the Bangladesh Foreign Trade Institute (BFTI). An earlier version of this paper was presented by the authors at a seminar organized by BFTI on 4 December 2008. The technical support of the United Nations Economic and Social Commission for Asia and the Pacific is gratefully acknowledged. The opinions, figures and estimates are the responsibility of the authors and should not be considered as reflecting the views or carrying the approval of the United Nations, ARTNeT, BTC or BFTI. Any remaining errors are the responsibility of the authors. The principal author can be contacted at abidshaon@yahoo.com

Contents

.

Abstract

The paper attempts to assess the benefits of Duty-Free and Quota-Free Market (DFQF) access initiatives of the Republic of Korea for least developed countries (LDCs), which have been in place since 1 January 2008. Following a brief introduction on the background of this initiative, this paper examines the exports profile of LDCs, reviews the DFQF scheme of the Republic of Korea, and assesses the potential benefits of the DFQF scheme for LDCs as well as Bangladesh.

The export profile of LDCs shows that the share of those countries in world exports in recent years has increased; this can be attributed to price increases for petroleum constituting a major share of LDC total exports. The Republic of Korea is the tenth largest destination of LDC exports, which indicates that the DFQF initiatives of the Republic of Korea for LDCs will have a positive impact on LDC exports.

The DFQF scheme of the Republic of Korea covers 6,967 tariff lines, representing about 59 per cent of the all tariff lines of its Customs Schedule. There are at least 25 chapters where product coverage within the chapter is very low, notably below 10 per cent. These include garments, made-up textiles, and major agricultural products including fisheries. Among the DFQF lines, 1,464 lines are duty-free on a most-favoured nation (MFN) basis. Hence, LDCs enjoy tariff preferences on 5,503 tariff lines, while the average margin of preference on these lines is 7.89 per cent. The margin of preferences in most cases is either 6 per cent or 8 per cent. In order to enjoy the preference granted under the scheme, the products should be wholly obtained, or should have at least 50 per cent value addition.

Analysis also reveals that the DFQF scheme covers 36.1 per cent of LDCs' export to the Republic of Korea in 2007, keeping 64.9 per cent of current LDC exports to that country outside the purview of preferential treatment. Only three major export items from LDCs – copper cathodes, raw tobacco and plywood – enjoy -free access. Bangladesh, Congo, the Lao People's Democratic Republic, Malawi, Myanmar, Tanzania, Uganda and Zambia are likely to benefit from duty-free access for these items.

The Republic of Korea is the seventh-largest destination for Bangladesh exports. Bangladesh enjoys preferential access to the Republic of Korea under the Asia-Pacific Trade Agreement (APTA). DFQF access for LDCs adds 5,471 tariff lines for Bangladesh under preferential access. However, analysis shows that the additional lines cover only 4.63 per cent of Bangladesh's exports to the Republic of Korea in 2007. However, there are important apparel articles in the scheme that may yield benefits for Bangladesh. APTA continues to remain attractive to Bangladesh because of higher trade coverage and more relaxed rules of origin. Nevertheless, the DFQF scheme currently offered by the Republic of Korea is a milestone for the developing countries' initiative for LDCs, and one that is likely to lead to other countries coming up with similar initiatives. In time, the Republic of Korea is likely to incrementally increase the product coverage, which will lead to higher trade coverage and more favourable rules of origin, and will yield significant benefits for LDCs.

Introduction

Since the first World Trade Organization (WTO) Ministerial Conference held in Singapore, the LDCs have been striving for duty-free access for their products to the markets of major trading partners. During the High-level Meeting on LDCs held in 1997, most of the developed countries and some advanced developing countries committed to announcing duty-free treatment for LDCs. In the wake of the interest shown by some developing countries, the WTO General Council in June 1999 decided to waive the MFN principle for developing countries for 10 years to enable them to provide preferential treatment to LDCs. The Republic of Korea was the first developing country that came up with an initiative to provide duty-free access to all LDCs on 87 tariff lines at the 6-digit HS code level, which came into effect on 1 January 2000.

