THE RISE OF ONE-PERSON HOUSEHOLDS AND ITS IMPACT ON THE FOOD INDUSTRY | 4p

With the increasing number of one-person households in Korea, new trends are emerging in the country’s food industry.

FOREIGN INVESTMENT OMBUDSMAN RESOLVES GRIEVANCES ON FOREIGN EXCHANGE TRANSACTIONS | 6p

WHERE IS THE KOREAN WON HEADED? | 9p

Amidst the global economic slowdown, the rate of the Korean won continues to fluctuate against the US dollar.

IKSAN, KOREA’S NATIONAL FOOD CLUSTER | 10p

STICKING TO PRINCIPLES

Subway International Korea is all about staying true to its roots

In a time when big companies are choosing to follow the latest trends, Subway has been sticking to what it does best for over 50 years. Since founder Fred DeLuca opened up the first Subway sandwich shop in 1965, the company continues to offer a unique dining experience by making submarine sandwiches to the exact specifications of the customer. As a result, Subway has become one of the fastest growing food companies in the world with over 44,000 stores in 112 countries, with Korea being home to almost 200 of these stores.

“Subway is all about being true to its brand,” says Colin Clark, Country Manager of Subway International Korea, who has been with the company since 2007. “Changing your brand and forgetting about what you do best is sometimes what causes a lot of foreign companies in Korea to lose popularity. Korean customers are like customers everywhere and they want what everyone else wants. They want variety, quick service, and healthier options.”

According to Clark, Korea was Subway’s fourth overseas market, following Bahrain, Canada and the United Kingdom. Because Korean consumers focus heavily on well-being and eating healthy, it provided the optimal market for a company which has built its brand on fresh ingredients.

Colin Clark
Country Manager of Subway International Korea
Greetings From Invest Korea

Dear Readers,

I’m thrilled to announce that Foreign Investment Week 2016 (FIW 2016) is just around the corner!

Hosted by the Ministry of Trade, Industry and Energy (MOTIE) and organized by the Korea Trade-Investment Promotion Agency (KOTRA) and Invest Korea, FIW 2016 proudly stands as Korea’s largest international investment promotion event. The annual event, which will be held on September 27-29, serves as a venue for building networks and sharing insights on investment opportunities in Korea. It will also bring together global investors, Korean entrepreneurs and policy makers from central and local governments.

Under the theme of ‘FDI Expansion through Strengthening Global Partnership in New Industries’, FIW 2016 offers informative programs such as investment seminars and forums, one-on-one meetings and industrial site visits. Namely, the Minister of Trade, Industry and Energy will be holding roundtables with investors to hear what Korea can do to improve its investment environment for foreign businesses. You’ll also have the opportunity to learn more about the country’s efforts to bolster its five newly emerging industries: ICT convergence, advanced new materials, renewable energy, luxury consumer goods and biohealth.

On this note, I look forward to welcoming our Honorary Ambassadors for Foreign Investment Promotion for Korea to the event, as they’ve been working hard overseas to forge stronger partnerships between Korea and their respective countries.

Through the event, we hope that you’ll be able to get a better understanding of what Korea is all about. I kindly ask for your continued interest in FIW 2016 and hope to see you in September.

Sincerely,

Yong Kook Kim
Head of Invest Korea
**Invest KOREA News**

**IK INTRODUCES ‘CHINA INVESTMENT DESK’ IN MAJOR CITIES IN CHINA**

On August 29, Invest KOREA (IK), the national investment promotion arm of the Korea Trade-Investment Promotion Agency (KOTRA), held its 4-day investor relations activities in Chengdu and Tianjin. Government officials and leisure-tourism related companies attended the Chengdu event, while logistics-related companies participated at the event in Tianjin.

At the event, IK also promoted its China Investment Desk (CID), which was established to proactively strengthen the investment infrastructure and activities between the two countries following the Korea-China Free Trade Agreement (FTA).

First launched in Korea and Shanghai, China in 2010, CID has since opened four offices in Beijing, Guangzhou, Qingdao and Dalian.

