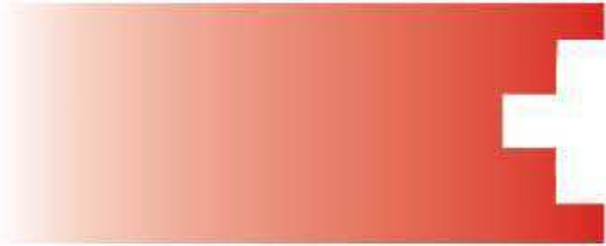


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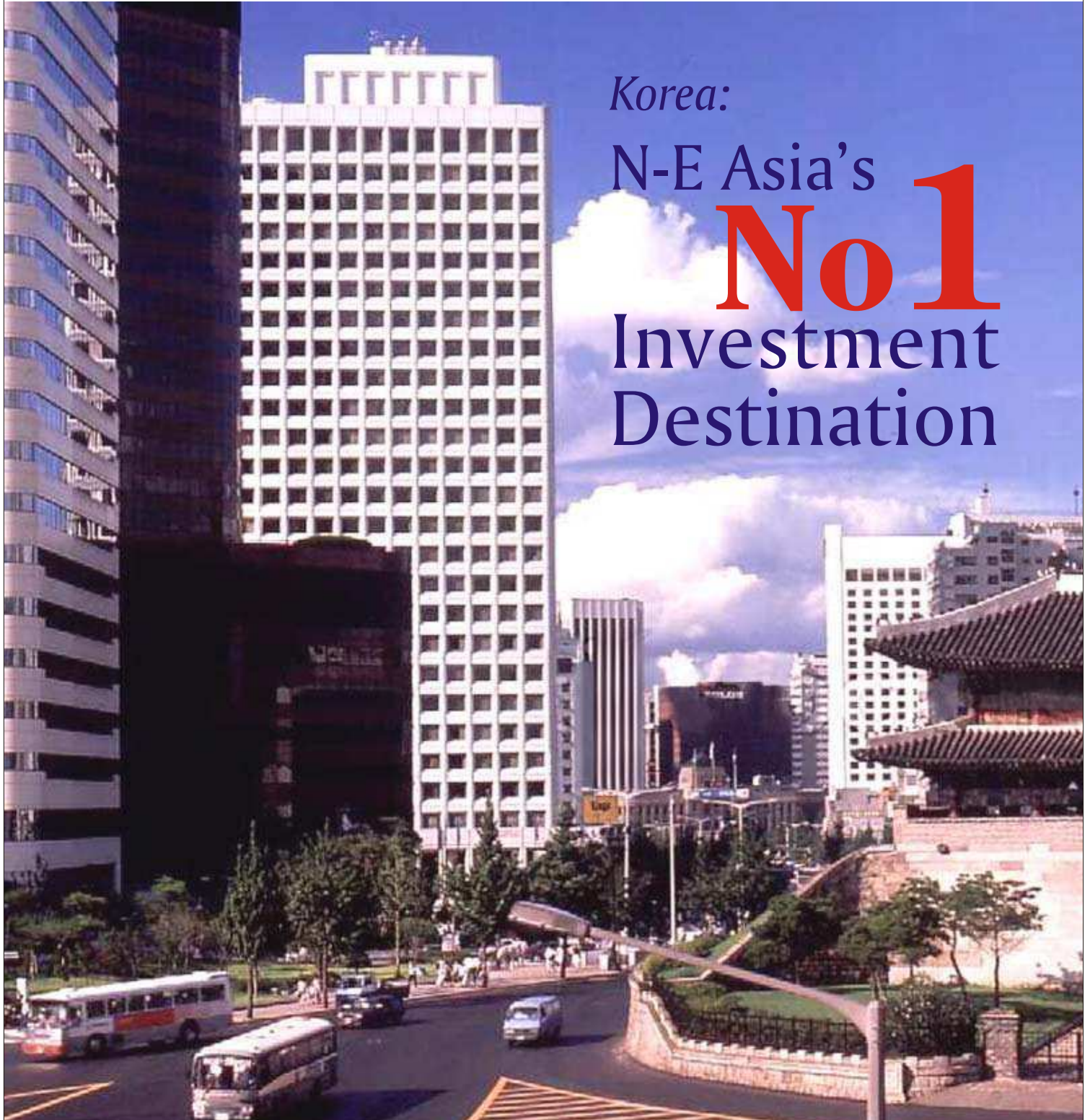
Swiss-Asian Chamber of Commerce
Chambre de Commerce Suisse-Asie
Wirtschaftskammer Schweiz-Asien
for ASEAN and Korea

ISSUE 1/2007



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Korea:

N-E Asia's
No 1
Investment
Destination

Land of the Morning Calm Emerging as Asia's Bustling Business Hub



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Korea, once known as the Land of the Morning Calm, has recognized the importance of internationalization and is moving quickly to promote foreign investment and business.

