



Doing Business in Korea: 2012 Country

Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Korea

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Market Overview

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The long anticipated Korea-U.S. Free Trade Agreement (KORUS-FTA) will be *implemented* on March 15, 2012 becoming our nation's largest FTA since NAFTA. The agreement has the potential to increase U.S. exports to Korea by approximately USD 10-12 billion, and it will be especially beneficial for U.S. SMEs. In 2009, nearly 18,000 SMEs exported some USD 8.4 billion worth of merchandise to Korea.

Total 2011 U.S.-Korea trade exceeded USD 100 billion for the first time ever. U.S. exports reached an all time high of USD 43.505 billion. U.S. exports increased 12% over 2010 levels.

Korea is the United States' seventh largest trading partner. The U.S. is the third largest exporter to Korea with a 9 percent market share. Key competitors include China with 16.8 percent, Japan with 15.3 percent, and the EU's 27 nations with 10%. With the EU having already implemented its FTA with Korea, U.S. firms will now again be in a stronger competitive situation following KORUS implementation. (China's trade reflects significant re-export activity.)

Korea's projected 2012 GDP growth is forecasted at about 3.6%. Its commercial banks maintain strong reserves in case of a possible global slow down or difficulties in the Euro zone.

Korea will continue to focus its development on key economic growth sectors. Patents and trademarks issued by the Korean Patent Office (PTO) exceeded 362,000 filings (2010). The increasing trend in local patent and trademark filings reflects the move towards more technology intensive and capital intensive industries and services.

Market Challenges

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Unique industry standards, less than transparent regulations, pressures to reduce prices and 'contract negotiations' continue to affect U.S. business. However firms that are innovative, patient, and exhibit a commitment to the Korean market continue to find business to be highly rewarding and Koreans to be loyal customers. With the implementation KORUS beginning on March 15, 2012, Korea's attractiveness as a market will further improve. U.S. products will be more cost-competitive, and bilateral trade will significantly increase, with the International Trade Commission calculating an USD 10 billion to USD 12 billion boost in exports. EU products have had reduced or no-tariff access to this market since the Summer of 2011.

U.S. SMEs must remain flexible and ready to work with their Korean business counterpart as it pertains to *amending contract terms* or renegotiating price, quantity, and delivery terms following a business deal and bilateral contractual agreement. In Korea, the principal of ‘consideration’, as is the case in English law, is not present. A request to amend an offer or to restart negotiations with a counter offer likely will not include any payment for consideration on the Korean part. Koreans feel that the signing of a contract is only the beginning of a business relationship.

U.S. exporters of agricultural commodities also face market challenges related to import regulation and testing requirements. Please see the latest USDA Agricultural Trade Office (ATO) Korea Export Guide at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Exporter%20Guide_Seoul%20ATO_Korea%20-%20Republic%20of_11-2-2011.pdf.

Market Opportunities

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The Korean USD 1 trillion economy is heavily weighted on international trade. As Korea continues to move towards more technology intensive industries, U.S. companies will find market opportunities in leading industries such as life sciences (medical devices, pharmaceuticals, and biotechnology), industrial chemicals, IT, nano technology, aerospace and defense, energy, environmental technology, and transportation. U.S. companies are already partnering with local Korean industry to expand market opportunity from Korea to third-country markets including ASEAN, the Middle East and other markets in the Asia-Pacific region. Given Korea’s strong shipping and air cargo infrastructure it is not only a market for U.S. goods and services but a hub for eventual expansion to other markets as well.

Market Entry Strategy

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- A local presence is essential for success: retain a manufacturer’s representative, distributor, or name a registered trading company as an agent or establish a branch sales office.
- Establishing and maintaining a strong business relationship is essential. Companies should visit Korea frequently to cultivate contacts and to better understand business conditions.
- With the March 15, 2012 implementation of the Korea-U.S. Free Trade Agreement, several U.S. states will be organizing trade missions to Korea under the Small Business Administration’s STEP program. This would be an excellent opportunity for SME companies to establish closer business ties to Korea.
- For marketing support of U.S. agricultural commodities and processed foods, consult: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Exporter%20Guide_Seoul%20ATO_Korea%20-%20Republic%20of_11-2-2011.pdf

CS Korea is eager to assist U.S. companies in developing the right connections/contacts in Korea through a wide range of marketing services designed to identify and arrange contact with potential buyers, distributors and importers.

Consult: <http://export.gov/southkorea/servicesforuscompanies/index.asp>

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/2800.htm>

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Using an Agent or Distributor

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Before entering into a contractual relationship with a Korean manufacturers/commission representative (agent) or distributor, U.S. firms should conduct a thorough due diligence on a prospective business partner. A contract with an agent or distributor should be handled with care and with the assistance of an attorney. The Commercial Service in Korea can assist by providing an Individual Company Profile <http://export.gov/southkorea/servicesforuscompanies/icp/index.asp> (ICP) report which provides detailed financial and related business information on the company you seek to work with.

The most common means of product or service representation in Korea are:

- appointing a registered commissioned agent or “offer agent” on an exclusive, or non-exclusive basis
- naming a registered trading company as the manufacturer’s representative or agent, or
- establishing a branch sales office managed by home office personnel with Korean staff.

Additionally:

- Any businessperson registered with the Korean government can import goods in his/her

own name.

- A 'registered trading company' can manage all import documentation. They are larger firms involved in both exports and imports. However, these firms can be less attentive to building the U.S. supplier's business although they can be influential and well known in the market.

Performance of your agent/distributor should be regularly/frequently monitored. An under-performing or non-performing agent/distributor should be counseled and worked with. If, after a period of time the performance is still poor and only after careful consideration of all legal and contractual obligations, a termination of contract should be considered. Once a termination is legally binding the U.S. firm should begin searching for a new distributor.

Finding a Good Partner in Korea

The U.S. Dept. of Commerce, Commercial Service (CS) in Seoul, like our offices around the world, offers the Gold Key Service <http://export.gov/southkorea/servicesforuscompanies/gks/index.asp> (GKS) to assist U.S. companies in finding a good partner in Korea. Contact the nearest U.S. Export Assistance Centers <http://export.gov/usoffices/index.asp> (USEACs) to begin the process.

The GKS provides:

- A customized schedule of face-to-face meetings with carefully selected prospective candidates,
- A briefing, translation service, and transportation (fee based), and
- Information on each meeting, focused market research and insights gained by CS Specialists in the process of setting up the GKS.

CS Korea strongly recommends that:

- U.S. companies seek legal counsel prior to signing a contract or making major business decisions with Korean companies.
- Any distribution or agency contract should include a termination clause. If not, Korean commercial arbitration bodies may specify the terms for termination, including compensation claims against the principal. A mutually signed contract between a supplier and an agent/distributor with termination provisions would take precedence and avoid placing the U.S. company at-risk.
- U.S. companies should protect their intellectual property, trademark and patents with the Korean Intellectual Property Office <http://www.kipo.go.kr/kpo/user.tdf?a=user.english.main.BoardApp&c=1001> (KIPO) as a minimum safeguard of your intellectual property rights. A local Korean attorney can easily perform all these tasks as under Korean law applications to KIPO must be done and submitted in Korean. This should be done in the U.S. company's name and not the Korean agent's/representative's name.

The dynamism and maturity of the Korean market, coupled with its strategic location in East Asia, may lead U.S. companies to consider opening an office in Korea. The following options exist:

- **Subsidiary Office:** Established as a local company, a subsidiary has a closer relationship with the local business community and can provide the local firm the opportunity for Korean government investment incentives as it would be eligible to receive corporate income tax incentives (Special Tax Treatment Law STTCL), if it meets certain requirements. These tax incentives are not available to branch or liaison offices.
- **Branch Office:** Not subject to audits by external auditors in Korea, a branch office's net income is automatically viewed as being included in the headquarters balance sheet. A company expecting to grow large enough to require the establishment of a subsidiary in the future should consider doing so at the beginning rather than starting as a branch operation.
- **Liaison Office:** A liaison office can only conduct marketing and support and cannot conduct direct sales. A liaison office is subject only to the tax code of the headquarters country and is the simplest form of conducting business in Korea.

Basic guidelines to setting up an office in Korea include:

- *Review Invest KOREA:* Consult the one-stop services offered by Invest KOREA <http://www.investkorea.org/InvestKoreaWar/work/ik/eng/> a government sponsored, non-profit organization of the Korea Trade-Investment Promotion Agency (KOTRA). Consult: <http://english.kotra.or.kr/wps/portal/dken>.
- KOTRA maintains offices throughout the United States poised to guide U.S. companies through the administrative, legal and tax implications of such a venture. KOTRA also maintains an Ombudsman ready to quickly address foreign investors' grievances. Consult: <http://www.investkorea.org/InvestKoreaWar/work/ombsman/eng/au/index.jsp?num=3>.
- *Authorization:* Once 'authorization to proceed' with an investment is granted, companies must notify the Ministry of Knowledge Economy (MKE), a delegated authority (major Korean bank) or Invest Korea. Consult: <http://www.investkorea.org/InvestKoreaWar/work/ik/eng/>
- *Your Office in Korea:* Consult a reputable real estate agent or real estate consulting firm when deciding on the best location for your office. A partial list is available at: <http://export.gov/southkorea/usefullinks/majorrealestateaccountinghrfirmsinkorea/index.asp>

- Under Korea's Foreign Land Acquisition Law foreigners can purchase land regardless of size or purpose. Local zoning laws regulate categories of activity allowed and should be reviewed prior to making final investment decision.
- *Register with the Tax Office:* Investors must register their office/investment with the local tax office. Given language issues, the complexity of Korean tax laws, and the potential for misunderstanding, companies should hire a local accounting firm to file taxes.
Consult: <http://export.gov/southkorea/usefullinks/majorrealestateaccountinghrfirm/sinkorea/index.asp>
- *Seek Qualified Employees:* Koreans are attracted to U.S. firms given salary rates, prestige, opportunities for travel, the ability to use and learn English and the possibility to transfer to the company's home office or another foreign branch office.

Korea has a large pool of conscientious and highly educated workers. Female employees are especially strong candidates given their educational achievements, language abilities, and the prevalence of traditional Korean cultural attitudes towards female employees which have historically prevented them from progressing as quickly as they would in a U.S. company.

Due to differences in U.S. and Korean employment practices CS Korea recommends consulting a Korean employment agencies before hiring.

- Contact the Seoul Global Center website for Seoul Metropolitan Government's program which occasionally offers free or reduced rent office space to provide foreign residents. <http://global.seoul.go.kr/>.

Franchising

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The franchise market in 2009 was valued at an estimated USD 70.2 billion (franchise, sub-franchise fees and royalties, product and service revenues, consulting fees, and related product sales, and equipment; Ministry of Knowledge Economy).

Nearly 2,400 franchises were registered in Korea in 2010 of which 14,000 were convenience stores (*2010 Yearbook of Retail Industry*), 1400 were food service franchises, and 252 were education-related franchises. On average, a franchise operates 70 stores across its industry sector in Korea.

Franchisors interested in this market must:

- meet the rules promulgated under Korea's Fair Transactions in Franchise Business Act,
- be registered with the Korea Fair Trade Commission, and
- comply with the sub-franchisee's Fair Trade Act which stipulates the need for disclosure of all business information to potential sub-franchisees at least 14 days before signing an agreement. This Act closely parallels the rules that exist for sub-franchisees in the U.S.

The Korea – U.S. FTA will positively affect this industry in many ways, to include:

- Expedited Customs Procedures: Improved transparency through the publication of customs measures will ensure U.S. companies have access to customs laws and regulations. In addition, the trade agreement requires simplified customs procedures for timely and efficient release of goods.
- Protected U.S. Investment: A stable, legal framework will protect all forms of U.S. investment. The KORUS FTA promises U.S. investors national treatment which means they will be treated as well as Korean investors in the establishment, acquisition, and operation of their investments in Korea.

Korea's large retail players report (2012) interest in opening numerous mega malls outside the Seoul metropolitan area in the next three to five years. These highly respected (mostly *chaebol*) retailers seek retail anchor stores, franchise food service, and restaurants with a unique concept or theme for their expansion projects. Several companies are interested in becoming master franchisors of U.S. franchise brands as well as wanting U.S. franchise tenants for their new stores.

Opportunities exist for franchises in: wellness/well-being, environmentally friendly products, sports and leisure activities, personal service, green growth, children's services, education laundry service, auto maintenance, hair, senior day care, homecare, home delivery services (all sectors), home child care, child care, human resource training and pet service providers, to name a few.

Korean franchisees are reluctant to pay the high franchising fees (USD90,000 to 180,000) and royalties required by U.S. companies. Domestic chains are popular because they do not require much capital or large royalty fee payments.

Minimum facility size and number of store openings required by U.S. franchisers are also a challenge for the Korean franchisee. The unique and expensive nature of the commercial real estate sector in Korea can affect the feasibility of a project that may offer great promise in other markets.

Korean franchisees prefer to do business with U.S. franchisers that offer established brand names to Korean consumers as well as offering American-style, systematic operations and management skills.

There are three different types of franchise investors in Korea:

- Investors, some who have no experience in the franchise they seek to own/start,
- Individuals with real experience with franchising brands, and
- Retirees, with a strong business background but downsized, age 40 and above who wish to own their own business.

U.S. investors should seek an experienced work force they can mentor and monitor in this mature market.

According to the Overview and Forecast of Online Shopping Industry 2011 published by the Korea Online Shopping Association (KOLSA), there were over 30,064 online shopping websites in 2011, and Korean consumers spend nearly USD 27.6 billion (US 1\$ = KRW 1,150) in purchases. This is a 16 percent increase vis-a-vis 2010 (USD 23.7 billion). Direct marketing primarily takes the form of catalog sales, TV home shopping, Internet shopping, and the mobile commerce market. Korea also has a large market for door-to-door sales and a robust multi-level marketing sector. Internet shopping sales account for 80 percent among the four direct marketing sales (catalog sales, TV home shopping, internet shopping, and mobile commerce market)

Door-to-Door Sales

The major door-to-door sales items include home education materials, books, household consumer goods, cosmetics, health foods, sporting goods, and service products, such as insurance counseling. According to the Korea Direct Selling Association (KDSA: <http://www.kdsa.or.kr/>), the Korean door-to-door sales market is approximately USD 6.8 billion (US 1\$ = KRW 1,150) in 2010. Updated figures on 2011 will be released in May 2012.

Multi-level Marketing (MLM)

Korea's multi-level sales for 2010 approached USD 2.2 billion (US 1\$ = KRW 1,150). Nearly 80 multi-level marketing (MLM) registered companies employed about 3.5 million active distributors.

The Korean government reduced restrictions on MLM companies by passing legislation eliminating most existing market barriers against MLM products, such as the obligation to disclose retail prices on the MLM product label. Oversight of the MLM industry is the responsibility of the Fair Trade Commission (FTC).

MLM activities by U.S. firms in the cosmetics, cleaning products, and kitchenware industries have been expanding. MLM activities by U.S. firms in these sectors should promote their products and services appropriately and efficiently by analyzing Korean market trends. Knowledge of the market can prevent unnecessary conflicts with government officials, consumer 'watchdog' groups, or industry groups.

Joint Ventures (JV) /Licensing

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Koreans prefer to maintain local control of JV operations with foreign entities. Thus, the financial goals, internal organization and key management issues of a JV must be agreed upon by all involved parties as early as possible.

Foreign direct investment (FDI) is encouraged and promoted by the Korean government. With the ratification and implementation (Spring 2012) of the KORUS-FTA greater cooperation and encouragement of FDI is expected.

When considering a FDI in Korea it is important to consider the following:

- The decreasing influence of (some) *chaebols*, the governments promotion of SMEs, the governments interest in seeking anti-monopolistic, and more diversified JVs,
- Korean's prefer to maintain local control, regardless of the percentage invested by foreign entities, and
- Management control should be evaluated on three levels: 1) shareholder equity; 2) representation on the board of directors; and 3) active management (representative director and subordinate management). Legally, Korean board meetings require the physical presence of all JV members as well as a quorum of the directors. If a foreign investor intends to exercise day-to-day management of an operation a representative director who resides in Korea must be appointed. The director requires the support of and access to key functional areas of the company in order to manage in accordance with the foreign investor's wishes.

Contractual agreements in Korea

Well-written, well-understood, and well-executed contractual agreements are the basis and backbone to a U.S. firms' success in Korea. Cultural differences surrounding the expectations of a contractual agreement, and how you successfully arrive at a mutually agreed upon agreement is often the basis of consternation and problems.

For Koreans:

- A contract represents the 'current understanding' of a "deal." It is the beginning, rather than the end, to a negotiation,
- Any change in the contract (omissions, invalid issues, new leadership, non-existent issues) will cause problems to arise,
- Koreans may regard a contract as a "gentlemen's agreement" subject to further negotiation *should conditions change*; Americans regard the same written agreement as legally binding,

Contract negotiations in Korea, must be viewed as an *on-going process of dialogue* and should have the following objectives:

- reaching a common understanding about the deal/contract
- reaching an understanding about each party's responsibilities
- recording the detailed understandings
- being *prepared to modify the terms of the agreement should there be a change* in circumstances (leadership, issues).

Additionally the following precautions should be addressed:

- Technology transfers, raw material supplies, marketing, and distribution should be agreed upon, in detail, in the JV agreement.
- A company's IP may not be protected and could be vulnerable in the later stages of a JV business relationship especially if the Korean company depends on this transfer of technology. (See Protecting your IP in this Chapter).

- Korea's legal system is lengthy, cumbersome and expensive. When dealing with contracts the best strategy is to -- prevent conflicts.
- FD investors should consult the Korean Commercial Arbitration Board http://www.kcab.or.kr/servlet/kcab_admin/memberauth/5000. KCAB advises foreign companies on contract guidelines.

Selling to the Government

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Government Procurement

Korea is an established member of the World Trade Organization's Government Procurement Agency (GPA) protocols establishing non-discriminatory government procurement procedures.

Korea's GPA's commitments include:

- "threshold" amounts by certain Korean government agencies and provincial
- procurement commitments in the services and construction industries
- a prohibition against offsets as a condition for awarding contracts
- a provision allowing suppliers to pursue alleged violations through GPA-defined bid challenge procedures
- an International Contract Dispute Settlement Committee
- annexes specifying certain thresholds below which GPA rules do not apply (approximately USD 180,000, and for construction services approximately USD 7 million), and
- Korea's exempted from GPA coverage items related to national security and defense, Korea Telecom's purchases of telecommunications commodity products and network equipment, procurement of satellites, and purchases by the Korea Electric Power Corporation (KEPCO) <http://www.kepco.co.kr/eng/> of certain electrical transmission and distribution equipment.

U.S. companies interested in Korean government procurement must also work with Korea's Public Procurement Service (PPS). Consult: <http://www.pps.go.kr/english/>.

PPS supports domestic equipment and supplies, and is responsible for the purchase of goods and incidental services required by central and sub-central government entities, government construction contracts and the stockpiling of raw materials.

Bidders must register with PPS one business day prior to the date of an opening bid. Foreign bidders can register with PPS (Korean language only) prior to entering into a contract. Failure to register constitutes cause for rejection of the bid.

Korea launched a Government e-Procurement System (GePS) at <http://www.pps.go.kr/english/>. In part, the process includes:

- a single window for public procurement showing the entire process
- bids which are valid at least 45 days

- where bids must be published with a summary in English, including the subject matter of the contract, the deadline for submission of tenders, and the address and contact point from which full documents relating to the contracts may be obtained.
- the procurement process with specifications or requirements. Biases against imported products and services are rarely overt, if they occur they should be brought to the attention of the U.S. Embassy.

The soon to be implemented (March 15, 2012) KORUS-FTA has a chapter devoted to government procurement. Consult: <http://www.ustr.gov/>.

Defense Procurement

Defense procurement is an active part of CS Korea's portfolio. U.S. companies who sell both to foreign and U.S. military should be cognizant of the importance given to military procurement in the Korean peninsula.

The Defense Acquisition Program Administration (DAPA: <http://www.dapa.go.kr/eng/index.jsp>) is responsible for Korean defense procurement and was established to ensure transparency in defense procurement. DAPA consolidates eight procurement and technology development organizations under the Ministry of National Defense (MND: www.mnd.go.kr/mndEng/main/index.jsp) and various military services. Although a civilian agency under the authority of the Executive Office of the President of Korea, DAPA works with the Minister of Defense and the service branches.

U.S. defense industry equipment standards are accepted in Korea as most Korean defense systems are based on American standards. Interoperability of systems is critical in what is now a sixty year U.S./ROK defense partnership.

Defense equipment is marketed by direct purchase, sales agents, and importer channels. U.S. manufacturers/suppliers of defense equipment should use a well-qualified/vetted Korean agent who is familiar with the ROK defense system and knowledgeable of key members of the country's Air Force (ROKAF), Navy (ROKN), Army (ROKA), and Agency for Defense Development (ADD). Former ROKAF, ROKN, and ROK A officials have good potential as commissioned representatives in Korea. Local representatives must register and be certified by DAPA to supply their products and services to the MND.

In 2011 the Korean Importers Association (KOIMA: <http://www.import.or.kr/>) became DAPA's sole source for legacy supplies and parts.

A well-selected representative can provide U.S. suppliers with information about the status of defense bids and procurement plans. Companies wanting to supply their products/systems to DAPA are required to register with DAPA; a 10 day process. Consult: https://www.d2b.go.kr/English/jsp/pcb/Hi_PCB_Main.jsp.

South Korea is 70 percent mountains forcing it's nearly 50 million people into key population centers: Seoul metro area: 15 million, Busan metro area: 4 million, Daegu metro area: 3 million, and Daejeon metro area: 2 million.

Most freight forwarders use an extensive network of first-class railways, the 3,000 kilometers of highways, and air routes that criss-cross the country.

Incheon, Gimpo, and Busan's first class airports and ports are POEs for most products. Products are then transferred by first tier roads and railways to major modern distribution centers in Seoul, Busan, Incheon, Daegu, and Gwangyang.

South Korea has eight international airports and seven domestic airports including the world-class Incheon International Airport. About 70 international passenger and cargo airlines operate frequent flights between Korea and many nations around the world.

Distribution methods and the function of intermediaries varies widely by product in this mature market. Traditional retail distribution networks of small family-run stores, stalls in markets, and street vendors are being replaced by large discount stores.

Korea's major cities have numerous extremely fashionable and expensive large department stores and boutiques. Thousands of second-tier and third-tier retail stores also abound. Full-Line Discount Stores (FDS) have gained popularity as have U.S.-based Price Costco which entered the Korean FDS market 10 years ago and is successfully competing against Korean rivals E-mart and Lotte mart.

Rapid expansion of discount chain stores is planned nationwide, with suburban satellite cities attracting the greatest number of stores.

Distribution of goods through large discount chains is one of the best ways to market foreign products to Korean consumers.

Parallel imports can legally enter Korea.

Many U.S. companies continue to give exclusive contracts, since territorial limits in neighboring countries enhance the value of an exclusive area in any one country. Any parallel importer in Korea not receiving the support of the OEM, and does not deal in a meaningful volume, cannot be guaranteed a steady source of supply. The legitimate exclusive distributor still has considerable advantages in Korea.

Selling Factors/Techniques

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Korea is a country with intense, demanding and eager consumers. U.S. companies wanting to sell into this market should follow these guidelines.

