PUTTING A LID ON POLLUTION | 14p
Korea strives to reduce greenhouse gas emissions with a system of emission allowance capping and trading.

Ombudsman’s Office
FIAC MEETING DRAWS OUT ISSUES AND COMMITMENTS FOR RESOLUTION | 16p
Foreign investors shared their grievances and the government gave updates on efforts to improve Korea’s regulatory environment at last month’s FIAC meeting.

ARKEMA & KOREA: PARTNERS WITH CHEMISTRY
Arkema Korea is poised to innovate in an environment ideal for growth.

Denis Tual, president of Arkema Korea, gives a lively interview. He gets up a lot. He rifles through drawers for information on polymers and new production sites. Also the president of Arkema Japan, he mutters something about the thing he’s looking for maybe being in Japan. But ah, here it is.

Pebax. More than half the players in the 2014 World Cup wore cleats made with this Arkema-produced thermoplastic elastomer. The pair of neon green running shoes on Tual’s shelf – those are the type worn by Usain Bolt. They’re next to a cluster of pastel-colored plastic squares that looks like a kid’s toy: Transparent plastic made with Arkema chemicals, the sort that makes up the artificial marble in a bathroom.

“It’s not easy for the public to know what a chemical company is doing, just seeing its plant in a remote industrial place with a lot of pipes and reactors,” said Tual. “But when we see the final product, that helps.”

Arkema, a leading specialty chemicals and advanced materials company headquartered in France, started doing business in Korea in 1993, when it first sold its products here. Known back then as...
Greetings From Invest Korea

Dear Readers,

I’ve been thinking lately about time.

It can be the longest distance. For the philosopher Henry David Thoreau, it is “but the stream I go a-fishing in.” For investors, it’s opportunity; you need to seize it and not wait.

This couldn’t be more true for Korea. Economic developments in the past year have changed the foreign investment landscape of not only this country, but also of East Asia. Three factors strengthen the investment infrastructure of Korea – the Korea-China free trade agreement (FTA), Korea’s membership in the Asian Infrastructure Investment Bank (AIIB) and Korea’s position as an offshore RMB hub nation – making now the ideal time to invest in Korea and use it as a springboard for business across borders.

Let’s start with the Korea-China FTA, which was signed last month. This historic trade pact brings the two relevant economies closer than ever. The fact that Korea also has FTAs with the EU and United States, for a total of 52 countries, makes a big difference here. Companies in China can expand their business globally through Korea’s free trade network, overcoming tariff barriers to enter the United States and EU. Companies from the United States and EU can more easily enter the Chinese market using the Korea-China FTA.

Then there’s the fact that Korea is expected to play a significant role as one of the China-led AIIB’s 57 founding member nations, which account for up to 58 percent of the global GDP and 68 percent of the world’s population. The AIIB is the 4th largest international financial institution after the IMF, World Bank and Asian Development Bank. As demand in Asia for infrastructure and construction projects will rise, the AIIB is expected to grow in influence. Most importantly, the building of infrastructure, increased urbanization and an expanded middle class and ageing society will help Asia become a more dynamic place for business and foreign direct investment.

Finally, Korea last year became the world’s fifth offshore RMB hub nation. You see, China has been designating countries with world-class financial systems as its overseas trading hubs. So now, companies in Korea and China can directly trade and conduct commercial transactions with the RMB. And companies in Korea can directly invest in RMB assets in mainland China. Plus, no more currency conversion costs.

As they say, you need to be in the right time and place to succeed. Korea gives you both.

Sincerely,

Kiwon Han
Head of Invest Korea
Invest Korea News

KOTRA HOLDS INVESTMENT PROMOTION CONFERENCE IN MILAN

On the sidelines of the Milan Expo 2015, a conference promoting investment from Europe into Korea was held last month in Milan, Italy. Attended by about 100 European investors, the event began with opening remarks from Jae-Hong Kim, President and CEO of the Korea Trade-Investment Promotion Agency (KOTRA), followed by a presentation on Korea's investment environment from the Head of Invest Korea, Kiwon Han.