The beneficiary of IMF assistance during the 1997 Asian financial crisis, Korea was able to overcome this turbulent period within a short space of time thanks to the efforts of the government, business, and the Korean people. Korea currently has a population of 50 million and occupies the number 11 spot globally with a GDP of US\$768.5 billion. It is also the 12th largest trading nation (estimated figures for 2006 are US\$327.9 billion in exports and US\$300.4 billion in imports) and has the 5th largest foreign exchange reserves (US\$222.8 billion).

In this article, we will deal with five aspects of the Korean investment and business environment.

Production

The first aspect deals with production. Korean workers have excellent technical skills and are have good work ethics. With regard to higher education, Canada currently holds the top position with 50.5 percent of its population possessing a 4-year degree. Korea ranks 5th with 39.5 percent and is just ahead of the United States which ranks 6th at 39.1 percent. In terms of average working hours, a Korean worker works several hundred hours longer than his counterparts in other OECD countries, and according to polls, foreign companies are quite satisfied with their Korean employees' attitude toward work.

In addition, the Korean government is striving to guarantee a stable supply of superior manpower particularly for foreign companies through Invest KOREA (IK).

Accordingly, Korea is showing continuous improvement in production terms as human resources are considered the nation's strongest resource.

Growing Domestic Demand

The second aspect of the Korean investment environment to address is the demand. There are over 51 cities with a population of over 1 million within a 3.5-hour flight from Seoul/Incheon including Beijing, Shanghai, Hong Kong, Taiwan, Manila, Tokyo, and Vladivostok, just to name a few. These cities account for over 20 percent of the global GDP (US\$7.5 trillion), and 32 percent of the global populace (1.5 billion people). In that regard, considering the size of the region surrounding the Korean peninsula, it is well worth conducting business in Korea which has a considerably large market of its own.

According to the survey conducted by Invest KOREA in 2006, the domestic market is growing both quantitatively and qualitatively through the entrance of foreign companies into Korea. This international influence, in turn, has fostered improvement in the judgment and sophistication of Korea's consumers. For some product categories such as mobile phones, Korea is viewed as a test market for the reason that if a product successfully appeals to Korean consumers, it will be also successful on the global market. For that reason, if foreign companies are able to understand and utilize the Korean market well, they will be able to create a foothold in Korea for future success in the global market.

Infrastructure Upgradation

The third highlight concerns the nation's infrastructure. Korea is in the process of upgrading its industrial infrastructure

which includes harbors, roads, and logistics.

In addition, Korea has several firms in key industries. The Korean automobile industry ranks 5th in the world with a production capability of 4.92 million cars annually, while the nation's automobile parts production capability also ranks 5th globally. Korea is the world leader in ship building with over 40 percent of global orders. In the electric and electronics industry, Korea's global market share stands at 10.2 percent and ranks 3rd in semiconductors and mobile phones. Korea produces 50 million tonnes of steel each year and steel giant POSCO is the world's 3rd largest steel producer. The Korean steel industry itself ranks 5th globally.

Based on such clusters, relevant parts manufacturers in Korea are making the transformation toward becoming global companies, supplying parts not only to Korean companies, but also to companies overseas. GM Daewoo Automobiles supplies parts not only to GM Daewoo Korea, but also to GM in China and Japan.

The representative national investment promotion agency, Invest KOREA, operates a project manager (PM) system which has been mandated to process all investment-related processes as one-stop service. In this regard, a foreign company that wants to enter the Korean market can receive comprehensive support to process all relevant administrative requirements quickly and easily through the PM. Furthermore, the Office of the Investment Ombudsman is ready at all times to solve any problems or help redress the grievances of foreign-invested companies after they make an investment and while they conduct business in Korea.

In November 2006, Invest Korea Plaza (IKP) was established to support of incubation of foreign invested companies. IKP provides world class office facilities and comprehensive services to foreign investors through Investor Support Center.

Management Skills

The fourth point this paper will address is

in regard to management conditions. Korea provides various incentives to foreign investors particularly in the R&D sector and high value-added industries by providing multi-faceted support. The basic incentives include reduction of corporate tax, income tax and customs duties, reduction of or exemption from rental fees, operation of a cash grant system, as well as employment and training subsidies.

