INVESTMENT OPPORTUNITIES IN KOREA

LOGISTICS & DISTRIBUTION
Definition of the logistics industry

The Korean logistics industry is defined as an industry which, by function or business segment, is related to cargo transportation, storage, off-loading, packaging and related activities (Article 2.2 of the Basic Logistics Policy Act). By business segment, logistics can be classified into procurement logistics, production logistics, in-house logistics, sales logistics, reverse logistics and disposal logistics. By function, logistics can be classified into transportation, distribution logistics, offloading logistics, storage and warehouse logistics, packaging logistics and information logistics.

In terms of national logistics spending, the Korean logistics industry has steadily expanded since 1990 on the back of growing logistics volume, an increase in value-creating logistics activities, growth in logistics outsourcing and government efforts to enhance the logistics infrastructure. As of 2012, the Korean logistics industry had about 170,000 companies (4.9% of the total industry), employed 570,000 individuals (3.1%) and recorded KRW 92.5 trillion (USD 85.1 billion)* in sales revenue (2.7%). In terms of sales, the logistics industry is the 9th largest industry in Korea. By business segment, cargo transportation accounts for 80 - 90%, the largest share of the logistics industry, followed by logistics service (6 - 12%) and logistics facility operation (4 - 6%).

The Korean logistics market has been continuously growing. The market shares of first-party logistics and second-party logistics have been declining, whereas that of third-party logistics has been growing. The market share of third-party logistics has shown steady growth, recording 25.7% in 2002, 38.8% in 2006, 48.2% in 2009, 56% in 2011 and 59.6% in 2012. That is, the share of first-party logistics by cargo owners has decreased while the commercial logistics market has expanded. However, the share of third-party logistics remains relatively low compared to advanced markets such as Europe (80%), the USA (79%) and Japan (70%).

* Currency conversion based on February 6, 2015 rate.
Foreign direct investment in Korea largely follows global direct investment trends. Unlike other countries, however, foreign investment in Korea has stagnated since 2005 due to a decline in mergers & acquisitions (M&A) by foreign capital. Foreign direct investment in the logistics industry (transportation and warehousing) has been on a downward trend since 2008. The logistics industry reported foreign direct investment of USD 62 million for the first three quarters of 2012, accounting for 0.5% of the total foreign investment in Korea. However, given that investments in the logistics industry are often made in connection with the manufacturing, wholesale and retail distribution industries, it is reasonable to look at foreign investment in the logistics industry in the context of other related industries. When the distribution industry is taken into consideration, foreign investment in the logistics and distribution industries amounted to USD 2.34 billion in 2011, accounting for 21.4% of the total foreign investment in Korea.

### Current status of the Korean logistics industry

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>177,430</td>
<td>174,672</td>
<td>-1.55%</td>
</tr>
<tr>
<td>Transportation</td>
<td>159,852</td>
<td>156,815</td>
<td>-1.90%</td>
</tr>
<tr>
<td>Logistics facility operation</td>
<td>7,477</td>
<td>7,235</td>
<td>-2.97%</td>
</tr>
<tr>
<td>Logistics service</td>
<td>10,101</td>
<td>10,652</td>
<td>5.46%</td>
</tr>
<tr>
<td>No. of employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>577,810</td>
<td>569,706</td>
<td>-1.40%</td>
</tr>
<tr>
<td>Transportation</td>
<td>406,670</td>
<td>406,194</td>
<td>-0.12%</td>
</tr>
<tr>
<td>Logistics facility operation</td>
<td>39,780</td>
<td>38,036</td>
<td>-4.47%</td>
</tr>
<tr>
<td>Logistics service</td>
<td>68,360</td>
<td>73,479</td>
<td>7.49%</td>
</tr>
<tr>
<td>No. of employees / company</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3.3</td>
<td>3.3</td>
<td>0.00%</td>
</tr>
<tr>
<td>Transportation</td>
<td>2.9</td>
<td>2.9</td>
<td>0.00%</td>
</tr>
<tr>
<td>Logistics facility operation</td>
<td>3.3</td>
<td>5.2</td>
<td>-39.36%</td>
</tr>
<tr>
<td>Logistics service</td>
<td>6.8</td>
<td>6.9</td>
<td>1.47%</td>
</tr>
<tr>
<td>Sales revenue (KRW bn)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>109,450</td>
<td>113,574</td>
<td>3.77%</td>
</tr>
<tr>
<td>Transportation</td>
<td>92,144</td>
<td>95,868</td>
<td>4.04%</td>
</tr>
<tr>
<td>Logistics facility operation</td>
<td>6,760</td>
<td>7,023</td>
<td>4.18%</td>
</tr>
<tr>
<td>Logistics service</td>
<td>10,496</td>
<td>10,679</td>
<td>1.75%</td>
</tr>
<tr>
<td>Sales revenue / company (KRW mn)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>576</td>
<td>611</td>
<td>5.95%</td>
</tr>
<tr>
<td>Transportation</td>
<td>576</td>
<td>611</td>
<td>5.95%</td>
</tr>
<tr>
<td>Logistics facility operation</td>
<td>904</td>
<td>969</td>
<td>7.31%</td>
</tr>
<tr>
<td>Logistics service</td>
<td>1,044</td>
<td>1,007</td>
<td>-3.54%</td>
</tr>
</tbody>
</table>

* Source: Statistics Korea, Annual Report on Transportation Industry

Amid the expansion of the global logistics market and a steady increase in trade volumes, logistically well-positioned countries have been aggressively competing to deliver higher value-added logistics. Although there are statistical differences among research institutes, Transport Intelligence estimates that the global logistics market amounted to EUR 981 billion in 2011, with an expected CAGR of 2.4 - 3.0% over the following five years. By region, the Asia-Pacific region accounted for the highest share, at 42.6%, followed by Western Europe (18.0%) and the USA (17.7%). Meanwhile, by segment, the market share of overland transport and domestic logistics stood at 56.4%, followed by contracted logistics at 15.7%, cargo express parcel (CEP) at 15.5% and air and sea forwarding at 12.4%.