Project managers from Invest Korea also gave presentations on Korea’s logistics (food and cold chain), fashion and cosmetics industries, and introduced a research and development center project by the Italy-based Ingegneria Dei Sistemi SpA as a successful foreign investment case in Korea.

FIRST FOREIGN INVESTMENT ADVISORY COUNCIL MEETING OF 2015 HELD

The Office of the Foreign Investment Ombudsman at KOTRA and the Ministry of Trade, Industry & Energy last month co-hosted the Foreign Investment Advisory Council Meeting at the Grand Hyatt Seoul. Attended by about 50 people, including 13 CEOs of major foreign-invested companies in Korea, 10 leaders of foreign chambers of commerce here, the Foreign Investment Ombudsman of KOTRA and government officials, the meeting aimed to respond to issues raised by foreign investors and accept their recommendations. The meeting, this year’s first, is held twice a year.

One focus of the meeting was the designation of 21 foreign investment officers from as many government ministries and organizations to encourage more foreign companies to invest in Korea and facilitate communication between the government and foreign-invested companies.

Meeting participants were also updated on the government’s efforts to tackle the Middle East Respiratory Syndrome (MERS).

Foreign Company News

SOLVAY CEO VISITS KOREA AMID MERS OUTBREAK

Belgian chemical company Solvay held a press conference last month at the Millennium Seoul Hilton to celebrate 40 years in Korea. Solvay CEO Jean-Pierre Clamadieu emphasized the importance of the Korean market when asked why he decided to come to Korea in the middle of a MERS outbreak. Clamadieu said the World Health Organization has not recommended travel restrictions to Korea and that it is important for the company to keep its promises to customers and partners.

The global chemical company entered the Korean market in 1975. It established a joint venture, Daehan Precision, with Samsung in 1987. In 1988, Honorary Chairman Baron Daniel Janssen of Solvay Group and Chairman Lee Kun-hee of Samsung Group met to discuss ways to do business. Solvay relocated its global business unit headquarters for specialty chemicals to Korea in 2011, hiring more than 500 workers in Korea alone and recording sales of KRW 500 billion (USD 447 million). The company also cooperated with Korea’s Ewha Womans University and opened the Ewha-Solvay Research & Innovation Center (6,600 m²) in June of 2014.

Having invested a total of KRW 250 billion in Korea over the last decade, Solvay plans to complete the construction of a highly dispersible silica plant in an industrial complex in Saemangeum by October of 2016. Highly dispersible silica is the core material of automobile tires.

Korea News

KOREA STARTS FTA NEGOTIATIONS WITH CENTRAL AMERICAN COUNTRIES

Negotiations for a free trade agreement (FTA) between Korea and six Central American countries were declared to have officially started last month. The six countries – Guatemala, Panama, El Salvador, Honduras, Nicaragua and Costa Rica – comprise a regional economic bloc called the Secretaria de Integracion Economica Centroamericana (SIECA).

The pact will be a high-level, comprehensive agreement and the six countries’ first FTA with an Asian country. The trade volume between Korea and the countries was USD 5 billion last year.

Government & Policy

GOVT. ATTRACTS INVESTMENT IN NATIONAL FOOD CLUSTER

The Ministry of Agriculture, Food and Rural Affairs (MAFRA) will strengthen its efforts to attract investment from Chinese food companies in Korea’s national food cluster.

Eleven Chinese food companies have signed investment agreements with the national food cluster thus far.

MAFRA expects trade and investment between Korea and China to expand with the free trade agreement between the two countries. The ministry has already sent an investment promotion team to Yantai City in China to attract Chinese food companies. MAFRA will use Korean food fairs in foreign countries to promote marketing for agricultural food exports and attract investment in the national food cluster.
Putting a Lid on Pollution

Korea strives to reduce greenhouse gas emissions with a system of emission allowance capping and trading

As countries the world over strive to become low-carbon economies, Korea is doing its part to reduce greenhouse gas (GHG) emissions. Just last month, the Korean government announced plans to lower GHG emissions by 37 percent of the projected level by the year 2030. This would set a GHG emission target of 546 million tons for that year, which would be 7 million tons less than a previous GHG emission target that aimed to reduce GHG by 30 percent of the business-as-usual (BAU) level by 2020.

