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Food For Thought

As the world's largest food and beverage company, Nestlé is helping shape a better and healthier world

Erwan Vilfeu
CEO Nestlé Korea



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Dear Readers,

As 2017 comes to an end, I am delighted to greet you all through *KOTRA Express*.

There were a number of significant changes that took place in Korea and abroad, including Brexit, the arrival of new administrations in the U.S. and South Korea and issues with China.

Despite these challenges, Korea has made remarkable progress. Its annual export value surpassed the 500-billion-dollar mark, mainly led by the growth in the semiconductor, petrochemical and steelmaking industries. Now the country is very close to achieving one trillion dollars in trade volume. It also moved up to fourth place in the Ease of Doing Business Index by the World Bank.

KOTRA's Strategic Business Department, for its part, has been committed to providing support for small and medium Korean enterprises on many fronts. In particular, we help marketing activities of consumer goods and service providers in the K-beauty, K-drama and K-food sectors. In May, we launched a research group that explores ways to help service businesses successfully enter the global market. We will continue to offer such focused support for Korean firms, especially regarding their online to offline marketing campaigns.

This month's *KOTRA Express* takes a look at the food and beverage market. We also met with the CEO of Nestlé Korea, one of the world's most popular brands in the industry.

I would like to thank you for your interest in *KOTRA Express* and we will continue our efforts in the coming year to deliver exciting and useful information about Korea.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dooyoung Kim'.

Dooyoung Kim

Executive Vice President for Strategic Business

MDB GDF PROJECT PLAZA 2017

From Nov. 14 to 16, MDB GDF Project Plaza 2017 was held at InterContinental COEX by the Ministry of Strategy and Finance (MOSF), the Ministry of Trade, Industry and Energy (MOTIE) and the Korea Trade-Investment Promotion Agency (KOTRA).

Now in its seventh year, the event aims to help Korean companies join procurement projects financed by multilateral development banks (MDB) and global development funds (GDF). It also seeks

to promote the competitiveness of Korean suppliers to potential recipients. A total of 44 global firms mainly from Costa Rica, India and Serbia presented their project plans totaling at USD 27.3 billion to over 200 Korean firms, and actively discussed ways for cooperation. The Korean government is planning to host a variety of programs that meet the demand of Korean enterprises, so as to encourage them to participate in diverse procurement projects and expand their export portfolio.

KOREA-VIETNAM BUSINESS PARTNERSHIP FORUM

On Nov. 10, KOTRA hosted the Korea-Vietnam Business Partnership Forum in Hanoi, Vietnam on the occasion of the APEC 2017 Summit and the 25th anniversary of the diplomatic ties of the two countries.

The event was comprised of one-on-one business meetings between Korean and Vietnamese companies, seminars on bilateral economic cooperation as well as collaboration in M&A activities, and a technology roadshow. During the event, CSR activities of Vietnamese firms were promoted in an independent booth, and IP consulting services were also offered. The forum laid a foundation for boosting economic exchanges between the two coun-

tries and addressing challenges faced by Korean firms operating in the Vietnamese market.

“For Vietnam, Korea is the largest source of FDI whose cumulative investment amounts to USD 55.8 billion,” said Jaehong Kim, president and CEO of KOTRA. “In fact, Vietnam has received the largest amount of Korean capital among ASEAN countries.”

He also noted that the bilateral economic ties have deepened especially since the Korea-Vietnam FTA took effect in 2015. “As we celebrate the quarter-century anniversary of our diplomatic relations, I hope our economic cooperation advances even further,” said Kim.

KOREA IT EXPO

On Nov. 14, the Ministry of Science and ICT (MSIT) and KOTRA jointly held the Korea IT Expo 2017 in Tokyo, Japan. Japan has become a promising market for Korean small and medium-sized ICT companies, as the country will host the 2020 Tokyo Olympic Games and pushes forward policies to strengthen its ICT industry.

About 40 Korean SMEs in the AI, big data, virtual reality and IoT sectors and 100 major tech firms in Japan including NTT DoCoMo, Fujitsu, NEC and SoftBank took part in the event. The event provided one-on-one business

meetings, job fairs and a seminar on Korea's ICT industry. Most notably, export deals (MOUs) worth USD 10.5 million were struck during the event.

“Due to its dwindling demographics, Japan is highly interested in applying ICT solutions in the retail, agriculture and medical sectors where machines can be widely used instead of human workers,” said Eunho Cho, KOTRA's regional director general for Japan. He emphasized that Japan's ICT market has great prospects and deserves more attention by Korea's creative talent and innovative firms.

COSMOPROF HONG KONG 2017

KOTRA opened the Korea Pavilion at Cosmoprof Hong Kong 2017, in collaboration with the Korea Cosmetic Association and 13 other relevant organizations. The three-day cosmetics trade fair began on Nov. 15. It is the third largest of its kind in the world, and is the biggest and most renowned one in Asia. Particularly this year, Korea was appointed as the Country of Honour, which indicates its ever-growing presence in the

global cosmetics market. During the event, KOTRA held a variety of programs, including a K-beauty seminar and makeup and beauty demonstrations to promote the excellence of Korean cosmetic products.

KOTRA officials add that Korean beauty products are enjoying the boom in Hong Kong, thanks to their quality and reasonable prices, as well as the growing popularity of Korean pop culture.

Trade News

S.KOREA POSTS 69TH CONSECUTIVE MONTH OF TRADE SURPLUS IN OCT.

South Korea's trade remained in the black for 69 straight months on the back of rising global demand for locally made goods.

The country posted USD 7.14 billion in trade surplus in October, contracting from a surplus of USD 13.4 billion tallied a month earlier, according to data by the Korea Customs Service.

Asia's fourth-largest economy has enjoyed a monthly trade surplus since February 2012.

It logged USD 6 billion in trade surplus with Southeast Asian countries last month, including a surplus with Vietnam worth USD 2.3 billion, while it posted an excess of USD 4.66 billion in trade with China, its largest trading partner.

Trade with the United States recorded a surplus of USD 1.29 billion, down from USD 1.86 billion recorded a year ago, amid the Seoul government's efforts to reduce the goods trade imbalance with the world's largest economy.

ECCK SAYS S.KOREA, EU NEED TO START TALKS FOR FTA AMENDMENTS

On Nov. 13, the head of the European Chamber of Commerce in Korea (ECCK) called on the South Korean government to start negotiations to amend the existing free trade agreement (FTA) with the single market to ensure an equal playing field for businesses operating in the country.

In light of the ramifications of the fourth industrial revolution, the free trade deal, which took effect in July 2011, needs to have "more drastic renovation or updates," said ECCK President Christoph Heider in a press conference.

