



Introducing Korea

Despite its relatively small size, South Korea (officially called the Republic of Korea) is a powerful global economy and a major industrial nation. It has long been one of the fastest growing economies in the Asia Pacific region, with an average annual growth rate of more than seven per cent over the past three decades.

In the late 1960s, its GDP per capita was comparable to the poorer countries of Africa and Asia. Today, its GDP per capita is higher than all its neighbours bar Japan and China and comparable to a number of European economies.

To achieve this remarkable growth, the government promoted the import of raw materials and technology over consumer goods and encouraged investment and savings over consumption. In addition, economic aid from countries such as Japan and the USA helped South Korea grow from one of the world's poorest countries into a true 'tiger economy' in the space of a generation.

Like many in the region, the country suffered economic difficulties in 1997 and 1998, brought on by the Asian crisis, with economic growth plunging to -5.8 per cent by the end of 1998. But the economy recovered very quickly, with GDP growth bouncing back to 10.7 per cent in 1999 and nine per cent in 2000. Growth is expected to be about five per cent in 2004.

South Korea is now placed 11th in world GDP rankings and is the 26th largest export destination for UK goods. It is the world's largest shipbuilder, second biggest steel producer and home to the world's leading semi-conductor manufacturers.



South Korea's global economic rise is remarkable. It has maintained an average annual growth rate of 7.3 per cent for the 32 years from 1971 to 2002. During that period, GDP has risen 59-fold and national income per capita 41-fold.

Government and Politics



After 25 years of authoritarian rule, a new South Korean constitution was introduced in 1987. It brought back direct presidential elections and reduced the presidential term from seven to five years. Civilian control of the armed forces was re-established under President Kim Young-sam, who took office in 1992.

In the presidential elections of 1997, the opposition beat the ruling party and the opposition leader Kim Dae-jung became President. It was the first peaceful transfer of power between parties in the Republic's history.

President Kim introduced his 'sunshine' policy towards North Korea, the goal being to re-establish communications with the North on the issue of reunification. The result was the historic meeting of both leaders in June 2000 in the North Korean capital, Pyongyang.

In the most recent Presidential elections in 2002, Roh Moo-hyun replaced Kim Dae-jung as President.

The South Korean President is solely responsible for deciding all important government policies. He governs through the State Council, made up of 15 to 30 members. Members of the Council are appointed by the President, upon recommendation by the Prime Minister.

The Prime Minister is appointed by the President and approved by the parliament, the National Assembly. As the principal executive assistant to the President, the Prime Minister supervises the administrative ministries and manages the Office for Government Policy Coordination, under the direction of the President.



Financial Services

South Korea's aim of becoming a regional business hub will require a more open and transparent financial sector, an issue which the government is already addressing.

It already has a large pool of domestic financial assets. Further growth will encourage demand for a wider range of investment opportunities, financial instruments and asset management.

Specific opportunities have been identified in the following sectors:

PPP: known locally as PPI – Private Participation in Infrastructure. Current developments include plans to involve pension funds in investing in PPP projects and to expand the range of PPP projects to cover more than the large transport projects seen so far. Topical areas of interest include the UK's PPP experience and project management in hospitals and schools.

Corporate pensions: a corporate pension scheme will be introduced in July 2005 to replace the current lump-sum retirement allowance. The size of the market is expected to be about 30 trillion Won (approximately £15 billion) in the first year, rising to 50 trillion Won in five years. Only banks and insurance companies will be able to sell pension products. There are therefore excellent opportunities for asset management companies to develop partnerships with local banks and insurers.

Private wealth management: South Korea is moving from being an export-led economy to a consumer-led economy, but Korean banks and other financial institutions only provide limited private banking services. The total financial assets owned by individuals reached 1,031 trillion Won (£506 billion) at the end of 2003. There are 60,000 to 70,000 people who own more than 1.2 billion Won (US\$1 million) worth of financial assets. The potential market size is estimated to be 256 trillion Won, with market growth rate for next five years predicted to be around nine per cent.

Legal services: many international law firms already have strong links with Korean firms. Liberalisation of the legal services market will provide specialist legal advice from international lawyers at lower cost and greater convenience than at present. This is essential for South Korea to realise its aim of becoming a financial services hub. International law firms also have extensive experience in advising on a wide range of other areas relevant to the country's development, such as maritime and shipping, aerospace, IT, telecoms, utilities, natural resources and overseas investment.

Jeju Free International City

Jeju Island, off the south west coast of the Korean mainland, is South Korea's most important international tourist destination. To capitalise on its investment potential, the government has made Jeju into a Free International City. Investment incentives include a 100 per cent reduction in corporate tax, income tax and some local taxes for the first three years and 50 per cent for the following two years for any investors, both national and international, investing over US\$10 million.

Marine and Shipbuilding

South Korea is an attractive market for the UK marine industry. In 2002, it received orders for 230 vessels, a 19 per cent increase on 2001.

