



INVESTMENT  
OPPORTUNITIES  
IN KOREA

# Distribution & Logistics

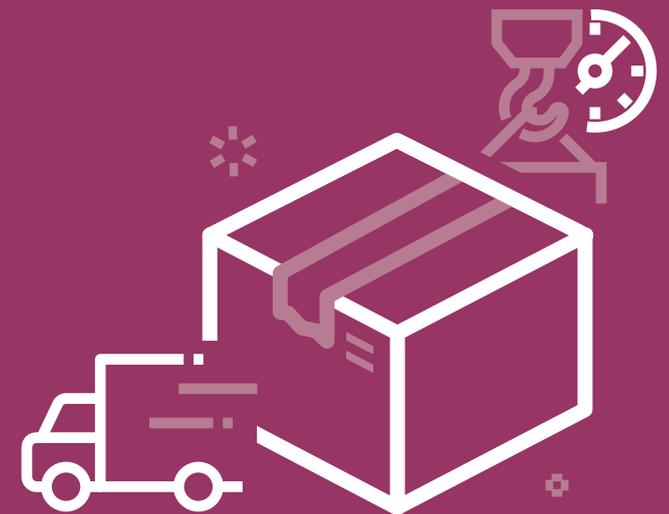


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## Investment Opportunities in Korea \_ Distribution & Logistics

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## Logistics

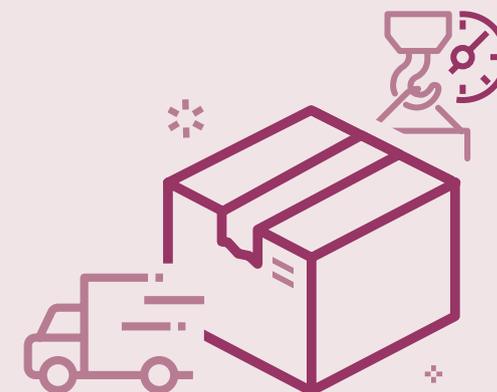
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\* Figures on the report show the likely adjustment of average yearly currency rates from Korean Won (KRW) to the US dollar (USD). A rate adjustment is adopted particularly reflecting the recent average market variations to eliminate the valuation effects arising from movements in exchange rates in case when the data expressed shows an annual growth rate on the paper.

\* Rate adjusted figures are rounded off, but the sum is correct down or up to the decimal when the rounded values are not equal to the adjustment.

## INVESTMENT OPPORTUNITIES IN KOREA

# Distribution



# 01 Industry Trends

## Definition and Classification

• (Definition) According to Article 2(1) of the Distribution Industry Development Act, the “distribution industry” refers to an industry aimed at the wholesaling and retailing of agricultural, forest, livestock, marine (including processed goods or cooked marine products), and industrial products; the storage, delivery, and packaging thereof; and the provision of information and services related thereto.

- In a broad sense, the distribution industry encompasses the entire process of making products available to consumers, and, in a narrow context, it refers to retail trade for consumers and wholesale trade for retailers.

- Distribution is classified as “Wholesale and retail industry (G)” in general, and it belongs to categories 46 and 47 when the items defined by other laws are excluded.

### Classification of Distribution Industry in Statistics

Wholesale and retail industry (G)	Sale of automobiles and auto parts (45)	Automobiles, used vehicles, automobile parts, automobile internals, bicycles
	Wholesale trade & brokerage of commodities (46)	Wholesale trade in food and beverage, clothing, shoes, household items, electronic appliances, computers, machinery
	Retail trade; excluding automobiles (47)	Furniture retail (electronics, furniture, clothing, etc.), non-specialized large retail stores (department stores, large discount stores), grocery retailers (convenience stores, supermarkets, family-operated stores), non-store retailing (online shopping malls, TV home shopping channels), etc.

## 1.1 Market Trends in Korea

### Status of Korea’s distribution industry

• The distribution industry is connected to all other industries including manufacturing, restaurant, and services, and has a considerable impact on the national economy including production and employment.

- The distribution industry (retail and wholesale trade for statistical purposes) accounts for 7.4% of GDP (2017) and 14.7% of the total labor force, creating a considerably large number of jobs for its share of GDP.

- Given the firm forward and backward linkage effects, the balanced growth of the distribution industry helps improve the competitiveness of the manufacturing industry and consumer welfare.

- Structural changes in the distribution industry have a direct impact on the national economy by bringing about changes in prices, employment, and consumption.

- The industry employed 3,170,000 people or 14.7% of the total workforce in 2017.

\* Employment by other industries as % of total employees (Statistics Korea): Manufacturing (19.0), accommodation & restaurants (10.2), and welfare services (8.2)

- There were 1,020,000 establishments in the distribution industry in 2017, which represent 25.4% of all establishments.

### Industry Trends by Sector

Sector	Item (unit)	2014		2015		2016		2017		
		Figures	Change (%)	Figures	Change (%)	Figures	Change (%)	Figures	Change (%)	
Whole-sale & retail	① Distribution Industry (wholesale & retail)	Sales (USD billion)	813	0.7	983	20.8	1,017	3.5	1,090	7.2
		GDP (USD billion)	104	2.8	107	2.6	110	3.2	114	3.5
		No. of employees (1,000 persons)	3,833	3.8	3,816	-0.4	3,754	-1.6	3,795	1.1
		No of workers (1,000 persons)	2,999	4.1	3,129	4.3	3,148	0.6	3,173	0.8
		No. of establishments (1,000)	997	3.8	1,015	1.8	1,019	0.4	1,023	0.3
		Wholesale & brokerage	②	Sales (USD billion)	478	-0.4	612	28.1	625	1.9
No. of workers (1,000 persons)	1,197			7.4	1,284	7.3	1,277	-0.6	1,270	-0.6
No. of establishments (1,000)	310			9.9	325	4.8	324	-0.2	321	-1.1
③ Retail	Sales (USD billion)	273	0.9	299	9.6	321	7.1	337	5.1	

Sector	Item (unit)	2014		2015		2016		2017		
		Figures	Change (%)	Figures	Change (%)	Figures	Change (%)	Figures	Change (%)	
Whole-sale & retail	③ Retail	No. of workers (1,000 persons)	1,676	2.0	1,714	2.2	1,734	1.2	1,773	2.3
		No. of establishments (1,000)	659	1.1	661	0.3	664	0.5	672	1.2
Sales by type of outlet	④ Retail stores	Sales (USD billion)	318	1.8	360	13.5	374	3.9	389	3.8
	⑤ Large discount stores	Sales (USD billion)	42,000	3.5	28,984	-31.0	29,388	1.4	29,887	1.7
		No. of workers	75,173	3.5	78,949	5.0	76,732	-2.8	70,536	-8.1
		No. of stores	537	2.3	549	2.2	557	1.5	497	-10.8
	⑥ Department stores	Sales (USD 100 million)	259	-1.6	256	-1.0	264	3.0	259	-2.0
		No. of workers	14,302	-9.4	15,213	6.3	14,791	-2.8	13,112	-11.4
		No. of stores	97	2.1	100	3.0	101	1.0	101	0.0
	⑦ Supermarkets	Sales (USD 100 million)	312	0.8	384	23.0	392	2.0	394	0.5
		No. of workers	87,899	9.4	95,708	8.9	101,181	5.7	103,418	2.2
		No. of stores	9,649	8.8	10,800	11.9	11,446	6.0	11,559	1.0
	⑧ Convenience Stores	Sales (USD 100 million)	112	8.7	145	29.1	172	18.4	196	14.2
		No. of workers	102,235	4.9	123,205	20.5	139,807	13.4	158,971	13.7
		No. of stores	26,020	4.7	28,994	11.4	32,611	12.5	39,855	22.2
	⑨ Specialized retail stores	Sales (USD 100 million)	899	-1.3	1,234	36.9	1,245	1.2	1,230	-1.3
⑩ Non-store retailing	Sales (USD 100 million)	363	7.0	413	13.8	477	15.5	541	13.3	
⑪ Door-to-door sales	Sales (USD million)	3,976	13.9	4,550	14.4	4,123	-3.6	-	-	
	No. of workers	6,933	2.8	7,956	17.4	8,159	-8.6	-	-	
Small-size retailing	⑫ SMEs	Sales (USD billion)	481	0.00	580	20.7	620	6.9	-	-
	⑬ Micro enterprises	Sales (USD billion)	229	-0.1	266	16.1	297	11.7	-	-
	⑭ Traditional markets	Sales (USD billion)	17.7	3.3	18.6	5.0	19.2	3.3	19.9	3.7

Sector	Item (unit)	2014		2015		2016		2017	
		Figures	Change (%)						
⑤ Franchise chains	No. of franchisors	3,482	17.1	3,910	12.1	4,268	9.2	4,631	8.5
	No. of brands	4,288	16.1	4,844	12.9	5,273	8.9	5,741	8.9
	No. of franchisees	194,199	1.8	208,104	7.1	218,997	5.2	230,955	5.5
	No. of stores directly managed by franchisors	12,869	1.9	15,459	20.1	16,854	9.0	17,135	1.7

Sources: ① Statistics Korea, GDP & GNI by Economic Activity / Economically Active Population Survey (no. of employees by industry) / Economic Census (2015), including sales of automobiles and parts

②,③ Statistics Korea, Wholesale and Retail Trade Survey (2014, 2016) / Economic Census (2015)

④,⑤,⑥,⑦,⑧,⑨,⑩ Retail sales data published by Statistics Korea / Wholesale and Retail Trade Survey

⑪ Fair Trade Commission (FTC)

⑫,⑬ Statistics Korea; sales figures are based on the Economic Census and have been processed and adjusted according to the definitions of "micro enterprises" and "SMEs."

