

U.S. Country Commercial Guides



Korea

2017

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Doing Business in Korea

Market Overview

PROFILE

- Population in March 2017 (Millions): 51.4
- Capital: Seoul
- Government: Republic

ECONOMY	2014	2015	2016
Nominal GDP (PPP - Billions US\$)	1,707	1,750	1,816
GDP per head (Current US\$)	28,188.0	27,402.0	27,733.0
Real GDP Growth Rate (% change)	3.3	2.6	2.7
Real GDP Growth Rate Per Capita (% change)	2.9	2.2	2.3
Consumer Prices (% change)	1.3	0.7	1.0
Unemployment (% of labor force)	3.5	3.6	3.7

Source: The Economist Intelligence Unit

TRADE

FOREIGN MERCHANDISE TRADE (US\$ Millions)	2014	2015	2016
Korea, Republic of, Exports to World	572,665	526,900	495,000
Korea, Republic of, Imports from World	525,515	436,500	406,000

FOREIGN MERCHANDISE TRADE (US\$ Millions)	2014	2015	2016
U.S. Exports to Korea, Republic of	44,625	43,446	42,266
U.S. Imports from Korea, Republic of	69,606	71,827	69,932
U.S. Trade Balance with Korea, Republic of	-25,053	-28,313	-27,666
Position in U.S. Trade:			
Rank of Korea, Republic of, in U.S. Exports	7	7	7
Rank of Korea, Republic of, in U.S. Imports	6	6	6
Korea, Republic of, Share (%) of U.S. Exports	2.7	2.9	2.9
Korea, Republic of, Share (%) of U.S. Imports	3.0	3.2	3.2

Principal U.S. Exports to Korea, Republic of, in 2016:	Principal U.S. Imports from Korea, Republic of, in 2016:
1. Transportation Equipment (19.5%)	1. Transportation Equipment (33.4%)
2. Computer & Electronic Products	2. Computer & Electronic Products
3. Chemicals (14.3%)	3. Chemicals (7.6%)
4. Machinery, excl. Electrical (12.4%)	4. Machinery, excl. Electrical (7.4%)
5. Food Manufactures (7.9%)	5. Electrical Equipment (5.9%)

DOING BUSINESS/ECONOMIC FREEDOM RANKINGS

- World Bank Ease of Doing Business Ranking 2016: 5 of 190
- Heritage/WSJ 2017 Index of Economic Freedom Ranking: 23 of 180
- WEF World Competitiveness Ranking 2016 - 2017: 26 of 138

Market Challenges

- The US\$1.8 trillion Korean GDP ranks 11th in the world and third in the East Asia region. As Korea's traditional strengths in sectors such as shipbuilding, steel, and petrochemicals have declined somewhat in recent years, the country's leaders are looking to move toward more technology-intensive industries. U.S. companies will find market opportunities in leading industries such as life sciences, healthcare (medical devices, pharmaceuticals, and biotechnology), industrial chemicals, IT components, semiconductor manufacturing equipment, aerospace/defense, energy, environmental technology, and transportation, to name only a few. U.S. companies are already partnering with local Korean companies and industries to expand market opportunities from Korea to third-country markets, including ASEAN, the Middle East, and other markets of the Asia-Pacific. Korea remains one of the world's most trade dependent nations, with trade equaling 90 percent of GDP. Given Korea's strong shipping and air cargo infrastructure, this is not only a market end-point for U.S. goods and services, but also a hub for expansion into other markets.
- Unique industry standards, less than transparent regulations, resistance to foreign business models, competitive domestic manufacturers in many sectors and pressure to reduce prices to match local firms are some of the challenges that affect U.S. business in Korea. However, firms that bring an innovative edge, are patient, and exhibit a true commitment to the Korean market generally find business to be rewarding and Koreans to be loyal customers. Korean firms are quick to consume new technologies and many US firms have found good receptivity to new products brought into this market.
- The Korea-U.S. Free Trade Agreement (KORUS FTA) helps make Korea an attractive market to pursue. With more than 90 percent of tariffs now reduced or at zero, U.S. products are becoming increasingly cost-competitive and bilateral trade should increase over time. EU products have had reduced

or zero-tariff access to the market since mid-2011. Australia, Canada, and China have also have FTAs with Korea.

- U.S. SMEs must remain flexible and ready to work with Korean business counterparts pertaining to *contract terms* or renegotiating price, quantity, and delivery terms, following a business deal or bilateral contractual agreement. The traditional Korean approach to business deals, where Koreans feel that the signing of a contract is only the beginning of a business relationship, differs significantly from the US model and SME firms should be well-aware of this when entering into negotiations.
- U.S. exporters of agricultural commodities also face market challenges related to import regulations and testing requirements. Please see the latest [USDA/Agricultural Trade Office \(ATO\) Korea Exporter Guide](#)

Market Entry Strategy

Establishing and maintaining a strong business relationship is essential. Companies should visit Korea frequently to cultivate contacts and to better understand business conditions.

A local presence is essential for success. Retain a manufacturer's representative, distributor, name a registered trading company as an agent, or establish a branch sales office.

- The Commercial Service (CS) in Korea is eager to assist U.S. companies in developing the right connections/contacts through a wide range of marketing and due diligence services designed to identify and introduce potential buyers, distributors, and importers.
- [Consult](#)
- For marketing support of U.S. agricultural commodities and processed foods, consult: [USDA Global Agricultural Information Network](#)

Political Environment

Political Environment

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

[State Department's Report on the Political Environment of Korea](#)

Selling U.S. Products & Services

Using an Agent to Sell U.S. Products and Services

Before entering into a contractual relationship with a Korean manufacturer's/commissioned representative (agent) or distributor, U.S. firms should conduct a thorough due diligence check 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 companies with the preparation of an [International Company Profile \(ICP\)](#) report, which provides detailed financial and related business information on the company with which you seek to work.

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 manufacturer's representative or agent; or
- Establishing a branch sales office, managed by home office personnel, along 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. These are typically larger firms involved in both exports and imports. However, these firms can be less attentive to building the U.S. supplier's business, even though they can be influential and well-known in the marketplace.

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

Finding a Good Partner in Korea

The U.S. Department of Commerce's Commercial Service (CS) office in Seoul, like CS offices around the world, offers the [Gold Key Service \(GKS\)](#) to assist U.S. companies in finding a good local partner.

U.S. exporters are encouraged to contact one of over 100 U.S. Export Assistance Centers ([USEACs](#); please contact the USEAC closest to your business).

U.S. exporters of food and agricultural products can also find assistance from one of [USDA's State Regional Trade Groups](#). Also inquire directly to the [Agricultural Trade Office](#) in Seoul, Korea.

The GKS provides:

- A customized schedule of face-to-face meetings with carefully-selected prospective candidates;
- Market briefing, interpretation service, and transportation (fee based); and
- Information regarding 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, trademarks, and patents with the [Korean Intellectual Property Office \(KIPO\)](#) as a minimum safeguard of your intellectual property rights.

A local Korean or U.S. attorney in Korea can easily perform these tasks. Under Korean law, applications to KIPO must be completed and submitted in Korean. This should be done in the U.S. company's name and not the Korean agent/representative's name. Since the passage of the KORUS FTA, there are now numerous U.S. law firms with offices in Korea. Additionally, there are more than 20,000 Korean lawyers practicing in Korea.

Establishing an Office

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 from 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.

A basic checklist for setting-up an office in Korea includes:

- Review [*Invest KOREA*](#): Consult the one-stop services offered by Invest KOREA, a government-sponsored, non-profit organization of the [*Korea Trade-Investment Promotion Agency \(KOTRA\)*](#).
- [*KOTRA*](#) maintains offices throughout the United States and is poised to guide U.S. companies through the administrative, legal, and tax implications of opening an office in Korea. KOTRA also has an ‘investment ombudsman’ ready to quickly address foreign investors’ grievances.
- *Authorization*: Once ‘authorization to proceed’ with an investment is granted, companies must notify the Ministry of Trade, Industry and Energy (MOTIE), a delegated authority (major Korean bank), or Invest Korea. Consult: <http://www.investkorea.org/en/index.do>.
- [*Your Office in Korea*](#): Consult a reputable real estate agent or real estate consulting firm when deciding on the best location for your office.
- 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 decisions. It is highly recommended that anyone desiring to purchase land consult with a reputable Korean or U.S. law firm.
- [*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.
- *Seek Qualified Employees*: Koreans are attracted to U.S. firms based upon issues such as salary rates, work environment, 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 toward female employees (which have historically prevented women 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 with Korean employment agencies before hiring.

Contact the [Seoul Global Center](#) website for information on the Seoul Metropolitan Government's program which occasionally offers free or reduced rent/office space for foreign residents.

Franchising

According to Korea Fair Trade Commission (FTC), the franchise industry was estimated at USD 100 billion with 1.4 million employees in 2016. The number of franchises increased from 3,901 (2015) to nearly 4,268 (2016). Among 4,286 franchises, 3,219 were food service franchises, 280 were retail franchises, and 769 were service franchises. The average lifespan of a franchise brand is 4.5 years, and only 0.8 percent of franchises survive after 10 years in Korea. While new franchise brands are introduced in Korea every year, over 800 brands disappear every year.

Franchisors interested in this market should take into consideration the following:

- Meet the rules under Korea's Fair Transactions in Franchise Business Act
- Register disclosure documents with Korea FTC (Korea Fair Trade Commission). Executing the franchise contract is not allowed unless the franchisor furnishes the registered disclosure documents and 14 days have passed from the date of the registration of disclosure documents.

Korean franchisees are reluctant to pay high franchising fees and royalties often required by U.S. companies. Minimum facility size and number of store openings required by some U.S. franchisors are also a challenge for the Korean franchisee. The expensive nature of the commercial real estate sector in Korea can potentially affect the feasibility of a project which may otherwise offer great promise in other

markets. Korean franchisees prefer to do business with U.S. franchisors with established brand names that are already popular among Koreans.

Generally, there are four types of franchise investors in Korea:

- Major retailers who have access to capital and real estate;
- Private equity funds who try to resell businesses in the future;
- Individuals and SMEs with real experience with franchising brands; and
- Individuals and SMEs who are newcomers.

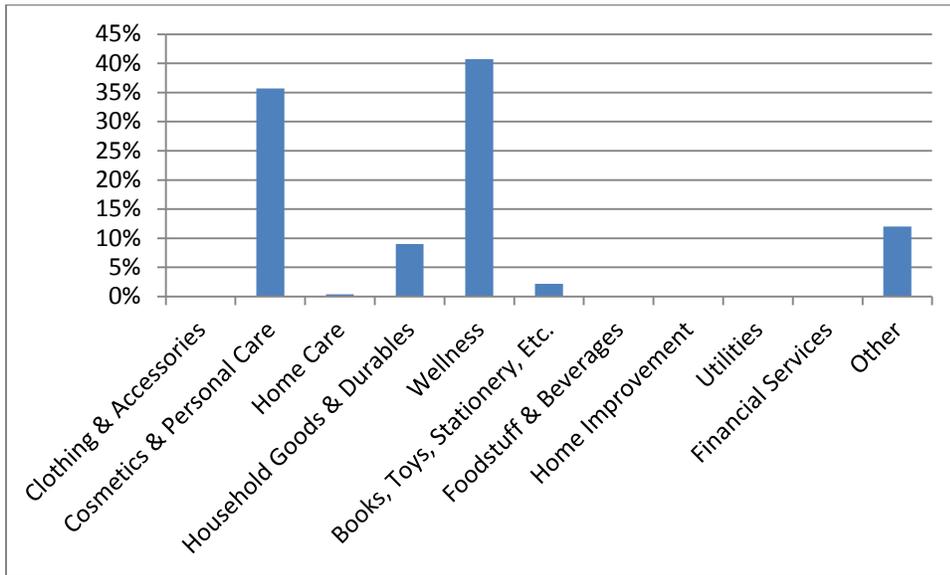
Potential franchisors should also be aware of issues relating to the Korea Commission for Corporate Partnership (KCCP). One of KCCP's important roles is the designation of the industries reserved for small and medium enterprises (SMEs). Once designated, big companies' store expansions can be limited to certain geographic areas or nationwide expansion can be limited to certain of number of stores. In 2016, the KCCP designated several service providers, which included bakeries and restaurants (Korean, Japanese, Chinese, Western and Foreign food, snack, and lunch box restaurant chains) and some manufacturing industries as reserved for SMEs. The restrictions applicable to the designated companies, within the relevant industries, will be valid for 3 years.

Direct Marketing

Despite a very intense brick-and-mortar retail environment, over 70 percent of direct sales in Korea are made via the Internet and mobile devices. For more information on Internet and mobile commerce, please read the *Electronic Commerce* section of this chapter.

Door-to-door sales and multi-level marketing are other important direct sales channels. According to [the Korea Direct Selling Association \(KDSA\)](#), door-to-door sales and multi-level marketing sales reached approximately USD 13 billion in 2015, up from USD 11.6 billion in 2014. The most common products sold through direct selling are: wellness products (40.7 percent), cosmetics & personal care products (35.7 percent), and household goods & durable products (9 percent).

Chart 1: Consumer Sales in Korea via ‘Direct Selling’ by Product Category – 2015



Source: Korea Direct Selling Industry Association (KDSA), 2015

Door-to-Door Sales

Door-to-door sales remained stable at around USD 8.2 billion from 2013 to 2015 (most recent data available). According to the [Korea Direct Selling Association \(KDSA\)](#), the number of companies registered as door-to-door sales company decreased to 25,161 in 2015, from 25,773 in 2014, due to ‘market restructuring’ and the growth of e-commerce. This stagnation or even decreasing trend could remain in the future as a by-product of the growth in e-commerce.

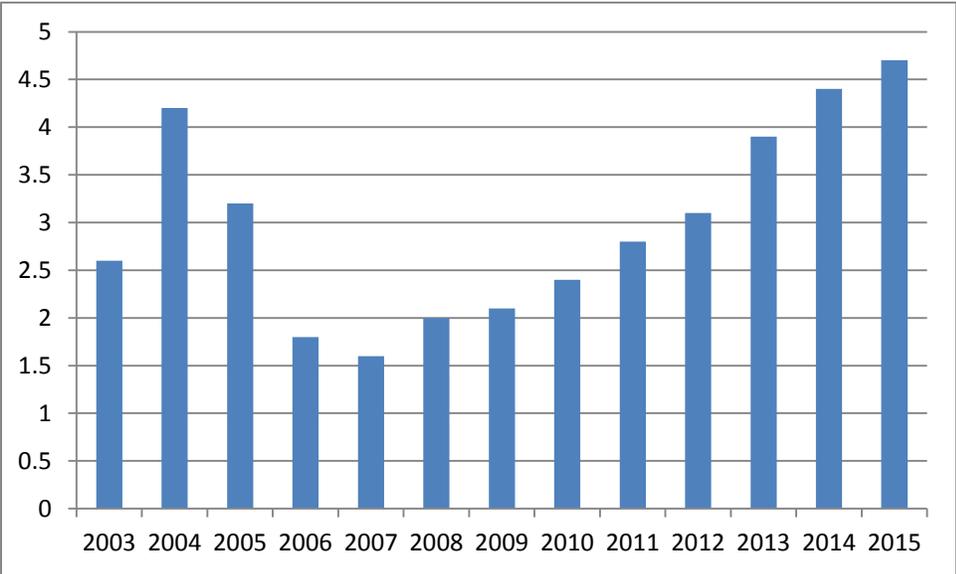
Multi-Level Marketing (MLM)

Korea’s multi-level marketing sales for 2015 approached USD 4.7 billion, which is a 14.6 percent increase from 2014 (USD 4.1 billion). The number of registered multi-level marketing companies in Korea has increased to 137. It is reported that these companies employ some 8 million sellers/distributors.

The Korean government reduced the restrictions on MLM companies by passing legislation eliminating most existing market barriers against MLM products, such as

the obligation to disclose retail prices on MLM product labels. Oversight of the MLM industry is the responsibility of the Korea Fair Trade Commission (KFTC).

Chart 2: Consumer Sales in Korea via Multi-Level Marketing (in billions of USD)



Source: Korea Direct Selling Industry Association (KDSA), 2015

MLM activity for U.S. products is concentrated in the cosmetics, cleaning products, health and wellness, and kitchenware industries -- and has been expanding. MLM companies should promote their products and services appropriately and efficiently by carefully analyzing Korean market trends and sophisticated and mature Korean consumers. Accurate knowledge of the Korean retail and consumer market can prevent unnecessary conflicts with government agencies, consumer ‘watchdog’ groups, or industry groups. There are numerous consumer, business & industry associations, governmental groups, and think-tanks which regularly collect valuable information on consumers and consumer trends.

Joint Ventures/Licensing

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. Reaching such an agreement can take time.

Foreign direct investment (FDI) is encouraged and promoted by the Korean government. With the ratification and implementation of the KORUS FTA in 2012, greater cooperation and encouragement of FDI is expected. Korea offers strong incentives to potential foreign investors in a bid to attract more foreign direct investment into Korea. President Park has spoken frequently about the government's strong will to improve the business environment for foreign investors and attract more FDI.

- When considering FDI in Korea, it is important to consider the following:
- The decreasing influence of (some) *chaebols* (*conglomerates*), the Korean government's promotion of SMEs, and the government's interest in seeking anti-monopolistic and more diversified JVs;
- Koreans prefer to maintain local control, regardless of 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. firm's success in Korea. Cultural differences

surrounding the expectations of a contractual agreement and how one successfully arrives at a mutually beneficial agreement is often the basis of consternation and challenges. 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 circumstances surrounding the contract (omissions, invalid issues, new leadership, non-existent issues) may cause problems to arise;
- Koreans may regard a contract as a "gentlemen's agreement," subject to further negotiation *should conditions change*; Americans generally regard the same written agreement as legally binding.
- Contract negotiations in Korea should be viewed as an *ongoing 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, other issues).
- Additionally, the following precautions should be addressed:
 - Technology transfer, 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 upon the transfer of technology (see section on *Protecting your IP*, also in this chapter).

- Korea's legal system can be lengthy, cumbersome and expensive. When dealing with contracts, the best strategy is to prevent conflicts.

Foreign investors are encouraged to consult the [Korean Commercial Arbitration Board](#). The KCAB advises foreign companies on contract guidelines.

Selling to the Government

Government Procurement

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

Korea's GPA commitments include:

- "Threshold" amounts by certain Korean government agencies and provincial authorities;
- 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;
- 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 is exempted from GPA coverage for items related to national security and defense, procurement of satellites, and purchases of certain types of electrical transmission and distribution equipment by the [Korea Electric Power Corporation \(KEPCO\)](#).

U.S. companies interested in Korean government procurement must work with [Korea's Public Procurement Service \(PPS\)](#). It is highly recommended that U.S. firms

have, and maintain, a reputable representative or agent in-country, to carefully monitor PPS tender opportunities.

PPS supports domestic/indigenous equipment and supplies. It is also 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. There are nine provinces in Korea, seven metropolitan cities, as well as numerous 'new cities' (Sejong City, Songdo City, and Hwaseong Dongtan, to name a few).

Bidders must register with PPS at least 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 a bid.

Korea has launched its [Korea On-line E-Procurement System \(KONEPS\)](#). In part, this system includes:

- A single window for public procurement, showing the entire process
- Bids which are valid for at least 45 days
- Bids must be published with a summary in English, including the subject matter of the contract, the deadline for submission of tender, and the address and contact point from which full documents relating to the contract may be obtained
- The complete procurement process, with specifications and requirements (Note: Biases against imported products and services are rarely overt; if they occur, these should be brought to the attention of the U.S. Commercial Service in Korea).

The [KORUS FTA](#), in effect since March 15, 2012, has a chapter devoted to government procurement.

Defense Procurement

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

The Defense Acquisition Program Administration (DAPA: [DAPA](#) is responsible for Korean defense procurement and was established to ensure transparency in the process.

ROK defense products/equipment are acquired through a fairly sophisticated and mature procurement system which includes direct purchase, sales agents, and importer channels. U.S. manufacturers/suppliers of defense equipment should use a well-qualified/vetted Korean agent, 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). CS Korea, through our Gold Key Service program, can assist U.S. defense companies in identifying a potential, well-qualified representative. Former (retired) 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 military end-users.

A well-selected representative will be able to provide their U.S. supplier/manufacturer with information about the status of defense bids and procurement plans. This is a very mature defense community. Thus, U.S. defense suppliers should only consider this market if they have a proven track record in the U.S. and/or in other Tier I countries.

Companies wanting to supply their products/systems to Korea's military are required to register with DAPA. For more information on the registration and bidding process, refer to DAPA's procurement portal: [D2B](#). DAPA advised that foreign companies wishing to be registered with DAPA need to either visit Korea and submit the documents by visiting DAPA office or send the printed documents by mail/courier. However, DAPA strongly advised that the foreign companies to have

their in-county local partner fill out the forms and submit those since many of foreign companies don't understand the instruction and make mistakes in filling out the forms and in preparing relevant documents requested by DAPA. Moreover, foreign companies need to have the Pledge of Security form notarized.

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 64-year U.S.-ROK defense partnership.

Distribution & Sales Channels

South Korea is 70 percent mountains, forcing its nearly 50 million people into key population centers: Seoul metro area: 10+ million; Busan metro area: 3.5 million; Incheon metro area: 2.9 million; Daegu metro area: 2.5 million; and Daejeon metro area: 2 million. Most freight forwarders use an extensive network of first-class railways, 3,000 kilometers of highways, and air routes that crisscross the country.

Incheon, Gimpo, and Busan's first class airports and ports are the points of entry 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 15 airports. Eight are international airports, including the world-class Incheon International Airport near Seoul. Around 77 international passenger and cargo airlines operate regularly scheduled flights between Korea and many nations around the world (see Chapter 4 of this report for additional information on Korea's airports).

The Port of Busan is the world's fifth largest cargo port. As well, Incheon Airport is building a new terminal (scheduled to be completed in 2017) and a new airport is being contemplated for Korea's southeastern region, presently being served by Busan's Gimhae Airport.

Distribution methods and the function of intermediaries vary 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.

In mid-2012, as part of Korea's efforts to protect small "mom-and-pop" stores, under the auspices of "economic democratization," the government imposed a rule closing big-box discount chains on two Sundays per month. Many major retailers initially ignored the restriction. The government then imposed financial penalties, which eventually led to compliance, with major retailers closing stores on the second and fourth Sunday of each month, as of late 2012.

Korea's major cities have numerous 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 in popularity, as has U.S.-based Costco, which entered the Korean FDS market more than 10 years ago and is successfully competing against Korean rivals E-Mart and Lotte Mart, as well as Homeplus by TESCO, a UK retailer.

The 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.

It should also be noted that 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 not moving a meaningful volume of product, cannot be guaranteed a steady source of income. The legitimate exclusive distributor still has considerable advantages in Korea.

A handful of Korea's highly successful and sophisticated retailers have contacted CS Korea from 2012 to the present, seeking introductions to U.S. name-brand retailers and anchor stores for their respective three-to-five year mall construction plans.

In April 2015, CS Korea completed a 16-page International Market Insight (IMI) report, describing how Koreans make purchases via foreign online retailers. This document can be found under 'market research' on the [CS Korea website](#).