But he made it clear that the FTA has

been beneficial for South Korea and the EU and that the amendment package being sought by the EU is not a renegotiation but an effort to make it a better deal for both sides.

South Korea is the EU's ninth-largest trading partner, whereas the EU is South Korea's third largest export market, ECCK said.

From 2010 to 2016, the EU's exports to Korea jumped 59 percent from 2010 to 2016 and its imports from Korea rose 5 percent.

Government & Policy

S.KOREA TO INJECT KRW 30 TLN TO FOSTER INNOVATIVE STARTUPS

On Nov. 2, the South Korean government said that it will inject a combined KRW 30 trillion (USD 26.9 billion) in the next three years to foster innovative startups and venture firms in a bid to create a virtuous business cycle and secure a new growth engine.

Under the comprehensive plan endorsed by a ministerial level meeting chaired by Finance Minister Kim Dong-yeon, the government will focus on expanding money supply for fledgling enterprises and creating a generally venture-friendly environment.

"The venture capital market in South

Korea has been in the doldrums since the IT boom ended in the mid-2000s," a government official said. "The latest plan is aimed at encouraging talented young people to start their own business and supporting their growth."

The government, in addition, will reduce taxes on profits gained from stock options in startups in order to attract talented people to the sector.

In order to help startups raise funds more easily via stock sales, the government will boost the second- and third-tier exchange markets, such as the tech-heavy KOSDAQ and KONEX.

S.KOREA BUSINESS LEADERS MEET TRUMP AIDES IN SEOUL

South Korea's business leaders met with U.S. presidential aides on Nov. 8 to seek cooperation in their planned U.S. investments.

In a meeting held before U.S. President Donald Trump's speech to South Korea's National Assembly, Lee Dong-geun, vice chairman of the Korea Chamber of Commerce and Industry (KCCI) and the country's major business leaders met with a group of U.S. officials, including Deputy National Security Advisor Dina Powell.

The KCCI vice chairman and the Korean business leaders asked the U.S. officials to improve regulations and other

aspects of the U.S. business environment for their investments there.

The U.S. side said the Trump government will offer more business opportunities to foreign investors as the world's largest economy seeks to achieve higher growth.

In a recent survey of the KCCT's 170,000 member companies, 42 companies answered they plan to make investments worth a combined USD 17.3 billion in the U.S., and 24 firms said they will, taken together, purchase U.S. products worth USD 57.5 billion in the five-year period ending in 2021, a KCCI spokesman said.

Korea' surprising growth and sustainability through innovation

Recently released statistics by the Bank of Korea about the country's economic growth was quite surprising, especially for those who used to have a rather gloomy picture about Korea. Above all, the bank revealed that Korea's third quarter real GDP growth rate was 3.6 percent higher than last year's. As the first and second quarter showed a 2.9 and 2.7 percent growth rate, respectively, a growth rate of 3.6 percent was undoubtedly quite astonishing. Thanks to this outstanding performance, perhaps, the bank readjusted its growth forecast for 2017 from 2.8 percent to 3 percent. IMF immediately followed suit by changing its growth forecast from 3 to 3.2 percent.

The prime reason for this rise was equipment investments. For the first two quarters, the equipment investment was increasing 4 to 5 percent over the last year, but it surged to 16.8 percent for the third quarter. Almost all the equipment investments were related to the Samsung Electronics building new semiconductor plants to meet global demands. Acknowledging that equipment investments take up about 10 percent of GDP, a 16.8 percent increase contributes 1.68 percentage points to GDP growth.

Exports during this quarter also increased 5 percent over the last year, but imports increased 8.4 percent in the same quarter. Construction investments played some role in economic growth as it increased 7.5 percent during the third quarter. As to whether such a trend will continue isn't certain, as the administration openly announced willingness to reduce public infrastructure investments to divert funds to welfare programs.

Reckoning that the country's growth was due mainly to the unexpectedly great performance of equipment investments, it's necessary to wonder if such investments will continue in 2018 and onward.

Projections by business analysts on the future semiconductor industry are basic-

ly divided; one group argues that the industry peak is imminently approaching, causing D-RAM prices to be stagnate, while the other group believes that the Fourth Industrial Revolution will cause overwhelming quantities of semiconductor products to be produced, rendering further boom and surge. It's really difficult to pick which direction the semiconductor industry is heading towards, but one thing that is very clear by now is that Samsung's projects for building new memory production plants in Korea is about done. Other than investing USD 70 billion into building such plants in China between 2017 and 2020, Samsung seems to have no further plan for establishing a memory plant in Korea.

Putting this uncertainty aside, it seems indubitable that the FOMC would raise the federal funds rate at least 0.25 percent within the next six months. Since almost everybody expected the rise, it might not have a drastic effect on the global economy. However, a slight increase in the interest rate would have a significant dampening effect on private consumption. And a recent move of the very strong Korean won (down from KRW 1150 to KRW 1097) per dollar in less than a month puts people, as well as officials at the Ministry of Finance, on edge. Why? Because the strong won will substantially hamper Korean export, on the one hand, and encourage imports on the other. And the labor market could suffer from rising unemployment rates as the minimum wage has increased a whopping 16.4 percent over the last year.

Against this backdrop, it becomes very clear that the role of the government is even more important to maintaining solid growth. Without the active role of the government, sustaining a growth rate of 3 percent might be difficult. So what kinds of programs should the government pursue?

So far, President Moon Jae-in and a key government official both revealed that Korea must follow innovation driven

growth to sustain growth and create new jobs. Innovation of entrepreneurs and creative businesses should pave new ways of economic growth not just for themselves, but for the Korean economy. Numerous start-ups should flourish to absorb tens of thousands of college graduates, enabling them to utilize their fresh ideas as well as to make their own living. Nobody can disagree on the importance of innovation in creating sustainable growth.

But there are critical questions to be asked and answered beforehand. First, innovation in those already existing firms, especially of SMEs, is as important as that of start-ups. So far, almost all government programs with trillions of allotted money are about venture related projects. Very little resources are reserved for the existing SMEs suffering from competition. Creating jobs in venture start-ups but losing tens of thousands of jobs in traditional SMEs makes no sense at all. Substantial support should be directed towards SMEs so they can innovate themselves.

Another concern is about the way the government innovation projects are administered. Most of the projects are selected, administered and evaluated by government officials, who hardly possess professional expertise or industrial experiences. Private sector professionals or academic experts could participate in those projects but they are in most cases given only an advisory role. Thus, innovation can't take place with just the government's support. It requires participation and hard work of dedicated entrepreneurs; Korea's future relies on an innovative government as well as serious entrepreneurs.