⑭ Small Enterprise and Market Service, Survey on Traditional Markets and Store Management

⑮ Fair Trade Commission (Disclosure Document), NSO

Notes: 1. ① The number of employees includes i) persons who have worked for 1 hour or longer to generate income, ii) members of a family who have worked for 18 hours or longer at a farm or a business operated by their family even though no direct gains or income have been generated for them, and iii) individuals who have work but are on temporary leave of absence from their work, during the survey period.

2. Sales in ③ and ④: Sales for wholesale (③) excludes consignment sales of department stores, large stores, and home shopping channels while sales for retail (④) include consignment sales.

3. ⑨ Specialized retail stores are stores that sell specialty items [(451 (sedans out of all automobiles), 472 (Food & Beverages, and Tobacco Retail Trade) – 478 (Other Retail Trade)]

4. ⑩ Non-store retailing includes online shopping, home shopping, door-to-door sale, and delivery service-based retail stores

5. ⑫ SMEs include businesses with average sales of USD 88.43 million (KRW 100 billion) or less according to the Enforcement Decree of the Framework Act on Small and Medium Enterprises).

6. ⑬ Micro enterprises refer to businesses that hire fewer than 5 regular workers (fewer than 10 employees for transportation businesses) according to the Enforcement Decree of the Act on the Protection of and Support for Micro Enterprises).

### Growth trends by type of outlet

- The popularity of online shopping continues to rise as consumers increasingly opt for convenience in their shopping experiences. Particularly noteworthy is the steep rise in mobile shopping that now accounts for more than half of all retail sales.

\* Online retail sales (USD billion, NSO): (2014) 40.0 → (2015) 47.8 → (2016) 58.0 → (2017) 69.1

\* Mobile shopping as % of all online sales (% , NSO): (2014) 32.8 → (2015) 46.0 → (2016) 54.2 → (2017) 61.1

- Sales of convenience stores have been steadily expanding as they have adopted aggressive strategies to cope with the changing consumption trends, including the increase in single-person households, and consumers' growing preference for small purchases and shopping convenience.

\* Sales of convenience stores (USD billion, NSO): (2014) 11.2 → (2015) 14.5 → (2016) 17.2 → (2017) 19.6

- Sales of supermarkets have remained on a mild growth path as individual stores focus on improving their profitability, and some stores have added new features such as drug stores and wine shops to their business.

\* Sales of supermarkets (USD billion, NSO): (2014) 37.4 → (2015) 38.4 → (2016) 39.2 → (2017) 40.1

- Sales of large discount stores amounted to USD 29.8 billion in 2017. The growth has been sluggish since 2013 because of market saturation and the expansion of grocery retailing by online distribution outlets.

\* Sales of large discount stores (USD billion, NSO): (2014) 29.2 → (2015) 29.0 → (2016) 29.3 → (2017) 29.8

- Department stores have reached the growth ceiling as more and more consumers value rational consumption, and online distribution has increased on the back of price competitiveness.

\* Sales of department stores (USD billion, NSO): (2014) 25.7 → (2015) 25.6 → (2016) 26.4 → (2017) 25.9

## 1.2 Industrial Competitiveness

### Korean distribution industry with growth potential

- The labor productivity and added value per business of the Korean distribution industry were less than half of those of the manufacturing industry in 2016.

\* Labor productivity (USD/person-hour, NSO): (distribution) 16.3 vs. (manufacturing) 38.7

\* Added value per business (USD 10,000/business-year, NSO): (distribution) 10.3 vs. (manufacturing) 91.3

### Optimized market for e-commerce

- Korean consumers are highly receptive to new technologies and keen on e-commerce.
- Korea is the first country in the world where 5G communication services have become available, and the world's highest average Internet connection speed and smartphone penetration rate provide an excellent infrastructure for e-commerce.
- Employing communication strategies that involve bloggers and social influencers of social media is highly effective.

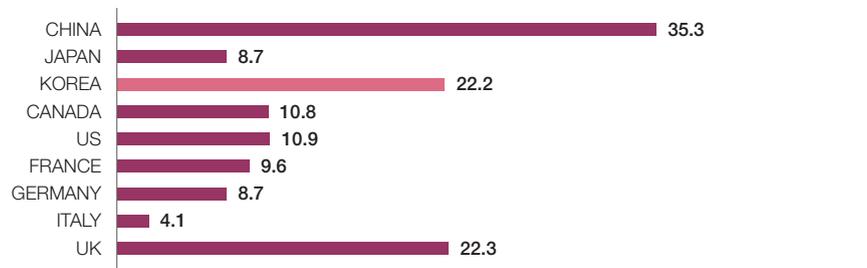
# 1.3

## Promising Fields in Korea

### E-commerce

- The market share of e-commerce in the Korean retail market is among the highest in the world.
  - E-commerce is the least-regulated market of the retail sector, and can cater effectively to the needs of speed-sensitive Korean consumers.

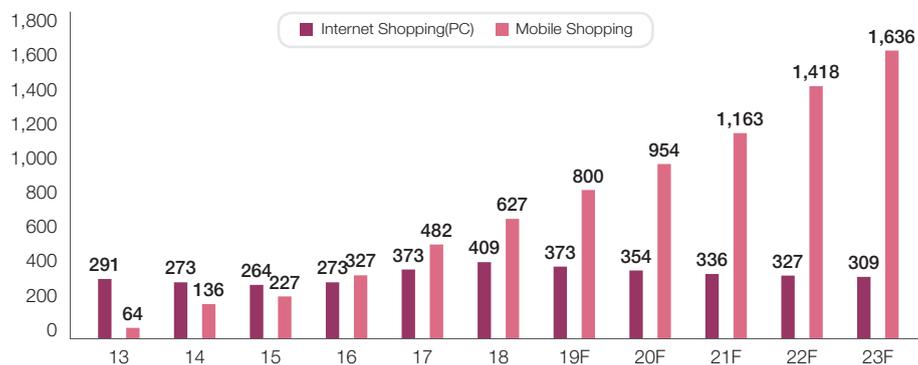
Market Share of e-Commerce in the Retail Sector by Country, 2019 (unit: %)



Source: eMarketer, February 2019

- Particularly, mobile shopping has grown rapidly, emerging as a new driver of e-commerce.

Growth Trend and Forecast for Online and Mobile Shopping (2013–2023) (unit: USD 100 million)



Sources: NSO, Hyundai Motor Securities

### Retail complexes

- REITs, which are commonly used in countries with an advanced distribution industry, became widely popular in Korea in 2018, and are expected to attract large amounts of investment.

\* REITs: Real Estate Investment Trusts:

- The growing popularity of REITs will probably result in the construction of large-scale retail complexes.
  - Massive funds are required to build or remodel retail complexes, but only a few companies can afford such a financial burden.

- As more Korean consumers gain overseas shopping experiences, the demand for new and different types of shopping centers or malls has been increasing. Hence, there is a high growth potential for new types of shopping malls.

### Duty-free shops

- Downtown duty-free shops, unlike other duty-free shops that are normally found at airports and seaports, are located in central shopping districts in downtown areas because they are joint ventures of the Korean government and corporations.

- Because of their advantageous locations, these stores have enjoyed much success in sales, causing other countries to benchmark Korea and open duty-free shops in downtown areas to attract foreign tourists.

Sales of Duty-Free Shops, 2014–2018 (unit: USD million, %)

Year	2014	2015(Change)	2016(Change)	2017(Change)	2018(Change)
Sales	7,550	8,359	10.72	11,156	33.45
		13,149	17.86	17,231	31.05

Source: Korea Duty Free Shops Association

- Opening a duty-free store requires a license issued by the government, but opportunities to open new duty-free shops are fairly limited. However, acquiring a license is relatively easier for small and medium-sized duty-free stores compared to large stores.

- Any small or medium-sized duty-free shops offering unique services or products can benefit from the world's best duty-free business environment that is available in Korea.