Express Delivery

Korea has a very well-defined domestic express delivery service. On average, delivery times are next-day delivery (called "Taekbae") or same-day delivery (called "Quick Service"). Delivery costs depend on the size/weight of the package; usually starting at around 2,600 KRW for next-day delivery (from 350g to 30 Kg in weight) and around 10,000 KRW for same-day delivery (if in close vicinity). Quick Service tends to be more informal in terms of pricing, but just as reliable. Some of the major domestic express delivery companies are the [Korean Post Office](#), [CJ Express Delivery](#), [Lotte Global Logistics](#), [Hanjin Express](#), and [Logen Express](#).

International express delivery from the U.S. to Korea is primarily handled by [FedEx](#), [DHL](#), [UPS](#) and [Hanjin](#). The average estimated delivery time is about 1-2 business days from Los Angeles to Seoul, and about four days for other areas of Korea. The approximate cost is USD 55 for one pound and USD 10 for every additional pound. Customs procedures are normally handled by the express delivery service company. However, Korean Customs does require that personal recipients of a parcel sign-up for a Personal Customs Clearance (PCC) code in order to clear the parcel through Customs. Korean Citizens can sign up for this [PCC code through the website](#).

Selling Factors & Techniques

Korea is a country with intense, demanding, and eager consumers. As well, Korea's retail sector is popular among the over 5.9M Chinese visitors (as of 2015) that come to Korea every year (but down from 6.1M in 2014). U.S. companies wanting to sell into this market should endeavor to 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 your company and its offerings
- To the extent possible, allow the distributor/agent to select from all of the U.S. company's product lines
- Hold demonstrations, seminars, and exhibitions of products in Korea
- Increase the distribution of technical data and descriptive brochures
- Assist local representatives with follow-up on sales leads.

e-Commerce

E-commerce is a key component of the overall consumer market in Korea, a country with nearly 90 percent broadband internet and smartphone penetration. Characteristics of e-commerce in Korea include:

- Domestic online purchases, including purchases on PCs and mobile phones, reached \$55.9 billion in 2016 up from \$47.6 billion in 2015. Domestic electronic commerce, in December 2016, comprised 17.9 percent of Korea's total retail industry.
- High penetration of smartphones is the main factor driving market growth. While purchases on PCs slightly increased from \$26 billion in 2015 to \$27 billion in 2016, purchases on mobile phones increased from \$22 billion in 2015 to \$31 billion in 2016.
- The most popular products sourced from domestic online retailers are travel & reservation services (17.4 percent), home appliances & electronics (11

percent), clothing (10.6 percent), home & car accessories (10.2 percent), cosmetics (7.9 percent) and computer (6.2 percent).

- Online purchases from foreign retailers have also been rapidly increasing because Koreans find less expensive prices on overseas websites even after adding-in international shipping fees and import duties. Cross border e-commerce has reached \$1.6 billion in 2016.
- Under the KORUS FTA, express courier service mailed goods under \$200 are duty free when sourced from the U.S., and 'made in the USA' items under \$1,000 are exempt from KORUS FTA documentation.
- Multi-brand on-line retailers such as Amazon.com and eBay are the most frequently used foreign on-line shopping sites visited by Koreans.
- The most popular foreign sourced products from on-line retailers by Koreans are dietary supplements (16 percent), cosmetics (14 percent), food (13 percent), apparel (12 percent), footwear (8 percent), and electronics (7 percent).
- Following the implementation of Korea's privacy for personal data in 2014, Korea Customs continues to push *importers of record* to clear shipments with a Customs Clearance Indigenous Code (CCIC), a Korea Customs-issued ID number, rather than a national ID number.
- U.S. based e-commerce companies should review the Personal Information Protection Act (PIPA) and ministerial data privacy/spam regulations, which may restrict e-commerce for firms managing user-data on international servers.

CS Korea completed a 16-page International Market Insight (IMI; April 2015) describing how Koreans make purchases from foreign online retailers. This IMI document can be found under 'market research' on the [CS Korea's website](#).

Internet Penetration

According to International Telecommunication Union (ITU), Internet user population in Korea reached 89.9 percent in 2015. In addition, Korea ranked 16th globally with over 45 million internet users. According to a survey by Pew Research

Center, 88 percent of Koreans have smartphones putting Korea ranked number one among 40 nations.

Current Market Trends

The growth of the Korean retail sector is led by e-commerce. While e-commerce is growing rapidly, traditional retailing channels are suffering. Consumers tend to go to traditional stores for window shopping but purchase goods at online retail sites to find the best deals. In order to survive, traditional retailers try to integrate their offline stores with their online stores to provide a seamless customer experience while increasing sales through multiple channels.

As competition between e-commerce companies is increasing, quick delivery service is a key to attract more customers. Coupang, one of the most popular e-commerce sites in Korea, announced in 2015 that it would invest USD 1.3 billion to build logistics infrastructure for its delivery service called “rocket delivery.”

Domestic E-commerce (B2C)

Domestic e-commerce sales have been increasing for the past few years reaching USD 55.9 billion in 2016. Online purchases surpassed hypermarkets’ sales in 2016 making e-commerce the biggest retail channel in Korea. Popular e-commerce sites include Auction, G-market, 11st Street, Coupang, Ticket Monster (TMON), and We Make Price. Based on the number of mobile and PC users combined, 11st Street was ranked the first in 2016 with 19 million visitors. Coupang was first for mobile users followed by 11st Street and TMON.

Cross Border E-commerce

Online purchases from foreign retail sites reached USD 1.6 billion in 2016, up from USD 1.5 billion in 2015, with 65 percent purchased from U.S online retailers. Although the U.S. is ranked number one, the U.S. Market share, which was 73 percent in 2014, has been continuously decreasing due to the expanded presence of E.U. and China.

B2B E-commerce

Korean B2B e-commerce market data is not available; however, due to the explosive expansion of B2C e-commerce and tough competition among e-commerce players,

e-commerce companies have been looking to expand into B2B e-commerce on consumable sales to small and medium size companies. G-market was the first one to launch a B2B shopping site called 'Biz on' in 2012. Auction also has B2B sites called 'Biz club' for food ingredients and 'Biz plus' for other consumables. Interpark has 'I market Korea' that integrates B2B and B2C services. Wemakeprice started 'Wemakeprice Bizmall' in 2016. With 5.4 million business owners and 3.5 million small and medium-sized companies, the B2B e-commerce market is expected to be very competitive.

E-commerce Services

In 2016, the most popular item sold through e-commerce platforms was travel & reservation services, which makes up 17.4 percent of the total sales. Home appliances & electronics (11 percent), clothing (10.6 percent), home & car accessories (10.2 percent), cosmetics (7.9 percent) and computer (6.2 percent) followed. Compared to 2015, cosmetics showed the biggest growth rate of 46.7 percent. Food & beverage grew by 29.5 percent and home appliances by 21.9 percent.

E-commerce Intellectual Property Rights

It is illegal to sell counterfeited products on e-commerce sites and to bring any counterfeit goods into Korea via cross border e-commerce. Before 2015, one item could be brought into the country assuming that it was for personal use. However, Korea Customs Service is enforcing a stricter policy not to bring in any illegal counterfeited goods according to the intellectual property law.

B2G E-commerce

For B2G E-commerce, Korea ON-line E-procurement System (KONEPS) is the only channel in Korea. In 2015, 48,000 public organizations and 320,000 companies were registered on this system with a total volume of business at USD 42 billion. The site deals with more than 60 percent of Korea's public procurement market, whose size is about USD 105 billion and was complimented as a best practice by the UN and OECD.

Online Payment

According to a survey by Korea Internet and Security Agency, PC and mobile shoppers preferred payment method is credit card accounting for 72.4 percent of PC and 68.1 percent of mobile shoppers. Next followed debit card and account transfer (both Internet and mobile banking service).

With the continuous growth of online shopping, electronic payment services via PC and mobile are increasing. The average number of usages a day exceeded 20 million and the amount of total payment reached \$343.5 billion in 2016. Payment Gateway category like Samsung Pay and Naver Pay is attracting more users. On average 860,000 cases per day were paid by smart pay services in 2016 and the sales amount to \$ 22.3 million.

Mobile E-commerce

Mobile e-commerce is the main driver of the explosive e-commerce growth. While online shopping grew by 20 percent in 2016, mobile e-commerce increased by 41.8 percent. Purchases from mobile platforms make up 53.5 percent of the total market value.

Digital Marketing

In 2017, the size of the online advertisement market is expected to be about USD 3.5 billion, up from USD 3.0 billion in 2015. As to each online advertising channel, personal computers (PCs) are showing a negative growth rate, -2.5 percent in 2016 and -1.8 percent in 2017. Mobile, however, grew by 6.1 percent in 2016, and is expected to grow by 4.6 percent in 2017. Online media use PC advertisements (59.4 percent) more than mobile advertisements (40.6 percent). Among online advertisement types, display advertisement takes up 48.7 percent and search ads 45.2 percent. Mobile advertisement sales increased to USD 883 million in 2015 and video ads on social media are driving the market. The market is expected to get close to the size of the land-based TV ads market in the near future.

Major Buying Holidays

Chu-seok (The 15th day of the 8th lunar month), Seollal (Lunar New Year's Day), Parents' day (May 8th) and Children's day (May 5th) are major buying holidays in

Korea. However, when purchasing from foreign online shopping sites, Koreans also follow foreign countries' buying holidays, like Black Friday, to get the best deals.

Social Media

43.1 percent of the Korean population use social media, according to a survey by Korea Information Society Development Institute. Kakao Story is the most widely-used social media (45.7 percent) followed by Facebook (30 percent).

Each age group uses different social media sites. Facebook is favored by teenagers and those in their 20's, while Kakao Story is favored by those in their 30's and above.

Opportunities

The most popular items sourced from the U.S. are dietary supplements (27 percent), apparel (14 percent), and food products (12 percent). Cosmetics and electronics are sourced more from the E.U. and China than the U.S., according the Korea Customs Service.

Trade Shows

CS Korea was not able to identify any trade shows focusing on electronic commerce. CS Korea does have an extensive list of Korean retail trade shows, which can be obtained upon request. However, most of these trade shows tend to be B2C instead of B2B.

Key Contacts

[Ministry of Trade, Industry and Energy \(MOTIE\)](#)

[Ministry of Strategy and Finance \(MOSF\)](#)

[Korea Customs Service \(KCS\)](#)

Local Contact

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Trade Promotion & Advertising

The U.S. Government's primary trade promotion agency in South Korea is the U.S. Commercial Service. Located within the U.S. Embassy in Seoul, it is an agency of the [U.S. Department of Commerce, International Trade Administration](#).

In Korea, the Commercial Service works with numerous trading and commercial entities, to include:

- [The Korea International Trade Association \(KITA\)](#). KITA organizes overseas trade missions, conducts market surveys, assists potential foreign buyers or sellers, and 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, DC, and New York. It also has seven offices in other countries.
- [The Korean Chamber of Commerce and Industry \(KCCI\)](#). 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 the enhancement of Korea's status in the international community.
- [The Korean Importers Association \(KOIMA\)](#). KOIMA is Korea's primary import association and represents over 4,000 businesses.
- Korea hosts many trade shows and exhibitions each year. Historically, many of these shows are highly focused on B2C activities and, thus, not necessarily attractive to U.S. firms interested in meeting qualified companies, versus end-users. The following trade facilities and event schedules may be of interest to U.S. firms:

- [COEX](#)- 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](#)- The Seoul Trade Exhibition Center is operated by the Korea Trade-Investment Promotion Agency (KOTRA).
- [KINTEX](#)- Located in Ilsan, Gyeonggi-do, near Seoul, KINTEX has the largest exhibition space in Korea, with 108,566 square meters.
- [BEXCO](#)- Located in Busan, Korea's second largest city (southeast Korea), BEXCO holds dozens of B2C and B2B national exhibitions and features 26,446 square meters of exhibition space.

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 media to capture the consumer's attention.

Particular aspects of Korea's advertising market include the following:

- Korea's advertising market is the sixth largest in 2015 among member nations of the OECD, according to the Korea Advertisers and Media Audit Korea.
- More than 80 mega-LED screens strategically pepper commercial areas (in Seoul and other cities) with 24/7 promotions. Monthly advertising opportunities exist.
- Thousands of excellent promotional sites on Korea's well-used bus stops, subway stations, railways, and airports should be considered by U.S. firms.
- On-line advertising offers significant market growth potential. In 2015, the market size of on-line advertising was USD 2.94 billion, growing by 13.0 percent compared to the previous year. Display ads account for 23 percent,

search ads for 47 percent, and mobile ads for 30 percent of total on-line advertising. Currently 15 million households, or 98 percent of all, use the Internet. [The Korea On-line Ad Association \(KOA\)](#).

- The presence of over 3,031 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, including:
 - KBS I, KBS II: TV and radio stations owned/operated by the Korean government
 - [MBC, SBS](#): Independently operated, but with ROK government influence
- Comprehensive Programming Channels:
 - Launched on December 1, 2011, four new nationwide networks supplement existing conventional free-to-air TV networks like KBS, MBC, SBS, and other smaller channels. Unlike land-based television channels, new comprehensive programming channels can broadcast for 24 hours and commercial breaks are allowed. In Korea, over 80 percent of the population watches cable or satellite TV, so the influence of these comprehensive programming channels is strong.
 - [Channel A](#) is managed by Dong-A Media Group. The Dong-A Media Group consists of twelve affiliate companies, including Dong-A Ilbo, the leading newspaper in Korea since 1920.
 - [TV Chosun](#), also known as Chosun Broadcasting Company, is owned by the Chosun Ilbo-led consortium. Chosun Ilbo is one of the major newspapers in South Korea, with a daily circulation of over 2,200,000.
 - [JTBC](#) is managed by the JoongAng Media Network. JoongAng Ilbo is one of the major newspapers in South Korea.

- [MBN](#), also known as Maeil Broadcasting, Inc., is owned by Maeil Business Newspaper. MBN was formerly a news channel, between 1993 and 2011. It transitioned to a general programming cable TV channel after 17 years of operation.
- [The Korea Advertising Review Board \(KARB\)](#) is responsible for advertising regulation & compliance.
- [The Korean Fair Trade Commission \(KFTC\)](#) assures accuracy in advertisement.
- *The Korean cable TV industry serves 14 million households, with 94 system operators offering over 150 programs. Korea Digital Broadcasting (KDB), a subsidiary of [Korea Telecom \(KT\)](#) broadcasts more than 150 satellite channels to over 2.6 million households.*
- [Korean Cable TV Association \(KCTA\)](#).
- There are six leading shopping channels in Korea: GS, Hyundai, CJ, Lotte, NS, and Home & Shopping. In 2016, Korea's market scale of the home shopping industry reached USD 10 billion.

Pricing

In Korea's export-driven economy, price competitiveness is a key factor. Korean manufacturers try to purchase lower-priced raw materials or equipment, while also looking for quality.

Korean buyers generally consider that U.S. goods:

- Have an *overall* good reputation
- Are of high quality and good performance
- Are relatively expensive, especially because of shipping and other logistical costs.

- According to the Korean Act on Consumers, consumer items are required to be labeled with the following (with specifics varying among products):
 1. Denomination, use, ingredients, material quality, performance, size, price, capacity, permitted number of goods and contents of services
 2. Name (including address and telephone number) of the enterprise that has manufactured, imported, sold or provided goods, etc., and the origin of the goods
 3. Method of use, matters of caution and warning in use and keeping
 4. Date of manufacture, quality guarantee period or, in case of goods such as foods, medicine etc., which are apt to be altered in the course of distribution, the validity period of such goods
 5. Dimension, location and method of indication, and Organization (including its address and telephone number) and method of settlement for any complaint on goods etc., or any consumer's damage due to goods, etc.

A 10 percent value-added tax (VAT) is included on services and products.

Commissions in Korea are dependent upon the type of product and the transaction amount. For larger contracts, commissions generally decline as the contract value for a major purchase/acquisition/contract increases.

Sales Service/Customer Support

Considered secondary to product and price considerations, after-sales service in Korea is often found lacking by foreign suppliers. After-sales service and customer support by Korea's big conglomerates, such as Samsung and LG, are often seen as better than the services offered by global enterprises or international SMEs. Korean consumers are very demanding in terms of customer support. After sales service and customer service in general should be managed closely, especially given the

competition of third countries in this market. Servicing is/should be an important component of the 'sale.'

The best approaches for after-sales service and customer support include:

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

Protecting Intellectual Property

In any foreign market, companies should consider several general principles for effective management and protection of their intellectual property. For background on these principles, please link to the following articles: [Protecting Intellectual Property](#) and [Corruption](#).

IP Attaché Contact (For Korea)

Please contact our office at office.seoul@trade.gov for your IPR issues.

Due Diligence

- Conducting a thorough due diligence check is critical when selecting a local partner for a joint venture, licensing, representation, 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 called the [International Country Profile \(ICP\)](#). The ICP includes the above information, obtained by the Commercial Service in Korea, in addition to a visit to the office of the Korean company, as well as obtaining financial information from [D&B Korea Co., Ltd.](#) and [Kroll International](#), both of which also provide due diligence reports.

Local Professional Services

Korea has a highly-developed economy with a full range of professional services:

[Agents/Distributors](#)

[Law Firms](#)

[Major Bank](#)

[Major real estate and real estate consultancy firms, accounting companies and human resource firms](#)

[Major newspaper contacts](#)

The [“Featured U.S. Exporters” \(FUSE\)](#) site provides information on how you can advertise products on our worldwide website, in various languages, for a small fee.

Principal Business Associations

For [principal business associations in Korea](#)

Limitations on Selling U.S. Products and Services

With the signing of the U.S.-Korea Free Trade Agreement in 2012, in general, U.S. companies will not face formal limitations. However, there are special circumstances where formal or informal limitations may exist. For additional information, please contact a Commercial Specialist from the [U.S. Commercial Service in Seoul](#).

Web Resources

[Busan Exhibition and Convention Center \(BEXCO\)](#)

[Agents or Distributors in Korea](#)

[Banks in Korea](#)

[Convention and Exhibition Center \(COEX\)](#)

[Daegu Exhibition and Convention Center \(EXCO Daegu\)](#)

[Defense Acquisition and Procurement Agency \(DAPA\)](#)

[Dun & Bradstreet Korea](#)

[Featured U.S. Exporters \(FUSE\)](#)

[Government e-Procurement Service \(GePS\)](#)

[International Company Profile](#)

[Invest KOREA](#)

[KITA New York Office](#)

[KITA Washington Office](#)

[Korea Broadcast Advertising Corporation \(KOBACO\)](#)

[Korean Commercial Arbitration Board](#)

[Korea Importer's Association \(KOIMA\)](#)

[Korea Intellectual Property Office \(KIPO\)](#)

Korea's Main Distribution Centers:

[Busan](#)

[Daegu](#)

[Gwangyang](#)

[Incheon](#)

[Korea Trade Investment Promotion Agency \(KOTRA\)](#)

[KINTEX](#)

[Kroll Korea](#)

[Public Procurement Service \(PPS\)](#)

[Law Firms in Korea](#)

[Newspaper Agencies in Korea](#)

[Real Estate Firms, Accounting Corporations and Human Resource Agencies](#)

[Seoul Trade Exhibition Center \(SETEC\)](#)

[World Federation of Direct Selling Associations](#)

Leading Sectors for U.S. Exports & Investment

Best Prospect Overview

Aerospace Industry

ITA CODE: PR AIR

Overview

	2014	2015	2016	2017 (Est.)
Total Market Size	6,408	7,215	7,859	8,274
Total Local Production	4,343	4,886	5,117	5,275
Total Exports	1,985	2,563	2,542	2,913
Total Imports	4,050	4,892	5,284	5,912

Source: Korea Aerospace Industries Association (KAIA). Unit: USD Millions.

According to trade figures announced by the Korea International Trade Association, Korea was the 8th largest market for U.S. aerospace exports in 2016. In 2016, total U.S. aerospace exports to Korea exceeded 5.2 billion USD (including aerospace products in the defense sector). In total value, U.S. aerospace sales constituted about 70 percent of Korea's total aerospace imports in 2016.

Over 99 percent of total aerospace imports into Korea are for commercial & defense aircraft and their parts and components. Of this, 70 percent of Korea's aircraft, parts and component imports were from the U.S. in 2016.

The aerospace sector is one of the rising sectors for the Korean government as it tries to develop a next generation growth engine. The Korean government has announced plans to raise Korea's aerospace production from 2 billion USD (2009) to

20 billion USD by 2020, and raise exports to 10 billion USD, 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.

Based on this plan, Korea will continue to focus on developing its indigenous:

- mid-sized, fixed-wing aircraft and helicopters for the commercial sector;
- Korean fighter and attack helicopter for the defense sector;
- UAVs.

Major Local Players

Korea's aerospace industry is driven by [Korea Aerospace Industries](#) (KAI) and Korean Air, one of the largest commercial airlines in Korea. KAI and Korean Air are also the leading companies which make and assemble parts for Boeing and Airbus. KAI and Korean Air are active in developing indigenous aircraft, including UAVs, rotor-wings, and fixed wings. In 2008, KAI introduced its first non-military private aircraft, 'Naraon', making Korea the 28th nation in the world to build and fly an indigenous plane. In 2015, KAI won the KF-X project, Korea's next generation fighter jets. The Korean government will invest 17 billion USD in the KF-X program until 2025. Korean Air is active in providing MRO services for both commercial and defense aircraft.

There is a cluster of Korean small-and medium-sized aerospace companies in the Gyeongnam area, forming a Korean 'Aerospace Valley.' The companies within this region focus on supplying parts and components to KAI and KAL and also on exporting. [Gyeongnam Export Support Corps for Aero-parts](#) (GESCA) supports these aerospace companies and is currently actively cooperating with foreign aerospace companies for both imports and exports.

Commercial Airlines

Korean Air has a total of 160 aircraft and is one of the largest consumers of aircraft, equipment, components, and various aerospace services, as well as being one of the major exporters of aerospace parts and components. Asiana Airlines is the second largest airline in Korea, currently operating a total of 83 aircraft. Additionally, there are six Low Cost Carriers (LCC): Jeju Air, Jin Air, Air Busan, Eastar Jet, T'Way Air and Air Seoul. Six new LCC Airlines (Fly YangYang, Air Daegu, K-Air Airline, Nambu Air, Prime Airline and Pohang Air) are getting ready for operations.

In 2016, 30.3 percent of all international travelers (mostly traveling to China and Japan) and 57 percent of domestic travelers, used LCCs. LCCs demonstrated dramatic annual sales revenue growth of 40 percent in the past five years and are expected to maintain rapid growth for the years to come.

Airports

Korea has two state-owned airport companies, Incheon International Airport Corporation (IIAC) and Korea Airport Corporation (KAC). IIAC is the nation's largest and has its main international airport in Incheon City. Incheon Airport was voted the top in 'airport service/quality' for ten years in a row. It has also won the highest score in the Airport Service Quality (ASQ) category by the Airports Council International (ACI), which consists of 1,700 airports around the world. KAC operates a total of 14 airports in Korea (Gimpo, Gimhae, Jeju, Daegu, Ulsan, Chungju, Muahn, Kwangju, Yeosu, Pohang, Yangyang, Sacheon, Kunsan, and Wonju), of which seven have international status, with routes mainly to China and Japan.

Incheon Airport is presently building its second terminal. This 4.6 billion USD project is scheduled to be completed in 2017. The expansion will correspond to increased international travelers and will improve its strength as an international hub. With the second terminal, Incheon International Airport will be able to accommodate 6.2 million travelers and one thousand airplanes.

