

Korea (South)



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ECONOMIC OVERVIEW

GDP AND CPI

The Korean economy has recovered from the economic crisis in the Asia Pacific region, but has been showing slower growth than expected recently due to various unstable economic factors both from inside and outside the country.

Key economic indicators	1999	2000	2001	2002	2003
GDP (%)	9.5	8.5	3.8	7	3.1
CPI (%)	0.8	2.3	4.1	2.7	3.6

Source: National Statistical Office

UNEMPLOYMENT

	1999	2000	2001	2002	2003
Unemployment rate (%)	6.3	4.1	3.7	3.1	3.4

Source: National Statistical Office

ECONOMIC FORECASTS

Due to positive expectations for an increase in exports and consumer spending from the beginning of the year, economic growth in 2004 is projected to increase to 5.2% from 3.1% in 2003.

- Thanks largely to the introduction of the 5-day working week, consumer spending is expected to grow by 3.2%. However, problems related to credit risk continue to cloud the outlook for Korean economy.
- Export volumes are likely to be up by 11.6% in 2004, reflecting the impact of a recovery in the world economy.
- Import volumes are projected to rise by around 12.9% in 2004 due to growth in exports and the subsequent increase in demand for capital goods.
- Given the stable exchange rates, consumer prices are expected to rise by 2.9% in 2004, i.e. at a slower rate than the 3.6% seen in 2003.



Area ('000 sq km): 99.26
(US 9,600 – EMU 2,500 – World 133,700)

Capital: Seoul

Population (million): 47.9
(US 288.4 – EMU 305.5 – World 6,200)

GDP (USD billion): 546.7
(US 10,400 – EMU 6,600 – World 32,300)

GNI per capita (USD): 11,280
(US 35,400 – EMU 20,320 – World 5,120)

Currency: South Korean Won (KRW)

Languages: Korean

Main religions: Christians, Buddhist

Government type: Republic

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REGULATORY ENVIRONMENT

FOREIGN DIRECT INVESTMENT

The Korean government established the 'Foreign Investment Promotion Act' to promote foreign investment in 1998.

- Tax incentives for foreign investment

Subject	Tax benefit
Foreign invested company	Reduction on corporate income tax; reduction on taxes relating to the acquisition and registration of assets; reduction on property tax; exemption from customs duty, special excise tax and VAT imposed on capital goods.
Foreign investor	Reduction of tax on corporate/individual dividend income
High technology provider	Tax exemption on corporate/individual income from high technology businesses
Foreign labor	Income tax exemption

- Foreign-investment-limited industries

Foreign investment is welcomed in most industries and foreigners may generally own 100% of a given enterprise. But, foreign companies are not allowed to invest in public organizations, such as radio broadcasting and television broadcasting stations, etc. There are also restrictions in certain other fields, such as onshore fishing, coastal fishing, magazine publishing and meat wholesale.

In the industrial areas, foreign-invested companies can enjoy advantages such as low land costs, adequate power and water supplies, good road networks, tax incentives and various support facilities.

PROPERTY / REAL ESTATE REGULATIONS

Following the financial crisis of 1997, the Korean government has opened the real estate market to foreigners completely.

Formerly, in order to acquire a piece of land, foreigners needed permission from the government. However, they now only have to submit a report to acquire domestic land – they do not require prior permission.

Rules on acquiring, using and developing land are the same for foreigners as for native Koreans.

IMPORTS

Korean government regulations require that all importers have a general license, as well as a specific license for all imported items. Applications for licenses for import are approved by government agencies or by the relevant manufacturer's association after screening. Each specific license covers only one transaction and is necessary in order to secure a letter of credit. Imports are classified into three groups, as shown in the table below:

Classification of Imports

Approval items	Most commodities, unless included on a "Negative list", which is officially known as the Export and Import Notice and published by the Ministry of Commerce, Industry and Energy (MOCIE)
Restricted items	Items that the government wishes to limit: these are reviewed on a case-by-case basis
Prohibited goods	Some luxury items, domestically produced goods and goods deemed harmful to public health and morals

DEMOGRAPHICS AND CONSUMER BEHAVIOR

POPULATION

Population evolution

The total population of Korea and its average annual growth rate are as follows:

Period	Total (million)	Average annual growth rate (%)
1990	43.4	1.0
1995	44.6	1.0
2000	46.0	0.8
2001(*)	47.3	0.7
2002(*)	47.6	0.6
2003(*)	47.9	0.6

Source: National Statistical Office (*)Projected population

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About 48% of the population lives in Korea's six biggest cities; 11 million people live in Seoul, the capital and the largest city. Since 1960, the population of Seoul has increased from 10% to represent almost 23% of the total Korea population.