### Global logistics market breakdown by region and sector

- Asia Pacific: 42.6%
- USA: 17.7%
- Western Europe: 18.0%
- Other: 21.8%

* Source: Transport Intelligence, Global Contract Logistics 2012

<ins>Foreign direct investment: Current status</ins>

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Foreign Investment</th>
<th>Transportation</th>
<th>Logistics Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>11,705</td>
<td>704</td>
<td>60</td>
</tr>
<tr>
<td>2009</td>
<td>11,483</td>
<td>265</td>
<td>2.3</td>
</tr>
<tr>
<td>2010</td>
<td>13,072</td>
<td>197</td>
<td>1.5</td>
</tr>
<tr>
<td>2011</td>
<td>13,673</td>
<td>143</td>
<td>1.0</td>
</tr>
<tr>
<td>2012</td>
<td>11,199</td>
<td>62</td>
<td>0.5</td>
</tr>
</tbody>
</table>

* Source: Statistics Korea

*Note: 2012 figures based on data from 1Q to 3Q.*
Investor overview and industry value chain
According to the Korea International Trade Association’s research in 2008, the average foreign-invested logistics company in Korea is a sole corporation operating three domestic network offices and one logistics center, with 120 employees and annual sales revenue of KRW 79 billion. Foreign-invested logistics companies operate mostly in the multimodal transport, overland, sea, air transportation, warehousing and storage segments. More than 74% of them entered the Korean logistics market after 1991. A 2013 Korea Chamber of Commerce & Industry report shows that global logistics companies in Korea focus on multimodal transport (freight forwarder) (42.7%), cargo transportation (overland, sea, air) (40.7%), warehousing and storage (7.3%), terminal operation (4.7%) and comprehensive logistics service (3.3%).

Investor overview and industry value chain (Global value chain and need for investment)
Logistics activities are applicable to fundamental activities of the industry value chain – input logistics (inbound logistics) and output logistics (outbound logistics) – and contribute to physical values for products and services, which is a direct added value for customers. The globalization of the value chain calls for efforts to enhance knowledge-based capital, develop various modes of transport and traffic and advance information and communications technologies to transition to the high added-value structure of the global value chain.
The logistics industry: Current standing

The Korean logistics industry used to be considered secondary or auxiliary to the distribution or manufacturing industries. However, as Korean businesses go global and outsource their operation across borders, the expansion of the global value chain has driven value-added logistics services such as cargo transshipment, assembly and processing. As such, the growth of competitive, specialized logistics companies and logistics service competence bears increasing importance in Korea. In addition, the global logistics environment is changing due to more efficient logistics information management enabled by advanced information and communications technologies; increased global logistics volume created by lower trade barriers and trade liberalization; and the growth of logistics companies in size and the convergence of logistics services. Accordingly, global supply chain management (GSCM) is an increasingly important competitiveness factor not just for individual companies, but also for the entire nation.

The World Bank released the Logistics Performance Index (LPI), which compares 150 countries around the world in terms of logistics competitiveness. The LPI is the weighted average of the six components – 1) efficiency of the clearance process including customs 2) logistics infrastructure 3) international shipments 4) logistics competence 5) logistics tracking and tracing and 6) timeliness.

Korea ranked 25th (3.52 points) in 2007, 23rd (3.64) in 2010, 21st (3.70) in 2012 and 21st (3.67) in 2014, narrowing its gap with advanced countries in the logistics market and enhancing its competitiveness to a certain extent. Korea ranked relatively higher in logistics infrastructure than other components and ranked 21st in the logistics tracing category, which is closely related to the use of IT technologies.

Korean logistics industry’s ranking in terms of World Bank LPI

<table>
<thead>
<tr>
<th>Year</th>
<th>Customs</th>
<th>Logistics</th>
<th>International</th>
<th>Logistics</th>
<th>Logistics</th>
<th>Timeliness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ranking</td>
<td>Score</td>
<td>Ranking</td>
<td>Score</td>
<td>Ranking</td>
<td>Score</td>
</tr>
<tr>
<td>2007</td>
<td>29</td>
<td>3.22</td>
<td>25</td>
<td>3.44</td>
<td>22</td>
<td>3.63</td>
</tr>
<tr>
<td>2010</td>
<td>26</td>
<td>3.33</td>
<td>23</td>
<td>3.62</td>
<td>15</td>
<td>3.47</td>
</tr>
<tr>
<td>2012</td>
<td>23</td>
<td>3.42</td>
<td>22</td>
<td>3.74</td>
<td>12</td>
<td>3.67</td>
</tr>
<tr>
<td>2014</td>
<td>24</td>
<td>3.47</td>
<td>18</td>
<td>3.79</td>
<td>28</td>
<td>3.44</td>
</tr>
</tbody>
</table>


Overview of the Northeast Asian logistics industry

The Asian market, especially China, has accounted for a growing share of global trade. Some forecast that the Asian economy will outgrow that of the USA and EU by 2030. Accordingly, global logistics service companies have increased their investments in Asia to expand their market presence.

Global trade breakdown by region (2011)

Overview of Japanese logistics market

Japan, being an archipelago, has many ports, 125 of which are central or strategic to global networks of ocean transport. The incoming and outgoing cargo of Japanese ports amounted to 2.85 billion tons in 2012 (up 2.4% YOY), 1.27 billion tons of which are foreign cargo (up 3.5% YoY, 280.92 million tons of exports and 988.1 million tons of imports).

