04

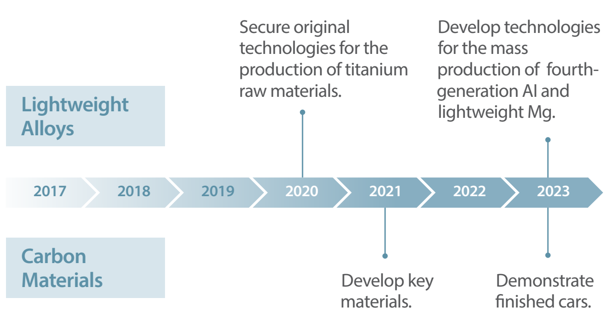
Policies and Incentives

The Korean government is exploring ways to enhance the mid-to long-term competitiveness of its parts and materials industry, in preparation for the Fourth Industrial Revolution.

In particular, the government is striving to establish the mid-to long-term development strategies for machines and robots, automobiles, aircrafts and drones, shipbuilding and offshore plants, electric and electronic equipment, semiconductors, displays, steel, petrochemicals, textiles and ceramics.

The government plans to increase the rate of tax deductions for new technologies in 2017 from 20% to 30%.

Government Plans for Developing the Materials Industry



Source: Ministry of Trade, Industry and Energy

Success Case

Valeo Pyeong Hwa

Valeo Pyeong Hwa was established as a joint venture between Valeo SA and Pyeong Hwa Clutch Industry Co., Ltd. in 1988. The company produces clutch discs, clutch covers and release bearings in Daegu and Waegwan-eup, North Gyeongsang.

As its sales revenues and innovation capacity continue to grow, Valeo launched a new joint venture. In February 2017, Valeo and Pyeong Hwa launched a 50-50 joint venture Valeo-Kapec to provide transmissions, torque converters and CVTs for Hyundai-Kia Motors.

KOTRA WORLD WIDE

As Korea's Trade-Investment Promotion Agency, KOTRA has 127 overseas offices and 10 headquarters worldwide.

* Invest Korea(IK), Korea's national investment promotion agency, was established as part of KOTRA to support the foreign businesses in Korea.

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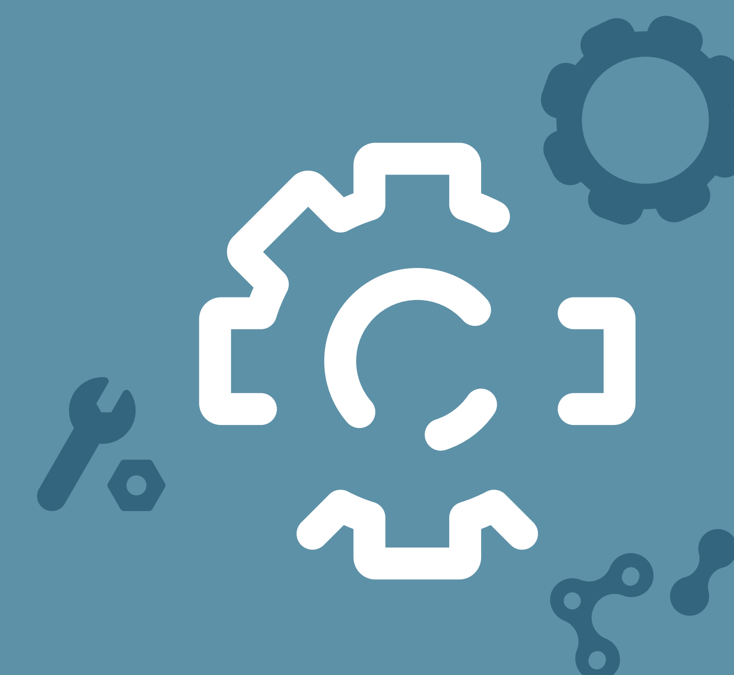
KOREA'S LEADING INDUSTRIES

PARTS & MATERIALS

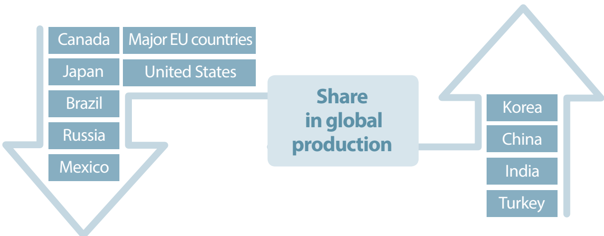


01

Korea's Parts & Materials Industry

Rising Share of Global Production

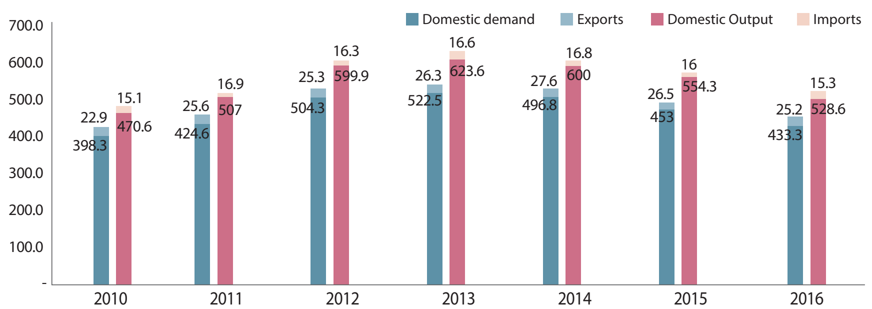
Korea's share of the global production of parts and materials rose by 0.9% from 2005 to 2014.



Korea's parts and materials industry continued steady growth until 2014. Despite a slight decline in 2015, the industry shows no signs of slowing down.

