Industry

OUTLOOK FOR 12 LEADING INDUSTRIES  l  4p
Korea’s leading sectors are expected to see modest export growth and low production growth this year as they cope with changes in the industrial environment and competition.

Interview

IN IT FOR THE LONG HAUL

Scania Korea sells trucks and engines that help ensure sustainable business

Think ‘heavy truck’ and you probably imagine huge vehicles spewing clouds of black smoke. But one commercial vehicle manufacturer is so determined to not do all that spewing that it is most interested in markets with strict environmental regulations. Markets like Korea.

“Korea has been a very, very successful machine manufacturer,” said Kaj Farm, Managing Director / CEO of Scania Korea Group.

“And when the environmental regulations get tougher and tougher in the world, our engine will be more and more suitable. So that’s why we are for the Korean market.”

How tough, when it comes to regulations? Euro 6 tough.

Starting this year, all trucks imported into or manufactured in Korea will have to meet level 6 European emission standards for, especially, emissions of nitrogen oxides and particulate matter. Euro 6, the regulations for which went into effect in Korea last year, is about 100 times more stringent than the country’s previous level of Euro 5.

For the Sweden-based Scania, which manufactures heavy trucks, buses and diesel engines, this means all the new trucks they’ll bring into Korea this year will look the same as last year’s, but have “a new heart,” said Farm.

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Zone

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KOTRA Locations Globally
Greetings From Invest Korea

Dear Readers,

This January, more than any other January, I am filled with hope and resolve about the future of foreign direct investment (FDI) in Korea.

The 16,000+ foreign-invested companies here are important contributors to the Korean economy, accounting for about 21 percent of the country’s total sales and trade volume. Many of them reinvest after tasting success on the peninsula. As we head into 2015, I am confident that Korea will continue to attract foreign investors seeking a profitable business environment. Here are a couple reasons why.

Last year alone, we signed or concluded free trade agreements (FTAs) with China, Canada, Australia, New Zealand and Vietnam, which means we are now free trade partners with 52 countries. Among the new trade pacts, I have the highest expectations for the Korea-China FTA, which may go into effect by the latter half of the year.

Expected to eliminate or significantly reduce barriers to trade and investment between Korea and China, the FTA will help establish new types of investment structures in Korea, thus encouraging more FDI from the European Union, United States and elsewhere. Today more than ever, Korea is your China connection.

Yes, this has long been the case. Korea and China have been economically close for thousands of years, China is our number one investment destination, Korea is China’s number one import market, our students made up the largest foreign student group in China in 2013 and we’re a favorite vacation destination for the Chinese.

Now, with the Korea-China FTA, investors can use Korea’s superb infrastructure to expand the success they achieve here, into China. With the economic powerhouses of Beijing, Tianjin and Shanghai located near or on China’s eastern coast, it can be easier, logistically speaking, to source from Korea than from other parts of China. Leading Korean companies are leveraging their location-related advantages, which now include the won-yuan direct trading market, to access markets across China, and foreign-invested companies can do the same.

Another reason I’m confident Korea can not only maintain, but increase, its strong FDI inflows is, it’s easy to do business here. The World Bank says we’re the fifth easiest country globally in which to do business, thanks to our strengths in trading across borders, enforcing contracts, resolving insolvency and getting electricity, and to how we’ve improved our systems for starting a business, granting construction permits and protecting minority investors. Of course, Korea’s efforts to reduce regulations are more proof of just how business-friendly we are.

One of the words that I think best describes Korea as an investment destination is “springboard.” Imagine a sturdy yet flexible board from which you can jump higher than you thought possible. That is Korea. Here, you can jump from being a start-up business to a profitable business, from domestic success to success beyond borders.

As you start the year reflecting on where you are now and where you want to be, I encourage you to choose Korea as your springboard — and jump.

Sincerely,

Kiwon Han
Head of Invest Korea
Invest Korea News

KOTRA AND FOREIGN-INVESTED COMPANIES HOLD ENVIRONMENTAL PROTECTION CAMPAIGN

The Korea Trade-Investment Promotion Agency (KOTRA), of which Invest Korea is a part, and the European Chamber of Commerce in Korea (ECCK) held an environmental protection campaign to encourage the use of eco-bags on December 4 at Soongsil University as part of their corporate social responsibility (CSR) work and to improve public awareness of foreign-invested companies.