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** The opinions expressed in his article
are the author's own and do not reflect
the views of KOTRA*



On Nov. 7, Invest Korea Week (IKW) 2017 kicked off for a three-day run at the Grand InterContinental Seoul Parnas in Seoul. Now in its 13th year, IKW is a national investor relations event hosted by the Ministry of Trade, Industry and Energy (MOTIE) and the Korea Trade-Investment Promotion Agency (KOTRA). The event is designed to promote Korea's merits as an investment destination and introduce potential foreign investors to success strategies and promising investment opportunities in the country.

Under the theme of 'FDI's Impact on Job Creation and the Growth of the Fourth Industrial Revolution,' this year's IKW featured a job fair for foreign-invested companies and a separate career day event for Bluebell Korea, in an attempt to create jobs for foreign-invested firms and help them contribute to the Korean economy. In regards to the Fourth Industrial Revolution, diverse programs were provided including the Global Investment Forum, one-on-one business partnering opportunities for startups and roundtable discussions for major investors. Some 2,500 participants attended the event, including 233 foreign investors from 203 companies and some 1,500 job seekers.

On Nov. 9, Korean startups had the opportunity to showcase their products and services in the investment promotion sessions. A total of 10 domestic startups with immense potential for growth and global market entry had pitching presentations.

Foreign companies seek investment opportunities and new talent at Invest Korea Week

One-on-one business meetings were also provided for about 140 foreign investors and 200 Korean firms seeking foreign capitals.

IKW also offered exclusive programs for foreign journalists to promote Korea's attractive investment environment. The opening ceremony was live streamed in 28 countries by Channel NewsAsia, Singapore's state-run news agency with the third largest number of viewers in Asia. On top of that, IKW also hosted a sideline event with journalists from 22 major foreign media outlets, including Japan's *Yomiuri Shimbun*, Germany's *Frankfurter Allgemeine Zeitung* and Italy's *Il Sole 24 Ore*. The press conference covered topics from Korea's roadmap for the Fourth Industrial Revolution to its FDI policy direction. The participating journalists also had a chance to visit companies and organizations related to smart factories, Internet of Things (IoT) and robotics, all of which are standing at the forefront of the technological transformations unfolding in Korea.

Meanwhile, foreign investors were

invited to take a tour of three Free Economic Zones—Incheon, Busan-Jinhae and Chungbuk. They visited industrial sites and met foreign-invested businesses operating in those specialized areas. They also learned about investment benefits as well as assistance they can receive if they decide to locate their businesses in the zones.

During IKW, the PyeongChang 2018 Olympics booth was also operated to draw attention and encourage participation of foreign investors in the Winter Games which will be held 100 days after the event.

"With Korea's economic growth hitting a seven-year high in the third quarter of this year, foreign investment is seeing positive growth," said Lee Taisik, KOTRA's vice president. "KOTRA will continue to work closely with government agencies and related organizations to help foreign firms with everything from investment planning to follow-up management, to successfully enter the Korean market."

The Latest on Korea's Investment Environment



S. Korea's biz environment ranking climbs to 4th place: World Bank

South Korea moved up to fourth place in this year's business environment survey, thanks to high scores in legal settlements and electricity supply.

According to the World Bank's "Doing Business 2018" report, which is based on an annual survey, the country's ranking represents a one-notch gain from its standing a year earlier.

For this year, the World Bank analyzed 190 countries' business environments by breaking them down into 10 broad categories in accordance with the business life cycle from start to closure.

The report checked legal and administrative rules and practices, as well as feedback from experts and businessmen in related fields, and is designed to provide best practice benchmarks for developing countries.

Meanwhile, New Zealand was top for providing the best overall business environment, followed by Singapore and Denmark.

Foreign investment area designated in Gwangyang's Sepung General Industrial Complex

On Nov. 3, the Gwangyang Bay Area Free Economic Zone (GFEZ) in South Jeolla Province announced that part of Sepung General Industrial Complex has been designated as a Foreign Investment Area.

A total of KRW 24.6 billion (USD 22.58 million) in provincial and municipal funding will be injected into creating the Foreign Investment Area on 82,641 square meters of land within the complex.

Foreign-invested companies that move into the area will benefit from corporate and acquisition tax exemptions for up to five years.

Meanwhile, a total of KRW 545.8 billion (USD 504.32 million) is being injected into constructing the General Industrial Complex for specialty chemicals, precision machinery parts, and other future materials by 2020, on a site of 2.42 square kilometers.

China's SICO to open Northeast Asia Center at Pyeongtaek Port

The Silk Road International Cultural & Economic Cooperation Communication Organization (SICO), an international non-governmental organization established to carry out the Chinese government's One Belt One Road (OBOR) Initiative, will be opening its Northeast Asia Center near Pyeongtaek Port in Gyeonggi-do.

Pyeongtaek Port, once a key trade port of the ancient Silk Road, will become a gateway to the new OBOR network when the center opens, and function as a Northeast Asian hub for trade and cultural exchange with China, as well as between other OBOR participant countries.

SICO plans to build the new center on about 991 square meters of land inside the Hyeondeok District near Pyeongtaek Port. The period of construction will be decided on a later date.

An international non-governmental organization and United Nations cooperation agency registered in Geneva, SICO is in charge of matters of cultural and economic exchange between China and the 65 countries along the newly envisioned OBOR Silk Road.

Did You Know?

KOREA RANKS 5TH IN R&D INVESTMENT



Source: Survey released by Ministry of Science, Future Planning and ICT

According to the '2016 R&D Activity Survey' released by the Ministry of Science, Future Planning and ICT, the total amount of R&D investment in South Korea recorded at KRW 69.41 trillion (USD 62.08 billion) last year, ranking fifth among OECD member countries. United States topped the chart while China and Japan followed second and third, respectively.

What's Trending



Travel authorities step up PyeongChang Olympics promotional shows across continents

Tourism authorities are cranking up promotions to attract foreign visitors to the 2018 PyeongChang Winter Olympics by engaging actively in international travel events across all continents.

The Korea Tourism Organization (KTO) led a large delegation to the China International Travel Mart, one of the largest professional travel exhibits in Asia, held in Kunming from Nov. 17-19. Representatives from 15 local governments and institutions operated a 198-square-meter booth at the event to promote the Winter Games.

"We used the warming South Korea-China relations to market high-quality travel packages and individual tours, and revive the slump in the number of Chinese travelers coming to South Korea," a KTO official said.