Population by age group

The proportion of older people in the population is getting higher

Year	2002	2003	2002-2003 Growth (+/-)
14 years and under (%)	20.6	20.3	- 0.3
15 - 64 years (%)	71.6	71.4	- 0.2
Above 65 years (%)	7.8	8.3	+ 0.5

Source: National Statistical Office

INCOME / BUYING POWER

Monthly income & expenditure per household is as follows:

Monthly average ('000 KRW)	1999	2000	2001	2002	2003
Income	4,229	4,502	5,115	5,366	6,064
Expenditure	2,709	2,854	3,221	3,263	3,700
Saving	1,520	1,647	1,894	2,103	2,364

Source: National Statistical Office

Average monthly income increased by 43.4% between 1999 and 2003. This compares with a 55.5% increase in monthly savings over the same period.

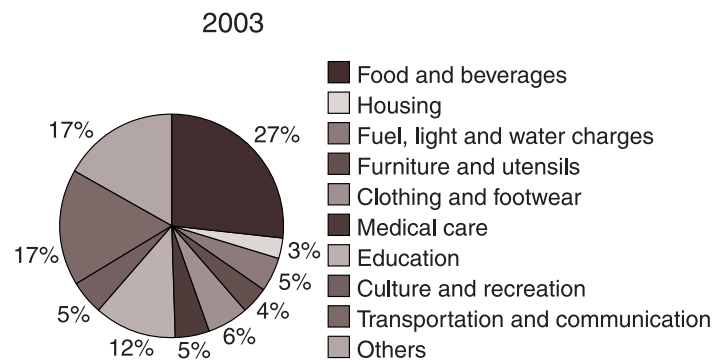
CONSUMER BEHAVIOR

Average household spending patterns

While the expenditure/income rate remained relatively stable between 2001 and 2003 (63% and 61%), spending patterns have changed slightly.

Consumption expenditure	2001 (%)	2002 (%)	2003 (%)
Food and beverages	26.3	26.2	26.5
Housing	3.9	3.4	3.4
Fuel, light and water charges	5.2	5.1	4.9
Furniture and utensils	4.0	3.9	3.8
Clothing and footwear	5.6	5.6	5.6
Medical care	4.2	4.4	4.7
Education	11.3	11.2	11.6
Culture and recreation	4.9	4.7	4.9
Transportation and communication	16.3	16.9	17.1
Others	18.3	18.6	17.5

Source: National Statistical Office



Source: National Statistical Office

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Lifestyles

The current changes in lifestyles are as follows:

- Increasingly critical views on society;
- Continuous westernization;
- Increased interest in fashion, well-being and shopping;
- More and more people are choosing jobs that take into account aptitudes and capabilities, rather than material benefits or incomes;
- Time for and expenditure on leisure activities has increased. In the last ten years, household leisure expenditure has increased from 10% to 25% of total household disposable income.

The traditional lifestyles still common in Korea are as follows:

- Maintaining of traditional ideals about the family;
- The idea that the organization is more important than the individual.

Brand / Price sensitivity

Given the disparity in incomes, a degree of polarization is reflected in consumer spending patterns. While low-price shopping outlets such as Dongdaemoon, Namdaemoon market and other discount stores are on the increase, shopping places offering higher priced goods and luxurious brands are also on the increase. For department stores, one of the strategies for surviving the recent depression was to try to divide the existing luxury market into old luxury (super premium) and new luxury (mass prestige). By strengthening the distinction in relation to discount stores, department stores are trying to regain discount store shoppers.