About 70 people participated in the campaign, including members of Grow Together, a CSR group of Korean university students whose goal is to improve foreign-investment awareness in Korea, and the staff of European companies, including Audi and Henkel. The participants gave out eco-bags with images of endangered species and highlighted the harmfulness of plastic bags and waste.

KOTRA and the ECCK established Grow Together in 2013 to carry out CSR programs.

FDI ATTRACTION WORKSHOP REINFORCES RELATED SKILLS AND STRENGTHENS NETWORK

The 2014 Workshop on FDI Attraction in Korea was held Dec. 17 at LIG Ingenium in Suwon by the Ministry of Trade, Industry & Energy, Invest Korea and branches of local governments and free economic zones (FEZs) related to foreign direct investment (FDI). The aim was to share about the government’s investment promotion policies and the main projects of local governments. Participants included 23 officials from KOTRA’s overseas offices, who also participated in a joint event called the 2014 Workshop on Foreign Direct Investment in Korea for Overseas KOTRA Trade Center Staff, 20 Invest Korea employees and about 45 officials from local governments and FEZs.

The workshop covered not only foreign investment outcomes and the related outlook, but also investment strategies having to do with the Korea-China FTA, which was concluded last year. Also, through one-on-one consultations between KOTRA’s overseas branches and local governments, much information about foreign investment promotion was exchanged. The workshop helped reinforce knowledge and skills related to FDI attraction and strengthen the network between KOTRA’s headquarters and overseas offices.

Foreign Company News

VOLVO VICE PRESIDENT SEES POTENTIAL IN KOREAN MARKET

Thomas Andersson, Vice President of International Volvo Cars, expressed his commitment to securing the Korean market at a press conference on December 4 in Busan.

“The key value of Volvo is still safety, but the company is also transforming to become a young and dynamic brand. We will conduct marketing to show the appeal of Volvo to young Korean consumers,” said Andersson.

Volvo opened an exhibition hall (1,773.41 m²) in Haedundae District, its largest in Korea. Volvo has a 1.6 percent market share of Korea’s foreign car market. However, Volvo sold 2,773 cars in the January-November period of last year, which marks a 61.7 percent increase year-on-year.

“We have acknowledged the importance of the Korean market since a few years ago, and our headquarters in Sweden and Volvo Korea have been closely negotiating to implement new growth strategies. We are executing a mid- and long-term investment… as a part of the new strategy,” said Andersson.

Korea News

KOREA-AUSTRALIA FTA OPENS AUSTRALIAN GOVERNMENT PROCUREMENT MARKET

The Korea-Australia Free Trade Agreement, which went into effect December 12, will help Korean companies make inroads into Australia’s government procurement market, which is worth KRW 40 trillion (USD 36.5 billion).

According to a December 12 KOTRA report on the current status of this market and measures to enter it, the effectuation of the bilateral FTA has substantially reduced barriers to Australia’s government procurement market, 15 percent of which is accounted for by foreign companies.

The participation of Korean companies in the Australian market has been small, as Australia is not a member of the Government Procurement Agreement of the World Trade Organization.

The bilateral FTA includes a provision on the mutual openness of the procurement markets of the two countries, which will give Korean companies an edge to enter the Australian procurement market.

Government & Policy

MOTIE TO INVEST KRW 3.1329 TN IN INDUSTRIAL TECHNOLOGICAL INNOVATION R&D IN 2015

The Ministry of Trade, Industry & Energy (MOTIE) will invest KRW 3.1329 trillion in research and development (R&D) for industrial technological innovation in 2015.

An integrated action plan announced by MOTIE for the year’s industrial technological innovation projects accounts for KRW 3.1329 trillion of MOTIE’s total investment of KRW 3.4660 trillion in R&D, and will support plans for 75 projects.

MOTIE will provide project information via the website of the Korea Evaluation Institute of Industrial Technology to help participants better understand the projects.

Having introduced its integrated action plan in Seoul and Daejeon in December, MOTIE plans to present it to other regions in the first half of the year.
Industry

Outlook for 12 Leading Industries

Korea’s leading sectors are expected to see modest export growth and low production growth this year as they cope with changes in the industrial environment and competition.

In 2015, the exports of Korea’s 12 leading industries are expected to post 3.4 percent growth—slightly higher than in 2014—considering the global economic recovery and increase in demand for parts, particularly in industrialized countries like the United States. On the other hand, domestic production and demand will see a slowdown in growth.