To attract Japanese visitors, the KTO worked with the government of Gangwon-do, the host region of the Winter Olympics, and the games organizing committees to jointly operate a booth at Haneda Airport in Tokyo. The booth, in operation from Nov. 1-Dec. 21, is a follow-up to a similar event held from May to July at the same airport to advertise travel opportunities to South Korea. That event drew some 12,400 Japanese and foreign visitors.

The Ministry of Culture, Sports and Tourism took on Europe, participating in the World Travel Market, rated as one of the three top international exhibits for tourism industries worldwide, in London from Nov. 6-8. This year's event drew 186 countries.

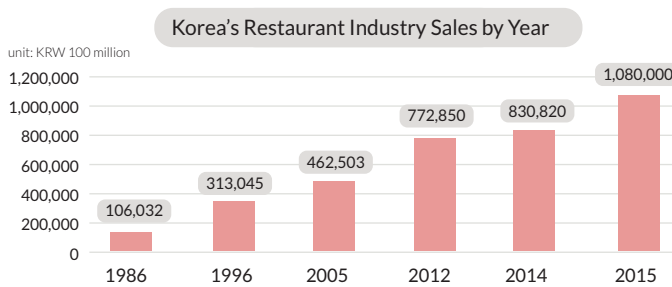
The ministry introduced PyeongChang's tourism infrastructure and Visit East Asia products that link South Korea with other Asian nations during its invitational briefing to Britain's travel officials and media.

Current status and future prospects of Korea's coffee and dessert industry

Scale of Korea's restaurant and dessert markets

Korea's restaurant industry witnessed a 233 percent rise in total annual sales from KRW 46.253 trillion (USD 46.35 billion) in 2005 to KRW 108 trillion in 2015.

Such growth was caused by socioeconomic and cultural factors, including higher income levels, more women working outside the home, more time being spent on recreational activities, changes in food and restaurant spending patterns and rise in one- to two-person households.



Source: Korea Food Service Almanac, Ministry of Agriculture, Food and Rural Affairs

As the diversification of consumer trends and changes in our lifestyle cause the restaurant industry to undergo further segmentation and specialization, bringing about continuous change in spending trends, one of the most notable changes is the growth, segmentation and specialization of the dessert industry.

In general, the dessert shop industry can be divided into coffee shops, bakeries (confectionaries and breads), ice cream parlors, tea and beverage shops and other dessert shops. Early on, markets formed around specialty stores such as bakeries, coffee shops and ice cream parlors, but later, with the expansion of café culture and with global brands like Starbucks entering the Korean market, the popularization of coffee and dessert shops and the diversification of consumer's needs have led to the segmentation of business types, items and consumers, resulting in quantitative and qualitative market growth.

Korean dessert shop market consumer trends

The growth of Korea's dessert market is mainly attributable to recent changes in consumer trends. Since 2010, the economic polarization caused by the extended recession has encouraged consumers to prefer cost effective "good value" products, or treat themselves to "small luxury" items or premium goods within an affordable range. Such a phenomenon has increased the demand for premium desserts that offer a sense of happiness through visual stimulation as well as sweetness.

As consumers in their 20s and 30s, the most avid followers of

this trend, highly value outward appearance and expression of individuality, they are inclined to advertise their spending behavior through online blogs and other social media sites. As such, visually stunning desserts keep growing in demand as their photos travel through social media to create a word-of-mouth marketing effect.

According to a survey on general consumers in 2016, there was little difference between the number of consumers who spent more on eating out than during the previous year (50.8%) and those who spent less (49.2%). There was also a 25.9-percentage-point gap between those who increased their year-on-year spending at dessert shops (56.3%) and those whose spending decreased (30.4%), showing that the share of desserts continues to grow in the food services industry.

Then what are some of the reasons consumers visit dessert shops? One survey shows that consumers don't think of dessert shops merely as places to buy food, but as a space that can be used for various purposes, such as reading, studying, socializing and spending time alone. That is, dessert shops have meaningful places that add value to the lives of today's consumers.



Source: "Survey on Korean and Foreign Dessert Food Service Markets" Ministry of Food, Agriculture, Forestry and Fisheries/aT Korea Agro-Fisheries & Food Trade Corp. (2016)

A look at the entire dessert consuming population revealed that women more so than men, Seoul residents more so than non-Seoul residents, and younger rather than older consumers bought a wider variety of desserts and more frequently.

According to a survey, bakeries topped the list in the frequency of visits and preference, followed by coffee shops, ice cream parlors, beverage and tea shops and other dessert shops, and in that

order. In general, the same was also true for the number of purchases per month and intent for future purchases. By item, confections, beverages and teas (fruit juices, smoothies, teas, bubble teas, other beverages, etc.), and ice cream were preferred by younger consumers, while coffee was preferred by older consumers. Korean desserts such as *tteok* (rice cakes) were preferred by older male consumers, and it is worth noting that consumers would recognize a dessert item as Korean based not on the type of dessert, but rather on whether it contained a Korean ingredient like persimmon, red bean or sticky rice.

Prospects of Korea's dessert shop industry

Based on a comprehensive analysis of the current status and trends of Korea's food service industry as well as dessert consumption behavior, the dessert shop industry is expected to continue on its path of growth. However, considering that many still see dessert items as 'expensive' and 'unreasonably priced,' the growth is thought to be accompanied by further structural polarization between the low-end, low-priced market and the high-end, premium market that uses unique quality ingredients. And as with all trends, the focus on showiness is expected to die out, giving way for desserts to become a natural part of our daily lives.

- Bakeries and bakery cafés

As bread consumption continues to grow with the westernization of our diet, the rise of one-person households and a busy modern lifestyle, the domestic retail bakeries market in 2014 reached KRW 4.6 trillion (USD 4.21 billion) in sales, up 60 percent from 2009.

In the early stages, the market began to form around individually-owned bakeries, but later more consumers began to prefer famous brands and have high standards for hygiene and quality control. Also, since 2011 corporate-type bakery franchises started to exceed individually-owned bakeries in number of stores. However, consumers now are beginning to value gourmet and healthy food, raising the demand for chef-owned pastry shops that stand out for using high-quality ingredients and advanced techniques. The industry's competitive structure is expected to maintain the division between bakery franchises armed with popular appeal and convenience (accessibility, etc.) and individually-owned bakeries that give priority to quality and value.

- Coffee shops

The first specialty coffee shops opened throughout Korea in the 1980s with the introduction of the franchise system, and a new culture of espresso-based take-out coffee spread across the country with the opening of the first Starbucks store in 1999. The coffee market has seen exponential growth since the turn of the century, as evidenced by the increase in foreign companies as well as Korean brands. In particular, the emergence of low-priced coffee franchises in and around 2014 has sparked fierce competition in the market.