RETAIL & CONSUMER SECTOR PERFORMANCE

MAJOR CONSUMER GOODS PLAYERS

Food & beverages

Company name	Category of products	Sales* (KRW billion)		
		2002	2003	2002-03 Growth (%)
The Hite	Beverages	1,776	1,840	3.6
Cheiljedang	Foods	1,635	1,724	5.4
Nongshim	Foods	1,340	1,522	13.6
Lotte Chilsung Beverage	Beverages	1,104	1,109	0.5
Lotte Confectionery	Foods	1,054	1,098	4.2
Daesang	Foods	868	883	1.7
Ottogi	Foods	768	803	4.6
Namyang Dairy Products	Foods	724	756	4.4
Dongwon F&B	Foods	581	586	0.9
Orion	Foods	529	511	-3.4

(*) The sales stated in above table are related to only food and beverages.

Sources: Companies' annual reports

Household electric appliances

Company name	Net sales * (KRW billion)					
	2002			2003		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
LG Electronics	3,109	2,934	6,043	1,946	3,703	5,649
Samsung Electronics	1,714	1,879	3,593	1,509	1,897	3,406

(*) Including VAT for LG Electronics in 2002.

Sources: Companies' annual reports

The sales stated above relate only to household electric appliances such as refrigerators, washing machines, microwave ovens, air conditioning systems, etc. Sales related to non-household electric appliances such as RAM, TFT-LCD, computers, mobile phones, etc, are excluded.

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Cosmetics and daily necessities

Company name	Sales (KRW billion)	
	2002	2003
LG Household & Health Care	1,095	1,057
Pacific (*)	1,089	1,120
Coreana Cosmetics	295	172
Aekyung Industrial	270	261
Hanbul Cosmetics	147	100
Hankook Cosmetics	137	85

(*) 2002 sales were restated in 2003 to take in changes in Korean GAAP relating to revenue recognition.

Sources: Companies' annual reports

RETAIL SALES

Retail sales

The retail sales includes retail, meal business and accommodation. They have decreased from KRW 62.7 trillion in 2002 to KRW 62.1 trillion in 2003 and account for 8.6% of GDP.

Major retailers

Traditionally, the retail market has been dominated by the "Big 3" (Lotte, Shinsegae, Hyundai Department). However, cable TV Home Shopping and the discount stores are now also emerging as strong players.

Company name	Store brands	Number of stores	Retail formats	2002 Sales (KRW billion, excl. VAT)	2003 Sales (KRW billion, excl. VAT)	2002-2003 Growth (%)
Lotte Group	Lotte Department Store	22	Department store	3,732	3,893 (*)	4.3
	Lotte Mart	33	Discount store			
	Seven Eleven	1,223	Convenience store			
Shinsegae Co.	Shinsegae Department Store	7	Department store	5,172	5,804 (*)	12.2
	E-Mart	63	Discount store			
Hyundai Group	Hyundai Department Store	13 (Including 2 outlets)	Department store	698	1,400 (**)	N/A
	Hyundai Shopping	2	Department store			
	Hanmu Shopping	2	Department store			
	Hyundai DSF					

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Company name	Store brands	Number of stores	Retail formats	2002 Sales (KRW billion,	2003 Sales (KRW billion,	2002-2003 Growth (%)
	Hyundai Home Shopping	N/A	Cable TV home shopping			
LG Group	LG Supermarket	73	Supermarket	3,839	2,637	N/A
	LG Department Store	3	Department store			
	LG 25,	1,576	Convenience store			
	LG Mart	11	Discount store			
	LG Home Shopping	N/A	Cable TV home shopping			
Samsung Tesco Co.	Home Plus	30	Discount store	1,917	2,575	34.3
Hanhwa Stores Co.	Galleria Department Store	7	Department store	617	571	-7.5
	Hanhwa Mart/Store	N/A	Supermarket, discount store			
Carrefour Korea	Carrefour	27	Discount store	1,351	1,407	4.1
New Core Co.	New Core Department Store	8	Department store	614	537 (*)	-12.5
	Outlet	5	Outlet			
	Kim's Club	21	Discount store			
The National Agricultural Cooperative Federation	Hanaro Club	21	Discount store, supermarket	997	1,200 (*)	20.4
CJ39 Shopping	CJ39 Shopping	N/A	Home shopping	1,427	400 (*)	N/A
Wal-Mart Korea Co.	Wal-Mart	15	Discount store	747	787	5.4

(*) Lotte, Shinsegae, Hyundai, LG, Samsung, Tesco, New Core and the National Agricultural Cooperative Federation have changed their revenue recognition in accordance with the Korean GAAP and restated their 2002 figures to conform to the changed policy.