As a part of its efforts to reduce GHG emissions, Korea recently implemented a cap-and-trade system that puts a cap, a limit, on the total amount of GHG emissions an entity is allowed. As for the “trade” part – sources that don’t emit their allowed amount can sell the remainder, and those that have exceeded their limit can buy the unused allowance of others.

The cap-and-trade system is expected to better reduce emissions than would another GHG reduction measure called the target management scheme – by an additional 44 to 68 percent, in fact.

Thirty-eight other countries have adopted a cap-and-trade system, according to Korea’s Ministry of Environment. Thirty-four countries, including 28 European Union (EU) member countries, New Zealand and Switzerland, have implemented a nationwide cap-and-trade system. (In the EU, it is known as the Emissions Trading System (ETS).) The United States, China, Japan and Canada have implemented a cap-and-trade system regionally. Also, Chile, Brazil and Mexico are preparing to adopt it.

The system can minimize costs related to GHG reduction, promote low carbon technologies, help grow the low carbon industry and create jobs. The system can decrease corporations’ marginal costs for GHG reductions by enabling them to adopt various reduction methods. The EU decreased its reduction marginal costs with the system from USD 20 – 655 / ton to USD 14 – 135 / ton. Also in the EU, the number of low carbon-related patent applications doubled following the introduction of the cap-and-trade system. It can boost low carbon industry growth and create jobs as well. The EU was able to secure 33 percent of the low carbon market share through the introduction of the ETS. In the United Kingdom, about 1 million jobs were created along with the growth of the low carbon industry.

The number of low carbon patent applications has increased two-fold in five years since the adoption of the ETS. (London School of Economics, 2012)
New and Renewable Energy Sales Ranking (GDP considered, WWF, 2009)

Status of the UK’s Low Carbon Industry

4% Annual growth rate
1 million Low carbon jobs

"Despite the sluggish growth of other sectors, the low carbon industry posted annual growth of 4% and created about 1 million jobs."
(Secretary of State for Energy and Climate Change, May, 2013)

The history of an emissions trading system goes back to 1997, when members of a climate change-related meeting called the Conference of the Parties agreed to set national GHG reduction targets through adopting the Kyoto Protocol. This led to the development of an emissions trading system.

Cap-and-Trade System Timeline in Korea

Korea set national GHG reduction targets in 2009. They were made by eight policy advisory research institutions, including the Korea Energy Economics Institute, and finalized after 40 industrial meetings, polls, public hearings and other forums. The government established relevant laws from January of 2010 to November of 2012, including the Framework Act on Low Carbon, Green Growth and the Act on the Cap and Trade System.

It set annual reduction targets for each industrial sector and industry in July of 2011. These were finalized through 30 meetings with experts, industrial meetings, public hearings, the operation of a joint governmental taskforce team and more.

In January of 2012, the government implemented a GHG target management system and set goals for each monitoring organization. As a result, Korea saw a GHG reduction of 21.3 million tons the same year. This was 2.7 times higher than the target of 8 million tons.

January of 2014 brought more developments, as the government established a roadmap for national GHG reduction targets that was finalized through a taskforce team involving all relevant ministries, the re-estimation of BAU emissions projections, meetings and more. The same month, the Ministry of Strategy and Finance established the Basic Plan for the Cap-and-Trade System, and the Korea Exchange was designated the country’s carbon trading exchange.

By September of 2014, the Ministry of Environment had established an allocation plan for the cap-and-trade system and finalized the total allowance quantity, allocation method, offset standard and operation standard of reserves for the plan’s first compliance period. The ministry allocated allowances in December. And the Korea Exchange opened the carbon trading exchange in January of 2015.

Specifics of the plan’s implementation, and common misconceptions, are as follows.