- Adapt company products and procedures to Korean tastes and conditions
- Communicate regularly with both your Korean business partner and customers
- Exhibit a consistent, firm and long-term commitment to the Korean market
- Work at building long-term relationships
- Augment the efforts of your local representative by visiting Korea frequently

- Invite Korean representatives back to the home office periodically to ensure they are fully informed, motivated and up-to-date on the supplier and its offerings
- Allow the distributor/agent to select from all of the U.S. company's full product lines
- Hold demonstrations, seminars and exhibitions of products in Korea
- Increase the distribution of technical data and descriptive brochures
- Assist local representatives with the follow-up of sales leads.

Electronic Commerce

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E-Commerce is a key component of the overall consumer market. Korea is a country where 98 percent of its population (15 million households) is connected to the web making E-commerce a key component of Korea's overall consumer market (See the previous section Direct Marketing)

Characteristics of E-Commerce in Korea include:

- Over 30,000 B2C Korean cyber shopping malls in Korea.
- B2B, B2G, B2C and C2C transactions in 2009 accounted for 88.2, 8.8, 1.8 and 1.2 percent of the E-Commerce sector respectively.
- Major factors driving the growth include national broadband infrastructure with 37 million Internet users, and the introduction of 4G Long Term Evolution (LTE), Wireless Broadband (WiBro) as well as wide coverage of WiFi services utilized by mobile computers and smart communication devices.
- New social commerce services led by local companies like Ticket Monster, We Make Price, One a Day, etc spur demand for Ecommerce solutions, the equipment, networking, software, and services.
- Manufacturing industries account for 68 percent of all B2B transactions and are investing in E-Commerce in order to have reliable, efficient and secure E-Commerce tools.
- U.S. based E-Commerce companies should monitor the Personal Information Protection Act and Ministerial data privacy/SPAM regulations (2007) which may restrict E-Commerce for firms managing user-data on international servers.

Trade Promotion and Advertising

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The U.S. Department of Commerce's (USDOC) International Trade Administration (ITA) and the Commercial Service (CS) section of the U.S. Embassy in Korea is the U.S. government's primary trade promotion agency.

Consult: <http://www.export.gov/southkora>

In Korea, the USDOC/CS works with numerous trading and commercial entities to include:

- Korea International Trade Association (KITA): <http://www.kita.org/>. KITA organizes trade missions, conducts market surveys, assists potential foreign buyers or sellers, offers consultation and personalized advisory services regarding trade rules and regulations, export and import procedures, business management, market research, technology development, and taxation. KITA has offices in Washington D.C. and New York.

- Korean Chamber of Commerce and Industries (KCCI): <http://english.korcham.net/>. KCCI is Korea's largest private economic organization with 71 regional chambers and approximately 135,000 members. Since its establishment in 1884, KCCI has contributed to the growth and development of the national economy, and also to enhancement of Korea's status in the international community.
- Korean Importers Association (KOIMA): <http://www.import.or.kr/>. KOIMA is Korea's importers association and represents over 8,000 businesses.

Korea hosts many trade shows and exhibitions every year. Historically however, many shows are highly focused on B2C activities and are thus not attractive to U.S. firms interested in meeting qualified companies, not end-users.

- COEX: <http://coex.co.kr/eng/index.asp> Korea's largest full-service trade show organization has 36,027 square meters of exhibition space. Hundreds of shows B2B and B2C are held throughout the year.
- SETEC: <http://www.setec.or.kr/main.do> The Seoul Trade Exhibition Center is operated by the Korea Trade- Investment Promotion Agency (KOTRA).
- KINTEX: http://www.kintex.com/client/_eng/index.jsp
- BEXCO: <http://www.bexco.co.kr/> located in Busan, Korea's second largest city (southeast Korea) holds dozens of B2C and B2B national exhibitions in its 26,446 square meters.

Advertising

A geographically small country, Korea is an exciting place to launch effective, sophisticated, state-of-the-art advertising. Korean advertisers are highly creative and utilize a host of mediums to capture the consumers' attention.

Aspects of Korea's advertising market include:

- More than 80 mega LED screens strategically pepper commercial areas with 24/7 promotions; monthly advertising opportunities exist.
- Thousands of excellent promotional sites on Korea's well-used bus stops, subway stations, rail and airports should be considered by U.S. firms, but aren't to date.
- The presence of over 495 foreign (to include all major ad agencies) and Korean ad agencies. Foreign equity participation is permitted at 100 percent.
- Hundreds of TV and radio stations consisting of:
 - KBS I, KBS II: TV and radio owned/operated by the Korean government,
 - MBC, SBS: independent operated but with ROK influence.
 Consult: www.kobaco.co.kr/eng/index.asp

- The Korea Advertising Review Board (KARB: www.kobaco.co.kr/eng/business/publication.asp controls advertising censorship procedures and the Korean Fair Trade Commission (KFTC): <http://eng.ftc.go.kr/>) assures accuracy in advertisement.
- The Korean cable industry, serves 15 million households with over 100 system operators offering over 150 programs. Korea Digital Broadcasting (KDB), a subsidiary of the state-run Korea Telecom (KT): <http://www.kt.com/eng/> broadcasts more than 150 satellite channels to 2.31 million households.
- Five popular shopping channels CJ, Hyundai, GS, Lotte, and Nongsusan grossed over USD 3.5 billion in 2009.
- Internet advertising offers significant market growth potential. Currently 15 million households, or 98 percent of all households use the Internet.

Pricing

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In Korea's export-driven, raw-material dependent economy -- 'price' competitiveness is a serious driver. Korean manufacturers believe it essential to buy the lowest priced raw materials or equipment, even at the expense of quality. Manufacturers often offset labor costs with low-cost inputs. Japanese goods are considered to be 'better buys.'

Korean buyers believe that U.S. goods:

- have an *overall* good reputation
- are of high quality and excellent to good performance
- are very expensive

Pricing in Korea:

- Is dependent on 'consumer-protection legislation which requires that consumer items be labeled with the manufacturer's sales price to the retailer, and the marked-up retailer's price to the consumer
- Ranges from 50 to 150 percent (from the manufacturer-to-the –consumer)
- Includes a 10 percent sales tax for taxable items
- Includes a 10 percent VAT on services,
- Is often dependent on 'bundling'
- Is often undervalued for software, engineering and other services
- Should take into account price quotations with the likelihood of repeat business for spare parts and auxiliary equipment.

Commissions in Korea are dependent on the type of product and the transaction amount:

- 10 percent (avg.) for 'spot-basis' transactions
- 5-7 percent for general machinery, packaging, construction, and material handling equipment

- 15-18 percent for sophisticated products, i.e. medical, laboratory, and scientific analytical instruments and for products with after-sales service considered to be very important

For larger valued contracts, commissions decline as the contract value for a major purchase/acquisition/contract increases.

Sales Service/Customer Support

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Considered secondary to product and price considerations, after-sales service often lacks attention; it shouldn't. A carryover from pre-Korean war times Koreans often use improvisation, and self-reliance, when handling service issues. This should be discouraged especially given the competition of third countries in this market. Servicing is/should be an important component of the 'sale.'

The best approaches to after sales service and customer support include:

- Resident or offshore engineers (Japan or Taiwan) working with local engineers. Services contracts should be considered
- Establishing a regional servicing facility that can effectively service and support equipment sold in Korea
- Training service and customer-service personnel through U.S.-based programs.

Protecting Your Intellectual Property

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Introduction on Intellectual Property Rights in Korea

In Korea, registration of patents and trademarks is a first-in-time, first-in-right basis. Consider applying for trademark and patent protection before selling your products or services in Korea.

For U.S. small and medium-size companies, the Department of Commerce provides one hour of free legal advice for "SME IP Advisory Program" through the American Bar Association.

Consult: http://apps.americanbar.org/intlaw/intlproj/iprprogram_consultation.html.

Protecting Your Intellectual Property in the Republic of Korea:

Several general principles are important for effective management of intellectual property ("IP") rights in Korea. First, it is important to have an overall strategy to protect your IP. Second, IP is protected differently in the Korean market than in the U.S. Third, rights must be registered and enforced in Korea, under local laws. Your U.S. trademark and patent registrations will not protect you in the Korean market. There is no such thing as an "international copyright" that will automatically protect an author's writings throughout the entire world. Protection against unauthorized use in a particular country depends, basically, on the national laws of that country. However, most countries do offer copyright protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions.

Registration of patents and trademarks is on a first-in-time, first-in-right basis, so you should consider applying for trademark and patent protection even before selling your products or services in the Korean market. It is vital that companies understand that intellectual property is primarily a private right and that the U.S. government generally cannot enforce rights for private individuals in Korea. It is the responsibility of the rights' holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in Korean IPR law. The U.S. Commercial Service can provide a list of local lawyers upon request. Please consult: <http://export.gov/southkorea/usefullinks/lawfirms/index.asp>.

While the U.S. Government stands ready to assist, there is little we can do if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. Moreover, in many countries, rights holders who delay enforcing their rights on a mistaken belief that the USG can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to legal doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a law suit. In no instance should U.S. Government advice be seen as a substitute for the obligation of a rights holder to promptly pursue its case.

It is always advisable to conduct due diligence on potential partners. Negotiate from the position of your partner and give your partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Consider carefully, however, whether to permit your partner to register your IP rights on your behalf. Doing so may create a risk that your partner will list itself as the IP owner and fail to transfer the rights should the partnership end. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. Projects and sales in Korea require constant attention. Work with legal counsel familiar with Korean laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IP and stop counterfeiting. There are a number of these organizations, both Korea-based or U.S.-based. These include:

- The U.S. Chamber and local American Chambers of Commerce
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)

IP Resources

A wealth of information on protecting IP is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the U.S. and other countries -- call the STOP! Hotline: 1-866-999-HALT or register at <http://www.stopfakes.gov/>.
- For more information about registering trademarks and patents (both in the U.S. as well as in foreign countries), contact the U.S. Patent and Trademark Office (USPTO) at: 1-800-786-9199.
- For more information about registering for copyright protection in the U.S., contact the U.S. Copyright Office at: 1-202-707-5959.
- For more information about how to evaluate, protect, and enforce intellectual property rights and how these rights may be important for businesses, a free online training program is available at <http://www.stopfakes.gov/data/us/menu/index.htm>.
- For U.S. small and medium-size companies, the Department of Commerce offers a "SME IP Advisory Program" available through the American Bar Association that provides one hour of free IP legal advice for companies with concerns in Brazil, China, Egypt, India, Russia, and . For details and to register, visit: http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkit for Korea visit: <http://export.gov/southkorea/iprtoolkit/index.asp> as linked from www.StopFakes.gov This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IP-infringing products) and allows you to register for Webinars on protecting IP.

Due Diligence

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Conducting a thorough due diligence check is critical when selecting a local partner for JV, licensing, and distribution.

A due diligence check should include:

- an evaluation of the company's financial and operational history
- accounting practices
- hidden ownership interests
- corporate relationships with other Korean companies
- position in the market for the product(s) you are exporting

CS Korea offers a fee-based service named the International Country Profile (ICP) <http://export.gov/southkorea/servicesforuscompanies/icp/index.asp>. The ICP includes the above information obtained by CS Seoul trade commercial specialist who visit the office of the Korean company as well as obtaining financial information from D&B Korea Co., Ltd. (<http://www.dnbasia.com/kr/english/sitemap/>) and Kroll International, Inc. (<http://www.kroll.com/>) both which also provide due diligence reports.

Local Professional Services

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Korea has a highly developed economy with a full range of professional services. Agents/distributors: <http://export.gov/southkorea/usefullinks/usefulcontactsregardingagentsdistributors/index.asp>

Law firms: <http://export.gov/southkorea/usefullinks/lawfirms/index.asp>

Major banks: <http://export.gov/southkorea/usefullinks/majoruskoreanbanks/index.asp>

Major real estate and real estate consultancy firms, accounting companies and human resources firms: <http://export.gov/southkorea/usefullinks/majorrealestateaccountinghrfirmsinkorea/index.asp>

Major newspaper contacts: <http://export.gov/southkorea/usefullinks/majornewspapersbusinessjournals/index.asp>

The “Featured US Exporters (FUSE)” site provides information on how you can advertise your products on our worldwide website in various languages for a small fee. Click on <http://export.gov/southkorea/bsp/index.asp> for more information.

Web Resources

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Busan Exhibition and Convention Center (BEXCO):
<http://www.bexco.co.kr/english/main/main.jsp>

Agents or Distributors in Korea:
<http://export.gov/southkorea/usefullinks/usefulcontactsregardingagentsdistributors/index.asp>

Banks in Korea:
<http://export.gov/southkorea/usefullinks/majoruskoreanbanks/index.asp>

Convention and Exhibition Center (COEX):
<http://coex.co.kr/eng/index.asp>

Daegu Exhibition and Convention Center (EXCO Daegu):
<http://www.excodeaegu.com/>

Defense Acquisition and Procurement Agency (DAPA):
<http://www.dapa.go.kr/eng/index.jsp>

Dun and Bradstreet, Korea
<http://www.dnbasia.com/kr/english/sitemap/>

Featured US Exporters (FUSE)
<http://export.gov/southkorea/bsp/index.asp>

Government e-Procurement Service (GePS):
<http://www.pps.go.kr/english/>

International Company Profile:
<http://export.gov/southkorea/servicesforuscompanies/icp/index.asp>

Invest KOREA:
<http://www.investkorea.org/>

KITA NY Office:
<http://www.kita.net/ny/eng/01/index.html>

KITA Washington Office:
<http://www.kita.net/ny/eng/02/index.html>

Korea Broadcast Advertising Corporation (KOBACO):
<http://www.kobaco.co.kr/eng/index.asp>

Korean Commercial Arbitration Board:
http://www.kcab.or.kr/servlet/kcab_adm/memberauth/5000

Korea Importer's Association (KOIMA)
<http://www.import.or.kr/>

Korea Intellectual Property Office (KIPO):
<http://www.kipo.go.kr/kpo/user.tdf?a=user.english.main.BoardApp&c=1001>

Korea's Main Distribution Centers:
Busan: <http://busanpa.com/Service.do?id=engmain>

Daegu: <http://english.daegu.go.kr>

Gwangyang: <http://www.gwangyang.go.kr/02en/>

Incheon: <http://www.incheon.go.kr/icweb/html/web39/039.html>

Korea Trade Investment Promotion Agency (KOTRA):
<http://english.kotra.or.kr/wps/portal/dken>

KINTEX
http://www.kintex.com/client/_eng/index.jsp

Kroll Korea:
<http://www.krollworldwide.com/>

Public Procurement Service (PPS):
<http://www.pps.go.kr/english/>

Law Firms in Korea:
<http://export.gov/southkorea/usefullinks/lawfirms/index.asp>

Newspaper Agencies in Korea:

<http://export.gov/southkorea/usefullinks/majornewspapersbusinessjournals/index.asp>

Real Estate Consultants, Accounting Firms and Human Resource Agencies:

[http://export.gov/southkorea/usefullinks/majorrealestateaccountinghrfirmsinkorea/index.a
sp](http://export.gov/southkorea/usefullinks/majorrealestateaccountinghrfirmsinkorea/index.asp)

Seoul Trade Exhibition Center (SETEC)

<http://www.setec.or.kr/main.do>

World Federation of Direct Selling Associations

<http://www.wfdsa.org/>

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Chapter 4: Leading Sectors for U.S. Export and Investment

Commercial Sectors

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Agricultural Sectors

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Aerospace Industry

ITA CODE: PR AIR

Overview

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	2010	2011 (Est.)	2012 (Est)	2013 (Est)
<i>Total Market Size</i>	5,141	5,775	8,266	10,794
Total Local Production	2,365	2,349	2,576	2,692
Total Exports	935	1,025	1,192	1,346
Total Imports	3,711	4,451	6,882	9,448

Source: Korea Aerospace Industries Association. Unit: USD Million.

Korea is the 11th largest market for U.S. aerospace exports. Total U.S. aerospace exports to Korea exceeded USD1.5 billion accounting for 78 percent of the total value of Korea's aerospace imports.

A 2010, Ministry of Knowledge Economy (MKE) report disclosed its “*Aerospace Industry Primary Plan (2010 – 2019)*” designed to raise Korea's aerospace production from USD 2 billion (2009) to USD 20 billion by 2020, and raise exports to USD 10 billion, or 3 percent of global market share. The industry plan aims to take Korea from 16th place -- to the world's seventh largest aerospace producer. Additionally, the goal is to: push Korean industry into importing core technologies, develop domestic capabilities to deliver a ‘complete aircraft,’ and bring effective R&D investment that will contribute to Korea's aerospace industry.

Currently, the Korean aircraft part and components industry is driven by Korea operating one of the largest commercial aircraft fleets in Asia. The country has also embarked on establishing its aircraft components production industry to supply Boeing, EADS-Airbus and to support maintenance of both commercial and military aircraft. The current aerospace market is nearly USD4.39 billion and includes the expansion of fleet and route expansions planned for both passenger and cargo operations. Korea continues to be an important aircraft parts market for the U.S.

Best Products/Services

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- Air Traffic Control Systems
- Avionics
- Radar
- Unmanned Aero Vehicle Systems

Opportunities

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Top U.S. aerospace exports to Korea include: complete aircraft, civilian aircraft engines, equipment and parts, military airplane parts, and helicopters. Korea is continuing to develop its indigenous aerospace industry including the production of military helicopters, super-sonic fighter jets, unmanned vehicles, MRO parts & components, and continued work-share for commercial aircraft components for Boeing and EADS-Airbus. The U.S. continues to be the dominant foreign suppliers of aerospace/defense products and services with dominant import market share. This trend will continue for several years.

KORUS FTA Impact

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Over 93 percent of current U.S. aerospace exports (based on 2007-09 average) will receive duty-free treatment immediately upon implementation of the FTA. Duties on the remaining seven percent of U.S. aerospace exports will be eliminated in three years.

Resources

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Trade Shows

Korea Aerospace & Defense Exhibition (Seoul Air Show 2013)
Bi-annual: date to be determined

Naval & Defense 2013
Bi-annual: date to be determined

Key Contacts

Ministry of Knowledge Economy (MKE) - www.mke.go.kr

Ministry of National Defense (MND) - www.mnd.go.kr

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Specialty Chemicals

ITA CODE: PR CHM

Overview

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	2010	2011 (estimated)	2012 (estimated)	2013 (estimated)
Total Market Size	39,381	41,350	43,418	45,588
Total Local Production	31,498	33,073	34,727	36,463
Total Exports	6,728	7,064	7,418	7,789
Total Imports	14,611	15,342	16,109	16,914
Imports from the U.S.	2,330	2,447	2,569	2,697
Exchange Rate: 1 USD	1,120	1,120	1,120	1,120

Source: Korea Specialty Chemical Industry Association (KSCIA). Unit: USD thousands.

Korean demand for high quality, sophisticated chemicals and associated substances, for the development of new products continues to present excellent opportunities for U.S. chemical manufacturers.

The specialty chemical market size in 2010, valued at USD 39 billion, represented a 5 percent increase over 2009. During this period foreign suppliers satisfied 37 percent of the demand for raw and intermediate materials and new substances. Chemical imports from the U.S. totaled USD1.9 billion; the U.S. share was 16 percent of all specialty chemical import.

This sector has matured and now focuses on the development of finished products as well as multi-application products such as dyes, paints, and surfactants. Korea's domestic producers appear to be on par with other advanced countries. However, Korea's local companies still have challenges with specialty chemicals that require accumulated core technologies, substantial R&D investment, or those with short product-life cycles. Smaller economies of scale and a lack of a global marketing network are also considered obstacles that limit the development of Korea's specialty chemical industry – providing niche opportunities for U.S. chemical products and exporters. As a result, local demand for specialty chemicals still depends on imports of chemical ingredients and intermediaries to produce finished goods.

Chemical tariffs range from zero to 30 percent; the average is 6 percent. The KORUS FTA having passed both countries' legislatures (in 2011) is expecting implementation by Spring 2012. The agreement provides that over 51 percent of U.S. chemical exports will receive duty-free treatment immediately. The agreement uses importer based claims for

preferential tariff treatment while allowing importers, exporters and producers the flexibility of issuing certifications that need not be in a specific format. This trade agreement, for chemical products, uses clear and comprehensive product-specific rules to determine which products can benefit from the FTA's preferential tariff treatment.

In line with Korea's 22 'green' initiatives (adopted in 2008) the ROKG is actively pursuing the implementation of a program that will significantly affect the chemical industry in Korea. 'Korea R.E.A.C.H.', a chemical registration and evaluation system, modeled after 'EU R.E.A.C.H.' (registration, evaluation, authorization, and restriction of chemical substances) may become law in the near future. U.S. chemical associations, U.S. chemical exporters active in the Korean market, the chemical committee of the American Chamber of Commerce in Korea, and the U.S. Commercial Service Korea are closely monitoring and reporting on the impact this legislation would have for the U.S. chemical community in Korea.

Sub-Sector Best Prospects

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- Specialty chemicals for the medical and pharmaceutical industries
- Specialty chemicals for the cosmetics industry
- Specialty chemicals for the photochemical and catalyst industries

Opportunities

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Although local and third country competition is intense, highly innovative chemical materials from the U.S. have a market in this mature economy. Korea is a very good market for U.S. companies in the pharmaceutical, cosmetic, coatings/pigments for plastics, as well as other niches -- especially those requiring high technology.

Additionally, new molecular materials, chemical ingredients for electronics and IT, as well as functional and high-performance biologically active chemical ingredients are in demand from Korea's end-users. The market is also interested in environmentally friendly chemical products.

Finally, Korean companies and government agencies actively pursue alliances with chemical companies who offer advanced know-how for the production of high-end products.

Web Resources

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Trade Show

XpoChem Conference 2012 (Annual; date to be determined)

Trade Association

Korea Specialty Chemical Association - www.kscia.or.kr/english and for information on Korea's REACH (only in Korean).

Key Contact

Ministry of Environment - <http://eng.me.go.kr/main.do>

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Cosmetics

ITA CODE: COS

Overview

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	2009	2010	2011(E)
Total Market Size	4,901	5,457	5,893
Total Local Production	4,615	5,203	5,619
Total Exports	416	597	645
Total Imports	702	851	919
Imports from the U.S.	171	225	248

Exchange Rate: USD1= KW1,120 (2009), 1,156 (2010), 1,156 (2011); Sources: Korea Pharmaceutical Traders Association (KPTA), Korea Cosmetic Association (KCA); Unit: USD million.

Total imports of cosmetics in 2011 are estimated at USD 919 million. U.S. imports are estimated to be USD 248 million, representing approximately a 27 percent import market share. It is estimated that by 2012, the Korean cosmetics market will increase by 8 percent over 2010 and reach a value of approximately USD 6.6 billion. The market is expected grow at an average annual rate of 5-10 percent over the next several years.

According to industry sources, the growth of parallel imports and recently reduced tariff rates will contribute to an increasing demand for quality foreign cosmetics. Also, the implementation of the U.S. - Korea Free Trade Agreement (KORUS FTA) will eliminate Korean tariffs on imported U.S. cosmetics over a ten year period after implementation. These market trends signal good opportunities for U.S. companies in the years ahead.

The Korean cosmetics market is polarized, with products focused both at the premium end and at the lower-priced, mass-market end. Thus, cosmetic companies focus their offerings towards two distinct groups of consumers or target audiences: consumers shopping at low-cost cosmetics franchise stores and those that are shopping for high-end luxury cosmetics at more expensive department stores.