**IK HOLDS LECTURE ON INVESTMENT TRENDS OF KOREAN CONTENT INDUSTRY**

On August 12, Invest KOREA held a lecture titled ‘Investment Trends of Chinese Companies in the Korean Content Industry’ at the Invest KOREA Plaza. Cheol-young Kim, Research Fellow from Hyundai Securities, was invited to present on the status of Korea’s content industry, including its growth caused by the rise in Chinese investments since 2014. Chinese investments to Korea have also expanded from the IT and gaming sectors to the country’s entertainment, cosmetics and biotechnological sectors.

According to the lecture, the success of the Korean content industry is attributed to the slowing growth of the traditional manufacturing industries prompting the need for a new growth engine and the advancement of high-quality content following the changing standards of Chinese intellectual property rights.

**Korea News**

**EXPORTS OF HALLYU-RELATED GOODS SURGE**

Outbound shipments of food, beauty, fashion and personal care products soared in the first half of the year on the back of the growing popularity of the Korean wave, or hallyu.

According to data compiled by the Korea International Trade Association (KITA), exports of such goods amounted to USD 6.79 billion in the January-June period, up 15.2 percent from a year earlier.

Industry watchers said the growth is attributable to the popularity of Korean products in China and other Asian countries.

The growth was mainly driven by cosmetic products with their exports recording USD 1.81 billion during the first half of the year.

Exports of Korean food products also surged 3.5 percent on-year to reach USD 2.43 billion.

**KOREA RANKS 11TH WORLDWIDE IN GDP**

Korea ranked 11th worldwide in gross domestic product (GDP) in 2015, with its global standing rising two notches from a year earlier.

According to the data by the World Bank, the country’s nominal GDP came to USD 1.38 trillion last year, up from 13th place a year earlier. The rise was attributed mainly to lackluster performances by rival economies, such as Russia and Australia, which were hit by plunging commodity prices.

The United States topped the global GDP list with USD 17.95 trillion last year, trailed by China with USD 10.87 trillion and Japan with USD 4.12 trillion.

The data also showed Korea’s per-capita gross national income (GNI) coming in at USD 27,440 last year, or 46th place worldwide, down four notches from the previous year.

**Foreign Company News**

**CHINA’S LEADING DRONE MAKER OPENS FIRST INDOOR DRONE ARENA IN KOREA**

China-based Da-Jiang Innovations Science and Technology Co. (DJI), the country’s leading drone manufacturer, built Asia’s first and largest indoor drone flying field in Korea, which is expected to be a test bed for the first of its kind.

The drone flying field, called DJI Arena, was established in Yongin, Gyeonggi Province, a region in close proximity to Seoul.

“Korea is the best place for new attempts for drones, and the nation has growth potential for sports with high tech technology including drones,” said Moon Tae-hyun, head of the Korean operation of DJI. Moon added that the company is considering building an additional flying field in the country after seeing positive reactions to the new indoor arena.

DJI aims to test the growth potential of its new drone business before making inroads into the global drone flying field market.

**Government & Policy**

**KOREA TO REORGANIZE POLICY ON FEZS**

The Korean government will revamp its policy on free economic zones (FEZs) to attract more investors and foreign companies.

“FEZs played a role in leading South Korea’s economic development to some extent, but there is still more work to be done,” said Trade Minister Joo Hyung-hwan in a breakfast meeting with local experts and businessmen in Incheon on August 19.

The country has designated eight FEZs across the country since 2003, including ones in Incheon and Busan, while a total of 2,189 companies did business there with 96,000 employees as of 2015.

Joo said the government is working on measures to foster the FEZs to become the country’s leading business areas by cutting red tape and giving more incentives to companies.
The Rise of One-person Households and Its Impact on the Food Industry

With the increasing number of one-person households in Korea, new trends are emerging in the country’s food industry.

1. Changing trends of one-person households

One-person households (OPHs) are rapidly increasing due to a number of economic factors like unstable employment and declining income levels, social factors like changing perceptions about marriage, and demographic factors such as an ageing population.

As the economic recession has caused youth unemployment rates and the number of irregular jobs to soar, many young Koreans feel that the job market is increasingly unstable. As a result, there is a growing tendency among them to get married much later or not get married at all, choosing to live alone instead. In addition to such economic factors, changing values have also played a role. They pursue pragmatic values and have different perceptions of marriage, and as a result, more people live by themselves.