**Exports**

Forecasts for this year include record-high growth in the information technology (IT)-related manufacturing sector (4.5 percent), and more growth than in the non-IT-related manufacturing sector (2.3 percent). The second half of the year is predicted to bring higher economic growth than the first half. By sector, exports in all sectors except oil refinery are expected to see growth. In particular, shipbuilding and semiconductor, whose export volume is large, will continue to do well in exports, with about 7 percent growth.

**Shipbuilding**: The sector is forecast to record about 7 percent growth with the delivery of high-priced offshore plants, whose exports were partly put off in the past year, and the portion of orders covered by the increase in ship prices in 2013.

**Semiconductor**: This industry will post about 6.1 percent growth following the market expansion for business servers and increase in demand in new application sectors like wearable devices, solid state drive (SSD), automobile production and medical equipment—this, despite the saturation in the world’s PC and smartphone market.

**Home appliance and display**: Having recorded negative export growth in the past year, these sectors are expected to post positive growth. In particular, the display sector is forecast to turn around from the shrinkage that started in 2012 and see both supply and demand enter a recovery phase, with the following factors acting in its favor: stabilization of panel prices, increase in demand for larger TV panels and increase in demand for UHD and OLED panels.

**Automobile**: Automobile production is expected to see growth of about 2.8 percent due to the weak Japanese yen and sluggish demand from emerging countries, despite a rise in export unit prices and an increase in parts exports by domestic businesses to their production bases in foreign countries.

**General machinery**: This industry is expected to post 3.1 percent growth following the economic recovery of industrialized countries and increase in demand for air-handling devices and pollution-removing goods amid a greater interest in the environment.

**Material industry**: Growth here is expected to slow compared to the past year. The entire material industry will record 1.6 percent growth. By sector, petrochemicals will post 3.6 percent growth. The iron & steel sector will record weak growth of 2.3 percent due to a slowdown in demand from the Chinese market and fierce competition with Chinese and Japanese businesses. Textiles will post 1.9 percent growth due to a slowdown in demand from China despite the economic recovery of industrialized countries and Southeast Asia. Oil refinery will post negative growth.

**IT-related manufacturers**: Exports of home appliances are forecast to turn around and record 2.8 percent growth following an increase in demand for TV sets and lighting fixtures. Information/communications devices are predicted to record 3 percent growth based on an increase in the exports of SSD, smartphones and parts, despite unfavorable factors like the fall in export unit prices of smartphones and fierce competition with Chinese-made goods.

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Nowadays, small, late-starter business sectors are doing well in exports, making up for a drop in exports of the 12 leading industries. The share of the seven major late-starter sectors (heavy electric equipment, plastic goods, secondary battery, semiconductor/display-making equipment, alarm signal device parts, cosmetics and electronic medical equipment) in Korea’s entire exports increased from 4.9 percent in 2010 to 6.6 percent in 2013. The seven sectors that are doing better than the others posted an average growth rate of 17.2 percent vs. about 10 percent in entire exports between 1998 and 2013. Their share of the country’s total exports is forecast to grow in 2015.
PRODUCTION

In 2015, production for the 12 leading industries is forecast to record low growth due to a modest increase in exports, a slowdown in growth in domestic consumption and an increase in overseas production in major sectors like IT-related manufacturing and automobile manufacturing.

By sector, production in the petrochemicals and textile industries is expected to fall compared to the past year, whereas other sectors such as shipbuilding and semiconductor will post a 1 - 3 percent increase. Production in IT-related manufacturing sectors will record modest 3 percent growth considering the lower-than-expected growth trend and increase in the overseas production of smartphones, displays and semiconductors.

The display sector is expected to turn around and post 3 percent growth following the recovery in exports. Home appliances will turn around and record growth, but the growth rate will remain at 1.9 percent due to an increase in the overseas production of premium home appliances. The semiconductor and information/communications equipment sectors will post growth close to 3 percent amid an increase in production of DRAM and AP, an increase in demand for cell phone parts and the slowdown in growth owing to an increase in overseas production.

Looking at production in non-IT-related manufacturing sectors, they will record low growth in general. By sector, petrochemicals and textiles will post a decrease due to factors like sluggish domestic consumption, a drop in production unit prices and an increase in the import of high-priced goods. Auto manufacturing and shipbuilding will turn around to post modest growth.

Production in shipbuilding will turn around to record 0.8 percent growth with the increase in shipbuilding tonnage through the delivery of orders received in 2013, despite sluggish overall maritime operations. Auto manufacturing will also turn around to post modest growth thanks to improved domestic production conditions despite an increase in demand for imported cars and overseas production. As for food & beverages, the sector is forecast to record 1.6 percent growth based on decreasing consumption trends despite the market expansion for health foods, organic foods and premium foods.