The Japanese logistics market is estimated at JPY 24 trillion in terms of sales, which breaks down to JPY 12 trillion in truck transportation, JPY 2 trillion in coastal shipping, JPY 3.6 trillion in ocean shipping. JPY 1 trillion in port transport, JPY 1.8 trillion in warehousing and JPY 3.6 trillion for other. The Japanese manufacturing and retail industries have experienced a slump since confirming deflation in 2010 and a series of crises that included the earthquake in March of 2011. However, the weak yen is expected to help revive consumer sentiment and consumption, which is expected to create changes for the manufacturing, retail and logistics markets.
Meanwhile, the Japanese government announced the New Comprehensive Program for Logistics Policies (2013 - 2017) to meet changing logistics market conditions, including the rapid development of the global supply chain, a changing logistics structure, environmental issues such as global warming and logistics safety and assurance. The initiative outlines detailed policy steps to enhance efficiency in the logistics industry, which industries and people rely on; to ensure a smooth transition to a new market environment; and to ensure logistics safety and assurance.

Overview of Chinese logistics market

The Chinese social logistics market amounted to RMB 177.3 trillion in 2012 and generated added value worth RNB 3.5 trillion. In terms of added value, the logistics industry accounts for 6.8% of China's GDP and 15.3% of the Chinese service sector. The heavy industry is likely to remain the largest contributor to the Chinese economy, and transportation demand for large-scale freight such as energy and commodities is expected to stay high. A consumption increase driven by economic growth is expected to change consumer spending patterns and create diverse logistics demand, further expanding the logistics market.

The container throughput at China's 10 major ports amounted to 140 million TEU in 2012, up 7% YoY. China's logistics spending amounted to RMB 9.4 trillion in 2012, up 11.4% YoY. China's logistics spending accounted for 18% of the GDP, which is much higher than the 8% - 10% of such advanced markets as Europe and the USA. The Chinese State Council announced the Mid-to Long-Term Plan for Logistics Development (2014 - 2020) to establish a highly efficient, eco-friendly, safety-oriented modern logistics service system by 2020 through the introduction of advanced technologies and to promote large logistics companies by offering tax benefits for logistics companies.

In an attempt to attract foreign investment from various sectors, China created the Shanghai Free Trade Zone in 2013, which accounts for 4.5% of Shanghai's total land area. China has decided to open its courier service market, the second largest in the world, to create a level playing field for domestic and foreign companies and offer foreign-invested companies more opportunities to enter the market. The Chinese courier service market is expected to exceed KRW 66 trillion in 2020.

Korea is centrally located in Northeast Asia and has a well-developed network of airports and ports, offering fast access to various cities and countries around the world. Incheon International Airport, a key airport in Northeast Asia, connects 188 cities in 54 countries through 85 airlines that offer 20 direct routes to the USA, 23 to Europe, 35 to China and 28 to Japan as of September, 2014. In addition, Busan Port, a maritime logistics hub of Northeast Asia, is located on main trunk routes and, with its geographical characteristics, is an optimal transshipment port. The number of regular container carrier routes that pass through Busan Port is 368; 43 are from China, 71 from Japan, 85 from Southeast Asia, 78 from North America and 26 from Europe. A total of 15 Korean shippers operate 151 routes and 45 foreign shippers operate 217 routes.

In particular, Korea has made intensive efforts to serve as a gateway for advanced countries expanding into China, taking advantage of its geopolitical strengths and global logistics network, while promoting foreign investment into free trade zones across the country. The Korean government has been seeking to promote foreign investment through deregulation, institutional improvements and the creation of specialized investment environments. Varied and comprehensive support is available, including low-priced land leases, bonding services, integrated manufacturing, logistics and distribution services and one-stop services by administrative authorities. Given that companies qualified as tenants are eligible for government support, regardless of the scale of investment, free trade zones are suitable to attract foreign investment. In addition, free trade zones help enhance the competitiveness of Korean companies by strengthening business relationships with foreign companies operating in the zones and promote international transactions by bringing together logistics and distribution with processing and manufacturing. Regional authorities have the discretion to operate free
Free trade zones in Korea

**LOGISTICS & DISTRIBUTION**

Free trade zones: Sea ports and airports

<table>
<thead>
<tr>
<th>Area (1,000 m²)</th>
<th>Busan-Port</th>
<th>Gwangyang-Port</th>
<th>Port of Incheon</th>
<th>Port of Pohang</th>
<th>Dongbin-Pyongtaek Port</th>
<th>Incheon International Airport</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of tenant companies (Foreign investment companies)</td>
<td>57,376</td>
<td>25,130</td>
<td>18</td>
<td>11 (10)</td>
<td>21 (13)</td>
<td>21 (13)</td>
</tr>
<tr>
<td>Cargo throughput</td>
<td>68,509,916 TEU</td>
<td>116,082,700 TEU</td>
<td>305,946,700 TEU</td>
<td>-</td>
<td>215,200,700 TEU</td>
<td>2,495,350,700 tons</td>
</tr>
<tr>
<td>Investment attraction (Foreign investment)</td>
<td>KRW 762.2 bn (USD 641.1 m)</td>
<td>KRW 222.5 bn (USD 183.9 m)</td>
<td>KRW 161 bn</td>
<td>-</td>
<td>KRW 137.0 bn (USD 113.2 m)</td>
<td>KRW 214.4 bn (USD 177.6 m)</td>
</tr>
<tr>
<td>Authorities</td>
<td>Regional Maritime Affairs and Port Office</td>
<td>Regional Maritime Affairs and Port Office</td>
<td>Incheon Port Authority</td>
<td>-</td>
<td>Regional Maritime Affairs and Port Office</td>
<td>Incheon Port Authority</td>
</tr>
<tr>
<td>Relevant minister</td>
<td>Minister of Trade, Industry &amp; Energy</td>
<td>Minister of Trade, Industry &amp; Energy</td>
<td>Port Authority</td>
<td>-</td>
<td>Minister of Trade, Industry &amp; Energy</td>
<td>Port Authority</td>
</tr>
</tbody>
</table>

**Free economic zones**

Free economic zones can be defined as areas designed to create better conditions for foreign investors to do business and more. Free economic zones combine various functions that go beyond manufacturing and logistics to include manufacturing, trade, logistics, finance and research.