Demand for duty-free market access became much stronger while preparing for the Doha Ministerial Conference and thereafter. Consequently, at the Hong Kong Ministerial Conference, while commitment to providing duty-free and quota-free market access (DFQFMA) for all products of all LDCs was obtained from developed countries, the developing countries were also urged to provide such access to LDCs if they were in a position to do so. However, developing countries were allowed to phase in their commitments and enjoy appropriate flexibility in coverage. In response to the demand by LDCs, many developed countries improved their GSP schemes to provide DFQFMA to LDCs both before and after the Hong Kong Ministerial Conference. Some other countries expressed their intention to abide by the Hong Kong Ministerial Decision only after the conclusion of the Doha Round. In contrast, there were a few developing countries that did not have a binding commitment to provide DFQFMA for LDCs but which came up with the new initiative to provide enhanced market access to LDCs without waiting for the conclusion of Doha Round. The Republic of Korea was the first country among them to unilaterally decide to provide duty-free access to a number of products originating from LDCs. The duty-free scheme for LDCs became effective on 1 January 2008. This paper attempts to review the new initiative of the Republic of Korea and to assess the potential benefits for LDCs as well as Bangladesh from this initiative.

1. Methodology and data issues

Despite the fact that the Republic of Korea introduced the DFQF scheme in January 2008, it has yet to notify the scheme to WTO. For this reason, there has been a lack of awareness about this initiative. Tariff information on the recent initiative was collected from the ESCAP[1] website. The Republic of Korea maintains tariffs at the 10-digit HS code level. However, export data of LDCs as well as Bangladesh, and import data of the Republic of Korea, are available only at the 6-digit HS code level. Therefore, it was necessary to convert the tariff data to the 6-digit HS code level; this required a thorough examination of tariff data at the 10-digit level to ensure that each tariff line at the 6-digit level used for analysing the potential benefits of the DFQF initiative contained all 10-digit codes within the 6-digit codes. After conversion, the 6-digit duty-free HS codes were matched with trade data available at the Trade Map website of the

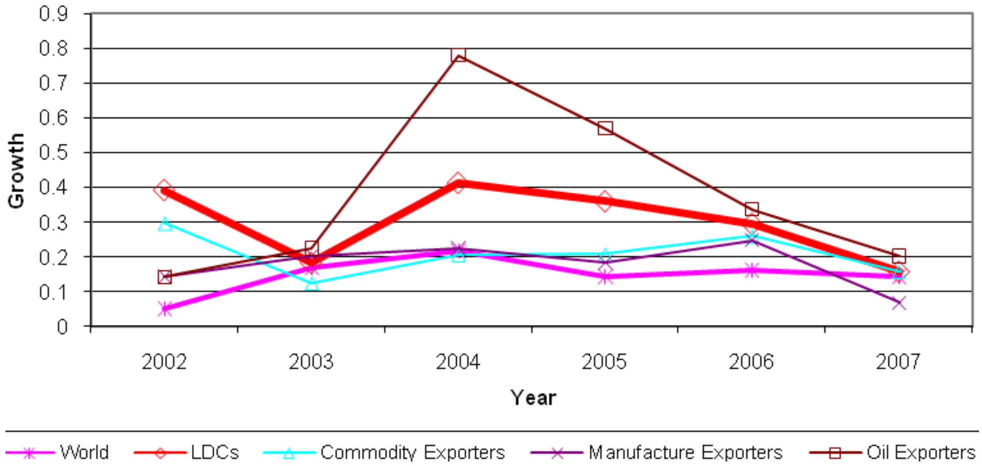
[1] http://www.unescap.org/tid/apta4.asp

International Trade Centre (ITC).[2] It should be noted that trade data are available only up until 2007. Moreover, the trade data do not contain any information regarding imports under preferential access. Therefore, the findings of this report are confined to potential benefits only. The actual benefits largely depend on the fulfillment of rules of origin and other requirements of the scheme. Potential benefits from the duty-free scheme have been looked at, using three indicators: (a) coverage of imports from LDCs and Bangladesh by the Republic of Korea under the duty-free scheme in terms of relative share of imports from LDCs and Bangladesh that have become duty-free in total bilateral imports; (b) the coverage of exports by LDCs and Bangladesh in terms of share of exports from LDCs and Bangladesh under the duty-free tariff lines in their total exports; and (c) market access under the duty-free scheme in terms of import value in the Republic of Korea.