Source: Ministry of Environment

Cap-and-Trade System Implementation Specifics

<table>
<thead>
<tr>
<th>Designation of target emitters (July, 2014)</th>
<th>Target: A company that has emitted over 120,000tCO2eq or a factory / building that has emitted over 25,000tCO2eq for the past 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation of emission allowances (Oct., 2014)</td>
<td>Allocated emission allowances for each polluting entity within the total number of allowances set for each business sector</td>
</tr>
<tr>
<td>System implementation (Jan. – Dec., 2015)</td>
<td>Companies pursue economic activities and participate in GHG reduction efforts. Carbon trading at the carbon trading exchange or through over-the-counter transactions</td>
</tr>
<tr>
<td>Performance review (May, 2016)</td>
<td>Receive emission statements from emitters and certify emissions</td>
</tr>
<tr>
<td>Submission and carryover of emission allowances (June, 2016)</td>
<td>Polluting entities submit allowances equivalent to their certified emissions amount. A company whose emissions are less than the allowed amount can carry over their unused allowance to the next implementation year of the same compliance period or to the first implementation year of the next compliance period. A company whose emissions have exceeded its allowance can borrow future allowances from other implementation years during the same compliance period.</td>
</tr>
</tbody>
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Cap-and-Trade System: Common Misunderstandings and Truths

<table>
<thead>
<tr>
<th>Misunderstanding</th>
<th>Truth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies will be burdened with high reduction costs, as high as KRW 12.7 trillion (USD 11.3 billion).</td>
<td>The number of allowances a company requests – the number of allowances allocated # Reduction burden • Factors such as miscalculation of allowances to request, application mistakes and additional allowances from the reserves should be taken into account.</td>
</tr>
<tr>
<td>The strict implementation of allocation guidelines will cause problems when allocating allowances.</td>
<td>The strict implementation of allocation guidelines will ensure the equal allocation of allowances. • An increase of allowances for Company A means a decrease of allowances for Company B and C in the same sector. The government plans to improve relevant laws, including allocation guidelines, in 2015.</td>
</tr>
<tr>
<td>A lack of tradable allowances means a failure of the cap-and-trade system.</td>
<td>A shortage of tradable allowances is natural in the initial phase of implementation. The government will limit the exchange of derivatives such as futures and the investment of non-emitters until 2020.</td>
</tr>
<tr>
<td>The government is unilaterally forcing strict regulations.</td>
<td>Representatives from industries, academia, etc. participated in the implementation / preparation process.</td>
</tr>
</tbody>
</table>
Ombudsman’s Office

FIAC Meeting Draws Out Issues and Commitments for Resolution

Foreign investors shared their grievances and the government gave updates on efforts to improve Korea’s regulatory environment at last month’s FIAC meeting.

Last month, I had the pleasure of hosting my first Foreign Investment Advisory Council (FIAC) meeting, which is held twice a year by my office, the Office of the Foreign Investment Ombudsman.

Designed to give foreign-invested companies in Korea a forum to voice their grievances and to help resolve them, the meeting was attended by 50 people, including the CEOs of foreign-invested companies here, leaders of foreign chambers of commerce and government officials.

I started the meeting with a briefing on the achievements of my office for the first half of the year. FIAC members were also updated on how the government is following up on issues raised at the 3rd Ministerial Meeting on Regulatory Reforms held in May and chaired by Korean President Park Geun-hye. These issues included the creation of an online regulatory portal in which opinions can be shared and 41 regulations that need to be eased or eliminated. I informed FIAC members that the government is reviewing details for this portal and will announce an action plan in the near future. We also presented information on measures the government will take to improve the 41 regulations. In light of the recent Middle East Respiratory Syndrome (MERS) outbreak in Korea, my office passed out material on how the government is responding to the situation.

