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Interview

SAYING GOODBYE TO SEOUL

The head of the Kimberly-Clark Global Innovation Center Korea looks back on his time in Korea – on the good times and challenges.

After three years as the first Global Managing Director of Kimberly-Clark’s first Global Innovation Center (GIC) in Asia, Hari Nair left Korea last month for a new opportunity in Malaysia. One of three globally, the GIC Korea was started in 2012 and focuses on research, product development and innovation for consumer products. Before his departure, Mr. Nair was gracious enough to squeeze in some time for an exit interview with the Invest Korea Express.

IKE: How has the GIC grown under your leadership?
Hari Nair: I was fortunate that when I arrived, we already had much of the key ingredients in place. When I got here, what I tried to define was, what does a world-class innovation center look like? To me, it has to have three components: 1) The best talent. 2) A culture which is collaborative and is willing to take some risks along the way to try new things. 3) We have to build an innovation pipeline. We have to come up with a bunch of products that will fuel the growth of the company around the world. In all three areas, we achieved and, in some cases, exceeded our goals. There’s already a proven track record of taking the innovation from Korea to other markets.

IKE: How was your experience heading up the GIC Korea?
Hari Nair: The experience over the past three years in setting up Kimberly-Clark’s GIC has been transformational for me. It’s a once-in-a-career type opportunity. We transformed our innovation center into one of the top multi-disciplinary product development centers in the world.

IKE: What is the future?
Hari Nair: It’s a strategic advantage, in my view, to have an innovation lab that is in the backyard of what the world will look like 10 or 15 years from now.

Interview: “I was fortunate that when I arrived, we already had much of the key ingredients in place.”

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Greetings From Invest Korea

Dear Readers,

It’s been a tough month for business, what with uncertainties related to Greece’s debt crisis and Korea’s outbreak of the Middle East Respiratory Syndrome. But the good news is, we’ve seen a surge in foreign direct investment (FDI) in Korea in June and July – at a time when we most need a boost in investment and consumer confidence.

Korea’s inbound FDI in the last two months, from the Middle East and elsewhere, reached USD 5.53 billion. That puts our total FDI so far this year at USD 10.5 billion – and Korea well on its way to reaching its 2015 FDI target of USD 20 billion.

FDI from the Middle East rose in recent months following a visit to the region in March by Korean President Park Geun-hye. In fact, FDI from the Middle East in the first half of the year was 40 times greater than it was the same period last year.

Korea’s strong recent FDI performance has much to do with three factors that make Korea a promising investment destination. We’re a global free trade agreement (FTA) hub, with 52 FTAs. We’re the fifth-largest shareholder of the China-led Asian Infrastructure Investment Bank. And we’re an RMB hub in which companies can directly trade and conduct commercial transactions with the RMB. In other words, we’re fast becoming the business hub of Northeast Asia.

As we look toward the second half of the year, we at Invest Korea are committed to supporting Korea’s 16,000 foreign investors and unlimited potential investors as we attract more FDI. This means not losing sight of the basics – of the importance of strong communication.

Just last month, three government bodies, including KOTRA, worked together to launch the English version of a website (http://e.better.go.kr) that will help us listen to what foreign investors have to say about regulations and better communicate about what’s going on, policy-wise.

This regulatory information portal lets Korea’s foreign investors give their opinions and suggestions, in writing, about existing regulations they consider unreasonable or inappropriate. They can weigh in on regulatory reform that is about to happen. And they can stay updated on reforms that have been made with regard to 12 sectors. This will be a convenient way for foreign investors to play an active part in Korea’s regulatory system. And it’ll help the Korean government better learn what investors need and want.

As a wise man once said, the most important part of communication is listening.

Sincerely,

Kiwon Han
Head of Invest Korea
Invest Korea News

KOTRA HOLDS FOREIGN INVESTMENT POLICY FORUM

The 2015 Invest Korea Foreign Investment Policy Forum was held at Invest Korea on July 21 to boost the field knowledge of Invest Korea’s employees and discuss the direction of future investment promotion activities.