**Designation of free economic zones**

*Source: Ministry of Trade, Industry & Energy, FTZ agency website*
Incheon Free Economic Zone (IFEZ)

IFEZ has an advanced, multimodal transport service environment that offers access to the world-class Incheon International Airport and the Port of Incheon, a logistics center of the pan Yellow Sea region. It has a free trade zone, where global logistics companies, including DHL, DB Schenker and AMD, and Korean logistics companies actively do business. Its superb transport environment enables fast and precise logistics service domestically and globally.

IFEZ strives to be the best logistics center in Northeast Asia. Its strategic goals are to create hinterland logistics complexes, to attract logistics industries and to build support systems. In this regard, IFEZ seeks to establish a sea-air multimodal transport cluster connected to hinterland complexes and promote investment from logistics companies. The zone’s key tasks include the enhancement of logistics infrastructure, such as the establishment of hinterland complexes near Incheon Airport, the New Port and Aham, which will contribute to creating supportive facilities for the airport and sea port and attracting target investors to each complex.

<table>
<thead>
<tr>
<th>Region/Industry</th>
<th>Manufacturing</th>
<th>Non-manufacturing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incheon</td>
<td>51</td>
<td>775</td>
<td>826</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>44</td>
<td>50</td>
</tr>
<tr>
<td>Busan-Jinhae</td>
<td>567</td>
<td>-</td>
<td>567</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>33</td>
<td>58</td>
</tr>
<tr>
<td>Gwangyang Bay Area</td>
<td>60</td>
<td>19</td>
<td>79</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>26</td>
<td>39</td>
</tr>
<tr>
<td>Yellow Sea</td>
<td>9</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Daegu / North Gyeongsang Province</td>
<td>10</td>
<td>5</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Jeonbuk / Gunsan</td>
<td>359</td>
<td>10</td>
<td>369</td>
</tr>
<tr>
<td></td>
<td>16</td>
<td>5</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>1,056</td>
<td>859</td>
<td>1,915</td>
</tr>
<tr>
<td></td>
<td>60</td>
<td>104</td>
<td>164</td>
</tr>
<tr>
<td></td>
<td>1,116</td>
<td>963</td>
<td>2,079</td>
</tr>
</tbody>
</table>

\* Source: Ministry of Trade, Industry & Energy  
\* Note: As of December, 2012

Incheon Free Economic Zone: Key logistics-related projects

<table>
<thead>
<tr>
<th>Project title</th>
<th>Project period</th>
<th>Target industries</th>
</tr>
</thead>
</table>
| Incheon International Airport 3-stage construction | 2009 - 2015 | • Global comprehensive logistics companies in such areas as express air freight, refrigerated and freezer warehouses  
• Global comprehensive logistics companies that provide logistics service for electronic, electric and automotive companies  
• Companies, peripheral device makers, semiconductor and electric part manufacturers, automotive manufacturers, shipyard part manufacturers, medical device and drilling companies |
| Establishment of Incheon New Port and Hinterland Complex | 2010 - 2030 | Overseas developer, ultra-big shippers, global terminal operators, terminals exclusively for super big containers |
| Establishment of Aham Logistics 2 Complex | 2006 - 2022 | High value-added logistics through assembly processing, assembly and processing industries (Scandinavian fishery products, ship parts, high-tech part(s) based on the existing Little Norway Project, other businesses that can increase port throughput, promote third-party logistics and benefit from other external factors such as the conclusion of FTAs) |
| Construction of international passenger terminal | 2010 - 2016 | • Attract global cruise operators  
• Develop Asia cruise products |
| Cheongwon Global Retail Industry Center | Project period 2012 - 2020 | Shinsegae Suburban Shopping Mall, warehouse discount store, key companies in the global retail market |

Busan-Jinhae Free Economic Zone

The Busan-Jinhae Free Economic Zone provides a superb logistics environment with an organic network of ports, airports, railroads and roads. Sea ports are situated on trunk routes connecting Europe and the American continent and provide access to various regions around the world with more than 300 regular routes per week. The Busan-Jinhae Free Economic Zone has a land-sea-air transport system with connecting transportation facilities including hinterland roads, railroads and airports.

The Busan New Port region offers international services related to logistics, distribution and shipping, while the northern and southern hinterland complexes measuring 4.57 km² attract multinational logistics companies and facilitate logistics and distribution services. The northern hinterland site contributes to promoting the port logistics industry through the establishment of an advanced multimodal logistics center and the development of hinterland cities and seeks to position itself as a mega hub port of Northeast Asia and an advanced maritime city. Development of the southern hinterlands will be pursued in connection with the Busan Port Authority’s ongoing projects – the oil storage base project and the development of industrial ports. In addition, Busan New Port has designated 8.06 km² of its total area as a free trade zone, which offers low-priced leases and import tariff exemption for foreign logistics companies in the free trade zone.