Best Products/Services

- Aircrafts and aircraft upgrades
- Radar/surveillance devices
- Avionics
- Parts and components & MRO

Opportunities

Top U.S. aerospace exports to Korea include: complete commercial aircraft, commercial aircraft engines, equipment and parts, as well as military aircraft and their parts and components. The U.S. continues to be the dominant foreign supplier of aerospace/defense products and services, with a dominant import market share. This trend will continue for several years, due to the tremendous growth of LCCs in Korea, and due to Korea's recent decision to purchase next generation fighters (40 F-35s) and other defense aircraft, thus increasing demand on MRO services in the future and as related to these aircraft models.

Although small in quantity, Korea's space market also presents opportunities for foreign suppliers, especially in satellite launching services, high-tech sensors and optical devices for payload systems.

KORUS FTA Impact

All U.S. aerospace exports are duty-free as of March 15, 2012, as a result of the implementation of the Korea-U.S. FTA (KORUS).

Web Resources

Trade Shows

[Seoul International Aerospace & Defense Exhibition 2017](#) (Seoul Airshow 2017)

October 17-22, 2017

Key Contacts

[Korea Aerospace Industries Association \(KAIA\)](#)

[Korea Aerospace Research Institute \(KARI\)](#)

[Ministry of National Defense \(MND\)](#)

[Ministry of Science, ICT, and Future Planning \(MSIP\)](#)

[Ministry of Land, Infrastructure, and Transport \(MOLIT\)](#)

[Incheon International Airport Corporation \(IIAC\)](#)

[Korea Airport Corporation \(KAC\)](#)

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[U.S. Commercial Service South Korea](#)

Agriculture

Overview

For information on agricultural products including bulk commodities or processed foods and the distribution channels in Korea, please see the [U.S. Department of Agriculture \(USDA\) Exporter Guide 2016](#).

When considering the Korean market, U.S. 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 [U.S. Agricultural Trade Office in Seoul](#) and the U.S. Department of Commerce. Lists of Korean importers, by product, can be obtained from the U.S. Agricultural Trade Office. 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 and Hotel Show 2017](#) 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.

Air Pollution Control

ITA CODE: PR POL

Overview

According to the latest reporting from the Korean Ministry of Environment, the South Korean air pollution control market was worth USD 4.7 billion in 2013, up a robust 13 percent from the previous year. The market accounted for 4.3 to 5.7 percent of the total environmental technology and engineering sector during last five years. When segmenting the market by sales of goods, services and testing/analysis, the size of air pollution control commodity and equipment sector is by far the largest.

Market size for air pollution control industry (unit: million USD, %)

	2009	2010	2011	2012	2013
Size of Air Pollution Control Equipment & Commodity Industry (A)	1,473	2,241	2,294	3,882	3,963
Ratio [A/(A+B+C)x100]	99.2%	98.8%	99.1%	96.7%	84.8%
Size of Air Pollution Control Related Service Industry (B)	0	1	9	26	394
Size of Air Pollution Control Related Testing & Analysis Service Industry (C)	11	25	13	109	317
Size of Air Pollution Control Industry (A+B+C)	1,485	2,267	2,316	4,016	4,674
Exchange rates (USD1=KRW)	1,275.82	1,156.05	1,108.02	1,126.28	1,094.70
Source: Korean Ministry of Environment.					
Environmental Statistics Yearbook 2014 and 2015					
<i>Note: Statistics are released once every four years</i>					

A series of international reports recently revealed the seriousness of air pollution in South Korea. The Yale Environmental Performance Index 2016 ranked South Korea near the very bottom (No. 173) among 180 OECD nations in terms of air quality. The OECD forecasts South Korea will suffer a 0.62 percent loss of GDP due to air pollution by 2060, far more than other member countries, estimated at 0.19 to 0.45 percent of GDP.

The Korean Ministry of Environment monitors and regulates emissions of air pollutants under the Clean Air Conservation Act. South Korea enforces regulatory

limits on sulfur oxides (SO_x), carbon monoxide (CO), nitrogen oxide (NO_x), ground level ozone (O₃), particulate matters (PM-10 and PM-2.5), lead, and benzene. Other pollutants such as total suspended particles (TSP), volatile organic compounds (VOCs), ammonia (NH₃), and secondary pollutants such as peroxy acetyl nitrate (PAN), peroxy benzoic nitrate (PBN), and aldehyde are also monitored. The government is making great efforts to eliminate diesel vehicles from the roads, providing subsidies to consumers who replace these models. The government is also actively promoting the use of hybrid and electric vehicles and shutting down old coal-fired power plants to curb fine dust emissions.

Fifty-three coal-fired plants are another main contributor to air pollution in South Korea. These plants also account for 30 percent of the country's total power generation. The country has the highest share of super and ultra-super critical power plants in operation in the world. The government is taking measures to retrofit carbon dioxide capture and storage (CCS), selective catalytic reduction (SCR), and flue gas desulfurization (FGD) systems. Although Korea's coal-fired power plant fleets are rather young and large, with modern steam parameters, in July 2016, the country's Trade Minister announced further air pollution control measures by targeting the closure of 10 thirty-year-old coal-fired power plants by 2025. In addition, the government will replace turbines at several plants to boost power efficiency and expand the capacity of circulation pumps to reduce emissions. Tougher emissions standards for future coal-fired power plants will also be implemented.

Sub-Sector Best Prospects

The U.S. is considered a global leader in many environmental technologies. Companies with price-competitive technologies and services should have the potential to successfully penetrate the market in the following areas:

- Continuous emissions monitoring systems
- Dry sorbent injection technologies
- Flue gas desulfurization (FGD) systems
- Activated carbon injection technologies

- Inspection, adjustment, maintenance and repair services
- Selective Catalytic Reduction (SCR) technologies
- Carbon Capture and Storage (CCS)
- Volatile Organic Compound (VOC) control
- Dioxin abatement
- Energy saving and waste-to-energy products
- Pollution-free and low-emission vehicles and engineering technologies
- Pollution abatement technologies for the automobile and oil refinery industries
- Environmentally-friendly construction materials
- Ambient air quality monitoring equipment
- Source emissions measurement technologies
- Analytical and laboratory testing goods and services
- Air pollution control equipment
- Fuel vapor control systems
- H13 or above high-end air purifiers (optionally with carbon filters)
- HEPA filter media
- High-end vacuum cleaners

Opportunities

The market for electrostatic air filters has recorded 5.8 percent growth per annum and is forecasted to reach USD 11 billion by 2019. The Trade Minister's announcement in August 2016 has spurred demand for SCR in 2016 and 2017. According to a local source, demand for catalyst technology for both higher and lower sulfur coal-fired boilers increased by 92 percent, to 12,500m³, from the previous year. Several local companies, such as Doosan Heavy Industries, expects Korea's SCR market to be worth USD 14 billion by 2019, with annual growth of five percent. There are also significant opportunities in the air pollution technology and environmental consultancy markets. Consumer air purifiers with high-efficiency particulate air (HEPA) filters of H13 or above are experiencing high demand. There are roughly 226 domestic and foreign manufacturers and over 1,400 models being sold locally. However, South Korean consumers have a strong preference for high-end models.

To enter the environmental technology market, U.S. suppliers should partner with qualified and capable South Korean companies which maintain existing sales

networks to serve end-users and which are fully aware of the regulatory changes that drive the market. Exhibiting at local environmental trade shows can also be a good platform to explore the market and gain exposure to end-users.

Web Resources

Trade Shows

[International Exhibition on Environmental Technologies \(ENVEX\)](#), June, 2017
([English website available](#))

Key Contacts

[Ministry of Environment](#)

Regulation Resource

[Clean Air Conservation Act](#) (in English)

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Cosmetics

ITA CODE: COS

Overview

	2013	2014	2015	2016 (E)
Total Market Size	6,963	7,759	7,981	7,160
Total Local Production	7,280	8,511	9,481	10,258
Total Exports	1,290	1,799	2,586	4,178
Total Imports	972	1,047	1,089	1,080
Imports from the U.S.	285	323	316	293

Exchange Rate: USD1=KW 1,126 (2012); 1,095 (2013); 1,054 (2014); 1,132 (2015); 1,161 (2016)

Sources: Korea Pharmaceutical Traders Association (KPTA), Korea Cosmetic Association (KCA)

Unit: USD million

Total market size: Total local production – total exports + total imports

South Korea is the 8th largest cosmetics market in the world, representing nearly 3.0% of the global market. In 2016, the market size was estimated to be approximately USD 7.1 billion; the total local production and total exports increased approximately 8.2% and 61.6%, respectively, from the previous year. The market has grown at an annual growth rate of 8.2% for the last five years.

Meanwhile, total imports of cosmetics in 2016 maintained last year's level, valued at USD 1.08 billion. U.S. imports accounted for 27.1% of total market share, valued at USD 293 million. On a country basis, France (USD 293.8 million) and the U.S. (USD 293.4 million) are the leading exporters to Korea, followed by Japan (USD 170.5 million) and Italy (USD 47.5 million).

According to Korea Customs Service statistics, skincare cosmetics continue to be the largest import category, at 49.1% (USD 704 million) of total cosmetics imports in 2016. Haircare products, makeup cosmetics, and perfumes/scents accounted for 14.4%, 12.5%, and 11.2%, respectively, of the total import market.

There is a large variety of products in the marketplace. Competitive imports differentiate themselves from existing offerings through brand identity, packaging, unique formulations, and quality ingredients. U.S. brands generally have a good reputation for their technologically-advanced product formulations and product safety. A cosmetics survey (2015) conducted by local cosmetics newspaper CMN and research institute Kantar World Panel revealed that American cosmetics brands, such as MAC, Bobby Brown, Estee Lauder, Maybelline, Neutrogena, Aveeno, and Cetaphil, were ranked as the top brands. Products included in these brands include foundation, eyeshadow, lipstick, mascara, and body care products.

Imported cosmetics are primarily sold through department stores (24.3%), brand shops (23.0%), online shopping malls (18.9%), multi-level marketing (8.9%), hypermarkets (7.2%), specialty stores (6.9%), home shopping channels (3.4%), and duty free shops (3.2%).

Strong potential subsectors for U.S. exporters to South Korea include cosmeceuticals, derma-cosmetics, and natural/organic cosmetics. Industry insiders expect that the market for cosmetics products which feature dermatological benefits will continue to grow, especially the concept of preventative care. In addition, ceramide cosmetics and anti-pollution cosmetics are expected to experience solid growth. When it comes to natural/organic cosmetics, Korean consumers tend to check not only natural/organic ingredients, but also 'fair trade' and 'country of origin' labelling on product labels.

In South Korea, cosmetics are regulated by the Ministry of Food and Drug Safety (MFDS). Cosmetics fall under two categories: functional cosmetics and regular cosmetics. Functional cosmetics, which currently comprise whitening, anti-wrinkle, and sunscreen & tanning products, are expected to be extended to 11 categories by the MFDA, including hair colorants, hair nutrients, and cosmetics which help protect damaged skin.

MFDS reviews only functional cosmetics for pre-market approval. For all other regular cosmetics, the Korea Pharmaceutical Traders Association (KPTA) has been

authorized by MFDS to review and certify import permission requests submitted by the Korean importer. As of 2015, 1,024 firms were registered as cosmetics importers. Among them, 715 were agents/distributors and 134 were branch offices. A qualified Korean representative is critical to successfully penetrating the market, for two reasons. First, Korean distributors know their customers and competitors well and can monitor market changes. Second, the importer/distributor of the foreign supplier must submit the required documents to MFDS or KPTA to obtain pre-market licenses.

Under the U.S.–Korea Free Trade Agreement (KORUS FTA), implemented in March 2012, tariffs on imported cosmetics have been reduced. Remaining Korean tariffs on imported U.S. cosmetics will be completely eliminated over a ten-year period. This development signals good opportunities for U.S. companies in the years ahead.

Best Prospects

Convergence of cosmetics and pharmaceutical/cosmeceutical products

- Crossover/multi-functional products
- Functional cosmetics – especially anti-aging and anti-oxidation
- Natural/organic skincare products

Opportunities

E-commerce channels, drug stores, and television home-shopping channels are becoming increasingly popular for consumers to purchase cosmetics products. Duty-free shops and select shops are challenging traditional retail channels, like direct selling, multi-level marketing, "mom and pop" stores, department stores, and discount stores.

Due to an increase of internet and mobile users, on-line shopping malls and social media have been making rapid inroads as key marketing channels. South Korea stands out as the country with the highest smartphone ownership rate/broadband penetration rate and the fastest average internet speed. Sales via mobile shopping have increased dramatically in recent years. Of total online shopping, the percentage of mobile shopping has jumped from 17.0% in 2013 to 45.4% in 2015.

This trend reflects the new shopping trend which involves consumers who “window shop” offline and then purchase online.

Web Resources

Trade Shows

[Seoul Cosmetics & Beauty Expo 2018](#)

Key Contacts

[Ministry of Food and Drug Safety \(MFDS\)](#)

[Korea Pharmaceutical Traders Association \(KPTA\)](#)

[Korea Cosmetic Association \(KCA\)](#)

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Cyber Security

ITA Code: ICT

Overview

	2014	2015	2016 (E)	2017(E)
Total Market Size	1,646.93	1,703.54	1,771.68	1,876.00
Total Local	988.16	1,022.12	1,063.01	1,165.06

	2014	2015	2016 (E)	2017(E)
Production				
Total Exports	69.25	80.12	83.33	91.33
Total Imports	728.02	761.54	732.00	802.27
Imports from the U.S.	509.61	533.08	554.40	607.62
Exchange Rate : 1USD	1,054	1.132	1,161	1,100

Source: Korea Internet & Security Agency (KISA), Korea Information Security Industry Association (KISIA)

Unit: USD million.

South Korea is a prime target for cyber-attacks, due to the country's high network connectedness, advanced use of mobile devices, and significant intellectual property. According to Akamai, a U.S.-based cloud provider, as of the 1st quarter of 2017, around 97% of South Korea's population had internet access. South Korea has the fastest average internet speed in the world, at 26.9 Mbps. In fact, it is the only country with an average internet speed greater than 25 Mbps. In addition, South Korea leads the world in mobile broadband penetration, with over 120% of the population (as of the 1st quarter of 2017). The government projects the internet speed will be 10 times faster by 2020, which could transform Korea's technological capabilities and make is an "ultra-connected nation."

South Korea recognizes that cyber-security is a matter of national security. Although the country boasts one of the world's fastest and most mobile IT infrastructures, it also has an insecure infrastructure which is vulnerable to cyber-attacks. The country has heightened its security protocols over recent years, following several high-profile hacking cases, including a cyber-attack on a Korea Hydro and Nuclear Power (KHNP) plant in 2014. Hackers have previously targeted government agencies in South Korea, which compromised sensitive information and endangered the welfare of government officials and civilian employees alike.

The frequency and gravity of cyber-attacks has prompted the South Korean government to re-evaluate its cyber-security strategy. There are three agencies equipped to handle issues of cyber-security: the National Cyber-Security Center, the

Korea Internet & Security Agency (KISA), and the National Police Agency's Cyber Terror Response Center. These agencies are responsible for identifying, preventing, and responding to cyber-attacks and security threats. Also, a school specializing in cyber-warfare has been chartered, with the intention of increasing the current 400 security experts to 5,000 by the end of 2017.

Sub-Sector Best Prospects

- Encryption for network access
- End-to-end point detection
- Intrusion prevention systems (IPS)
- Advanced persistent threat (APT)
- Cloud security

Opportunities

A myriad of opportunities exist for U.S. firms to provide cutting-edge cyber security solutions for critical infrastructure in South Korea. Due to its advanced ICT infrastructure, South Korea is an ideal market for U.S. firms seeking to test cyber security solutions, before deployment in other markets.

To enter the cyber security market, the U.S. Commercial Service in Korea recommends that U.S. technology firms partner with qualified and capable South Korean companies, which maintain existing sales networks in the finance, energy, and other key infrastructure markets, and are fully aware of local market characteristics and unique regulatory requirements.

Web Resources

Trade Shows

[RSA Security Conference 2018, San Francisco](#) (delegation from South Korea expected)

Key Contacts

[Ministry of Science, ICT and Future Planning](#)

[Korea Internet & Security Agency \(KISA\)](#)

[Korea Information Security Industry Association \(KISIA\)](#)

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Defense Industry Equipment

ITA CODE: PR DFN

Overview

The Republic of Korea (ROK) has the world's sixth largest military force, following China, the U.S., India, Russia, and North Korea (based on the number of active military personnel, 2015). South Korea's defense industry has grown far faster than the regional average in recent years, in order to face the increasingly antagonistic actions of North Korea. The ROK continues to be a major defense and security ally of the U.S. in the Pacific region.

Korea's Ministry of National Defense (MND) announces its mid-term defense plan annually and, according to the recently announced 2017 plan (total budget of 206

Billion USD), MND will continue to concentrate on the ‘Kill Chain’ and Korea Air and Missile Defense programs. Kill Chain is an offense-oriented defense system, which detects missiles in real time. The goal is to detect any potential threats from the North and make a head start in attacking any nuclear weapon within 30 minutes. The Kill Chain’s main attack means are the fighters and bombing aircrafts of the Navy and Air Force. Korea Air and Missile Defense (KAMD) is a lower ground (approx. 20 km above ground) defense system, where patriot missiles, AMD cells, and early warning radar play indispensable roles. Some of the major procurements of the ROK government are grounded in establishing these two systems, which includes HUAVs (Global Hawk) and patriot missiles (PAC-2/PAC-3).

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

Market Demand (Unit: USD millions)

	2014	2015	2016 (Estimated)	2017 (Projected)
Total Market Size	16,498	14,557	15,913	16,712
Total Local Production	11,614	10,857	11,943	12,540
Total Exports	3,612	3,541	3,789	3,978
Total Imports	8,496	7,241	7,762	8,150

Exchange Rate: 1 USD is equivalent to: 2014: 1,054 won, 2015: 1,132 won, 2016: 1,161 won, and 2017: 1,100 won.

Note: The statistical data above is based on figures announced by Defense Acquisition Program Administration (DAPA). Import figures are based on the contracted amount. Estimated and projected figures are based on an unofficial estimate from CS Korea based on the budget of Korea's Force Improvement Plan (FIP), Defense Acquisition Program Administration's procurement plan, and media reports.

For 2017, a total of 36.67 billion USD has been announced for Korea's defense budget, which includes 11.09 billion USD for its force improvement plan (FIP). The total budget and FIP budget have increased by 4.0 percent and 4.8 percent, respectively, compared to the previous year. For 2017, Korea's defense budget is around 1.9 percent of its GDP and constitutes about 10.1 percent of the total national budget. Korea is estimated to have the 10th largest defense budget in the world.

Breakdown	2016	2017
Total Defense Budget	35,272	36,668
Force Improvement Plan (FIP)	10,582	11,088
Operation & Management (O&M)	24,690	25,580

Unit: USD millions 2016/17 currency rate: 1 USD = 1,100 KRW

Korea has announced the following plans for acquisition contracts of several major defense projects:

- Maritime Operation Helicopter: Acquisition of 8 naval combat helicopters (Leonardo, AW159 Wildcat) in 2013 / Second batch of 12 helicopters tender expected and planned to be ready for the operation by 2022. Leonardo AW-159, Sikorsky (Lockheed Martin Company) MH-60R and Airbus Helicopter's NG-90 are competing for the second batch.
- TH-X (Basic Flight Training Helicopter): Acquisition of 40 training helicopters worth 0.17 billion USD. Bell Helicopter and Leonard are competing.

- CH-47 and UH-60 upgrade programs: Upgrades for CH-47D (ROK Army) and HH-47D (ROK Air Force) platforms will begin from 2018 till 2028. Upgrades on engine, cockpit, Automatic Flight Control System, and avionics are expected. ROK government had decided that the Korean defense company will lead the upgrades. Foreign suppliers will need to form a consortium with the local companies who will participate in this tender. Timeline for UH-60 upgrade program is not yet finalized but expected to start soon after 2018.
- P-3C Marine Patrol Aircraft: Improvement of marine patrol aircraft by 2016 (Korean Air)
- Maritime surveillance aircraft: Acquisition of 12 used S-3B Vikings were expected to be carried out until ROK MND added the option of acquiring 8 P-8A. Competitions expected among L-3, Lockheed Martin, and Boeing.

Source: DAPA and media

Market Access & Obstacles

The ROK's defense procurement agency, the Defense Acquisition Program Administration (DAPA), is the sole government agency 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 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.

Commercial sales (DCS: Direct Commercial Sales) in the defense industry accounts for 46 percent of DAPA procurement (average figure from 2011 to 2015). Recently, the ROK government has shown a preference for DCS over Foreign Military Sales (FMS) on some programs, in an effort to reduce purchase price and work with a faster and more simple process.

Defense Offset Policy

The offset program was first introduced in Korea in 1982, to fulfill the objective of developing Korea's aerospace industry, but it gradually became an important means to acquire core technologies to develop the defense industry. An offset obligation is imposed upon the foreign supplier/contractor when the main defense contract amount of a unit acquisition program exceeds 10 million USD. Exceptions exist where an offset obligation is imposed on a contract of less than 10 million USD in value. For programs with competing suppliers, usually 50 percent of the estimated main contract amount should be allocated to an offset program. For sole source programs, 10 percent or more of the estimated main contract amount is expected. The following programs are considered for offset: co-production, licensed production, overseas investment, technology transfer, counter purchase, buy-backs, etc. DAPA is the leading entity governing offset policy and oversees the execution. Technology evaluations are done by the Defense Agency for Technology and Quality, an organization under DAPA.

According to data announced by DAPA in 2016, offset programs executed from 2011 to 2015 were valued at 8 billion USD. There was a sharp increase in value in 2014 and 2015, due to major programs such as F-X (F-35), HUAV (Global Hawk), and the Patriot missile program. Of the total executed offset program values, 45 percent was connected to technology transfer, 29 percent for acquisition of equipment, and 26 percent for exports. The U.S. took the largest share in both the number of offset programs offered (48 percent) and the value of offset programs offered (83 percent). A large portion of Korea's export of defense products is a result of DAPA's defense offset program.

Indigenous technology and the drive for defense exports

In 2015, Korea's total export of defense products was about 3.5 billion USD, more than triple the export value in 2010. Korea is becoming an active player and one of the top countries in Asia in defense exports. Korea has not only increased its exports regionally, but also managed to export at a global level, expanding to Europe

and South America. Korea exported to 87 countries in 2015, with 156 exporting companies. Exported items have also been diversified over the years. In the past, Korea mainly exported ammunition and fire extinguishers; currently Korea is exporting warships, submarines, propeller training aircraft and, most recently, light supersonic combat aircraft.

U.S. Position in Korea's Defense Industry

There are 28,500 U.S. troops stationed in Korea on more than 100 bases, stretching from the DMZ south to the port city of Busan. Plans call for consolidating the troops on to fewer than 50 bases, with the majority stationed in regional hubs in the areas around Pyeongtaek/Osan and Daegu. Progress on the relocation of the U.S. troops in Yongsan/Seoul to Pyeongtaek, south of Seoul, and the construction of housing, schools and medical and recreational facilities on bases south of Seoul, has long been considered a key element in the U.S. plan to allow more troops to bring their families to South Korea, allowing for longer tours and greater stability among the ranks on the Peninsula.

The U.S. remains Korea's most significant military ally, largely due to the presence of 28,500 U.S. troops in Korea as a deterrent to any aggression from North Korea and with its 61 years of close alliance history, U.S. standards are generally accepted in Korea. Most Korean defense systems are based on American standards. This has affected defense procurement decisions. U.S.-provided weapon systems to Korea totaled 6.1 billion USD in 2015, which accounted for 81 percent of Korea's total defense imports (major acquisition programs such as purchase of F-35s, Global Hawk, and patriot missiles were executed in 2014). Over a five year average (2011-2015), U.S. defense products account for around 80 percent of Korea's total defense imports.