Attended by representatives of the law firm Kim & Chang, the foreign-invested companies Solvay Silica and Otis Elevator Company and academia, the forum provided an opportunity for participants to exchange information about recent global economic developments, the global investment climate, top countries’ investment promotion efforts and Korea’s investment environment, in order to discuss the roles of sectors in furthering foreign investment in Korea.

GERMANY’S HENKEL TO BUILD JOINT R&D CENTER WITH KOREAN UNIVERSITIES AND RESEARCH INSTITUTES

Henkel, a German industrial adhesive manufacturer, gave a presentation on its cooperation model to 56 Korean companies, universities and research institutes last month at the Conrad Seoul as part of the Global Alliance Project Series (GAPS), organized by Invest Korea.

GAPS aims to share the capital, know-how and marketing channels of global companies and the technology and human resources of Korean small-and medium-sized enterprises (SMEs), universities and research institutes to build mutual cooperation and enhance competitiveness. According to its cooperation model, Henkel will capitalize on its venture capitals to invest in Korean SMEs to build a research center for joint research and development activities.

Invest Korea provided participants with details on the GAPS program and ways to write an effective cooperation proposal. It also held an investor relations session with companies to attract investment from Henkel.

“It would be an opportunity for Korean hidden giants that have top-level adhesive technology to grow together with Henkel,” said Gregg Rossier, CEO of Henkel Korea.

Regional FDI News

VISA PROCESS FOR FOREIGN INVESTORS IN SAEMANGEUM TO BE SIMPLIFIED

Foreign investors in Saemangeum, an area of reclaimed land in Korea’s southwest region, will be able to enjoy a simpler visa issuance process, according to the Ministry of Justice and the Korea Agency for Saemangeum Development and Investment (KASDI).

Employees and families of overseas companies that have invested upwards of USD 300,000 in the Saemangeum area may apply for a tourist visa with a recommendation letter from KASDI. In the past, applicants were required to submit verification related to their financial affairs.

KASDI and the ministry said they will continue to improve the investment environment through pursuing more deregulation in the Saemangeum area, a hub for trade.

Government & Policy

REGULATORY INFORMATION PORTAL FOR FOREIGN INVESTMENT OPENS

A regulatory information portal for foreign investment opened July 27 to support foreign-invested companies and help resolve their grievances.

The portal, established by the government, is related to the work of the Office of the Foreign Investment Ombudsman (o-ombudsman.go.kr). It provides an English version of the regulatory information portal (www.better.go.kr) and aims to make things more convenient for the 16,000 foreign-invested companies in Korea. Via the portal, foreign-invested companies can refer to legislative information during the enactment or revision of regulations and submit their opinions and suggestions. Proposals and suggestions regarding existing regulations will be replied to within 14 days. Other information will include regulatory reform cases for 12 sectors, including finance, territory and the ocean.

GOVT. ESTABLISHES 38 R&D INNOVATION TASKS

The government has established 38 core innovation tasks to improve the quality of research and development (R&D) achievements and support the growth of small- and medium-sized companies.

The government will form a taskforce team and private participation inspection team to swiftly carry out tasks related to R&D innovation. The detailed action plan for these tasks includes developing and strengthening government-funded research centers to resolve the technological difficulties faced by companies through maximizing the centers’ technology, human resources and know-how.

Korea News

KOREA REMAINS NO. 1 FOR SHIPBUILDING ORDERS IN H1

Korean shipbuilders remained number one globally for new orders secured in the first half of the year.

According to Clarkson Research Services, Korean shipyards had 5.92 million compensated gross tons (CGTs) of new orders in the first six months of 2015 despite the fact that the global shipbuilding industry saw a reduction in new orders by half. Japan and China followed.
Inside Korea’s IoT Market

Both the government and companies of all sizes are helping grow Korea’s IoT industry, one of the most promising for investment.

The rapid advancement of information technology (IT) has ushered in the Internet of Things (IoT) era in which people, processors, data and things are all connected through the internet. This means we have entered a hyper-connected society where things are closely connected to each other, like in a spider web. IoT will not only increase productivity and efficiency by promoting creative innovation, but also create new convergence industries.