The recent labor problems that have often been cited in the news, have improved to such an extent that foreign companies do not really consider it a problem.

Furthermore, the Korean market has emerged as an even more transparent, fair and competitive market through the entrance of foreign companies since the economic crisis of the late 1990s. Thus, a mechanism to use the existing resources in the most efficient way has been created. Such a mechanism will attract more competitive and healthy foreign companies and simultaneously improve the level of Korea's business environment, thus acting as a new driving force for Korea's economic growth.

Korea is not only making efforts to create a better environment for foreign companies to conduct business in Korea, but it is also continuously striving to improve the living conditions of foreign investors and their family members. For example, the government has set out 17 tasks to undertake over a period of five years (2004-2008) with improvements already seen in the areas of education, housing, medical services, traffic, and the living environment. That is, Korea is doing its best to make the lives of foreign investors in Korea comfortable by establishing foreign schools and providing relevant information and services.

Vision

The fifth and final aspect regards the vision of the Korean government concerning its ambition to become the business hub of Northeast Asia. Korea is strategically located in the heart of Northeast Asia. The government is continuing its drive to further open the market and make the

economic system more transparent. This strong determination of the Korean government is also reflected in their pursuit of an FTA with the United States, which will make Korea the first major Asian country to do so.

According to a research report by Goldman Sachs, Korea will become the world's 2nd wealthiest country by 2050 with the per capital income of around US\$80,000. In Korea, you will find a government which strongly supports investment and business and KOTRA/Invest KOREA, your partner for global business.

Many Swiss companies have invested successfully in Korea in several different industries. We welcome more Swiss companies to invest in Korea. ■



Korea & Switzerland Explore Further Avenues Bilateral Trade & Investment Post Remarkable Growth

In 2006, Korea's foreign trade and bilateral economic cooperation between Switzerland and Korea achieved marked growth. Korea's exports exceeded US\$ 300 billion as of December 5, 2006, representing a milestone for export. To date, only 10 countries have surpassed the US\$ 300 billion landmark. Such an achievement means that Korean goods now account for 2.7 percent of total goods sold worldwide annually.

Korea recorded the world's fastest export growth. This remarkable achievement came only 42 years after the nation reached US\$ 100 million in exports in 1964 and only two years after passing the US\$ 200 billion mark in 2004. Korea's exports grew at an annual average of 21 percent from 1964 to 2005. In 2006, Korea exported US\$ 326 billion worth of goods, up 14.5 percent from the previous year. What is more, exports have firmly buttressed the Korean economy though the winds of adverse internal and external economic conditions.

Bilateral trade and investment between Switzerland and Korea broke previous records in 2006. Korean export to Switzerland increased 45.9 percent to US\$ 840.2 million in 2006 from the previous year on the back of strong demand for Korean auto, IT and various other products

and services. Korean imports from Switzerland grew incrementally, up 12.9 percent from the year earlier, by shipping US\$ 1,319.1 million in 2006.

Swiss investment to Korea increased sharply to 560 percent at US\$ 225.4 million of notified investment. On the other hand, Korean investment to Switzerland recorded six cases worth US\$ 6.0 million.

Diversified trade items

The diversification of trade signals positive change for Korea-Swiss trade. Both countries have focused heavily on gold, of which Korea exported to Switzerland up to US\$ 4,400 million in 1998 and imported US\$ 1,082.0 million in 1997. Besides gold, commodity trade between both countries has demonstrated solid growth with increased diversification of trade products.

As a result of the Free Trade Agreement (FTA) between Korea and Switzerland in September 2006, I expect the number of trade items to witness steady yearly development.

According to the Korean Customs Office, the number of items (by 6 digits HS code) traded of the over US\$ 1 million imported from Switzerland increased to 194 items in 2006 from 188 items in 2005, and 174

items in 2004. Major import items from Switzerland range from pharmaceuticals, special & general machinery to machine tools, watches, medical devices and agricultural products such as cheese.

Korean exports also expanded annually to 53



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(Source: Korean Customs Office)

items of the over US\$ 1 million exported to Switzerland in 2006 from 45 items in 2005, and 44 items in 2004. Because of technological advances made, Korean products have gained a good reputation with Swiss customers in terms of perceived quality and willingness to buy. Consequently, exports to Switzerland have expanded to include automobiles, IT products such as mobile phones, LCD TVs, MP3 players, refrigerators, parts for watch and machines, medical equipments, and chemicals.