OPHs are also increasing among the middle-aged population for a number of reasons. First, more women are making more money and have economic freedom. Family values are also changing. Fathers staying in Korea while their wives and children live abroad for educational purposes are a growing trend as well.

The same is true for the elderly. The ageing population and higher life expectancy are fueling this phenomenon. As many people no longer uphold the tradition of taking care of their parents, more and more seniors end up living alone in their later life.

Global trends of one-person households

Globally, Sweden, Norway, Finland and Denmark have the highest OPH rates among total households. Approximately 40 percent of the total population lives alone in these countries. Among OECD countries, the rate has rapidly gone up since the year 2000 in countries like France, New Zealand and the United Kingdom. The average growth rate of OPHs is expected to be as high as 2 percent by 2030. Korea will also see an average OPH growth rate of 1.57 percent until then.

In Korea, there were only 1 million single-person households in 1990, constituting 9 percent of total households, but the figure surged to 4.89 million in 2014, taking up a considerable 26.5 percent of total households. It is estimated that the number of OPHs will continue to grow to reach 5.9 million by 2020 and 7.1 million by 2030.

2. Effects on grocery and food consumption

As of 2014, the OPHs’ average monthly expense on food, which includes groceries, non-alcoholic beverages, alcoholic drinks and dining-out expenses, was KRW 287,000 (USD 255.43), while multi-person households (MPHs) spend about KRW 387,000 (USD 344.43). The Engel’s Coefficient, which shows the proportion of income spent on food, was slightly higher for OPHs (29.2 percent) than for MPHs (27.1 percent).

It was found that low and middle-income OPHs consumed less food than MPHs, but high-income OPHs generally consumed more than MPHs. For fruits and processed food, singles aged below 40 consumed less than half that of those living with other family members. OPHs aged over 60 consumed less than half in animal products compared to MPHs. One interesting finding was that fishery products were considerably less consumed by OPHs in all age groups. In addition, consumption of instant frozen food has grown impressively since 2013, and especially among single-person households aged below 40.

Impact of increased OPHs on food expenditure

It is estimated that during 2006 and 2014, 28.6 percent of the overall change in food expenditure was caused by changes in the demographic and generational structure, while income and cost changes accounted for 71.4 percent of the change. It was found that OPHs have higher price elasticities for fresh and processed food and dining out, as well as higher expenditure elasticities for processed food and dining out. As OPHs respond to prices more sensitively than MPHs, it is expected that their expenditure on processed food and dining out will go up faster than that of MPHs with the increase in income.
Food purchasing and dining-out patterns

In the Household Income and Expenditure Survey, 42 percent of OPHs responded that they go grocery shopping less than two or three times a year, and 23 percent said they never do so. Products like microwaveable rice and pre-washed and cut fresh fruit were especially popular among them.

As opposed to MPHs, 53.6 percent of whom made kimchi on their own, only 19 percent of OPHs made kimchi at home. In addition, 43.2 percent and 50.2 percent of OPHs said they used soybean paste and red pepper paste sold in stores. Only 11.6 percent and 11 percent of them said they make such pastes at home, while 20.4 percent and 18.9 percent made the pastes at home, respectively.

More than twice a week, 18.2 percent of OPHs purchased fully-cooked products (food such as gimbab, or seaweed rice rolls, and lunch boxes) and 9.6 percent of them bought half-cooked products (various kinds of stew/soup, bowls of rice with toppings, and marinated meat, all ready to be eaten after a simple cooking process). These percentages were higher than MPHs’ 10.4 percent and 8.6 percent, respectively. Particularly, 26 percent of singles less than 40 purchased fully-cooked products more than twice a week.

OPHs also dined out more frequently than MPHs, with 15.8 percent of them eating out two or three times a week and 14.4 percent doing so once a week. When examining those who ate out more than twice a week according to age, 29.1 percent of them were less than 40 years old, but only 12.0 percent were aged over 60. This indicates that the younger the singles are, the more often they eat out alone. In terms of restaurants, Korean restaurants were most preferred.