The IoT market will undoubtedly significantly grow in the near future. Studies from Machina Research and Stracorp show that the global market value will grow 21.7 percent on average a year, from USD 200 billion in 2013 to USD 1.2 trillion in 2022. By country, the IoT market of the United States and China will grow 20 percent and 17 percent, respectively, while that of Japan, Germany and Russia will record 11 percent, 9.6 percent and 8.8 percent annual growth, respectively.

Korea’s IoT market is expected to post CAGR of 29 percent, with the market value rising from KRW 22.82 trillion (USD 1.95 billion) in 2013 to KRW 22.82 trillion in 2022. Although Korea’s share of the global IoT market stood at a mere 1 percent as of 2013, Korea’s preparedness for IoT opportunities was well acknowledged in the 2013 G-20 IoT index, published by the International Date Corporation (IDC). Thanks to its excellent ICT infrastructure, Korea ranked second, following the United States. And IoT promotion policies the government is pushing are expected to create tangible results in the near future.

Domestic IoT Market Status and Prospects

<table>
<thead>
<tr>
<th>Classification</th>
<th>2013</th>
<th>2022</th>
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</thead>
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<tr>
<td>Devices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chips</td>
<td>5.8</td>
<td>38.6</td>
</tr>
<tr>
<td>Modales</td>
<td>10.2</td>
<td>58.8</td>
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<tr>
<td>Terminals</td>
<td>172.8</td>
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</tr>
<tr>
<td>Subtotal</td>
<td>188.9</td>
<td>2,216.9</td>
</tr>
<tr>
<td>Networks</td>
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<td></td>
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<tr>
<td>GSM/HSPA</td>
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<td>0</td>
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<tr>
<td>CDMA</td>
<td>4.2</td>
<td>11.5</td>
</tr>
<tr>
<td>LTE</td>
<td>1.4</td>
<td>4.4</td>
</tr>
<tr>
<td>3G</td>
<td>0.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Subtotal</td>
<td>9.5</td>
<td>16.2</td>
</tr>
</tbody>
</table>

With market prospects bright, major countries including the United States, China and Japan are actively engaged in efforts to promote IoT as a core industry. In 2008, the U.S. government selected IoT as one of the six major disruptive technologies that can affect national competitiveness until 2025 and established a technology roadmap. The government is now focused on establishing hyper-connected infrastructure to expand the communication network to the IoT network.

In Europe, the European Union established an action plan in 2009 to promote the IoT industry. The UK announced an investment plan worth GBP 45 million in 2014 and Germany unveiled Industrie 4.0, a project that aims to increase productivity by 30 percent through IoT utilization.

Asian countries are also working to boost the IoT industry. China established the Sensor Network Information Center in 2009 and Machine-to-Machine Center in 2010. The country currently promotes various IoT policies, including the 12-5 Plan for the Development of Internet of Things. Japan has promoted IoT-related policies since the early 2000s. Through ICT growth strategy meetings, the country’s Ministry of Internal Affairs and Communications established new growth strategies that include the use of smart towns, smart grids and remote monitoring.
In line with global trends, the Korean government designated the IoT industry as one of the new core internet-related industries in its plan to promote new internet-related industries in 2013. The following year, the government announced the Basic IoT Promotion Plan, a comprehensive development strategy that will help the nation become a leader in the hyper-connected raise digital revolution. Co-established by the Ministry of Science, ICT and Future Planning and related ministries, the Basic Plan aims to increase the domestic market size to KRW 30 trillion, raise the number of export companies to 350 and create 30,000 new jobs through increasing productivity by more than 30 percent.

Many companies at home and abroad have entered the global IoT market, supported by IoT promotion policies from their countries. In Korea, local IT companies and telecommunications operators have played a leading role in promoting the growth of the industry since 2014.

Local conglomerates have joined the global competition to preoccupy the standardized IoT platform market, using a core competitiveness gained from their respective fields, including electronics and network. For example, Samsung Electronics has become a competitive smart home device provider through building on its strong manufacturing competitiveness. To preoccupy the standardized IoT platform market, the company has been making various efforts. It has launched ARTIK, a Samsung-developed IoT platform, acquired the IoT platform developer SmartThings, actively participated in global standardization consortiums and more. Korea’s telecommunications giant, SK Telecom, also focuses on network platform development through using its network technologies and infrastructure. Since the launch of the Legacy M2M platform in 2008, the company has been engaged in efforts to develop an IoT platform and has recently developed an integrated IoT platform called ThingPlug.