Rising Investment to Korea

As of the end of 2006, there were 176 Swiss companies invested in Korea. Of those companies, 29 percent occupy the manufacturing sector including chemicals, pharmaceuticals, and machinery, and electronics. In the service sector a large portion, 69.3 percent, occupy the distributing and logistics, business support and financial services sectors.

investment environment consistent of talented human resources, state-of-the-art infrastructure, advanced IT environment and strong government supports.

For example, the size of the economy where their company is located is a critical factor in when making investment decisions. In this regard, Korea, the 10th largest economy in terms of GDP, is certainly a very attractive destination. Since enacted and promulgated on September 1998, the Foreign Investment Promotion Act (FIPA) has promoted foreign investment by providing incentives and inducements provide, resulting in the overall foreign investment into Korea surging more than US\$ 10-20 billion every year.

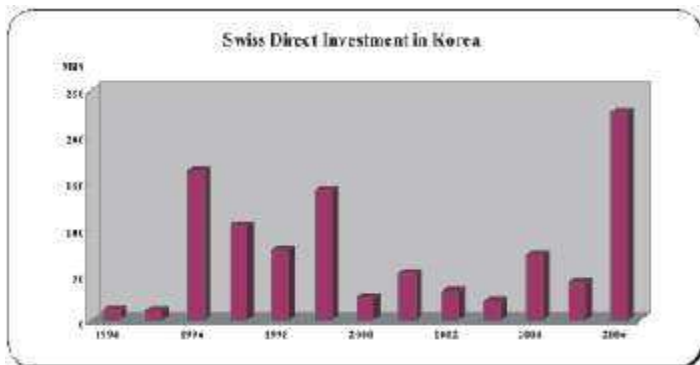
Promising Sectors

To keep continuing and developing the trade and investment relationships between the two nations, I would like to suggest focusing on the following.

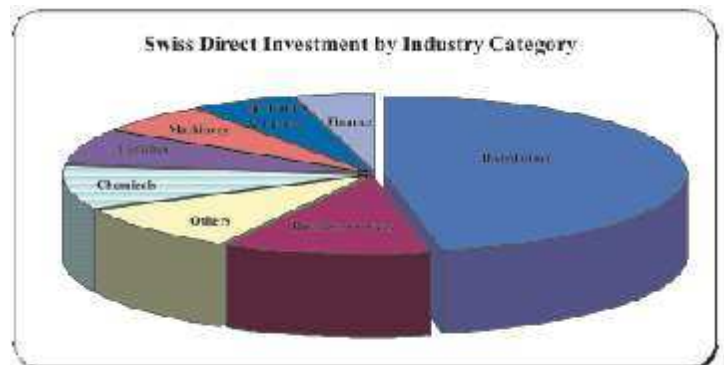
competitive parts and components suppliers.

Second, Korea is geopolitically located at the center of Northeast Asia where 25 percent of the global population lives and 22 percent of the world GDP is produced. As a result Swiss companies aim to utilize Korea as a business focal point in the Asian-pacific region. Its strategic location offers quick access to the world's 2nd largest economy China and another economic giant Japan.

Third, both countries need to strive for added R&D cooperation. The creativity and innovation of Koreans is largely responsible for Korea's rapid emergence as a global IT powerhouse in such a short time, positively affecting the industry and sales performance. Asia is rapidly advancing towards its goal to become an R&D hub offering excellent human resources and strong price competitiveness. Consequently, it could



(Source: Invest Korea)



(Source: Invest Korea)

For the last 12 years from 1995 to 2006, Swiss companies from various industries have established subsidiaries in Korea in line with the expanding growth of far eastern markets. In terms of numbers, most investment from Switzerland to Korea occurred between 1996 and 1999.

The highest amount of Swiss corporate investment into Korea in 2006 was owed to large scale investment in the finance and machinery sectors. Increased investment to Korea can be attributed to growing Korean market potential as perceived by major Swiss industries in terms of size of market and profitability, utilizing excellent

First, Korea has a large enough import market with 18.4 percent growth of US\$ 309.3 billion in 2006. There are many opportunities to develop new markets by both countries' entrepreneurs. For example, Switzerland's food-related industry may gain more chances to expand markets in Korea due to changing eating habits. Vice versa, Korea companies can develop additional business supplying parts and components to Switzerland's major industry such as the machinery and watch industries, to assist Swiss companies' efforts to improve product quality by outsourcing to high quality and

take a step further on the path to success by engaging in joint R&D project with world renowned Swiss and innovative Korean companies in various fields such as BT, IT and mechanical engineering. ■

Swiss-Korean Business Council: A Guide & Friend in Need

The Swiss-Korean Business Council (SKBC) in Korea was established on June 2, 1993, a little less than 15 years ago. It is a business service organization with the main task to stimulate business relations between Korea and Switzerland. It is first of all a platform for companies' representatives and individuals to meet on a regular basis and to exchange opinions, current and ongoing issues and possible solutions.