In 2015, the growth of Korea’s leading industries is likely to be affected by factors such as a weak Japanese yen, fierce competition with Chinese and Japanese businesses in leading sectors, an increase in overseas production and the effectuation of the South Korea-China free trade agreement.

A persistently weak Japanese yen in 2015 will have a serious negative impact on the country’s exports of oil refinery and auto manufacturing, where domestic businesses are in competition with their Japanese counterparts.

Korea is in fierce competition with Japan in high-added value items like gasoline, diesel and aviation fuel. Thus, the continued weakness of the yen will negatively impact the country’s oil refinery exports. Sectors like textiles, household appliances, shipbuilding and food/beverage, where the competition with Japan is not fierce, are expected to see reduced profitability and a decrease in exports. As for sectors such as iron & steel, general machinery, semiconductor, information/communications equipment, display and petrochemicals, in which competition with Japan is not fierce or in which Korea enjoys a superior position to Japan, exports will hardly be affected by a persistently weak yen.

Korea’s leading industries need to cope closely with changes in the industrial environment and competition with rival countries and take a preemptive step toward enhancing their innovative capability for sustained growth.

They should strive for product differentiation and the exploration of promising export items to survive the competition from China while doing their best to explore new markets, including those in Southeast Asia. They also need to reinforce their monitoring system with regard to environmental issues, protectionism, trade trends and the weakness of the Japanese yen. Leading industries should turn their goods into high-added value ones, fully utilizing their advantages, while taking a preemptive step for promising items.

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Pushing Forward FDI Policies to Create High-Added Value

The Korean government aims to attract more headquarters and R&D centers of global companies

Policies for attracting foreign direct investment (FDI) can be categorized as follows. Starting with simple capital attraction for filling coffers, economies pass through a stage in which they aim for economic revitalization by creating jobs and boosting domestic demand. They then enter the strategic FDI promotion stage, a mature phase for fostering strategic industries for industrial sophistication. In the final stage, a country creates a business investment hub, which is key to developing FDI attraction policies. Turning the Asian Financial Crisis of 1997-98 into an opportunity, Korea actively promoted FDI based on the recommendations of the International Monetary Fund in order to build up foreign reserves, which led to rapid economic growth. Today, Korea’s FDI policies are in the mature stage of strategic FDI promotion.

At a Blue House meeting with the CEOs of foreign-invested companies hosted by Korean President Park Geunhye early last year, the government unveiled a set of policies to actively promote FDI as a first step toward economic innovation. The policies focus on attracting high-value added investment by hosting more regional headquarters and R&D centers of global companies through introducing a system that acknowledges these headquarters and R&D centers as what they are and reinforcing support measures. As the key role of multinational companies in Korea has shifted from manufacturing to serving as regional headquarters or global R&D centers, the Office of the Foreign Investment Ombudsman has continually suggested that the government expand incentives for these establishments. The government has decided to come up with reasonable acknowledgement standards through considering the characteristics of headquarters and cases of other countries, and to offer a range of incentives tailored for headquarters.

The government revised the Foreign Investment Promotion Act last October to introduce recognition/acknowledgment standards for regional headquarters and R&D centers and amended the Restriction of Special Taxation Act in December to offer tax benefits. In accordance with the revision, a company should meet the following requirements to be recognized as a regional headquarters. First, the sales of its parent company should have exceeded KRW 3 trillion (USD 2.7 billion), on average, for the past five years, or the company should be acknowledged by the Foreign Investment Committee based on the development market index, global market share and asset size. Second, it should perform core tasks, such as sales, production, raw material supply and HR policy regulation, for more than two overseas corporations. Third, it should have more than 10 full-time employees. And fourth, its foreign investment should account for more than 50 percent of the total investment. To be recognized as an R&D center, a company should recruit more than five full-time researchers who have a master’s degree or a bachelor’s degree and more than three years of research experience, and should invest more than KRW 100 million in R&D facilities. Also, its foreign investment should account for more than 30 percent of the total investment.