As of 2014, the domestic coffee market (including instant coffee, bottled coffee drinks and coffee shops) amounts to KRW 5.4 trillion (USD 4.95 billion) and the coffee shop market alone amounts to KRW 2.5 trillion, or about 47 percent of the entire coffee market.

Meanwhile, to meet the diverse needs that arise as the coffee shop market continues to grow, a new market of individually-owned coffee shops has started to pop up during the past few years. These individual brands can be divided into low-priced coffee shops targeting the local community and premium coffee shops that target coffee connoisseurs. The latter is a segment of the evolving coffee shop market that emerged in response to the rising demand for high-end products. By using select beans and roasting methods, such shops have formed a new market that separates itself from the standardized tastes of large franchises. In other words, while many consumers are still unwilling to pay too much for a cup of coffee, there is also an increasing number of coffee drinkers who constantly crave higher-end products.

- Beverage and tea shops

The market for general beverages and teas is being formed as non-coffee beverages are being marketed as coffee alternatives. These beverages are being marketed with keywords like "health" and "beauty" or as meal replacements mixed with various health ingredients. Most businesses in this industry are either corporate franchise chains or premium boutiques. In the past, premium shops had been the focus of the early market formation, upon which the focus shifted to the mid- to low-priced corporate franchise brands, but today the two types co-exist in the current market.

In 2016, there were 53 beverage and tea franchise brands in Korea, an approximately 6.7-fold increase from 2013. As such, while they might not grow at quite the speed of coffee shops, stores that specialize in fresh fruit juices and smoothies, leaf teas and bubble teas, yogurts and other non-coffee beverages are expected to remain at the core of the industry.

- Other dessert shops

The ice cream market, too, has been divided into the mid- to low-priced market and the premium market based on high-end ingredients. Meanwhile, the *bingsu* (shaved ice) industry managed to enter foreign markets as a major dessert item with the emergence of specialty *bingsu* stores. Now growth has slowed for various reasons, including it being affected by the changing of seasons.

Rice cake, macaron, chocolate and popcorn shops are also forming small but significant dessert markets as they position themselves as high-priced premium stores that use high-quality ingredients and the latest manufacturing technology to make items daily at the store from scratch, targeting a small number of dessert connoisseurs as opposed to the general public. In particular, the positive demand for Korean desserts represented by the popularity of *bingsu*, along with the trend of more diverse and expensive *tteok* items, is expected to lead to additional consumer markets for various Korean beverages and desserts.



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CEO Nestlé Korea



There are food companies and then there's Nestlé. As the world's largest food and beverage company, Nestlé has more than 2000 brands ranging from global icons to local favorites. With a presence in 191 countries, its products are loved by adults and children alike. But the company's presence goes far beyond chocolate bars and coffee—its purpose is to enhance quality of life and contribute to a healthier future.

Nestlé's breakthrough

The Nestlé story begins in 1866 when the American brothers George and Charles Page founded Europe's first condensed milk factory, the Anglo-Swiss Condensed Milk Company in Cham, Switzerland. One year later, a German pharmacist Henri Nestlé, developed 'Farine lactée', a baby formula milk in Vevey, Switzerland. Nestlé's formula milk was offered as a safer and more nutritious alternative to breast milk to mothers, who were unable to breastfeed their babies. Word of Nestlé's success spread rapidly, and Henri Nestlé was able to build a thriving business through his determination, commitment and a pioneering spirit. His life-saving innovation is what Nestlé has been following for 150 years, and it contributes to the company's competency in anticipating and fulfilling consumers' changing needs.

Food For Thought

As the world's largest food and beverage company, Nestlé is helping shape a better and healthier world

Nestlé wins over Korea

Nestlé has long been a household name in Korea. After the Korean War, Nestlé chocolates and coffee were smuggled out of American military bases and sold on the black market. By the time the company officially entered the Korean market in 1987, Nestlé was already a familiar brand to Korean consumers.

When asked how the company has managed to achieve such great success, Nestlé Korea's CEO Erwan Vilfeu says that localization was crucial. "Food is so closely linked to culture and because it's so local, we couldn't just launch a product that worked elsewhere and expect it to work here," says Vilfeu, a charming French native who has been at the helm of the Korea branch for three years.

To fully integrate itself into the local culture, Nestlé has been working closely with Korean companies to further secure its foothold in the country. In 2004, the company started a joint venture with Pulmuone to expand its bottled water

operations, while also establishing a joint venture with Lotte Food in 2014 to integrate Nestlé's portfolio of internationally recognized brands and product expertise with Lotte's local distribution and management strength. The joint venture produces and provides NESCAFÉ soluble coffees, powdered chocolate and other categories such as pet care and Nestlé professional products.

Vilfeu adds that Nestlé also rigorously implements the 60/40+ program. Applied across all of its food and beverage categories before deciding to launch a product in a market, the program is to secure preference of at least 60 percent of consumers in a blind taste test and additional nutritional "plus" based on criteria recommended by world-renowned health authorities.

Opportunities and challenges

As one of the world's most wired countries, Korea proved to be an exciting challenge for the Swiss company. Nestlé had

to stray away from its traditional marketing strategy, instead coming up with creative and unconventional ways to attract Korean consumers, including opening up a KITKAT flagship store and developing a subscription model for its capsule coffee machine NESCAFÉ Dolce Gusto. But if there's one thing that the company does best, it's solving problems through innovative ideas. "Because a lot of Korean consumers check out the product in person and then make the purchase online, we've been using omni-channel strategies to stay ahead," says Vilfeu.

Vilfeu notes that Korea has a highly committed workforce and digitally advanced market, making it the perfect incubator market for Nestlé on a global level. "If you're in Korea, you can witness what the world is going to look like in the

future because the country is so forward-thinking."

But he knows all too well that entry into the Korean market isn't for the faint of heart. "Korea is a country where everything changes so fast; everything I learned about Korea when I first arrived here has already changed," he says. And that's why Nestlé refuses to remain complacent, working tirelessly to make products that better satisfy the needs of Korean consumers.

Throughout the interview, Vilfeu emphasizes that Nestlé isn't just a food and beverage manufacturer, but a company strongly dedicated to health and wellness. As such, it's heavily investing in research and development with 39 R&D centers worldwide, which is the largest R&D network in the food industry. It's

even working with Korean electronics giant Samsung's Strategy and Innovation Center to explore the potential of nutrition science and digital sensor technologies to provide new insights into healthy living. The ultimate goal? To provide individuals with more personalized recommendations around nutrition, lifestyle and fitness than previously possible. And with nutrition in Nestlé's DNA, the company is helping all of us live a little healthier.