A focus of the meeting was the new designation of 21 government officials from central administrative organizations in charge of matters related to foreign direct investment (FDI), called FDI Coordinators. They will facilitate the smooth handling of civil petitions filed by foreign-invested companies and liaise between them and relevant ministries to help ensure that issues are addressed as quickly as possible. They will also serve as a grievance-resolution channel by listening to the opinions of foreign-invested companies on matters related to regulation enactment and amendment and conveying them to appropriate ministries. The goal is to improve communication between foreign-invested companies and the government.

Leaders of companies and organizations including BMW Korea, Solvay Korea and the Seoul Japan Club raised 17 suggestions. Eight were addressed as having been taken care of, three involved misconceptions that were immediately corrected at the meeting, one was a straightforward question that was answered and the remaining five were concluded to require further consideration or be difficult to resolve. The FDI Coordinators and I pledged to cooperate to address matters in the long-term.

I closed by acknowledging the gray areas, the ones in which regulations can be unclear or inconsistent and cause difficulties for foreign investors. Though slowly, the government is making progress in this regard and sparing no efforts to improve regulations and the investment environment. I pledge to you, as I did to the FIAC members, that we will strive to produce tangible results for the issues raised during the meeting.

By Dr. Jeffrey I. Kim
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Arkema & Korea: Partners With Chemistry (cont.)

Elf-Atochem, and then Atofina, the company started making acquisitions and entering into joint ventures in Korea in 1998. Since then, Arkema has developed business with growing Korean companies. Today, it has four locations here, two of which are production facilities.

“I think that already, at that time, we had some idea that Asia, and especially Korea, were starting their expansion,” said Tual. “So Korea was naturally a market for Arkema if we wanted to be a worldwide company.”

Last month, Arkema and Korea’s CJ CheilJedang held in Malaysia the grand opening of Arkema’s first world-scale thiochemicals complex in Asia. The USD 450 million investment is a two-part joint venture between Arkema and CJ CheilJedang. It is Arkema’s largest investment ever and first major investment with a Korean company. The first joint venture (Arkema 86 percent, CJ CheilJedang 14 percent) manufactures methyl mercaptan and other substances to be used for, among other things, refining and soil fumigation. The second joint venture (CJ CheilJedang 86 percent, Arkema 14 percent) manufactures bio-methionine for animal feed with on-site methyl mercaptan. The products made in Malaysia will be sold not only in Malaysia, but also in Korea and throughout Asia.

“It’s a major step for us in our relations with Korea,” said Tual. “In many ways, Korea is having a bigger and bigger importance for Arkema globally.”

Arkema has three business segments – High Performance Materials, Industrial Specialties and Coating Solutions – and 12 business units, all of which apply to Arkema Korea. The global Arkema recorded 7.5 billion euros in sales last year, more than 40 percent of which came from Europe, and 25 percent from Asia. Arkema Korea had turnover last year of about KRW 230 billion (USD 204.8 million).

“The growing range will be Asia,” said Tual.

Arkema’s appointment of Korea’s Kyung Nong Corporation last year as its exclusive distributor for Paladin in Korea shows that this range is considerable. The move marks the first entry of Paladin, a new soil fumigant created by Arkema, in Asia Pacific.

With Arkema’s acquisition of water-based rheology additives designer and producer Coatex, the global specialty chemicals supplier Sartomer and, most recently in February, the international adhesives company Bostik, Arkema Korea has merged with the Korea staff of each of the companies.

The goal is to create products that address mega-tendencies including new energies, renewable raw materials, solutions for electronics, water treatment and lighter materials. For Arkema, which ranked among Thomson Reuters’ “Top 100 Global Innovators” in 2014 for its fourth straight year, innovation is key, which makes it a good match for Korea.

“Oh, of course, innovation in Korea – it’s totally natural for Korean people,” said Tual.

Having Korean clients that are global leaders, including Samsung, Hyundai, Kia and LG, helps Arkema Korea be inventive and innovative in meeting their expectations, he added. And though the company does business now with the big players, it is interested in working with small, strong and innovative Korean companies through common ventures or acquisitions in the future.

“We see Korea has a great potential for that,” said Tual.