## 02

# Trends of Foreign Direct Investment

## 2.1

### Status of Foreign Direct Investment

#### FDI by business size and industry

- In general, the distribution industry generates a relatively low operating margin. Therefore, large-scale investments are necessary rather than exporting merchandise. In addition, business strategies need to be revised to fit the local market circumstances, affecting the number of FDI cases and the size of FDI.
- Wholesale and commodities brokerage receive relatively small amounts of FDI, with investments of USD 1 million or less making up 88% of all cases, and the number of FDI cases is also declining.
- As the table below shows, greenfield investments account for 94% of the total FDI that flowed in the wholesale and commodities brokerage sector from 2015 to 2018.

#### FDI in Wholesale and Commodities Brokerage by Amount (based on declared amounts)

(unit: case, USD 1,000)

Amount		2015	2016	2017	2018	Total	
Size of investment	No. of cases	Total	677	838	741	694	2,950
		Less than 1 million	600	729	596	614	2,539
		1 million – less than 10 million	61	84	120	59	324
		10 million – less than 100 million	17	25	28	22	92
		100 million or more	0	2	1	0	3
	Amount	Total	724,137	1,277,487	1,323,303	760,389	4,085,316
		Less than one million	183,064	253,034	195,149	207,503	838,750
		1 million – less than 10 million	188,975	258,213	309,106	199,943	956,237
		10 million – less than 100 million	443,630	624,431	746,455	456,695	2,289,211
		100 million or more	-	500,652	340,337	-	840,989

		Amount	2015	2016	2017	2018	Total
Type of investment	No. of cases	M&A	45	40	48	33	166
		Greenfield	632	798	694	661	2,785
	Amount	M&A	174,639	245,855	395,322	133,467	949,283
		Greenfield	549,497	1,031,632	927,981	626,922	3,136,032

Sources: Ministry of Trade, Industry and Energy, "Statistics on Foreign Investments"

- In the retail sector, small-scale FDIs of less than USD one million make up 87% of the total. However, the retail sector still received large FDIs, including two cases that amounted to USD 100 million or more in 2017 and one case in 2018.
- Regarding the type of FDI in the retail sector, greenfield investments account for 94% of the total during the same period.

#### FDIs in the Retail Industry (based on declared amounts)

(unit: case, USD 1,000)

		Amount	2015	2016	2017	2018	Total
Size of investment	No. of cases	Total	111	108	117	119	455
		Less than 1 million	83	87	88	103	361
		1 million – less than 10 million	14	19	21	11	65
		10 million – less than 100 million	14	2	7	5	28
		100 million or more	0	0	2	1	3
	Amount	Total	502,044	149,079	627,663	820,849	2,099,635
		Less than one million	32,553	32,043	33,161	31,226	128,983
		1 million – less than 10 million	52,562	55,559	55,886	42,106	206,113
		10 million – less than 100 million	433,205	77,498	196,197	219,642	926,542
		100 million or more	-	-	718,000	1,086,975	1,804,975
Type of investment	No. of cases	M&A	5	5	7	9	26
		Greenfield	106	103	110	110	429
	Amount	M&A	456	2,917	37,698	545,712	586,783
		Greenfield	501,588	146,162	589,966	275,137	1,512,853

Sources: Ministry of Trade, Industry and Energy, "Statistics on Foreign Investments"

#### FDIs by country and industry

- The largest number of FDI cases in the wholesale and commodities brokerage came from China, followed by Japan, Hong Kong, the United States, and Pakistan.
  - FDI cases from China represented 35% of all inbound FDIs from 2015 to 2018.
- By amount, the United States was the largest FDI source, followed by Japan, Hong Kong, Germany, and China. Therefore, large amounts of FDIs mostly came from the United States, while Chinese investors preferred small-scale investments.

#### FDIs in Wholesale and Commodities Brokerage by Country (based on the number of cases and declared amounts)

(unit: case, USD 1,000)

Country	2015		2016		2017		2018		Total	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Total	677	724,137	833	1,277,487	741	1,323,303	694	760,389	2,950	4,085,316
China	281	77,907	313	93,554	235	109,089	215	74,622	1,044	355,172
Japan	63	74,324	80	219,346	71	159,555	67	95,413	281	548,638
Hong Kong	46	189,764	42	93,048	66	78,174	55	42,106	209	403,092
US	42	19,256	57	409,480	51	266,960	57	184,202	207	879,898
Pakistan	30	3,575	44	4,897	34	4,122	32	3,089	140	15,683
Germany	281	77,907	313	93,554	235	109,089	215	74,622	1,044	355,172

Sources: Ministry of Trade, Industry and Energy, "Statistics on Foreign Investments"

- The largest number of FDI cases in the retail sector came from China, followed by the United States, Hong Kong, Japan, and Thailand.
  - In particular, 21% of all FDI cases that arrived in Korea between 2015 and 2018 were from China.
- By amount, the United States brought in the largest amount of FDIs in Korea, followed by France, the Netherlands, the Republic of Malta, and China. Moreover, US companies made relatively large sums of investment, while Chinese investors invested in the Korean retail industry in small amounts.

### FDIs in the Retail Industry by Country (based on the number of cases and declared amounts)

(unit: case, USD 1,000)

Country	2015		2016		2017		2018		Total	
	No. of cases	Amount								
Total	111	502,044	108	149,079	117	627,663	119	820,849	455	2,099,635
China	22	76,894	25	7,441	29	12,357	20	6,723	96	103,415
US	33	246,597	12	80,822	16	59,430	17	158,927	78	545,776
Hong Kong	7	9,876	14	16,536	7	6,263	16	2,011	44	34,686
Japan	8	5,009	11	10,572	10	3,063	11	24,076	40	42,720
Thailand	1	91	7	571	11	1,056	14	1,357	33	3,075

Sources: Ministry of Trade, Industry and Energy, "Statistics on Foreign Investments"

## 2.2

### Success Cases of Major Foreign-Invested Companies

#### IKEA

- **Decisive factors: potential demand for home furnishing**

- The growing number of single-person households is leading to new demand for small-sized furniture.
- The majority of the Korean population lives in apartments, creating a demand for decorating the interior of their apartment differently as the exterior is the same and cannot be changed.
- Korean people are becoming increasingly interested in new lifestyles in line with the rising income.
- Existing furniture manufacturers and retailers in Korea focus on built-in furniture.

- **Results**

- Sales: USD 428.6 million (September 2017 – August 2018), a 29% increase from the previous year

- Number of store visitors per year: 8.7 million (September 2017 – August 2018), accumulated number of online shopping mall visitors: 38.5 million (September 2017 – August 2018)

- IKEA opened its first store in Gwangmyeong, Korea, and the second in Goyang. Moreover, the company plans to open more stores in Giheung in December 2019, Dong-Busan in February 2020, and Godeuk Biz Valley in Gangdong-gu, Seoul, in 2024.

- **IKEA's success is attributed to accurately predicting the potential demand through extensive market surveys.**

#### Zara

- **Decisive factors**

- The company perceived Korea as a strategic outpost for its expansion in the Asian market because of the geographical location of Korea and the so-called "Hallyu," or the Korean Wave.
- With four distinct seasons, Korea can serve as an excellent test bed where companies can launch new products before they tap into new overseas markets with a similar climate.
- The purchasing power of Korean consumers is four times higher than that of consumers in Portugal, one of Spain's neighboring countries, and Poland.
- Zara set up a joint venture with Lotte Shopping to enter the Korean market.

- **Results**

- Sales: USD 322.6 million (2018), operating profit: USD 10.6 million (2018)
- Number of stores: 43 (2018)

- **The case of Zara shows that having stores in department stores and other core commercial areas is crucial in securing a competitive edge in the Korean market. As such, Zara adopted the highly effective strategy of quickly identifying the characteristics of trend-sensitive Korean consumers and timely rolling out new products, which proved to be a factor in its success.**

## Costco

### • Decisive factors

- Costco was the first foreign retail company that entered the Korean market, following the opening of Korea's distribution industry in 1996.
- Costco has been steadily expanding its business in Korea, driven by superior price competitiveness. Meanwhile, other foreign retailers, including Walmart and Carrefour, eventually withdrew from Korea.

### • Results

- Sales: USD 3,791 million (September 2018 – August 2019), operating profit: USD 122 million (September 2018 – August 2019)
  - Sales of the Costco Yangjae in Seoul are the highest among all Costco stores in the world.
  - Number of members: At least 1 million (2016)
  - Number of stores: 16
- Costco attracted a broad client base who is sensitive to value for money and provided wholesale services that fit the needs of small business owners who make up a large portion of the Korean economy.