Although the U.S. continues to be a primary supplier in Korea, strict U.S. export control policies and aggressive marketing of other suppliers (from Europe and Israel come) as a challenge to U.S. firms.

Sub-Sector Best Prospects

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

Opportunities

- Aircraft Upgrade (fighters, multi-role airlift aircraft)
- Asymmetric warfare/littoral/coastal surveillance and patrol
- Support for Combat Equipment (fighter aircraft, etc.)
- Anti-terrorism products
- High-tech sensors, radars, and missile systems

Web Resources

Trade Shows

[Seoul International Aerospace & Defense Exhibition 2017](#) (Seoul Air Show 2017)

October 17-22, 2017

[MADEX 2017](#) (International Maritime Defense Industry Exhibition)

October 24-27, 2017

[Defense Expo Korea \(DX Korea\) 2018](#)

September 2018

Key Contacts

[Defense Acquisition Procurement Agency \(DAPA\)](#)

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Education Services

ITA CODE: SV EDS

	2015	2016	2017 (estimated)	2018 (estimated)
Total Market Size	39,750	38,460	37,350	36,670
Total Local Production	36,252	35,180	34,175	33,705
Total Exports	107	120	125	135
Total Imports	3,605	3,400	3,300	3,100
Imports from the U.S.	955	910	925	870
Exchange Rate: 1 USD	1,132	1,161	1,100	1,100

Overview

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.

South Korea represents the fourth-highest source of international students in the U.S. and a major market for U.S. exports of educational services. Education, from pre-kindergarten to college, has played an extremely significant role in Korean culture for millennia. Education is a very important ‘ingredient’ of the Korean economy and the Korean ‘psyche’. While this market is very attractive to a wide swath of the U.S. educational industry, it has become, over the last few years, an increasingly challenging market. Good opportunities do exist, albeit with smaller numbers of U.S.-bound Korean students, when U.S. educational entities are prepared to meet a highly sophisticated, demanding, and brand-oriented market.

Student and Exchange Visitor Information System (SEVIS) data indicates that a total of 74,817 Korean students are currently enrolled in U.S. institutions (as of the 4th quarter of 2016). On a per capita basis, Korea sends the second most number of students to the U.S. from Asia. According to the OECD, 29% percent of internationally mobile Korean students chose to study in the U.S., which is second only to China (30%). Other significant destinations include Australia (7 percent), Japan (7 percent), the United Kingdom (5 percent), and Canada (5 percent).

Korean students studying in the U.S. can be grouped into three age-based groups. A majority of Korean students in the U.S. are young adults, studying for an undergraduate degree or heading to short-term study programs, such as academic exchanges or ESL. Many young Koreans attempt to distinguish themselves by studying overseas. Secondly, there are high school students who use high school study in the U.S. to perfect their English and improve their chances of being admitted to colleges and universities in the U.S. Lastly, there are elementary school students applying for U.S. private schools. They typically return after one or two years, with a basic knowledge of English which puts them ahead of their peers in Korea.

Over the last few years, the number of Korean students studying in the U.S. has steadily declined. While the U.S. remains by far one of the most preferred overseas destinations for Korean students, especially for undergraduate studies, fewer Korean students are going to the U.S., but this is simply because there are fewer young people. Korea is a rapidly aging society, with one of the world's lowest birth rates (1.2 children per family). In addition to this demographic decline, the recent economic difficulties at home are also affecting, to some degree, the declining number of Korean students in the U.S.

Although a university's reputation is still a key element for Korean students seeking degree programs, recently more Korean students are employing strategies to lower the cost of their education by studying at a community college before transferring to a four-year school or state university, with less expensive living costs.

A degree from one of Korea's top universities is a ticket to career success in Korea. Other high school graduates settle for the next tier of Korean universities, or to study overseas. Although Korean students with U.S. degrees can no longer enjoy the same advantages in the job market as they did a decade ago, English language skills, internship experience, or a degree from at least a mid-ranked state university in the U.S. is seen as providing a competitive advantage to secure full-time employment in Korea. The unemployment rate among Koreans in their twenties hit a 14-year record of 11% in 2016.

Sub-Sector Best Prospects

Undergraduate college programs – the perception of U.S. universities of academic research and prestige, as well as the chance to be equipped with English proficiency, remain a strong draw for Koreans, despite challenges such as the declining Korean population and the growing appeal of China as a study abroad destination.

Opportunities

From around 2008–2015, the Korean education market changed rather dramatically and it is continuing to evolve. To attract Korean students and penetrate the dynamic and highly saturated Korean education market, U.S. educational entities should take an approach based on a more permanent, consistent, and profound commitment to the market.

Korean parents are increasingly savvy about how they acquire information on educational opportunities for their children. Agents or representatives are utilized less. Educational entities should consider employing a combination of on-line advertising, blogging, social media, and advertisements in popular search engines within their promotional campaigns. Koreans prefer educational entities that have a long-term commitment to Korea and its students. Building people-to-people networks through alumni advocacy, as well as developing and broadening exchange programs has the potential to raise the profile of the U.S. institution and help U.S. schools attract Korean students to the United States.

Web Resources

Trade Shows

[Korea Study Abroad & Emigration Fair](#)

[MBA Tours](#)

[University Fair organized by Linden Tours](#)

[Korea Student Fair](#)

Key Contacts

[Ministry of Education](#)

[Fulbright \(Korean-American Educational Commission\)](#)

[Education USA](#)

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Energy: New and Renewable (NRE)

ITA CODE: PR REQ

Overview

	2014	2015	2016 (estimated)	2017 (estimated)
Total Market Size	6,733	7,382	7,793	8,631
Total Local Production	8,631	9,466	10,020	10,932
Total Exports	3,210	3,599	3,850	4,094
Total Imports	1,312	1,515	1,623	1,793
Imports from the U.S.	NA	NA	NA	NA
Korean government investment plan	733	660	613	654
Exchange Rate: 1 USD	1,054	1,132	1,161	1,100

Total Market Size = (Total Local Production + Total Imports) – (Total Exports), Imports from U.S.: NA,
Unit: USD mil.

Sources: Korea Energy Agency (KEA), Statistics Korea (KOSTAT), and other industry sources.

Note: The above statistics are unofficial estimates by Commercial Service Korea, based on above information sources.

South Korea retains industries that are considered highly energy intensive (i.e., petrochemicals, steel etc.), with imported energy sources meeting almost 96% of its energy requirements, as the country lacks sufficient natural resources. In 2016, approximately 528,656 GWh of electricity power was generated in South Korea, with coal representing approximately 40% of total electricity generation. South Korea was ranked as one of the top ten CO₂ emission countries in the world. South Korea submitted its Intended Nationally Determined Contribution (INDC) to the United Nations Framework Convention on Climate Change, with the target of substantially reducing Korea's greenhouse gas emissions by 37% from Business As Usual (BAU) level by year 2030.

Generally, in terms of deployment, the supply of new and renewable energy was 6.08 million TOE for 2009 and 13.2 million TOE in 2015, respectively, with a 2009–2015 CAGR (Compound Annual Growth Rate) of 14%.

Table: New and Renewable Energy Supply

2009	2010	2011	2012	2013	2014	2015
6,086	6,856	7,583	8,851	9,879	11,537	13,293

Source: Korea Energy Agency, Unit: Thousand TOE (Ton of Oil Equivalent)

South Korea has taken measures to expand the deployment of new and renewable energy. State-owned power generation companies (GENCOs) and independent power producers (IPPs) that generate over 500MW are required to include a certain percentage of renewable energy in their production portfolio. GENCOs and IPPs that meet the 500MW threshold must generate 10% of electricity from renewable energy by 2023. [Note: The mandated RPS 10% quota by 2022 has recently been postponed to 2023, with revised RPS quota % in the intervening years as shown in the below table.]

Table: Government-mandated Renewable Portfolio Standard (RPS) quota (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Previous	2%	2.5%	3%	3.5%	4%	5%	6%	7%	8%	9%	10%		
Revised	2%	2.5%	3%	3%	3.5%	4%	5%	6%	7%	8%	9%	10%	10%

Source: Korea Energy Agency, Renewable Portfolio Standard (RPS) quota (%) subject to change/revision

As of 2017, there are 18 companies that fall within the Renewable Portfolio Standard (RPS) quota percentage mandate and are thereby required to include a certain percentage of new and renewable energy in their power production portfolio:

- Korea Hydro & Nuclear Power (KHNP)
- Korea Southern Power (KOSPO)
- Korea Midland Power (KOMIPO)
- Korea Western Power (WP)
- Korea East-West Power (EWP)
- Korea South-East Power (KOEN, formerly KOSEP)
- Korea District Heating Corporation
- K-water

- SK E&S
- GS EPS
- GS Power
- POSCO Energy
- MPC Yulchon Generation
- Pyeongtaek Energy Service
- Daeryun Power
- S-Power
- Pocheon Power
- Dongducheon Dream Power

According to the 7th Basic Plan for Long-term Electricity Supply & Demand, which was released in 2015, as per power generation energy mix plans in terms of installed capacity, the renewable energy segment is targeted to increase from 7,335 MW in 2015 to approximately 32,890MW by 2029.

Sub-Sector Best Prospects

Fuel Cells – With ROKG policy support, this industry is expected to grow in the future. The deployment and supply of fuel cells has increased and has a 2011–2015 CAGR (Compound Annual Growth Rate) of 38%.

[Table: Fuel Cell Supply Status]

Year	2011	2012	2013	2014	2015
Fuel cell	63,344	82,510	122,416	199,369	230,173

Source: Korea Energy Agency, Unit: TOE (Ton of Oil Equivalent)

Based on government subsidies, the deployment of fuel cells to residential households has modestly expanded. Moreover, with the Renewable Portfolio Standard (RPS) quota percentage increasing year over year, fuel cells for power generation have sustained consistent deployment in South Korea to date.

[Table: Fuel Cell Deployment, Households]

Year	2010	2011	2012	2013	2014	2015	Total
Number of	957	292	245	232	207	316	2,249

Year	2010	2011	2012	2013	2014	2015	Total
Households							
Installation Unit Cost (1,000KRW/k W)	60,000	54,000	51,000	51,000	41,820	37,400	-

Source: Korea Energy Agency, Weekly Brief Issues of Energy (March, 2016)

[Table: Fuel Cell Deployment, Power Generation]

Year	2012	2013	2014	2015	Total
Site(s)	3	14	5	4	26
MW	11	104	35	14	163

Source: Korea Energy Agency, Weekly Brief Issues of Energy (March, 2016)

In collaboration with U.S. solution providers, South Korea's POSCO Energy has made strides in the stationary fuel cell segment, with the deployment of molten carbonate fuel cell (MCFC) technology. Gyeonggi Green Energy (58.8MW [2.8MW X 21 hydrogen fuel cells], MCFC Technology), situated in Hwasung City, Gyeonggi Province, is considered one of the largest fuel cell parks in the world, with potential capacity to produce power for approximately 140,000 homes. Recently, South Korea completed the 20 MW Noel Green Energy project, located in Sang-am/Seoul. For phosphoric-acid fuel cells (PAFC) technology, previous installations include the Busan International Finance Center, the Korea South-East Corporation (KOEN, previously known as KOSEP), GS Power, and others.

Environmental Solutions – In July of 2016, the Ministry of Trade, Industry, and Energy (MOTIE) announced plans to reduce emissions from coal-fired power plants, through the endeavors below. This announcement was in line with public sentiment to improve air quality in South Korea, given the issues with a high concentration of micro-dust in 2016 and again in 2017.

- Close and retire ten coal fired power plants (those at or approaching 30+ years of operation). Enhance efficiency via retrofitting and decrease emissions through emission reduction technology for the other 43 units.
- For 20 units (thermal coal-fired power plants) under and/or planned for construction from the previous 4th to 6th Basic Plan for Long-term Electricity Supply and Demand, stronger and higher emission standards and requirements can be applied.
- The emission reduction efforts can include power plants in the Chungnam region of South Korea, with targets as follows:

Emission	2015	Target 2030	Improvement (%)
Sulfur Oxides, SOx (ppm)	49	15	decrease by 69%
Nitrogen Oxides, NOx (ppm)	80	10	decrease by 88%
dust (mg/Sm ³)	6	3	decrease by 50%

Photovoltaic and Wind – Since the introduction of the Renewable Portfolio Standard (RPS) in 2012, solar (photovoltaic) capacity has increased at a Compounded Annual Growth Rate (CAGR) of 52%, while wind power increased by a CAGR of 20%.

[Table: Solar (Photovoltaic) and Wind, installed capacity]

Year	2010	2011	2012	2013	2014	2015
Solar (photovoltaic)	650,339	729,157	1,024,315	1,555,035	2,481,298	3,615,198
Wind	366,769	418,713	491,524	583,430	644,793	852,584

Source: Korea Energy Agency (KEA), Unit: kW

In 2016, approximately 200MW of new capacity was added to wind, thereby wind power generation surpassed 1GW in terms of installed capacity. For offshore wind endeavors, Korea Offshore Wind Power (KOWP) is a special purpose company engaged in the Southwest Offshore Wind Project and the construction of a 2.5GW

offshore wind farm on the coast of Jeollabuk-do Province. The company is comprised of GENCOs and the public utility giant, KEPCO. KOWP aims to make Korea one of the top three offshore wind energy countries by 2020. The following is a three-stage plan for KOWP's Southwest Offshore Wind Project, subject to change:

- Stage 1: Develop Test Bed
Scale: 80MW, duration 2011~2018
- Stage 2: Achieve Track Record
Scale: 400MW, duration 2018~2020
- Stage 3: Develop large Offshore Wind Farm
Scale: 2,000MW, duration 2020~

South Korea now recognizes and incentivizes combined, hybrid solar (photovoltaic) & energy storage systems (ESS) installations, by way of giving higher multipliers and weight to the Renewable Energy Certificate (REC). According to the 4th Renewable Energy Basic Plan (2014-2035) which is released every five years, South Korea is targeting to increase percentage shares within the new and renewable energy mix: solar (photovoltaic) power from approximately 2.7% (2012) to 14% (2035). The new and renewable energy share (%) target for wind power is 18.2% (2035).

Demand Response (DR) – Although not applicable to South Korea's Renewable Portfolio Standard (RPS) quota, Demand Response (DR) has grown substantially since its inception in 2014. Also known as the 'Negawatt' market, electricity users, such as industrial factories and commercial buildings, would save electricity during a specified timeframe and be compensated for saving electricity.

According to the Korea Power Exchange (KPX), as of November 2016, there were 14 qualified Demand Response (DR) service providers (also known as load aggregators) in South Korea:

- [EnerNOC Korea](#)
- [Gridwiz](#)
- [Manage On](#)
- [Byuksan Power](#)
- [Enercle](#)

- [S1](#)
- [KT](#)
- [POSCO ICT](#)
- [Korea ENTEC](#)
- Others

Since its inception in November 2014, the number of Demand Response (DR) consumers or participants has increased 2.5 times, as of November 2016, with diverse industrial sectors represented.

Year	Nov. 2014	Nov. 2015	Nov. 2016
Demand Response Resources (MW)	1,520	2,889	3,885
# of Customers	861	1,519	2,223

Source: Korea Power Exchange (KPX), media outlets, etc.

Electric Vehicles (EVs) – To deter negative factors associated with conventional gasoline- and diesel-based automobiles, South Korea is expanding efforts to promote the deployment of electric vehicles (EVs), with a target of 250,000 EVs by 2020. To further this effort, the country is providing purchase subsidy incentives, with plans to increase relevant infrastructure. EV purchase subsidies to incentivize the purchase of eligible EVs are as follows:

- National government offers 14 million KRW (US\$12,727) in subsidies for the purchase of high-speed EVs.
- Local governments also offer EV purchase subsidies, which differ by region. For instance:
 - Ulleungdo (Island) can offer a subsidy of 12,000,000 KRW (US\$10,900)
 - South Jeolla Province, Suncheon can offer a subsidy of 8,000,000 KRW (US\$7,270)
 - Seoul Metropolitan City can offer a subsidy of 5,500,000 KRW (US\$5,000)
 - Busan Metropolitan City can offer a subsidy of 5,000,000 KRW (US\$4,545)

Furthermore, as of February 2017, there were approximately 2,526 EV chargers installed across the country (1,139 fast chargers and 1,387 slow chargers). The government plans to increase the number of public EV fast chargers to 3,000 by

2020. To date, the Ministry of Environment (MOE), the Korea Electric Power Corporation (KEPCO), and others have been active in increasing EV charging infrastructure across South Korea.

Opportunities

As of 2015, KEPCO's wholly-owned power generation subsidiaries, collectively referred to as the GENCOs, produced approximately 80% of the nation's power generation, while local Independent Power Producers (IPPs) generated approximately 17% of the electricity. KEPCO is a state-owned power company and is responsible for the nation's transmission and distribution. The GENCOs are one of the primary end-users of NRE products and services. The trend of shifting the power source to NRE will continue under the Renewable Portfolio Standard (RPS) requirements.

The six GENCOs are:

- [Korea Hydro & Nuclear Power Company \(KHNP\)](#)
- [Korea South-East Power Company\(KOEN, formerly KOSEP\)](#)
- [Korea Midland Power Company\(KOMIPO\)](#)
- [Korea Western Power Company\(KOWEPO\)](#)
- [Korea Southern Power Company\(KOSPO\)](#)
- [Korea East-West Power Company \(EWP\)](#)

Independent Power Producers (IPPs) include, but are not limited to:

- [POSCO Energy](#)
- [GS EPS](#)
- [GS Power](#)
- [SK E&S](#)
- [Pocheon Power](#)
- [Pyeongtaek Energy Service](#)

As end-users, the GENCOs and the Independent Power Producers (IPPs) exert strong influence in choosing what NRE core parts to use.

Web Resources

Trade Shows

[International Exhibition on Environmental Technology & Green Energy, ENVEX](#) (Jun. 7-9, 2017)

[Korea Energy Show 2017](#) (Sep. 19-22, 2017)

[Energy Plus 2017](#) (Sept. 27-29, Oct 5-7, 2017)

[Eco-Expo Korea 2017](#) (Nov 1-4, 2017)

Key Contacts

[Korea Energy Agency](#)

[Ministry of Trade, Industry and Energy \(MOTIE\)](#)

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Entertainment and Media

ITA CODE: N/A

Overview

	2014	2015	2016 (E)	2017 (E)
Total Market Size	3,088.84	3,100.62	3,103.84	3,166.19
Total Local Production	4,775.77	4,791.29	4,801.12	4,897.14
Total Exports	2,391.59	2,399.42	2,412.41	2,460.66
Total Imports	704.66	708.75	715.41	729.71
Imports from the U.S.	393.11	421.55	465.67	474.98
Exchange Rate: USD1	1,054	1,132	1,161	1,100

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

Sub-Sector Best Prospects

Films

Market Share of Films by Country

	Korea	U.S.	China	Europe	Japan	Others
2016	53.7	41.4	0.4	1.9	1.5	1.1
2015	52.2	42.5	0.1	3.3	1.8	0.1

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

The total number of moviegoers in South Korea in 2016 was over 217 million, surpassing the 200 million viewer mark for the fifth year in a row. At the same time, the market share of Korean films has increased to 53.7 percent (approximately 116.4 million viewers), from 52.2 percent in 2015. Foreign films accounted for over 46 percent and the number of viewers was approximately 104 million. Overall, South Korean consumers watched an average of 4.2 films in 2016, which is one of highest numbers in the world.

In 2016, 373 Korean films were produced and 302 films were released. Likewise, 1,526 foreign films were imported and rated and 1,218 were released. Although the number of screens is limited to 2,575 per year, imported content is increasing due to competition among various entertainment content platforms, such as IPTV, digital cable, and the fact that there is not enough locally-produced content to cover the demands of all platforms.

Number of Korean Films Produced, Foreign Films Imported, and Total Films

	Korean Films	Foreign Films	Total films

	# of films produced	# of films released	# of films imported	# of films released	released
2014	248	217	1,036	878	1,095
2015	269	232	1,252	944	1,176
2016	373	302	1,526	1,218	1,520

Source: Korea Film Council (KOFIC)

Growth of Digital On-Line Market

Digital on-line services, including IPTV/cable TV VoD (video on demand), and Internet VoD, which make it possible for viewers to watch content anytime and anywhere, is experiencing explosive growth in South Korea. The market demand for the digital on-line market in 2016 is estimated US\$355.3 million, a 23.2 percent increase over 2015. In 2016, cumulative subscribers of digital services were 23.59 million, composed of 13.92 million for IPTV and 9.67 million for cable. The total number of cable TV subscribers has been decreasing by around one percent annually, while the number of subscribers switching to digital services has been steadily increasing.

The growth of the digital on-line market was led by IPTV VoD and digital cable TV VoD in 2016. The three IPTV service providers, KT, SKT and LGU+, dominated most of the VoD market. In 2016, both IPTV and cable TV recorded sales for films of USD304.36 million which represents over 85 percent of the total IPTV and cable TV digital on-line sales.

The share of TV VoD is increasing considerably year after year. Although VoD consumers prefer box office hits, the popularity of films in the VoD market is not exactly the same as at the box office. The price of the content and the genre are equally important. The price of films released at the same time as in the cinema is approximately USD10. It drops to around USD4 within a year after cinema release, and decreases even further after that.

The rapid growth of the VoD TV market is leading to change in the Korean film industry. Even if the films were released in the cinema, the director's cuts and other value-added versions cannot be shown at the same time the films are released. Digital on-line service can provide additional attractions, such as director's cut, extended version, and one can even download content for personal possession.

VoD market growth provides various opportunities to the film industry. Certain niche genres which do not get attention from the cinemas have more opportunities to be released. More diverse filmmakers, importers, and distributors are entering

the film market in Korea, which reflects this trend. According to one industry expert, there are more examples of VoD releases which are never even released in cinemas, making profits. Further, he expects that there will be noticeable changes in the areas of film production and distribution in coming years. This presents good opportunities for U.S. content providers which offer both diversity of content and box office hits.

Resources

Trade Shows

[Busan International Film Festival](#)

[KCTA Show](#)

[Busan Contents Market](#)

[Asian Film Market](#) (delegation from South Korea expected)

Trade Associations & Government

[Ministry of Science, ICT and Future Planning](#)

[Korea Communications Commission](#)

[Ministry of Culture, Sports and Tourism](#)

[Korea Creative Content Agency](#)

[Korea Cable TV Association](#)

[Korea Film Council](#)

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Manufacturing Technology - Smart Factory

ITA CODE: N/A

Overview

South Korea has emerged over the past several decades as a leading manufacturing economy and the country is in an optimal position to remain competitive in the era of the “Fourth Industrial Revolution” (also known as “Industry 4.0”), which entails the convergence of digital technologies and manufacturing industries. In Korea, this convergence of automation and data exchange in manufacturing technology is referred to as “Manufacturing Industry Innovation 3.0.”

The Korean government is urging businesses to adapt to this new direction of computerization of manufacturing and has characterized the initiative with four keywords: smart, services, sustainability, and platform. In June 2014, the Manufacturing Industry Innovation 3.0 strategy was introduced as part of Korea’s Creative Economy Initiative. Manufacturing 3.0 focused on the concept of a smart factory collectively embracing automatization, data exchange, and enhanced manufacturing technologies throughout the manufacturing process, incorporating both short- and long-term technological plans. The government laid out a roadmap for several areas of R&D projects: design technology, technology to sort out defective products, software-integrated operating techniques, IIoT (Industry Internet of Things) platforms, smart sensors, data collection & data processing technologies, and industrial standards. In addition, the Smart Factory Standard Research Council was formed within the private sector to effectively respond to international trends and activities and to undertake efforts to standardize locally-developed regulations.