Local small- and medium-sized enterprises (SMEs) are competing in both domestic and global markets using their creative ideas and services. Local IoT platform developer Daulworks developed an IoT cloud platform called Things+, which enables customized IoT services through various B2B gateways, devices and sensors. The platform is currently used for the management of agricultural produce in Korea as well as for frozen and refrigerated food monitoring in Brazil. Building on their creative ideas and relatively faster decision-making process compared to their larger counterparts, local SMEs are launching various IoT products and services.

As many are optimistic about the growth of the IoT industry, the question is now which sector of the local IoT industry will be most promising. The 2014 IoT Survey, co-conducted by the Ministry of Science, ICT and Future Planning and the Korea IoT Association, shows that the personalized IoT service sector, such as smart home and health care services, will grow most rapidly.

The personalized IoT service sector accounted for the largest share of the total sales in Korea’s IoT-applied service market in 2014, at 39.2 percent, and is expected to continue having the largest share in 2015, at 35.1 percent. Smart home services and health care services are the major segments of the personalized IoT service sector, accounting for 55.7 percent and 22.4 percent of the market share, respectively. Those segments are expected to grow even stronger, supported by government policies. The government secured funds for the development of what is called the Smart City Test Complex (KRW 5.1 billion) and the Health Care Test Complex (KRW 7.5 billion) to support the commercialization of IoT services.

### Sales Ratio of IoT-Applied Services

<table>
<thead>
<tr>
<th>Segment</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personalized Services</td>
<td>39%</td>
</tr>
<tr>
<td>Other</td>
<td>61%</td>
</tr>
</tbody>
</table>

### Major Segments of Personalized IoT Services

<table>
<thead>
<tr>
<th>Service</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smart Home Services</td>
<td>22.3%</td>
</tr>
<tr>
<td>Health Care Services</td>
<td>16%</td>
</tr>
<tr>
<td>Smart Home and Health Care</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

In the long term, IoT technologies are expected to be applied in various sectors, including public safety and security, transportation, buildings and bridges. As the IoT industry will further expand into the personalized service and public sectors, it is undoubtedly one of the most promising target industries for investment. In order to nurture the IoT industry, the Korean government should continue to explore new service models. Most importantly, the government should focus on developing core technologies and services to boost technological competitiveness and thus lead the global IoT market.

By Won-Keun Park
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1. ARTIK: A Samsung-developed, open IoT platform that integrates various functions, including software, driver, storage, security solution, development board and cloud.
2. ThingPlug: An open platform compatible with devices and applications that comply with oneM2M, global IoT standards. The research results of a government project (Mobias) with the Korea Electronics Technology Institute partly contributed to the development of the platform.
Ombudsman’s Office

Grievance Resolution – Across Borders

The Foreign Investment Ombudsman met with the parent companies of foreign-invested companies in Korea to discuss grievances and government support.

As the Foreign Investment Ombudsman, one of the ways I help resolve the grievances of foreign-invested companies in Korea is by visiting not only their domestic offices, but their parent companies. In late June, I took my first such grievance resolution business trip to the United States and visited five companies in two cities.

My office, the Office of the Foreign Investment Ombudsman (OFIO), organizes these visits twice a year. The aim is for me to listen to the grievances of foreign investors and their parent companies, tell them the latest about Korea’s investment climate and government policies and encourage more investment by strengthening the network among the overseas offices of the Korea Trade-Investment Promotion Agency, of which the OFIO is a part, foreign-invested companies in Korea, their parent companies and myself.

Following these visits, I take the suggestions and grievances I’ve received, communicate about the matters addressed with relevant government agencies and actively try to reflect them in our resolution process.