### Investments by Major Foreign Distribution Companies

Country	Parent company	Korean subsidiary	Business category	Key products	No. of stores in Korea (No. of employees)
Sweden	IKEA	IKEA Korea	Retail, category killer	Home Improvement	2 (July 2019)
Spain	Zara	ITX Korea	Apparel company	Apparel, Clothing	43 (2016) 1,152 (2019)
US	Costco	Costco Korea	Wholesale club	Grocery	16 (2019), 5,252 (2018)

Sources: Company websites

# 03 Government Policies and Related Acts



## 3.1

### Key Policies and Incentives

#### Master plan for the development of the distribution industry

- In 2019, the government announced the Fifth Master Plan for the Development of the Distribution Industry that sets forth policy measures designed to foster the development of the distribution industry according to Article 5 (Formulation and Implementation, etc. of Master Plan) and Article 6 (Formulation and Implementation, etc. of Action Program) of the Distribution Industry Development Act.
- According to the Master Plan, the policy goal for the next five years is “improving the national competitiveness led by the distribution industry through win-win partnership and innovation.”
- Policy measures will be geared toward (1) reinvigorating small and medium-sized distribution companies by strengthening win-win partnerships, (2) capitalizing on new technology-driven consumption patterns as opportunities to innovate, (3) enhancing the competitiveness of small and medium distribution companies in niche markets by providing customized support, and (4) laying the framework for growth by creating an environment conducive to innovative distribution.
- Overall, the policies focus primarily on helping the distribution industry continue creating jobs, but in some selected cases, the government will promote and encourage the use of ICT that can be instrumental to distribution companies, especially to small and medium-sized businesses.

## 3.2

### Major Regulations

#### Laws governing the distribution industry

- Laws governing the distribution industry are very complicated in their regulatory domains and structure as they deal with a broad range of aspects and vary widely in scope, including the location and construction of distribution facilities, wholesale and retail activities, support for the distribution industry, consumer protection, protection of small and medium-sized retailers and micro enterprises, and others.
- It is essential for foreign companies to seek legal advice before they launch their operations in Korea because their business can be affected by multiple laws, including the “Distribution Industry Development Act,” “Act on the Promotion of Mutually Beneficial Cooperation between Large Enterprises and Small and Medium Enterprises,” “Act on Fair Transactions in Large Retail Business,” and the “Fair Transactions in Franchise Business Act.”

#### Notes on Market Entry and Business Activities

Classification	Notes
Market entry	<ul style="list-style-type: none"> <li>• There are restrictions on entry into traditional commercial areas that are subject to preservation.</li> <li>• Large stores are required to have a certain period of prior notification before opening and should seek opinions from the heads of local governments in the neighboring areas prior to registration. Moreover, a business impact assessment and a plan for cooperation with the local community need to be submitted prior to opening a store. * The local government will later check compliance with the regulations.</li> </ul>
Business activities	<ul style="list-style-type: none"> <li>• Large stores are subject to regulations on business hours and mandatory closed days.</li> </ul>

#### Notes on specialized laws

- Act on the Promotion of Mutually Beneficial Cooperation between Large Enterprises and Small and Medium Enterprises
  - The purpose of this Act is to sharpen the competitiveness of large enterprises and small-medium enterprises by consolidating mutually beneficial cooperation between them, and to attain their shared growth by resolving the polarization between large enterprises and

small–medium enterprises with the aim of laying the foundation for sustainable growth of the national economy.

- The Act sets forth matters pertaining to the development and implementation of plans to facilitate mutually beneficial cooperation between large corporations and SMEs, promotion of policies to facilitate mutually beneficial cooperation between large enterprises and SMEs, fairness of transactions effected on consignment and commission, and protection of business arena of SMEs.

- Large retailers should exert efforts to achieve mutually beneficial cooperation with SMEs and microenterprises, refrain from competing with SMEs in the same business domains, and consider fairness in the course of conducting transactions on consignment or commission.

- **Act on Fair Transactions in Large Retail Business**

- The purpose of the Act is to contribute to the balanced growth and development of the national economy by maintaining the fair trade order in large retail business and enabling large retail business entities, suppliers, or sales floor tenants to prosper on an equal footing in a complementary relationship.

- The Act stipulates matters regarding fair transactions in a larger retail business, mediation of disputes, the case-handling process by the Fair Trade Commission, penalties, and others.

- Under the Act, sales promotional expenses should be shared fairly by large retailers and suppliers, and large retailers should pay at least 50% of the expenses. In addition, special care needs to be taken to ensure fairness as a superior bargaining position is inherent in transactions between large retailers and suppliers.

- **Fair Transactions in Franchise Business Act**

- The purpose of this Act is to contribute to the promotion of consumers' welfare and the sound growth of the national economy by establishing a fair trading order for franchise businesses and ensuring the mutually complementary and balanced growth of franchisers and franchisees on an equal footing.

- The Act prescribes matters pertaining to basic principles for franchise business transactions, fair transactions in franchise businesses, mediation of disputes, and the case-handling process by the Fair Trade Commission.

# 04

## Potential Partners



## 4.1

### List of Related Companies

- Most of the major distribution companies in Korea operate multiple forms of business, including department stores, large stores, supermarkets, convenience stores, and online shopping malls. They have either all or some of these businesses.

#### Major Distribution Companies in Korea

Company	Earnings	Website	Location
EMART Inc.	Sales(USD 100 million): 155.4 (FY 2018)	store.emart.com/main/ main.do	Seongsu EMART (377, Ttukseom-ro, Seongdong-gu, Seoul)
	Operating profit(USD 100 million): 4.9(FY 2018)		
	Operating margin(%): 3.2(FY 2018)		
Shingsegae	Sales(USD 100 million): 47.1(FY 2018)	shinsegaemall.ssg.com	Head Office (63, Sogong-ro, Jung-gu, Seoul)
	Operating profit(USD 100 million): 3.8(FY 2018)		
	Operating margin(%): 8.1(FY 2018)		
Lotte Shopping	Sales(USD 100 million): 163.9(FY 2018)	www.lotteshopping.com	Lotte Hotel (30, Eulji-ro, Jung-gu, Seoul)
	Operating profit(USD 100 million): 6.14(FY 2018)		
	Operating margin(%): 3.7(FY 2018)		
GS Retail	Sales(USD 100 million): 79.0(FY 2018)	www.gsretail.com	GS Tower (508, Nonhyeon-ro, Gangnam-gu, Seoul)
	Operating profit(USD 100 million): 1.7(FY 2018)		
	Operating margin(%): 2.2(FY 2018)		

Company	Earnings	Website	Location
BGF Retail	Sales(USD 100 million): 52.4(FY 2018)	www.bgfretail.com	141-32, Samseong-dong, Gangnam-gu, Seoul
	Operating profit(USD 100 million): 1.72(FY 2018)		
	Operating margin(%): 3.3(FY 2018)		
Coupang	Sales(USD 1 million): 4,019(FY 2018)	www.coupang.com	8-26th floors, 570, Songpa-daero, Songpa-gu, Seoul
	Operating profit(USD 1 million): -997(FY 2018)		
WeMakePrice	Sales(USD 1 million): 390(FY 2018)	www.wemakeprice.com	502, Yeongdong-daero Gangnam-gu, Seoul
	Operating profit(USD 1 million): -35(FY 2018)		
E-Land Retail	Sales(USD 1 million): 1,959(FY 2018)	www.eland.co.kr	E-Land Building, 371-17, Gasan-dong, Geumcheon-gu, Seoul
	Operating profit(USD 1 million): 152(FY 2018)		
Hyundai Department Store	Sales(USD 100 million): 16.9(FY 2018)	www.ehyundai.com	(456, Apgujeong-dong) 201, Apgujeong-ro, Gangnam-gu, Seoul
	Operating profit(USD 100 million): 3.24(FY 2018)		
	Operating margin(%): 19.2(FY 2018)		
Hotel Shilla (The Shilla Duty Free Shop)	Sales(USD 100 million): 42.8(2018)	www.hotelshilla.net	(202, Jangchung-dong 2-ga) 249, Dongo-ro, Jung-gu, Seoul
	Operating profit(USD 100 million): 1.9(2018)		
	Operating margin(%): 4.4		
Hanhwa Galleria	Sales(USD 100 million): 3.2(2018)	www.hanwhagalleria.co.kr	63 Building, 50, 63-ro, Yeongdeungpo-gu, Seoul
	Operating profit(USD 100 million): 0.1(2018)		

## 4.2

### Related Associations

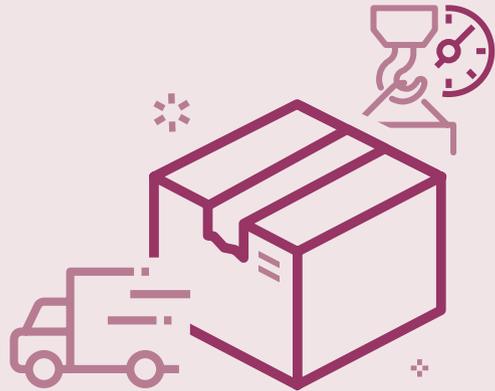
#### Major Retail Organizations in Korea

Organization	Website	Role
Korea Chamber of Commerce and Industry	www.korcham.net	As a public and legal organization, KCCI is the largest business organization in Korea that represents 180,000 member companies, with a global network of chambers of commerce in over 130 countries.
Federation of Distribution Industry	www.fori.or.kr	This federation was launched to improve Korea's distribution industry and resolve conflicts of involved parties without government intervention.
Korea Chain Stores Association (KOCA)	koca.or.kr	This association is dedicated to creating a platform to provide distribution information, improving the distribution of industry-related education, and conducting seminars.
Korea Association of Convenience Store Industry	www.cvs.or.kr	This organization is tasked with revising the legal framework for convenience stores, conducting research and surveys, supporting members, and promoting international cooperation.
Korea Franchise Association	www.ikfa.or.kr	KFA is actively involved in overseas expansion and development of new business models based on superior systems and technology, solid financial stability, and brand power.
National Agricultural Cooperative Federation	www.nonghyup.com	This federation supports various economic projects from their production and distribution to processing and consumption to help farmers lead a stable farming business.
Korea Distribution Association	www.kodia.or.kr	This association is the leading organization bringing together industry, academia, and research in the field of distribution through industry-academia cooperation, with its basic role of conducting academic and policy research.
Korea Foodservice Distributors Association (KFDA)	www.ikfda.or.kr	This association is responsible for securing safe food supplies and enhancing the food industry, playing a significant role in the foodservice distribution sector.