With customized incentives for headquarters, foreign executives and employees of the headquarters will be continuously entitled to a special income tax rate of 17 percent, regardless of income amount, for years to come. In addition, an advance adjustment system, through which the National Tax Service and Korea Customs Service adjust tax bases for the proper imposition of income tax and customs duty, will be introduced for transactions between the domestic corporation of a foreign company and overseas subsidiaries, to resolve uncertainties arising from discrepancies between national tax and customs assessment standards. The range of subjects to be exempted from the mandatory submission of evidentiary materials for taxes on the service transactions of global companies will be expanded. And the foreign employees of a headquarters can stay in Korea up to five years instead of the current one to three years with a D-8 visa.

For R&D centers, foreign engineers working in them will be subject to a 50 percent reduction of income tax for two years, until 2018. The government will support the participation of these engineers in industry-academia-institute research and joint research with domestic institutes for government projects. The centers will receive support for renting both state-owned land and buildings. And to receive these benefits, companies should apply for regional headquarters / R&D center acknowledgement by submitting required documents to the Ministry of Trade, Industry & Energy.

These institutional improvements and this policy implementation are expected to not only help multinational companies in Korea set up proper business strategies, but also serve as a turning point to attract high-value added foreign investment.

By the Office of the Foreign Investment Ombudsman

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In It for the Long Haul (cont.)

“This is a very advanced market when it comes to protecting the environment,” he said. “Environmental questions have become very, very important in this business.”

Having exported its first truck to Korea in 1967 and later brought in vehicles through the now-defunct Korean car manufacturer Asia Motors, Scania officially became a foreign-invested company in Korea in 1995. While much of the auto technology prior to that time came to Korea from Japan, Asia Motors saw an opportunity to bring more advanced technology from Europe.

It all started with the tipper truck, or the dump truck. During the Korean construction boom of the early 1990s and 2000s, about 90 percent of Scania Korea’s sales were of tipper trucks.

Today the company sells three types of trucks – tipper, tractor and cargo – for a total of 700 to 900 trucks sold a year. The company started selling cargo trucks here in 2011, becoming the first European corporation to do so and thus beginning to offer customers a complete heavy truck line.

Tractor trucks are those that can be attached to and pull a vehicle, like a trailer. Cargo trucks not only transport cargo, but also serve as a platform on which the bodywork of trucks for any transport purpose can be built.

Scania Korea also has an engine busi-

ness that is rapidly growing due to the adoption of new environmental regulations worldwide, as new regulations call for new, high-tech engines that meet them, and due to Korea’s strong manufacturing industry. Scania Korea sells its industrial and marine engines to customers including Doosan and Hyundai, which export machinery made with these engines.

“Very small amount of the engines that we sell to Doosan will end up in Korea,” said Farm, using the Korean conglomerate as an example. “And so 99 percent of the engines will be around the world. And in some cases, it will go back to Sweden, where the engine came from.”

Korea is Scania’s second-largest market among 100 for engine sales. Brazil is the largest.

“So we are number two, and that is unbelievable, I would say, for a small country like Korea,” said Farm. “The success in the engine business gives us very much hope for the truck business, now when we go to Euro 6 in Korea.”

Also a part of Scania’s Korea business is a financing entity called Scania Korea Finance, established in 2002. The idea is to provide customers with not only a truck, but financing for the truck. Customers enjoy the convenience of dealing with just one entity throughout the purchasing process while Scania enjoys lower risk.

Scania Korea Group, which includes the finance unit, employs about 200 people. Scania Korea has captive dealers – dealerships owned and operated by Scania – in major Korean cities including Seoul, Busan and Incheon, as well as an industrial complex down south in Sacheon that includes a central warehouse and assembly factory. The company plans to open a dealership this year on land it bought in Dongtan a couple years ago.

Also in the works is a plan to start bringing buses to Korea this year.

“In many ways, Korea can be also an example to the other Asian countries,” said Farm. “If you will be successful in Korea, then the other Asian countries will look at who is actually selling products in Korea. In many ways, this is one of the most advanced markets in Asia.”

The major advantages of doing business in Korea, according to Farm? Hard-working people. (“A problem I have is to try to push the people to have some vacation.”) And the fact that everything works.

“The infrastructure is good, the road network is excellent, the transportation system works, Internet works, the IT works, all the practical things are very, very simple and easy,” said Farm. “I think you will not find any country where things work so well. Day-to-day things.”

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Did you know?

- Scania is part of the Volkswagen Group.
- Scania was founded in the Swedish province of Scania in 1891.
Riding the Winds of Daejeon’s Robust Business Climate

Advances in science and technology will turn the dynamic city of Daejeon into a hub for investment opportunities.