Parts and Materials Supply and Demand by year

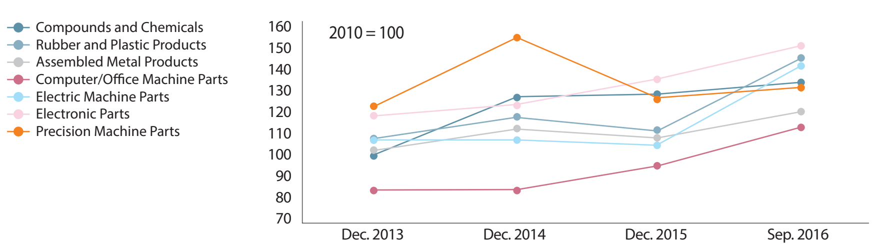
(USD billion)



Source: Ministry of Trade, Industry and Energy, Korea's Parts & Materials Industry Trend

Korea's major parts and materials sectors remain strong. Although some of their production indices went down from 2014 to 2015, most of them rebounded in 2016.

Major Parts and Materials Sector Output by Year



Source: Statistics Korea

02

Competitiveness

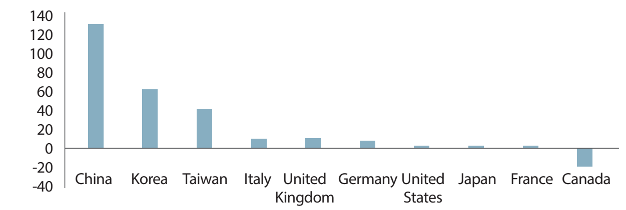
Strong R&D Investment

Korea ranks fifth in the global manufacturing R&D. Its R&D investment grew at the second fastest rate in the world from 2008 to 2013.

The industry's overall quality competitiveness is improving, thanks to continued investment in the R&D sector. In particular, Samsung Electronics became the world's largest electronic parts manufacturer, upon making the second-largest R&D investment in the world.

Growth Rate of R&D Investment in Manufacturing by Country (2013-2018)

(%)



Source: OECD STAN R&D database
Note: Purchasing power was measured in dollars. The 2008–2013 growth rates were based on the real purchasing power in 2010 (USD)

Leading Manufacturer ICT-Converged Parts

As an ICT powerhouse, Korea is poised to develop cutting-edge parts through the convergence of various ICT technologies.

Korea has strengths in the ICT convergence sector including in the Internet of Things (IoT), which will play a crucial role in the Fourth Industrial Revolution.

Excellent Human Resources

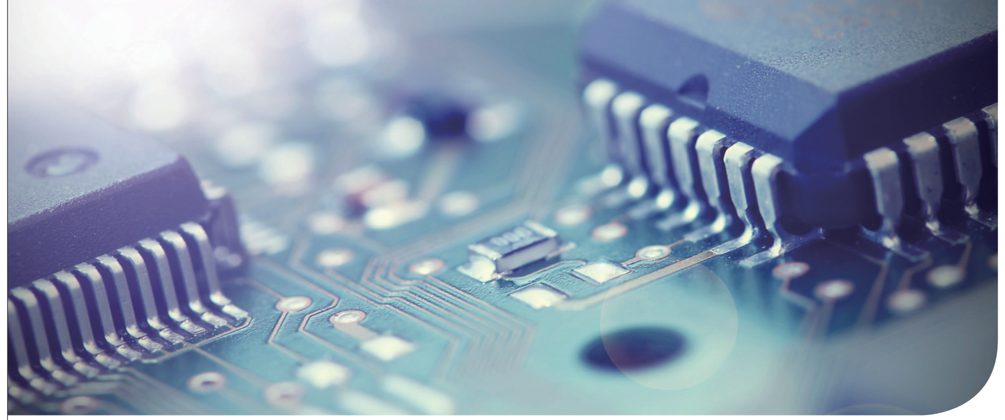
Korea has a large number of experts in the mathematics and science fields. The average wage level is relatively low in Korea compared to other developed countries.

Hourly Labor Costs in Major Parts and Materials Industries (2014)

(USD)

Country	Textile	Chemical	Mechanical	Automotive
Korea	14.93	28.80	21.28	27.91
Brazil	6.75	17.91	13.66	16.92
Mexico	4.11	10.50	7.11	8.10
Taiwan	7.54	N/A	N/A	9.90
France	35.59	56.38	46.87	47.10
Germany	35.18	61.92	53.73	63.59
Italy	33.52	46.56	40.65	41.64
United Kingdom	25.64	36.63	35.00	38.12
United States	24.09	42.80	40.02	38.09

Source: The Conference Board, "International Comparisons of Hourly Compensation Costs in Manufacturing and Submanufacturing Industries," Apr. 12, 2016.



03

Industry Clusters

Korea's auto parts manufacturing clusters are formed around the West Coast Belt (Capital area), the Southeast Belt (Ulsan), and the Southwest Belt (Gwangju, Gunsan).

The manufacturing plants of Korea's four auto majors –Hyundai Motor Company, GM Korea, Tata Daewoo and Kia Motors– are located in the Southwest region.

Gyeonggi Province is home to many Korean auto parts makers including Hyundai Mobis (Giheung), Mando (Giheung) and Hyundai Wia (Hwaseong), as well as globally leading auto parts companies such as Bosch (Germany, Yongin), Siemens (Germany, Icheon) and Delphi (USA, Giheung).

Auto makers are also clustered in Chungcheongnam-do, which has the country's third largest production capacity (in terms of finished car manufacturing plants), following Ulsan and Gyeonggi.