A number of trends in the industry are also affecting Korea’s manufacturing technology. Rapid advances in information technology, sensors, and nanomaterials, as well as the application of cyber-physical systems, are dramatically lowering the costs of leading-edge manufacturing processes and improving performance. At the same time, companies are under mounting pressure to improve their productivity and become more responsive to changing customer expectations and needs. Korean conglomerates are accelerating manufacturing automation to bolster productivity and profitability and reduce costs across the supply chain. As a result,

manufacturing environments are evolving from outdated centralized systems to module-based decentralized systems and automatically controlled systems.

Smart Factory

A smart factory refers to a hyper-connected technology-based integrated manufacturing system, which integrates the entire production process. In 2017, the private and public sectors of Korea agreed to increase the number of domestic smart factories, with a goal of having more than 30,000 such factories operating with the latest digital and analytical technologies by 2025. Korea's Ministry of Trade, Industry and Energy (MOTIE) has reinforced the government's plans in supporting small and medium-sized enterprises, with the view toward expanding smart factory technologies to local SMEs. More than 99% of companies in Korea are small and medium-sized businesses, and government data shows that exports from SMEs continues to increase. The government will provide support to help train 40,000 skilled workers to operate fully-automated manufacturing sites through various educational programs, while diversifying support. The current target of 30,000 smart factories by 2025 was increased from the previous goal of 10,000 by 2020, to keep pace with the fast evolution of full digitalization and automation in the era of the Fourth Industrial Revolution.

The government will also incentivize companies focused on developing technology related to smart factories by injecting \$189.3 million into R&D projects by 2020. Research and testbed projects to be sponsored by federal funds will include big data, cyber physical systems, smart sensors, and collaboration robots. Ten major sectors will each have 4,500 smart factories by 2025, according to a government plan by MOTIE. Those companies operating smart factories after receiving funds from the government indicated that their productivity improved by 25%, while the proportion of defectives dropped by 27%.

Advanced Manufacturing

According to the Manufacturing Technology Top Markets Report by the International Trade Administration, South Korea ranks seventh in terms of the United States' projected top markets for 2016–2017. U.S. exports to Korea increased by 14.6% between 2014 and 2015 and U.S. annual export growth to the country averaged 9.5% (CAGR) between 2009 and 2015. U.S. manufacturing technology exports to Korea will remain stable through 2017–2018. Export growth of manufacturing technology, broadly categorized as the equipment used to produce other equipment, is largely tied to economic growth in industrialized markets, particularly in Korea. In 2015, Korea accounted for roughly 2.5% of all installed additive manufacturing systems in the world and has the third largest number of machines in the Asia-Pacific region.

U.S. Manufacturing Technology Exports to South Korea, 2015

Category	USD Millions	Percent
Cutting Machine Tools	\$55	28%
Plastics & Rubber MFG Machinery	\$48	24%
Tools, Dies, Jigs, Fixtures	\$40	20%
Welding & Soldering Equipment	\$28	14%
Machine Tool Parts	\$16	8%
Forming Machine Tools	\$10	5%
Industrial Molds	\$2	1%

Source: U.S. Census Bureau Foreign Trade Division

Sub-Sector Best Prospects

- Automation Systems
- Industrial Machinery Manufacturing

- Additive Manufacturing
- Industrial Internet of Things (IIoT) and Virtual Plants
- Advanced Robotics and Intelligent Production Systems
- New Industrial Platform Technologies (e.g., composite materials)
- High Precision Technologies
- High Performance Computing (HPS) for Modeling, Simulation and Analysis

Opportunities

As Korea continues to cultivate expertise in advanced manufacturing technology and seeks greater productivity in manufacturing operations, the demand for high value-added machinery and equipment is expected to increase. The Korean government is investing heavily in R&D as advanced manufacturing technology becomes even more essential to improving the country's economic competitiveness and national prosperity. The U.S. is a major global producer of manufacturing technology, including in emerging sectors like additive manufacturing. Despite Korean companies' relatively late adaptation to this subsector, Korea is expected to be a growth market for additive manufacturing technologies through 2017 and in the years to come.

Web Resources

Trade Shows

[Intermold Korea](#) (March 7-11, 2017)

[Global Smart Factory Expo and Conference](#) (March 28-30, 2017)

[Automation World](#) (March 29-31, 2017)

[Seoul International Manufacturing Technology Show \(SIMTOS\) Biennial](#) (April 2018)

[Daegu International Machinery Industry Expo](#) (May 24-27, 2017)

[Korea Machinery Fair \(KOMAF\)](#) - Biennial (June 13-16, 2017)

[Korea International Machinery Expo](#) (October 18-21, 2017)

[Korea Metal Week and Korea Composite Show](#) (October 24-27, 2017)

Key Contacts

[Korea Association of Machinery Industry](#)

[Korea Machine Tool Manufacturers' Association](#)

[Korea Industrial Technology Association](#)

[Korea Smart Factory Foundation: www.smart-factory.kr](#)

[Korea Institute for the Advancement of Technology](#)

[Korea Association of Die and Mold Industry Development](#)

[Korea Association of Robot Industry](#)

[Korea Institute for Robot Industry Advancement](#)

[Machinery Industry Shared Growth Promoting Foundation](#)

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Medical Equipment and Devices

ITA CODE: PR MED

Overview

Unit: USD thousands

	*2014	**2015	2016 (E)	2017 (E)
Total Market Size	*4,850,548	4,651,626	5,009,333	5,068,096
Total Local Production	4,324,153	4,418,290	4,893,998	4,915,074
Total Exports	2,445,220	2,710,720	2,004,143	2,861,619
Total Imports	2,971,615	2,944,056	3,019,478	3,014,641
Imports from the U.S.	1,299,247	1,374,400	1,451,898	1,416,882
Exchange Rate: 1 USD	1,053	1,132	1,161 (Est.)	1,100 (Est.)

Total Market Size = (Total Local Production + Total Imports) – (Total Exports)

Source: Korea Medical Devices Industry Association, KMDIA

Note: *2014/**2015: Due to the appreciation in exchange rates (est.), statistics in USD have decreased although statistics in Korean Won increased.

The South Korean medical device market is estimated to reach USD 5.1 billion in 2017. The country depends on high-end medical devices from the U.S., EU, and Japan to supply about 60 percent of total market demand. South Korean companies make comparatively lower-end (mid-technology) medical devices. Another factor favoring the use of imported advanced medical equipment and devices is the growing elderly population. The elderly population in Korea accounted for approximately 13% of the total population in 2015. Another contributing factor is that many local doctors are educated in the U.S. and Europe and are accustomed to using advanced medical devices from overseas. At the same time, U.S. medical

device manufacturers should carefully watch government pricing and reimbursement policies as the country grapples with cost containment, under its national healthcare system.

In 2017, total imports of medical devices were estimated at USD 3.0 billion, with U.S. imports totaling over USD 1.4 billion. While U.S. market share represents approximately 47 percent of the import market, demand for foreign advanced and innovative medical devices showed relatively slow growth in 2017.

The importation of medical devices requires the assignment of an importer or representative based in South Korea to manage medical device approvals and to ensure regulatory compliance. As part of pre-market approval requirements, the Government of Korea requires testing reports on safety and efficacy. In addition to medical device approvals, companies need to negotiate pricing terms with the Korean Health Insurance Review & Assessment Service (HIRA).

Current issues facing the medical device industry in South Korea include reimbursement pricing and the new healthcare technology assessment system for medical devices. The U.S. Embassy in Korea works closely with partners to ensure that U.S. medical device industry interests are represented.

The KORUS FTA was implemented on March 15, 2012. U.S. medical device and pharmaceutical companies now have the ability to request a review of government pricing and maximum reimbursement determinations for their 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 (MoHW), the National Health Insurance Service (NHIS), and the Health Insurance Review and Assessment Service (HIRA).

Sub-Sector Best Prospects

- Soft contact lenses
- Stents
- Dialyzers for hemodialysis
- Knee joint prostheses
- Intravascular catheters
- MRI devices
- CT systems
- Sight corrective ophthalmic lenses
- Analyzing products
- IVD reagents for clinical immunochemistry

Opportunities

A potential area for U.S.-Korea cooperation in the healthcare technology sector is in the area of clinical trials. South Korea is interested in developing a more robust clinical trial environment for medical devices and pharmaceuticals. U.S. companies that require clinical trials for their medical devices may wish to contact the Medical

Device Policy Division of the Ministry of Drug and Safety for details specific to their products, through their local importer.

Web Resources

Trade Shows

[Korea International Medical & Hospital Equipment Show 2018](#)

Key Contacts

[Ministry of Health and Welfare \(MoHW\)](#)

[Ministry of Food and Drug Safety](#)

[Health Insurance Review & Assessment Service \(HIRA\)](#)

[National Evidence-based Healthcare Collaborating Agency \(NECA\)](#)

Local Contact

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Specialty Chemicals

Overview

Unit: USD million

	2014	2015 (estimated)	2016 (estimated)	2017 (estimated)
Total Market Size	49,531	51,016	52,546	54,122
Total Local Production	43,026	44,316	45,645	47,014

	2014	2015 (estimated)	2016 (estimated)	2017 (estimated)
Total Exports	10,093	11,384	11,725	12,076
Total Imports	16,598	15,992	16,471	16,965
Imports from the U.S.	3,410	3,422	3,524	3,629
Exchange Rate: 1 USD	1,053	1,132	1,161	1,100

Data Sources: Korea Specialty Chemical Industry Association

In Korea, a demand for high quality, sophisticated chemical products and associated substances for use in product development and production present a lucrative opportunity for U.S. chemical manufacturers. In 2016, the estimated total value of Korea's specialty chemicals market was USD 52.5 billion, representing a 3 percent increase over 2015. During the same period, foreign suppliers satisfied approximately 31 percent of Korea's total demand for raw and intermediate materials and new substances. Specifically, Korea's imports from the U.S. totaled USD 3.5 billion. The U.S. holds a 21 percent share of the specialty chemical import market.

Korea's specialty chemical market has matured by focusing on the development of finished multi-application products, such as dyes, paints, and surfactants. The technological level of dye and pigment of domestic producers appears to be on par with other advanced countries. However, Korea lags behind in the development of specialty chemicals that require the accumulation of fundamental core technologies developed over a long period of time and with substantial R&D investments. As a result, the market demands for sophisticated specialty chemicals rely on imports from other advanced countries. Imported chemicals are essential for the production of some of Korea's top exports, which include: semiconductors, electronics, wireless communications equipment, flat displays, computers, automobile/auto parts, ships, plastics, and petrochemicals.

U.S. chemical exports receive duty-free treatment under the KORUS FTA. Korea's regulatory environment, however, presents challenges to U.S. companies in terms of significant administrative and technical burdens that are translated into an overall increased cost of doing business. The other most frequently raised regulatory issues have been a lack of transparency, inconsistency, as well as concerns over the protection of confidential business information.

Sub-Sector Best Prospects

- Specialty chemicals for the medical and pharmaceutical industries
- Specialty chemicals for the cosmetics industry
- Specialty chemicals for the electronics & IT industries

Opportunities

While the competition is becoming intense with local and 3rd country suppliers, highly innovative materials from the U.S. will have strong interest in the market. Korea has been a proven market for U.S. raw and intermediate chemicals used for the production of pharmaceutical, cosmetic, and surfactant products. Recently, high molecular new materials and chemical ingredients for electronics & IT and biologically active materials are in high demand as Korea's relevant end-use sectors increase. Additionally, the market has seen an increase in demand for functional or high-performance biologically active chemical ingredients to produce zero pollution and environmentally friendly products.

Web Resources

Trade Shows

[Int'l Coating, Adhesive, and Film Fair 2017](#) (Annual)
 March 29-31, 2017
 Songdo Convention Center, Incheon

Key Contacts

[Ministry of Environment](#)

[Ministry of Labor](#)

[National Institute of Environmental Research](#)

Local Contact

(Ms.) Commercial Commercial U.S. 188 Seoul	Young Sejong-ro, 03141	Hee Service	Koo Specialist Korea Embassy Jongro-gu Korea
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Travel and Tourism

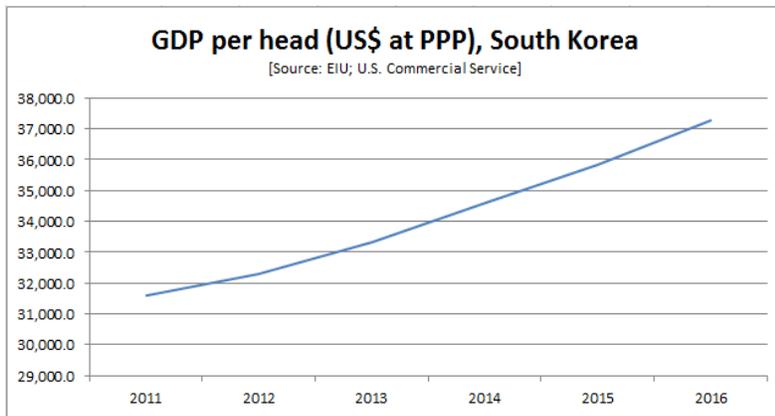
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Overview

South Korea	2012	2013	2014	2015	2016
Global Outbound Travel	13,736,976	14,846,485	16,689,000	19,310,430	22,383,190
Outbound Travel to the U.S	1,251,432	1,359,924	1,460,000	1,760,000	1,282,097 (Jan-Aug)
Global Inbound Travel	11,140,028	12,175,550	14,201,516	13,231,651	17,241,823

Source: Korea Ministry of Culture, Sports and Tourism (MCST), Tourism Organization (KTO), U.S. Department of Commerce National Travel & Tourism Office (USDOT, NTTO).

In 2016, over 22 million Koreans - roughly one-third of the population - traveled abroad. International travel is a rapidly-growing activity for Koreans and offers opportunities for U.S. tourism exports. Rising disposable incomes, gradual increases in vacation time, heightened globalization, and greater awareness of developments outside the Korean Peninsula are causing more Koreans to travel overseas. Korea's per capita GDP (PPP) rose to USD 34,549 in 2015 (World Bank), placing it securely in the ranks of middle-income countries. Korean consumer confidence has also increased gradually, including a rise in discretionary spending on such activities as overseas travel for business and leisure.



Positive economic indicators, Korea’s addition to the U.S. Visa Waiver Program (late 2008), and the U.S.-Korea Free Trade Agreement (KORUS FTA), which entered into force in March 2012, are helping spur even more leisure and business-related travel to the U.S. Currently, 10% 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 interest in U.S. travel destinations. The recent boom of social commerce (social networks and websites that give product/service sellers access to a large pool of international travel consumers) is also contributing to this growing trend, as they offer all types of travel products. Moreover, South Koreans’ positive perception of overseas travel and the abundance of information-sharing through mass media and social media are expected to continue to boost the growth of outbound tourism in coming years.

The U.S. remains one of top five destinations for Korean outbound travelers. Koreans overwhelmingly choose the U.S. as their top non-Asian long-haul destination, primarily because of the diversity of tourism opportunities (not generally available in Asia), including U.S.-style shopping, theme parks, cultural attractions in major U.S. cities, relatively inexpensive golf experiences, and U.S. National Parks.

According to the U.S. Department of Commerce, a total 1.76 million Koreans traveled to the U.S. in 2015, up twenty percent from the prior year. In 2017, it is estimated that 2.09 million Koreans will travel to the U.S. On average, a Korean visitor to the U.S. spends approximately USD 4,900 per trip. This number translates to over USD

8.8 billion annually of tourism revenue from Korean outbound travelers to the U.S. Korea is currently the eighth largest source of inbound travel to the U.S., behind Canada, Mexico, the United Kingdom, Japan, China, Germany, and Brazil.

Sub-Sector Best Prospects

- Free and independent travelers
- Group package tours
- Family vacation packages
- Cultural tours and scenic/nature tour packages, especially designed for Korean travelers
- Luxury packages catering to Korea's single, professional women, traveling for leisure
- Outdoor activities
- Educational travel
- MICE

Opportunities

The U.S. is the leading non-Asian destination for Koreans as it offers a variety of activities, climates, and cultural experiences. However, there is room for growth. U.S.-bound Koreans account for only 9.2 percent of Korea's outbound market. Los Angeles, San Francisco, Las Vegas, and Seattle, followed by the New York-Washington, DC corridor, are the most popular destinations. Koreans use group tours or travel individually to visit friends and relatives. Group tours should focus on price-competitive products that entice travel agencies in Korea to sell these products. Korean travelers are generally interested in visiting museums, national parks, amusement parks, finding bargains at fashion outlets, purchasing OTC pharmaceuticals/vitamins and U.S. cosmetics, playing golf, and visiting restaurants and wineries.

To enter this market, travel and tourism entities should provide materials and guide experiences in the Korean language, continue knocking on doors (i.e., visit Korean travel wholesalers), and cultivate long-term relationships with the travel trade in Korea. There are approximately 9,000 tour agents in Korea. Promotional

information and product training programs on the U.S. is urgently needed for developing this market. Contact CS Korea, per below, for more details.

Web Resources

Trade Events

April 1-2, 2017

[Weddex Korea](#)

June 1-4, 2017

[Korea World Travel Fair \(KOTFA\)](#)

June 8-11, 2017

[Hana Tour International Trade Show 2016](#)

November 16-19, 2017

[Mode Tour International Trade Show](#)

Key Contacts

[Korea Tourism Organization](#)

[Ministry of Culture, Sports & Tourism](#)

[Brand USA](#)

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Customs, Regulations and Standards

Trade Barriers

Korea continues a process of economic liberalization and deregulation. Under the KORUS FTA, verification of goods imported from the U.S. continues to be an issue as Korean Customs officers regularly demand documentation from U.S. manufacturers to prove that goods are indeed originating. The U.S. Embassy, in cooperation with the American Chamber of Commerce (AmCham) in Korea and other industry groups, actively engage the ROKG on KORUS implementation and address technical barriers to trade (TBT).

Examples of TBT include the following: transparency, due process, new standards and labeling requirements.

Information on specific trade barriers in Korea, including agricultural products (such as restrictions on rice imports) is available in the [2017 National Trade Estimate Report on Foreign Trade Barriers](#)

As of March 2017, under the KORUS FTA, U.S. law firms will be allowed to establish joint venture firms with Korean law firms and employ Korean-licensed lawyers as partners or associates. This is also available for accounting and taxation services.

For more information and help with trade barriers, please contact:

- [International Trade Administration](#)
(202) [ECCommunications@trade.gov](#) [482-0063](#)

Import Tariffs

The U.S.-Korea FTA was implemented on March 15, 2012. Prior to that, the average basic tariff on U.S. goods was approximately 7.9 percent and duty rates were high on a large number of high-value agricultural and fisheries products.

With the FTA, 95% of tariffs on U.S. imports were eliminated by March 15, 2017. The U.S. Department of Commerce's [FTA Tariff Tool](#) can help U.S. exporters identify 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](#), affiliated with the U.S. Embassy in Seoul, 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.

Korea has a flat 10 percent Value Added Tax (VAT) on all imports and domestically-manufactured goods. A special excise tax of 10-20 percent is also levied on the importation 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

Duties are assessed on a Cost-Insurance-Freight (CIF) basis. The main mode of customs evaluation is the transaction value method. Other methods under the WTO appraisal hierarchy may be used if there are doubts about Korean Customs valuation methods on the stated value.

A Value Added Tax rate of 10 percent is applied on imports based on customs value plus duties.

Import Requirements and Documentation

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 may 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 manufacturer, exporter or importer is required to retain all documents (i.e., bill of materials, manufacturing process documentation, etc.) 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 that the good qualifies for preferential tariff rates. 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 Korean 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 from the United States. This can be satisfied by either:
 - a. The producer's written or electronic certification that the product meets KORUS FTA origin requirements; or

- h. The producer's or exporter's knowledge that the good meets KORUS FTA origin requirements.
- i. Date of the certification
- j. In the case of a blanket certification, the period that the certification covers.

Please note that the U.S. exporter may be required to authenticate the Certificate of Origin at some later date by Korean Customs. Penalties will be incurred if documents are not provided to Korean Customs. To learn about what is required, please refer to [Chapter 6 \(Rules of Origin\) of the KORUS FTA text](#).

- **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.
- **IMPORT DECLARATION:** An import declaration, normally prepared by the importer in Korean, is required to clear customs (see example: [Customs Declaration Form](#))
- **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](#).

An overview of Korean import requirements for food is contained in the [FAS Korea annual agriculture export guide](#)

Additional detailed information about import requirements and documentation needs for agricultural and food products (including biotechnology products) are included in the USDA import requirements report at: [FAIRS Country Report](#).

The Ministry of Food and Drug Safety (MFDS) provides information on maximum residue levels and import procedures on the [MFDS website](#).

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 the relevant organizations before clearing Customs. Medical device and pharmaceutical exporters must have their products registered with the Korea Food and Drug Administration (KFDA) and can only be imported by licensed importers which have been certified by a MFDS authorized body. In addition, special items defined by the Ministry of Trade, Industry and Energy (MOTIE) in its Annual Trade Plan require approval by the Minister. In most cases, the supplier's qualified local agent completes the registration process.

U.S. Export Controls

The U.S. 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](#). [For information on export controls administered by other U.S. Government agencies](#).

Temporary Entry

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 zones); 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. To learn more about the various bonded areas, click [here](#).

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](#) 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.

Korean Customs has 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 non-resident individual. 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](#).

Labeling/Marking Requirements

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

marking requirements can be found on the [Foreign Agricultural Service website](#) pertaining to food and agriculture import requirements at FAIRS Country Report.

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](#). [To learn more about country of origin labeling requirements](#).

The Korean Ministry of Trade, Industry and Energy (MOTIE) issues the KC Mark for items that fall under its jurisdiction, formerly comprised of mandatory certification marks for 13 categories, many of which overlapped in testing procedures and functions. The consolidation of these marks into the [KC Mark](#) ensures that companies, both Korean and foreign, will save time and costs due to reduced redundancies introduced into the new system.

Further labeling and marking requirements for specific products, such as pharmaceutical and food products, are covered by specific regulations from 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.

Prohibited & Restricted Imports

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](#) for detailed information about export controls to the [Republic of Korea and the website](#) to view the list of export control items. [The Korean Customs Service](#) also maintains a [list of prohibited imports](#) to the Republic of Korea.

Customs Regulations

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 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, please go to the website below:

Korea	Customs	Service
Telephone:		82-42-472-2196
Fax:		82-42-481-7969
E-mail:	kcstcd@customs.go.kr	

Standards for Trade

Overview

Under the WTO, the Korean Government is required to alert the WTO Committee of Technical Barriers to Trade (TBT) on any changes in standards with 60 days of notice for comments before implementation. [To be alerted on these notifications.](#)

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

Standards

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 [Ministry of Food and Drug Safety](#) (MFDS) 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 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) to report to the WTO all proposed technical regulations which could affect trade with other member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers the opportunity to review and comment on proposed foreign technical regulations that may affect access to international markets. Register online at: [Notify US](#)

Testing, Inspection and Certification

KATS establishes guidelines for government and private sector institutions to perform reliability assessment and certification. It also performs market surveillance on Korean Certification (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, announce recommended standards, provide sufficient information on proposed standards or alterations in standards, and allow sufficient time for countries and other stakeholders to comment on proposed standards implementation.