Sales of men's cosmetics will continue to expand from 2009 sales levels. This growth reflects the interest of male consumers expanding from simple skincare to other cosmetics, such as facial scrubs, facial masks, concealers, SPF products, and other cosmeceutical products. With this trend, men's skincare salons have opened in business districts and provide one-stop total beauty and hair care services including hair cutting, perms, treatments, and facials. To meet this increasing demand for men's skincare products, many department stores have opened men's cosmetics counters on the men's floor featuring recognized international brands like Clinique, Clarins, and Biotherm that

offer after-shave lotions, cleaning foams, facial scrubs, facial packs, essences, and other functional cosmetics.

Best Prospects/Services

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- Natural/organic skincare products
- Functional cosmetics for both women and men
- Hair care cosmetics with special functions (e.g., to protect against hair loss)

Opportunities

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The recent introduction of on-line shopping malls, television home-shopping channels such as QVC, pharmacies/drug stores, and catalogue orders have emerged as challengers to traditional retail channels such as direct selling, multi-level marketing, "mom and pop" stores, specialty retail establishments, department stores, and discount stores.

There are currently three major franchised drug stores competing in the local market, Olive Young by CJ, W-Store by Kolon, and GS Watson's by GS in partnership with Watson's. These retailers target customers focusing on wellness products by providing organic/natural cosmetics, nutritional supplements, OTC drugs, and general consumer goods. In addition, some major Korean cosmetic manufacturers are interested in importing well-known U.S. cosmetics. U.S. companies are encouraged to seek opportunities in line with this new retail concept.

Resources

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Major Show

Name: Seoul Cosmetics & Beauty Expo 2012
<http://www.cosmobeautyseoul.com/en/index.php>

Key Contacts

Korea Food & Drug Association (KFDA) - <http://eng.kfda.go.kr/index.php>

Korea Pharmaceutical Traders Association (KPTA) - http://www.kpta.or.kr/E_main.asp

Korea Cosmetic Association (KCA) - <http://www.kcia.or.kr/eng/company/greeting.asp>

Local Contact

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Defense Industry Equipment

ITA CODE: PR DFN

Overview

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The Republic of Korea (ROK), with the world's sixth largest military force, continues to be a major defense and security ally of the U.S. in the Pacific region

The ROK has been modifying its armed forces towards a "smaller but more capable force" with decreased troops level and more advanced equipment including fighters, naval platforms, and ground combat vehicles. The sinking of South Korea's navy vessel "Cheonan" (March 2010) and the artillery attack on South Korea's Yeonpyung Island (November 2010), both near the inter-Korean Northern Limit Line, accelerated this reform, while also raising the needs of preparedness against North Korean provocations.

In March 2011, the ROK Government announced its revision, "DRP 307" plan, which is designed to strengthen the defense against North Korea's localized military attacks and asymmetric threats as well as optimize a military command structure.

It is expected that there will be continued review on platform procurement requirements as Korea continues to revise what products/systems are needed in light of this new threat assessment. It is expected that the force improvement plan will focus more on command and control, land systems, maritime patrol/littoral support and armor.

Market Demand

	2010	2011 (Estimated)	2012 (Projected)	2013 (Projected)
Total Market Size	8,275	8,812	8,994	9,180
Total Local Production	7,707	9,342	10,086	11,152
Total Exports	1,188	2,400	3,000	3,920
Total Imports	1,756	1,870	1,909	1,948
Imports from the U.S.	1,159	1,234	1,260	1,286
Exchange Rate: 1 USD	1,100	1,100	1,100	1,100

Note: The statistical data above is an unofficial estimate from CS Korea based on the budget of Korea's Force Improvement Plan (FIP), Defense Acquisition Program Administration (DAPA)'s procurement plan, and media reports. Unit: USD Million.

For FY 2012, a total of USD 29.96 billion has been announced for defense budget which includes USD 8.99 billion for the force improvement plan (FIP). The total budget and FIP budget is each a 5.0 percent and a 2.1 percent increase compared to the previous year.

Breakdown	2011	2012
Total Defense Budget	28,548	29,961
Force Improvement Plan (FIP)	8,812	8,994
Operation & Management (O&M)	19,736	20,967
Exchange Rate: 1 USD	1,100	1,100

Unit: USD million

In 2012, Korea plans to conclude acquisition contracts of several major defense items including the following:

- KF-X: Acquisition of 60 Next Generation Korean Fighters worth USD7.5 billion
- AH-X: Acquisition of 36 Attack Helicopters worth USD1.5 billion
- P-3CK: Upgrade of Maritime Patrol Aircraft (value tbd)
- ASW: Acquisition of 8 multi-role anti-submarine helicopters worth USD 500 million.
- HUAV: Acquisition of four hovering unmanned aerial vehicles worth USD 450 million

Source: DAPA announcement and local media articles.

The ROK's local defense industry is growing fast with great emphasis placed on exports. In 2011, total exports of defense products were USD 2.4 billion, more than double of 2010 (USD 1.1 billion) levels and 10 times higher versus five years ago (USD 0.25 billion). This impressive growth in 2011 is largely attributable to two major export contracts: T-50 trainer jet exports (16 units, USD 400 million) and submarine exports (3 units, USD 1.1 billion, Korea's biggest-ever defense export case) -- both to Indonesia. The ROK aims to continue to foster the domestic defense manufacturing industry, and expects the export value to reach USD 10 billion in five years.

Market Access & Obstacles

The ROK's defense procurement agency, Defense Acquisition Program Administration (DAPA) is a sole government agency in conducting and executing the procurement of defense equipment. Established in 2006, DAPA is the primary government agency conducting ROK's defense procurement and is the only agency that is authorized to negotiate on behalf of the Ministry of National Defense (MND) for defense products and services, as well as being the only agency that can authorize offset credits, dictate terms and conditions, and make changes to delivery schedules or required deliverables. DAPA controls all formal negotiations on price, technology transfer, local work share, and offset packages, which are required by the Korean government for all projects in excess of USD10 million. A large portion of Korea's export of defense products is a result of DAPA's defense offset program.

In 2010, DAPA announced new guidelines on the utilization of commissioned agents. The new policy requires DAPA to enter into contract directly with foreign prime contractors without the intervention of a commission agent for major acquisition programs exceeding USD 2 million. The policy applies only to Force Improvement Programs (FIP), which includes purchases, development, upgrades, and associated installations. Smaller value FIP projects and sustainment projects are not affected.

US Position in Korea's Defense Industry

The U.S. continues to maintain primary supplier position in Korea but the presence of other major suppliers like Germany and Israel are increasing. U.S. provided weapon systems to ROK totaling USD 1,159 million in 2010, which accounts for 66 percent of ROK's total defense imports. U.S. standards are generally accepted in Korea and most Korean defense systems are based on American standards.

Commercial sales in the defense industry account for 64 percent of DAPA procurement but the MND encourages more government-to-government foreign military acquisition programs in an effort to reduce costs.

End-users

The principal point of contact for major defense projects are the service branches (ROKAF, ROKA, ROKN) and DAPA (Defense Acquisition Program Administration). These branches of the military procure all necessary equipment and systems through DAPA. For projects requiring local co-production or co-development, foreign firms very often participate in consortia with leading local firms such as KAI, Hyundai Heavy Industries (HHI), and Samsung Thales etc.

Sub-Sector Best Prospects

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- C4ISR
- Military Aerospace (fighters, multi-role airlift aircraft)
- Avionics
- Maritime Defense Electronics and Systems

Opportunities

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- Aircraft Upgrade (fighters, multi-role airlift aircraft)
- Asymmetric warfare/littoral/coastal surveillance and patrol
- Support for Combat Equipment *incl. Fighter aircraft)

Web Resources

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Trade Shows

Seoul International Aerospace & Defense Exhibition 2013 (Seoul Air Show 2013)
October 22-27, 2013 - <http://www.seoulairshow.com>

As the Defense Acquisition Program Agency (DAPA) conducts the formal contracting, presentations to DAPA are the best marketing tools to introduce new product/systems/services. DAPA provides this opportunity every two or three months Consult: <http://www.dapa.go.kr> to confirm their future schedule, or Acquisition Policy Division, Acquisition Plan Bureau, Defense Acquisition Program Administration (DAPA), 2-15 Yongsandong 2 ga, Yongsan-gu, Seoul 140-833, Republic of Korea.

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Education Services

ITA CODE: SV EDS

Overview

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	2010	2011	2012 (estimated)	2013 (estimated)
Total Market Size	42,521	42,946	43,375	43,807
Total Local Production	38,095	38,476	38,861	39,249
Total Exports	54	55	56	57
Total Imports	4,480	4,525	4,570	4,615
Imports from the U.S.	1,118	1,129	1,140	1,152
Exchange Rate: 1 USD	1,120	1,120	1,120	1,120

Sources: Bank of Korea, Ministry of Education, Science & Technology, and Statistics Korea. Note: Total Market Size = Total Local Production + Total Imports – Total Exports. Total Local Production=Total educational expenditures by Korean families. Total Exports=Total educational expenditures of foreign students in Korea. Total Imports =Total educational expenditures of Korean students studying abroad. Imports from U.S = Total educational expenditure of Korean students studying in the U.S. Unit: USD millions.

Education, from pre-kindergarten to college plays a very significant role and is important to the Korean economy and psyche. There are good opportunities for a wide swath of U.S. educational institutions - sectors and subsectors if they are prepared to meet a highly sophisticated, demanding and brand-oriented market. According to the Organization for Economic Cooperation and Development (OECD), Korea is one of the largest investors in education among developed countries.

The governments of the UK and Canada spend a significant amount of money and organizational power in the Korean market. Australia, the Philippines and New Zealand also compete for Korean's educational dollars. China and Japan also vigorously promote their countries as attractive destinations for Korean students. That said, there is a predisposition towards U.S. educational institutions, materials and services which stems, in part, from the USG's 60 year military year presence on the peninsula.

Higher education is synonymous with privilege and power in this trillion dollar economy, Asia's fourth largest economy and our seventh most important trading partner. A degree from a well-known institution is a status symbol and essential for finding the right job in the right company although the government tries. Coveted spaces in Korea's top schools are open to competition from all students, but attainable only for a few. Many talented students opt for the best schools overseas and obtain a diploma from an accredited overseas school. This translates into opportunities for US schools to recruit some of Korea's most talented students. Koreans remain willing to spend a substantial portion of their incomes on education.

According to the Student and Exchange Visitor Information System (SEVIS) a total of 104,908 Korean students are enrolled in U.S. institutions (2011). Korea has ranked first, second or third behind China and India in terms of number of foreign students studying in the U.S. over the last few years.

Some 289,288 students are studying abroad (Korean Ministry of Human Resources and Science statistics, April 2011) with education market share as follows: U.S. 25 percent,

China, 22 percent, Australia, 12 percent, Japan (9 percent), U.K. (6 percent, Canada (5 percent), and other countries (21 percent). While U.S. schools and institutes remain popular, the UK, China, Australia, Japan, and Canada are also vigorously promoting themselves as attractive destinations for Korean students.

Sub-Sector Best Prospects

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- One year exchange program for elementary and secondary school students
- Community colleges
- One or two semester exchange program for college students

Opportunities

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A host of new and creative on-line educational programs, exchange programs, community colleges, ESOL type programs and off-campus/ world-wind tour type educational programs for middle-school, high school and college are finding the Korean market captivating and hopefully lucrative.

Korean parents are now savvier about acquiring information about educational opportunities for their children. Agents or reps are utilized less. Educational entities should consider employing a combination of: on-line advertising, blogging, personally visiting middle and high schools, alum groups, Facebook, You-tube, Twitter, advertisements in popular search engines, in Korean-American community newspapers (in the States), and advertising in business newspapers and/or on cable TV or radio in Korea in their promotional campaigns. Koreans prefer educational entities that have a long-term commitment to Korea and its students.

Web Resources

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Trade Shows

Kids Education Fair - <http://kidsedufair.co.kr/>

Korea Study Abroad & Emigration Fair -

http://www.yuhak2min.com/eng_yuhak/sub03_01.asp

MBA Tours - <http://www.thembatour.com/index.shtml>

University Fair organized by Linden Tours - <http://www.lindentours.com>

Korea Student Fair - <http://www.aief-usa.org/>

Key Contacts

Ministry of Education, Science and Technology - <http://english.mest.go.kr/>

Fulbright (Kor-Amer. Educational Commission) -

http://www.fulbright.or.kr/xen/?mid=index_en

KOSA (Korea Overseas Studying Agencies) - <http://www.kosaworld.org/>

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Energy: New and Renewable (NRE)

ITA CODE: PR REQ

Overview

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	2009	2010	2011 (estimated)	2012 (estimated)
Total Market Size	3,129	4,002	7,289	8,205
Total Local Production	3,817	6,988	13,481	17,391
Total Exports	2,040	4,532	7,650	10,700
Total Imports	1,352	1,547	1,458	1,514
Imports from the U.S.	NA	NA	NA	NA
Korean government investment plan	436	466	622	588
Exchange Rate: 1 USD	1,275.82	1,156.05	1,108.02	1,150.00

Total Market Size = (Total Local Production + Total Imports) – (Total Exports); Data Sources: Korea Energy Management Corporation (KEMCO); Korea Energy Management Corporation (KEMCO) and Ministry of Knowledge Economy (MKE); Imports from U.S.: NA; Unit: USD million.

Korea's energy needs continue to grow despite the fact that the country remains dependent on imported fossil-fuels. Korea formerly (1990s) produced coal but the cost of domestic production exceeded the cost of importing coal. Korea continues to place significant resources on civil nuclear power. While its nuclear power output is increasing, it still represents only 14 percent of the country's total energy mix. Forecasts indicate that the country will be consuming 250 percent more energy by 2020 compared to 1990. For a nation 97 percent dependent on imported energy sources, these estimates have resulted in the Korean government taking a series of preventative measures to avoid future energy crises that involve the development of new and renewable energy (NRE) sources.

Influenced by global trends, Korea's NRE industry increased output 124 percent over the last four years. Among all sources (i.e solar photovoltaic and thermal, wind, bio energy, geothermal and fuel cell), wind and solar PV energies, have been the predominant energy sources representing 87 percent (2011) of the total NRE because they are technically more mature.

Photovoltaic: Korea's new national energy plan includes the "Two Million Green Home Initiative" and a Renewable Portfolio Standard (RPS) plan replacing the old *feed-in-tariff* (FIT) policies. Korea, currently in 10th place as a producer of solar power, has a cumulative PV capacity of 655 MW but plans to expand output to 3,504 MW by 2030. Taking advantage of government incentives, large Korean conglomerates (Samsung, LG, Hyundai and Hanwha) have made significant investments and are expanding into solar module, crystalline silicon solar panels and the cell business.

Wind power: Korea's current wind power capacity is estimated at 382 MW. In late 2010, the government announced a "Roadmap for Promoting Offshore Wind Power" and a plan for constructing a 2.5 GW offshore wind farm in the area off the coast of Buan in North Jeolla Province. Worth USD 8.9 billion (KRW 10.2 trillion) in total, this project is expected to be completed by 2019. This development underscores the interest in offshore wind power shown by many Korean industrial conglomerates who have gained experience in the relatively advanced European and U.S. wind power markets.

Fuel cells: Fuel cells have featured prominently in Korea's clean energy policies in recent years. Starting in 2010, the Korean government began offering an 80 percent subsidy to help pay for the purchase and installation of residential fuel cells. As part of their "Two Million Green Home Initiative", the country plans to have 1 million green homes by 2020, 100,000 of which will be powered by fuel cells. They are also promoting a concept that excess electricity produced by a fuel cell unit will be bought back for premium prices through *feed-in-tariffs* (FIT). Aside from the innovative fuel cell FIT, Korea's commitment to fuel cell and hydrogen energy technology can be seen in the new Renewable Portfolio Standard (RPS) which prioritizes the use of fuel cells highest among the various options. This means that power producers will receive more payment for electricity produced from a fuel cell rather than from any other renewable source.

Tidal power: A collaboration between Lunar Energy (UK) and Korean Midland Power Co (KOMIPO) plans to construct a colossal 300 12 meter in diameter turbine field in Wando coastal area by 2015, providing 300 MW of renewable energy. Korea's abundant potentials from marine energy will be a focus of the Yeosu World Expo (May 12 to August 12, 2012) in the Southern end of the Country. Numerous pilot projects will be highlighted during the three month Expo.

Sub-Sector Best Prospects

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Photovoltaic power: Next-generation solar cells including thin-film modules and roof-top systems are expected to generate substantial demand in the future.

Wind power: With oceans on three sides, Korea's focus on wind-power is rapidly shifting from ground applications to offshore applications.

Fuel cells: Korea is home to some of the world's largest hydrogen & fuel cell power plants. With ROKG's strong policy support and Korean industry's active participation, the fuel cell industry is forecast to grow to be one of most rapidly growing NRE sectors in the future.

Marine energy: Korea has an abundant access to marine energy and is aggressively emphasizing such development through on-going R&D projects and pilot construction projects.

Integrated gasification and combined cycle (IGCC): For the high efficiency and environmentally friendly feature of this technology, Korea has plans to adopt it for new coal-fired plants including one with a capacity of 300 MW which is planned to be completed by 2012 by Korea Western Power Company.

Opportunities

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Korea Electric Power Corporation (KEPCO) is the state-run power company and is the primary end-user of NRE products and services. It supplies more than 90 percent of Korea's entire electricity needs from its six generating subsidiaries (Gencos) that include five (5) fossil fuel-fired companies and one nuclear-hydro company. Required by ROKG's policy initiatives towards NRE, the Gencos have diversified their energy sources, and are now generating a certain amount of electricity from low-carbon methods. They will need to continue to shift the power source to NRE as RPS will be fully in effect starting 2012.

The six Gencos include:

- Korea Hydro and Nuclear Company (KHNP): http://www.khnp.co.kr/index_en.jsp

- Korea South-East Power Company, Ltd. (KOSEP): www.kosep.co.kr
- Korea Midland Power Company, Ltd. (KOMIPO): <http://www.komipo.co.kr/>
- Korea Western Power Company, Ltd. (KOWEPO): <http://www.westernpower.co.kr>
- Korea Southern Power Company, Ltd. (KOSPO): <http://www.kospo.co.kr>
- Korea East-West Power Company, Ltd. (KEWESPO): <http://www.kewp.com>

As end-users, the Gencos and the fledgling independent power producers (IPPs) exert strong influence in choosing what NRE core parts to use. Under the current supply chain, engineering & construction companies (E&C) who provide turn-key construction service usually are the buyers of most NRE technologies and parts. There are several large-sized EPC companies who are mostly subsidiaries of Korea's business conglomerates (Samsung, Hyundai, SK, GS, etc). With the popular concept of project financing for the power plant industry, many NRE power plant construction projects are led by business consortia that consist of end-users, EPC companies, financial service entities, and equity investors, etc. that collectively influence major procurement decisions.

Korean domestic production and the acceptance of new renewable energy solutions continues to be hampered by opaque and changing rules regarding how technologies are tested and selected. Many importers observe shifting government incentives and certification regimes designed to discourage the selection of imported products. The US Commercial Service continues to work closely with US companies to ensure these rules are applied uniformly and transparently to domestic and international competitors alike.

Web Resources

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Trade Shows

Solar Con Korea - Feb.7-9, 2012/COEX, Seoul, Korea-<http://www.semiconkorea.org/en/>

Expo Solar/PV Korea - Feb. 15-17, 2012/KINTEX, Ilsan - <http://www.exposolar.org/2012/>

International Green Energy Expo Korea 2012 - March 28-30, 2012/EXCO, Daegu -

<http://www.energyexpo.co.kr/eng/>

Solar Wind Earth Energy Trade Show (SWEET 2012) - April 24-26, 2012/ KDJ Center -

<http://www.sweet.or.kr/eng/index.php>

Korea Energy Show - Octonrt 2012/COEX-

www.koreaenergyshow.or.kr/dbhome/user/2011kgeseng/

Key Contacts

Korea Energy Management Corp. (KEMCO) www.kemco.or.kr/new_eng/main/main.asp

Ministry of Knowledge Economy (MKE) <http://www.mke.go.kr/language/eng/index.jsp>

Korea Custom Service (KCS) - <http://english.customs.go.kr>

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Entertainment and Media

ITA CODE: N/A

	2010	2011 (E)	2012 (E)	2013 (E)
Total Market Size	2,414.52	2,542.06	2,663.34	2,775.95
Total Local Production	3,714.64	3,910.86	4,097.44	4,270.70
Total Exports	1,857.32	1,955.43	2,048.72	2,135.35
Total Imports	557.20	586.63	614.62	640.60
Imports from the U.S.	222.88	234.65	245.85	256.24
Exchange Rate: USD1	1,120	1,106	1,100	1,100

Source: Korea Creative Content Agency (KOCCA), Korea Film Council (KOFIC); Unit: USD million.

Sub-Sector Best Prospects:

Music

	2010	2011	2012 (E)	2013 (E)
Total Market Size	673.21	747.74	813.11	883.63
On-line Market	559.82	630.20	693.22	762.54
Off-line Market	113.39	117.54	119.89	121.09

Source: KOCCA, Unit: USD million

Approximately 80% of music in Korea is sold online. According to the Korean Creative Content Agency (KOCCA), on-line music revenues in 2011 amounted to USD 630.20 and grew at an estimated 10% over 2010. Wholesale and retail revenues for CDs or tapes were USD 117.54 million, and off-line sales remained at 2011 levels. KOCCA predicts that on-line sales revenue will be 90 percent of total music market demand by 2014.

On-line music service providers' influence grew significantly in 2010 when smart phones hit the market and online music sales increased. Currently two out of five cell phone users in Korea are smart phone users, and 62 percent of music service subscribers download their music through their phones. More people download their music through their phones than through their PCs.

'Melon' (an affiliate of SK Telecom), has 47 percent of the music market with 17 million members and 2 million subscribers. Mnet (of CJE&M) is second, and 'Olleh Music' (by KT) is in third in market share.

Broadcasting Content

Broadcasting Content by Import and Genre

	2009	2010	2011 (E)
Terrestrial TV	3,303	2,121	2,333
Cable TV/Independent Production Companies	62,646	8,312	9,550
Total	65,948	10,433	11,883

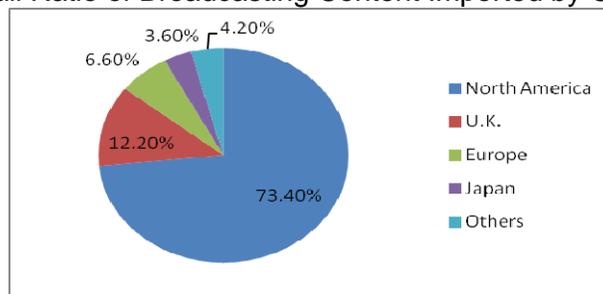
Unit: US\$ 1,000; USD1= 1,170 Won (2009), 1,120 Won (2010), 1,106 (2011); Source: KOCCA

TV content is imported for several platforms in Korea. Terrestrial TV imports 20.3 percent; cable TV and independent production companies import 79.7 percent.

2010 witnessed a dramatic decrease in imported content for several reasons. These include a reaction of the dramatic increase in imported content in 2009, the downscaling of TV advertisements due to the financial crisis, and a return by viewers to locally produced content.