Daejeon, a new hub city of Korea, is not only the mecca of science and technology but also home to the largest research and development (R&D) center in Korea. The city is gaining a global reputation for its business-friendly environment and strategic position – in Korea as well as in Northeast Asia, the center of business and technological research.

Daejeon has been selected as a qualified city for investment by JCR, an international credit rating evaluation, 12 consecutive times and has received a credit rating of Aa3 from Moody’s. The city is the right place to invest, with its highly skilled workforce, special grants, recruitment support for new businesses and cutting-edge distribution infrastructure.

Known as the Silicon Valley of Korea, Daejeon is home to Daejeon World of Motorsport, the leading R&D cluster in Korea and one that was founded in 1974. It has 30 government-funded research institutions, 19 universities and about 400 corporate-affiliated research institutes. It accounts for 15 percent of Korea’s total R&D investment and has the R&D centers of Samsung Electronics, LG, the Electronics and Telecommunications Research Institute and the Korea Aerospace Research Institute.

Daejeon has a population exceeding 1.5 million and an annual trade volume of more than USD 7 million. The city is expanding at a rapid pace and its workforce is one of the strongest in Korea. Daejeon produces about 35,000 graduates annually, and 12 percent of its research workforce has doctorates in natural science and engineering. Researchers specialize in sectors including nanofabrication, biotechnology, nuclear fusion, telecommunications, mechanical engineering, fuel cells and robotics.

Also, the relocation of 10 major government ministries and agencies in 1998 helped simplify investment processes.

There are currently 11 national administrative agencies in Daejeon, the city of administration. A cluster of government agencies provides businesses with swift support. It offers one-stop services for the various licensing-related needs of foreign-invested companies as the central administrative body that can provide all kinds of business support.

Daejeon has excellent logistics and business infrastructure, and this is proven by its competitive business environment and number of venture companies. The city also supports startups and small- and medium-sized companies with funds, purchase contracts and technology accreditation.

Daejeon attracts companies with its business-friendly tax system. The city provides tax deductions and exemptions for the first five years of business to high-tech companies, industrial support service providers and exclusively owned foreign companies.

Cash grants support land and equipment purchases, construction, the hiring and training of employees and expenses for the installation of basic facilities. The city helps companies and individuals thrive in an excellent business environment.

As for the residents of Daejeon, they enjoy high quality of life with multilingual medical services, attractions including the O-World Theme Park and outdoor activities at such places as the Yuseong Hot Springs, Daechung Lake and the Daejeon Arts Center. Located in the heart of Korea and at the crossroads of several major transportation routes, Daejeon is also a hub of transportation.

Global technology companies are increasingly drawn to Korea. Microsoft, Google and Samsung Electronics have invested in cities near Daejeon as more businesses seek to take advantage of the city’s abundant science and technology clusters and skilled workforce. Daejeon also offers employment support and a customized human resource program for high school graduates.

Daejeon is poised to lead the future of science and technology in Korea as it takes an innovative approach to businesses, research and technological advancement.

Attracting businesses with bright plans for the future, Daejeon is tomorrow’s hub for investment opportunities.

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Korean Economic Forecast for 2015

Light and shadows are expected to coexist in the Korean economy in 2015.

The Korean economy in 2015 is likely to be one of both hope and concern. Korea’s greatest hope is to be ranked as an advanced nation by joining the “30-50 Club” (countries with a population exceeding 50 million and GDP/capita over USD 30,000). However, the general concern about deflation is set to continue due to the prolonged low growth rate and low inflation rate. Major characteristics of the Korean economy in 2015 are as follows.

Joining the “30-50 Club”
Korea is forecast to join the “30-50 Club” as its 7th member in 2015. Korea’s entry into this so-called club will be one of the most inspiring milestones in Korean economic history. Most major advanced G7 nations are already members, except Canada. Korea’s credit rating is expected to be upgraded upon Korea’s joining the club, which would contribute to stabilizing macroeconomic sectors including government finance, debt and prices.

Renewal of employment rate record for four consecutive years
The employment structure has substantially improved with the shift in middle-aged individuals and women in the labor market. With this trend continuing, the employment rate for those between 15 and 64 years of age is forecast to reach 66.2 percent in 2015, a record high for the fourth consecutive year. When the quantitative expansion of employment is combined with qualitative improvement, household income will significantly rise and purchasing power will be improved.

Housing market: Boosting domestic economic recovery
The improved housing market is poised to energize the domestic economy. It will recover construction businesses and expand employment. Asset growth following rising property prices will contribute to the recovery of consumption. Housing-related services such as removal, remodeling, leasing and financing will also benefit from the improved housing market.