*By Esther Oh
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Upcoming KOTRA Events

Russian Health Care Week 2017

Russian Health Care Week 2017 will kick off on Dec. 4 and run for five days at Expocentre in Moscow. KOTRA and the Korea Medical Devices Industry Association (KMDIA) will help 11 Korean firms run the Korean Pavilion during the event. The trade fair is the largest of its kind in the CIS region and will create valuable opportunities for Korean suppliers to find potential buyers and promote their products. The CIS region is a promising market where imported medical devices take up more than 90 percent of the market. The event will be a stepping stone for Korean medical device manufacturers to promote the excellence of their products, explore new buyers and successfully enter the CIS market.

FEZ IR Event at LPS Shanghai 2017

From Dec. 8 to 10, an investor relations (IR) event promoting Korea's Free Economic Zones (FEZs) will be hosted at Marriott Shanghai City Centre on the sidelines of LPS Shanghai 2017, the lead-

ing exhibition specializing in luxury real estate and regional development. The Free Economic Zone Planning Office of the Ministry of Trade, Industry and Energy (MOTIE), the Authorities of East Coast, Gwangyang Bay Area and Chungbuk FEZs and KOTRA will jointly host the event. At the Korean Pavilion, a series of presentations and business meetings will be offered to exhibitors and potential investors to promote Korean FEZs' premier investment environment. Companies that showed interests in advance will be invited to the Pavilion for one-on-one business meetings.

FEZ IR Event at SEMICON Japan 2017

Korea's Free Economic Zones (FEZ) will hold an IR event from Dec. 13 to 15, on the sidelines of SEMICON Japan 2017, a global semiconductor trade fair. The Free Economic Zone Planning Office of MOTIE and a group of FEZs will take part in the event. They will launch a pavilion to provide presentations on investment

environment in FEZs, business meetings and site visits for potential investors. The IR event will contribute to raising awareness on Korean FEZs' attractive investment environment and strengthening the network of business leaders in relevant industries.

Economic Times ACETECH

From Dec. 14 to 17, Economic Times ACETECH will be held in New Delhi, India. Celebrating its 44th anniversary, this year's trade fair will exhibit architecture materials, construction equipment, environmental products, cooling units and interior tools. During the event, KOTRA's Korea Business Center in New Delhi and Gyeonggi-do Business & Science Accelerator (GBSA) will jointly organize the Korean Pavilion and convene a total of 20 Korean firms. By launching the Korean Pavilion in India's largest architecture fair, Korean firms will be provided with greater opportunities to enter the growing Indian market.

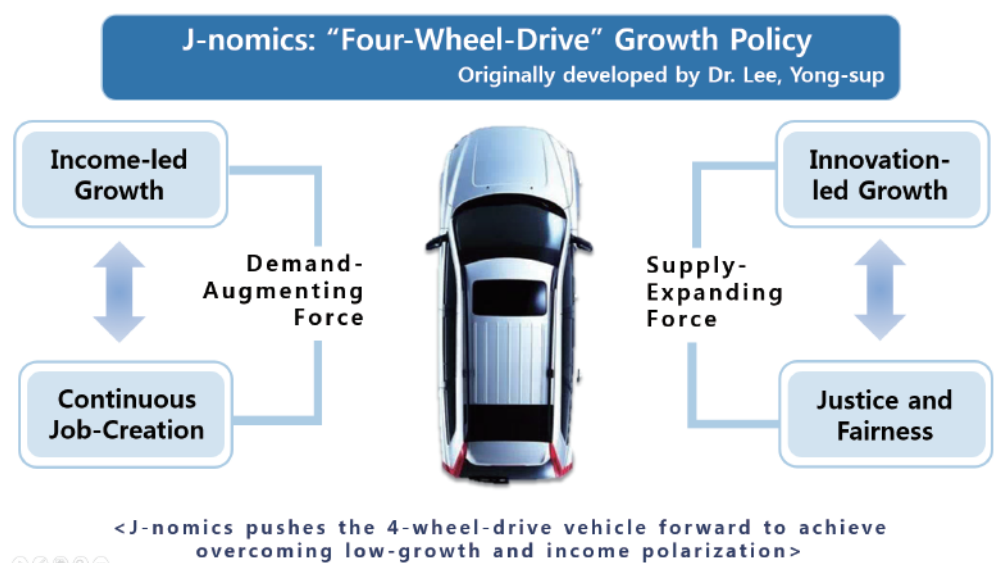
J-nomics welcomes foreign direct investment with “four-wheel-drive” growth policy

It has been a little over six months since President Moon's government was launched, and many people around the world want to know his economic philosophy and his administration's economic policy measures. In South Korea now, more than 17,000 foreign-invested companies are doing business. Many of them are producing high-tech parts and equipment and are business partners of Korean firms. These companies are also very eager to know about the new government's policy toward foreign direct investment (FDI).

President Moon's economic philosophy and policy are well contained in 'J-nomics'. The term 'J-nomics' is the combination of the first letter 'J' of his first name 'Jae-in' and 'nomics' from 'economics'. Part of J-nomics was already revealed in President Moon's inaugural speech.

As such, the new government focuses on three objectives: generating enough quality jobs, improving the social safety net and reforming family-controlled big businesses. Deputy Prime Minister and Minister of Strategy and Finance Kim Dong-yeon said, “To shift the paradigm, the future economic policy will focus on four directions: income-led growth, job-focused economy, innovation and fairness.” Some critics argued that the income-led growth policy is a short-term demand-side stabilization policy and is not appropriate as a long-term growth policy. The debate over the pertinence of income-driven policy was partly due to some misunderstanding of the J-nomics on the part of the critics.

To avoid potential confusion and to correctly publicize the spirit of the J-nomics and its focus on policy measures, Dr. Lee Yong-sup, vice chairman of the Presidential Committee on Job Creation has recently made special efforts. He paraphrased the J-nomics as a fourwheel-drive vehicle as featured in the image



above. This vehicle moves towards the goal of overcoming persistent low growth and income polarization. To achieve this task, the government assigns a special role to each wheel. The front wheel on the left is to move forward with the force of income-led growth. The rear wheel on the left is to move with the force of continuous job creation. The two wheels on the left side are generating a demand-augmenting force.

The front wheel on the right is to move forward with the force of innovation-led growth. The rear wheel on the right is to move forward with the force of justice and fairness. Increasing justice and fairness certainly helps strengthening social cohesion. There is no doubt that social cohesion increases labor productivity. The two wheels on the right side are generating a supply-expanding force which makes it possible for the vehicle to keep on going.