Animation constitutes the largest portion of imported content for terrestrial TV at 57.6 percent, followed by documentaries at 25.1 percent, and movies at 15.7 percent. For cable TV and independent production companies, 'dramas' represent the biggest share of imported content at 66.1 percent, followed by entertainment programs at 22.5%. Foreign dramas and movies continue to be popular to Korean viewers. The launch of new channels will increase the importation of foreign dramas and movies, mainly from North America, the U.K. and European countries. Detective and crime stories are primarily sourced from North America; most European imports are documentaries and animation. About 90 percent of imported content for cable TV comes from North America and the U.K.

Overall Ratio of Broadcasting Content Imported by Country



Film

Market Share by Country

	Korea	U.S.	China	Europe	Japan	Others
Jan.-Nov. 2011	51.1	44.3	0.4	2.2	1.4	0.7
Jan.-Nov. 2010	43.4	51.3	1.4	2.0	1.8	0.1

Source: Korea Film Council (KOFIC); Unit = %

SNS (social network systems) increases the speed and breath of information available on newly released films. Now, even small budget films have the potential for market success as SNS is an important and powerful promotional tool.

Additionally, both the film industry and government are aggressively educating the public to counter illegal downloads. As a consequence of this and government enforcement efforts, illegal downloading is decreasing and the revenue from IPTV, a content streaming service, is increasing.

According to the survey conducted by the Korean Film Council (KOFIC), the average number of titles watched by viewers aged 15 to 59 was 10.5 in 2011. Action titles were the favorite genre on all platforms overall, followed by dramas and romantic comedies. The most popular genres watched at cinemas were, in this order: action films, science fiction, adventure stories, and romantic comedies. Korean films were the most popular (47.1 percent), followed by films from the U.S. (38.1 percent), European films (1.8 percent), Japan (1.6 percent) and China and Hong Kong (0.9 percent.) Other countries account for less than two percent. Korean males ages 19 to 34 prefer Korean films and those 35 to 59 prefer U.S. films. Regardless of age, Korean females prefer Korean films. Overall, 10.6 percent of the audience does not care what the country of origin is.

Content IPR

Both countries have already ratified and acceded to the major IPR treaties, including the WIPO Copyright Treaty (WCT). Under the KORUS FTA, both countries agreed to higher levels of IPR protection by incorporating in the agreement all the obligations set forth in the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT) for the distribution and transmission of protected materials over the Internet and for products in digital format generally. With the digitization of all works and their transmission over the Internet becoming increasingly commonplace, the continued treatment of sound recordings in a manner different from other protected works can no longer be justified. The KORUS FTA ensures that record producers and performers receive protections close to those of other right holders.

There is no tariff applied to imported content or music. However, films and videos are subject to review by the Korea Media Rating Board.

Trade Shows

Busan International Film Festival <http://www.biff.kr>
KCTA Show <http://www.kctashow.com/eng/main.html>

Key Contacts

Korea Communications Commission - <http://eng.kcc.go.kr/user/ehpMain.do>
Ministry of Culture, Sports and Tourism - <http://www.mcst.go.kr/english/index.jsp>
Korea Creative Content Agency - <http://www.kocca.kr/eng/index.html>
Korea Cable TV Association - www.kcta.or.kr (No English version available)
Korea film Council - <http://www.koreanfilm.or.kr/jsp/index.jsp>

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Franchising

ITA CODE: SV FRA

Overview

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Franchising in Korea is a USD 67 billion (2011) dollar industry with potential to grow especially in a wide array of service and new food sector areas. Koreans are avid and demanding consumers.

Nearly 2,400 franchises were registered in Korea in 2010. Fourteen thousand convenience store franchises operate in Korea (*2010 Yearbook of Retail Industry*) of which 2,443 opened in 2009. Nearly 1400 were food service franchises, and 252 were education-related franchises. On average, a franchise operates 70 stores across its industry in Korea. A third of franchise investments in Korea are between USD 4,300 and USD 8,700, and half of the contracts between franchisors and franchisees are for two years.

Franchising Market Sales in Korea – 2008

<i>Industry Sector</i>	<i>Sales</i>
Food Service	USD 44.6 (66.6%)
Service	USD 14.8 (22.1%)
Retail	USD 7.6 (11.3%)
Total	USD 67 (100%)

Sources: Korea Franchising Industry- 2008 by Korea Chamber of Commerce & Industry (KCCI), Korea Food Service Information Co., Ltd. and the Korea Franchise Association; Unit: USD billion.

Franchisors interested in this market must:

- meet the rules promulgated under Korea's Fair Transactions in Franchise Business Act,
- be registered with the Korea Fair Trade Commission, and
- comply with the sub-franchisee's Fair Trade Act requirements, which stipulates the need for disclosure of all business information to potential sub-franchisees at least 14 days before signing an agreement. This Act closely parallels the rules that exist for sub-franchisees in the U.S.

Since the 1980s all the major first, second and third tier U.S. food chain franchises have either been successful in Korea, have been here and failed, or are trying to return -- a very difficult proposition in a country that doesn't forget a failed food enterprise. Interested investors should consult our 2012 Industry Sector Analysis (ISA) on franchising.

The March 15 implementation of the KORUS FTA will positively affect this industry in many ways, to include:

- Expedited Customs Procedures: Improved transparency through the publication of customs measures will ensure U.S. companies have access to customs laws and regulations. In addition, the trade agreement requires simplified customs procedures for timely and efficient release of goods.

- Protected U.S. Investment: A stable, legal framework will protect all forms of U.S. investment. With few exceptions, U.S. investors will be treated as well as Korean investors in the establishment, acquisition, and operation of investments in Korea.

Sub-Sector Best Prospects

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Food service:

According to the Food Bank (www.foodbank.co.kr), a major research institute, Korea's food service industry has reached its saturation point and is at a transition point as Korean customers become more sophisticated. Koreans now demand high quality taste with high quality food ingredients, service, and operations. This period is characterized by interest in molecular cuisine, noodles, roasted coffee, ice-cream, Japanese ramen noodles, yang & daechang (Korean traditional meat dish) and premium burgers and sandwiches. Franchises providing quality take out service, or food service for large events have potential in this market.

Service: Koreans are preoccupied with education (pre-kindergarten to college) thus education service companies hold high potential in this market. Laundry service, auto maintenance, hair, senior day care, homecare, home delivery services (all sectors), home child care, child care, human resource training and pet service providers are among the many service franchises with potential.

Retail: Korean baby boomers are the largest age cohort. Seven million baby boomers will retire from 2011 to 2016. Forced corporate retirees before age 55 years of age are prime candidates to own and operate both service and retail franchises such as: health and beauty, organic specialty stores and others.

Opportunities

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Korea's key retail players have reported to CS Korea their interest in opening numerous mega malls outside Seoul in the next three to five years. These highly respected (chaebol) retailers seek food service and retail (anchor stores) franchises for their expansions. They seek to become master franchisors of a U.S. franchise and some wish to recruit tenants for their new stores. They seek restaurants with a unique concept or theme. While Koreans are attached to their traditional food they tend to adopt and adjust quickly to exotic foods. Thus, Korea is a market where new food franchise models are relatively easy to introduce.

Service providers in wellness and environmentally friendly industries also hold potential. The Korea Chamber of Commerce (KCCI) reported a positive outlook for service providers in wellness/well-being, environmentally friendly products, education, sports and leisure activities, personal service, green growth, and children's items. The growing number of Korean senior citizens means the demand for service companies in this area will steadily grow.

The market is growing fast with the emergence of new types of retail stores such as organic specialty stores and health & beauty stores entering into the market.

Potential Korean franchisees are seeking and prefer to do business with U.S. franchisers that offer established brand names to Korean consumers as well as offering American-

style, systematic operations and management skills. Three groups exist in this market – investors (some who have no experience in the franchise they seek to own/start), folks with real experience with franchising brands, and retirees age 40 and above who wish to own their own business. Investors should seek an experienced work force that can then mentor and monitor the franchisees performance in this highly competitive and mature market.

Web Resources

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Korea Franchise Association - ahnkfa@gmail.com - <http://www.ikfa.org/>

Fair Trade Attorney Association - admin@fea.or.kr - www.fea.or.kr

Korea Fair Trade Commission - <http://eng.ftc.go.kr/>

Korea Chamber of Commerce & Industry - <http://english.korcham.net/>

Korea Legislation Research Institute: www.klri.re.kr

To review The Fair Transactions in Franchise Business Act in English, please visit the web-site and search for the act. You must log into the site to access all legislations in English. There is no fee for this service or for membership.

Trade Shows

Korea's trade shows, while numerous and varied across a wide-range of sectors, are highly B2C in nature.

New Business & Franchise Show	April	Sunin Community
Franchise-New Business Busan Int'l. Expo	June	Busan CCI
Busan International Senior Expo 2012		
Busan Franchise Expo 2012 Agency	September	Busan Economic Promotion Agency

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Medical Equipment and Devices

ITA CODE: PR MED

Overview

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	2009	2010	2011 (E)
Total Market Size	3,157.4	3,375.8	3,713.3
Total Local Production	2,468.1	2,564.4	2,820.8
Total Exports	1,190.1	1,454.4	1,599.8
Total Imports	1,879.4	2,265.8	2,492.3
Imports from the U.S.	763.0	943.8	1,085.3

Exchange Rates: USD1= KW 1,120 (2009), 1,156 (2010), 1,156 (2011); Source: Korea Medical Devices Industry Association, KMDI); Unit: USD million; Note: Given the sharp decline in Korean Won/ US \$ exchange rates in 2009, the above table distorts the positive real growth we anticipate in this sector.

The Korean medical device market is estimated to reach USD 4.4 billion by 2013. One important factor that may slow the import market growth rate will be the pricing and reimbursement measures that the Korean government grapples with under its national healthcare system.

Korea depends on high end medical devices as listed in Best Products/Services (below) from the U.S., EU, and Japan to supply about 65 percent of total market demand. Korean companies make comparatively lower end medical devices. Another factor favoring the use of imported advanced medical equipment and devices is the growing number of elderly population and Korean doctors educated in the U.S. and Europe who are accustomed in using advanced medical devices. In 2010, total imports of medical devices were USD 2.3 billion, with U.S. imports of USD 944 million. The U.S. market share represents 40 percent of the import market. Market demand for foreign advanced and innovative medical devices in 2011 was estimated to grow slowly since the Korean economy has not recovered, and exchange rate of the Korean Won vis-à-vis the U.S. dollar is still not stable.

The importation of medical devices requires the assignment of an importer or representative based in Korea to manage medical device approval and to ensure regulatory compliance. As part of the pre-market approval requirements, the Government of Korea requires testing reports of imported devices for safety and efficacy. In addition to the medical device approvals, companies will also need to negotiate pricing terms with the Korean Health Insurance Review & Assessment Service (HIRA) and the National Health Insurance Corporation (NHIC). Current issues for medical device industry in Korea include reimbursement pricing and the healthcare technology assessment system for medical devices. The Commercial Section at the U.S. Embassy works closely with associations including AdvaMed and the American Chamber of Commerce in Korea to ensure U.S. interests are represented in the medical device industry.

After the March 15 implementation of the KORUS FTA, U.S. medical device and pharmaceutical companies will have the ability to voice their objection to pricing and maximum reimbursement conditions imposed on U.S. products through the *Independent Review Process*. Established to regulate medical devices and drug prices, this review process is independent of the Ministry of Health and Welfare (MHW), the National Health Insurance Corporation (NHIC), and the Health Insurance Review and Assessment Service (HIRAS).

Best Products/Services

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- Stents
- CT systems
- MRI
- Orthopedic implant (Knee)
- Soft contact lens
- Dialysis equipment
 - Accelerator system collimator electron applicator
 - Surgical instruments
 - Ophthalmic lens
 - Ultrasound imaging system, etc.

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- A potential area for U.S.-Korea cooperation in the healthcare technology sector is in the area of clinical trials. Korea is interested in developing a more robust clinical trial environment for medical devices and pharmaceuticals. To attract foreign clinical trials to Korea, the Korean government will support and enhance the quality of relevant medical industries, such as globally certified hospitals and high-end medical technologies, to be able to participate in the clinical-trial industry more intensely. U.S. companies that need clinical trials for their medical devices should contact the Director of the Clinical Trials Management Division at ctmt@korea.kr for details through their Korean importer.
- The Korean government plans to construct 350-600 bed world-class hospitals in the Incheon Free Economic Zone (IFEZ). The first hospital is schedule to open in 2016. Since this is the first time that Korea has invited foreign capital participation in healthcare, the development of the Incheon FEZ could provide good export opportunities for U.S. suppliers of high-end medical products. (Note: Relevant regulations have not been passed by Korea's National Assembly; the opening of these hospitals might be delayed.)

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Trade Shows

Korea International Medical, Clinical, Laboratories & Hospital Equipment Show 2013
www.kimes.co.kr

Key Contacts

Ministry of Health and Welfare (MHW) - www.mw.go.kr

Korea Food & Drug Administration (KFDA) - www.kfda.go.kr

Health Insurance Review & Assessment Service (HIRA) - www.hira.or.kr

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Pollution Control Equipment

ITA CODE: PR POL

Overview

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	2010	2011 (Estimated)	2012 (Projected)	2013 (Projected)
Total Market Size	7,419	8,001	8,629	9,305
Total Local Production	9,325	10,286	11,359	12,561
Total Exports	2,648	3,085	3,594	4,186
Total Imports	742	800	863	931
Imports from the U.S.	223	240	259	279
Exchange Rate: 1 USD	1,100	1,100	1,100	1,100

Note: The above statistics are unofficial estimates by Commercial Service Korea based on the information published by the Ministry of Environment. Unit: USD million.

As Korea forges ahead with its economic stimulus campaign, the Government has signaled that environmental projects and the development of green technologies will be a key priority for job creation and a growth engine to recover in the current global downturn in the economy. In 2009, the South Korean Government announced its "Green New Deal", intended to develop environmental projects to spur economic growth. With a fully industrialized economy and the growing needs of environmental protection, Korea continues to pursue green growth as one of national strategies to cope with the challenges ahead.

CS Korea estimates the size of the pollution control equipment industry at USD 8.0 billion in 2011. According to industry experts, imports account for about 10 percent of the total market. Japan has been the principal foreign supplier with about a 50 percent market share, followed by the U.S. with about 30 percent market share, Germany and France.

Local environmental equipment manufacturers in Korea have supplied a major portion of environmental projects with medium-level technology and medium-cost products. While they have significantly improved their technical levels, mostly through technology transfer and merger with non-Korean suppliers, they still lack the core technologies to supply the products that meet the government's stringent regulatory requirements, and are seeking more advanced imported products and technologies. Because most Korean manufacturers target larger volume and export markets, highly customized solutions for specific applications like in-house recycling and ultra-pure water treatment offer potential for US exporters.

Sub-Sector Best Prospects

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- Carbon capture & storage technologies and equipment
- Volatile organic compounds (VOCs) control in oil refineries and petrochemical plants
- Dioxin abatement in municipal and industrial incinerators
- Advanced sulfur oxides/nitrogen oxides abatement in power plants and steel mills
- Energy saving and waste-to-energy in steel mills and municipal landfills

- Pollution-free and low-emission vehicles in engineering technology, engine components and parts for CNG; pollution abatement technologies for automobile, oil refinery industries
- Advanced water pollution control technology
- Environmentally friendly construction materials

Opportunities

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The Korean government plays a key role in the pollution control equipment industry, as both the regulator and also the biggest end-user in this category. Based on Ministry of Environment statistics, CS Korea estimates the yearly expenditure on environmental protection by the Korean government and Korean industry at about USD 10.7 billion and USD 6.3 billion respectively.

For government projects, tenders are announced on the Korean government procurement (PPS) website with detailed information on the project scope and contact information. Tender information is available from the PPS at <http://www.pps.go.kr/english/>. For more information on PPS, readers are encouraged to review the Selling to the Government section of Chapter three of this guide.

To enter the pollution control equipment market, we recommend that US suppliers partner with qualified and capable Korean companies who maintain their existing sales network to serve end-users, and are fully aware of regulatory changes that drive the market. Exhibiting at local environmental trade shows can be a good platform to explore the market as well as gain exposure to end-users.

The Korea-U.S. FTA will go into implementation on March 15, 2012. The U.S.'s first ever FTA with an Asian country and will provide that more than 95% of U.S. environmental goods exports to Korea, of which current tariffs average 5.8%, to receive duty-free treatment within 3 years. It will also establish a legal framework for U.S. investors to be treated equally as local investors.

Web Resources

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Trade Shows

International Exhibition on Environmental Technologies (ENVEX 2012)

<http://www.envex.or.kr/english/main/main.asp>

Water Korea 2012 - <http://www.wakoex.co.kr/main/index.asp>

Key Contacts

Ministry of Environment - <http://eng.me.go.kr/main.do>

Public Procurement Service (PPS) - <http://www.pps.go.kr/english/>

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Semiconductors

ITA Code: N/A

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	2010	2011	2012 (E)	2013 (E)
Total Market Size	35,118.04	36,909.58	38,619.56	39,466.84
Total Local Production	54,688.04	57,422.44	60,293.56	63,308.24
Total Exports	50,707.00	54,763.56	59,692.28	65,661.51
Total Imports	31,137.00	34,250.70	38,018.28	41,820.10
Imports from the U.S.	12,454.80	13,700.28	15,207.31	16,728.04
Exchange Rate : 1USD	1,120	1,106	1,100	1,100

Source: Korea Communications Commission (KCC), Korea Electronics Association (KEA), and Ministry of Knowledge, Economy (MKE); Unit: USD million.

The semiconductor market in Korea's largest segment is chips for PCs (47 percent), followed by those for communication devices (23 percent) and for home appliances (16 percent). System semiconductors for vehicles represent eight percent of the worldwide semiconductor market and the 4th largest market segment in Korea. In 2011, the Korean semiconductor industry covered 64 percent of DRAM market share and 52 percent of market demand for NAND Flash. However, memory chips account for only 25 percent of the total market demand. Korea does not yet have the advanced technology for system semiconductors in certain areas, such as automobiles and high-end TVs. Major research companies predict that market growth in the system semiconductor segment will continue to increase for the next five years.

Sub-Sector Best Prospects

- Automobile – Analogue semiconductors for automobiles
Logic semiconductors for automobiles
32bit Micro Controller Unit (MCU)
Tire Pressure Monitoring System (TPMS)
- Digital TV – High Definition Multimedia Interface (HDMI)
Display port
Mobile Hi-definition Link (MHL)

Opportunities

An emerging area of opportunity is system semiconductors for automobiles and high-end TV. Worldwide semiconductor sales for automobiles grew from US\$ 20 billion in 2009 to US\$ 21.4 billion in 2010, representing a seven percent growth over this period. According to the Korea Institute for Advancement of Technology (KIAT), market demand for system semiconductors for Korean automobiles increased 16.8 percent, from USD1.25 billion to USD1.46 billion during the same period. As automobiles increasingly incorporate electronic controls, this segment is expected to grow. Market demand for system semiconductors for automobiles is almost entirely dependent on imports. Freescale Semiconductor (U.S.), Renesas Technology (Japan), and Infineon Technology (Germany) are the main suppliers in the Korean market.

Korean electronics manufacturers cover more than 35 percent of worldwide high end TV (Digital TV, Smart TV and other high-end flat screen TV) market demand. Korean

market demand for digital TV system semiconductors, with the exception of LDI (LCD Drive Interface) for digital TV, is mainly supplied by MediaTek (Taiwan) and Broadcom (U.S.). The market demand for SoC (system on chip) semiconductors, which can perform at higher efficiency and resolution with a lower electricity consumption is increasing as 3D TV, Smart TV and High-end TV move into the mainstream consumer market.

Import Requirements

Korea is a party to the World Trade Organization Information Technology Agreement (ITA) and as such 92% of U.S. ICT products enjoy duty-free treatment. The remaining 8%, most of which currently face 8 percent tariffs in Korea, will enter Korea duty-free under the U.S.-Korea FTA. These include radio and television parts, certain static converters, and some telecommunications apparatus.

Semiconductors have been duty-free under the Information Technology Agreement since 1996. However, the next generation semiconductor chips, currently in development, may or may not be subject to duty. This issue is being handled at the Governments/ Authorities Meeting on Semiconductors (GAMS). Since 2000, GAMS has been an annual government-industry and government-government consultation between the World Semiconductor Council and the U.S., the European Union, Japan and Korea.

There is no regulation applied to semiconductor chips, per se. However, when the chips are utilized in electronic devices, the devices are subject to KC mark conformity assessment.

As the procedure is complicated, U.S. firms should consult with their Korean partners before exporting products containing chips to the Korean market. The guidelines for the KC mark can be found at <http://rra.go.kr/eng/approval/process/about.jsp>

Trade Shows

Korea Electronics Show - www.kes.org

Semicon Korea 2012 - www.semiconkorea.org

LED Korea 2012 - www.led-korea.org

World IT Show 2012 - <http://www.worlditshow.co.kr/eng/index.php>

Key Contacts

Ministry of Knowledge, Economy - <http://www.mke.go.kr/language/eng/index.jsp>

Korea Semiconductor Industry Association - <https://www.ksia.or.kr/new/eng/main/>

Korea Institute for Advancement of Technology-
<http://www.kiat.or.kr/site/main/index/index002.jsp>

Korea Electronics Association - <http://www.gokea.org/neweik/eng/>

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Travel and Tourism

SV TRA

Overview

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	2010	2011	2012 (estimated)	2013 (estimated)
Outbound Travel	12,488,364	12,693,733	13,200,000	14,000,000
Outbound Travel to the U.S	1,100,000	1,160,000	1,240,000	1,300,000
Inbound Travel	8,797,658	9,794,796	11,000,000	12,300,000

Source: Korea Ministry of Culture and Tourism, tour.go.kr, Tourism Organization (KTO), U.S. Department of Commerce Office of Travel & Tourism Industries (USDOC, OTTI).

International travel is a rapidly growing leisure activity for Koreans and offers opportunities for continued service industry growth. International travel by Koreans has been spurred by rising disposable incomes, gradual increases in leisure time, heightened globalization, and greater awareness of developments outside the Korean peninsula. Korea's per capita GDP rose to almost USD 29,000 in 2011, placing it securely in the ranks of middle-income countries. Korean consumer confidence has also increased gradually, including a rise in discretionary spending for such activities as overseas travel for both business and leisure.

Continuing positive economic indicators coupled with Korea's addition to the list of U.S. Visa Waiver Program in late 2008 and the recent U.S.-Korea Free Trade Agreement (FTA), expected to enter into force in 2012, should help spur even more leisure and business travel to the U.S. Currently, 22% of Korean travel to the U.S. is for business purposes. Korean mass media is influenced by U.S. movies, advertising, popular culture, and the Internet, which continue to stimulate Koreans' interest in U.S. travel destinations.

Koreans overwhelmingly choose the U.S. as their non-Asian long-haul destination because of the diversity of tourism opportunities not easily available in Asia including U.S.-style shopping, theme parks, cultural attractions in major U.S. cities, relatively inexpensive golf experiences, and the U.S.'s national parks.

According to the U.S. Department of Commerce, it is estimated that 1.16 million Koreans traveled to the U.S. in 2011. The increase is attributed to the stabilization of Korea's economy after the global financial crisis in 2008 and the Visa Waiver Program that Korea joined in 2008. Korea is currently the eighth-largest source of inbound travel to the U.S., behind Canada, Mexico, the United Kingdom, Japan, Germany, France and Brazil.