Concerns about deflation to continue
Concerns about deflation are expected to continue as the low growth rate and low inflation rate persist. A “deflation gap,” or an economic situation in which the real GDP stays below the potential GDP, has continued for nine quarters, and the “negative price gap,” an economic situation in which the real price stays below the potential price, has lasted for as long as 13 quarters. This trend will continue through 2015.

Exports fettered by China
The Chinese economy, which drove Korea’s total export growth in the past, is now exerting a negative influence on Korea’s exports. The main causes are China’s falling economic growth rate and intensified technology following the upgrade of China’s industrial infrastructure.

Fear of weak yen and weakening competitive edge of Korea’s export items
The KRW/JPY exchange rate is expected to fall further in 2015, and the level of export competition with Japan has steadily increased since the global financial crisis. Japanese businesses are likely to make a move to lower export prices in 2015, which will further weaken the competitive edge of Korean export items. When the KRW/JPY exchange rate falls by 10 percent, Korea’s total export amount is expected to drop by 9.2 percent.

Policy suggestions
Positive action by the government is desperately needed to avoid the low-growth/low-price trap. First, the budget for 2015 should be expanded and implemented early in the first half of the year, with the option of further reduction in the base interest rate. Second, countermeasures for revitalizing the housing market should be strengthened to promote asset growth effects to create virtuous circulation that leads to the recovery of private consumption and construction businesses. Third, the government should introduce a policy to initiate qualitative improvements as well as the quantitative expansion of employment to promote the growth of household income. Fourth, there needs to be some fine-tuning, to adjust the speed of the falling exchange rate and to ensure that the exchange rates do not break away too far off the equilibrium exchange rate. Finally, policies to enhance potential growth rate should be consistently enforced.

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Hot Springs Fit for a King

Asan is a city of hot springs rife with healthful properties and that were once visited by royalty.

There’s no better way to thaw out and relax in the thick of winter than with a visit to a hot spring. Asan, in South Chungcheong Province, is the perfect place to do just that. A paradise of hot spring resorts, the city is home to the notable Onyang, Dogo and Asan Hot Spring areas.

Onyang Hot Spring

The history of Onyang Hot Spring dates back to when the area began to be called Onjeong, during the Baekje Dynasty. Later, it was called Onsu during the Goryeo Dynasty and Onyang during the Joseon Dynasty. According to the Annals of the Joseon Dynasty, “King Sejong built a royal court villa in Onyang in the 15th year of King Sejong’s reign,” and “King Sejong stayed in Onyang for the treatment of eye diseases.” Several other kings of the Joseon Dynasty, including Sejo, Hyeonjong, Sukjong and Yeongjo, are said to have enjoyed taking hot spring baths at Onyang.

The Onyang Hot Spring District contains the site of the Joseon Dynasty’s hot spring royal court villa, which disappeared sometime between the Japanese occupation of Korea and the Korean War. However, the Sinjeongbi Monument and Yeonggoedae Pavilion in the garden of the Onyang Tourist Hotel prove that there used to be a royal court villa at the site. Legend has it that the Eouijeong Well, located a 10-minute drive from the Onyang Tourist Hotel, had water that was used to treat King Sejong’s eye disease.

Onyang’s hot spring produces weak-alkaline water as hot as 57°C from underground rock layers. It is known to be effective in treating skin diseases, neuralgia, arthritis and ailments particular to women, as the hot spring is rich in sodium carbonate, magnesium sulfate, potassium carbonate and silicic acid. Visitors can relax and enjoy numerous healing benefits while soaking in the hot spring water.

Dogo Hot Spring

According to legend, the history of the Dogo Hot Spring can be traced back when a king of the Silla Dynasty was injured during a war against the Baekje Dynasty and healed with water from the spring. It has an alkaline value of pH 7.75 and maintains a constant temperature of 25-32°C. A sulfurous spring, it is known to be effective in treating skin diseases, neuralgia, arthritis, arteriosclerosis, diabetes, chronic bronchitis and stomach problems. The hot spring water lies beneath granite rocks, so it is not easy to drill into the ground there.

The hot spring resort was constructed during the Japanese occupation of Korea.