The president also aims to expand Arkema Korea’s research and development (R&D) resources and staff and possibly partner with a Korean university, as the company already has a partnership with the Ulsan National Institute of Science and Technology for lithium ion battery separators.

Going forward, Arkema plans to use Korea as a hub.

“In the past, we used a lot Singapore as a global Asian hub, but we are starting to use more and more Korea,” said Tual. “I think that Korea could become a hub, a bigger hub of free distribution.”

By Young Chang
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Did you know?

- Kynar 500, a type of metal coating created by Arkema, has been used to protect structures worldwide including the Louvre Pyramid in Paris and the Oriental Pearl tower in Shanghai.
- Arkema is developing high-performance materials for main 3D printing technologies.
- Arkema has 13 R&D centers globally and filed 200 new patents last year.
Known for its abundant natural offerings, ocean resources, more than 2,000 islands and a great climate, Korea's South Jeolla Province (Jeollanam-do) is home to 1.9 million people and stretches over 12,000 km² with five cities.

The province's main industries are petrochemical, metal and shipbuilding, with annual turnover reaching USD 121 billion. The province is working to support the development of these industries as higher value-added industries. At the same time, the new materials, bio-food, electrical facility, eco-friendly mobility and information and communications technology industries are being supported as a new growth power for the province.

Investment environment

South Jeolla Province is located in the southwestern end of the Korean peninsula and in the center of Northeast Asia. Gwangyang Port, located in the province, is Korea's 2nd largest port and ranks 16th worldwide for vehicle handling. The province's Mokpo Port and Muan International Airport are being expanded.

Well-connected to the country's main cities and areas, the province is ideally located for business, especially with Seoul within a 2-hour distance by KTX and 3-hour distance via expressway. Airports in Yeosu and Gwangju, both cities in the province, are easy to access from anywhere in the area.

Companies here include not only global players from Korea, including POSCO, Hyundai and Samsung, but also 240 foreign companies, including BASF, Mitsubishi and 3M.

With a Joint Industrial Harmony Declaration between labor, business, civil and political entities signed in 2006, South Jeolla Province has consistently boasted Korea's lowest labor-management dispute rate.

Special economic zones and industrial complexes

The province's Gwangyang Bay Free Economic Zone (GFEZ) is a great area for foreign investment. There are also three free trade zones (Gwangyang Port, Daebul Industrial Complex and Yulchon 1 Industrial Complex) and 36 industrial complexes designed to meet various corporate needs.

With annual turnover of KRW 122 trillion (USD 109.4 billion), GFEZ has 23 complexes across five areas and over four cities, including Yeosu, Suncheon and Gwangyang. With many chemical and metal companies around the free economic zone, the area is ideal for business partnerships. Foreign companies can enjoy attractive business conditions thanks to a regulatory environment that supports foreign investment through the easing of regulations, tax reductions and policies that promote foreign direct investment.

The Gwangyang Harbor Free Trade Area has become a hub for the distribution, processing and manufacturing industries, while the Yulchon 1 Industrial Complex Free Trade Area is most suitable for the machinery, steel, information technology and new material industries. Also, the Daebul Industrial Complex near Hyundai Samho provides great conditions for machinery and shipbuilding-related industries with standardized factories.

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Korea’s Private Spending Caught in “1 Percent Trap”

Depressed private spending in Korea has served as a stumbling block to growth.

Korea’s private spending is in a long-term slump. The nation’s private spending growth rate has remained far below its GDP growth rate, dragging down the overall economic growth rate. Following a credit card crisis in 2002 and 2003 and the global financial crisis of 2008 and 2009, the gap between Korea’s private spending growth rate and GDP growth rate has showed no sign of narrowing. Recently, private spending has fallen into a “1 percent trap” — the private spending growth rate in 2012, 2013 and 2014 was 1.9 percent, 1.9 percent and 1.8 percent, respectively. This growth rate is expected to remain in the 1 percent range this year, with private spending having risen by 1.5 percent in the first quarter of the year and with fears over the Middle East Respiratory Syndrome having taken a heavy toll on the economy in June. The Korean economy is unlikely to climb out of the 1 percent trap anytime soon.