Sub-Sector Best Prospects

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- High quality group package tours,
- Family vacation packages,
- Honeymoon packages,
- Free Independent Travelers (particularly online travel booking),
- Luxury packages catering to Korea's single, professional women travelling for leisure,
- Cultural tours / natural scenic tour packages designed for Korean travelers, and

- Educational Travel.

Opportunities

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The U.S. is the leading non-Asian destination for Koreans as it offers a variety of activities, climates, and cultural experiences. U.S.-bound Koreans account for 9.2 percent of Korea's outbound market. Los Angeles, San Francisco, Las Vegas, and Seattle followed by the New York-Washington D.C corridor are the most popular destinations. Koreans use group tours or travel individually to visit friends and relatives. Group tours should focus on higher-class services that cater to the more sophisticated tastes of seasoned Korean travelers. U.S.-bound Koreans are interested in visiting museums, amusement parks, finding bargains at fashion outlets, purchasing OTC pharmaceuticals and vitamins, and U.S. cosmetics, playing golf, and visiting restaurants and wineries.

To cultivate this market travel and tourism entities should offer materials and guide experiences in Korean, maintain a part-time promotional office in Korea, and/or should visit Korean tour operators frequently. There are approximately 9,000 tour agents in Korea and promotional information on the U.S. is urgently needed for developing this market.

A partnership of Brand USA/Visit USA and Korea's private sector travel and tourism entities will be launched in the Spring and Summer of 2012. Korea's first USA Travel and Tourism Pavilion is being planned for 2013.

Web Resources

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Major Events

January 13 – 15, 2012

Weddex Korea - http://www.weddex.com/html/weddexkorea/exhibit_intro.html

May 18 - 20, 2012

Hanatour Exhibition- <http://www.hits2012.co.kr/>

June 7 – 10, 2012

The 25th Korea World Travel Fair (KOTFA) - <http://www.kotfa.co.kr/eng/main/main.htm>

Key Contacts

Korea Tourism Organization

<http://kto.visitkorea.or.kr/enu/index.jsp>

Min. of Culture, Sports & Tourism

<http://www.mcst.go.kr/english/index.jsp>

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For information on agricultural products including bulk commodities or processed foods and the distribution channels in Korea, please see the US Department of Agriculture (USDA) [Exporter Guide 2011](#).

When considering the Korean market, US food exporters should conduct preliminary research to determine if the market is appropriate for the product. Possible sources of market information include Korean importers, [US state departments of agriculture](#), the [US Agricultural Trade Office in Seoul](#) and the [US Department of Commerce](#). Lists of Korean importers, by product, can be obtained from the [US Agricultural Trade Office](#), or through the [Foreign Agricultural Service in Washington, D.C.](#) The next step might include sending catalogues, brochures, product samples, and price lists to prospective importers as a way of introducing the company and products.

Once contact is established, it is advisable to visit the importer(s) in person, which will increase the seller's credibility with the Korean importer and give an opportunity to see the Korean market first hand. In Korea the clichés about "seeing is believing" and "one visit is worth a 1,000 e-mails" are especially true. Especially in Korea, there is no substitute for face-to-face meetings. The supplier or exporter should bring samples as well as product and company brochures including price lists, shipping dates, available quantities, and any other information needed for negotiating a contract. While information in English is acceptable, having it in Korean is especially helpful. A general overview of the firm in Korean is a good place to start.

The [Seoul Food 2012 Exhibition](#) presents an excellent opportunity to explore possible market opportunities in Korea. This show is a trade only show and targets importers, wholesalers, distributors, retailers, hotels, restaurants, food processors, media, etc.

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Chapter 5: Trade Regulations, Customs and Standards

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Import Tariffs

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The U.S.-Korea FTA will implement on March 15, 2012. Currently, the average basic tariff on U.S. goods at about 7.9 percent and [Duty rates](#) are high on a large number of high-value agricultural and fisheries products. Once the FTA has been implemented, however, 95% of tariffs on U.S. imports will be eliminated within five years. The U.S. Department of Commerce [FTA Tariff Tool](#) can help U.S. exporters indentify the harmonized system number for their products and the associated tariff rates over the next ten years. Exporters can also contact the [U.S. Agricultural Trade Office](#) for specific information on agricultural tariff rates.

Korea also maintains a tariff quota system designed to stabilize domestic commodity markets. Customs duties can be adjusted every six months within the limit of the basic rate plus or minus 40 percent. On December 2, 2011, the Ministry of Strategy and Finance (MOSF) released the 2011 list of products subject to tariff adjustments. 112 products were subject to adjustment tariffs.

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

Customs Valuation

Most duties are assessed on an ad valorem basis. Specific rates apply to some goods, while both ad valorem and specific rates apply to a few others. The dutiable value of imported goods is the cost, insurance, and freight (C.I.F.) price at the time of import declaration.

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

is usually accompanied by the Ministry of Strategy and Finance's approval of a foreign investment project.

For illustrative purposes, the following table demonstrates import duty and other taxes affecting the final import price:

Product Cost (Ex Factory)	USD 100
Insurance and Freight (C&F)	USD 15
CIF Price	USD 115
Import Tariff/Duty (valuation CIF + VAT)	USD 5
Value Added Tax (VAT)	USD 12.3
Final Imported Price	USD 132.30

Trade Barriers

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Korea continues a process of economic liberalization and deregulation, but the Korean government (ROKG) has yet to adopt a fully laissez-faire policy where the economy and trade are concerned. The U.S. Embassy, in cooperation with the American Chamber of Commerce (AmCham) in Korea, works actively to lift or loosen the many regulatory trade restrictions that currently exist.

Overcoming regulatory barriers to trade is also a major focus of the U.S. – Korea FTA. Transparency, due process, public comment and appeals procedures, and timely and written administrative procedures are among the topics that were addressed and agreed to and affect a number of the sector-specific elements to the agreement.

Information on specific trade barriers in Korea, including agricultural products such as restrictions on rice imports, is available in the [2010 National Trade Estimate Report on Foreign Trade Barriers for Korea](#). (2011 data will be released at the end of March, 2012.)

Import Requirements and Documentation

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For companies exporting to the Republic of Korea the following shipping documents are required to clear Korean Customs:

COMMERCIAL INVOICE: An original invoice and two copies must be presented with the shipping documents and must include total value, unit value, quantity, marks product description and shipping from/to information.

CERTIFICATE OF ORIGIN: Prior to implementation of the KORUS FTA, a Certificate of Origin in duplicate was required for some products. Exporters are encouraged to discuss shipping document requirements with their respective importer.

An importer must claim preferential treatment under the KORUS FTA in order to receive the lower tariff. The importer can do this by providing written or electronic certification to Korean Customs from the manufacturer, the exporter or the importer. The importer is required to retain all documents demonstrating that the good qualifies as a U.S.-origin good for five years.

Self-certification of origin by the producer or exporter is normally the basis for deciding the good qualifies for preferential treatment. If the certification is in English, an official translation into Korean must be presented by the importer to Korean Customs. A certification may be made for a single shipment or for multiple shipments of identical goods for up to twelve months by specifying this in the certification. The importer submits the certification to Korea Customs, in writing or electronically, including at least the following information:

- a. Name and contact information for the Certifying person
- b. The importer
- c. The exporter
- d. The producer of the good
- e. Harmonized System Tariff classification and description of the good
- f. Information demonstrating that the good originates in the United States. This can be satisfied by either:
 - i. The producer's written or electronic certification that the product meets KORUS FTA origin requirements, or
 - ii. The producer's or exporter's knowledge that the good meets KORUS FTA origin requirements.
- g. Date of the Certification
- h. In the case of a blanket certification, the period that the certification covers.

PACKING LISTS: Two copies are required.

BILL OF LADING: A clean bill of lading identifying the name of the shipper, the name and address of the consignee, the name of the port of destination, description of the cargo, a price list of freight and insurance charges (CIF), and attestation of carrier's acceptance on board for the goods is sufficient. There are no regulations pertaining to the form of the bill of lading nor the number of bills of lading required to clear customs. As bills of lading are for ocean and overland cargos, the airway bill of lading replaces the bill of lading for air cargo shipments.

MARITIME INSURANCE: Under the Incoterms (shipping terms) agreed to by the parties in a transaction, if the exporter is responsible for insurance, a marine insurance policy or insurance certificate is required.

SPECIAL DOCUMENTATION

Information related to the need of special documentation for food and agricultural commodities including sanitary-phytosanitary certificates, and other agricultural documentation can be found on the USDA/Animal Plant Health Inspection Service (APHIS website at: http://www.aphis.usda.gov/import_export/index.shtml).

An overview of Korean import requirements for food is contained in the FAS Korea annual agriculture export guide at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Exporter%20Guide_Seoul%20ATO_Korea%20-%20Republic%20of_11-2-2011.pdf.

Additional detailed information about import requirements and documentation needs for agricultural and food products (including biotechnology products) are included in the import requirements report at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Seoul_Korea%20-%20Republic%20of_1-11-2011.pdf.

Additional information on how the new Free Trade Agreement affects duty rates can be found on the [Food and Agricultural Import Regulations and Standards \(FAIRS\) report for Korea](#). The Korean Food and Drug Administration (KFDA) provides information on maximum residue levels and import procedures on the [KFDA website](#). Additional detail on the [maximum residue limits](#) allowed by Korean food authorities and reports on import requirements for [organic products](#) are also available on the FAS website. Exporters of organic products should also review the FAS report on Korean regulatory requirements for [transgenic content in organic](#) processed food products.

Current information on which U.S. livestock and poultry products are eligible for export to the Korean market can be found on the website of the [Food Safety and Inspection Service](#) of the U.S. Department of Agriculture. This website also provides guidance on the documents Korea requires for livestock product shipments destined for Korea.

All commodities, except rice, can be freely imported, subject to special registrations and import approvals for categories like pharmaceuticals medical devices, and cosmetics. The Government of Korea has stipulated requirements and procedures for importing certain products including registration, standards and safety and efficacy testing to ensure the protection of public health and sanitation, national security, safety, and the environment. Typically, health or safety related products, such as pharmaceuticals and medicines, require additional testing or certification by recommended organizations before clearing customs. Medical device and pharmaceutical exporters must have their products registered with the Korea Food and Drug Administration and can only be imported by licensed importers that have been certified by a KFDA authorized body. In addition, special items defined by the Ministry of Knowledge Economy in its Annual Trade Plan require approval by the Minister. In most cases, the supplier's qualified local agent completes the registration process.

US Export Controls

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The Department of Commerce, Bureau of Industry and Security (BIS) develops, implements, and interprets U.S. export control policy for dual-use commodities, software, and technology. Dual-use items subject to BIS regulatory jurisdiction have predominantly commercial uses, but may also have military applications. For basic information on U.S. export controls, please visit the following website at <http://www.bis.doc.gov/licensing/exportingbasics.htm>. For information on export controls administered by other U.S. Government agencies, please visit <http://www.bis.doc.gov/About/reslinks.htm>.

Temporary Entry

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Korea has three kinds of bonded areas where goods can temporarily enter Korea for storage, manufacture, processing, sale, construction, or exhibit without going through customs clearance. The three types of bonded areas are: 1) designated bonded areas

(designated storage sites and customs inspection zone); 2) patent bonded areas (bonded warehouses, bonded factories, bonded exhibition sites, bonded construction sites, and bonded sales shops); and, 3) comprehensive bonded areas (all five activities of patent bonded areas can be performed comprehensively in the same place). Duties are payable only when goods are cleared through customs.

The period for which goods may be stored in a designated bonded warehouse is six months and a patent bonded warehouse is one year. Storage fees are relatively high, and the availability of a bonded warehouse to maintain inventories is limited. The storage period does 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.

Comprehensive bonded areas have no time limit for storage. Hence, storage, manufacturing, processing, building, sales and exhibition can be comprehensively carried out. U.S. exporters can store shipped goods and still maintain title until they are cleared through customs. Korea's customs laws specify that any person who wishes to establish a bonded warehouse shall obtain a license from the director of each Customs Zone. Applications must include the name of the bonded warehouse, location, structure, numbers and sizes of buildings, storage capacity and types of products to be stored. In addition, articles of incorporation and corporate registration must be submitted, when applicable.

Goods entering Korea for exhibition purposes must be stored in a bonded area. For example, the [Korea Exhibition Center \(COEX\)](#) is a bonded area. Exhibition goods will be held without charge at COEX during the exhibition period, after which they must be either: 1) reshipped directly out of Korea without payment of duty; 2) presented at Customs for payment of regular duty on value declared at time of entry; or, 3) transferred to the Seoul Customs house bonded storage area. Goods stored in a bonded warehouse may incur storage costs, customs brokerage charges, local transportation costs and moving equipment fees.

Korea Customs have simplified clearance procedures for goods with particular purposes (samples, goods for warranty and non-warranty repair).

The ATA Carnet is an international Customs document that a traveler may use to temporarily import certain goods into a country without having to engage in the Customs formalities usually required for the importation of goods, and without having to pay duty or value-added taxes on the goods. Korea allows for the temporary importation of commercial samples, professional equipment and certain advertising materials by a nonresident individual. For more information about carnets in Korea, please click [here](#). By definition a temporary import is for six months or less, therefore, a Carnet is valid for a maximum of six months in Korea.

For more detailed information about guidelines for temporary entry of items into Korea, please visit the [Korea Customs website](#).

Korea has specific labeling and marking requirements for certain products, such as pharmaceuticals, as well as for organic and functional food and food produced through biotechnology. Details regarding these and other general labeling and market requirements can be found on the Foreign Agricultural Service website pertaining to food and agriculture import requirements

at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Seoul_Korea%20-%20Republic%20of_1-11-2011.pdf.

Country of origin labeling is required for commercial shipments entering Korea. The Korean Customs Service (KCS) publishes a list of country of origin labeling requirements by Harmonized System Code number. Please visit [Labeling and Marking](#). The usage of “Assembled in *Country*” was allowed starting October of 2010. To learn more about Country of Origin labeling requirements for Korea, click “[Country of Origin Labeling](#)”.

The Korean Ministry of Knowledge Economy began issuing the “KC” mark for items that fall under its jurisdiction. Formerly, some 13 mandatory marks were issued, many that overlapped in testing procedures and functions. The consolidation of these marks into the “KC” mark ensures that companies, both Korean and foreign agencies, will save time and cost due to reduced redundancies introduced into this new system. To learn more about this, click “[KC Mark](#)”. (This site has English version but the initial site is in Korean even if I clicked for conversion to English)

Further labeling and marking requirements for specific products, such as pharmaceutical and food products, are covered by specific regulations from the Korean Government agencies responsible for these items. Korean language labels, except for country of origin markings that must be shown at the time of customs clearance, can be attached locally on products in the bonded area either before or after clearance.

Details regarding labeling and marking regulations for food and agricultural products can be found on Foreign Agricultural Service website in the Food and Agriculture regulatory guide

at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Seoul_Korea%20-%20Republic%20of_1-11-2011.pdf report for Korea.

Prohibited and Restricted Imports

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Guns, narcotics, pornography, subversive material, treasonous material and counterfeit goods or materials are prohibited entry into Korea.

Please visit the Bureau of Industry and Security website at: <http://www.bis.doc.gov/>for detailed information about export controls to the Republic of Korea. [The Korean Customs](#) Service also maintains a list of prohibited imports to the Republic of Korea.

Customs Regulations and Contact Information

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Korea maintains an import declaration system that allows for the immediate release of goods upon acceptance of an import declaration filed without defect. With the exception of high-risk items related to public health and sanitation, national security, and the

environment, which often require additional documentation and technical tests, goods imported by companies with no record of trade law violations are released upon the acceptance of the import declaration without customs inspection. The Korean Customs Service's (KCS) Electronic Data Interchange (EDI) system for paperless import clearance allows importers to make an import declaration by computer without visiting the customs house.

Import declarations may be filed at the Customs House before a vessel enters a port or before the goods are unloaded into bonded areas. In both cases, goods are released directly from the port without being stored in a bonded area if the import declaration is accepted.

Exporters can file an export notice to Korean Customs by computer based shipping documents at the time of export clearance. All commodities can be freely exported unless they are included on the negative list.

To view customs regulations, go to the website below.

Korea Customs Service
Tel. 82-42-472-2196
Fax. 82-42-481-7969
Email: kcstcd@customs.go.kr
Website: <http://english.customs.go.kr/>

Standards	Return to top
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Overview	Return to top
<p>The Korean Government adopted the ISO 9000 system (modified as the KSA 9000) as the official standard system in April 1992. The Korean Agency for Technology and Standards (KATS) continues to work to make Korean standards similar to international standards. The Korean Industrial Standardization Act requires 60 days' notice before implementing new standards. Whenever there is a change in standards, the government is required to notify the WTO's Committee on Technical Barriers to Trade (TBT).</p>	

Details regarding standards and import regulations for food and agricultural products can be found in on Foreign Agricultural Service website in the [Food and Agricultural Import Regulations and Standards \(FAIRS\)](#) report for Korea.

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The Korean Agency for Technology and Standards (KATS) develops standards for most industrial products in Korea. The agency consults with other private organizations to develop standards and certification requirements.

The Korean Food and Drug Administration (KFDA) establishes standards for research, new product evaluation, test method development, product monitoring for food, medical devices, pharmaceuticals and radiation technology distributed within Korea.

The [Telecommunications Technology Association \(TTA\)](#) covers telecommunications, information technology, radio communications and broadcasting. The Association establishes industry standards and has been instrumental in creating the current Korean Information and Communication Standards. TTA also collaborates with international and national standards organizations such as the ITU and other organizations.

NIST Notify U.S. Service

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries.

Notify U.S. is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at <http://www.nist.gov/notifyus/>.

Conformity Assessment

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[KATS](#) establishes guidelines for government and private sector institutes to perform reliability assessment and certification. It also performs market surveillance on KC-marked products and penalizes products that do not meet KC requirements.

Korea is a signatory to the GATT Standards Agreement. As such, Korea must apply open procedures for the adoption of standards, announces recommended standards, provide sufficient information on proposed standards or alterations in standards, and to allow sufficient time for countries and other stakeholders to comment on proposed standards implementation.

Product Certification

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KATS issues certification marks for new technologies and recognizes quality products manufactured by Korean companies mainly to promote exports and also imports into Korea. On July 1, 2009, KATS began issuing the KC mark for items that fall under its jurisdiction. Information related to the KC mark in English can be seen at the American National Standards Institute (ANSI) website at: http://www.standardsportal.org/usa_kr/e/conformity_assessment/ca_marks_used_in_korea.aspx. The KC mark is to reduce and minimize repetitive testing at various ministries and agencies. [The consolidation of these marks ensures that companies, both Korean and foreign agencies, will save time and cost due to reduced redundancies introduced into this new system.

Accreditation

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Established in December 1992, the Korea Laboratory Accreditation Scheme (KOLAS) is the government accreditation body under the KATS Department of Technology and Standards Planning. Additional information and accreditation bodies can be found under the KOLAS website at <http://www.kolas.go.kr/english/>

Publication of Technical Regulations

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Revised or new standards or technical regulations are published by the Korean Agency for Technology and Standards (KATS) and made available at http://www.kats.go.kr/en_kats/. The articles, more frequently than not, are published only in Korean. All proposed or newly revised/established technical regulations are consolidated at this site.

Proposed revisions or establishment of regulations in Korean are made to the Director of Technical Regulations via the website at http://www.kats.go.kr/en_kats/. A public meeting consisting of lawmakers as well as relevant private/public industry organizations is held to comment on proposed regulations. Contact the [U.S. Embassy, Commercial Section](#) for assistance with revised or new standards

Contacts

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Korean Agency for Technology and Standards (KATS)
<http://www.kats.go.kr/english/index.asp>

Korean Food and Drug Administration (KFDA)
<http://eng.kfda.go.kr/index.php>

Korean Laboratory Accreditation Scheme (KOLAS)
www.kolas.go.kr

Trade Agreements

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The Republic of Korea and the United States will implement the Korea-U.S. Free Trade Agreement on March 15, 2012. The trade agreement is the largest FTA negotiated by the United States since NAFTA.

The Republic of Korea is a member of the Asia-Pacific Economic Cooperation (APEC) forum. One goal of APEC, as outlined in its 1994 declaration, is to establish a Free Trade Area among its member countries by the year 2020. Substantive principles of the APEC forum include investment liberalization, tariff reduction, deregulation, government procurement, and strengthening IPR protection. Korea was the host country for APEC in 2005.

Korea has Free Trade Agreements with Chile, Singapore, European Union and the European Free Trade Association (Norway, Switzerland, Iceland and Liechtenstein). More information on EU-Korea FTA can be found on the European Union website at <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/korea/>

Korea also signed a framework agreement with the Association of South East Asian Nations (ASEAN) that led to an FTA in goods by the end of 2006 and other areas by the end of 2008.

Korea also negotiated a FTA with the United States and was ratified by the national assemblies of the two countries in November 2011. The KORUS-FTA promises to remove significant trade and investment barriers and increase access to the Korean market for U.S. businesses. For additional information on the KORUS-FTA please see the following website at <http://www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta>.

The Republic of Korea is a member of the World Trade Organization (WTO) and has signed subsidiary agreements including TRIPs (Trade Related Aspects of Intellectual Property) and the Government Procurement Agreement. Korea has been a member of the Organization for Economic Cooperation and Development (OECD) since December 1996.

Web Resources

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U.S. Department of Commerce, Commercial Service Korea
<http://export.gov/southkorea/>

U.S. Agricultural Trade Office in Seoul
www.atoseoul.com

U.S. Department of Agriculture
<http://www.usda.gov>

USDA Agriculture Exporters Guide
http://www.fas.usda.gov/agx/exporter_assistance.asp

USDA Animal Plant and Health Inspection Service (APHIS)
www.aphis.usda.gov

USDA Food Safety and Inspection Service
http://www.fsis.usda.gov/Regulations_&_Policies/Republic_of_Korea_Requirements/index.asp

Foreign Agricultural Service (FAS), U.S. Department of Agriculture (Attaché reports)
www.fas.usda.gov

American Chamber of Commerce Korea
<http://www.amchamkorea.org/about/about.jsp>

Department of Commerce, Bureau of Industry and Security
<http://www.bis.doc.gov/>

Annual National Trade Estimate Report
http://www.ustr.gov/sites/default/files/uploads/reports/2010/NTE/2010_NTE_Korea_final.pdf

Korean Agency for Technology and Standards (KATS)
<http://www.kats.go.kr/english/index.asp>

Korea Customs Service

<http://english.customs.go.kr/>

Korean Food and Drug Administration (KFDA)
<http://eng.kfda.go.kr/index.php>

Korean Laboratory Accreditation Scheme (KOLAS)
<http://www.kolas.go.kr/english/>

Telecommunications Technology Association (TTA)
<http://www.tta.or.kr/English/index.jsp>

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Chapter 6: Investment Climate

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Openness to Foreign Investment

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Introduction

The Republic of Korea (ROK) experienced 3.6 percent growth in 2011 and its financial markets reflected concerns about global economic instability beginning in early August 2011. Despite market jitters and slowing growth, the ROK has so far weathered the global economic uncertainty and continues to remain a generally favorable destination for foreign investment. In the aftermath of the 1997-98 Asian Financial Crisis, Korea made significant progress in reforming its financial institutions and capital markets. In addition, the Korean government took steps to strengthen competition policy and enacted measures to enhance foreign investment incentives, and to allow non-Koreans to own land and real property. With these changes, most Koreans recognize foreign investment as positive for the nation's development, despite continuing protectionist sentiment among certain elements of society. The highest levels of the Korean government remain committed to maintaining a welcoming environment for foreign investors, ensuring a level playing field for foreign investors, and reforming labor laws. Capital inflows quickly recovered following the 2008-09 global financial crisis and rose from USD 11.5 billion in 2009 to USD 13.1 billion in 2010. Inbound foreign direct investment (FDI) rose to USD 13.7 billion in 2011, up 4.6 percent from 2010. Foreign investment in service industries increased 15.4 percent in 2011, but FDI in the manufacturing sector decreased 15.1 percent on the year. Noteworthy improvements in the protection of intellectual property also contributed to a more positive foreign investment climate. The ROK's role as host of the 2010 G20 also served to burnish the

ROK's reputation as a favorable destination for foreign investment.