Change in the distribution market

In the distribution market, the rise of OPHs is increasing the demand for convenience stores, expanding online platforms such as online supermarkets and changing the product composition in the shelves of large supermarkets. Convenient stores have also recently recorded high growth numbers. Processed and instant food products are taking up an increasingly higher proportion in overall sales, along with products packed in small quantities. In addition, online distribution channels, sales of food/beverage and animal/fishery products are growing quickly. Large supermarkets, on this note, are starting to stock more products for quick and easy meals, while carrying out active marketing strategies targeting one-person households.

3. Analyzing the impact of OPHs on the food industry

With the increase of OPHs, two new trends have emerged—first, the rise of small portion/quantity products and second, the increased demand for “instant” food such as precooked food. Sales growth for the food manufacturing industry has been continuously increasing since the year 2000, especially with lunch boxes, pre-cooked meals and healthy foods gaining popularity. In response to the increasing demand from consumers for smaller portion products, manufacturers are developing and launching products with such portions in smaller packages. At the same time, demand for products tailored to the needs of the elderly is fast increasing, but there are not enough products available in the market.

Change in the dining-out market

In the dining-out market (including restaurants and bars), the biggest sales increase came from fast food restaurants and gimbab restaurants, among others. Single-person customers occupied a bigger share in the customer base for restaurants in the fast-food, fried chicken and convenient food businesses. Restaurant businesses are responding to such trends by making designated seats and developing new menus for single customers.

The Impact of Increasing OPH on the Food Industry

| Manufacturing | 1. Higher demand for smaller portion products |
| Distribution | 1. Increased demand for convenient stores |
| Dining out | 1. Growth of delivery and take-out market |
| | 2. Increased sales of fast food and other restaurants (snack bar and gimbab stores) |

4. Conclusion

The government should devise policies to improve education on healthy dietary life, especially for those living alone since they are not receiving the right amount of nutrients on a daily basis. Such education programs should be better operated at the local community level. The government also needs to facilitate food support programs for the under-nourished. For example, various programs like offering nutrition classes at work and convenience stores, as well as cooking classes for single men can be developed and carried out.

Senior citizens living alone need the most support when it comes to food, especially those living in rural areas. Food provided for recipients should be determined by their present dietary habits and nutrient intake. Cooking programs at local kitchens or schools should also be launched to allow people to eat together.

Additionally, the government should devise a food industry policy to enhance the quality of home meal replacements and delivery foods, given the increasing demand for such foods. At the same time, it needs to facilitate the production of special food products for the elderly as their proportion among OPHs is considerably high.

By Kyei-Im Lee
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Although foreign-invested companies take into account various factors before making investments, they can still face unforeseen situations while doing business. One such example is a company that had trouble selecting and purchasing a factory site in an industrial complex, and the process ended up taking longer than expected. But eventually, investment decisions, including land purchase and factory construction, were made by closely consulting with Korea’s local governments and relevant government agencies.

There were issues that still remained when it came to land purchasing as the company had received foreign capital from the headquarters overseas through another commercial bank instead of a principal transaction bank. This bank had reported the purpose of the foreign exchange transactions as export earnings, considering that the purpose of the company’s foreign exchange transactions was to receive export earnings in Korean currency. Strictly speaking, however, the purpose of foreign exchange transactions was not to receive export earnings but to make foreign investment.

After one year had passed since the initial report on the foreign exchange transactions, the company voluntarily informed the Financial Supervisory Service (FSS) that such report on the foreign capital loans as originally filed had stemmed from procedural errors. It then filed a corrected report on foreign currency transactions but the FSS launched an investigation on charge of violating the Foreign Exchange Transactions Act. After a three-month investigation, the case had not been completed and the company asked our office for assistance so that it could proceed with the project without further delay.

Upon notice, the Ombudsman gave his first priority to the expedited processing of the ongoing investigation and took swift measures to get the case completed quickly. Most notably, the Ombudsman visited the FSS to inform of the company’s willingness to take liability for this case and to request that the lengthy investigation be completed faster. Furthermore, our office beefed up efforts to quickly resolve the issue without resorting to a drawn-out investigation.

Eventually, it turned out that the company had no intention of evading or avoiding foreign currency transaction reporting. Thanks to prompt measures taken by the Ombudsman and the Korean government, the case was resolved.

For overseas market entry, it is essential for foreign companies to operate and comply with the economic regulations of each country. It’s crucial to closely review the country’s economic and social factors including business feasibility, confirmation and approval practices and taxation regulations. On this note, Korea is determined to quickly respond to the needs and demands of foreign-invested companies.