Upon request the SKBC provides member-companies interested in business relations between Korea and Switzerland with specific advice and services and is able to put you into contact with potential business partners. This is done in close cooperation with the Swiss Embassy and local institutions that mainly care for foreign investments, such as KOTRA.

But after all, the SKBC remains a rather small council, which complements the big

players like AMCHAM, EUCCCK, Korean-German Chamber etc. rather than compete with them. We have in fact close personal ties with the other chambers and exchange values with them. Many of our members are not exclusive members of the SKBC, but also have membership with the German, European and/or American Chamber. During the past three years, the list of our members has become considerably longer. Today we have 1 honorary member (the Ambassador of Switzerland), 61 corporate and 23 individual members, 85 in all. That is almost 50 percent more than in 2004.

In order to strengthen existing relations as well as to facilitate new relationships between business men and women representing Swiss or Korean companies, SKBC organizes monthly luncheons for its members. We invite highly qualified guest speakers to brief us on topics of common



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interest on a regular basis. Areas like "Labor", "Politics", "Economic Outlooks" and "North-Korea" are covered on a regular basis. The response to the luncheons is really pleasing with around 25 participants on average. Also, the Council organizes briefing breakfasts for Swiss companies interested in doing business in Korea upon request. April and December events are dinners with partners, very popular too.

The SKBC is a non-profit organization. The board consists of currently seven representatives of global companies, SMEs, the Swiss Embassy and also of a university. The operation is done by one managing director as a side-job, assisted by the executive secretary of the board chairman and the IT team of a corporate member in respect of the webpage which we are currently preparing to relaunch.

Swiss community in Korea

When you visit Korea these days for the first time you can hardly believe that the Swiss-Korean Business Council is only just 13 years old. But it is a fact and shows clearly how dramatic the economic development of Korea has been over the past 15 to 20 years. Different from Thailand and the Philippines, de facto all the members of the Swiss community stay in Korea because of their job. Korea is far from being attractive for tourists or even retirees. It has not much to offer,

unfortunately. If you have seen one temple you can skip the rest. The beaches do not attract visitors to enjoy beach life. The Korea Tourism Organization keep spending millions of dollars each year, the result however is pretty moderate. Much more successful are the Tourism Promotion Offices of foreign countries in Korea, last but not least Switzerland, which enjoys an excellent reputation among Koreans.

Mid-90s the number of Swiss citizens immatriculated with the Embassy reached the peak with about 190. This figure went down to 120 during the Asian financial crisis in 97/98. Meanwhile it has grown steadily again and there are about 160 Swiss known to our Embassy. The number 160 is not staggering and most of us would expect more, especially considering that it, of course, includes kids and partners of those who were assigned a job in Korea. On the other hand side that highlights clearly how important and dominant the position of the Swiss-Korean Business Council is. Our community is predominantly a business community, and, as it's a rather small one, there has never been a Swiss Club in Korea. There are some small committees caring for specific tasks, such as the

1. Swiss Students' Fund in Korea: Founded in 1990, keeping relationship with foreign schools in Korea and assuring priority enrolment for Swiss kids, as there has

never been a Swiss school here.

2. 1st August Committee/Samichlaus Committee, organizing the respective events.

3. SIWA committee, a welfare bazaar of the Seoul International Women's Association. The Swiss women are traditionally participating with their own booth.

The low number of Swiss citizens in Korea makes it hard to operate those committees. Several individuals are represented in more than one. Another typical setback for a business based community is the fact of limited assignment periods of 3 to 5 years for expats. Every 3 to 5 years, the Swiss Community has completely changed. There are maybe a handful of exceptions of Swiss individuals who're staying in Korea for longer or some who return to Korea.

Inquiries from Non-Members

Of course we are first of all a source for our members, but we are pleased to also respond to inquiries coming from non-members, mainly from Switzerland. We are proud of being part of the Swiss Cham and try to actively take our role in that very important Swiss business network worldwide.

We are regularly asked to recommend service providers in the area of:

1. Legal Services / Lawyers
2. HR Consulting (Search & Staffing)
3. Accounting / Auditing Firms
4. Agents / Distributors

We are well familiar with the local market and are furthermore in the position to also get meaningful hints and tips from our members who are all happy to share their experience in fields of common concern.

So should you need any information about Korea's business environment, feel free to contact us under skbckorea@hotmail.com ■