Organization	Website	Role
Korea Pharmaceutical Distribution Association	www.kpda.kr	This organization was established to create an advanced pharmaceuticals supply system, enhance the competitiveness of pharmaceuticals logistics, and ensure a sustainable supply of pharmaceuticals.
Korea Crop Protection Agents Association	www.greenseller.or.kr	This nonprofit agricultural organization is responsible for promoting superior agricultural chemicals and ensuring compliance with safety standards for crop protection agents.
Korea Medical Device Distribution Association	kmdda.or.kr	This organization was established to improve the health of the Korean people by providing high quality medical devices. Its members include manufacturers, importers, sellers, and distributors of medical devices.
Korea Herbal Medicine Distribution Association	www.khmda.org	This organization deals with issues of herbal medicine distribution.
Korea Direct Selling Industry Association	www.kdsa.or.kr	The role of this association is to revise and rationalize policies and systems regarding direct selling to respond to socioeconomic changes and improve the perception of direct selling among the public.

INVESTMENT  
OPPORTUNITIES  
IN KOREA

# Logistics



# 01 Industry Trends



## Definition and Classification

- (Definition) Logistics is an industry that provides charged services of transporting, storing, loading/unloading of the goods and other related activities (processing, assembling, classifying, repairing, packaging, labeling, sales and information and communication, etc.) according to the demand of the goods' owners (Article 2 of Basic Logistics Policy Act).
- (Classification) The logistics industry is included in the transportation and warehousing business according to the Korean Standard Industrial Classification and is largely divided into the freight transportation business, logistics facility operation business and logistics service business.
  - Freight transportation business: Carries cargo through transportation means such as automobiles, railway vehicles, ships, aircraft, or pipelines.
  - Logistics facility operation business: Operates logistics facilities such as logistics terminals or warehouses.
  - Logistics service business: Arranges freight transportation, leases logistics equipment, processes logistics information, or consults logistics.

# 1.1

## Market Trends in Korea

### Characteristics of Logistics Market

- Until the 2000s, the Korean logistics industry achieved quantitative growth due to rapid economic growth and the export-oriented economic structure; and since the 2000s, it has also grown qualitatively because of the rise of the Chinese market and the Korean government's investment in logistics infrastructure (Incheon International Airport, Busan New Port, inland logistics bases, etc.)
- Due to the narrow land space and overland disconnection with the Asian continent because of North Korea, domestic logistics in South Korea is exclusively covered by the trucking industry with the railway transport sharing a small portion.
  - For international logistics, marine and air transport dominate with no railway transport.

- The international logistics industry has developed centered on the metropolitan area (Incheon Port and Incheon International Airport) and Busan area (Busan Port), thanks to the country's geopolitical location between China and Japan with its three sides being surrounded by the sea and its export-driven economy.
  - In addition to the transportation network, logistics infrastructure such as airports, ports and inland logistics bases are concentrated in metropolitan areas and the Busan Logistics Belt.

### Logistics Industry Status

- As of 2017, Korea's logistics industry employs 630,000 people in about 200,000 companies and the sales amount to USD 71.9 billion.
  - Although the logistics industry occupies a low proportion in the total industry with 2.9% in the number of workers and 2.2% in sales, it contributes to the development of the national economy by supporting all economic activities involving the movement of goods.
- The size of the logistics industry encompassing the number of companies, the number of employees and sales is stable, but the new logistics service market such as courier service is experiencing a growing trend with the development of IT technology and the online distribution market.
  - During the 2009–2017 period, the total logistics industry's sales volume grew at an average annual rate of 1.7%, but the sales of courier service among the freight transportation businesses increased to an average of 10.9% per year.

### Current Status of Logistics Industry by Business

Classification		2009	2011	2012	2013	2014	2015	2016	2017	Compound Annual Growth Rate (CAGR, %)
Number of companies	Total (business)	166,748	171,194	168,584	183,947	191,183	193,060	195,796	199,331	2.3
	Freight transportation	155,557	159,848	156,811	172,100	179,332	180,924	183,486	186,338	2.3
	Logistics facility operation	1,306	1,247	1,173	1,206	1,273	1,412	1,314	1,246	-0.6
	Logistics service	9,885	10,099	10,600	10,641	10,578	10,724	10,996	11,747	2.2

Classification		2009	2011	2012	2013	2014	2015	2016	2017	Compound Annual Growth Rate (CAGR, %)
Number of workers	Total	549,630	581,673	573,620	587,330	583,853	601,538	612,931	626,755	1.7
	Freight transportation	466,685	499,139	486,226	497,589	493,815	507,048	513,472	521,300	1.4
	Logistics facility operation	13,452	14,174	13,915	13,787	14,788	16,735	16,754	15,708	2.0
	Logistics service	69,493	68,360	73,479	75,954	75,250	77,755	82,705	89,747	3.2
Number of workers per company	Total	3	3	3	3	3	3	3	3	0.0
	Freight transportation	3	3	3	3	3	3	3	3	0.0
	Logistics facility operation	10	11	12	11	12	12	13	13	3.3
	Logistics service	7	7	7	7	7	7	8	8	1.6
Sales amount (USD 100 million)	Total	628	752	775	752	744	749	725	719	1.7
	Freight transportation	542	647	667	637	622	617	574	559	0.4
	Logistics facility operation	14	18	18	20	23	26	31	32	11.1
	Logistics service	72	88	89	94	100	106	119	128	7.4
Sales amount per company (USD 10 thousand)	Total	38	44	46	41	39	39	37	36	-0.5
	Freight transportation	35	40	43	37	35	34	31	30	-1.9
	Logistics facility operation	106	141	154	169	177	183	240	259	11.8
	Logistics service	73	87	84	89	94	99	108	109	5.2

Source: Statistics Korea, "Transportation Survey Report," Each year  
 Note: 1. The 2010 transportation survey was omitted because it was not implemented, and this is summarized according to the logistics business scope under the Enforcement Decree of the Basic Logistics Policy Act.  
 2. The exchange rate of USD 1 = KRW 1,194

# 1.2 Industrial Competitiveness

## International Competitiveness of the Korean Logistics Industry

- The World Bank regularly publishes a logistics performance index (LPI) to compare the competitiveness of logistics sectors across more than 160 countries worldwide.
  - The LPI is the weighted average of the country scores on six items – Customs, Infrastructure, International shipments, Logistics competence, Tracking & tracing, and Timeliness.
- As of 2018, Korea's LPI ranking was 25th with 3.61 and second only after Japan among Asian countries excluding city-states such as Singapore, the UAE and Hong Kong.
- In the case of the item evaluation, Korea achieved higher scores particularly in tracking & tracing (22nd) and infrastructure (22nd) items that are closely related to logistics infrastructure and IT technology in which Korea's strength lies.

### Trend of the World Bank LPI for Korean Logistics Industry

Year	LPI		LPI by Details											
			Customs		Infrastructure		International shipments		Logistics competence		Tracking & tracing		Timeliness	
	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score	Ranking	Score
2007	25	3.52	28	3.22	25	3.44	24	3.44	22	3.63	25	3.56	30	3.86
2010	23	3.64	26	3.33	23	3.62	15	3.47	23	3.64	23	3.83	28	3.97
2012	21	3.70	23	3.42	22	3.74	12	3.67	22	3.65	22	3.68	21	4.02
2014	21	3.67	24	3.47	18	3.79	28	3.44	21	3.66	21	3.69	28	4.00
2016	24	3.72	26	3.45	20	3.79	27	3.58	25	3.69	24	3.78	23	4.03
2018	25	3.61	25	3.4	22	3.73	33	3.33	28	3.59	22	3.75	25	3.92

Source: World Bank web page (<https://lpi.worldbank.org>)

- Strengths and Growth Potential of the Korean Logistics Industry Since the 2000s, Korea has secured international competitiveness of major comprehensive logistics companies through the government's bold development policies and the enterprises' efforts to globalize themselves and grow in size.

- The total number of logistics companies with sales reaching more than KRW 1 trillion increased from five in 2014 to six in 2018.