As for foreign capital inflow, legitimate currency transactions shall be conducted in accordance with relevant legal procedures. In some minor cases, the Foreign Transactions Act in Korea stipulates that foreign-invested companies may submit reports and documents, thanks to free overseas remittances and simplified transaction procedures. But in some cases, particularly in the event that overseas capital inflows create negative economic repercussions, the foreign-invested companies are required to get prior confirmation from the relevant authority. Under the Foreign Investment Promotional Act, foreign investment capital transactions may be replaced by foreign investment notifications. Therefore, foreign currency transactions in Korea shall be conducted in close consultation with relevant financial institutions and comply with such law accordingly.

These days, the Korean government and relevant government authorities are making continued efforts to notify companies of amended laws and regulations. In particular, the regulatory information portal has been in place where pre-announced bills or new regulations are publicly available in English on the Ombudsman’s website and they are being delivered to foreign-invested companies to have their opinion reflected in the legislative process. By being well prepared, adapting to change and continuing efforts to improve regulations can jump-start success for businesses in Korea.

By Dr. Jeffrey I. Kim
Foreign Investment Ombudsman
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By Dr. Jeffrey I. Kim
Foreign Investment Ombudsman Resolves Grievances on Foreign Exchange Transactions

Ombudsman’s Office
Recently, new ‘Complex-type Zone Establishment’ articles have been made to amendments in the Foreign Investment Zone Operation Guidelines.

The current ‘Industrial Cluster Development and Factory Establishment Act’ aims to contribute to the sound development of the national economy through continued industrial development and balanced regional development. The act does so by developing industrial clusters, supporting the smooth establishment of factories and systematically managing industrial sites and industrial complexes. Furthermore, industrial zones under the act may be classified into industrial facilities zones, support facilities zones, public facilities zones and green belt zones. The industrial facilities zones can also be further subdivided by use.

In other words, industrial facilities zones can be subdivided according to factory facilities use, knowledge-based industrial facilities use, information and communications industrial facilities use, resource storage facilities use, waste disposal facilities use, distribution facilities use, regional specialized industry use (only applicable to cases of agro-industrial complexes), electric power facilities use, venture business cluster facilities use, recycling industrial facilities use, the promotion of eco-friendly new technology facilities use and other industrial facilities uses prescribed by the management master plan.

In the case of evaluations by the Evaluation Committee, a management agency shall review and evaluate the purpose of a complex-type zone establishment, products manufactured by foreign corporations that have a shared investment relationship with the foreign-invested companies, or products manufactured by the foreign-invested companies, among others. The total land area permitted to be occupied by the occupant enterprise’s facilities permitted in the complex-type zone shall not exceed 10 percent of occupant enterprise’s total factory area, and rent shall be applied to the facilities permitted in the complex-type zone, which is 5 percent of the acquisition price. In this case, the rent specified in the Foreign Investment Zone Operation Guideline shall not be applied: the rent shall be decided at an amount higher than the average assessed land price of industrial facilities zones and support facilities zones.

At the request of the occupant enterprise, a management agency may sign a move-in contract with the occupant enterprise of a complex-type investment zone, and the management agency may conclude a contract for occupancy with the occupant enterprise within the remaining lease period, and a renewal contract shall be drafted every five years.

In case a management agency permits a complex-type zone, the agency shall include matters concerning the complex-type zone in the management master plan.

As a quick response to the emergence of new industries, the newly-inserted articles on complex-type zone establishment are ultimately expected to provide substantial benefits to the foreign investment zone climate. Such provisions will also be highly efficient for foreign-invested companies through cooperation in their areas of business expertise.

Accordingly, it is our hope that the foreign investment climate would be further improved by setting up support facilities for the welfare and convenience of foreign-invested companies. A complex-type zone can be considered a regulatory improvement on the entry of Foreign Investment Zones. Above all, the prompt amendment to the Foreign Investment Zone Operation Guidelines is welcoming news, as such an amendment brings into light the government’s efforts to further enhance investment policies.