I started with two venture capitals in San Francisco that have invested in Korea. Both said they’d like to see a more streamlined process for investment and fund transactions in Korea. I explained that Korea’s support policies for the financial sector are somewhat insufficient, as the country’s industrial policies had thus far focused mainly on the manufacturing sector. I assured them that I would strive to bring about improvements to Korea’s tax system and create a more predictable investment environment for the benefit of foreign venture capitals. I also told the companies I would encourage venture capitalists to participate as part of the discussion panel in Foreign Investment Week, Korea’s largest and annual foreign investment attraction event, as well as in other useful forums hosted by the OFIO, as this would give them an opportunity to exchange valuable insights and ideas.

I then visited a manufacturing company in San Francisco that plans to build a production plant in Korea to keep up with market growth in Asia. I briefed the business leaders I met on Korea’s recently concluded free trade agreements (FTA), how we have these trade pacts with many large economic blocs and how the Korea-China FTA in particular will offer the company great export-related advantages. I also introduced what incentives the Korean government can give exporters that build production facilities in Korea.

My last San Francisco stop was a biodiagnosis machine manufacturer. Founded by a Korean, the company wanted to learn what requirements they’d have to meet to be considered a “U-turn company” returning to Korea from overseas. I gave them the information they needed, plus incentive-related details.

In New York, I devoted my attention to a company in the healthcare business that has invested in Korea and plans to build a manufacturing plant here as well. It raised issues related to tough market entry due to the Korean government’s price policies for medical devices. I assured them that I would deliver their message to the Ministry of Health and Welfare and help bring about the best possible results.

Through speaking with foreign investors literally coast-to-coast about various issues, my one consistent message was that the Korean government is here to provide support, and that strong relations with my office could help create a virtuous cycle of investment and reinvestment.

By Dr. Jeffrey I. Kim
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Saying Goodbye to Seoul (cont.)

IKE Korea is the world’s most innovative country, according to Bloomberg. Innovation is literally the name of the GIC’s game. Would you say the GIC and Korea are a good match?

It’s a strategic advantage, in my view, to have an innovation lab that is in the backyard of what the world will look like 10 or 15 years from now. So having that ability to innovate in a market that is sort of futuristic is actually an advantage versus having it in a place that isn’t as advanced as Korea in terms of infrastructure and technology.

For me, the definition of innovation is “something new, that creates impact.” So if you go by that definition, I would say the GIC Korea is living up to that definition.

IKE What were the biggest advantages of doing business in Korea?

For me, doing business is actually doing innovation. There are really three strong points that favor Korea, in my view: 1) It’s a technologically advanced market and infrastructure. To me, Korea is the “market laboratory” of the future. 2) Favorable demographics. I like the fact that Korea has two very important consumer segments that are emerging buying powers in the world. The first one is the millennials. The second demographic is the seniors. Having access to these consumers allows us to innovate new products and services that solve their problems. 3) I think Korea has a very strong respect for intellectual property. It’s a very important factor when you’re developing new products and innovations, that you can protect the intellectual property.

IKE Any plans to expand and invest further in Korea?

We’re continuing to invest here in the sense that we’re continuing to grow our talent here, we’re continuing to build more capabilities.

IKE What did you expect from Korea before you got here, and what did you actually find?

I came to Korea with an open mind. I had done previous assignments in China, the United States and India, so one thing I learned is not to set up unrealistic expectations. I expected to come to a more technologically advanced society, and in many ways that’s what I saw. However, what I appreciated more after being here for three years is how much Korea respects its traditions as well.

IKE What was the best thing about living here?

How close our family became. We were already a very close family, but living in Korea made us even closer, as we did everything together as a family. And the other thing is, there’s tons of fun activities to do in Seoul.

IKE What was the hardest thing about living here?

Without a doubt, the most difficult part of living in Korea was the language. It was not an issue in the office, of course, because we speak and communicate in English, but it surprised me how little English is spoken in common places like restaurants. It was never a huge problem, ultimately, because there were always people to help.

IKE Any language-related advice for newcomers to Korea?

My advice is to have a really strong support system around you, especially for communication issues.

IKE You mentioned your family. What are the strongpoints of Korea as a place to raise a family?

Korea is an extremely safe country. We always felt safe, and more importantly, if we ever needed help, we felt the community would be there to help. The other strong point is the many activities I talked about that we could do as a family. This is a very family-friendly city, Seoul. The language issue aside, you start enjoying so much of the other things that the language doesn’t become a problem anymore.