Exports for ships, boats and floating structures represented 6.7 per cent of total exports in 2002, a 9.7 per cent increase on the previous year. It is now the fifth largest single export item after semiconductors, cars, wireless telecommunications and computers.

Orders received in the first half of 2003 increased by 192 per cent over the same period of 2002. The majority of the orders were for tankers and container ships. Orders for LNG carriers also showed an increase.

The order pipeline shows no sign of diminishing. The backlog of shipbuilding orders totalled US\$25.3 billion in 2002 and US\$30.3 billion for 2003, covering 609 vessels – enough to keep the domestic shipyards running for two-and-a-half years.

Areas of particular opportunity for British marine equipment companies include integrated control systems, navigational equipment and advanced information technologies.

The longer term aim of South Korean shipbuilders is to target higher value orders, such as offshore drilling vessels, tankers and cruise ships. European shipbuilders have traditionally enjoyed a larger share of this market.

Demand for cruise ships in Asia is expected to grow as the region's economy expands. Although cruise-ship-building infrastructure in South Korea remains limited, it provides a sought after opportunity for local shipbuilders to enhance their global status.



Travel Essentials

For visits of up to 90 days, holders of a valid British passport do not require a visa, but no extensions to the stay are permitted. For stays of over 90 days, prospective visitors should contact the South Korean Embassy.

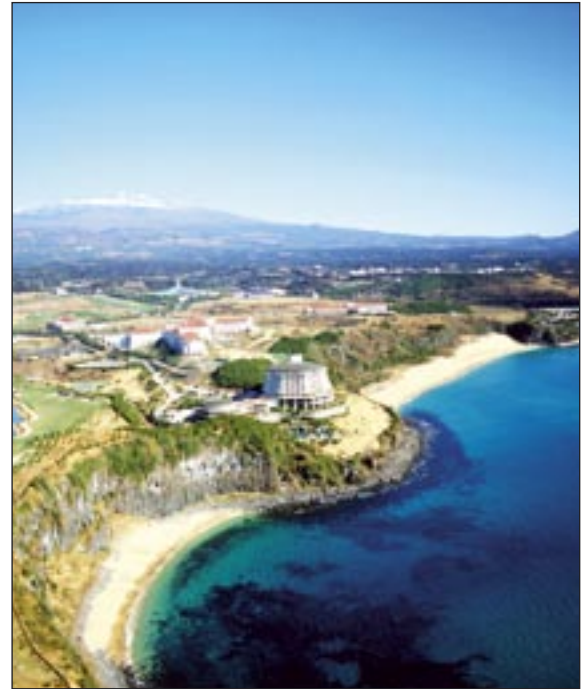
There are no mandatory vaccination requirements, but visitors should seek medical advice concerning immunisation against hepatitis, tetanus, polio, cholera, malaria and typhoid, especially if planning to visit rural areas.

There are direct flights from the UK to Seoul. Flight time is around 11 hours. Incheon International Airport, opened in March 2001, deals with all international flights. Gimpo (Gimpo) Airport handles all domestic flights.

From Incheon airport, Korea Air operates a limousine coach service which services 19 luxury hotels in Seoul. Alternatively, there are a range of taxis. The black-with-gold-top taxis are the most expensive, but offer receipts and an acceptable level of English. The grey-with-blue-top taxis are cheaper, but the level of English is poor.

All main towns are linked by railway. The principal line runs from Seoul to Busan, via Taejon and Taegu, with 12 express services daily. Since the opening of the new bullet train service in April 2004, travel time for the 270-mile journey has been cut from four hours to two hours and 40 minutes. It is hoped that the journey time will be cut to one hour and 56 minutes by 2010.

Seoul also has an extensive and efficient subway that is cheap but popular and very crowded at peak times.



Wages in Korea are higher than in neighbouring countries such as China and Taiwan, but lower compared to Western levels. However, Koreans work longer hours than the workforces of most other OECD countries.

Business Etiquette

Contracts in Korea are based as much on human rapport and relationships as on the legal documents.

Detailed contracts are frowned on and it is preferred if contracts are flexible enough to fit changing circumstances.

The important thing about a contract is perceived to be not what is stipulated, but who signed it and the fact that it exists. However, it should not be mistaken for a lack of awareness of the legal details of the contract.

It is advisable to have a formal introduction to anyone with whom you want to do business. Unsolicited phone calls, letters or emails rarely receive a response.

Business cards play a key introductory role and the exchange of cards is a formal affair. No Korean businessman is comfortable until he knows what company the person he has met is from and what his position is. As the relationship develops, Koreans like a more personal, rather than simply business relationship. Showing interest in their family status, opinions and birthdays, for example, is appreciated. On some occasions small, symbolic and intricately wrapped gifts may be presented.

When negotiating, if possible, display patience, geniality, firmness and composure.

Sensitive issues and details are often skipped for future discussions, preferably by a go-between or by other staff. Use of a go-between can be very valuable, particularly when negotiating delicate matters such as financial negotiations.

Decisions are usually reached collectively, it is therefore important to allow sufficient time for the collective decision-making process.