Number of tenant companies in free economic zones

<table>
<thead>
<tr>
<th>Region</th>
<th>Industry</th>
<th>Manufacturing</th>
<th>Non-manufacturing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incheon</td>
<td>Korean companies</td>
<td>51</td>
<td>775</td>
<td>826</td>
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<tr>
<td></td>
<td>Foreign-invested companies</td>
<td>6</td>
<td>44</td>
<td>50</td>
</tr>
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<td>Busan-Jinhae</td>
<td>Korean companies</td>
<td>567</td>
<td>-</td>
<td>567</td>
</tr>
<tr>
<td></td>
<td>Foreign-invested companies</td>
<td>25</td>
<td>33</td>
<td>58</td>
</tr>
<tr>
<td>Gwangyang Bay Area</td>
<td>Korean companies</td>
<td>60</td>
<td>19</td>
<td>79</td>
</tr>
<tr>
<td></td>
<td>Foreign-invested companies</td>
<td>13</td>
<td>26</td>
<td>39</td>
</tr>
<tr>
<td>Yellow Sea</td>
<td>Korean companies</td>
<td>9</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Foreign-invested companies</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Daegu / North Gyeongsang Province</td>
<td>Korean companies</td>
<td>10</td>
<td>5</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>Foreign-invested companies</td>
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<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Jeonbuk / Gunsan</td>
<td>Korean companies</td>
<td>359</td>
<td>10</td>
<td>369</td>
</tr>
<tr>
<td></td>
<td>Foreign-invested companies</td>
<td>16</td>
<td>5</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>Korean companies</td>
<td>1,056</td>
<td>859</td>
<td>1,915</td>
</tr>
<tr>
<td></td>
<td>Foreign-invested companies</td>
<td>60</td>
<td>104</td>
<td>164</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1,116</td>
<td>963</td>
<td>2,079</td>
</tr>
</tbody>
</table>
International project cities in the Busan-Jinhae Free Economic Zone are designed to become a center of air logistics and high-tech parts manufacturing. The West Busan Distribution District is planned as an inland logistics center, connecting the airport, the new port and light trains, to attract distribution logistics companies, create logistics complexes connecting the new ports and the airport and allow for the concentration of distribution facilities, which will improve the structure of the distribution market and enhance the competitiveness of the distribution industry.

Korea’s major logistics infrastructure

Busan Port
- Busan Port is the world’s 5th largest port, with a throughput of over 17 million TEU in 2012. The port serves as a Northeast Asian center of transshipments, with feeder networks connecting most of the ports in Japan and the coastal area of China.
- North Port: 5 terminal operators and 20 container berths
- New Port: Opened in 2006, 22 container berths, a handling capacity of 15 million TEU, an optimal water depth of 15 - 17 meters
- The Busan Port handles 75% of the national port container cargo.

Yeosu Gwangyang Port
- Yeosu Gwangyang Port is the world’s 15th largest port and Korea’s 2nd largest container port.
- Container handling capacity: 2.15 million TEU in 2012 (up 4.1% YoY)
- Easy access to the Chinese market
- Major facilities include a total of 83 berths, including the Gwangyang container pier, Yeosu petrochemical pier and the materials pier of POSCO Gwangyang Iron & Steel Co.
- Promoting investment in the hinterlands of Gwangyang Harbor (468,359 m² available for lease)

Incheon International Airport and Port of Incheon
Port of Incheon
- The Port of Incheon is Korea’s third-largest container port in terms of container throughput.
- The port specializes in sea-air multimodal transport.

Incheon International Airport
- Gateway to the Seoul metropolitan area
- The world’s second largest airport in terms of cargo throughput
- Incheon International Airport has been rated the world’s best seven years in a row.
- Korea-China and Korea-Japan ferry routes are promoted.

Pyeongtaek Port
- Korea’s fourth-largest container port
- The port has the largest pier devoted to car exports and imports.

Ulsan Port
- Korea’s largest industry-supporting port
- Cargo throughput in 2012: 196.97 million tons (14.3% of the national throughput or Korea’s 3rd largest)
- Export / import handling volume in 2012: 174.12 million tons
- The world’s fourth-largest liquid cargo port (liquid cargo: crude oil, petrochemical products, gas, etc.)
- Korea’s largest in terms of liquid cargo throughput
- World’s 17th in 2008 in terms of cargo throughput
The outlook for Korea as an investment destination is bright thanks to its proximity to China, the world’s production base, Japan, a global economic superpower, as well as the Russian Far East and Taiwan, along with excellent infrastructure, including world-class airports and ports (Incheon International Airport is the world’s second-largest in terms of cargo throughput and the Busan Port is the world’s 5th-largest container port), well-established networks of highways and railways and inland logistics centers. The implementation of the Korea-U.S. FTA and Korea-EU FTA has attracted the attention of global manufacturing and retail companies that want to take advantage of the airports and ports in Korea as a trunk route to the global logistics market. This is expected to create a driving force for the Korean market to emerge as a global logistics hub. In this regard, the Korean government, aiming to enhance the competitiveness of the logistics industry, has designated the operation and construction of sea port terminals and key distribution centers within logistics centers as promising investment areas and has aggressively recruited potential investors from Europe, North America and Japan. In addition, the government has addressed institutional impediments to the growth of the logistics industry.

Free economic zones or free trade zones seek to attract global logistics companies, foreign-invested comprehensive logistics companies and logistics companies with high added-value business models. In addition, various efforts have been made to develop customized value-added logistics business models according to logistics type (assembly, disassembly, labeling, repackaging, distribution and processing, etc.), form of service (international logistics, multimodal transport and added service) and cargo type (homogenous, heterogeneous cargos, disassembly and assembly).

**Logistics business investment procedure in free economic zones**

Free trade zones attract foreign investment in the logistics business through a two-step process: the creation of complexes and the establishment of facilities. Given the nature of logistics complexes as public facilities, regional free economic zone authorities or related local authorities establish complexes as public development projects, and plots of land within the complex are provided for foreign-invested companies, especially in the logistics, wholesale, retail and retail markets, on a lease or sale basis.

Foreign logistics investors are admitted to free economic zones following the same procedure through which free economic zone authorities attract investments. After the submission of business prospectus (investment proposals), decisions are made through negotiations. Logistics companies with investments of USD 5 million or higher in free economic zones and free trade zones are granted tax benefits such as national tax cuts and regional tax cuts. An investment of USD 10 million or higher can be designated as a foreign investment zone.
Government logistics policy development

As part of its efforts to develop the logistics industry, the Korean government has established various policies since the early 2000s to promote Korea as the logistics center of Northeast Asia (2002), to foster logistics companies (2006), to establish the basic plan for the logistics industry (2001, 2011) and to bring the Korean logistics industry in line with advanced markets (2009 - 2013). In the early stage, logistics policies were focused on the expansion of logistics infrastructure and the development of a talent pool specializing in logistics. Recently, the focus of the industry promotion policy has shifted to promoting third-party logistics, fostering global logistics companies and the sophistication of the logistics industry.

