Nestled between two great powers, Japan and China, South Korea remains off the radar to most UK companies even though it is home to 50 million people generating GNP of US $1 trillion, making it the world’s 12th largest economy – just less than the size of the entire Association of Southeast Asian Nations (ASEAN) and equal to 2% of global GDP.

Sophisticated, affluent, globally aware consumers are eager to experience the latest fashions and products from around the world. Particularly, many South Koreans in their 20s and 30s have travelled internationally and have substantial disposable income. South Koreans are disciplined, hard-working, loyal, motivated, well-educated and eager to excel. Participating in this resilient and vibrant economy is about to become easier with the implementation of the EU-South Korea Free Trade Agreement.

Over the next five years, the South Korean economy is set to make the 10th-largest contribution to world growth. That’s as much as the UK and more than France or Italy.
Despite the global economic slowdown, South Korea’s economy grew by 2.8% in 2013, and is predicted by the Bank of Korea to grow 3.8% in 2014.

South Korea is a hi-tech economy. It is a world leader in electronics manufacturing, including semiconductor chips, flat-screen TVs and mobile phones. Samsung – the world’s largest electronics company – originated in South Korea. The organisation has a turnover greater than that of Apple, Google and Microsoft combined. South Korea also has the highest level of broadband penetration in the world (with speeds of 100 megabytes), as well as the highest 3G mobile usage.

Moreover, the country is a world leader in shipbuilding, steel and automotive. Its construction and energy companies are increasingly successful overseas. The population is highly educated. 7% of the country’s entire GDP is spent on education and nearly three quarters (74%) of South Koreans undertake postgraduate-level study. This creates excellent opportunities for UK educational institutions.

In July 2011, the EU-South Korea Free Trade Agreement (FTA) came into force. The historic agreement presents opportunities for greater UK-South Korean collaboration – based on current trading patterns it will be worth at least £500 million per annum to the UK economy. The most comprehensive FTA ever agreed between two parties, the deal will create outstanding opportunities in financial services, telecommunications and legal services. 97% of tariff barriers between South Korea and the EU will be eliminated within three years and €1.6 billion of duties for EU exporters will be abolished annually. See the Business Opportunities section of this guide for more detail on the EU-South Korea Free Trade Agreement.

A leading choice for investors

According to the South Korean government, the UK was the 9th largest foreign direct investor in South Korea in 2011, investing US $4.42 billion. In fact, over the last 45 years, the UK has been the second-largest EU investor in South Korea, in cumulative terms. Source: MKE, EXIM Bank

Tesco and Standard Chartered are among the country’s largest foreign investors, investing between £2-3 billion each. Other major UK investors include: HSBC, Prudential, Barclays, Fidelity Asset Management, Diageo, Burberry, Unilever, BAT, AMEC, Rolls-Royce, AstraZeneca, GSK, Edwards, Shell and BP.

UK Trade & Investment (UKTI) in 2010, published a report entitled “South Korea – Open for Business”, which detailed 100 commercial opportunities resulting from the EU-South Korea Free Trade Agreement (FTA). In March 2011, the second edition of the report was published, with updated information. To download the report, email: Opportunity.Korea@fco.gov.uk
South Korea is making stringent efforts to ease excessive regulations in a bid to make the market more accessible for both foreign and local companies. It has become one of the top 10 business-friendly economies in the world. This has the potential to increase foreign direct investment to US $20 billion. The Foreign Investment Promotion Act (FIPA) governs foreign investment in South Korea.

You can find more information in the Business section of www.korea.net – the South Korean government’s official website, or at www.investkorea.org

Strong bilateral trade

There is strong bilateral trade between the UK and South Korea, and this is set to increase even further with the FTA created in March 2011.

Exports: UK exports to South Korea have risen 21% since 2003. The UK has a 1.2% share of the South Korean market for goods and services. This compares with 0.6% for France and 0.8% for Italy.

Inward investment: Many South Korean companies have chosen to invest in the UK. There are currently around 170 South Korean firms doing business in Britain, with the largest investors being Doosan (which owns Doosan Babcock HQ in Scotland and has offices across the UK), Samsung and LG Electronics (both of whom have their European headquarters and design/R&D facilities here). The Korea National Pension Service, while not yet physically present in the UK, has spent over US $1 billion on infrastructure assets in the country, including the HSBC Tower in London’s Canary Wharf and a 12% stake in Gatwick Airport.
Manufacturing output grew for the first time in four months (June 2013), expanding 0.7% from the previous month. A 3.2% rise in exports accounts for much of this pick-up in manufacturing, driven by strong demand in China and ASEAN.

The new Park Geun-hye government expressed early signals that it would boost fiscal spending to promote jobs and growth, representing quite a shift in policy thinking for a nation which has commonly put fiscal prudence ahead of fiscal multipliers, and with one of the OECD’s lowest public debt-to-GDP levels.

In response to downgrading of 2013 growth forecasts, the new Finance Minister announced an interest rate cut in May 2013. The central bank lowered the benchmark interest rate by 25 Basis Points (bps) to 2.5% to provide a boost to growth. The South Korean government welcomed the central bank’s move, saying that the rate cut is expected to maximise the effect of the recently announced fiscal stimulus package.