Private spending: Help or hindrance

In other countries, private spending served as a stepping stone to an advanced economy. Private spending grew faster than GDP, boosting per-capita income above USD 30,000 and USD 40,000. But in Korea, private spending has been a stumbling block in the country’s efforts to join the ranks of advanced economies. Private spending was already low, at 55.7 percent of the GDP, when Korea’s per-capita income was between USD 10,000 and USD 20,000, but fell even further, by 5.4 percentage points to 50.3 percent, for the period in which per-capita income stood between USD 20,000 and USD 30,000.

Then why has private spending been a stumbling block to growth in Korea while serving as a stepping stone in other countries? First, the phenomenon of household income shrinking while corporate income grows is much worse in Korea than in other countries. In leading economies, household income accounted for 76.8 percent of the national income in 2000 and decreased by 2.7 percentage points, to 74.1 percent, in 2012. But in Korea, the decline was steeper, falling from 68.7 percent in 2000 to 62.3 percent in 2012, indicating a 6.4 percentage point decrease. Second, the household debt burden is growing in Korea while it is decreasing in leading economies. Household debt as a percentage of disposable income in advanced countries fell by 2.2 percentage points, from 124.1 percent in 2002 to 121.9 percent in 2013. But in Korea, it jumped by 29.6 percentage points, from 131.2 percent to 160.8 percent in the same period. Third, the force that translates income into consumption is growing stronger in advanced countries but weakening in Korea. The average propensity to consume (consumption as a percentage of disposable income) in advanced countries grew 1.8 percentage points, from 75.9 percent in 2008 to 77.7 percent in 2012, while it contracted in Korea by 1.8 percentage points, from 75.9 percent to 74.1 percent. The reluctance to spend is stronger in Korea than in other countries due to housing instability, employment insecurity and poor financial preparedness against retirement.

Drastic measures needed to escape the 1 percent trap

The first and most important solution would be to increase household income. To create more quality jobs, the government should focus on fostering high value added service industries such as tourism and medical services, and ease unnecessary regulations that hinder corporate investment. Also, the quality of jobs should be enhanced through making non-regular workers regular workers to increase future income, and through other measures. Second, steps should be taken to ensure the rate of household debt increase will not outpace household income growth, and the household debt structure should be improved. Third, to ease worries over financial stability after retirement, post-retirement income should be guaranteed by strengthening social insurance such as national pension, establishing a retirement pension system and promoting the private pension market. Fourth, the price of jeonse (lump-sum deposit) and monthly rent for housing should be stabilized to ease housing cost burdens.

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Creating a Better Regulatory Environment

The Invest Korea Express presents an overview of the government’s recently unveiled Foreign Investment Regulatory Reform Plan.

The Korean government is committed to improving the foreign investment environment of Korea and easing or eliminating regulations that could hinder business. Since taking office, Korean President Park Geun-hye has held three ministerial meetings on regulatory reform, the most recent of which was in May. Attended by government ministers and business leaders, this meeting brought to light 41 regulations related to foreign investment that need to be reformed. Officials also presented a regulatory reform plan that involves the creation of a taskforce and improving communication between the government and foreign investors.

Created in May soon after the meeting, the taskforce comprises officials from the Ministry of Trade, Industry & Energy and other ministries who will keep track of how the 41 regulations are being reformed, by when and under which department. Another key part of the plan is to improve communication between foreign-invested companies and the government through various channels, including the Foreign Investment Advisory Council (FIAC) meeting, which is held by the Office of the Foreign Investment Ombudsman, a part of the Korea Trade-Investment Promotion Agency (KOICA), twice a year and attended by foreign business leaders in Korea and government officials.

A focus of the most recent FIAC meeting, held last month, was the designation of foreign direct investment (FDI) coordinators at 21 central administrative organizations in charge of business related to foreign-invested companies in Korea. These coordinators will help resolve investors’ grievances and improve communication between the involved parties.