Product Certification

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 found at the [American National Standards Institute \(ANSI\) website](#). The KC Mark is required to reduce and minimize repetitive testing at various ministries and agencies. The consolidation of these marks ensures that companies, both Korean and foreign, will save time and costs due to reduced redundancies introduced into this new system.

Accreditation

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](#).

Publication of Technical Regulations

Revised or new standards or technical regulations are published by [the Korean Agency for Technology and Standards](#) (KATS). The articles are generally published only in Korean. All proposed or newly-revised/established technical regulations are consolidated on this site.

Proposed revisions or establishment of regulations in Korea are made by the Director of Technical Regulations via the [website](#). 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.

Contact Information

[Korean Agency for Technology and Standards](#) (KATS)

[Ministry of Food and Drug Safety](#) (MFDS)

[Korean Laboratory Accreditation Scheme](#) (KOLAS)

Trade Agreements

The Republic of Korea and the United States implemented the Korea-U.S. Free Trade Agreement on March 15, 2012. The Agreement is the largest Free Trade Agreement (FTA) negotiated by the United States since NAFTA. For more information about the [KORUS FTA](#).

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 the APEC Summit in 2005.

Korea has Free Trade Agreements with ASEAN, Australia, Canada, Chile, China, Colombia, India, New Zealand, Peru, Singapore, the European Union, and the European Free Trade Association (Norway, Switzerland, Iceland and Liechtenstein), U.S., Turkey, and Vietnam. For the complete list of Korea's FTAs, please visit the [Korean Ministry of Foreign Affairs site](#). More information on the EU-Korea FTA can be found on [the European Union website](#).

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.

Licensing Requirements for Professional Services

Under KORUS FTA, Korea will be fully opened to U.S. law firms as of March 2017, allowing them to set up joint ventures with Korean counterparts, hire Korean lawyers and partially practice domestic law. The plan also allows foreign lawyers to temporarily stay in Korea to handle cases requiring international mediation. U.S. lawyers can practice in Korea as a “Foreign Legal Consultant” (FLC) under the Korean Foreign Legal Consultants Act of the KORUS FTA. An attorney from a country with a free trade agreement in place with South Korea is eligible to apply to be an FLC. They must have at least a three-year work experience in their respective jurisdiction. In order to hold chief status, they must have seven years of experience overall. Foreign attorneys must seek approval by the [Minister of Justice](#) and register with the [Korean Bar Association](#).

U.S. accounting firms have to register with the [Financial Services Commission](#) (FSC) in order to open an office in Korea. These U.S. firms are then allowed to hire foreign accountants and provide accounting consultations to Korean companies on overseas financial operations only. They are not allowed to hire Korean accountants. In March 2017 (five years after the launch of the KORUS FTA), foreign accounting firms will be eligible to purchase less than a 50 percent stake in a Korean accounting firm. The FSC will approve U.S. accountants who have secured accounting licenses overseas to do business in Korea for five years.

For general consultants, opening an office in Korea requires a Foreign Direct Investment (FDI) approach. For a corporation to open an office, a minimum investment of 100 million Won (~ USD 100,000) is required for a G8 visa, and for a consultant to practice in Korea, it would require 300 million Won (~ USD 300,000) for a G9 visa. To learn more about how one can [open offices in Korea](#).

Web Resources

[U.S. Department of Commerce, Commercial Service, Korea](#)

[U.S. Agricultural Trade Office in Seoul](#)

[U.S. Department of Agriculture](#)

[USDA Agriculture Exporters Guide](#)

[USDA Animal Plant and Health Inspection Service \(APHIS\)](#)

[USDA Food Safety and Inspection Service](#)

[Foreign Agricultural Service \(FAS\), U.S. Department of Agriculture \(Attaché Reports\)](#)

[American Chamber of Commerce Korea](#)

[Department of Commerce, Bureau of Industry and Security](#)

[Annual National Trade Estimate Report](#)

[Korean Agency for Technology and Standards \(KATS\)](#)

[Korea Customs Service \(KCS\)](#)

[Korean Laboratory Accreditation Scheme \(KOLAS\)](#)

[Ministry of Food and Drug Safety \(MFDS\)](#)

[Telecommunications Technology Association \(TTA\)](#)

Investment Climate Statement

Executive Summary

The Republic of Korea (ROK) has made tremendous economic gains during the past six decades, transforming from a recipient of foreign assistance to a high-technology manufacturing powerhouse and middle-income donor country. The country experienced real GDP growth of 2.7 percent in 2016, up from 2.6 percent growth in 2015, yet short of the government's target of 3.1 percent announced in December 2015. Economic growth in 2016 was mainly backed by increased consumer demand and construction investment, in addition to a foreign consumption hike following a fall in the exchange rate. The economy's growth was constrained in the second half of 2016, however, by uncertainties caused by external and internal factors, including Brexit, the United States election campaign, and a political scandal that led to the impeachment of President Park Geun-hye, causing a contraction of consumption and investment. Exports fell 5.9 percent from 2015 due to slow global growth and reduced demand from the ROK's top trading partner, China. Growth is expected to remain moderate in coming years due to the ROK's relatively developed economy, an aging population, and inflexible labor market. Economic growth potential for 2015-2018 is between 3.0 percent and 3.2 percent, according to the Bank of Korea (BOK), although many private-sector assessments are lower. The Constitutional Court on March 10 upheld an impeachment motion against President Park, resulting in her removal from office. A presidential election will be held on May 9, and Prime Minister Hwang Kyo-ahn is serving as acting President in the interim. The election is not expected to directly affect the ROK investment climate.

The U.S.-Korea Free Trade Agreement (KORUS FTA), which entered into force on March 15, 2012, was a major step forward in enhancing the legal framework for U.S. investors in the ROK. All forms of investment are protected under the KORUS FTA, including equity, debt, concessions, and similar contracts, as well as provision of intellectual property rights. With very few exceptions, U.S. investors are treated the same as South Korean investors (or investors of any other country) in the establishment, acquisition, and operation of investments in the ROK. In addition, the equal treatment of domestic and foreign investors is backed by a transparent international arbitration mechanism, under which investors may, at their own initiative, bring claims against the government for an alleged investment breach. Submissions to investor-state arbitration tribunals, as well as their hearings, are to be made public. The U.S. government continues to work closely with the ROK government to ensure full implementation of the KORUS FTA.

Improvement in the consistency of the ROK government's interpretation, transparency, and timeliness in applying foreign direct investment (FDI) regulations would enhance the ROK's investment climate. Unclear and opaque regulatory decision-making remained a significant concern, including informal "window guidance." Sector-specific improvements in regulatory transparency have been

made, however. For example, financial sector reforms enacted January 2016 require regulators to provide all guidance in written form, and companies cannot be punished for not following oral guidelines.

The ROK boasts a hard-working, educated workforce and high levels of institutional labor protections. However, foreign investors cited volatility in labor-management relations and increasing labor costs as issues that can hamper FDI. The Park Administration unsuccessfully advocated for reforms to enhance labor market flexibility, while improving the benefits provided to part-time and contract workers.

Table 1

Measure	Year	Index/Rank	Website Address
TI Corruption Perceptions Index	2016	53 of 175	Transparency Rankings
World Bank’s Doing Business Report “Ease of Doing Business”	2016	5 of 190	Doing Business Rankings
Global Innovation Index	2016	11 of 128	Global Innovation Index Indicator
U.S. FDI in partner country (in USD, stock positions)	2015	\$34.6 billion	BEA Factsheet
World Bank GNI per capita	2015	\$27,450	World Bank data

Openness To, and Restrictions Upon, Foreign Investment

Policies Toward Foreign Direct Investment

The ROK government’s attitude toward FDI is positive, and senior policymakers realize the value of foreign investment. Following the 2008-09 global financial crisis, inbound FDI continued to trend upwards from USD 5.4 billion in 2010 to USD 16.5 billion in 2015, falling to USD 9.76 billion in 2016 due to a sharp decline in global mergers and acquisitions. Foreign investment in the ROK is still at times hindered by insufficient regulatory transparency, including inconsistent and sudden changes in interpretation of regulations, as well as underdeveloped corporate

governance, high labor costs, an inflexible labor system, and market domination by large conglomerates, or *chaebol*.

The Foreign Investment Promotion Act (FIPA) is the basic law pertaining to foreign investment in the ROK. FIPA and related regulations categorize business activities as open, conditionally or partly restricted, or closed to foreign investment.

FIPA features include:

- Simplified procedures, including those for FDI notification and registration;
- Expanded tax incentives for high-technology investments;
- 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-Investment Promotion Agency (KOTRA) to assist foreign investors; and
- Establishment of a Foreign Investment Ombudsman to assist foreign investors.

The [ROK National Assembly website](#) provides a list of laws pertaining to foreigners (including the FIPA) in English.

KOTRA actively facilitates foreign investment through its Invest KOREA office. For KOTRA to assist in the establishment of a domestically-incorporated foreign-invested company, the investment must surpass KRW 100 million (USD 85,000). KOTRA and the Ministry of Trade, Industry, and Energy organize a yearly Foreign Investment Week to attract investment to the ROK. In 2016, over 1,000 attendees, including foreign investors and local press, participated in the event.

The ROK prioritizes investment retention, in part through a Foreign Investment Ombudsman. The position is commissioned by the President and heads a grievance resolution body that collects and analyzes information concerning problems foreign firms experience, requests cooperation from and recommends implementation of reforms to relevant administrative agencies, proposes new policies to improve the foreign investment promotion system, and carries out other necessary tasks to assist investor companies. [More information on the Ombudsman.](#)

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreign and domestic private entities can establish and own business enterprises and engage in all forms of remunerative activity. Restrictions on foreign ownership remain for 30 industrial sectors, three of which are entirely closed to foreign investment. The ROK government occasionally reviews the list of restricted sectors for possible changes. According to the Ministry of Trade, Industry, and Energy (MOTIE), the number of industrial sectors open to foreign investors is well above the Organization for Economic Cooperation and Development (OECD) average. The KORUS FTA provides for U.S. companies to be treated as non-foreign entities in selected sectors, including broadcasting and telecommunications. Relevant ministries must 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. The ROK's procurement processes comply with the WTO Government Procurement Agreement, but some implementation problems remain.

The following is a list of restricted sectors for foreign investment. Figures in parentheses generally denote the Korean Industrial Classification Code, while those for the air transport industries are based on the Civil Aeronautics Laws:

Completely Closed

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

Restricted Sectors (partly open, no more than 25 percent foreign equity)

- News agency activities (63910)

Restricted Sectors (partly open, no more than 30 percent foreign equity)

- Hydroelectric power generation (35112)
- Thermal power generation (35113)
- Other power generation (35119)

Restricted Sectors (partly open, less than 30 percent foreign equity)

- Publishing of daily newspapers (58121) (Note: Other newspapers with the same industry code 58121 are partly open, less than 50 percent foreign equity)

Restricted Sectors (partly open, no more than 49 percent foreign equity)

- 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, no more than 50 percent foreign equity)

- 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)
- International air transport (51)
- Domestic air transport (51)
- Small air transport (51)

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)

The National Assembly approved an amendment bill to the Foreign Legal Consultant Act (FLCA) on February 4, 2016, that allows foreign law firms to establish joint

ventures in the ROK. This revision was made to implement the ROK's free trade agreement (FTA) market opening commitments with the United States, Australia, and the European Union (EU). The FLCA provides a framework for establishing joint ventures; however, it includes provisions that could restrict the ability of foreign firms to establish joint ventures, such as limiting the foreign party ownership of a joint venture to 49 percent. On December 29, 2016, the National Assembly approved an amendment to the Aviation Business Act to lift foreign investment barriers for air transportation support businesses beginning on March 30, 2017.

The ROK government may review foreign investments that affect national security. The government may restrict investments that disrupt production of military products or equipment, or if the company receiving foreign investment exports items that may later be used for military purposes differing from their originally intended use. The ROK government may also restrict foreign investment in cases where contracts classified as "state secrets" may be disclosed or the investment considerably impedes international efforts to achieve world peace or assure security. Foreigners linked to a country or an organization that may pose a threat to national security will also be subject to limitations on investments in South Korean firms. Related government agencies must ask MOTIE to review the case within 30 days of a foreign investor filing an application for regulatory approval, and MOTIE must make a decision within the following 90 days. If the investment fails the review, the foreign investor must transfer ownership to a South Korean national or corporation within six months of the close of the corporate fiscal year.

Other Investment Policy Reviews

The ROK government has not undergone investment policy reviews or received policy recommendations from multilateral organizations, including the OECD, World Trade Organization (WTO), or United Nations Conference on Trade and Development (UNCTAD), in the past three years.

Business Facilitation

Registering a business in the ROK can be a complex process that varies according to the type of business being established and requires interaction

with KOTRA, court registries, and tax offices. Foreign corporations can enter the market by establishing a local corporation, local branch, or liaison office. The establishment of local corporations by a foreign individual or corporation is regulated by FIPA and the Commercial Act; the latter recognizes five types of companies, of which stock companies with multiple shareholders are the most common. To establish a stock company, 24 required documents are submitted to a court registry office, and an additional nine to a tax office.

There is no single website with which to complete this process. For small- and medium-sized enterprises (SMEs) and micro-enterprises, the online business registration process takes approximately three to four days and is completed through Korean language websites. Registrations can be completed via the [Smart Biz website](#). The website received an assessment of 2.5/10 in the UN's Global Enterprise Registration listing, indicating improvements could be made to provide clear and complete instructions for registering a limited liability company.

Outward Investment

KOTRA has an Outbound Investment Support Office that provides counseling to ROK firms. There are some support measures for SMEs, and the government allotted KRW 5.4 billion (USD 4.6 million) in its 2017 budget for that support. The ROK government does not have any restrictions on outward investment.

Bilateral Investment Agreements and Taxation Treaties

The ROK has 15 FTAs encompassing trade with 52 countries, including the United States, and 94 bilateral investment treaties (BITs). An additional FTA with six South American countries was preliminarily signed on March 10 and is pending ratification. [More information can be found here](#). Ongoing FTA negotiations include the Regional Comprehensive Economic Partnership (RCEP) among 16 Asian countries, a ROK-China-Japan FTA, and a FTA with Israel.

As of September 2016, the ROK had signed bilateral tax agreements with 94 countries. There are many Advance Pricing Agreement (APA) issues. To solve these, the National Tax Service created a new unit on November 2, 2015, to process the increasing number of APA and Mutual Agreement Procedure (MAP) requests in a timelier manner. The APA/MAP unit covers the regions of North America, Europe, and Australia.

The ROK has a bilateral income tax treaty with the United States that entered into force in 1979.

A complete list of countries and economies with which South Korea has concluded bilateral investment protection agreements, such as BITs and FTAs with investment chapters, is available at [Investment Policy Hub](#) and the following link: [Ministry of Foreign Affairs](#)

Legal Regime

Transparency of the Regulatory System

As a member of the WTO and a country that has concluded FTAs with 52 countries, the ROK is improving the transparency of its policies to ensure its laws are non-discriminatory. The foreign business community remains concerned with the rapid increase in the number of Korea-unique (found nowhere else in the world) rules and regulations, however. Approximately 80 percent of regulations are introduced and passed by the National Assembly without a regulatory impact assessment (RIA) due to a loophole that requires only regulations written by ministries to undergo RIAs. While these regulations may have well-intended social aims, such as consumer protection or the promotion of SMEs, they often have unintended consequences for the economy by creating new trade barriers.

Laws and regulations are often framed in general terms and are subject to differing interpretations by government officials, who rotate frequently. Regulatory authorities often issue oral or internal guidelines or other legally enforceable dictates that many firms find burdensome and often difficult to follow. The former ROK government's deregulation plan sought to eliminate the use of oral guidelines or subject them to the same level of regulatory review as written regulations. On March 17, 2016, the Prime Minister's Office re-emphasized the need for government officials to enforce regulations more transparently and proactively, and said that those failing to hold regulatory reviews would be held strictly accountable. The KORUS FTA also includes provisions designed to address such issues.

The ROK constitution allows both the National Assembly and the executive branch to introduce bills. The legal norm is for regulations to be introduced in the form of an act. There are subordinate statutes (presidential decree, ministerial decree, and administrative rules) for matters that are delegated by acts and matters needed to enforce acts. Ministries are in charge of drafting such subordinate regulations. Acts and their subordinate regulations can all be relevant for foreign businesses.

Administrative agencies shape policies and draft bills on matters under their respective jurisdictions. Drafting ministries are required to clearly set policy goals and complete RIAs. When a ministry drafts a regulation, it is required to consult with other relevant ministries before it releases the regulation for public comment. The constitution also allows local governments to exercise self-rule legislative power to draft ordinances and rules, but they should be within the scope of federal acts and subordinate statutes.

The enactment of acts and their subordinate statutes, ranging from the drafting of bills to their promulgation, must follow formal ROK legislative procedures. These procedures should be in accordance with the “Regulation on Legislative Process” enacted by the Ministry of Legislation. Since 2011, all publicly listed companies are required to follow International Financial Reporting Standards (IFRS, or K-IFRS in South Korea). The Korea Accounting Standards Board facilitates ROK government endorsement and adoption of IFRS and sets accounting standards for companies not subject to IFRS. According to the Administrative Procedures Act, proposed laws and regulations (acts, presidential decrees, or ministerial decrees) must seek public comments at least 40 days prior to their promulgation. Regulations are sometimes promulgated with only the minimum required comment period, and with minimal consultation with industry. Guidelines and regulatory changes originating from legislation proposed by members of the National Assembly are not subject to public comment periods. As a result, 80 percent of all new regulations are written and passed through the National Assembly without rigorous quality control and solicitation of public comments.

When notifications of proposed rules are made public, they appear online in the Official Gazette. The draft acts and regulations are also posted on the websites of relevant ministries and the National Assembly, with executive summaries. These postings, however, are only in Korean; thus, much of the 40-day comment period can be exhausted translating complex documentation. The Ministry of Legislation reviews whether laws and regulations are in conformity with the constitution and monitors whether the government adheres to the “Regulation on Legislative Process.” All laws and regulation also undergo review by the Regulatory Reform Committee for restrictive elements. The Regulatory Reform Committee aims to minimize government intervention in the economy and to abolish all economic

regulations that fall short of international standards or hamper national competitiveness.

The Office of Regulatory Reform in July 2015 launched [Simmungo](#), an online portal through which companies can comment in English on existing legislation and regulations, as well as enter complaints about regulatory impediments to business. As a result, the Regulatory Reform Committee can take the initiative to address concerns of foreign firms doing business in the ROK by receiving and acting on complaints on a timelier basis.

Business regulation in the ROK often lacks empirical cost-benefit analysis or impact assessment on the basis of scientific and data-driven assessment because regulations are finalized without sufficient stakeholder consultation or passed by the National Assembly without a regulatory impact assessment. When ministries draft regulations, they must submit their RIA to the Regulatory Reform Committee for its determination on whether the regulation restricts rights or imposes excessive duties. These RIAs are usually not publicly available for comment, and public comments received by regulators are not made public.

The ROK government enforces regulations with penalties (either fines or criminal charges) in the case of violations of the law. The government's enforcement actions can be challenged through an appeal process or administrative litigation.

[International Regulatory Considerations](#)

The ROK is not part of a regional economic bloc. The ROK is working to harmonize its standards with international standards, including those of the United States and the EU. It still, however, has many Korea-unique rules and regulations that make it more difficult for foreign companies to operate domestically. The ROK is a member of the WTO and notifies the Committee on Technical Barriers to Trade of all draft technical regulations.

[Legal System and Judicial Independence](#)

The ROK legal system is based on civil law. Subdivisions within the district and high courts govern commercial activities and bankruptcies and enforce property and contractual rights with monetary judgments, usually levied in the domestic currency. The ROK has a written commercial law, and matters regarding contracts are covered by the Civil Act. There are only three specialized courts in the ROK: the patent, family, and administrative courts. In civil cases, courts deal with disputes

surrounding the rights of property or legal relations. The ROK court system is independent and not subject to government interference in cases that may affect foreign investors. Efforts are being made to ensure the judicial process is more fair and reliable. Foreign court judgments are not enforceable in the ROK. Rulings by district courts can be appealed to higher courts and the Supreme Court.

Laws and Regulations on Foreign Direct Investment

Laws and regulations that have been completed within the past year:

- Allow non-bank finance firms to operate foreign currency businesses;
- Simplify and integrate ineffective and redundant laws and regulations relevant to foreign investment;
- Allow joint law firms to be established between ROK firms and U.S. and EU firms;
- Lower the limits for real-estate investment from KRW 700 million (USD 620,000) to KRW 500 million (USD 450,000);
- Suspend changes made to the declaration form, when foreign firms establish branches in the ROK, for one year;
- Establish more flexible standards to evaluate global education institutions when they establish branches in the ROK;
- Introduce an omnibus account system, making it possible for foreign offshore institutional investors to handle orders from their clients in one account;
- Reduce regulations for foreign firms when they do their initial public offering;
- Reduce regulations that required eco-friendly certificates only from domestic agencies; and
- Eliminate regulations that limited the ratio of foreign employees to 20 percent for small start-ups with foreign investors.

Pending laws and regulations:

- Simplify procedures for foreign investors when they report their investment to the ROK government;
- Address discrimination against foreign financial firms embedded in licensing requirements for financial investment businesses;

- Relax the firewall system requirement inside financial companies;
- Permit re-hypothecation of sovereign bonds to enhance the liquidity of assets; and
- Expand entities exempt from an actual ownership check for financial transactions, including foreign branches of foreign financial companies.

There is no single website for investment-relevant laws and regulations. However, more information is available at the following websites: [Regulatory Information Portal](#), [Financial Services Commission](#), [Ministry of Trade, Industry and Energy](#)/

Competition and Anti-Trust Laws

The Monopoly Regulation and Fair Trade Act authorizes the Korea Fair Trade Commission (KFTC) to review and regulate competition-related and consumer safety matters. KFTC has been active in investigating global information and communications technology (ICT) companies. A number of U.S. companies in the ICT sector have reported concerns about the KFTC, particularly regarding the agency's practices with respect to procedural fairness and case selection and under Chapter 16 (Competition-Related Matters) of the KORUS FTA.

Expropriation and Compensation

The ROK follows generally accepted principles of international law with respect to expropriation. ROK law protects foreign-invested enterprise property from expropriation or requisition. If private property is expropriated, it can be taken only for a public purpose and only in a non-discriminatory manner, and claimants are afforded due process. Property owners are entitled to prompt compensation at fair market value. There are many cases of expropriation in the ROK, but mainly for public reasons like developing new cities, building new industrial complexes, or constructing roads. These are done in a non-discriminatory manner, and claimants are compensated at fair market value or above. U.S. Embassy Seoul is not aware of any cases alleging a lack of due process.

Dispute Settlement

ICSID Convention and New York Convention

The ROK has been a member of the International Center for Settlement of Investment Disputes (ICSID) since ratifying the convention in 1967. It has also acceded to the New York Convention. There are no specific domestic laws providing

for enforcement. South Korean courts have made rulings based on the ROK government's position acceding to the convention, however.

Investor-State Dispute Settlement

The ROK is a member of the International Commercial Arbitration Association and the World Bank's Multilateral Investment Guarantee Agency. ROK courts may ultimately be called upon to enforce an arbitrated settlement. When drafting contracts, it may be useful to provide for arbitration by a neutral body such as the International Commercial Arbitration Association. U.S. companies should seek local expert legal counsel when drawing up any type of contract with a South Korean entity.