(**) Hyundai Department Store was spun-off from Hyundai Department Store H&S as of November 1, 2002. Consequently, the 2002 sales figure for the Hyundai Department Store above is for the two-month period running from November 1, 2002 to December 31, 2002.

Sources: Companies' annual report

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Retail channels

	Sales index (*)			
	2000	2001	2002	2003
Department store	100	105.4	110.1	103.4
Discount store / Hypermarket	100	126.8	153.8	167.1
Supermarket	100	96.7	95.8	96.6
Convenience store	100	142.6	195.8	239.2

(*) Sales index in 2000 is 100.

Sources: Korea National Statistical Office, Ministry of Commerce, Industry and Energy of the Republic of Korea.

Discount stores / Hypermarkets

Company name	Store brands	Number of stores	2002 Sales (KRW billion)	2003 Sales (KRW billion)	2002-2003 Growth (%)
Shinsegae	E Mart	63	4,445	5,125	15.3
Lotte Shopping	Lotte Mart	33	1,332	1,494	12.2
Samsung Tesco	Home Plus	30	1,917	2,575	34.3
Carrefour Korea	Carrefour	27	1,351	1,407	4.1
The National Agricultural Cooperative Federation	Hanaro Club	21	997	1,200	20.4
LG Mart	LG Supermarket, LG Mart	11	1,165	1,109	-4.8

Sources: Companies' annual reports, Samsung Economic Research Institute

Convenience Stores

Company name	Store brands	Number of stores	2002 Sales (KRW billion)	2003 Sales (KRW billion)	2002-2003 Growth (%)
Korea Seven	Seven Eleven	1,223	543	580	6.8
Bokwang Family	Family Mart	2,234	487	790	62.2
Mart LG Mart	LG 25	1,576	481	768	59.7

Sources: Companies' annual reports

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Department stores

Top 3 department stores

Company name	Store brands	Number of stores	2002 Sales (*1) (KRW billion)	2003 Sales (KRW billion)	2002-2003 Growth (%)
Lotte Shopping	Lotte Department Store	22	1,857	1,819	-2.0
Hyundai Group	Hyundai Department Store (*2)	18	582	1,206	N/A
Shinsegae	Shinsegae Department Store	7	727	679	-6.6

(*) For Hyundai Group, sales of affiliates are included.

(*1) The 2002 sales amount was changed from gross amount to net amount in accordance to changed Korean GAAP regarding revenue recognition.

(*2) Hyundai Department Store was spin-off as of November 1, 2002 and thus, the 2002 sales figure of Hyundai Department Store above is for the two-month period from November 1, 2002 to December 31, 2002.

Sources: Companies' annual reports

E-commerce

Company name	Store brands	2002 Sales (KRW billion)	2003 Sales (KRW billion)	2002-2003 Growth (%)
LG Home Shopping (*)	LG Home Shopping	1,805	539	N/A
CJ39 Shopping (*)	CJ39 Shopping	1,427	400	N/A
Hyundai Home Shopping	Hyundai Home Shopping	116	194	67.2

(*) LG Home Shopping and CJ39 Shopping changed policy on revenue recognition in accordance with new Korean GAAP in 2003. However, they reflected this policy prospectively, so the amount for 2002 above is presented on a gross basis under previous Korean GAAP. On a gross basis, 2003 sales for LG Home Shopping and CJ39 Shopping work out at KRW1,631 billion and KRW1,309 billion respectively.

Sources: Companies' annual reports

The number of Internet users in Korea more than doubled between 1999 and 2003, with the total reaching 29.2 million in 2003. Also, Internet sales have reached a total of KRW1,648 billion during the fourth quarter 2003.