- The competitiveness of Korea’s professional logistics companies is still lagging behind global logistics companies in terms of the size and logistics capabilities, but the international logistics competitiveness of air and marine operation is satisfactory thanks to the Korean government’s intensive investment in the logistics infrastructure and the expansion of special free zones.
- Although the Korean logistics industry is relatively small in size and has a high proportion of self-logistics businesses, it has a high level of competitiveness and development potential in digital platform logistics such as courier service and express delivery due to the progress of IT and the online distribution market.

## 1.3 Promising Fields in Korea

### Logistics Business Trend Forecast

- Trends in the logistics business are changing rapidly with the acceleration of the Fourth Industrial Revolution based on technology such as IoT, 3D printing, autonomous vehicles, AI robots, drones, big data and cloud technologies.
- DHL (2016) presented Anticipatory Logistics, Batch Size One, Convenience Logistics, De-Stressing the Supply Chain, Fair Logistics, Grey Power Logistics, Logistics Market Platform, Multi-purpose Shared Network, Omni-channel Logistics, On-Demand Delivery, Sharing Economy Logistics, Smart Energy Logistics, Supergrid Logistics and Tube Logistics as the key logistics business trends in accordance with the Fourth Industrial Revolution.
- These businesses are characterized by the fact that they embrace the environments of society, economy and industry from a perspective of convergence based on technology.

### Logistics Business Trend Forecast

Serial number	Logistics business trends	Details	Examples
1	Anticipatory Logistics	High value-added logistics business model using big data technology and prediction algorithm	DHL Resilience360
2	Batch Size One	Logistics strategy for an advanced personalized mass production system	Adidas Speed Factory
3	Convenience Logistics	Logistics service that responds to consumer demand by minimizing time and space constraints	Uber Fresh
4	De-stressing the Supply Chain	Logistics process management solution for optimal utilization of combined transportation and maintaining low cost and high quality	DHL Parcel Volume Prediction
5	Fair Logistics	Logistics business model that realizes both social benefits and competitiveness of logistics companies	Fairphone
6	Grey Power Logistics	Automation of logistics work environment and services and the unmanned system, based on the rapid growth of the elderly population	DHL EffiBOT
7	Logistics Market Platform	Digital platform service that connects logistics supply with demand using cloud technology	CJ Logistics Hello
8	Multi-purpose Shared Network	Resource-sharing logistics service for effective cost reduction in logistics environment in the Fourth Industrial Revolution era	Amazon My trunk
9	Omni-channel Logistics	Real-time logistics service corresponding to the omni-channel consumption pattern	Shinsegae SSG
10	On-demand Delivery	Sharing-based logistics services that can respond to real-time logistics demands	Uber Corner Store
11	Sharing Economy Logistics	Logistics business model that shares logistics resources such as transportation means and storage space	myBOX
12	Smart Energy Logistics	Eco-friendly logistics business model by using renewable energy and building an innovative, high-efficiency energy management and utilization system	Hyundai LPG Porter
13	Supergrid Logistics	A business model of an integrated logistics management platform that encompasses all stakeholders inside and outside of the supply chain	Samsung SDS Cello
14	Tube Logistics	Ultrafast automated cargo transportation strategy using vacuum tube transfer technology	Hyperloop

Source: Korea Transport Institute, “Logistics 4.0 Strategy and Policy for Emerging Business Model and Technology in Korea,” 2017

Note: Logistics business trends have been rewritten using DHL (2016), “Logistics Trend Radar.”

**Promising Fields in Korea according to Logistics Business Trends**

- According to the Korea Transportation Research Institute (2017), the items that are most likely to be utilized in the Korean logistics industry in the next five years among the 14 logistics businesses trends listed above are Convenience Logistics, On-demand Delivery, Omni-channel Logistics, Logistics Market Platform, Anticipatory Logistics, and Grey Power Logistics.
  - On the other hand, Tube Logistics, Supergrid Logistics, Fair Logistics, Smart Energy Logistics, De-stressing the Supply Chain, Batch Size One, Sharing Economy Logistics and Multi-purpose Shared Network are in the planning stages.
- Convenience Logistics, On-Demand Delivery, Omni-channel Logistics, and Logistics Market Platform are expected to be implemented within the next five years in all three areas of freight transportation, logistics facility operation and logistics service.
  - Anticipatory Logistics and Gray Power Logistics are expected to enter the execution phase in two areas except logistics facility operation.
- According to the survey results, the freight transportation business, which is the core of the logistics industry, is expected to enter the initial stage of big data-based anticipatory freight transport service in the next five years, and the demand for platform-based freight transport service and omnichannel-supported freight transport service is expected to surge.
  - The logistics facility operation business is expected to expand the introduction of logistics facilities that are adjacent to the center of cities by utilizing various multi-purpose networks and spaces such as public transportation transfer facilities and community service centers.
  - The sharing economy-based lease business and platform-based freight handling business using IoT and AI are expected to surge in the logistics service business.

**Utilization Forecast of the Korean Logistics Industry by Logistics Business Trend**

Core logistics business trends	Freight transportation business		Logistics facility operation business		Logistics service business		Logistics	
	Present	5 years later	Present	5 years later	Present	5 years later	Present	5 years later
Anticipatory Logistics	4.43	7.29	4.79	6.93	4.93	7.57	4.71	7.26
Batch Size One	3.36	6.21	3.07	6.00	3.43	6.36	3.29	6.19
Convenience Logistics	6.00	8.43	5.50	8.29	5.93	8.29	5.81	8.33
De-stressing the Supply Chain	3.64	6.29	3.00	5.71	3.71	6.43	3.45	6.14
Fair Logistics	3.14	6.36	2.57	5.71	3.29	6.14	3.00	6.07
Grey Power Logistics	3.86	7.29	3.43	7.00	4.14	7.29	3.81	7.19
Logistics Market Platform	4.43	7.57	4.00	7.36	4.57	7.64	4.33	7.52
Multi-purpose Shared Network	3.29	6.43	2.79	6.21	3.29	6.71	3.12	6.45
Omni-channel Logistics	4.64	8.00	4.93	8.14	5.07	8.14	4.88	8.10
On-demand Delivery	5.21	8.43	4.86	7.86	5.29	8.07	5.12	8.12
Sharing Economy Logistics	3.93	6.36	3.14	6.29	3.71	6.71	3.60	6.45
Smart Energy Logistics	3.36	6.36	3.29	5.93	3.07	6.21	3.24	6.17
Supergrid Logistics	2.50	5.57	2.21	5.07	2.43	5.64	2.38	5.43
Tube Logistics	1.79	4.21	1.36	3.71	1.57	3.71	1.57	3.88
Average	3.83	6.77	3.49	6.44	3.89	6.78	3.74	6.66

Source: Korea Transport Institute, "Logistics 4.0 Strategy and Policy for Emerging Business Model and Technology in Korea," 2017

- Note: 1. The core logistics business trends have been rewritten using DHL (2016), "Logistics Trend Radar."  
 2. Survey with the nine-point scale of the application phase: (1) not implemented, (3) survey, review, (5) utilization planning, (7) initial implementation, (9) diffusion and reinforcement  
 3. Orange shaded for (7) and above and green shaded for (5) and above

## 02

# Trends of Foreign Direct Investment



## 2.1 Status of Foreign Direct Investment

### Scale and Type of Foreign Direct Investment

- The amount of foreign direct investment in the Korean logistics industry (transportation and warehouse) was about USD 344 million from 58 cases in 2018 and the total amount attracted was USD 2.067 billion over the last five years.
- Since foreign direct investment is affected by the investment attraction environment(policy, facilities, market size) of neighboring countries in addition to domestic and international economic conditions, there have been fluctuations in the scale of investment.
  - In 2011–2013, the investment amount was low at USD 66–143 million, but in the last five years, it increased significantly to USD 300–400 million and has maintained a stable level since then.
- According to the investment amount by investment type (based on reported amount), “M&A” is 21%, whereas “Greenfield” investment is 79%, taking up an absolute portion.