2. LDC export profile

Since 2001, exports from LDCs have registered steady growth. In fact, between 2001 and 2007, the growth of exports from LDCs was higher than that of world exports (figure 1). As a result, the LDCs' share of world exports increased significantly from 0.4 per cent in 2001 to 0.9 per cent in 2007 (table 1).

Figure 1. Growth of exports from LDCs vis-à-vis world exports



Source: Estimated from data available at Trade Map, ITC.

[2] http://www.intracen.org/mat/lci/Default.aspx

Table 1. Exports from LDCs vis-à-vis world exports

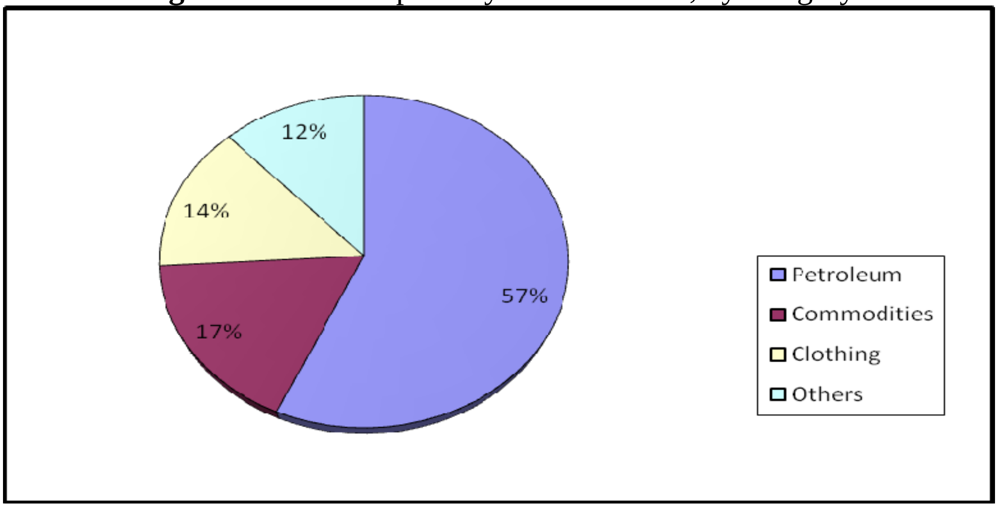
(Unit: US$ million]

Exporters	2001	2002	2003	2004	2005	2006	2007
World	6 074 320	6 380 449	7 453 357	9 069 790	10 364 915	12 036 912	13 754 932
Least developed countries	25 335	35 284	41 805	59 090	80 401	104 201	120 797
Share (%)	0.4	0.6	0.6	0.7	0.8	0.9	0.9

Source: Estimated from data available at Trade Map, ITC.

During the last 50 years of the twentieth century, LDCs were marginalized in terms of their share of world exports, despite policy reforms undertaken by them to make their economies export-oriented since the early 1980s. Reversal of the trend in the first decade of the twenty-first century can be attributed to the increases in the prices of oil and commodities. As shown in figure 1, five oil exporters[3] that, as a group accounted for 54.5 per cent of total LDC exports in 2007, experienced much higher growth between 2002 and 2007. In contrast, manufacturing exporters among the LDCs experienced the lowest growth, although their growth rates were slightly higher than world growth rates during the same period. This is also evident from the composition of LDC global exports. As can be seen from figure 2, petroleum and commodities accounted for 74 per cent of LDC global exports in 2007.

Figure 2. Global exports by LDCs in 2007, by category



Source: Estimated from data available at Trade Map, ITC.

In terms of specific country markets, table 2 shows that the European Union and the United States continue to be the most important destinations for LDC exports. However, between 2001 and 2007, China became an important market accounting for 20.4 per cent of the LDCs' global exports. The importance of the Republic of Korea as a market for LDCs has declined slightly, but it remains among the top 10 markets for

[3] Five oil exporters are Angola, Equatorial Guinea, Sudan, Yemen and Chad

LDCs. From this perspective, the preferential market access provided by the Republic of Korea is important for the expansion and diversification of LDC exports.