Provided by the Office of the Foreign Investment Ombudsman
With 179 stores in the country, Korea is now the fastest growing market for Subway in all of Asia for the last three years. When asked why Subway chose Korea to expand its business, Clark points out the country’s business-friendly environment and strong purchasing power of consumers as the main reasons. He says that unlike other countries in Asia, the process for foreign companies to expand their business in Korea is quick, easy and transparent. “Korea also does a great job in promoting foreign-invested companies and there aren’t a lot of barriers when it comes to obtaining business licenses,” he adds.

Despite the global economic slowdown, Clark emphasizes that Korea’s economy is still going strong, especially thanks to its extensive free trade agreement (FTA) network. The Korea-U.S. FTA, in particular, has opened more doors for American companies. He mentions that most of Subway’s ingredients would have been almost impossible to import due to tariffs and other regulations, but it’s been a different story since the implementation of the FTA. As Korea has inked trade agreements with 53 countries, including the U.S., China and the EU, the country has become an even more attractive destination for companies like Subway.

Working closely with Korean companies and actively supporting the local business environment have been crucial to the success of Subway International Korea. Most of Subway’s business is set up to work alongside local distributors, suppliers and importers, giving way to stronger synergy and partnerships. It also plans on sourcing more of its products and equipment from the country. “Korea has a fantastic manufacturing industry that is very technology advanced so we plan on purchasing our heavy equipment from Korean companies in the future,” says Clark.

But not everything has been smooth sailing for Subway International Korea, as it faced a number of challenges when it first launched its brand in Korea. Clark cites that some food regulations have made it difficult for Subway to do business in the country early on. Although the Korean government has revised its policies in a bid to resolve grievances for foreign companies, he notes that a number of regulations are still outdated and should be changed to meet the current reality. He adds that along with food-related regulations, revisions to the current labor and tax laws would make things less complicated for foreign companies. “For Korea as a country, it should allow foreign businesses to compete on a level playing field and create more efficient and straightforward policies; these changes would make Korea an even better place for investment,” he says.

As both foreign and local restaurant chains grow in Korea, Subway faces heavier competition but Clark confidently welcomes it, noting that competition always makes things better for the customer. How? “With more competition, companies can’t stay complacent and instead must focus on improving their products to provide better options for Korean consumers.” On this note, he says Subway is working even harder to improve its ingredients to provide the best experience possible, especially for customers here in the country.

Subway is one of the world’s most successful restaurant chains, but Clark emphasizes that the company is still in the early stages of growth in Korea. By developing its brand and focusing on other cities outside of Seoul, Subway hopes to open up its 200th store by the end of the year. And by opening up more stores in the country, it expects stronger cooperation and shared success between foreign and Korean companies to take place in the future.

By Esther Oh
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Economic Analysis

Where is the Korean Won Headed?

Amidst the global economic slowdown, the rate of the Korean won continues to fluctuate against the US dollar

In this era of uncertainty, nothing seems more uncertain than the won-dollar exchange rate. From 2015 and onward, the rate of the Korea won against the US dollar has depreciated from around KRW 1100 per dollar to slightly over KRW 1200 after the US rate hike in December 2015. After reaching KRW 1230 in February 2016, however, the won changed its course and began appreciating until July. But August is a completely different story. The won rate began to exhibit extremely unstable movement, rising over 1 percent a day for a few days, followed by even bigger fall the next day. When almost all Asian currencies (except for the Chinese yuan) were strengthening against the US dollar, the Korean won showed weakness in the month of August.

The daily fluctuation of the won’s exchange rate is relatively extreme compared to other currencies. For example, on August 16, 17 and 19, its exchange rate was much higher against the dollar than both the Japanese yen and the Taiwanese dollar. During this period, the average rate of change in the exchange rate was 0.91 percent for the Korean won, but 0.23 percent for the yen and 0.47 percent for the Taiwanese dollar. It’s only natural then to ask two major questions—first, why is the Korean won showing weakness against the US dollar? And second, why is the Korean won’s daily exchange rate more unstable than other Asian currencies?

The answer to the first question lies in the US rate hike, or its probability. Indeed, the won’s rate is closely connected to the US rate; when the US rate was expected to be raised throughout 2015, the won showed steady depreciation until December 2015. When the possibility of a further rate hike seemed remote in early 2016, the won began to reverse its course and continuously fell until July 2016. In August, when a number of influential presidents of the Federal Reserve Banks publicly stated about the possibility of the US rate hike in September, it shocked the Korean exchange market more than any other market, causing the Korean won to falter at an alarming pace.