The United States has a bilateral Treaty of Friendship, Commerce, and Navigation with the ROK that contains general provisions pertaining to business relations and investment. The KORUS FTA contains strong, enforceable investment provisions that went into force in March 2012.

There have been few serious investment disputes involving foreigners in South Korea. In November 2012, U.S.-based Lone Star Funds, a worldwide private equity firm, brought an investor-state dispute lawsuit against the South Korean government with the ICSID in Washington DC under the investment chapter of the KORUS FTA, and this case is still pending. The private equity firm blamed the ROK government for sharp declines in stock prices, claiming that it delayed the acquisition of Korea Exchange Bank without cause. The ICSID is expected to make a ruling in 2017. Foreign court judgments, with the exception of foreign arbitral rulings that meet certain conditions, are not enforceable in the ROK. There is no history of extrajudicial action against foreign investors.

International Commercial Arbitration and Foreign Courts

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 interpretation. ROK law prohibits foreign lawyers who have not passed the Korean Bar Examination from representing clients in South Korean courts. Civil procedures common in the United States, such as pretrial discovery, do not exist in the ROK. 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. ROK law governs commercial activities and bankruptcies, with the judiciary serving as the means to enforce property and contractual rights, usually through monetary judgments levied in the domestic currency. The ROK has specialized courts, including family courts and administrative courts, as well as courts specifically dealing with patents and other intellectual property rights issues.

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 to three arbitrators is assigned to decide the case. If one party is not resident in the ROK, either may request an arbitrator from a neutral country. If foreign arbitral awards or foreign courts' rulings meet the requirements of Article 217 of the Civil Procedure Act, then those are enforceable by local courts. The U.S. Embassy is not aware of statistics involving state-owned enterprise investment dispute court rulings.

Bankruptcy Regulations

The Debtor Rehabilitation and Bankruptcy Act stipulates that bankruptcy is a court-managed liquidation procedure where both domestic and foreign entities are afforded equal treatment. The procedure commences after a filing by a debtor, creditor, or a group of creditors and determination by the court that a company is bankrupt. The court will designate a Custodial Committee to take an accounting of the debtor's assets, claims, and contracts. Creditors may be granted voting rights in the creditors' group, as identified by the Custodial Committee. Shareholders and contract holders may retain their rights and responsibilities based on shareholdings and contract terms. The World Bank ranked the ROK's policies and mechanisms in place to solve insolvency fourth among 190 economies in its 2017 Doing Business report. Debtors may be subject to arrest once a bankruptcy petition has been filed, even if the debtor has not been declared bankrupt. Individuals found guilty of negligent or false bankruptcy are subject to criminal penalties.

Industrial Policies

Investment Incentives

The ROK government provides the following general incentives for foreign investors:

- Tax and cash incentives for qualified foreign investments in free trade zones, foreign investment zones, free economic zones, industrial complexes, etc.;
- Tax and cash incentives for the creation and expansion of workplaces for high-tech business plants and research and development (R&D) 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;
- Preferential financial support for investing in major infrastructure projects; and
- Support from the Seoul Metropolitan government, separate from the central government, for SMEs, high-technology businesses, and the biomedical industry.

Research and Development

Several organizations affiliated with the Small and Medium Business Association (SMBA) support private sector research and development (R&D). The Korea Technology and Information Promotion Agency supports R&D investment, and the Korea Technology Credit Guarantee Fund provides credit guarantees for technology development. The Ministry of Science, ICT, and Future Planning also supports R&D projects. According to the SMBA, foreign companies are eligible to apply for public R&D funds through their South Korean subsidiary.

Foreign Trade Zones/Free Ports/Trade Facilitation

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. The ROK government announced on December 16, 2015, plans to create 14 “regulation-free zones” (RFZ) outside of Seoul in an effort to develop promising sectors, including bio-health, smart devices, and drones. A bill that would allow the creation of RFZs was submitted to the National Assembly on March 25, 2016. A good source of information on the ROK’s various free trade zones is the government-run "Invest

Korea," the inward investment promotion organization under KOTRA. More information is available here: [Invest Korea](#). KOTRA also maintains offices in many countries, including the United States.

The ROK aims to attract more foreign investment by promoting its eight Free Economic Zones: Incheon (near Incheon Airport, to be completed in 2022); Busan/Jinhae (in South Gyeongsang Province, to be completed in 2020); Gwangyang Bay (in South Gyeongsang Province, to be completed in 2020); Yellow Sea (in South Chungcheong Province, to be completed in 2020); Daegu/Gyeongbuk (in North Gyeongsang Province, to be completed in 2022); Saemangeum/Gunsan (in North Jeolla Province, to be completed in 2020), East Sea (in Donghae and Gangneung, to be completed in 2024) and Chungbuk (in North Chungcheong Province, to be completed in 2020). Additional information is available at [Korean Free Economic Zones](#).

As of April 2017, there are also four foreign-exclusive industrial complexes in Gyeonggi Province designed to provide inexpensive land, with the national and local governments providing assistance for leasing or selling in the sites at discounted rates. In addition, there are 13 Free Trade Zones and seven logistics areas near airports and harbors where companies may pursue their business with government support, but without the usual legal requirements such as approval procedures for exports and imports and customs duties. There are also 25 Foreign Investment Zones designated by local governments to accommodate industrial sites for foreign investors. Special considerations for foreign investors vary among these options.

Performance and Data Localization Requirements

There are no such requirements. Companies should check if candidates of foreign nationality have a valid working permit (VIAS) prior to offering jobs. Anyone who is planning to work during his or her stay in the ROK is required by law to apply for a visa. Work visas can be obtained at the ROK Embassy or Consulate with jurisdiction over the applicant's place of legal residence. Work visas are usually valid for one year, and issuing work visas takes two to four weeks. Changing a tourist visa to a work visa is not possible within the ROK. This must be done at an embassy or a consulate outside the country.

Sectors such as public administration, national defense, and diplomacy are subject to certain restrictions imposed by the ROK government, but there are no government-imposed conditions or restrictions on investing in the ROK in most sectors. The conditions to invest in the ROK are elaborated in the FIPA. Foreign companies are not required to use domestic content or technology, nor are they required to turn over source codes or provide access for surveillance to ROK authorities. The ROK government, however, is implementing policies to foster the domestic software industry, which sometimes creates obstacles for foreign companies pursuing public procurement projects. The ROK ceased imposing

performance requirements on new foreign investment in 1989 and eliminated all pre-existing performance requirements in 1992. There are no performance requirements that force foreign companies to ensure a certain level of local content, local jobs, R&D activity, or domestic shares in the company's capital.

There are no legal requirements for foreign information technology (IT) providers to turn over source codes and/or provide access to encryption. However, there are security certifications for some IT products. These certifications are referred to as "Common Criteria certification" (CC certification), the standards and assessments for which are established and implemented by the IT Security Certification Center. The source code for IT products might need to be submitted to the IT Security Certification Center during the review process to apply for CC certification. In January 2016, the ROK government announced guidelines stating that the CC certification is a requirement for cloud computing services to be provided to ROK government agencies or public institutions.

ROK data privacy law has various requirements for companies that collect, use, transfer, outsource, or process personal information. This law applies uniformly to both domestic and foreign companies that process personal information in the ROK. The law imposes some restrictions on transferring personal information outside of the country. If a data controller intends to transfer the personal information of end-users outside of the ROK, it is required to obtain each end-user's consent. In the case of overseas transfer of personal information for the purpose of IT outsourcing, the data controller may forgo obtaining each individual's consent if the data controller discloses in its privacy policy: (i) the purpose of overseas transfer; (ii) the transferees of personal information; and (iii) other certain items about overseas transfer.

There are similar requirements for a data controller to transfer the personal information of end-users to a third party within the ROK. To transfer the personal information of end-users to a third party, a data controller must obtain each end-user's consent. In addition, regulations prohibit financial companies in the ROK from transferring customers' personal information and related financial transaction data overseas. As such, this financial transaction data cannot be outsourced to overseas IT vendors, and financial companies in the ROK must store customers' financial transaction data in the ROK. The Financial Supervisory Service is the authority that regulates financial companies in the ROK.

Protection of Property Rights

Real Property

Property rights and interests are enforced under the Civil Act. Mortgages and liens exist, and the ROK's recording system is reliable. The Alien Land Acquisition Act (amended in 1998) grants non-resident foreigners and foreign corporations the same rights as Koreans in purchasing and using land. The Real Estate Investment Trust (REIT) Act supports 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. Property interests are enforced, and there is a reliable system for registering mortgages and liens. As of June 2016, approximately 0.5 percent of land does not have clear title. The courts run the recording system. Legally purchased property cannot revert to other owners, but squatters may have very limited rights in special situations, such as a right to cultivation of unoccupied land.

Intellectual Property Rights

Since its removal from the Special 301 Watch List in 2009, the ROK government has continued to make strides in intellectual property rights (IPR) enforcement. The ROK government's interest in IPR protection is driven by the ROK's strong interest in innovation, its growing status as a creator of intellectual property, and its efforts to implement the commitments made under the KORUS FTA. During the past year, the ROK government continued to combat IPR violations through a variety of enforcement activities, including the deletion of millions of illegal files online, enforcement of laws to prevent the further distribution of illegal materials, and blockage of numerous illegal file-sharing online service providers. Industry concerns include the continued government use of unlicensed software, end-user software piracy, and book piracy in universities.

The Copyright Act was amended in 2016 with two noteworthy changes. First, the definition of phonogram was changed to include "sound in digital form" and "sound fixed in media." Phonogram producers welcomed the widened scope of the definition of phonogram, as it better protected their rights, particularly because more music is being transmitted through digital formats. Second, the Ministry of Culture, Sports, and Tourism (MCST) changed the language from "phonogram produced for sales" to "phonogram published for commercial purposes," thus broadening the protection of music producers and stakeholders. The KFTC amended its guidelines on unfair exercise of intellectual property rights on March 3, 2016, to better promote free and fair competition in the ROK marketplace by redefining the rights of standard essential patent holders and the conditions necessary to grant licenses.

In 2016, MCST Judicial Police conducted special investigations of 10 streaming websites. As a result of those investigations, MCST recommended five websites to the ROK's Supreme Prosecutor's Office (SPO) for possible indictment and prosecution. Those streaming sites contained 479,000 illegal files, which were mostly broadcast content (e.g., dramas and movies). Furthermore, MCST and the Korea Customs Service jointly conducted special enforcement of illegally reproduced popular television characters (online and offline), which netted the seizure of 12,582 items. MCST also recommended to SPO that it indict 57 heavy uploaders of software remote file hosting services, or "webhards."

MCST deleted 29.1 million illegal online files, a decrease from 117.4 million files in 2015. MCST also destroyed 7.8 million hard copies of music files, videos, publications, games, and cartoons in 2016, a decrease from 14.5 million in 2015. MCST stated the decrease was due to better ROK government-led educational efforts about the illegality of downloading pirated materials. MCST investigated South Korean university campuses and confiscated 21,304 illegally copied books, up 30.4 percent from 16,335 copies seized in 2015. MCST Judicial Police conducted software inspections of 195 companies using special design software such as CAD and Adobe. It discovered 3,024 instances of illegal software usage, about the same number as in 2015. MCST raided 271 companies and found 3,050 instances of illegal software usage, with a piracy rate of 29.6 percent.

MCST also recommended that the Korea Copyright Commission (KCC) block service to 220 illegal sites, 231 illegal bulletin boards, and 313 illegal files (764 blocks), up from 552 blocks in 2015. Most of the sites and files were music and film sites hosted on foreign servers. Because the number of illegal sites whose servers are located abroad is increasing, MCST is working to simplify the procedures and shorten the period for blocking such sites through the KCC from four months to three weeks. As a result of this effort, the frequency of KCC deliberations on blocking services increased from five in 2015 to 18 in 2016.

The total number of people indicted by the SPO for Copyright Act violations was 33,806 in 2016, down 34.9 percent from 51,936 in 2015. In 2016, MCST Judicial Police recommended to the SPO that legal action be taken for 447 IPR cases, down 59 percent from 1,091 cases in 2015.

The Korean Intellectual Property Office (KIPO) also continued its enforcement activities in 2016. KIPO's Special Judicial Police seized 584,094 counterfeit items from 351 people in 2016, down from the 1,197,662 items seized from 378 people in 2014, and up dramatically from 28,590 items in 2011. In addition, KIPO suspended 5,888 online transactions in 2016, up from 5,673 cases in 2015, and closed 368 illegal online shopping malls in 2016, down from 418 in 2015. KIPO is improving its

enforcement coordination with related agencies and local autonomous bodies by jointly issuing corrective recommendations to 1,832 people on 7,134 items. KIPO is also providing training to enforcement officers, including local police, and pro-actively educating the public through television and media and rewarding those who file or report counterfeit goods. The ROK is not listed in the 2016 Special 301 report, nor are Korean markets included in the 2016 Notorious Markets List.

Resources for Rights Holders

The contact at U.S. Embassy Seoul for IPR issues is: SeoulECONTrade@state.gov

Additional local resources are as follows:

[The American Chamber of Commerce in Korea](#)

Tel: +82-2-564-2040

Fax: +82-2-564-2050

Email: amchamsvp@amchamkorea.org

[U.S. Embassy Seoul List of Attorneys](#)

For additional information about national laws and points of contact at local IP offices, please see [WIPO's country profiles](#).

Financial Sector

Capital Markets and Portfolio Investment

The ROK has its own stock market and an effective regulatory system that encourages portfolio investment. There is sufficient liquidity in the market to enter and exit sizeable positions. The ROK government uses various incentives, such as tax breaks, to facilitate the free flow of financial resources into the product and factor markets. The ROK government respects International Monetary Fund (IMF) Article VIII on the general obligations of member states by refraining from restrictions on payments and transfers for current international transactions. Credit is allocated on market terms. The private sector has access to a variety of credit instruments, but non-resident foreigners are not able to borrow money in South Korean won, although they can issue bonds in local currency.

Foreign portfolio investors enjoy open access to the ROK stock market. Aggregate foreign investment ceilings in the Korean Stock Exchange (KSE) were abolished in

1998, and foreign investors owned 35.1 percent of KSE stocks and 10 percent of the Korean Securities Dealers Automated Quotations (KOSDAQ) as of the end of 2016. In recent years, foreign portfolio investment has fluctuated, influenced by external factors such as the November 2016 U.S. presidential election, the slowing of the Chinese economy, and domestic political turmoil caused by a corruption scandal surrounding impeached President Park Geun-hye.

Money and Banking System

Financial sector reforms are often cited as one reason for the ROK's rapid rebound from the 2008 global financial crisis. These reforms aimed to increase transparency and investor confidence and generally purge the sector of moral hazard. Since 1998, the ROK government has recapitalized its 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 the weak supervision and poor lending practices in the South Korean banking system that helped cause and exacerbate the 1997-98 Asian financial crisis.

The ROK banking sector is healthy. Rating agency Standard & Poor's categorized ROK banks as low risk on June 22, 2016. Hanwha Bank's total assets were KRW 330 trillion (USD 292 billion) at the end of 2015, for example. The ROK central bank is the Bank of Korea (BOK). Foreign banks or branches are allowed to establish operations in the country. They are subject to prudential measures or other relevant regulations. The ROK has not lost any correspondent banking relationships in the past three years, nor are any relationships in jeopardy.

Foreign Exchange and Remittances

Foreign Exchange

In categories open to investment, foreign exchange banks must be notified in advance of applications for foreign investment. All ROK banks, including branches of foreign banks, are permitted to deal in foreign exchange. 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.

According to the Foreign Exchange Transaction Act (FETA), transactions that could harm international peace or public order, such as money laundering and gambling,

require additional monitoring or screening. Three specific types of transactions are restricted:

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

Funds associated with any form of investment can be freely converted into any world currency. However, there might be some cost or technical problems in case of conversion into lesser used currencies, due to the relatively small foreign exchange market in the country. In 2016, 81 percent of spot transactions in the market were between the U.S. dollar and Korean won, while daily transaction (spot + future) was equal to USD 10.5 billion.

Exchange rates are generally determined by the market. The U.S. Treasury Department reports that ROK authorities have intervened on both sides of the currency market, but the sustained rise in their reserves and net forward position indicate that they have intervened on net to resist won appreciation.

Remittance Policies

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), the relevant ministry must provide approval for both investment and remittance. 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 by either a bank or MOSF. Approval is virtually automatic. An investor wishing to enact a remittance must present an audited financial statement to a bank to substantiate the payment.

The ROK 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. To withdraw capital, a stock valuation report issued by a recognized securities company or the South 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. There are no time limitations on remittances.

Sovereign Wealth Funds

The Korea Investment Corporation (KIC), a sovereign wealth fund (SWF), was established in July 2005 under the KIC Act. KIC is wholly government-owned with an independent steering committee that has the authority to undertake core business decisions, composed of six professionals from the private sector, the Chief Executive Officer (CEO) of KIC, and the heads of MOSF and the BOK. KIC is on the Public Institutions Management Act (PIMA) list. KIC is mandated to manage assets entrusted by the ROK government and the BOK and generally adopts a passive role as a portfolio investor. Based on the continued increase in entrusted assets and gains realized on investments, assets under management stood at USD 91.8 billion at the end of 2015, with no domestic investments to date. KIC is required by law to publish an annual report, submit its books to the steering committee for review, and follow all domestic accounting standards and rules. It follows the Santiago Principles and participates in the IMF-hosted International Working Group on SWFs. The KIC has never invested in domestic assets.

State-Owned Enterprises

Many ROK state-owned enterprises (SOEs) continue to exert significant control over segments of the economy. There are 30 remaining SOEs active in the energy, real estate, and infrastructure (railroad, highway construction) sectors. The legal system has traditionally sought to give SOEs a leading role in these sectors, but over the past several years, the government has tried to attract more private participation, as well, especially in the real estate and construction sectors. SOEs are generally subject to the same regulations and tax policies as private sector competitors and do not have preferential access to government contracts, resources, and financing. The ROK is party to the WTO Government Procurement Agreement; a list of SOEs subject to WTO government procurement provisions is available in annex three of the ROK's agreement. The state-owned Korea Land and Housing Corporation is given preferential access to developing state-owned real estate projects, notably housing. The court system functions independently from the government and gives equal treatment to SOEs and private enterprises. The ROK government does not provide official data on SOEs' market shares. It requires each entity to disclose financial statements, the number of employees, and average compensation figures.

The PIMA gives authority to MOSF to administer control of many SOEs, mainly focusing on administrative and human resource management. However, there is no singular government entity that exercises ownership rights over SOEs. SOEs subject to PIMA are required to report to a line minister; the President or line ministers appoint senior government officials or politically-affiliated individuals as CEOs or directors. SOEs are explicitly obligated to consult with government officials on their budget, compensation, and key management decisions (e.g., pricing policy for energy and public utilities). For other issues, the government officials informally

require the SOEs to either consult with them before making decisions or report ex post facto.

Market analysts generally regard SOEs as a part of the government or entities fully guaranteed by the government, with some exceptions: SOEs listed on local security markets, such as the Industrial Bank of Korea and Korea Electric Power Corporation, are regarded as semi-private firms. The ROK adheres to the OECD Guidelines for Multinational Enterprises and reports significant changes in the regulatory framework for SOEs to the OECD. [A list of South Korean SOEs](#) is available at the Korean-language website.

The ROK government announced that it would not give any non-market based advantages to SOEs competing in the domestic market, but the U.S. Embassy in Seoul has noted that the state-owned Korea Development Bank enjoys lower financing costs because of the government's guarantee. This does not appear to have a major effect on the U.S. retail banking sector.

Privatization Program

ROK government efforts to privatize government-owned assets have been opposed by protests from labor unions and professional associations, as well as by a lack of interested buyers in some sectors. No state-owned enterprises were privatized between 2002 and November 2016. In November 2016, the government decided to sell its 29.7 percent stake in Woori Bank and finalized the deal in December 2016. The government recouped KRW 2.4 trillion (USD 2.07 billion) from this sale and pledged that it will sell the remaining 21.4 percent stake in the future.

Foreign investors are allowed to participate in privatization programs as long as they comply with ownership restrictions stipulated for the 30 industrial sectors indicated in section 1: Openness To, and Restrictions Upon, Foreign Investment. These programs have a public bidding process that is easy to understand, non-discriminatory, and transparent. The authority in charge or a delegated private lead manager provides the relevant information.

Responsible Business Conduct

Awareness of the economic and social value of responsible business conduct and corporate social responsibility (CSR) is growing in the ROK, but is still in a nascent stage. The Korea Corporate Governance Service, founded in 2002 by entities including the Korea Exchange (formerly Korea Stock Exchange) and the Korea Listed Companies Association, encourages companies to voluntarily improve their corporate governance practices. Since 2011, its annual assessments have included reviews of corporate environmental responsibility and CSR, in addition to the

issuance of associated guidelines. The United Nations Global Compact (UNGC) Network Korea, established in 2007, actively promotes corporate involvement in the United Nations (UN) Public Private Partnership for Sustainable Development Goals 2016-2030 and guides the values and direction of CSR to be not only about charity, but also about future corporate sustainability. UNGC is focused on human rights, anti-corruption, labor standards, and the environment, with 240 South Korean companies listed as UNGC members as of March 2017. Government-supported subsidies and tax reductions for social enterprises have contributed to an increase in the number of organizations tackling social issues related to unemployment, the environment, and low-income populations. Businesses also promote OECD Guidelines for Multinational Enterprises to enhance awareness of responsible business conduct.

For the promotion of OECD Guidelines for Multinational Enterprises, the ROK government operates websites and holds a wide range of seminars, in addition to publishing and distributing promotional materials. To enhance the implementation of the OECD Guidelines for Multinational Enterprises, the ROK government established a National Contact Point (NCP) in the then-Ministry of Foreign Affairs and Trade in 2000 (now two ministries, Ministry of Foreign Affairs and Ministry of Trade, Industry, and Energy) and designated the Korea Commercial Arbitration Board (KCAB) as the Secretariat of NCP. The International Human Rights Division of the Ministry of Justice oversees the National Action Plan to implement the guidelines. The KCAB recently addressed two cases related to the OECD Guidelines for Multinational Enterprises. It facilitated the discussion of the parties concerned and invited outside experts on arbitration to settle the issues, resulting in a favorable outcome.

The National Human Rights Commission, the Ministry of Employment and Labor (MOEL), the Korea Consumer Agency, and the Ministry of Environment enforce ROK law in the fields of human rights, labor, consumer protection, and environment effectively and fairly. Shareholders are protected by laws such as the Act on an External Audit of Corporations under the jurisdiction of the Financial Services Commission, the Act on Monopoly Regulation and Fair Trade under the jurisdiction of the KFTC, and the Commercial Act under the jurisdiction of the Ministry of Justice. The Commercial Act is currently under revision to better represent minority shareholders and enhance the value of shareholders. Other organizations involved in responsible business conduct include the ROK office of Trade Union Advisory Committee to the OECD, the Korea Human Rights Foundation, and the Korean House for International Society.

The Korea Sustainability Investing Forum (KOSIF) was established in 2007 and is dedicated to promoting and expanding socially responsible investment and CSR. Through regular fora, seminars, and publications, KOSIF provides educational opportunities, conducts research to establish a culture of socially responsible investment in the ROK, and supports relevant legislative processes. It actively engages with National Assembly members and stakeholders to influence decision-making processes.