IKE Any words of wisdom for foreign investors new to Korea?

My advice would be to form your own opinions first. There were many people who gave me advice before I came to Seoul about what to do or what not to do, or what challenges I would face. I listened to them politely, but didn’t let it affect my opinion or how I wanted to build the GIC. Had I listened to some of the advice I’d heard, I wouldn’t have tried some of the things which ended up being very successful here.

IKE What is something you discovered through trying to form your own opinions?

At its core, I found that Koreans, like many other societies, want to win and want to play as a team. If the team wins, they win. And the desire for Koreans to be successful and to do well and to be number one was something I wanted to leverage while I was here. In innovation, that’s a really good thing, because most of the time in innovation, you’re failing, you’re not being successful, right? So if you have a strong desire to win but you know you’re gonna be failing a lot, that tells you there’s a really good resilience that people have.

IKE Do you leave Korea changed in any way?

Professionally, the biggest change has been expanding my leadership abilities to build a strong foundation of leadership, culture and innovation here at the GIC. On a personal level, my family and I are really changed by the warmth and care Korea provided us. It’s changed us for the better all around, professionally and personally.

By Young Chang
Executive Consultant / Invest Korea
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Myeongji International City

Myeongji International City is a new town being developed in the Busan-Jinhae Free Economic Zone (BJFEZ). The area aims to provide foreign residents and companies with high-quality living conditions that would help enhance business.

The town, development for which started in 2010, is expected to be completed by next year. It welcomes foreign investors, offices, research and development complexes, foreign educational institutes, and foreign medical institutions. Myeongji International City also includes a zone exclusively for foreign business.

The advantages of doing business in this town include superb incentives and location-related benefits. It is centrally located in a triangular area that connects Busan New Port, downtown Busan, and Jinhae International Airport. As a result, the town seamlessly combines maritime and air logistics. Myeongji International City is poised to be a cutting-edge new city founded on self-sufficiency and environmental sustainability.

Transport Networks

- **0 – 10 km**
  - Gimhae International Airport
  - Namhoe Expressway
  - Coastal Ring Road
  - National Road No. 2, 5, 60, 69
- **10 – 20 km**
  - Busan New Port
  - Busan New Port Railroad
  - Busan Gimhae Light Rail Transit
  - Geoje Bridge
  - Eulsoo Island Bridge
  - Subway, high-speed railroad
  - Gyeongbu Expressway
  - Namhang Bridge, Bukhang Bridge, Gwangan Main Road

Myeongji International City

- **Location**: Myeongji, Busan
- **Size**: 6,397,000 m²
- **Development Period**: 2003 – 2014
- **Developer**: Korea Land and Housing Corp.

- **Planned Functions**: International business, residential, foreign hospital, international school

- **Vision**: To be an international business center for the BJFEZ, provide a pleasant living environment with world-class schools and hospitals and to serve as an ideal business environment with business and R&D facilities that meet global standards

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Types of Support Provided

<table>
<thead>
<tr>
<th>Category</th>
<th>Contents</th>
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<tbody>
<tr>
<td>Administrative</td>
<td>Tailored support for foreign investors</td>
</tr>
<tr>
<td></td>
<td>One-stop service</td>
</tr>
<tr>
<td>Other support</td>
<td>International schools</td>
</tr>
<tr>
<td></td>
<td>Medical centers (Hospitals, pharmacies)</td>
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Bracing for China’s Future Uncertainties

Korea should prepare for the possible ramifications of China’s imminent economic slowdown

China’s economy has grown quickly over the last 35 years, transforming from a controlled socialist to a market-oriented economy. During this period, however, risks and vulnerabilities have increased significantly. Now China’s economy looks like a flying jet with an overheated engine. And Korea could find itself in its wake.