The Park Geun-hye administration announced measures to promote investments in the seven promising service industries, including logistics, through institutional and regulatory reforms. Three major policies to effectively foster promising service industries include 1) overseas market expansion, 2) new market creation through measures including foreign investment attraction, 3) customized support based on various characteristics of the service industries and the sharing of success cases through one-stop support services for each project. Regarding the logistics industry, the focus is on enhancing logistics infrastructure, fostering the logistics industry and other goals, including creating more logistics complexes based on the characteristics of regional demand, enhancing the role of Incheon International Airport as a logistics hub and boosting the sophistication of the courier service industry.

Policy incentives

Free Trade Zone

Companies investing in free trade zones are eligible for various incentives under the Foreign Investment Promotion Act, such as low-priced leases (discount), lower tariffs and domestic taxes (corporate tax, income tax, regional tax, etc.), more favorable conditions compared to Korean companies and streamlined or liberalized procedures in export and import clearance and inbound and outbound cargo management.

Government policy by industry

Free Economic Zone

Foreign-invested companies in free economic zones are granted the "most-favored status" in accordance with the Special Act on Designation and Management of Free Economic Zones and are entitled to incentives available in special economic zones such as free trade zones and foreign investment zones. Tenant companies are eligible for tariff cuts and various incentives related to living conditions, operating conditions and development projects.

Incentives for foreign investors in free trade zones and free economic zones

<table>
<thead>
<tr>
<th></th>
<th>Free Trade Zone</th>
<th>Free Economic Zone</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal grounds</strong></td>
<td>Act on Designation and Management of Free Trade Zones</td>
<td>Special Act on Designation and Management of Free Economic Zones</td>
</tr>
<tr>
<td><strong>Objective</strong></td>
<td>Foreign investment attraction, trade promotion and regional development</td>
<td>Foreign investment promotion, balanced national development</td>
</tr>
<tr>
<td><strong>Qualification</strong></td>
<td>Korean or foreign-invested companies</td>
<td>Korean or foreign-invested companies</td>
</tr>
<tr>
<td><strong>Beneficiary</strong></td>
<td>Foreign-invested companies</td>
<td>Foreign-invested companies</td>
</tr>
<tr>
<td><strong>Corporate tax</strong></td>
<td>- Manufacturing USD 100 mn or higher</td>
<td>- Manufacturing USD 10 mn or higher</td>
</tr>
<tr>
<td><strong>Activity</strong></td>
<td>Logistics USD 5 mn or higher</td>
<td>Logistics USD 5 mn or higher</td>
</tr>
<tr>
<td><strong>Income tax</strong></td>
<td>USD 10 mn or higher</td>
<td>USD 10 mn or higher</td>
</tr>
<tr>
<td><strong>Tax cut</strong></td>
<td>100% for three years, 50% for two years</td>
<td>100% for three years, 50% for two years</td>
</tr>
<tr>
<td><strong>Regional tax</strong></td>
<td>Property tax, acquisition tax, registration tax, aggregated land tax</td>
<td>100% for three years, 50% for two years</td>
</tr>
<tr>
<td><strong>Tariff</strong></td>
<td>Exempt</td>
<td>5-year 100% exemption for capital goods</td>
</tr>
<tr>
<td><strong>Site support</strong></td>
<td>- Site purchased by the central or regional authorities</td>
<td>- Public property: Lease at a lower rate (~10 years, 50% - 100%)</td>
</tr>
<tr>
<td><strong>Government subsidy</strong></td>
<td>Basic facilities</td>
<td>State financing of 50% for access roads, trunk roads, parks, common ditches, waterworks, sewage systems. Upon committee review and approval, state financing can be adjusted up to 100%.</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>- Financial support for technology development</td>
<td>- Financial support for foreign educational institutions</td>
</tr>
<tr>
<td><strong>Regulatory incentives</strong></td>
<td>- Foreign education and medical facilities and sale price cap exemption (exclusive for foreign-invested companies)</td>
<td>- Labor market deregulation, no reporting on overseas remittance below USD 10,000 and allowing foreigner-only casinos</td>
</tr>
</tbody>
</table>
Related laws on foreign investment
The Foreign Investment Promotion Act aims to promote foreign investment in Korea by providing support and benefits for foreign investors. The act sets legal frameworks for foreign investment. Its sub laws and regulations include the Enforcement Decree and Enforcement Rules of the Foreign Investment Promotion Act and Regulations on Foreign Investment and Introduction of Technology. Foreign currency exchanges and transactions related to foreign investment are subject to the Foreign Exchange Transaction Act, unless otherwise designated under the Foreign Investment Promotion Act. Tax cuts for foreign investment are subject to the Restriction of Special Taxation Act, its Enforcement Decree and Enforcement Rules and Tax Reduction for Foreign Investment Rules.

Meanwhile, foreign-invested companies are domestic entities established under Korean law, and therefore are subject to Korean regulations applicable to related industries. For example, if there are approval and license requirements under individual laws, companies should meet the requirements accordingly.

Laws related to foreign investments include the Act on Designation and Management of Free Trade Zones and Act on Designation and Management of Free Economic Zones. In the logistics industry, laws related to foreign investments include the Basic Logistics Policy Act, Distribution Facilities Development and Operation Act, Distribution Industry Development Act, Port Act and Aviation Act.