The United States retains the largest single-country share of FDI in Korea, totaling USD 46.2 billion or 24.6 percent of Korea's total stock of FDI since the 1960's. Japan has invested USD 28.3 billion (15.1 percent of the total) followed by the Netherlands with USD 21 billion (11.2 percent). EU member countries combined have invested USD 64.7 billion or 34.6 percent of the total. The EU contributed the largest share of FDI in 2011, at USD 5.03 billion. The United States recorded USD 2.37 billion of FDI in 2011, while Japan contributed USD 2.28 billion. The IT, financial, logistics and other service sectors are expected to absorb the majority of FDI in Korea in the near future, largely through mergers and acquisitions (M&A), in line with global trends.

In recent years, foreign portfolio investment has surged. At the end of 2011, foreign shareholders owned 32.9 percent of Korean Stock Exchange stocks and 7.9 percent of the tech-heavy KOSDAQ Index shares.

Improvement in the consistency of the ROKG's interpretation, transparency, and timeliness in the application of FDI regulations would enhance the investor climate in Korea. Unclear or opaque regulatory decision-making remained a significant concern among foreign investors and can discourage FDI by creating uncertainty for investors and fostering an impression that Korea remains hostile to foreign investment. Investors were also concerned about small but significant interest groups that pressure the government to protect the Korean market from what it perceives as foreign domination. On the labor side, although Korea boasts a hard-working, educated and highly productive workforce and high levels of institutional labor protections, foreign investors cited volatility in labor-management relations as an issue that can hamper direct investment.

The recently ratified (but not yet in force) U.S.- Korea (KORUS) Free Trade Agreement (FTA) promises to be a major step forward in enhancing the legal framework for U.S. investors operating in Korea. All forms of investment would be protected under the FTA, including enterprises, debt, concessions and similar contracts, and intellectual property rights. With very few exceptions, U.S. investors will be treated as well as Korean investors (or investors of any other country) in the establishment, acquisition, and operation of investments in Korea. In addition, these protections would be backed by a transparent international arbitration mechanism, under which investors may, at their own initiative, bring claims against the government for an alleged breach of the investment. Submissions to investor-State arbitration tribunals would be made public and hearings would be open to the public.

The Korean government's attitude toward foreign direct investment is positive and senior policy makers clearly realize the value of FDI. President Lee Myung-bak champions a foreign investment-friendly philosophy. FDI has since rebounded to USD 11.7 billion in 2008, USD 11.5 billion in 2009, USD 13.1 billion in 2010, and despite the global economic downturn this year, USD 13.7 billion in 2011.

Despite these improvements, FDI in Korea is still at times subject to insufficient regulatory transparency, including inconsistent and sudden changes in interpretation of regulations, underdeveloped corporate governance, high labor costs, an inflexible labor system, and lingering economic domination by large Korean conglomerates, or "*chaebol*".

Korea's Foreign Investment Promotion Act (FIPA) and related regulations categorize business activities as either open, conditionally or partly restricted, or closed to foreign investment. Restrictions remain for 27 industrial sectors, three of which are entirely closed to foreign investment. The Korean government reviews restricted sectors from time to time for possible further openings. According to the Ministry of Knowledge Economy (MKE), the number of industrial sectors open to foreign investors is well above the OECD average.

FIPA features include:

- Simplified procedures, including those for FDI notification and registration;
- Expanded tax incentives for high-technology FDI;
- Reduced rental fees and lengthened lease durations for government land (including local government land);
- Increased central government support for local FDI incentives;
- Establishment of "Invest Korea," a one-stop investment promotion center within the Korea Trade Promotion Corporation to assist foreign investors;
- Establishment of an Ombudsman office to assist foreign investors. MKE published a 2011 Consolidated Public Notice, updating new code numbers and titles for business sectors in accordance to the ninth revision of the Korea Standard Industry Code (KSIC). According to the 2009 Notice, the number of KSIC industrial classifications of business sectors increased from 1,121 to 1,145 and by the reclassification, business sectors where foreign investment is restricted increased from 28 to 29.

The following is a current list of Restricted Sectors for Foreign Investment. Figures in parentheses denote the Korean Industrial Classification Code:

Completely Closed

- Nuclear power generation (35111)
- Radio broadcasting (60100)
- Television broadcasting (60210)

Restricted Sectors (partly open not more than 25 percent)

- News agency activities (63910)

Restricted Sectors (partly open not more than 30 percent)

- Hydro electronic power generation (35112)
- Thermal power generation (35113)
- Other power generation (35119)

Restricted Sectors (partly open less than 30 percent)

- Publishing of newspapers (58121)

Restricted Sectors (partly open less than 49 percent)

- Satellite and other broadcasting (60229)
- Program distribution (60221)
- Cable networks (60222)
- Wired telephone and other telecommunications (61210)
- Mobile telephone and other telecommunications (61220)

- Satellite telephone and other telecommunications (61230)
- Other telecommunications (61299)

Restricted Sectors (partly open not more than 50 percent)

- Farming of beef cattle (01212)
- Inshore and coastal fishing (03112)
- Transmission/distribution of electricity (35120)
- Wholesale of meat (46312)
- Coastal water passenger transport (50121)
- Coastal water freight transport (50122)
- Publishing of magazines and periodicals (58122)

Open but Regulated under the Relevant Laws

- Growing of cereal crops and other food crops except rice and barley (01110)
- Domestic commercial banking except special banking area (64121)
- Radioactive waste collection, transportation, and disposal except radioactive waste management (38240)
- Other inorganic chemistry production except fuel for nuclear power generation (20129)
- Other nonferrous metals refining, smelting, and alloying (24219) In categories open to investment, foreign exchange banks must be notified in advance of applications for foreign investment. (All Korean banks are permitted to deal in foreign exchange, including branches of foreign banks.) In effect, these notifications are pro-forma, and approval can be processed within three hours. Applications may be denied only on specific grounds, including national security, public order and morals, international security obligations, and health and environmental concerns. Exceptions to the advance notification approval system exist for project categories subject to joint-venture requirements and certain projects in the distribution sector. Relevant ministries must still approve investments in conditionally or partly restricted sectors. Most applications are processed within five days; cases that require consultation with more than one ministry can take 25 days or longer. Korea changed its procurement law effective in 1997, to comply with its accession to the WTO Government Procurement Agreement. The Government's procurement law no longer favors domestic suppliers over foreigners, but some implementation problems remain. Restrictions on foreign ownership of public corporations remain, although ownership limit levels have been raised. Currently, foreign ownership is limited for government-controlled utilities. Foreign ownership in Korean telecommunications companies and cable networks is limited to 49 percent. The Korean government intends to privatize many of the remaining state-owned corporations, but this process was slowed by the global financial crisis. The Ministry of Strategy and Finance (MOSF) administers tax and other incentives to stimulate advanced technology transfer and investment in high-technology services. There are three types of special areas for foreign investment -- Free Economic Zones, Free Investment Zones and Tariff Free Zones -- where favorable tax incentives and other support for investors are available (see Section VI.)

Measure	Year	Index/Ranking
<i>Transparency International Corruption Index</i>	2011	5.4/43
	2010	5.4/39
<i>Heritage Foundation Economic Freedom Index</i>	2011	69.9/31
	2010	69.8/31
<i>World Bank Doing Business Index</i>	2011	NA/8
	2010	NA/15

Conversion and Transfer Policies

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The 1999 Foreign Exchange Transaction Act (FETA) fully liberalized all current-account transactions by business firms and banks, and pared down a formerly long list of restricted transactions to five items, most of which cover foreign exchange transactions by individuals. A second-stage liberalization dismantled most of the remaining restrictions in 2001. Only transactions that could harm international peace or public order, such as money laundering and gambling, remain controlled. Three specific types of transactions were not liberalized:

(1) Non-residents are not permitted to buy won-denominated hedge funds, including forward currency contracts;

(2) The Financial Services Commission will not permit foreign currency borrowing by "non-viable" domestic firms; and

(3) The Korean government will monitor and ensure that Korean firms that have extended credit to foreign borrowers collect their debts. The Korean government has retained the authority to re-impose restrictions in the case of severe economic or financial emergency.

Capital account liberalization under the Foreign Exchange Transaction Act (FETA) has also been extensive. All capital-account transactions are permitted unless specifically prohibited. In addition, 72 of the 91 transactions specified by the OECD code of liberalization of capital movements now are permitted. Non-residents may open deposit accounts in domestic currency (won) with maturities of more than one year and may engage in offshore transactions and issue won-denominated securities abroad.

The right to remit profits is granted at the time of original investment approval. Banks control the now *pro forma* approval process for FETA-defined open sectors. For conditionally or partially restricted investments (as defined by the FETA), approval for both the investment and remittance rests with the relevant ministry.

When foreign investment royalties or other payments are proposed as part of a technology licensing agreement, the agreement and the projected stream of royalties must be approved either by a bank or MOSF. Again, approval is virtually automatic. An investor wishing to enact a remittance must present an audited financial statement to a bank to substantiate the payment. To withdraw capital, a stock valuation report issued by a recognized securities company or the Korean appraisal board also must be

presented. Foreign companies seeking to remit funds from investments in restricted sectors must first seek ministerial and bank approval, after demonstrating the legal source of the funds and proving that relevant taxes have been paid.

Expropriation and Compensation

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The ROK follows generally accepted principles of international law with respect to expropriation. Korean law protects foreign-invested enterprise property from expropriation or requisition. If private property is expropriated, it can only be taken for a public purpose, and only in a non-discriminatory manner. Property owners are entitled to prompt compensation at fair market value. U.S. Embassy Seoul is not aware of any cases of uncompensated expropriation of property owned by American citizens.

Dispute Settlement

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Serious investment disputes involving foreigners are the exception rather than the rule in Korea. There exists a body of Korean law governing commercial activities and bankruptcies that constitutes the means to enforce property and contractual rights, with monetary judgments usually levied in the domestic currency. Foreign court judgments are not enforceable in Korea.

Although commercial disputes can be adjudicated in a civil court, foreign businesses often feel that this is not a practical means to resolve disputes. Proceedings are conducted in Korean, often without adequate translation. Korean law prohibits foreign lawyers who have not passed the Korean Bar Examination from representing clients in Korean courts. Civil procedures common in the United States, such as pretrial discovery, do not exist in Korea. During litigation of a dispute, foreigners may be barred from leaving the country until a decision is reached. Legal proceedings are expensive and time-consuming and lawsuits often are contemplated only as a last resort, signaling the end of a business relationship.

Commercial disputes may also be taken to the Korean Commercial Arbitration Board (KCAB). The Korean Arbitration Act and its implementing rules outline the following steps in the arbitration process: 1) parties may request the KCAB to act as informal intermediary to a settlement; 2) if unsuccessful, either or both parties may request formal arbitration, in which case the KCAB appoints a mediator to conduct conciliatory talks for 30 days; and 3) if unsuccessful, an arbitration panel consisting of one or three arbitrators is assigned to decide the case. If one party is not resident in Korea, either may request an arbitrator from a neutral country.

When drafting contracts, it may be useful to provide for arbitration by a neutral body such as the International Commercial Arbitration Association (ICAA). U.S. companies should seek local expert legal counsel when drawing up any type of contract with a Korean entity.

Korea is a member of the International Center for the Settlement of Investment Disputes (ICSID). It has also acceded to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). Korea is a member of the International Commercial Arbitration Association and the World Bank's Multilateral Investment Guarantee Agency (MIGA). It is important to keep in mind that Korean courts may ultimately be called upon to enforce an arbitrated settlement.

Performance Requirements and Incentives

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South Korea does not maintain any measures notified to the World Trade Organization (WTO) as being inconsistent with (or that are alleged to be inconsistent with) the WTO Agreement on Trade-Related Investment Measures (TRIMs Agreement). Korea ceased imposing performance requirements on new foreign investment in 1989 and eliminated all pre-existing performance requirements in 1992. The ROKG has no requirement that investors purchase from local sources or export a certain percentage of output. There is no ROKG requirement that Korean nationals must own shares in foreign investments or that technology be transferred on certain terms. The Korean government does not impose "offset" requirements on investors to invest in specific manufacturing, R&D or service facilities. There are also no government-imposed conditions on permission to invest.

The Korean government allows the following general incentives for foreign investors:

- Cash grants for the creation and expansion of workplaces for high-tech business plants and R&D research centers;
- Reduced rent for land and site preparation for foreign investors;
- Grants for establishment of convenience facilities for foreigners;
- Reduced rent for state or public property; and
- Preferential financial support for investing in major infrastructure projects.

Right to Private Ownership and Establishment

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Korea fully recognizes rights of private ownership and has a well-developed body of laws governing the establishment of corporate and other business enterprises. Private entities may freely acquire and dispose of assets; however, the Fair Trade Act may limit cross-ownership of shares in two or more firms if the effect is to restrict competition in a particular industry.

Korea liberalized its property ownership law in 1998. The Alien Land Acquisition Act (as amended) grants non-resident foreigners and foreign corporations the same rights as Koreans in purchasing and using land. Korea took further steps to liberalize its property ownership laws by implementing the Real Estate Investment Trust (REIT) Act in 2001, which supports sound indirect investments in real estate and restructuring of corporations. The REIT Act allows investors to invest funds through an asset management company, and in real property such as office buildings, business parks, shopping malls, hotels and serviced apartments.

Almost no restrictions remain on foreign ownership of stock in Korean firms. As of 2000, Korean law permits foreign direct investment through mergers and acquisitions with existing domestic firms, including hostile takeovers. Nonetheless, no hostile takeovers have occurred in Korea in part because of the lack of relevant implementation regulations for the Foreign Investment Promotion Act. In addition, the political environment for hostile takeovers remains unfriendly.

Protection of Property Rights

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Korea's progress on Intellectual Property Rights led to its removal from the Special 301 Watch List in 2009. Korea has remained off the Watch List and demonstrated continued commitment to strong IPR enforcement. The importance the Korean government places on IPR protection has increased dramatically in recent years as the digitization of

Korea's economy has significantly enhanced the ability to produce and spread unauthorized reproductions of copyrighted material. With Korea's products and trademarks enjoying global success, Korean creators of intellectual property stand to benefit from improvements in the domestic intellectual property regime. As the Korea-U.S. Free Trade Agreement was ratified in November 2011, remaining concerns can be addressed on online piracy, software piracy, book piracy in universities, counterfeiting of consumer products, and protection of undisclosed test and other data for pharmaceutical marketing approval.

In 2011, Korea Communications Commission (KCC) passed the Telecommunications Business Act and its presidential decree requiring registration of webhards and P2P with the KCC to address technical challenges related to online copyright enforcement.

The Copyright Law was also amended in June and November 2011 to conform to commitments under the Korea-EU and KORUS FTAs. Subordinate regulations including Presidential and Ministerial Decrees were also amended to implement the Act in 2011. The amendment of the Copyright Act resolved a year and a half of negotiations with rights-holders and results in the extension (from 20 years) to 50 years of copyright protection for works produced between July 1, 1988 and June 30, 1994.

The following are the key changes incorporated into the Copyright amendments in 2011:

- With the exception of works produced between Jul 1, 1988 and June 30, 1994 (see above), copyright protection for all other works has been extended from 50 years to 70 years.
 - Clarified the liability of online service providers.
 - Banned the use of certain technologies that circumvent protection measures.
 - Delineated the protection of temporary copies.
 - Introduced the "Fair Use of Copyright Works."
 - Established exclusive publishing rights.
 - Banned counterfeit labels.
 - Banned the visual recording of cinematographic works at theaters.
 - Banned the transmission of broadcasting signals without appropriate legal authority.
- Introduced a system to allow statutory compensation that permits a victim of copyright infringement to choose between compensation for actual damages or statutory damages up to W10 million per work or W50 million.

Under a "Three Strikes" program, MCST can order online service providers (OSPs) to issue warning letters to users illegally downloading materials and require such users to delete illegal files. In 2011, MCST warned 15 OSPs through the issuance of 620 separate warning letters and ordered 15 OSPs to delete files from 220 separate users. Three warning letters results in a temporary suspension of the user account; MCST ordered 4 OSPs to suspend the accounts of 17 users in 2011.

These MCST warning letters and orders are issued to OSPs when they do not comply with an earlier "corrective recommendation" issued by the Korea Copyright Commission (KCC). In a notable increase since 2009, KCC's issuance of corrective recommendations jumped from 35,345 in 2009 to 85,085 in 2010 and to 107,724 in 2011.

Separately, under the Information and Telecommunication Network Act, MCST took unprecedented steps to block access to illegal file-sharing sites. MCST requested Korea Communications Commission to block service to a total of 237 OSPs in 2011, up from 25 OSPs in 2010. Most of the sites were hosted on overseas servers (176 music and film sites, 53 game servers, 5 smart phone webs and 3 book publishing sites). Although many of the sites can migrate to other servers, the action marked an important shift in government efforts to combat piracy. MCST made use of the Telecommunications Act to block access to such illegal file-sharing sites; in the past, the Telecommunications Act has solely been used to restrict traffic to pornographic or North Korea-related online material.

Through the Copyright Protection Center, the MCST deleted 86.3 million illegal online files in 2011 up from 34.4 million files in 2010 and collected and scrapped 269,409 offline items in 2011 compared with 794,308 items in 2010.

MCST held its 4th annual 100-day campaign against off-line pirated copyrighted material, known as the “100 Day Clean Seoul Project,” from April until August, 2011. MCST plans to make this campaign an annual event. During the 2011 campaign, MCST and Korean law enforcement raided street vendors and stores selling pirated DVDs, CDs, software, and books. According to MCST’s statistics, authorities seized 79,909 pirated items. In addition, MCST investigated Korean university campuses and confiscated 13,212 illegally copied books.

MCST also imposed fines on 99 OSPs of W1.034 billion in 2011, up from 89 companies of W752 million in 2010) for not taking technical measures to block the illegal copying of materials.

Other IPR related Laws (Patent Act, Trademark Act, Utility Model Act, Design Protection Act and Unfair Competition Prevention and Trade Secret Protection Act) were amended in 2011 to reflect the U.S.-Korea Free Trade Agreement.

Transparency of Regulatory System

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The Korean regulatory environment can pose challenges for all firms, both foreign and domestic. Laws and regulations are often framed in general terms and are subject to differing interpretations by government officials, who rotate frequently. Regulations are sometimes promulgated with only minimal consultation with industry and with only the minimally required comment period. The KORUS FTA includes many provisions designed to address such issues.

The Korean government may restrict investments that disrupt production of military products or equipment, or if the company the foreigner is investing in exports items that may be later used for military purposes differing from their originally intended use. Foreigners linked to a country or an organization that may pose a threat to national security will also be subject to limitations on their investments in Korean firms. Related government agencies must ask MKE to review the case within 30 days of a foreign investor filing an application for regulatory approval, and MKE needs to make a decision within the following 90 days. Older bureaucratic practices designed to influence the decisions of businesses and investors through prescriptive regulations are sometimes still encountered.

According to Korea's Administrative Procedures Act, proposed laws and regulations (Acts, Presidential Decrees or Ministerial Decrees) should be published and public comments solicited for at least 20 days prior to promulgation. Draft bills are often available on the web sites of relevant ministries, without notice that they have been published. The rule-making process often remains non-transparent, particularly for foreigners. Proposed rules are sometimes published with insufficient time to permit public comment and industry adjustment. For example, regulatory changes originating from legislation proposed by members of Korea's National Assembly are not subject to public comment periods. When notifications of proposed rules are made public, they usually appear in the Official Gazette, but not consistently, and only in the Korean language; thus, much of the 20-day comment period can be exhausted translating complex documentation.

The World Economic Forum (WEF) 2011 report ranked Korea 24th overall among 142 nations surveyed. The WEF report stressed a need for greater policymaking transparency, ranking Korea 128th in this area.

Efficient Capital Markets and Portfolio Investment

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Financial sector reforms are often cited as one reason for the ROK's rapid rebound from the global financial crisis. Financial sector reforms have aimed to increase transparency and investor confidence, and generally purge the sector of moral hazard. Since 1998, the Korean government has recapitalized the banks and non-bank financial institutions; closed or merged weak financial institutions; resolved many non-performing assets; introduced internationally-accepted risk assessment methods and accounting standards for banks; forced depositors and investors to assume appropriate levels of risk; and taken steps to help end the policy-directed lending of the past. These reforms addressed weak supervision and poor lending practices in the Korean banking system that helped cause and exacerbate the 1997-98 Asian financial crisis.

In the course of stabilizing Korea's banking sector during the Asian financial crisis, the Korean government injected public funds, thereby acquiring *de facto* ownership of many of Korea's commercial banks -- although it publicly committed to refrain from interfering in bank lending and management decisions, except with regard to prudential supervision. In late 2002, the Korean government began its ambitious plan to re-privatize the banks under its control, with the program initially scheduled to end by the first quarter of 2005. Much of this re-privatization has taken place, although the government continues to own the majority of shares in Woori Bank and minority shares in some other banks. Foreign banks are allowed to establish subsidiaries or direct branches. Further relaxation of regulations has widened foreign access to Korea's capital markets and permitted foreign financial firms to engage in non-hostile mergers and acquisitions of local financial institutions. The National Assembly in 2010 amended the Bank Act to: (1) require banks to have outside directors constitute the majority of directors; and (2) forbid majority shareholders and related individuals from being outside directors.

Korea routinely permits the repatriation of funds, but reserves the right to limit capital outflows in exceptional circumstances, such as situations when uncontrolled outflows might harm the balance of payments, cause excessive fluctuations in interest or exchange rates, or threaten the stability of domestic financial markets. The Korean government did not impose such restrictions either during the Asian financial crisis or the

global financial crisis, where sharp capital outflows played a major role. But the government recently put a series of capital control measures under the name of “macro-prudential stability policy” - lowering FX forward-position limits for foreign bank branches in June 2010, re-introducing a withholding tax on foreign investors’ government bond purchases in December and imposing a bank levy on non-deposit financing in foreign currency from August 1, 2011.

Foreign portfolio investors now enjoy good access to the ROK stock market. Aggregate foreign investment ceilings in the Korean Stock Exchange (KSE) were abolished in 1998, and foreign investors owned 32.9 percent of KSE stocks and 7.9 percent of the KOSDAQ as of the end of 2011. The market turnover rate was 254 percent of market capitalization in 2011. Retail investors are extremely active in the Korean stock markets. More than 80 percent of KSE and KOSDAQ retail trading is conducted online. Thus, a large majority of retail investors are day traders, implying a constant source of volatility for the markets. The Korean government permits stock purchases on margin, requiring that transactions be settled within three business days.