Having grown 7.4 percent last year, its lowest rate since 1990, the Chinese economy is not expected to meet its official growth target of 7 percent this year. This would largely be due to the weak performance of corporate investment and the real estate market. The International Monetary Fund, in its latest World Economic Outlook, forecasts the country will grow 6.8 percent in 2015 and 6.3 percent in 2016. China’s mid- and long-term growth potential is diminishing due to structural factors. Labor input has dropped due to a decline in fertility rates and population ageing. A reduced rate of return on investment has lessened physical capital accumulation. With limited innovative capability, China will struggle to maintain its strong technological progress. The country’s economic slowdown and instability could pose a serious threat to the Korean economy, especially when the side effects of China’s rapid growth signal a hard landing of the Chinese economy.

The country’s major vulnerabilities and risks include property bubbles, shadow banking and local government debt. As estimated by the McKinsey Global Institute, China’s total debt hit 282 percent of its GDP last year, which is larger than that of the United States. At 55 percent of its GDP, China’s government debt is less than the international standard, but local government borrowing has soared by 27 percent a year since 2007, accounting for more than half of the public debt.

Local governments and many enterprises are heavy borrowers in the less supervised and regulated shadow financial sector, a portentous sign of a financial crisis.

The Beijing government has been carrying out structural reforms to promote domestic industry, the privatization of state-owned enterprises and the liberalization of the financial sector. The government strives to prevent a hard landing through close monitoring and a flexible mix of fiscal and monetary policy. But uncertainty remains about whether the economy can achieve a soft-landing and sustained economic growth due to China’s declining growth potential, massive debt and financial risks.

The recent rout in the Chinese stock market has increased uncertainty about the future direction of China’s economy. The Shanghai stock index fell more than 30 percent in just three weeks from June 12 despite a series of government actions, including a cut in interest rates and reserve requirement ratio, suspension of initial public offerings and a ban on short selling. The market was finally stabilized after the government’s use of stronger measures, including the prohibiting of stock sales by controlling stakeholders and provision of unlimited central bank liquidity support to a state-run securities company for stock purchases. While authorities had to re-establish public confidence by showing their ability to maintain financial market stability, strong state intervention in the market reinforced foreign investors’ suspicions about the low transparency, heavy regulations and high political risks of China’s economy.

Chinese policy makers will try to muddle through imminent risks, but China’s economy will inevitably face headwinds due to given uncertainties. Government attempts at a soft landing, deleveraging and structural reforms could be further threatened by external shocks, policy mistakes and political risks.

For Korea, all this could mean a threat to our economy. China imports a fourth of Korea’s exports, which make up 56 percent of Korea’s gross domestic product. Chinese tourists have become Korea’s biggest foreign customer group, and our portfolio investment in China continues to rise.

Korea has not yet prepared for the rapid slowdown of China’s economy. Korea should start by examining the domestic weaknesses of its economy and rebalancing sources of growth. While maintaining the responsiveness of macroeconomic and foreign exchange policies, the Korean government should be aware of the vulnerabilities of large household and corporate debt. Korea must strengthen domestic demand by supporting small- and medium-sized enterprises and the service sector. In short, the Korean economy will have to turn to a balanced growth engine of manufacturing exports and domestic demand backed by the services sector.

By Jong-Wha Lee
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Professor, Economics Department,
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Namdo, a Beautiful Weekend Getaway

Get to know South Jeolla Province with one of eight tour programs.

Namdo, short for Jeollanam-do, or South Jeolla Province, is a popular tourist destination in Korea. It’s well known for its excellent food, beautiful coastal scenery, and rich traditional culture. The only drawback of traveling around Namdo is the fact that it can be difficult without a car. But with the launch last year of the province’s one-day bus tours, called “Namdo Hanbaqui” (Traveling Around Namdo), anyone can get to know the area’s nooks and crannies.