In the new economy propelled by the government's reform initiative, chaebols can adopt the global standards. They will become highly competitive in the global market by focusing on transparency and

honesty on a long-term basis.

By partnering up with foreign investors, they can also learn the global standards. If they take advantage of the global supply chain, chaebols can be more cooperative with foreign business partners and their subcontractors.

In addition, by joining the global supply chain, they can improve their business ethics a lot. In the global supply chain, they can eliminate their bullying practice. They have to treat the SMEs and foreign producers as reliable business partners. This conforms well to the spirit of J-nomics, justice and fairness.

When chaebols are successfully reformed, their stakeholders—business partners, consumers, producers and the government—will all be happier. All in all, J-nomics absolutely welcomes FDI with its four-wheel-drive growth policy.

By Dr. Jeffrey I. Kim
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Incheon and Goesan contributing to rapid growth of Korea's food industry

Since the Miracle on the Han River, South Korea has experienced exponential growth across all sectors. The food and beverage industry of Korea was no exception. From a country that barely produced enough to feed themselves, Korea has emerged as a strong exporter of food products. In recent years, its food manufacturing industry has grown at a rate of 6.8 percent per year, while the food service industry recorded a growth rate of 8.9 percent. In terms of market size, Korea is the 14th largest food market in the world.

The size of Korea's food industry is expected to break through the KRW 200 trillion (USD 183.8 billion) mark and the local governments are further developing the country's food industry clusters. These include the I-Food Park in Incheon and the Goesan Agricultural and Industrial complex

I-Food Park

Located in Incheon, Korea's logistics haven, I-Food Park is the first food industry cluster to be established in the capital area. Spanning across a land of 261,000 square meters, the cluster will gather various food manufacturers, ultimately increasing the industry's potential. The cluster will be completed in the second half of 2018, and is expected to cost a total of KRW 140 billion (USD 128.66 million).

The I-Food Park aims to create jobs, increase investments and vitalize the economy of Incheon. The cluster is expected to create 16,000 jobs for locals and bring in KRW 890 billion (USD 817.91 million) in economic impact to the region. Already, there are about 40 companies that have expressed their desire to move into the cluster.

The park will provide cutting-edge infrastructure for resident companies, allowing them to find and successfully enter overseas market, including the Chinese market.

R&D centers, Hazard Analysis and Critical Control Points (HACCP)-related facilities and logistics complexes will be established to further develop the food industry.

In addition, the cluster aims to modernize the manufacturing facilities which will allow the businesses to operate with efficiency allowing them to produce cheaper and provide higher quality products for the consumers. Like any other cluster, the I-Food Park also hopes that the latest technology and knowledge related to the industry can be shared amongst the resident companies, further developing their manufacturing capabilities. The businesses that move in to the cluster will receive various tax-related benefits and will be able to easily access Incheon airport and Incheon port.

Goesan Agricultural and Industrial Complex

At the very center of Korea is a city in which the world's first organic produce exhibition was held. The city is Goesan, a mecca for the fermented food and organic produce industry. Due to its incredible positioning, all of the businesses that reside in its Agricultural and Industrial Complex are able to reach any part of the country in just a few hours.

Next to this complex is the Goesan Fermented Food Agriculture-Industrial Complex and the Organic Produce Industrial Complex. The fermented food complex was established with a cost of KRW 26 billion (USD 24 million) and already there are 12 businesses that are doing business in the 323,511 square metered cluster. The complex provides top-class infrastructure including two newly built factories. Its beverage factory has the capability of producing 9 million bottles of beverages (soy milk, fruits and vegetable juice) per year. The milling factory can grind 20 tons of rice per day, and is operated with the goal of reducing produc-



tion costs and increasing the income for agricultural households.

The Organic Produce Complex covers 628,497 square meters and hosts environmentally-friendly logistics and companies related to food manufacturing, especially those that are experts in organic produce.

The clusters that have been introduced here are all working towards the common goal of supporting the continuous development of the Korean food and beverage industry. They also seek to boost the regional economy, and ultimately the economy of the country. Most importantly, these clusters aim to provide high-quality, safe and affordable products for consumers. With the complexes providing a solid foundation, the food and beverage industry of Korea is set to accelerate its growth and development.



Honorary Ambassador of Foreign Investment Promotion for Korea

Who is the Honorary Ambassador of Foreign Investment Promotion for Korea?

An Honorary Ambassador is someone who spreads the word about the advantages of investing in Korea, to the people of his or her native country.

Why does KOTRA have an Honorary Ambassador system?

It all started in 2011. KOTRA wanted to go beyond Korea's borders and reach potential investors where they are. And what better way to do that than through a local expert? These individuals possess vast knowledge of management or international investment, a strong business/government network and a deep understanding of Korea's investment environment.

Today, KOTRA's Honorary Ambassadors inform companies and the general public in eight countries—including Germany, Hong Kong, the United States and Japan—about the business advantages and opportunities in Korea.

How does the Honorary Ambassador system work?

An Honorary Ambassador is designated by Korea's Minister of Trade, Industry & Energy, with the Honorary Ambassador system run by the Korea Trade-Investment Promotion Agency (KOTRA).

An Honorary Ambassador serves an approximately 2-year term and their term can be extended.

KOTRA has 127 offices in 86 countries, and each Honorary Ambassador is plugged in to the KOTRA branch in his or her country. The appointed individuals participate in various investment-related events and promote Korea to local investors. They also search for promising local businesses with plans to expand overseas and tell them about investment opportunities in Korea.



Mr. Bernd Stenger

German Honorary Ambassador of Foreign Investment Promotion for Korea

For more information, look out for our interview with the German Honorary Ambassador of Foreign Investment Promotion for Korea in our January issue!

Introducing Korea's SMEs

Every month, KOTRA Express introduces a Korean SME that seeks to expand its network by working with foreign partners. In the December issue, we take a look at one of Korea's most promising food companies.



For over 20 years, Sinbad Co., Ltd. has been at the forefront of making high-quality Korean

food products, including citron teas, red ginseng extracts and black garlic jelly. As such, it even received a plaque of appreciation from the Goheung District Office. It most notably established a manufacturing facility in Paju, Gyeonggi-do Province in 2013 and was also acknowledged by the Ministry of Employment and Labor as a 'Clean Work Place'. Its business partners include Lotte Department Store, Ediya Coffee, Coupang and 7-Eleven.