As to the second question about the instability of the Korean won, the country’s economy is more dependent on international trade for its growth, and also more open to global investors with relatively freer regulatory environments. These factors of a more open Korean economic structure and freer regulations are hard to deny, but there seems to be very important hidden factor behind the curtain of greater fluctuation of the Korean won—the response from exchange rate policy makers.

Traditionally, the Korean government has been maintaining a strong laissez-faire stance in regards to the management policy of the exchange rate. That is, the government has been subscribing to the policy of minimum intervention in the exchange market, believing it to be more efficient than any other option. Therefore, regardless of whatever happens in the exchange market, almost every participant expects no specific ‘intervention’ by the authority to reverse the market force, rendering the markets more unstable. You can call this “benign neglect”. There are two fundamental reasons for this behavior; first, the Korean economy needs no intervention in the exchange markets because it is very strong and healthy in terms of foreign reserves and the current account surplus. Official reserves of USD 370 billion and the current account surplus of USD 100 billion are more than enough to safeguard the Korean economy from outside shocks. Second, intervention in the exchange market by the authority is one of the crucial actions to be monitored by the US authority, especially under the BHC Act of 2016.

The future direction of the Korean won in 2016 really depends on the US rate hike. If the Feds decide to raise it both in September and December, the won could jump to KRW 1250 or even to KRW 1300. This is because a higher US rate will render significant outflow of tens of billion dollars of capital from Korea. If there is one rate hike in 2016, the effect of the won rate will be less serious. Some would also welcome the depreciation on the grounds that it would help stimulate ailing export industries. It is hard to expect where the won is headed without knowing first where the US rate will go and also how the Korean government would react. But with the US rate hike likely to take place and the Korean government being so benignly neglectful about exchange market intervention, the rate of the Korean won rate could continue to show signs of instability.

By Professor Se Don Shin
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(*) Average of the absolute value of the daily exchange rate
Korea has the 17th largest food market in the world, worth approximately USD 56.9 billion. That’s huge for the global food industry, which is expected to be worth USD 7 trillion by 2020, and experts predict the Asia-Pacific region to make up 40 percent of the market. In particular, Northeast Asia’s food industry has shown steady annual growth of over 30 percent since 2010.

The growth of the food industry is a high priority for the Korean government. In 2008, the Ministry of Agriculture, Food and Rural Affairs established the first government-supported food industrial complex in Iksan, nicknamed ‘Foodpolis’, as a testament to its dedication to the industry.

Iksan City
The government devoted 2.3 million m² of land in Iksan City in North Jeolla Province to this complex, as well as to universities with food research experience. Generous financial incentives were also provided, as the government has earmarked USD 474 million for the project.

The seaside city of Iksan is also located close to major transportation passages. National highways, including the Honam Expressway, run through the city, while it takes just 68 minutes to Seoul and 27 minutes to Sejong City via the KTX. Three harbors (Gunsan, New Saemangeum and Dangjin Harbor) are located within an hour of Iksan, while four airports are within driving distance.

The city of Iksan, in particular, is strategically close to China and other significant neighboring markets, including Hong Kong and Japan.

Foodpolis
The industrial complex of Foodpolis, also known as “Food Science Park” consists of six zones: the enterprise support facilities zone, a private research zone, a strategic food zone, a foreign investment zone, logistics/distribution zone and the general food zone. A waste treatment facility is also available within the complex.

A number of companies have already been closely eyeing this cluster. Korean companies such as Harim Corp., AZ System, Wonkwang Pharmacy, Joun Health and BTC have signed leases. Six foreign companies have filed paperwork to facilitate a move into Foodpolis, including Hampton Grains of the U.S. and Czech brewer Gold of Prague.

The residential district is also under construction at Foodpolis, and this area will include apartments, schools and commercial properties by 2018. Food-related theme parks and cultural faculties are also underway—the Global Food Theme Park and the Food Museum are just some of the examples of the largescale projects planned for the district.