Below target inflation has given the Bank of Korea the scope to loosen monetary policy. South Korea’s consumer prices increased at the slowest pace in nearly 14 years in May 2013, at 1% year-on-year. Falling international oil prices, economic uncertainty and the prolonged slowdown in consumer spending are the main explanatory factors. Weak consumption continued to weigh down consumer prices over the remainder of the year. Core inflation was marginally higher in May at 1.6% year-on-year (0.4% month-on-month).

The new South Korean administration has solid government finances to address future challenges including an ageing population and potential cost of unification with DPRK. Experts said that South Korea’s gross government debt should be around 30% of GDP through 2014. Public sector finances remain strong, with a budget surplus recorded since 2010.

Challenges for UK companies
Although the business climate in South Korea is improving all the time, obstacles still remain. The main market access issues faced by UK companies include:

- restrictions on the opening of new retail stores
- pricing and reimbursement for pharmaceuticals – the Drug Expenditure Rationalization Plan has controlled prices, to the detriment of R&D-intensive companies producing patented drugs
- restrictions on the provision of legal and professional services
- restrictions on IT delegation/server location.

Business opportunities for UK companies

UKTI has designated South Korea as a high growth market and identified significant opportunities in the following sectors:

- Aerospace – The South Korean government is looking to develop a small and medium-sized aircraft manufacturing value chain, led by its single aircraft manufacturer, Korean Airspace Industries Ltd. There are opportunities for UK companies to supply and collaborate.

- Creative industries (Design) – South Korea’s overall design market is worth £10.6 billion. Seoul was the World Design Capital in 2010 and encouraged new and creative design concepts in and around the city. Most Recently, President Park Geun-hye pledged during her election campaign to focus on building South Korea’s ‘Creative Economy’. UK design is highly valued by South Korean companies.

- ICT (Communications, Industrial Electronics, Consumer Electronics) – South Korea leads the world in many applications, including digital media broadcasting (DMB). There are many opportunities for UK companies involved in areas such as: embedded software, 4G mobile telephony, games (including mobile games), bio-recognition systems, internet security and green ICT.

In addition to these strategic priority sectors, there are also many other commercial opportunities for UK companies in the following areas:

- Automotive – South Korea has been the world’s fifth-largest automotive producer for three consecutive years and offers wide-ranging opportunities for auto supply, component and design companies, particularly in the development of low carbon and electric vehicles.

- Consumer products – South Korea is a sophisticated market with steadily increasing levels of disposable income. Most major luxury brands are represented, with many
rating South Korea as one of their most profitable markets. Major opportunities exist in fashion, and in food and drink.

- Education – South Korea is one of the largest education markets in the world. English language training, including training delivered via e-learning, offers considerable opportunities.

- Energy – South Korea currently imports 96% of its primary energy needs, but is seeking to reduce significantly its dependency on oil and gas imports by generating power from renewable sources. Opportunities exist in wind, wave, solar and CCS (Carbon Capture & Storage), in R&D and full commercial-scale projects. Major opportunities also exist in nuclear, both in South Korea and in partnership in third markets – initially the UAE.

- Environment – President Park Geun-hye’s “Green Growth” policies are creating multiple opportunities in the development and application of green technologies, particularly in reducing carbon emissions from industry and buildings. There are also niche opportunities in water and waste management, and in air pollution abatement.

- Financial and legal services – The EU-South Korea FTA will remove some key barriers to the profitability of UK banks in the country and gradually allow UK law firms access to the South Korean market. There are particular opportunities for asset management companies to work alongside South Korean sovereign wealth funds, including the Korean National Pension Service (the fourth largest in the world), and the Korean Investment Corporation.

- Life Sciences – South Korea’s rapidly ageing population and societal drivers for a healthier lifestyle ensure a wide range of opportunities, from the supply of branded drugs to over-the-counter supplements, with natural ingredient-based products in particularly high demand. South Korea is a developed market for healthcare provision, offering niche opportunities in the supply of high-end equipment and telemedicine.

See the “Business Opportunities” section of this guide for more details.

Market strengths

These are the essential facts that UK companies doing business in South Korea need to know:

- South Korea is the world’s 12th-largest economy. Over the next five years, it is set to make the 10th-largest contribution to world growth – more than France or Italy and roughly the same as the UK.
- The new landmark EU-South Korea FTA will be worth £500 million to UK businesses per annum. 97% of tariff barriers between South Korea and the EU will be eliminated within three years.

- South Korea is a world leader in electronics, shipbuilding, steel and automotive.

- Nearly three quarters (74%) of South Koreans undertake postgraduate-level education. The country spends 7% of GDP on education.

- South Korea has the highest level of broadband penetration in the world, with speeds of 100 megabytes. Pilots are now using 1GB broadband to allow consumers to download HD television. It also leads the world in 3G mobile usage and technology.

- The South Korean government is committed to green growth. It has pledged to spend US $50 billion, or 2% of GDP, over the next five years to transform South Korea into a low carbon, green-growth economy.

- The UK was the largest foreign direct investor in South Korea in 2011, investing US $1.9 billion.

Source - UKTI

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