The ROK does not maintain regulations to prevent conflict minerals from entering supply chains; however, the Ministry of Trade, Industry, and Energy supports companies' voluntary adherence to OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Afflicted and High-Risk Areas. ROK companies are often obligated to follow the conflict-free regulations of economies to which they export goods. The Korea International Trade Association and private-sector firms provide consulting services to companies seeking to comply with conflict-free regulations. The ROK is not a member of the Extractive Industries Transparency Initiative, but has a mining industry and has participated in the Kimberly Process since 2012. The ROK government is taking measures to guarantee transparency through the Mining Act, Overseas Resources Development Business Act, other relevant law on taxation, environment, labor, and anti-bribery, and OECD Guidelines for Multinational Enterprises.

Corruption

Resources to Report Corruption

Government agency responsible for combating corruption:

[Anti-Corruption and Civil Rights Commission](#)

Government Complex-Sejong, 20, Doum 5-ro

Sejong-si, 339-012

Tel: +82-44-200-7151

Fax: +82-44-200-7916

Email: webmaster@acrc.go.kr

Contact at "watchdog" organization:

[Anti-Corruption Network in Korea](#) (aka Transparency International Korea)

#1006 Pierson Building, 89-27 Sinmunro 2-ga, Jongno-gu

Seoul, 100-761

Tel: +82-2-717-6211

Fax: +82-2-717-6210

Email: ti@ti.or.kr

In an effort to combat corruption, the ROK has introduced systematic measures to prevent civil servants from inappropriately accumulating wealth and conducting opaque financial transactions. The Public Service Ethics Act, drafted in 1981 and entered into force in 1983, requires high-ranking officials to disclose their assets, including how they were accumulated, and report gifts they receive, thereby making their holdings public. The Act on Anti-Corruption and the Establishment and Operation of the Anti-Corruption and Civil Rights Commission (previously called the Anti-Corruption Act) concerns reporting of corruption allegations, protection of whistleblowers, institutional improvement, and training and public awareness to

prevent corruption, as well as establishing national anti-corruption initiatives through the Anti-Corruption and Civil Rights Commission (ACRC). The ROK still faces challenges in effectively implementing anti-corruption laws, however. Transparency International's Corruption Perception Index in 2015 ranked the ROK 52 out of 176 countries and gave it a score of 53 out of 100 (with 100 being very clean).

Corruption among government officials drew widespread attention throughout 2016. Choi Soon-sil, a longtime friend and close confidante of then-President Park Geun-hye, was arrested and indicted on charges of fraud, coercion, and abuse of power. She was accused of amassing a personal fortune by using her personal ties to Park, and the President's knowledge of or involvement in Choi's activities came under investigation. In light of the scandal, lawmakers voted 234-56 to impeach President Park in December 2016, and the Constitutional Court upheld this decision on March 10, 2017.

The ROK legislature passed a comprehensive anti-corruption law known as the Anti-Corruption and Conflicts of Interest Act, or the Kim Young-ran Act, in March 2015. The anti-corruption law came into effect on September 28, 2016, and institutes strict limits on the value of gifts that can be given to public officials, lawmakers, reporters, and private school teachers. It also extends to the spouses of officials. The Act on the Protection of Public Interest Whistleblowers is designed to protect whistleblowers in the private sector and equally extends to reports on foreign bribery, with a reporting center operated by the ACRC.

In 2014, to reduce collusion between government regulators and regulated industries that contributed to the tragic sinking of the Sewol ferry, the ROK government tightened regulations governing the employment of retired government officials. The sinking, which resulted in the deaths of 304 passengers (mostly children on a school trip) and crew in April of that year, resulted in widespread criticism of the ferry operator, the regulators who oversaw its operations, and the South Korean government for its poor disaster response and attempts to downplay government culpability. The government expanded the list of sectors restricted from employing former government officials during a mandated period after retirement, extended the mandated post-retirement period from two to three years, and increased scrutiny of retired officials seeking jobs in fields associated with their former official duties.

Most companies maintain an internal audit function to prevent and detect corruption. Government agencies responsible for combating government corruption include the Board of Audit and Inspection, which monitors government expenditures, and the Public Service Ethics Committee, which monitors civil servants' financial disclosures and their financial activities. The ACRC focuses on preventing corruption by assessing the transparency of public institutions, protecting and rewarding whistleblowers, training public officials, raising public awareness, and improving policies and systems.

In reporting cases of corruption to government authorities, nongovernment organizations and civil society groups are protected by the Act on the Prevention of Corruption and the Establishment and Management of the Anti-Corruption and Civil Rights Commission, as well as the Protection of Public Interest Reporters Act. Individuals reporting cases of corruption to the ACRC must provide their full name to make the submission. However, their personally identifiable information is protected under the law, and the government cannot release information without the consent of the reporting individual. Violations of these legal protections can result in fines or prison sentences. U.S. firms have not identified corruption as an obstacle to FDI.

The ROK ratified the UN Convention against Corruption in 2008. It is also a party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and a member of the Asia-Pacific Economic Cooperation Anti-Corruption and Transparency Working Group.

The Financial Intelligence Unit has cooperated fully with U.S. and UN efforts to shut down sources of terrorist financing. Transparency International has maintained a national chapter in South Korea since 1999.

Political and Security Environment

The Democratic People's Republic of Korea (DPRK, or North Korea) and the 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 over 60 years. The ROK does not have a history of political violence directed against foreign investors. There have not been reports of 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.

The ROK is a modern democracy with active public political participation, and political demonstrations are common. Political divisions deepened amid the impeachment of President Park Geun-hye. Large-scale rallies were a regular occurrence throughout the impeachment process. They were largely peaceful and orderly, with almost no instances of violence.

Labor Policies and Practices

According to the MOEL, there were approximately 26 million economically active people in the ROK, with an employment rate (OECD standard) of approximately 66.5 percent. The overall unemployment rate of 3.8 percent in January 2017 was much lower than the unemployment rate of youth ages 15-29, which, at over 10 percent, is becoming a domestic concern. The country has two major national labor federations. The Federation of Korean Trade Unions (FKTU) has 2,372 labor unions and 843,442 members, and the Korean Confederation of Trade Unions (KCTU) has 373 labor

unions and 636,249 members. KCTU and FKTU are affiliated with the International Trade Union Confederation. Most of FKTU's constituent unions maintained affiliations with international union federations. There are 3,028 unions with 445,603 workers who do not belong to a nationwide federation.

The minimum wage is reviewed annually. Labor and business set the minimum wage for 2017 at 6,470 won (approximately USD 5.50) per hour, a 7.3 percent increase from the previous year. The Labor Standards Act also provides for a 50 percent higher wage for overtime. Contract and other "non-regular" workers accounted for a substantial portion of the workforce, particularly in labor-intensive sectors such as the automotive and shipbuilding industry, despite many positions being full-time and not temporary in nature. MOEL reported that there were approximately 6.16 million non-regular workers, comprising approximately 32 percent of the total workforce as of July 2016. Korea Statistics reported that in 2011, non-regular workers performed work similar to regular workers but received approximately 56 percent of the wages of regular workers.

For regular, full-time employees, the law provides employment insurance, national medical insurance, industrial accident compensation insurance, and participation in the national pension system through their employers or employer subsidies. Non-regular workers, such as temporary and contracted employees, are not guaranteed the same collection of benefits. With regard to severance pay for regular workers, South Korean law does not distinguish between the firing of an employee versus the laying off of an employee for economic reasons. Employers' reliance on non-regular workers is partially explained by the costs that may be associated with dismissing regular full-time employees and the savings that may be realized through not having to provide insurance and other benefits.

There are no government policies requiring the hiring of nationals. In 2004, the ROK implemented a "guest worker" program known as the Employment Permit System (EPS) to help protect the rights of foreign workers. The EPS allows employers to legally employ a certain number of foreign workers from 15 countries, including the Philippines, Indonesia, and Vietnam, with which the ROK maintains bilateral labor agreements. In 2015, the ROK increased its annual quota to 55,000 migrant workers. At the end of 2016, approximately 222,000 foreigners were said to be working under the EPS in the manufacturing, construction, agriculture, livestock, service, and fishery industries.

Legally, unions operate with autonomy from the government and employers, although national labor federations, comprised of various industry-specific unions, receive annual government subsidies. The ratio of organized labor to the entire population of wage earners at the end of 2015 was 10.2 percent; this ratio has remained relatively stable over the last 10 years. ROK trade union participation is lower than the latest-available OECD average of 16.7 percent in 2014; more information is available at [The Organization for Economic Co-Operation and Development](#).

Labor organizations are permitted in export processing zones (EPZs), but foreign companies operating in EPZs are exempt from some labor regulations. Exemptions include provisions that mandate paid leave, require companies with more than 50 people 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. Foreign companies operating in Free Economic Zones have greater flexibility in employing “non-regular” workers in a wider range of sectors for extended contractual periods. ROK law provides workers with the right to associate freely and allows public servants and private workers to organize unions. The Trade Union and Labor Relations Adjustment Act provides for the right to collective bargaining and collective action and allows workers to exercise these rights in practice.

The Labor Relations Commission is the primary government body responsible for labor dispute resolution. It provides arbitration and mediation services in response to dispute resolution requests submitted by employees, employers, or both parties. MOEL labor inspectors also have certain legal authorities to participate in dispute settlement related to violations of labor rights. The Korea Workers’ Compensation and Welfare Service handles labor disputes resulting from industrial accidents or disasters. There was particularly strong opposition in 2016 against the merit-based wage system, and workers from a wide range of industries, including banking and public transit, participated in a series of consecutive strikes in September 2016. These demonstrations and strikes by labor unions in opposition to the labor reforms did not pose a significant risk to investment interests, however.

The Act for Part-Time and Temporary Workers’ Protection prohibits discrimination against non-regular workers and requires that non-regular workers employed longer than two years be converted to permanent status. The two-year rule went into effect on July 1, 2009. Both the labor and business sectors have complained that the two-year conversion law forced many businesses to limit the contract terms of the non-regular workers to two years and incur additional costs with the entry of new labor every two years. More information can be found in the Department of State’s Report on Human Rights Practices for 2016: <https://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#section7>

A tripartite commission consisting of the FKTU, government, and companies reached consensus on labor reform in September 2015; however, the agreement fell apart on January 19, 2016. A package of associated labor reforms bills submitted by then-President Park Geun-hye’s ruling party in September 2015 was not approved by the National Assembly.

OPIC and Other Investment Insurance Programs

U.S. investments in the ROK 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 the ROK since 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. There is no OPIC program in the ROK, but Daelim Energy announced on August 10, 2016, that the company had signed a financial agreement with OPIC amounting to approximately USD 100 million to support the Hawa project in Pakistan. This is the first project that Daelim Energy is investing in through the Inter-American Development Bank Infrastructure Fund II. The Hawa project's purpose is to develop and run a 50-megawatt wind power farm in Sindh, which is in southern Pakistan. It has a total budget of about USD 130 million. The United States and the ROK signed an investment incentive agreement on July 30, 1998. The ROK has been a member of the World Bank's Multilateral Investment Guarantee Agency since 1987.

Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2015	\$1,377,500	2015	\$1,378,000	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2016	\$38,795	2015	\$33,034	IMF data

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Host country's FDI in the United States (\$M USD, stock positions)	2016	\$128,950	2015	\$56,679	IMF data
Total inbound stock of FDI as % host GDP	2015	12.26	2015	12.7	World Investment Report Country Fact Sheets

*Sources: GDP – [Economics Statistics System](#); inbound FDI – [Ministry of Trade, Industry and Energy](#); outbound FDI – [The Export Import Bank of Korea](#)

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (<i>US Dollars, Millions</i>)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	169,659	100%	Total Outward	271,581	100%
Japan	44,767	26%	China, Mainland	65,865	24%
United States	33,034	19%	United States	56,679	21%
Netherlands	15,428	9%	China, Hong Kong	13,475	5%
United Kingdom	13,112	7%	Australia	9,455	3%
Singapore	9,304	5%	Cayman Islands	9,119	3%

Direct Investment from/in Counterpart Economy Data
"0" reflects amounts rounded to +/- USD 500,000.

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	235,872	100%	All Countries	152,523	100%	All Countries	83,349	100%
United States	98,555	42%	United States	68,701	45%	United States	29,854	36%
United Kingdom	16,509	7%	Luxembourg	9,491	6%	United Kingdom	7,844	9%
China, Mainland	13,955	6%	China, Mainland	9,115	6%	France	6,703	8%
Luxembourg	11,825	5%	Japan	8,712	6%	China, Mainland	4,840	6%
Japan	11,665	5%	United Kingdom	8,664	6%	Brazil	4,244	5%

Contact for More Information

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Trade & Project Financing

Methods of Payment

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 BIS (Bank for International Settlement Reserves) capital adequacy ratios above the 10 percent required and to 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 engage 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.

Common overseas payment methods include:

- 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.

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.

[For more extensive details on international payment methods.](#)

[For specifics on letters of credit and documentary collections](#) and [here](#). [The complete Department of Commerce Export Finance Guide](#), which covers these and other aspects of international trade finance.

To reduce risk of nonpayment, U.S. companies may also contact credit rating agencies, which can provide fee-based corporate information to evaluate the financial credibility of Korean companies. [Dun & Bradstreet Korea](#), the [Korea Investors Service](#), 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](#). [The Korean Commercial Arbitration Board](#) and private collection agencies can provide arbitration and collection services. KCAB's mediation staff can counsel on the arbitration procedure to suit both Korean and foreign companies' specific needs and assist in communication and negotiation.

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.

Banking Systems

Korea's financial system consists of banking and non-bank financial institutions. [The Financial Services Commission](#) (FSC) and the [Financial Supervisory Service](#) (FSS), 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 and the FSS have played a key role in financial restructuring and has strengthened the regulatory and supervisory framework governing the entire financial sector.

Financial Services and KORUS FTA

With 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: [Financial Services and the U.S. - Korea FTA](#).

Foreign Exchange Controls

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) 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.

U.S. Banks & Local Correspondent Banks

[For a list of major U.S. and Korean banks in Korea](#)

Project Financing

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 the 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 support companies through direct equity investments, although domestic companies generally have access to local funding, as well as to 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, financing in the form of long-term debt is available from the Korea Development Bank (KDB), but generally for high priority industries.

In January 2015, the state-run Export-Import Bank of Korea (KEXIM) announced that it will provide a total of KRW 56 trillion (USD 51 billion) in loans/investment and KRW 24 trillion (USD 22 billion) in loan guarantees to finance industrial activities and international development projects involving Korean companies amid a diminishing quantitative easing trend in USA and continuous depreciation of JPY. It will first finance large projects overseas related to engineering, procurement and construction (EPC), and the amount would be KRW 27.5 trillion (USD 25 billion). The total financing support increased five percent from the USD 69 billion executed in the previous year. It also set aside KRW 26.5 trillion (USD 24 billion) for SMEs to promote shared growth between large and small enterprises and which is same amount compared with previous year.

Web Resources

[Bank of Korea](#)

[Commercial Service / International Company Profile \(ICP\)](#)

[Country Limitation Schedule](#)

[Dun and Bradstreet](#)

[Export-Import Bank of Korea](#)

[Financial Supervisory Commission](#)

[Financial Supervisory Service](#)

[Korea Investors Service](#)

[Korean Appraisal Board](#)

[Korean Commercial Arbitration Board](#)

[KORUS FTA – Financial Services](#)

[National Agricultural Cooperative Federation](#)

[OPIC](#)

[Overseas Private Investment Corporation Small Business Administration's \(SBA\)](#)

[Office of International Trade](#)

[Trade and Development Agency](#)

[U.S. Agency for International Development](#)

[USDA Commodity Credit Corporation](#)

[Export-Import Bank of the United States](#)

[Country Limitation Schedule](#)

Business Travel

Business Customs

U.S. businesses aiming to be successful in this dynamic nation of over 50 million people 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, soon experienced 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 over 60 years.

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 and collective society -- all elements important in understanding how to navigate business in Korea. Whereas U.S. business culture places more emphasis on the merits of the deal, in Korea the emphasis is on the personal connection with the other party in the contract.

Post-Korean War: Korea in the 1950s and 1960s was one of the poorest countries 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). The chaebols effectively and persistently combined their 'evolving sector expertise,' helped by a dense population in a geographically small area, into what is now a highly-respected and world-renown trillion-dollar economy driven by trade.

Today, Korea is known around the world for its popular and attractive white appliances, award-winning cars, smart phones and LED screens. It has a top-tier ranking in such diverse industries as ship building and the K-Pop "Korean Wave"

culture called hallyu, which has captured fans worldwide, TV dramas, and attractive youth bands. Korea, hands-down, is also the most wired country in the world.

Korea hosted the Summer Olympics (1988), the Soccer World Cup (2002; along with Japan), the G-20 Leaders Summit (2010), and will host the [2018 Winter Olympics in Pyeongchang](#). These major events, a source of pride and accomplishment, have 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 (they all have a different architecture and feel; there were only three bridges crossing the Han in the 1960s.) After you arrive at the award-winning Incheon Airport, your hotel will be located either on the north side of the Han (where the airport and U.S. Embassy are located) or the south side. Traffic congestion, persistent and chronic, must be factored into arriving on-time for business appointments. In Korea, you should never 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-hoon (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 cultures. Hand them out using both hands (thumbs at the top corners of your card) while giving a gentle and slight bow, 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 where you are meeting. Bilingual cards are best.

- Handshakes: Unlike the hard, firm Western-style handshake, a Korean's handshake may be a bit gentler.
- Cold calls are generally 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 of this guide for additional insights into negotiating.
- While you learn Korean, these two important words should serve you:
 - Ann-yong-ha-sayo – Hello and goodbye
 - Gam-sa-ham-nida – Thank you

Travel Advisory

Consult: [U.S. State Department](#).

Visa Requirements

Visa Requirements for U.S. Citizens

- No visa is needed for a stay of up to 90 days if the purpose of the trip is for tourism, business meetings, visiting families or relatives.
- 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. For U.S. citizens, a five-year valid multiple entry F-4 visa is issued. This visa holder can stay up to 2 years each time he/she visits the Republic of Korea, until their visa expires.

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 information about visas to Korea, please also see [the Korean Ministry of Foreign Affairs website](#).

U.S. companies that require the travel of foreign business representatives to the United States should be advised that security evaluations are handled via an interagency process. Visa applicants should go to the following link:

[U.S. Embassy Korea Visa Website](#)

Currency

- Cards with the *Visa*, *Mastercard*, *Plus* and *Cirrus* logos are the 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
- Paying via credit card on a Korean website generally requires credit cards issued by Korean banks
- Prominent Korean banks include: Korea Exchange Bank (KEB), Shinhan Bank, and Citibank
- Questions about ATM/CD machines while in Korea: call 1330
- The Korean currency the 'Won' is written with a large '₩' with a line through it or 'KRW.'

Telecommunications/Electric

- Local calls
 - Dial the 7 or 8 digit local phone number within the same province or city.
 - Dial the 9 or 11 digit local phone number, including the area code, to a different province or city
 - There are 17 area codes as follows;

Seoul 02	Busan 051	Daegu 053	Incheon 032	Kwangju 062	Daejeon 042
Ulsan 052	Sejong 044	Kyeonggi 031	Kangwon 033	Chungbuk 043	Chungnam 041
Jeonbuk 063	Jeonnam 061	Kyungbuk 054	Kyungnam 055	Jeju 061	

- International calls
 - Dial 00799 for a service that features: station-to-station calls, collect or reverse charge calls, and calls providing interpretation.
 - For direct calls dial 001/002/00700 and country code, area code then subscriber's number.
- Rent a mobile phone at kiosk, Incheon International Airport and/or contact number of these providers are:
 - SK Telecom:82-2-6343-9000 (Press 4)
 - KT Olleh: 82-2-2190-0901

- LGU+: 82-2-3416-7010
- 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.
 - Wi-Fi service is available and accessible in most of areas including subway, hotels, shopping areas, restaurants, coffee shops, etc.

Transportation

Transportation

- From Incheon International Airport to Downtown Seoul:
 - Train (AREX)
 - Direct railway links from the Incheon Airport to Seoul Station
 - Takes 43 minutes and runs every 30 minutes with no stops
 - Cost: KRW 8,000 (approx. USD 8)
 - Take the subway (inexpensive option) or taxi to your hotel from Seoul Station
 - [Consult](#)
 - 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](#)

- Taxis
 - Located at the passenger arrival terminal level '1F' 4C~8C
 - Cost: KRW 45,000~70,000 (approx. USD 40~65).
 - [Consult](#)
- If overcharged, contact [Korea Tourism Organization Tourist Complaint Center](#) 02-1330

Other Transportation Recommendations

- Subway: Excellent, extremely clean and safe
 - Widely available to/from Seoul and Gyeonggi Province
 - Highly recommend **T-money M-Pass** (only for foreigners)
 - [Consult](#)
 - Covers large area around Seoul, other subway systems, and airport railroads
 - Purchase passes at tourism information centers at Incheon Airport 1F Exit 5, 10
 - Cost: KRW10,000 for a one-day pass and KRW 59,500 for a week
 - (Refunds under 20,000 available at local CVS)
 - Rush hour congestion: 7-9 am and 5-7pm, especially on lines 2 and 3
- Taxis
 - Cost based on distance and time and begin at KRW 3,000 (~USD 3)

- 20% cost increase between midnight and 4 am
 - No tipping required
 - [Consult](#)
- KTX (Korea Train Express)
 - Very clean, affordable and comfortable high-speed transportation to major cities throughout Korea. A trip from Seoul to Busan, for example, is 2.5 hours on KTX
 - [Consult](#)

Language

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

Health

- 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-Aids, ointments and cold medication in pharmacies or in any general or “24-hour stores.” For other medications, you will need a prescription from a doctor.
- International clinics at large prominent hospitals in Seoul include:
 - Severance Hospital (☎ 02-2228-5800):134, Sinchong-dong, Seodaemun-gu

- Asan Medical Center (☎ 02-3010-5001): 388-1, Pungnap-dong, Songpa-gu, Seoul
- Samsung Medical Center (☎ 02-3410-0200): 50, Irwon-dong, Gangnam-gu

For international health advisories related to Korea, please visit the [CDC website](#)

Local Time, Business Hours and Holidays

Local Time Zone

- Korea is 13 hours ahead of EST and 14 hours ahead of EST during daylight savings. Korea does not switch to daylight savings time.
- [Consult](#)

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 essentially the same time, requiring luncheon reservations even for the smallest restaurants. You can avoid lines and crowds by taking lunch before 12:00 p.m. or after 1:00 p.m.

Holidays

Observed Korean Holidays – 2017

New Year's Day: January 1 st	Memorial Day: June 6 th
Lunar New Year's Day: January 27 th – 30 th	Liberation Day: August 15 th

New Year's Day: January 1 st	Memorial Day: June 6 th
Independence Movement Day: March 1 st	National Foundation Day: October 3 rd
Buddha's Birthday: May 3 rd	Chuseok Days: October 4 th – 6 th
Children's Day: May 5 th	Korean Alphabet Day: October 9 th
Presidential Election Day: May 9 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](#)

Temporary Entry of Materials or Personal Belongings

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)
- Counterfeit money and coins

Articles in Excess of Duty Free Allowance

[Coming into Korea, consult](#)

[Returning to the U.S., consult and TSA Traveller Information](#)

Web Resources

[Affordable hotels](#)

[Airport Bus](#)

[Currency](#)

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[U.S. Customs](#)

[U.S. Embassy Seoul Consular Section](#)

[Visas](#)

[Weather](#)