Table 2. Top 12 markets for LDC exports, 2001-2007

(Unit: Percentage)

Rank	Importers	2001	2002	2003	2004	2005	2006	2007
1	EU (27)	33.8	33.9	30.9	28.8	26.0	22.8	24.6
2	United States of America	26.8	23.9	24.4	21.6	24.0	23.9	22.3
3	China	8.0	8.7	13.3	16.9	18.8	19.8	20.4
4	India	3.6	3.3	3.1	2.7	2.8	4.7	5.3
5	Japan	3.0	4.0	3.4	4.0	4.3	5.2	4.5
6	Thailand	5.2	5.2	5.0	5.7	4.4	4.8	4.3
7	Taiwan Province of China	2.0	2.2	2.1	2.8	2.2	3.1	3.2
8	South Africa	0.5	0.6	0.5	1.1	0.9	1.2	2.3
9	Canada	0.9	1.0	1.6	1.5	1.9	1.5	1.9
10	**Republic of Korea**	**2.7**	**2.5**	**1.9**	**1.7**	**1.4**	**1.8**	**1.8**
11	Brazil	0.8	0.1	0.1	0.1	0.4	0.7	1.2
12	Saudi Arabia	0.7	1.1	0.9	0.9	0.7	0.7	0.9

Source*:* Estimated from data available at Trade Map, ITC.

3. Brief description of the DFQF Initiative of the Republic of Korea

The new scheme is an extension of Korea's earlier initiative, which now covers around 6,967 tariff lines at the 10-digit HS code level. These tariff lines cover around 59 per cent of total HS lines of the Republic of Korea's Customs Schedule. However, chapter-wise analysis shows that there are at least 25 chapters where product coverage within the chapter is very low, notably below 10 per cent (annex 1). These include garments, made-up textiles and major agricultural products including fisheries.

In view of the fact that the Republic of Korea did not notify its new initiative to WTO, other features of the scheme were not available to Bangladesh Foreign Trade Institute (BFTI). However, if the new Republic of Korea scheme is considered to be an extension of the earlier scheme for LDCs, it can be safely assumed that other features of the new scheme are similar to those of the previous one, which was notified to WTO in April 2000. According to the Presidential Decree on Preferential Tariff for Least Developed Countries notified to WTO[4], in the case of agriculture products that are eligible for minimum market access (MMA) in-quota, the preferential tariffs for LDCs apply only to in-quota amounts. In order to enjoy the preference granted under the scheme, the products should be wholly obtained or should have at least 50 per cent value addition, measured at FOB value of the product minus CIF value of inputs not originating in the exporting country or the Republic of Korea. There is a requirement for a certificate of origin to be issued by the authority designated by the Government of the exporting

[4] WTO document WT/COMTD/N/12/Rev.1, 28 April 2000.

country. There is scope for suspension of the preferential access for duly justified reasons such as injury to the domestic industry.

4. Potential benefits for least developed countries from the duty-free scheme of the Republic of Korea

Although the Republic of Korea's current scheme extends duty-free treatment to 6,967 tariff lines, 1,464 lines are duty-free on an MFN basis. Hence, LDCs can enjoy tariff preferences on 5,503 tariff lines; the average margin of preference on these lines is 7.89 per cent ranging from 1 to 800 (table 3). As can be seen from table 3, LDCs enjoy a margin of preference at rates of between 1 per cent and 10 per cent on the majority of the products, out of which the preference margins on most of the products are 6 per cent or 8 per cent.

Table 3. Frequency distribution of margin of preferences

Margin of preference	Number of HS lines at the 10-digit level
0<MP<=10	5 444
10<MP<=20	40
20<MP<=30	8
30<MP<=40	5
40<MP<=50	1
50>MP	5
Total	**5 503**

Source: Estimated from the tariff database of the Republic of Korea, available at the ESCAP website.

It should be noted that there are 4,365 tariff lines that are not subject to duty-free market access; the average tariff on these products is 24.7 per cent. Apparently, from the point of view of margin of preference, those products are more attractive to LDCs.

As mentioned above, in order to assess the benefits of the scheme in terms of