Benefits & Incentives
Furthermore, government incentives have made the area an appealing investment destination. They include corporate income tax exemption for five years (100 percent for three years, 50 percent for the following two years), 100 percent tax exemption from local taxes for 15 years, tariff exemption on capital goods import for five years and up to 75 percent reduction on land leases for 50 years.

Resident employees from Jelloabukdo are also eligible for a stipend up to KRW 1,000,000 (USD 991) per month for every new employee hired beyond 20 people, while Iksan city employees are eligible for a stipend of up to KRW 500,000 (USD 495) in education and training is also provided every month.

Foodpolis is expected to create 23,000 employment opportunities and an estimated economic value of USD 4 billion for Korea. The area is also expected to increase the value of the overall food industry by creating a more advanced industrial structure and a competitive atmosphere.

For more information, visit http://eng.foodpolis.kr
Foreign Investment Week 2016

The Ministry of Trade, Industry and Energy and Invest KOREA, the investment promotion arm of the Korea Trade-Investment Promotion Agency (KOTRA), will hold Foreign Investment Week 2016 (FIW 2016) from September 27 to 29 in Seoul.

FIW is the country’s largest international investment promotion event and will provide key investors and business leaders a chance to learn more about Korea’s investment environment, business opportunities and its foreign direct investment policies.

The highly-anticipated program will consist of various forums, VIP meetings and roundtables for key investors. There will also be one-on-one business partnering meetings and site visits taking place at the event. A three-day program comprised of company visits, cultural events and individual interviews is also scheduled for members of the foreign press.

Economic Indicators

<table>
<thead>
<tr>
<th>GDP</th>
<th>Nominal (USD million)</th>
<th>PPP (USD million)</th>
<th>GDP Growth Rate (Y-o-Y) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1,202,700</td>
<td>1,559,447</td>
<td>3.7</td>
</tr>
<tr>
<td>2012</td>
<td>1,222,400</td>
<td>1,601,229</td>
<td>2.3</td>
</tr>
<tr>
<td>2013</td>
<td>1,305,400</td>
<td>1,661,723</td>
<td>2.9</td>
</tr>
<tr>
<td>2014</td>
<td>1,410,000</td>
<td>1,683,898</td>
<td>3.3</td>
</tr>
<tr>
<td>2015</td>
<td>1,377,500</td>
<td>1,747,598</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: The Bank of Korea, July 2016

<table>
<thead>
<tr>
<th>GDP Per Capita</th>
<th>Nominal</th>
<th>PPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>25,998</td>
<td>33,829</td>
</tr>
<tr>
<td>2014</td>
<td>27,970</td>
<td>35,379</td>
</tr>
<tr>
<td>2015</td>
<td>27,195</td>
<td>36,511</td>
</tr>
<tr>
<td>2016</td>
<td>25,989.9</td>
<td>36,511</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, April 2016

<table>
<thead>
<tr>
<th>Foreign Trade</th>
<th>Exports (USD million)</th>
<th>Imports (USD million)</th>
<th>Trade Balance (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>555,214</td>
<td>524,413</td>
<td>30,801</td>
</tr>
<tr>
<td>2012</td>
<td>547,870</td>
<td>519,584</td>
<td>28,285</td>
</tr>
<tr>
<td>2013</td>
<td>559,632</td>
<td>515,586</td>
<td>44,047</td>
</tr>
<tr>
<td>2014</td>
<td>572,665</td>
<td>525,515</td>
<td>47,150</td>
</tr>
<tr>
<td>2015</td>
<td>526,757</td>
<td>436,499</td>
<td>90,258</td>
</tr>
</tbody>
</table>

Source: Korea International Trade Association, August 2016

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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</tr>
</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>
<td>1,144.09</td>
<td></td>
</tr>
</tbody>
</table>

Source: The Bank of Korea, August 2016

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Balance of Current Account</td>
<td>18,655.8</td>
<td>50,835.0</td>
<td>81,148.2</td>
<td>84,373.0</td>
<td>105,870.7</td>
<td>12,168.4</td>
</tr>
</tbody>
</table>

Source: The Bank of Korea, August 2016
# IK Worldwide
- 36 Korea Business Centers Supporting Foreign Investors Worldwide

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**Clean KOTRA, Green KOTRA**