The Namdo tour package includes eight tour programs that cover all the major sights and attractions in the province and include the cities of Gwangju, Suncheon, Mokpo and Yeosu and the island of Jindo. Gwangju Tour Course 1 takes you to historic and traditional places including the Soswaewon garden and Gasa Literature Center. Soswaewon is a private garden built by Yang San-bo, a man who gave up his pursuit of a successful career and decided to seclude himself from soci-ety after his mentor, Jo Gwang-jo, was wrongfully killed in a political strife. Inspired by the beauty and calm of the garden, many Joseon scholars visited the garden for intellectual discussions and to write. Suncheon Tour Course 2 is for those wanting a natural experience, with destinations including the Boseong Green Tea Plantation and Suncheon Bay Ecological Park. The Gwangju tours, which are Tour Courses 3, 4 and 5, focus on the rich traditions and history of Gwangju, covering various museums and parks. Travelers can also enjoy the beautiful coastal view of the Chilsan Sea driving on the famous Baeksu Coastal Road. Mokpo Tour Course 6 is all about fun, dynamic Namdo experience, with tour highlights including Woojeon Beach, the Taepyeong Salt Farm and a culinary trip around the Mokpo train station to experience local specialties and fresh seafood. Yeosu Tour Course 7 takes you to the far south of Korea, where you can enjoy a leisurely stroll along the coastal path. The highlights of Jindo Tour Course 8 include traditional museums, exhibitions and the Jindo Dog Theme Park, where you can enjoy a performance of Korea’s most beloved dog breed, the Jindo.

If you are looking for a perfect weekend getaway for the summer, head to Namdo and enjoy the varieties of the province.

Namdo One-Day Tour Information

Fees: KRW 9,900 (USD 8.48) per tour course (Exception: Yeosu Course 7, KRW 25,000, including a ferry ride)
- Group discount available for 30+ people (KRW 8,000 per person)
- Fees exclude meals, admission to museums, attractions, etc. and travelers insurance.

Reservations: Online reservations can be made on the official tour website or bus transport association website. All tours, excluding Gwangju Course 1 and Suncheon Course 2, run on weekends only. Yeosu Course 7 is only available on the second and fourth Saturdays.

http://www.kamhoaround.com/
http://www.bustago.or.kr

Source: Korea Tourism Organization
http://english.visitkorea.or.kr
# Economic Indicators

<table>
<thead>
<tr>
<th>GDP</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<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>1,732,352</td>
</tr>
<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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</table>

Source: The Bank of Korea, July 2015

<table>
<thead>
<tr>
<th>GDP Per Capita</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal</td>
<td>24.156</td>
<td>24.454</td>
<td>25.975</td>
<td>28.100</td>
</tr>
<tr>
<td>PPP</td>
<td>31,327</td>
<td>32,474</td>
<td>33,791</td>
<td>35,277</td>
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</table>

Source: International Monetary Fund, April 2015

<table>
<thead>
<tr>
<th>Foreign Trade</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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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>
</tr>
<tr>
<td>Imports</td>
<td>425,212</td>
<td>524,413</td>
<td>519,584</td>
<td>515,586</td>
<td>525,515</td>
</tr>
<tr>
<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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</table>

<table>
<thead>
<tr>
<th>Foreign Exchange Rate</th>
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<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>KRW-USD</td>
<td>1.156.3</td>
<td>1.108.1</td>
<td>1.126.9</td>
<td>1.095.0</td>
<td>1.053.2</td>
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<table>
<thead>
<tr>
<th>Balance of Current Account</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>28,850.4</td>
<td>18,655.8</td>
<td>50,835.0</td>
<td>81,148.2</td>
<td>89,220.1</td>
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</table>

<table>
<thead>
<tr>
<th>Foreign Exchange Reserves</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>291,571</td>
<td>306,402</td>
<td>326,968</td>
<td>346,460</td>
<td>363,593</td>
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</table>

<table>
<thead>
<tr>
<th>Gross External Debt</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>355,911</td>
<td>400,034</td>
<td>408,928</td>
<td>423,505</td>
<td>425,449</td>
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</table>

<table>
<thead>
<tr>
<th>Unemployment Rate</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.7</td>
<td>3.4</td>
<td>3.2</td>
<td>3.1</td>
<td>3.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consumer Price Index</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100.0</td>
<td>104.0</td>
<td>106.3</td>
<td>107.7</td>
<td>109.0</td>
</tr>
</tbody>
</table>

Source: The Bank of Korea

## Numerically Speaking

517

This is the number of venture startups that received a total of USD 816.1 million in investment in the first six months of the year. This is an increase of 38.4 percent from a year earlier, according to the Small and Medium Business Administration.
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