### Status of Foreign Direct Investment in Logistics (Transportation and Warehouse) Industry (Based on reported amount)

(Unit: USD thousand)

Classification		2014	2015	2016	2017	2018	total	
Invest-ment scale	Number	Total	53	81	59	57	58	308
		Less than USD 1 million	38	57	44	36	40	215
		USD 1 million – less than USD 10 million	11	18	10	21	13	73
		USD 10 million – less than USD 100 million	3	5	4	1	4	17
		More than USD 100 million	1	2	1	2	1	7
Invest-ment scale	Amount	Total	412,051	667,334	349,090	294,100	344,345	2,066,920
		Less than USD 1 million	26,331	25,851	20,510	17,908	15,938	106,537
		USD 1 million – less than USD 10 million	56,572	124,817	47,698	110,615	94,767	434,468
		USD 10 million – less than USD 100 million	261,200	184,000	180,400	54,000	377,986	1,057,586
		More than USD 100 million	480,000	1,000,000	449,572	405,676	200,000	2,535,248

Classification		2014	2015	2016	2017	2018	total	
Investment type	Number	Total	53	81	59	57	58	308
		M&A	5	10	14	7	4	40
		Greenfield	48	71	45	50	54	268
	Amount	Total	412,051	667,334	349,090	294,100	344,345	2,066,920
		M&A	5,568	13,128	299,438	110,136	7,408	435,679
		Greenfield	406,483	654,205	49,652	183,964	336,937	1,631,241

Source: Ministry of Trade, Industry and Energy, "Foreign Investment Statistics"

### Status of Foreign Direct Investment by Country

- In the last five years (2014–2018), the U.S. has invested the most (USD 1.072 billion) in the Korean logistics industry (based on reported amount), followed by the Netherlands (USD 247 million), Singapore (USD 245 million), Virgin Islands (USD 139 million), China (USD 117 million), Hong Kong (USD 64 million) and Japan (USD 64 million).
  - The investment amount of these seven countries accounted for 94.3% of the total investment in Korea's logistics industry.
- In terms of investment scale by country, investment by the U.S. and Japan have shown stagnation or decline, while China's investment amount surged tenfold to USD 102 million in 2018 compared with USD 10 million as of 2017.

### Status of Foreign Direct Investment in the Korean Logistics Industry by Major Regions (Based on reported amount)

(Unit: USD thousand)

Classification		U.S.	Netherlands	Singapore	Virgin Islands	China	Hong Kong	Japan
2014	No. of reports	5	1	6	2	10	6	11
	Reported amount	256,142	870	9,230	115,600	4,628	1,743	12,827
2015	No. of reports	14	1	8	1	14	8	13
	Reported amount	520,799	8,434	40,125	302	2,629	46,809	13,325
2016	No. of reports	6	1	5	1	14	8	12
	Reported amount	6,846	224,786	70,890	116	6,623	6,216	9,371
2017	No. of reports	10	1	6	4	11	6	9
	Reported amount	114,935	217	105,352	9,960	1,613	7,721	18,186
2018	No. of reports	12	3	6	7	5	6	8
	Reported amount	173,524	13,095	18,920	13,007	101,553	1,982	10,240
Total	No. of reports	47	7	31	15	54	36	53
	Reported amount	1,072,246	247,402	244,517	138,984	117,046	64,471	63,948

Source: Ministry of Trade, Industry and Energy, "Foreign Investment Statistics"

## 2.2 Success Cases of Major Foreign-Invested Companies

### Difficulties of Foreign Logistics Companies in Korea

- According to a 2017 survey by KOTRA, in terms of the logistics-related business environment of Korea, 42.8% of foreign investment companies responded with "satisfactory" and 41.5% with "average," while 6.1% responded with "dissatisfactory," which is a slight improvement from the previous year.
- By country of the parent company, the satisfaction level of North American and European companies is relatively high while that of Japanese and Asian companies is below average.
- "High transportation costs" (37.3%) accounted for the largest portion of the difficulties regarding the logistics environment, but has been continuously improving after peaking at 47.4% in 2013.

### Case 1: NH-Senko

- This joint company was founded in 2015 by Niigata UNYU of Senko Group Holdings in Japan and Hwasung Express in Korea.
  - NH-Senko's capital was USD 3.5 million, and the ratio of investment was 55% for Senko Group, 10% for Niigata UNYU and 35% for Hwasung Express.
  - Senko Group provides logistics services specialized in housing architecture, construction, chemicals, industrial equipment, foodstuffs with branches in 43 cities of 22 countries outside of Japan.
- Senko Group established Ko-Senko Logistics in Ungdong District of Busan Jinhae Free Economic Zone in 2012 as the first step. In October 2017, it established a new hi-tech logistics center on the same site.
  - With a total area spanning 23,400 m<sup>2</sup>, the hybrid logistics center can satisfy clients' various needs, capable of refrigeration, freezer storage, and distribution processing of cargo in addition to general cargo.

- Senko Group's Niigata UNYU is aiming to expand international logistics business and Japan's domestic shipping volume in connection with customer and logistics networks in Japan.
- The Korean government is providing NH-Senko with a seven-year tax reduction support for the investment project of the logistics center in Ungdong District.

### Case 2: The Nice Korea

- The Nice Korea is a local subsidiary established in Korea in 2013 by investment from Suteki Nice Group, a Japanese global building materials (wood) manufacturer.
  - With its headquarters in Yokohama, the Suteki Nice Group operates subsidiaries and offices in seven countries and has sales bases and affiliates throughout Japan.
- In 2014, The Nice Korea established a comprehensive logistics center by investing USD 13 million in the 33,000 m2 site in Ungdong District of Busan-Jinhae Free Economic Zone.
  - The company resolved the problem of high logistics costs in Japan by shipping materials directly to 50 ports in Japan. Through this center, the company imports raw materials (wood) from Europe and supplies them to Korea or overseas after transforming them to value-added housing materials.
- In 2017, a higher value-added manufacturing plant was built on an additional 23,000 m2 site to establish a global complex logistics center by combining production, processing and logistics.
- The Nice Korea has been receiving the benefit of free rent for a seven-year term from the Korean government by investing over USD 15 million to utilize the free economic zone exemption system.

# 03

## Policy and Location



## 3.1 Key Policies and Incentives

### The Korean Government's Logistics Policy Keynote

- Korean logistics policies are prepared based on the national logistics master plan (planning period: 10 years) prescribed by the Basic Logistics Policy Act.
  - The national logistics master plan, established in 2000 for the first time, includes policy objectives and phased promotion plans that cover the entire national logistics sector, including logistics standardization and coordination, logistics industry support, logistics workforce development, support of international logistics and environmental logistics, in addition to policies by function and means of logistics.
  - In relation to logistics infrastructure, policy and implementation plans should be established in accordance with the General Distribution Facilities Development Plan prescribed in a subordinate law (Distribution Facilities Development and Operation Act) for a more systematic investment and development.
- Five inland logistics bases including Incheon International Airport and Busan New Port have been built since the 2000s as part of the government's legal planning-based logistics policy, achieving the visible outcome of various support measures such as support for logistics-specialized companies.

### Incentives for Foreign Investment in the Korean Logistics Industry

- The Korean government seeks to attract foreign investment firms through free economic zones, free trade zones and foreign investment zones.
- In special economic zones, foreign investment firms are provided with incentives such as tax cuts, a simplified licensing procedure, deregulation and management support.
- The location requirement is reduced by designating the logistics industry as a preferential business in free economic zones and foreign investment zones.

## 3.2 Major Locations

### Overview of Logistics Infrastructure

- Serving as bases for the national logistics system, seven inland logistics bases and integrated freight terminals are located in 7 areas (total area of 4.18 million m<sup>2</sup>) in 5 regions (capital, Busan, Jungbu, Honam and Yeongnam).
- A total of 23 logistics centers (total area of 9.9 million m<sup>2</sup>) are operated by shipper companies and logistics-specialized companies nationwide.
  - As of April 2019, seven other facilities (one public, six private) are under development in a total area of 2.14 million m<sup>2</sup>.

### Free Economic Zones and Free Trade Zones

- A free economic zone is a special economic zone to actively attract foreign investment by improving the management environment and living conditions of foreign-invested companies and ensuring the autonomy of economic activities through deregulation.
  - Starting from Incheon in 2003, a total of seven free economic zones have been created and operated in Busan-Jinhae, Gwangyang Bay Area, Yellow Sea, Daegu-Gyeongbuk, and East Coast.
  - The foreign direct investment (based on the reported amount in 2017, cumulative) reached USD 16.13 billion and 4,667 Korean and foreign companies joined the free economic zones including global companies such as GE and BMW.
  - The logistics industry clusters are formed in Incheon, Busan-Jinhae, Gwangyang Bay and the Yellow Sea where international logistics ports are located.
- Free trade zones are designated to enhance foreign investment, trade promotion, smooth international logistics and regional development by guaranteeing free manufacturing, logistics, distribution and trade activities through various forms of support such as tariff reservation, tax reduction and infrastructure provision.

- As of the end of June 2017, 13 free trade zones were operated according to the location condition and managing authority which include seven industrial complexes (managed by the Ministry of Trade, Industry and Energy), five port-types (managed by the Ministry of Oceans and Fisheries) and one airport type (managed by the Ministry of Land, Infrastructure and Transport).
- Developed since 1970, industrial complex-type free trade zones began in the name of the production-oriented export free zone, but have expanded to trade, logistics, distribution, information processing and service industries since 2000.
- As of June 2017, a total of 683 companies have moved in, including 272 foreign-invested companies and 411 Korean export companies.