Portfolio investors have shown less appetite for the smaller, more volatile, technology-rich KOSDAQ. Since the 1999 collapse of the Daewoo Group in 1999, Korea's largest corporate bankruptcy, the country's bond market has been almost moribund, as sellers have far outnumbered buyers. The total assets of Korea's commercial banks as of the end of September 2011 were 1,370 trillion won, or about USD 1.24 trillion.

Short-term interest rates, between 3 and 4 percent, remain comparatively high. Inflation, meanwhile, remained at 4.0 percent throughout 2011. The spread between short-term money (the overnight call rate) and long-term money (the benchmark 3-year corporate bond rate) rose from its 54-plus basis points maximum in 2007 to 224-basis points in 2008 to 383-basis points in 2009. The spread fell down below 132-basis points in 2011. As a countermeasure against financial instability and potential economic recession, the Bank of Korea (BOK) cut its target rate six times by 325-basis points from 5.25 percent in August 2008 to a record-low level of 2.0 percent in February 2009. The central bank raised rate twice by 25-basis point in July and November 2010 and three times in January, March, and June 2011 amid potential risks of inflation in the near future. Once the central bank noticed the global financial instability in the second half of last year, it had frozen the rate at 3.25 percent even under the high pressure of inflation to maintain national growth potential.

Corporate Governance and Investment Decision-Making: Investors and financial markets remain wary of corporate governance in Korea despite significant improvements since the 1997-98 Asian financial crisis. Concerns about corporate governance often reduce the price/earnings ratios to levels lower than comparable companies elsewhere. Korean policy makers acknowledge that foreign investors often exact a "Korea Discount" when dealing with Korean companies or in making investment decisions. Large gaps continue to exist between the ownership and control of a significant number of firms in Korea, with many "*chaebol*" still controlled by their founding families, despite the family's relatively small ownership stakes. Increasing participation by foreign investors and stockholders, modernizing business-government relations, and infusing professionalism in the corporate culture could go a long way toward improving corporate governance.

Although the Anti-Monopoly and Fair Trade Act has been amended repeatedly – most recently in November 2011 -- the practical impact of Korea's laws and policies regulating

monopolistic practices and unfair competition, however, has been limited by the long-standing economic strength of the *chaebol*. Management control at the Korean *chaebol* continues to involve complicated webs of cross-shareholdings among *chaebol* affiliates, and many *chaebol* still conduct business based on family and personal connections. *chaebol*-government relations can also sometimes influence the business-government dialogue, to the detriment of foreign and small and medium-sized enterprises (SME's). Thus, *chaebol* influence in the Korean economy may sometimes cause practical business problems for foreign investors. SME suppliers, for example, may be reluctant to deal with foreign firms for fear of jeopardizing a prized *chaebol* relationship. Obtaining access to credit may be complicated by the privileged relationships competing *chaebol* enjoy with local banks -- although this is mitigated by the fact that regulations limit a bank's exposure to any single *chaebol* group's companies to 25 percent of capital, and stipulate that 25 percent of all banks' lending, at least, must go to SME's.

Foreign ownership is also playing a significant role in promoting corporate governance reform in Korea. Korean firms with significant foreign investment, for example, are generally understood to be more reluctant to participate in government-sponsored bailouts of troubled firms, impacting the evolution of Korean financial markets. As foreign investors now own about 60 percent of the shares in some of Korea's top companies and nearly 33 percent of stock listed on Korea's main stock exchange, the rights of minority and non-Korean stockholders are becoming more clearly expressed.

Under Korea's 2005 Securities Class Action Act, minority shareholders are able to file class action suits for manipulation of share prices, false disclosure of information, and accounting malpractice. However, in large part due to rather stringent and complex procedural requirements, only one class-action suit has been filed since the law came into effect.

The Korean government is currently implementing an accounting reform plan, taken largely from the U.S. Sarbanes-Oxley Act, aimed at making Korean accounting standards consistent with rigorous international standards. The International Financial Reporting Standards (K-IFRS) were adopted and implemented during the first quarter of 2011. In parallel, a committee of Korean private sector experts has established a Code of Best Practices in response to a tasking by the finance ministry. The voluntary recommendations included in this Code are in line with OECD principles, and the Korea Exchange (KRX) has reinforced the importance of the Code by requiring that companies listed on the Korea Stock Exchange (KSE) provide information to investors about the extent to which they conform to the Code. Following are some of the key recommendations contained in the Code of Best Practices:

- Easing of ownership thresholds to allow small shareholders greater rights to inspect company books;
- Having outside or independent directors make up at least half (rather than a quarter) of the board members of listed companies;
- Establishing a nominating committee to choose board members, with at least half of the committee consisting of outside directors;
- Ensuring that outside directors are truly independent, with no interests in the company, the management, or the controlling shareholder;
- Having the board of directors meet at least once every three months; and
- Requiring that companies have audit committees consisting of at least three directors, of which two-thirds are outside directors.

Many Korean SOEs continue to exert significant control over certain segments of the economy. By the end of 2002, major SOEs including Korea Telecom (KT), Pohang Iron and Steel Corporation (POSCO), Korea Tobacco and Ginseng Corporation (KT&G), Korea Heavy Industries and Construction Corporation were fully privatized. No SOEs have been privatized since 2002. Today, there are 37 remaining SOEs in Korea.

Former President Roh and current President Lee called off most plans to restructure SOEs for political (conflict with labor unions) and economic (concern about the impact the privatizations would have on the economy in the midst of the global financial crisis) reasons. SOEs thus remain active in the energy, real estate, and infrastructure (railroad, highway construction) sectors. The law has traditionally sought to give SOEs a leading role in these sectors, but over the past several years, the government has increasingly tried to attract more private participation as well, especially in the real estate and construction sectors.

The Public Institutions Management Act gives authority to the Ministry of Strategy and Finance to administer control of these firms, mainly focusing on administrative and human resource management.

SOEs on the PEMA list are required to report to a line minister while the others not on the list report to their independent board of directors. Under the law, the President or line ministers will appoint senior government officials or politically-affiliated individuals as CEOs or directors for those state owned companies. SOEs are explicitly obligated to consult with government officials on their budget, compensation, and key management decisions (i.e. pricing policy for energy and public utilities). For other issues, the government officials informally require the SOEs to consult with them before making decision or report to them afterward.

The Korean government does not provide any official data on SOE market share. The ROKG requires each entity to disclose financial statements, the number of employees, and average compensation figures.

Korea Investment Corporation (KIC), as a sovereign wealth fund, was established in July 2005 under the KIC Act. KIC is wholly government owned company with an independent steering committee decide that has been delegated the authority to undertake core business decisions. The KIC is on the PEMA list. Korea has no asset management bureau. The KIC is mandated to manage assets entrusted by the Government and the Bank of Korea. Based on the continued increase in entrusted assets and gains realized on investments, assets under management stood at USD 42.9 billion at the end of 2011.

The KIC has no role in the local economy as it has only engaged in overseas investments to date. It is required by law to publish an annual report and to submit its books to the steering committee for review. KIC is also required to follow all domestic accounting standards and rules. The KIC is reportedly fulfilling these legal obligations.

Corporate Social Responsibility awareness is growing in Korea, but is still in a nascent stage. Since 2006, the number of South Korean companies publishing CSR reports has increased rapidly. Most Korean companies, however, do not. For those that do report, environmental impact appears to be a primary focus. Korean CSR reflects the continued impact of traditional notions of corporate CSR as charity.

Although there is little to no pressure on foreign firms to engage in CSR efforts, many are becoming more involved in CSR activities.

Political Violence

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The Democratic People's Republic of Korea (also known as North Korea or the DPRK) and the Republic of Korea (ROK) technically remain in a state of war. There is general peace and stability on the Korean peninsula because of an armistice agreement that has lasted for close to 60 years. From time to time incidents involving military and political provocations have attributed to increased tension between the countries. The unprovoked sinking of a ROK naval vessel by the DPRK in March 2010 and the artillery shelling of an island off the northwest coast of the ROK in November 2010 resulted in increased tensions. Military incidents have remained limited to the area surrounding the five geographically isolated Northwest Islands. The leadership transition in the DPRK following the death of Kim Jong-il may be a potential factor to create more geo-political risk near and medium-term in this region.

The ROK does not have a history of political violence directed against foreign investors. The Embassy is unaware of any politically motivated threats of damage to foreign-invested projects or foreign-related installations of any sort, nor of any incidents that might be interpreted as having targeted foreign investments. Labor violence unrelated to the issue of foreign ownership, however, has occurred in foreign-owned facilities in the past.

Corruption

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Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: <http://www.justice.gov/criminal/fraud/>

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-bribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. Korea is party to the OECD Anti-bribery convention, but generally all countries prohibit the bribery and solicitation of their public officials.

OECD Anti-bribery Convention: The OECD Anti-bribery Convention entered into force in February 1999. As of March 2009, there are 38 parties to the Convention including the United States (see <http://www.oecd.org/dataoecd/59/13/40272933.pdf>). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Anti-bribery Convention through the U.S. FCPA. Korea is party to the OECD Anti-bribery Convention. The latest OECD report on Korea can be seen at: http://www.oecd.org/document/52/0,3746,en_21571361_44315115_48896948_1_1_1_1,00.html

UN Convention: The UN Anticorruption Convention entered into force on December 14, 2005, and there are 158 parties to it as of November 2011 (see <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Anti-bribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. Korea is a signatory to the UN Convention.

OAS Convention: In 1996, the Member States of the Organization of American States (OAS) adopted the first international anticorruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS Convention has 34 parties (see <http://www.oas.org/juridico/english/Sigs/b-58.html>)

Council of Europe Criminal Law and Civil Law Conventions: Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 49 member States (48 European countries and the United States). As of December 2011, the Criminal Law Convention has 43 parties and the Civil Law Convention has 34 (see www.coe.int/greco.)

Free Trade Agreements: While it is U.S. Government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and transnationally) as well as domestic “passive bribery” (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: <http://www.ustr.gov/trade-agreements/free-trade-agreements>. The United States and Korea will implement the Korea-U.S. Free Trade Agreement on March 15, 2012. Consult: <http://www.ustr.gov/trade-agreements/free-trade-agreements> for additional information.

Local Laws: U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department’s U.S. and Foreign Commercial Service can provide assistance with navigating the host country’s legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company’s overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce

Department's Advocacy Center and State's Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at tcc.export.gov/Report_a_Barrier/index.asp.

Guidance on the U.S. FCPA: The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at www.justice.gov/criminal/fraud/fcpa. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at http://www.ogc.doc.gov/trans_anti_bribery.html. More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

The latest OECD Anti-bribery convention report on Korea can be seen at: The latest OECD report on Korea can be seen at: http://www.oecd.org/document/52/0,3746,en_21571361_44315115_48896948_1_1_1_1,00.html

Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: <http://www.justice.gov/criminal/fraud/fcpa>.
- Information about the OECD Anti-bribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Anti-bribery Recommendation and Good Practice Guidance Annex for companies: <http://www.oecd.org/dataoecd/11/40/44176910.pdf>.
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html.

- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: http://www.transparency.org/policy_research/surveys_indices/cpi/2009. TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>.
- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 213 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See <http://info.worldbank.org/governance/wgi/index.asp>. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://data.worldbank.org/data-catalog/BEEPS>.
- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/s?s=global+enabling+trade+report>.
- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at <http://www.state.gov/g/drl/rls/hrrpt/>.
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 106 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://report.globalintegrity.org/>.

Bilateral Investment Agreements

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The United States has a bilateral Treaty of Friendship, Commerce, and Navigation with Korea, which contains general provisions pertaining to business relations and investment. During former Korean President Kim Dae-jung's visit to the United States in 1998, President Clinton and President Kim agreed to negotiate a Bilateral Investment Treaty (BIT) between the two nations. However, negotiations in 1998 and 1999 stalled after the two sides could not resolve differences on certain issues. The Korea-U.S. FTA contains strong, enforceable investment provisions that will go into force if both countries finish the administrative procedures in a few months.

OPIC and Other Investment Insurance Programs

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U.S. investments in Korea are eligible for insurance programs sponsored by the U.S. Overseas Private Investment Corporation (OPIC). OPIC has not, however, guaranteed any U.S. investments in Korea since June 1998, when OPIC reinstated coverage it had

suspended in 1991 due to concerns about worker rights. Coverage issued prior to 1991 is still in force. Korea has been a member of the World Bank's (IBRD) Multilateral Investment Guarantee Agency (MIGA) since 1987. The Ruby Tuesday franchise used an OPIC loan in 2005 to open its first restaurant in the ROK.

Labor

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According to the Ministry of Employment and Labor (MOEL), there were approximately 25 million economically active persons in ROK with an employment rate (OECD standard) of approximately 64 percent and an unemployment rate of 3.1 in 2011. In August 2004, ROK implemented a “guest worker” program known as the Employment Permit System (EPS) to help protect rights of foreign workers, who previously entered ROK as “trainees” and were exposed to most egregious abuses from their employers. Since the mid-1980s, ROK companies began hiring “unskilled” foreign workers to overcome labor shortages in what were termed “3-D” jobs - the difficult, dirty and dangerous ones that most Koreans shun. The EPS allows employers who cannot hire Korean workers to legally employ a certain number of foreign workers from countries such as the Philippines, Indonesia and Vietnam where ROK maintains bilateral labor agreements. At the end of September 2011, approximately 490,000 foreigners were said to be working under EPS in manufacturing, construction, agriculture, livestock, service and fishery industries.

The law provides workers with the right to associate freely and allows public servants to organize unions. In January, the labor law was amended to authorize union pluralism starting in July 2011. The ratio of organized labor to the entire population of wage earners in 2011 was approximately 10 percent. The country has three national labor federations as the Korea Labor Unions Confederation (KLUC) launched as the third nation-wide network on November 29, 2011. The Korean Confederation of Trade Unions (KCTU) has 2813 labor unions and about 740,000 members and the Federation of Korean Trade Unions (FKTU) has 553 labor unions and 590,000 members. The KCTU and the FKTU affiliated with the International Trade Union Confederation (ITUC). Most of the FKTU's constituent unions maintained affiliations with international union federations. The smallest and youngest KLUC has only 70 unions and about 30,000 members, but multiple unions and workers looking for not-militant and not-political trade union would join this group.

The law provides for the right to collective bargaining and collective action, and workers exercised these rights in practice. The law also empowers workers to file complaints of unfair labor practices against employers who interfere with union organizing or who discriminate against union members. The National Labor Relations Commission can require employers found guilty of unfair practices to reinstate workers fired for union activities.

Workers in export processing zones (EPZs) have the rights enjoyed by workers in other sectors, and labor organizations are permitted in the EPZs. However, foreign companies operating in the EPZs are exempt from some labor regulations, including provisions that mandate paid leave, obligate companies with more than 50 persons to recruit persons with disabilities for at least 2 percent of their workforce, encourage companies to reserve 3 percent of their workforce for workers over 55 years of age, and restrict large companies from participating in certain business categories.

The Labor Standards Act prohibits the employment of persons under age 15 without an employment authorization certificate from the MOEL. Because education is compulsory through middle school (approximately age 15), few employment authorization certificates were issued for full-time employment. To obtain employment, children under age 18 must obtain written approval from either parents or guardians. Employers must limit minors' overtime hours and are prohibited from employing minors at night without special permission from the MOEL.

The minimum wage is reviewed annually. This year, labor and business set the minimum wage at 4,580 won (approximately \$4.13) per hour, which was a 6 percent increase from last year. This increase was in line with 3.9 percent increase in the minimum cost of living. The Labor Standards Act also provides for a 50 percent higher wage for overtime.

The government sets health and safety standards, and Korea Occupational Safety and Health Agency (KOSHA) is responsible for monitoring industry adherence to these standards. KOSHA conducts inspections both proactively according to regulations and reactively in response to complaints. It also provides technical assistance to resolve any deficiencies discovered during inspections. KOSHA reports on its website descriptions of and statistics on work-related injuries and fatalities on a quarterly basis. As of September 2011, there were 69,066 work-related accidents and 1,582 fatalities, which were 4.2 percent decrease and 0.6 percent decrease respectively from the same period previous year. KOSHA provides training and subsidies to improve work safety and reduce work-related accidents. Its services are extended to the migrant workers as its training modules and materials are available in 10 languages and disseminated to various worksites.

Contract and other "nonregular" workers accounted for a substantial portion of the workforce. MOEL reported that there were approximately 5.77 million nonregular workers, comprising approximately 33.8 percent of the total workforce as of August 2011. The MOEL reported that in 2011 nonregular workers performed work similar to regular workers but received approximately 87.4 percent of the wages of regular workers.

Korea passed significant legal reforms in late 2006 to expand protections for non-regular workers. The reforms banned discrimination against these workers and required that non-regular workers employed longer than two years be converted to regular workers. The two-year rule went into effect on July 1, 2009. In addition, Korean courts have ruled in favor of non-regular workers in several cases and directed employers to convert them to permanent status after two-years of employment. Both the labor and business sectors have complained that the two year conversion law forces many businesses to limit the contract terms of the non-regular workers to two-years and incur the sunk cost for entry of new labor every two years.

The 2010 revision of Trade Union and Labor Relations Adjustment Act (TULRA) entered into force in July, 2011. The revision restricts the numbers of full-time labor union officials and bans employers from paying wages to such officials. The TULRA revision also allowed the formation of new unions, and as a result, 601 new trade unions were formed in 2011.

Korea aims to attract more foreign investment by promoting its six Free Economic Zones (FEZ): Incheon (near Incheon Airport, to be completed in 2020); Busan/Jinhae (in South Gyeongsan Province, to be completed in 2020); Gwangyang Bay (in South Gyeongsan Province, to be completed in 2020); Yellow Sea (in South Chungcheong Province, to be completed 2025); Daegu/Gyeongbuk (in North Gyeongsan Province, to be completed in 2020); and Saemangeum/Gunsan (in North Jeolla Province, to be completed in 2030). The FEZs differ from other zones designated for foreign investment in their focus on creating a comprehensive living and working environment with biotechnology, aviation, logistics, manufacturing, service and other industrial clusters as well as international schools, recreational facilities, and international hospitals. In 2009, the National Assembly passed the Special Act on Free Economic Zones to increase tax benefits for investment, increase the FEZ infrastructure budget, and streamline the approval process for land development. On December 28, 2010, the government announced a plan to abolish inefficient, underperforming and unfeasible portions of the nation's free economic zones (FEZs) as part of its efforts to reorganize the specially created districts. By the plan, the Ministry of Knowledge Economy removed the FEZ status from 90.51 square kilometers (22,366 acres) within the designated districts in February, accounting for 15.9 percent of the total land in the zones. According to the ministry, the six FEZs have attracted just USD 2.73 billion in investments since 2003 - yet the country has spent 85.4 trillion won (USD 74.3 billion) to promote the areas and build infrastructure in them.

There are also six Foreign-exclusive Industrial Complexes in Korea in different parts of the country, designed to provide inexpensive plant sites, with the national and local governments providing assistance for leasing or selling in such sites at discounted rates. In addition, there are four "Free Trade Zones" in Iksan, Gunsan, Daebul and Masan where companies may pursue their business with government support, but without the usual legal requirements such as approval procedures for export and imports and customs duties. There are also seven Foreign Investment Zones designated by local governments to accommodate industrial sites for foreign investors. Special considerations for foreign investors vary among these options.

A good source of information on Korea's various free trade zone schemes is the government-run "Invest Korea," an inward investment promotion organization under the Korea Trade and Investment Promotion Agency (KOTRA). It can be reached at:

Invest Korea

KOTRA Bldg. 300-9
13, Heolleungno, Seocho-gu, Seoul, Republic of Korea
Tel: (82-2) 3460-7532
Fax: (82-2) 3460-7946/7
<http://www.investkorea.org>

The Korean government also continues to put significant effort into programs to enhance the quality of life in Korea for foreign investors and their families. There are 52 foreign schools in Korea and one big college (SUNY Korea) in the Incheon FEZ will open their doors in 2012. (More information is available in a government website, "www.isi.go.kr".) The government more recently launched three-year programs aimed at enhancing the foreign investment climate in Korea. The Korean government has improved the legal framework for those areas by revising the FEZ Act and the Foreign Investment Act to provide cash grants for foreign investments of more than USD 10 million.

Foreign Direct Investment Statistics[Return to top](#)

(USD Millions)

	Annual Flow			Cumulative Stock
	2009	2010	2011	
Total Inward FDI	11,484	13,071	13,669	187,254
United States	1,486	1,974	2,372	46,155
EU	5,297	3,196	5,032	64,697
Japan	1,934	2,083	2,284	28,258
China	160	414	651	3,736
Others	2,607	5,404	3,330	44,408
Total Outward FDI	29,973	33,060	36,266	276,950
United States	3,941	5,050	14,032	54,833
China	2,637	3,928	4,352	49,184
EU	5,140	7,452	1,521	27,469
Japan	416	344	210	4,168
Others	17,839	16,286	16,151	141,296

Sources: The Export-Import Bank of Korea and Ministry of Knowledge Economy.

Notes: Data is based on the notification of cases; outward FDI figures are as of September, 2011. Unit: USD Millions.

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Korean Commercial Arbitration Board

http://www.kcab.or.kr/servlet/kcab_admin/memberauth/5000

Korean Fair Trade Commission

<http://eng.ftc.go.kr/>

Korean Intellectual Property Office

<http://www.kipo.go.kr/en/>

Korean Ministry of Knowledge Economy

<http://www.mke.go.kr/language/eng/index.jsp>

Korean Ministry of Strategy and Finance

<http://english.mosf.go.kr>

Korean Ministry of Foreign Affairs and Trade
<http://www.mofat.go.kr/english/main/index.jsp>

Korean Ministry of Labor
<http://english.molab.go.kr/>

Invest Korea
<http://www.investkorea.org>

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Chapter 7: Trade and Project Financing

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How Do I Get Paid (Methods of Payment)

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The Korean financial system is frequently hard-pressed to meet the demand for financing and capital for international commercial transactions. This is mainly attributed to banks holding (Bank for International Settlement Reserves, or BIS) capital adequacy ratios above the 10 percent required, and by being stricter on loan requirements for SMEs and small businesses given significant personal household debt. Foreign companies in start-up operations with a Korean partner often need to invest financial resources for the joint venture, while their Korean partner makes in-kind investments, i.e., land or facilities, for their share of equity. Joint-venture companies and foreign firms often work with branches of foreign banks for local-currency financing, although the branches of foreign banks control a small portion of available Korean Won.

Sources of Korean Won financing have included domestic commercial banks, regional banks, and specialized banks, including the Korea Development Bank, the National Agricultural Cooperative Federation, the Industrial Bank of Korea (IBK), and the Korea Housing Bank.

Korea's major international banks offer services for all types of international trade payment methods. When you engaged in business activities with a customer overseas, knowing how to collect payment on an overseas sales transaction is the single most critical factor for SME business owners who aspire to expand their international business operations.

There are basically three ways to get paid overseas:

- Sight and deferred payment Letters of Credit (L/C),
- Documents against Acceptance (D/A) and Documents against Payment (D/P), and
- Open Account Transactions.

D/A and L/Cs are forms of extended credit in which the importer makes no payment for the goods until the date called for in the L/C. However, the importer may clear the goods from customs prior to payment.

D/P is similar to D/A except that the importer cannot clear the goods from customs prior to making payment. In some cases an importer can clear goods prior to payment under

a sight L/C. L/C transactions generally follow standard international Uniform Customs and Practice (UCP) codes.