As for the 41 regulations the government is working to ease or eliminate, the aim is to ensure that Korea’s regulatory reforms keep up with international standards, to customize regulatory reforms for industries with the potential to attract FDI and to prevent foreign investment-related difficulties through strengthening communication. A summary of the regulatory reform plan is below.

Source: Ministry of Trade, Industry & Energy

Regulations to be reformed are related to key investment components (capital, workforce), pertain to industrial sectors with the potential to attract FDI and affect the overall business climate (environment, labor). The government will carry out reforms to:

1. Keep up with international FDI regulation standards by:
   a. Facilitating the opening of sectors restricted to foreign investors.
   b. Increasing the foreign employment ratio for small foreign-invested companies.
   c. Granting visas for foreign instructors at for-profit training institutes.
   d. Streamlining foreign investment procedures.

2. Customize regulatory reforms for industries with the potential to attract FDI by:
   a. No longer requiring the CEOs of foreign-invested cosmetics companies to submit personal medical certificates for company registration.
   b. Expanding the definition of functional cosmetics.
   c. Allowing the CMO production of animal medicine.
   d. Allowing the partner companies of foreign-invested companies to move into complex-type foreign investment zones exclusively for parts and materials.

3. Prevent foreign-investment related difficulties through strengthening communication by:
   a. Improving regulations related to the environment, labor and tax and strengthening communication.
   b. Increasing the participation of foreign investors in the regulatory decision-making process.
## Economic Indicators

<table>
<thead>
<tr>
<th>GDP</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tr>
<td>Nominal (USD million)</td>
<td>1,094,300</td>
<td>1,202,700</td>
<td>1,222,400</td>
<td>1,305,400</td>
<td>1,410,000</td>
</tr>
<tr>
<td>PPP (USD million)</td>
<td>1,505,299</td>
<td>1,559,447</td>
<td>1,601,229</td>
<td>1,661,723</td>
<td>1,742,016</td>
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<tr>
<td>GDP Growth Rate (Y-o-Y) (%)</td>
<td>6.5</td>
<td>3.7</td>
<td>2.3</td>
<td>2.9</td>
<td>3.3</td>
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Source: The Bank of Korea, June 2015

<table>
<thead>
<tr>
<th>GDP Per Capita</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>Nominal</td>
<td>24,156</td>
<td>24,454</td>
<td>25,975</td>
<td>28,100</td>
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<tr>
<td>PPP</td>
<td>31,327</td>
<td>32,474</td>
<td>33,791</td>
<td>35,277</td>
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Source: International Monetary Fund, April 2015

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<tbody>
<tr>
<td>Exports</td>
<td>466,384</td>
<td>555,214</td>
<td>547,870</td>
<td>559,632</td>
<td>572,665</td>
<td>42,368</td>
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<td>Imports</td>
<td>425,212</td>
<td>524,413</td>
<td>519,584</td>
<td>515,586</td>
<td>525,515</td>
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<td>Trade Balance</td>
<td>41,172</td>
<td>30,801</td>
<td>28,285</td>
<td>44,047</td>
<td>47,150</td>
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<tbody>
<tr>
<td>2010</td>
<td>1,156.3</td>
<td>1,108.1</td>
<td>1,126.9</td>
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<td>1,053.2</td>
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<tr>
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<td>50,835.0</td>
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<tbody>
<tr>
<td>2010</td>
<td>291,571</td>
<td>306,402</td>
<td>326,968</td>
<td>346,460</td>
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<td>374,749</td>
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<table>
<thead>
<tr>
<th>Gross External Debt</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<th>2014</th>
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<tbody>
<tr>
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<td>400,034</td>
<td>408,928</td>
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<tr>
<th>Unemployment Rate</th>
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<th>May, 2015</th>
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<tbody>
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<tbody>
<tr>
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Source: The Bank of Korea

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**Numerically Speaking**

3.7

The Korean economy grew an average of 3.7 percent a year for the last 10 years, ranking sixth among OECD countries for economic growth rate.
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