Industries restricted for foreign investment
Foreign investment is restricted in public service industries, where the Foreign Investment Promotion Act is not applicable, such as the postal service, the central bank, financial support services such as mutual aid associations, the public order administration and the social security administration. In addition, industries, where foreign investment is allowed in principle but subject to certain restrictions, are specified under regulations on foreign investment and technology introduction and the integrated public notice of foreign investment. Foreigners cannot invest in a company doing business in an industry or industries in which foreign investment is fully or partially restricted. In the event that foreigners invest in a company doing business in more than two industries that are partially open to foreign investment, the investment ceiling is based on the lowest investment limit.

In the coastal water passenger and cargo transportation segments, where foreign investment is restricted, foreign investment is allowed in the inter-Korean passenger and cargo transport businesses only when the investment is made in partnership with South Korean companies and the foreign equity ratio is less than 50%. In the air transportation segment, international, domestic and small air transport are open to foreign investment when the foreign equity ratio is less than 50%.
Although it would be ideal to use the latest statistics, this cross-country comparative analysis of container cargo logistics expenses in East Asia is based on data from 2004 due to limited data availability. The study shows that it costs less for exporters in Korea in terms of customs clearance fees and terminal expenses compared to other countries. In contrast, it costs slightly more in terms of inland transportation expenses. Unlike other countries, where factories are located close to ports, the production of export goods in Korea is concentrated in Incheon and Gyeonggi Province, and most cargo is loaded on container carriers at the Busan Port. That is, long inland travel adds to transportation expenses. In terms of terminal expenses, Japan ranked highest among the countries surveyed and China ranked at the bottom.

In terms of transportation expenses, given that large-scale cargo owners can use their bargaining power to get discounts, effective supply chain management, including just-in-time delivery, should be more important for countries to attract investment in logistics centers.

Level of satisfaction with logistics environment

According to a 2013 survey by the Korea Trade-Investment Promotion Agency on employees of foreign-invested companies, 53% of the respondents said they were satisfied with the logistics environment in Korea, although traffic congestion needs improvement. When asked about the living environment, 67.4% of respondents said they were satisfied, which is a decline from 69.7% in 2009 due to worsening traffic and living conditions.

Future investment plan

Foreign investment in the Korean logistics market is concentrated in international logistics brokerage, port operation, international express delivery and logistics real estate development. By segment, foreign-invested companies in the port operation business include the global terminal operator Hutchison Port Holdings (Hong Kong), PSA (Singapore), DP World (UAE), Evergreen Marine Corporation and Uniglory Marine Corporation (Taiwan) and Zim (Israel). All of the global top four courier companies have entered the international express delivery market in Korea, with DHL taking the lead (1977), followed by TNT (1983), FedEx (1988) and UPS (1988). Foreign-invested real estate funds specializing in real estate investments, not logistics services, increasingly invest in the establishment of logistics centers in Korea. There are about 30 foreign-invested companies in the Korean logistics real estate market, including Mapletree, Prologis and Ascendas.

Korea has attracted logistics and distribution investments in a broad range of areas. First of all, in logistics real estate development, Mapletree (Singapore) invested as much as USD 23 million and third-party logistics companies, including Schenker (USD 14 million in May, 2007), invested in Incheon International Airport. In addition, in Busan New Port, Amway (USA), M (Japan) and NICE invested in logistics centers in Southeast Asia. As such, multi-faceted investments have been made in the development and operation of ports and container freight stations (CFS).

In 2013, the Korea Chamber of Commerce and Industry surveyed 220 global logistics companies in Korea on their current management conditions in the Korean market. When asked about the market outlook, foreign-invested companies expected market growth, albeit at a slower pace due to intensifying competition with neighboring countries. Regarding management conditions in the Korean logistics market, 55.3% of the respondents said they were “okay.” More than 50% of the global logistics companies, including DHL and FedEx, said they were planning aggressive growth strategies such as a capex increase. Such strategies are considered a plan to increase their dominance and form a comprehensive logistics market in the Northeast Asian region, considering the growing importance of logistics due to the country’s expanding FTA platform.

When asked about the reason for their successful entry into the Korean logistics market, the respondents named a competitive advantage in global networks (51.4%), the large quantity of transported goods via joint-entry with global shippers (21.1%), successful cooperation with Korean partners (12.1%) and full financial support by parent companies (9.3%). Foreign logistics companies called for systematic support from the Korean government, as investment sentiment among foreign-invested companies has weakened due to the slow recovery of the Korean logistics market, destructive competition among market players and lack of productivity. According to the respondents, policy tasks to improve logistics market conditions and attract global investment include greater incentives such as tax reductions and financial support (31.0%), regulatory reform and streamlined administrative procedures (24.7%), logistic service information systems and automation (12.2%) and the establishment of inland logistics bases and complexes (7.3%).
Success case by type and strategy

Logistics business model

It is possible to develop business models that attract comprehensive logistics centers in connection with airports and port hinterlands, or establish logistics facilities, taking advantage of hinterlands. For example, the establishment and operation of cargo terminals can deliver a cost-effective cross-docking service, which is a business model for time-strapped logistics companies. It is also possible to attract logistics companies in partnership with the high-tech manufacturing industry in free trade zones or free economic zones and thus maximize profits by offering value added logistics for manufacturing and processing.

Meanwhile, it is important to present various business models that satisfy the needs of investors from various countries while promoting Korea as a gateway to China’s export and import market and as a value-added logistics center through cooperation and joint ventures with domestic and foreign logistics companies operating in Korea and overseas. A logistics environment can be created by taking into consideration the conditions of special economic zones and industry characteristics through the identification of optimal logistics companies based on an analysis of cargo routes and logistics forms; defining of the type of cargo to which value-added logistics are applicable; development of a valued-added logistics business model customized to manufacturing processes; and development of a customized value-added business model based on logistics type (assembly, disassembly, labeling, repackaging, distribution and processing, etc.), service type (international logistics, multimodal transport and service added) and cargo type (homogeneous cargo, heterogeneous cargo, disassembly, assembly).