CS Korea recommends that U.S. companies consider dealing on a confirmed L/C credit basis with new and even familiar customers. A confirmed L/C through a U.S. bank is recommended because it prevents unwanted changes to the original L/C, and it places responsibility for collection on the banks rather than on the seller. Once a business relationship has strengthened over time, use of payment mechanisms other than L/Cs can be employed.

To reduce risk of nonpayment, U.S. companies may also contact credit rating agencies, which can provide fee-based corporate information to evaluate financial credibility of Korean companies. Dun & Bradstreet Korea (<https://www.dnb.com/english/contactus/index.htm>), the Korea Investors Service (<http://www.kisrating.com/eng/>), and the Korean Information Service are known to provide fee-based credit rating services in Korea.

CS Korea can provide valuable information, including a company's credit standing, through our fee-based International Company Profile Service <http://export.gov/southkorea/servicesforuscompanies/icp/index.asp>. The Korean Commercial Arbitration Board http://www.kcab.or.kr/servlet/kcab_adm/memberauth/5000, and private collection agencies can provide arbitration and collection services. The KCAB is staffed with counselors who advise U.S. companies on contract guidelines.

Whatever payment terms are agreed upon, make sure they are understood by all parties and that your client, representative or contact signs a mutually agreed document. . Payment terms must be agreed to in advance. It is rarely wise to sell on open account to a brand new customer.

How Does the Banking System Operate

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Korea's financial system consists of banking and non-bank financial institutions. The Financial Supervisory Commission (FSC: <http://www.fsc.go.kr/eng/>) and the Financial Supervisory Service (FSS: <http://english.fss.or.kr/fss/en/main.jsp>), its regulatory arm, are responsible for supervising and examining all banks, including specialized and government-owned banks, as well as securities and insurance companies. The FSC has played a key role in financial restructuring and has strengthened the regulatory and supervisory framework governing the entire financial sector. Oversight standards are improving but they will need more time to meet international standards.

Korea's 18 largest banks (the four largest hold approximately 70% of market share), in 2011 (4Q) reported a BIS average capital adequacy ratio of 13.94% and a Tier I capital ratio of 11.06%. These ratios are higher than required under Basel II (Basel II is the international agreement requiring banks to maintain adequate capital ratios in anticipation of global slowdown or financial crises). This Basel II ratio is in accord with the Government of Korea's efforts to strengthen the quality and quantity of bank capital while being more conservative given the country's reliance on trade, any future global economic downturn, and other ongoing economic concerns in the Euro zone.

With the passage (Fall 2011) and the March 15, 2012 implementation of the KORUS FTA, the U.S. financial service industry can expect new and unprecedented access to the Korean market.

Financial service commitments outlined in the KORUS FTA are some of the most progressive commitments made with any U.S. trade partner to date. The agreement locks in standards, regulations, and commitments that increase the transparency, predictability, and cost-efficiency for operating in the Korean financial services market.

Some of the financial service commitments inherent in this agreement include:

- Language allowing for cross-border data flow and giving U.S.-based, “back-office” support to U.S. firms with operations in Korea. This commitment has a two-year phase-in period designed to identify, review, and modify data transfer practices to ensure protections in Korea that are no less stringent than those in the U.S.
- Permitting U.S. financial institutions the ability to establish or acquire financial institutions in Korea and choose the corporate form that best meets their business needs.
- Encouraging Korea to implement several reforms that would contribute to the transparency of rules and procedures, including regional integration of data processing.

Consult: <http://www.uskoreafta.org/sites/default/files/Financial-Services-KORUS.pdf>

Korea has liberalized foreign exchange controls in line with OECD benchmarks. A foreign firm that invests under the terms of the Foreign Capital Promotion Act (FCPA: http://untreaty.un.org/cod/avl/pdf/ls/Shin_RelDocs.pdf) is permitted to remit a substantial portion of its profits, providing it submits an audited financial statement to its foreign exchange bank.

To withdraw capital, a stock valuation report issued by a recognized securities company or the Korean Appraisal Board must be presented. Foreign companies not investing under the FCPA must repatriate funds through authorized foreign exchange banks after obtaining government approval. Although Korea does not routinely limit the repatriation of funds, it reserves the right to do so in exceptional circumstances, such as in situations which may harm its international balance of payments, cause excessive fluctuations in interest or exchange rates, or threaten the stability of its domestic financial markets. To date, the Korean government has had no instance of limiting repatriation for these reasons, even during and after the 1997-98 financial crisis.

The Bank of Korea has detailed information about foreign-exchange control policies in Korea. Consult: <http://eng.bok.or.kr/>.

For a list of major U.S. and Korean banks in Korea consult: <http://export.gov/southkorea/usefullinks/majoruskoreanbanks/index.aspxgov/korea/en/bankcontacts.html> .

Project financing (PF) is designed to facilitate funding of large-scale projects. The concept was first introduced in Korea to finance a highway construction project between Seoul and the Incheon International Airport. The government's decision to introduce this financing technique was prompted by the need to boost domestic demand by stimulating investments in large-scale projects, including housing construction and social infrastructure facilities.

Most of Korea's social overhead capital (SOC) projects are funded through PF. PF is also used for financing of private sector projects to include real estate development and buy-outs of financially troubled companies. Several Korean and foreign banks provide PF and offer venture capital investment programs for social infrastructure projects, private projects and SMEs in Korea. These banks are committed to support the financial strength of companies through direct equity investments although domestic companies generally have access to local funding as well as informal and secondary financial markets charging higher interest rates. Debentures are also used as a financing alternate, although slightly more expensive than bank financing. Finally, long-term debt is available from the Korea Development Bank (KDB), but generally for high priority industries.

In early 2012 the state-run Export-Import Bank of Korea announced it will provide a record KRW 70 trillion (USD62.7 billion) in loans and loan guarantees to finance industrial activities and international development projects involving Korean companies. It will finance projects related to building industrial and energy plants in foreign countries, shipbuilding, and trade finance.

Web Resources

Bank of Korea: <http://eng.bok.or.kr/>

Commercial Service International Company Profile (ICP) www.export.gov/southkora/ICP

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

Dun and Bradstreet: <https://www.dnb.com/english/contactus/index.htm>

Export-Import Bank of Korea: <http://www.koreaexim.go.kr/en2/index.jsp>

Export-Import Bank of the United States (ExIm): <http://www.exim.gov>

Export-Import Bank of the United States: <http://www.exim.gov>

Financial Supervisory Commission: <http://www.fsc.go.kr/eng/>

Financial Supervisory Service: <http://english.fss.or.kr/fss/en/main.jsp>)

Korea Investors Service: www.kisrating.com/eng/

Korean Appraisal Board: <http://www.kab.co.kr/kab/home/eng/index.jsp>

Korean Commercial Arbitration Board: www.kcab.or.kr/jsp/kcab_eng/index.jsp

KORUS FTA – Financial

Services: <http://www.uskoreafta.org/sites/default/files/Financial-Services-KORUS.pdf>

National Agricultural Cooperative

Federation: <http://www.fsc.go.kr/eng/rl/list.jsp?menu=01&bbsid=BBS0060>
and, <http://www.nonghyup.com/eng/main/main.html>

OPIC: <http://www.opic.gov>

Overseas Private Investment Corporation (OPIC): <http://www.opic.gov>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

Small Business Administration's (SBA) Office of International
Trade: <http://www.sba.gov/oit/>

Trade and Development Agency: <http://www.tda.gov/>

Trade and Development Agency: <http://www.tda.gov/>

U.S. Agency for International Development: <http://www.usaid.gov>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/ccc/default.htm>

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Business Customs

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U.S. businesses wanting to be successful in this dynamic and fascinating nation of 50 million should take time to learn about, and be cognizant of, some important facts.

Long history: Korea's over 10 thousand year history is one filled with dozens of rich dynasties and unfortunate conquests by rival Asian nations--Japan and China. Japan first invaded Korea in 1592, followed by a Manchurian invasion in 1636, and another Japanese invasion from 1910 to 1945. The Republic of Korea, founded in 1948 was soon followed by a civil war (1950-1953) which ended, in part, thanks to the arrival of U.S. military forces that have been present on the peninsula for 60 years. This history makes it important to never compare Korea to either Japan or China.

One of the world's most homogeneous societies, Korea is dominated by Confucian and Buddhist logic and traditions which place great importance on age, rank, hierarchy and the value of one's community, collective society, or 'group think' -- all elements important in understanding how to navigate in business in Korea. As important is the fact that any success, in business, is based upon the creation, establishment and maintenance of a good, solid relationship with your future business partners.

Post-Korean War: Korea in the 50s and 60s was one of the poorest in the world. Determined leaders gave economic/financial power to some privileged families, called *chaebols* (families that grew into multi-national, multi-sector industrial empires) who effectively and persistently combined their 'evolving sector expertise,' and a dense population in a geographically small area, into what is now a highly respected, world-renown, trillion dollar, trade-driven economy.

Today, Korea is known around the world for its popular, attractive white appliances, award-winning cars, smart phones and LED screens. It has top tier ranking in such diverse industries as ship building and the K-Pop/Korean Wave culture called *hallyu* which has captured fans world-wide who follow its music, TV dramas and attractive youth bands. Korea, hands-down, is also the most wired country in the world.

Korea hosted the Summer Olympics (1988), Soccer World Cup (2002), G-20 leaders (2010) and will host, in 2018, the Winter Olympics. These major events, a source of

pride and accomplishment, intensified Korea's push to have a first rate infrastructure, hospitality and transportation system.

The Han River divides Seoul: Seoul is a modern, bustling, international city with all the first-class culinary, cultural and business amenities, variety and accommodations, of any large metropolitan European or Asian city. The city is divided graciously and elegantly - by the Han River and 27 bridges (all with a different architecture and feel; there were three bridges crossing the Han in the 60s). After you arrive at the award-winning Incheon Airport your hotel will be located either on the north part of the Han (where the airport and U.S. Embassy are located) or, south of the Han. Traffic congestion, persistent and chronic, must be factored into arriving on time for business appointment. In Korea you should never, ever be late. Instead, arrive 20 minutes early. That's the norm.

Other important business success *factoids*:

- Last names and titles: Always use Mr., Mrs., or any title, like Director followed by the last name. Also appropriate is: Mr. LEE (last name, followed by the first name) Ji-noon (two syllables of the first name); in this order.
- Business cards: Your business cards say a lot about you and your business and are extremely important in Asian, and Korean culture. Hand them out using both hands (thumbs at the top corners of your card) while giving a gentle and slight bow and while avoiding too much direct eye-contact. Never put a newly received business card away or in your back pocket. Rather look at it for a moment and place it on the desk or table you are meeting around. Bilingual cards are best.
- Handshakes: Unlike the hard, firm Western-style handshake, a Koreans' handshake may be a bit more gentle.
- Cold calls, generally are unacceptable, and seen as culturally inappropriate and disrespectful.
- Negotiating: A rigid negotiating style does not work in Korea. Koreans interpret contracts as *loosely structured consensus statements* broadly defining what has been negotiated/discussed *but leaving room to permit flexibility and adjustment*. Koreans are subtle and effective negotiators. See Chapter 3 for additional insights into negotiating.
- Gestures: As you progress in your knowledge and familiarity of the people, culture and business style of Korea, you may feel comfortable using a few popular gestures, for example: the one or two handed 'thumbs up', the 'v' shaped victory sign/salute, or something called 'fighting' – done by making a gentle 'fist' in the air.
- While you learn Korean, these two important words should serve you:
 - Ann-yong-ha-sayo – Hello and good bye
 - Gam-sam-hap-nida – Thank you

Travel Advisory

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Consult: U.S. State Department http://travel.state.gov/travel/cis_pa_tw/cis/cis_1018.html

Visa Requirements

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Visa Requirements for U.S. Citizens

- No visa needed for a stay of up to 90 days.
- A stay of over 90 days requires a visa.

If planning to stay more than 90 days or for any purpose other than tourism or business, U.S. passport holders must obtain a visa prior to entering Korea. Americans coming to Korea for activities such as employment, teaching English, or study must obtain a visa at a Korean embassy or consulate abroad.

For more information about Korean visa and entry requirements, please see the Korean Ministry of Justice's website at <http://www.moj.go.kr/HP/ENG/index.do>.

For information about visas to Korea, please see the Korean Ministry of Foreign Affairs and Trade website at <http://www.mofat.go.kr/english/visa/apply/index.jsp>

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security evaluations are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/>

U.S. Embassy Seoul Consular Section Website: <http://www.asktheconsul.org>

Telecommunications

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- Local calls
 - Dial 9 or 10 digit local phone number. There is no area code.
- International calls
 - Dial 00799 for a service that features: station-to-station calls, collect or reverse charge calls, and calls providing interpretation.
- Rent a mobile phone at kiosks at Incheon International Airport.
 - And/or call these providers:
 - SK Telecom: 82-32-743-4011/4042
 - KT: 82-32-743-4018/4078
 - LG Telecom: 82-32-743-4001/4019
- Roaming and wireless internet
 - Consult your U.S. service provider to determine if your cell phone and plan will work in Korea. Beware of roaming and affiliated charges.
 - Most upscale hotels and coffee shops have wireless internet access.

Transportation

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- Consult: <http://www.Koreapass.or.kr/en> or, call 1330 once in Korea.

From Incheon International Airport to Downtown Seoul

- Train (AREX)
 - Direct railway links Incheon Airport to Seoul Station.
 - Takes 43 minutes and runs every 30 minutes with no stops.
 - Cost: KRW 13,300 (approx. USD 13)
 - Take a subway (inexpensive option) or taxi to your hotel from Seoul Station.

- Airport Buses
 - Widely available to/from major cities in, and around Seoul.
 - Located at the passenger arrival terminal level '1F'.
 - Cost: KRW 10,000-15,000 (approx. USD 10-15) depending on destination.
 - Consult: <http://www.airport.kr/airport/traffic/bus/busList.ia?flag=E>
- Taxis
 - Located at the passenger arrival terminal level '1F' between platforms 4D and 8C.
 - Cost: KRW 60,000~80,000 (approx. USD 60-80). If overcharged, contact the airport authority (032-741-2422).

Other Transportation Recommended and Available During Your Visit

- Consult: www.koreapass.or.kr/en, or dial 1330 once in Korea
- Subway: excellent, extremely clean and safe with 9 lines.
 - Consult: seoulmetro.co.kr
 - Widely available to/from Seoul and Gyeonggi Province.
 - Highly recommend **M-Pass** (only for foreigners)
Consult: http://www.visitkorea.or.kr/ena/TR/TR_EN_5_1_4.jsp#Subway07
 - Covers large area around Seoul, other subway systems, and airport railroads.
 - Purchase passes at tourism information centers at Incheon Airport.
 - Cost: KRW10,000 for a one-day ticket and KRW 59,500 for week-long (plus, a KRW 5,000 non-refundable deposit).
 - Rush hour congestion 7 am – 9 am and 5pm-7pm on lines 2 and 3.
 - Pathfinder: <http://traffic.visitkorea.or.kr/Lang/en/>
 - Consult: http://www.visitkorea.or.kr/ena/TR/TR_EN_5_1_4.jsp
- Taxis
 - Cost based on distance and time and begin at KRW 2,400 (USD 2)
 - 20% cost increase between midnight and 4 am.
 - No tipping required.
 - How to ask your taxi driver, in Korean, to take you to a destination:
 - *“Take me to (your destination), please.”*
 - (your destination) **eh de-ryuh-da joo-se-yo.**
 - (your destination) **에 데려다주세요.**
 - Consult: http://asiaenglish.visitkorea.or.kr/ena/TR/TR_EN_5_2.jsp
- KTX(Korea Train Express)
 - Very clean, affordable and comfortable high-speed transportation to major cities throughout Korea. A trip from Seoul to Pusan, for example, is 2.5 hours on KTX.
 - Consult: <http://ktx.korail.go.kr/eng/>

Banking and Money

- Cards with the *Plus* and *Cirrus* logos are most widely accepted in Korea.
- CDs (Cash Dispenser Machines) only offer cash withdrawal services.
 - CD machines located in: subway stations, bus terminals, and department stores.
- ATMs offer withdrawals, deposits, and fund transfers.
 - ATM transactions require an account with a Korean bank.
- Prominent Korean banks include: Korea Exchange Bank (KEB), Shinhan Bank, and Citibank
- Questions about ATM/CD machines: call 1330.
- The Korean currency the 'won' is written with a large '₩' with a line through it or 'KRW.'

Travel

- Popular first tier hotels in Seoul include: Hyatt, Hilton, JW Marriott, Plaza, and Westin Chosun, although numerous other excellent hotels exist.
- Street crime is almost non-existent due to thousands of CCTV cameras and police present 24/7.
- For affordable hotels consult: www.benikea.co.kr
- For Korea's weather consult: http://english.visitkorea.or.kr/enu/AK/AK_EN_1_1_2.jsp
- For Korea's currency consult: http://english.visitkorea.or.kr/enu/AK/AK_EN_1_5_4.jsp
- Korea electrical current operates at 220 volts.
- Smoking is banned in thousands of parks, bus stops, subways, both indoors and outdoors. Personnel monitor and will fine violators USD80-100.

Language

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- Korean (Hangeul) is the official and accepted business language.
- Many Koreans in tourism and first-tier retail sales speak some English.

Health

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- Dial 1339 for the Emergency Medical Information Center; trained medical personnel are on call 24 hours a day, 7 days a week
- Most hotels will assist you if you are sick. Call the front desk.
- You can purchase simple medications, such as Tylenol, Band-Aid, and ointments in pharmacies. Other medications need a prescription from a doctor
- 약 is the Korean/Hangeul word for 'pharmacy'
- International clinics at large prominent hospitals in Seoul include:
 - Severance Hospital (☎ 2-2228-5800): 134, Sinchong-dong, Seodaemun-gu
 - Asan Medical center (☎ 2-3010-5001): 388-1, Pungnap-dong, Songpa-gu, Seoul

- Samsung Medical Center (☎2-3410-0200): 50, Irwon-dong, Gangnam-gu

For international health advisories related to Korea, please visit the CDC website at: <http://wwwnc.cdc.gov/travel/destinations/south-korea.htm>

Local Time, Business Hours, and Holidays

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Local Time Zone

- Korea is 13 hours ahead of EST, and does not subscribe to daylight savings time.
- Consult: <http://www.timeanddate.com/worldclock/converter.html>

Business hours and Lunch hours

- Offices and organizations: 9:00 am-6:00 pm; closed weekends and national holidays.
- Banks: 9:00 am - 4:00 pm; closed weekends and national holidays.
- Department Stores: 10:30 am - 8:00 pm
- Koreans take lunch at the same time requiring luncheon reservations even for the smallest restaurants. You can avoid lines and crowds by taking lunch after 1:00 p.m.

Holidays

Observed Korean Holidays – 2012

New Year's Day: January 1 st	Memorial Day: June 6 th
Lunar New Year's Day: February 22 nd -24 th	Liberation Day: August 5 th
Independence Movement Day: March 1 st	Chuseok Day: September 29 th - October 1 st
Budda's Birthday: April 28 th	National Foundation Day: October 3 rd
Children's Day: May 5 th	Christmas Day: December 25 th

- During Lunar New Year and Chuseok all businesses and government offices are closed.
- The U.S. Embassy is closed on both U.S. and Korean holidays.
- Consult: <http://www.timeanddate.com/calendar/?year=2012&country=70>
-

Temporary Entry of Materials and Personal Belongings

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Prohibited Items

- Narcotics/illegal drugs of any kind
- Pornography and subversive material
- Products originating from communist countries
- Explosives, ammunitions and weapons
- Rifles/sport guns (require permission from Korean Police prior to import, declaration upon arrival)
- Counterfeited money and coins

Articles in Excess of Duty Free Allowance

Coming into Korea

consult: http://www.airport.kr/iiacms/pageWork.iaa?_scode=C1202010500

Returning to the U.S consult:

<http://www.cbp.gov/xp/cgov/travel/vacation/kbyg/> and

www.tsa.gov/travelers/airtravel/assistant/duty_free_travel_alert.shtm

Web Resources

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Affordable hotels:	www.benikea.co.kr
Airport Bus:	http://www.airport.kr/airport/traffic/bus/busList.iaa?flag=E
Benikea:	http://www.benikea.com/_eng/benikea_reservation/index_eng.asp
Coming to Korea:	http://www.airport.kr/iiacms/pageWork.iaa?_scode=C1202010500
Currency:	http://english.visitkorea.or.kr/enu/AK/AK_EN_1_5_4.jsp
Holidays:	http://www.timeanddate.com/calendar/?year=2012&country=70 http://www.tsa.gov/travelers/airtravel/assistant/duty_free_travel_alert.shtm
Incheon Int'l Airport:	http://www.airport.or.kr/eng/airport/
Information on Visas:	http://www.mofat.go.kr/ENG/visa/application/index.jsp?menu=m_40_10
Korean Emb/Cons in U.S.:	http://www.koreaembassyusa.org
Korean Railroad:	http://ktx.korail.go.kr/eng/
KTX:	http://ktx.korail.go.kr/eng/
M Pass:	http://www.visitkorea.or.kr/ena/TR/TR_EN_5_1_4.jsp#Subway07
Returning to the U.S:	http://www.cbp.gov/xp/cgov/travel/vacation/kbyg/
Subway Map:	http://traffic.visitkorea.or.kr/Lang/en/
Taxi:	http://asiaenglish.visitkorea.or.kr/ena/TR/TR_EN_5_2.jsp
Time Zone:	http://www.timeanddate.com/worldclock/converter.html
U.S. State Dept.:	http://travel.state.gov/travel/travel_1744.html , and http://travel.state.gov/travel/cis_pa_tw/cis/cis_1018.html
U.S. Customs:	http://www.cbp.gov
U.S. Embassy Seoul Consular Section:	http://www.asktheconsul.org
Weather:	http://english.visitkorea.or.kr/enu/AK/AK_EN_1_1_2.jsp

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Chapter 9: Contacts, Market Research and Trade Events

- [Contacts](#)
- [Market Research](#)
- [Trade Events](#)

Contacts

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Go to the link below for useful contacts in Korea and the U.S.:

<http://export.gov/southkorea/usefullinks/index.asp>

Market Research

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To view market research reports produced by the US Commercial Service please go to the following website at <http://www.export.gov/mrktresearch/index.asp> and click on Country and Industry Market Reports.

Please note that these reports are only available to US citizens and US companies. Registration to the site is required, and is free.

Trade Events

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents/index.asp>

<http://export.gov/southkorea/tradeevents/index.asp>

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Chapter 10: Guide to Our Services

The President's National Export Initiative aims to double exports over five years by marshaling Federal agencies to **prepare U.S. companies to export successfully, connect them with trade opportunities** and **support them once they do have exporting opportunities**.

The U.S. Commercial Service offers customized solutions to help U.S. exporters, particularly small and medium sized businesses, successfully expand exports to new markets. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers
- Gain access to the full range of U.S. government trade promotion agencies and their services, including export training and potential trade financing sources

To learn more about the Federal Government's trade promotion resources for new and experienced exporters, please click on the following link: www.export.gov

For more information on the services the US Commercial Service offers to US exporters, please click on the following link:

<http://export.gov/southkorea/servicesforuscompanies/index.asp>

U.S. exporters seeking general export information/assistance or country-specific commercial information can also contact the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRAD(E)**.

We value your feedback on the format and contents of this report. Please send your comments and recommendations to: Market_Research_Feedback@trade.gov

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.

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