Sinbad has been focusing on international markets to promote the excellence of Korean foods and health supplements, expanding its business overseas in countries like the United States, Japan, China and Malaysia. Its main items of export are citron compote, garlic energy drinks and organic teas. Most recently, it launched a dietary food supplement and participated in a number of international food exhibitions to spread awareness of Korean products.

SINBAD

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Operated by KOTRA, buyKOREA is Korea's premier e-marketplace. If you want to find out more about the products mentioned above, please visit www.buyKOREA.org



WEB VER.



IOS VER.



ANDROID VER.



Introducing Invest Korea Plaza

Invest Korea Plaza

Invest Korea Plaza (IKP) is the first business incubation complex in Korea for foreign investors. Designed to meet 21st century business needs, IKP offers furnished offices and conference facilities, in addition to on-site comprehensive services ranging from investment consultation provided by representatives of Invest KOREA and numerous government agencies.

IKP Offices for Lease

A. Office exclusively for foreign investors

- Long-term lease: Office lease by a foreign investor seeking to establish a domestic company in Korea
- Lease period: Up to two years, on a yearly basis (lease can be extended after deliberation)
- Short-term lease: Short-term lease of an office by a foreign investor seeking to enter the Korean market
- Lease period: Up to two months (lease cannot be extended)



B. Office for related organizations

- Organizations and administrative entities for attracting and supporting foreign investors

Qualifications for Occupancy

A. Long-term lease for foreign investors

- Companies that completed FDI notification: Companies with FDI of USD 300,000 or more that have completed foreign investment notification in accordance with the procedures prescribed by the Foreign Investment Promotion Act
- Required documents: IKP occupancy application form, overview of company and business, FDI notification form
- Companies that plan to notify foreign investment: Companies that are expected to notify FDI of USD 30,000 or more within six months of moving in
- Required documents: IKP occupancy application form, overview of company and business, letter of recommendation by KOTRA's KBC
- Companies that have executed foreign investment: A foreign-invested company with notified subsequent FDI of USD 200,000 or more
- Required documents: IKP occupancy application form, overview of company and business, FDI notification form

B. Short-term lease for foreign investors

- For foreign investors conducting market research and business feasibility study to enter the Korean market
- Required documents: IKP occupancy application form, a letter of recommendation by KOTRA's KBC or documents certifying the planned business and market research
- * Occupancy counseling is required as lease may not be permitted depending on the type and content of the business.

Economic Indicators

GDP	2012	2013	2014	2015	2016
Nominal (USD million)	1,222,400	1,305,400	1,411,000	1,382,400	1,411,000
PPP (USD million)	1,611,273	1,644,777	1,706,689	1,749,804	1,832,073
GDP Growth Rate (Y-o-Y) (%)	2.3	2.9	3.3	2.8	2.8

Source: The Bank of Korea, November 2017

(Unit: USD)

GDP Per Capita	2014	2015	2016	2017
Nominal	27,811	27,105	27,534	29,730
PPP	35,211	36,390	37,740	39,447

Source: International Monetary Fund, October 2017

(Unit: USD million)

Foreign Trade	2012	2013	2014	2015	2016	October 2017
Exports	547,870	559,632	572,665	526,757	495,426	475,120
Imports	519,584	515,586	525,515	436,499	406,193	392,766
Trade Balance	28,285	44,047	47,150	90,258	89,233	82,355

Source: Korea International Trade Association, November 2017

(Unit: KRW)

KRW-USD Foreign Exchange Rate	2012	2013	2014	2015	2016	October 2017
	1,126.9	1,095.0	1,053.2	1,131.5	1,160.5	1,131.57

Source: The Bank of Korea, November 2017

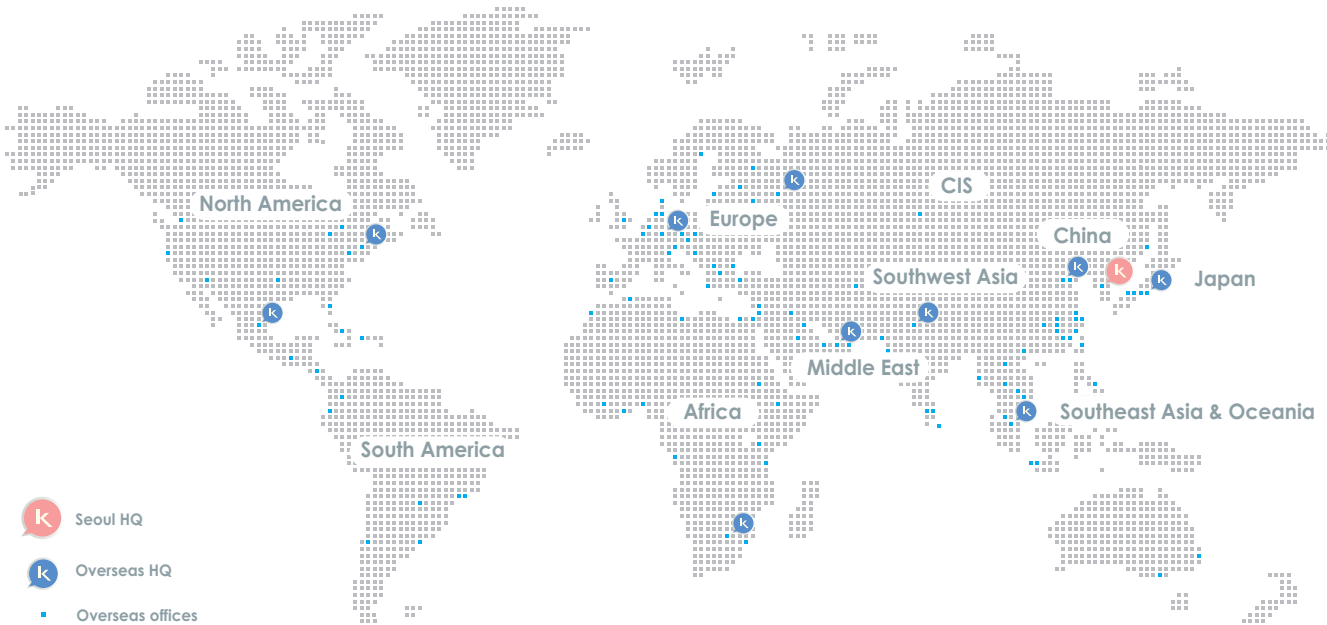
(Unit: USD million)

Balance of Current Account	2012	2013	2014	2015	2016	September 2017
	50,835.0	81,148.2	84,373.0	105,939.6	98,677.4	12,205.0

Source: The Bank of Korea, November 2017

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