Change in the number of Internet users in Korea:

	2001	2002	2003
Users ('000)	24,380	26,270	29,220

Source: Korea Network Information Center

RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

CHALLENGES

Intense competition

Intense competition and an increasing number of retail stores effectively reduces the efficiency of each store. As the retail business grows and the larger companies take over, the small-and medium-sized retail companies have begun to struggle.

The traditional and pre-modern way of retailing, i.e. buying and selling without invoices or receipts, represents a deep-rooted problem for the Korean retail industry as a whole.

Many Korean retail companies are trying to establish own-label brands, but continue to face difficulties in developing and marketing these brands.

As the number of convenience stores increases, daily sales per store have stopped growing. Convenience stores are trying to overcome this situation by increasing sales per visit and improving efficiency in relation to display space.

Focus on merchandising and category management

The Korean retail business is mainly focused on over-the-counter management armed with points of sales (POS) and accounting systems. It lacks analytical and systematic merchandising for category management.

OPPORTUNITIES

Supply chain management improvement

Given the focus on over-the-counter management, the corporate controls for supporting distribution centers and supply chain management (SCM) are not well established. Korean retailers have difficulties integrating logistics systems and communicating in a timely manner with suppliers regarding inventories and sales.

EMERGING TRENDS

Rising consumer power (consumerism) and new consumer behavior

With the advent of new retail businesses, such as home shopping and discount stores, competition is increasing. Customer relationship management has become more critical to distribution companies than ever.

Growing income differentials has led to a polarization in consumer behavior (discount marts focus on low-price products, whereas department stores focus on high-price products).

After the spending sprees of the 1990s, the current consumer preference for well-known brands is driving distribution companies to plan marketing strategies focused on high-priced products and luxury goods.

As the opinion of Internet users and consumer-focused communities gathers weight, consumers have begun to gain power. In addition, due to changes in lifestyle and the ageing of the population, spending patterns have started to change.

Mobile commerce based on mobile phones and PDAs is becoming an established buying method. Other new forms of distribution technology, such as RFID, SCI (Supply Chain Intelligence), Mobile Marketing and Interactive TV are also emerging.

Enhanced brand value

As bargaining power shifts from suppliers to consumers, the brand is becoming more important than the product itself. Companies with low brand power have seen profitability decrease and have had to cut prices. However, following recent signs of economic stagnation and a slowdown in consumer spending, low priced products look to be regaining popularity.

Through corporate strategy focused on customers with a high level of brand loyalty and long-term customer relationship management, distribution companies maximize customers' "life-time value" through reselling, up-selling and cross-selling initiatives.

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Prevalence of online distribution business and digitalization

The boom in online retail industries such as Internet-based shopping malls and home shopping business and the expansion of offline distribution companies into the online business has resulted in intense competition.

In contrast to the healthy growth being enjoyed by online shopping and home shopping companies, mail-order distributors are experiencing a slowdown in growth.

With the expansion of online distribution, the position of middlemen and wholesalers has weakened. At the same time, logistics and delivery services are playing increasingly important roles. This recent changes have also lent added importance to customer relationship management. The related SCM, POS, electronic data interchange and CRM systems are expected to become digital in the not too distant future.

M-commerce is expected to grow due to the increased use of mobile devices and wireless Internet applications.

Distribution companies are actively seeking IT solutions to reinforce their SCM strategy and B2B networks.

The advent of the one-stop shopping and entertainment mall

With lifestyle changes and increasing leisure time, customers want to be entertained while shopping. In order to satisfy this need and differentiate themselves from Internet-based shopping malls, many malls are being transformed into multifunctional shopping complexes with entertainment facilities, e.g. Coex mall and Techno mart.

Department stores and discount marts provide customers with one-stop shopping and entertainment with multi-functional stores (multi-complex theatres and game rooms in department stores).

Changes in retail market structure

As the larger foreign retail companies enter the Korean retail market, many domestic retailers have implemented restructuring plans, mergers and acquisitions and business expansion programs.

Among retail businesses, the rapidly developing discount stores are expected to form a dominant part of the retail market, surpassing department stores.

A new approach for department stores

Department stores are more likely to expand store sizes in profitable locations, rather than open new stores. They will also often increase the proportion of high-priced products in order to pull out of a recession. Small and medium sized department stores positioned between discount stores and large department stores are likely to run into more difficulties.