#### Locations of Free Economic Zones



Source: Korean Free Economic Zone ([www.fez.go.kr](http://www.fez.go.kr))

# 04 Potential Partners



## 4.1

### List of Logistics Companies

Company name	Main Items	Website	Location
Hyundai Glovis	Land Freight Transportation / Warehouse / Cargo Terminal Operation / Cargo Handling / Cargo Arrangement / Logistics Equipment Rental	www.glovis.net	Gangnam-gu, Seoul
CJ Korea Express	Land Freight Transportation/ Sea Freight Transportation/ Warehouse / Freight Handling / Freight Arrangement	www.cjkoreaexpress.co.kr	Jung-gu, Seoul
PANTOS Co., Ltd.	Land Freight Transportation / Warehouse / Freight Arrangement	www.pantos.com	Yeongdeungpo-gu, Seoul
Lotte Logistics	Freight Forwarding / Warehouse Storage / 3PL / Consulting	www.llc.co.kr	Jung-gu, Seoul
Hanjin	Land Freight Transportation / Sea Freight Transportation / Warehouse / Freight Terminal Operation / Freight Handling / Freight Arrangement	www.hanjin.co.kr	Jung-gu, Seoul
Lotte Global Logistics	Land Freight Transportation/ Warehouse / Freight Arrangement	www.lotteglogis.com	Jung-gu, Seoul
Sebang	Land Freight Transportation/ Sea Freight Transportation / Freight Terminal Operation / Freight Handling / Freight Arrangement	www.sebang.com	Gangnam-gu, Seoul
Dongbu Express	Land Freight Transportation / Warehouse / Cargo Terminal Operation / Cargo Handling / Cargo Arrangement	www.dongbuexpress.com	Seocho-gu, Seoul
Dongbang Logistics	Land Freight Transportation/ Sea Freight Transportation/ Freight Terminal Operation / Freight Handling / Freight Arrangement	www.dongbang.co.kr	Jung-gu, Seoul
Chunil Cargo Transportation	Land Freight Transportation / Logistics Terminal Operation / Cargo Arrangement	www.chunil.co.kr	Busanjin-gu, Busan
Dongwon Industries	Land Freight Transportation/ Warehouse / Freight Handling / Freight Arrangement	www.dwml.co.kr	Seocho-gu, Seoul
KCTC	Land Freight Transportation / Warehouse / Logistics Terminal Operation / Freight Arrangement / Port Transportation Business	www.kctc.co.kr	Jung-gu, Seoul
DHL Korea	Parcel Air / Courier Service	www.dhl.co.kr	Mapo-gu, Seoul
FedEx Korea	Corporate Logistics / International Express	www.fedex.com/kr	Mapo-gu, Seoul

Company name	Main Items	Website	Location
Hyundai Merchant Marine	Sea Freight Transportation / Shipping Brokerage / Shipping Agency	www.hmm21.com	Jongno-gu, Seoul
Sinokor Merchant Marine	Marine Freight Transportation / Warehousing / Logistics Terminal Operation / Freight Arrangement / Logistics Equipment Rental	www.sinokor.co.kr	Jung-gu, Seoul
Korean Air Cargo	Air freight	cargo.koreanair.com	Jung-gu, Seoul
Asiana Airlines	Air freight	www.asianacargo.co.kr	Gangseo-gu, Seoul

## 4.2

### Related Associations

#### Free Trade Zone

Organization	Website	Major Role
Gunsan Free Trade Zone Office	www.motie.go.kr/ftz/gunsan	<ul style="list-style-type: none"> <li>• Receipt of revenue, lease of land and factories in the jurisdiction's free trade zone</li> <li>• Inducement and promotion of foreigninvested companies</li> <li>• Report and registration of foreign-invested companies</li> <li>• Tenancy contract and follow-up management of tenant(manufacturer/ support) company</li> <li>• Free Trade Zone emergency preparedness, protection and security police</li> </ul>
Masan Free Trade Zone Office.	www.motie.go.kr/ftz/masan	
Daebul Free Trade Zone Office	www.motie.go.kr/ftz/daebul	
Yulchon Free Trade Zone Office	www.motie.go.kr/ftz/yulchon	
Donghae Free Trade Zone Office	www.motie.go.kr/ftz/donghae	
Gimje Free Trade Zone Office	www.motie.go.kr/ftz/gimje	
Ulsan Free Trade Zone Office	www.motie.go.kr/ftz/ulsan	

### Free Economic Zone

Organization	Website	Major Role
Incheon Free Economic Zone Authority	www.ifez.go.kr	<ul style="list-style-type: none"> <li>Establish and change development plans for the relevant free economic zone, landfill and complex construction and follow-up</li> <li>Attract domestic and foreign investment and strengthen overseas promotion and IR to promote investment within the jurisdiction's business area</li> <li>Develop and support investment promotion policies, as well as examine investment promotion companies within the jurisdiction's business area</li> <li>Perform international cooperation and create settlement environment as well as education and medical environment</li> <li>Manage general administrative procedure, deliberations on companies moving in, construction permits and notification processing, land investigation and registration, etc.</li> </ul>
Busan-Jinhae Free Economic Zone Authority	www.bjfez.go.kr	
Gwangyang Bay Area Free Economic Zone Authority	www.gfez.go.kr	
Yellow Sea Free Economic Zone Authority	yesfez.gg.go.kr	
Daegu-Gyeongbuk Free Economic Zone Authority	www.dgfez.go.kr	
East Coast Free Economic Zone Authority	www.efez.go.kr	
Chungbuk Free Economic Zone Authority	www.chungbuk.go.kr/eco/index.do	

### Logistics Associations and Related Institutions

Organization	Website	Major Role
Korea International Freight Forwarders Association	www.kiffa.or.kr	<ul style="list-style-type: none"> <li>Support for overseas expansion and certification of excellent international logistics companies</li> <li>Create an environment for on-site international logistics training</li> </ul>
Korea Integrated Logistics Association	www.koila.or.kr	<ul style="list-style-type: none"> <li>Perform the logistics related survey, research, diagnose and policy proposal</li> <li>Act as government affairs agency and train and disseminate logistics specialists</li> </ul>
Korea Trade-Investment Promotion Agency	www.kotra.or.kr	<ul style="list-style-type: none"> <li>Support small-and medium-sized companies to enter overseas markets</li> <li>Create global jobs and diversify export markets and items</li> <li>Find opportunities for multilateral economic cooperation</li> </ul>
Korea International Trade Association	www.kita.net	<ul style="list-style-type: none"> <li>Enhance companies' overseas expansion and export competitiveness</li> </ul>

Organization	Website	Major Role
The Korea Transport Institute	www.koti.re.kr	<ul style="list-style-type: none"> <li>Research and develop traffic policy and technology</li> <li>Collect, research, analyze and disseminate domestic and foreign information related to transportation policy and technology</li> </ul>
Korea Maritime Institute	www.kmi.re.kr	<ul style="list-style-type: none"> <li>Research marine, fisheries and shipping ports industry</li> <li>Collect, analyze and disseminate various trends and information related to marine, fisheries and shipping ports</li> </ul>

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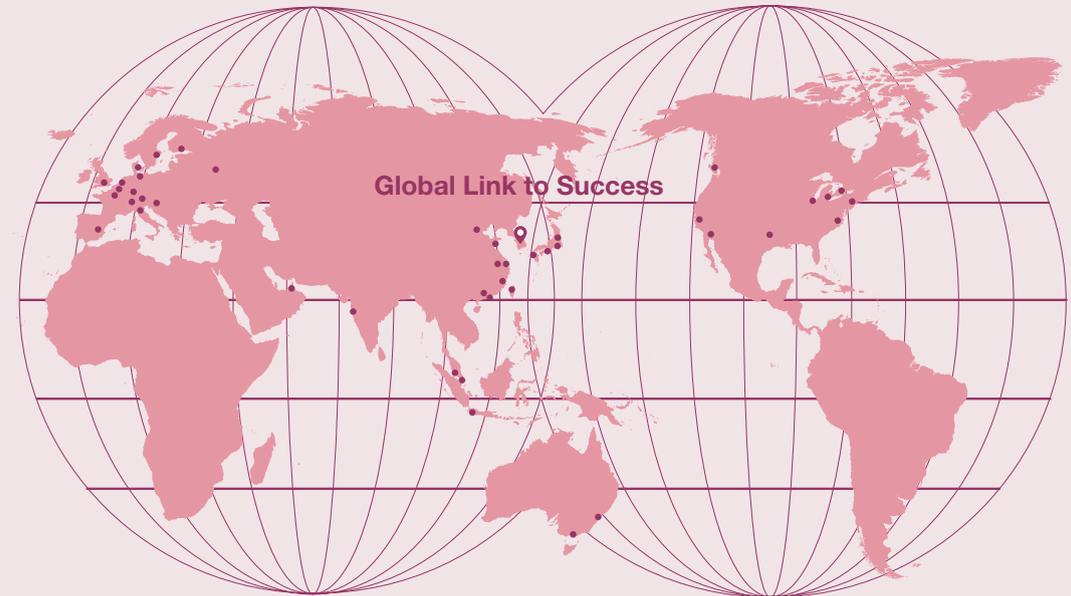
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