However, it was known as the Onyang-ongneon Hot Spring until a hot spring-themed water park called Paradise Spa Dogo was built nearby in 2008. Nowadays, it is Asan’s representative hot spring. Boasting the conditions of a healthy hot spring, a constant water temperature of more than 35°C, medicinal minerals and aquatic exercise facilities for mental and physical healing and rehabilitation, this hot spring has been designated Chungcheong Province’s No. 1 healthful hot spring. Unlike other hot spring resorts, this one runs Korea’s first Ongung Korean Medicine Clinic, which advises visitors on how to best enjoy the hot spring according to their physical constitution.

Asan Hot Spring

The most recently developed hot spring water in the Asan Hot Spring District is highly alkaline, at pH 9.2, and with medium sodium hydrogen carbonate. It contains more than 20 types of minerals, including germanium, and is known to be good for skin care, arthritis, high blood pressure, stomach problems and neuralgia. The hot spring was discovered in 1987 and designated a hot spring tourist area in 1991. Asan Spavis, opened in 2001, has the largest and best facilities in the Asan Hot Spring District. The hot spring theme park is equipped with year-round water-play and spa facilities that attract adults and children alike.

For more Information

Contact the Culture & Tourism Dept. of Asan City Hall at 041-540-2631, or the Information Center at 1644-2468.

By Suh Ji Min
Assistant Manager
Investment Consulting Center
leticia@kotra.or.kr
Economic Indicators

<table>
<thead>
<tr>
<th>GDP</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal (USD million)</td>
<td>902,300</td>
<td>1,094,300</td>
<td>1,202,700</td>
<td>1,222,400</td>
<td>1,304,300</td>
</tr>
<tr>
<td>PPP (USD million)</td>
<td>1,400,745</td>
<td>1,503,209</td>
<td>1,559,447</td>
<td>1,591,227</td>
<td>1,664,259</td>
</tr>
<tr>
<td>GDP Growth Rate (Y-o-Y) (%)</td>
<td>0.7</td>
<td>6.5</td>
<td>3.7</td>
<td>2.3</td>
<td>3.0</td>
</tr>
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</table>

Source: The Bank of Korea, September 2014

<table>
<thead>
<tr>
<th>GDP Per Capita</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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</thead>
<tbody>
<tr>
<td>Nominal</td>
<td>22,251</td>
<td>24,156</td>
<td>24,454</td>
<td>25,975</td>
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<tr>
<td>PPP</td>
<td>29,825</td>
<td>31,327</td>
<td>32,474</td>
<td>33,791</td>
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Source: International Monetary Fund, October 2014

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<tbody>
<tr>
<td>Exports</td>
<td>363,534</td>
<td>466,384</td>
<td>555,214</td>
<td>547,870</td>
<td>559,632</td>
<td>46,892</td>
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<tr>
<td>Imports</td>
<td>323,085</td>
<td>425,212</td>
<td>524,413</td>
<td>519,584</td>
<td>515,586</td>
<td>41,378</td>
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<tr>
<td>Trade Balance</td>
<td>40,449</td>
<td>41,172</td>
<td>30,801</td>
<td>28,286</td>
<td>44,046</td>
<td>5,514</td>
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<tbody>
<tr>
<td>KRW-USD</td>
<td>1.276,4</td>
<td>1.156,3</td>
<td>1.108,1</td>
<td>1.126,9</td>
<td>1.095,0</td>
<td>1.095,1</td>
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<tr>
<td>33,593.3</td>
<td>28,850.4</td>
<td>18,655.8</td>
<td>50,835.0</td>
<td>81,148.2</td>
<td>9,013.2</td>
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<tbody>
<tr>
<td>269,995</td>
<td>291,571</td>
<td>306,402</td>
<td>326,968</td>
<td>346,460</td>
<td>363,095</td>
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<table>
<thead>
<tr>
<th>Gross External Debt</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>344,607</td>
<td>355,911</td>
<td>400,034</td>
<td>408,928</td>
<td>423,505</td>
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<tbody>
<tr>
<td>3.6</td>
<td>3.7</td>
<td>3.4</td>
<td>3.2</td>
<td>3.1</td>
<td>3.1</td>
<td></td>
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</tbody>
</table>

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</thead>
<tbody>
<tr>
<td>97.1</td>
<td>100.0</td>
<td>104.0</td>
<td>106.3</td>
<td>107.7</td>
<td>108.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: The Bank of Korea

Numically Speaking

USD 30,000

This is the number Korea’s GDP per capita is expected to exceed this year, according to forecasts by the LG Economic Research Institute and Hyundai Research Institute. Korea’s GDP per capita in 2014: USD 28,738.
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