Successful logistics business cases

Detergent, hair loss products, hair remover

- European household products are shipped to Japan after inspection and labeling at the Busan Port.
- Raw materials are produced in Japan and processed at the Busan Port to be reshipped to Japan. Cost savings worth KRW 200,000 - 300,000 per TEU.

Car knock-down case

- Production in Korea and Japan, knockdown part kits in Busan, Korea, assembly in Russia
- 200% lower tariff compared to finished-car exports, cost savings of KRW 600,000, capacity per TEU increase from two to three cars

Designer chair (USA) assembly production

- Furniture imports from the USA and Europe or materials made in China, Korea and Japan are assembled at the Busan Port before being shipped to Japan.
- 20 - 30% cost cut per TEU (low labor expenses and materials costs)

Successful cases

Turkish ISKO’s textile export to Levi’s

- Turkish textiles are warehoused at the Busan Port to be shipped to the USA and China, which saves time and inventory costs.

Promising companies

- Companies operating in Korea, China and Japan for manufacturing, sale and warranty services
- Companies operating in China (both Chinese and foreign) that seek opportunities in the “next China” market.
- Korean companies operating overseas and seeking strategic changes, such as the development of their own brands
- Major global companies that seek to expand its market share in Northeast Asia
- Auto parts companies that can expect export growth thanks to tariff exemption on auto parts, an increase in local production and sales growth in the U.S. market upon the conclusion of the Korea-U.S. FTA.
- Textile companies that seek to take advantage of the Korea-U.S. FTA to expand exports and overcome declines in global market share and U.S.-bound exports
- Companies that seek quick clearance through U.S. customs to reduce inventory management costs and delivery time

B.L International Co., Ltd., a fruit distribution company in the Busan-Jinhae Free Economic Zone, was established in 1993 with a 100% equity investment by B.A.K. Holdings Limited (Canada). The company reportedly plans to invest USD 13 million in the Ungdong District of the Busan-Jinhae Free Economic Zone. B.L International runs a logistics center in Yongin, Gyeonggi Province for fresh fruit exports and imports and has been building logistics facilities since filing a foreign investment report in May, 2013. In this regard, the Free Economic Zone Committee has decided on corporate tax cuts for B.L International for up to seven years.

B.L International is expected to create a new logistics business model by providing a wide range of high added-value logistics services that go beyond transshipment and storage to include fruit rinsing, sorting and packaging based on its advanced refrigerator and freezer facilities. With the proliferation of Korea’s free trade agreements, the company plans to offer high-value added services, such as the export of fresh fruits produced in Korea, like the Jeju tangerine, via Busan New Port and the processing of fresh fruits imported from South Africa to supply them to global retailers, such as Costco and Tesco, operating in Japan and China.
06 RELATED ORGANIZATIONS AND ASSOCIATIONS

Free Trade Zone
- Administration Agency of Gunsan Free Trade Zone (www.ftz.go.kr/gunsan), Tel (82-63) 464-0702
- Administration Agency of Masan Free Trade Zone (www.ftz.go.kr), Tel (82-55) 294-2661
- Administration Agency of Daebul Free Trade Zone (www.ftz.go.kr/daebul), Tel (82-61) 464-0741
- Administration Agency of Yulchon Free Trade Zone (www.ftz.go.kr/yulchon), Tel (82-61) 727-9791
- Administration Agency of Donghae Free Trade Zone (www.ftz.go.kr/donghae), Tel (82-33) 522-6113
- Administration Agency of Gimje Free Trade Zone (ftz.go.kr/gimje), Tel (82-63) 545-4811
- Administration Agency of Ulsan Free Trade Zone (ftz.go.kr/ulsan), Tel (82-52) 240-6000

Free Economic Zone
- Incheon Free Economic Zone (www.ifez.go.kr), Tel (82-32) 453-7114
- Busan-Jinhae Free Economic Zone Authority (www.bjfez.go.kr), Tel (82-51) 979-5000
- Saemangeum Development Agency (www.kasdi.go.kr), Tel (82-44) 415-1000
- Gwangyang Free Economic Zone Authority (www.gfez.go.kr), Tel (82-61) 760-5114
- Yellow Sea Free Economic Zone Authority (www.yesfez.go.kr), Tel (82-41) 351-6114

Related authorities and government organizations
- Ministry of Land, Infrastructure and Transport (www.molit.go.kr), Tel (82-44) 1599-0001
- Ministry of Oceans and Fisheries (www.mof.go.kr), Tel (82-44) 200-5555
- Korea Trade-Investment Promotion Agency (KOTRA) (www.kotra.or.kr), Tel (82-2) 3460-7114
- Korea International Trade Association (www.kita.net), Tel (82) 1566-5114

Airport and port authorities
- Incheon International Airport Corporation (www.airport.kr), Tel (82-32) 741-2277
- Busan Port Authority (www.busanpa.com/service), Tel (82-51) 999-3000
- Yeosu Gwangyang Port Authority (www.ygpa.or.kr), Tel (82-61) 797-4300
- Ulsan Port Authority (www.upa.or.kr), Tel (82-52) 228-5300
- Incheon Port Authority (www.icpa.or.kr), Tel (82-32) 890-8000
- Gyeonggi Pyeongtaek Port Corporation (www.gppc.or.kr), Tel (82-31) 686-0600

Related associations & research institutes
- Korea Transport Institute (www.koti.re.kr), Tel (82-31) 910-3114
- Korea Maritime Institute (www.kmi.re.kr), Tel (82-2) 2105-2700
- Korea International Freight Forwarders Association (www.kiffa.or.kr), Tel (82-2) 733-8000
- Korea Integrated Logistics Association (www.kiola.or.kr), Tel (82-2) 786-6112
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