KPMG
cutting through complexity

South Korea

High Growth Markets country profile

South Korea is the world's thirteenth largest economy. The key strengths of this attractive macro-economic environment are a sizeable and increasingly wealthy and well-educated population, combined with low, predictable tax rates, all of which makes the country attractive to investors. Gross domestic product (GDP) is expected to rise by 3.3 percent in 2014, driven by improvements in the global economy and domestic policy measures that support private consumption.

Country overview

Geography and climate

- **Location:** eastern Asia, the southern half of the Korean Peninsula bordering the East Sea (Sea of Japan) and the Yellow Sea; strategically located on the Korea Strait
- **Climate:** temperate, with rainfall heavier in summer than winter
- **Regions:** one special city, one special self-governing city, six metropolitan cities and nine provinces
- **Major cities:** Seoul (9.8 million), Busan (3.4 million), Incheon (2.6 million), Daegu (2.5 million), Daejon (1.5 million)

Political system

- **Type of government:** republic
- **Capital:** Seoul

Population, language and religion

- **Population:** 50 million
- **Urban population:** 83%
- **Demographics:** 0–14 years: 14.1%; 15–64 years: 73.6%; 65 years and over: 12.3%
- **Median annual household income:** 30,532 US dollars (US$)
- **Official language:** Korean, English
- **Prominant religions:** Roman Catholic, Protestant, Buddhist

Currency and central banking

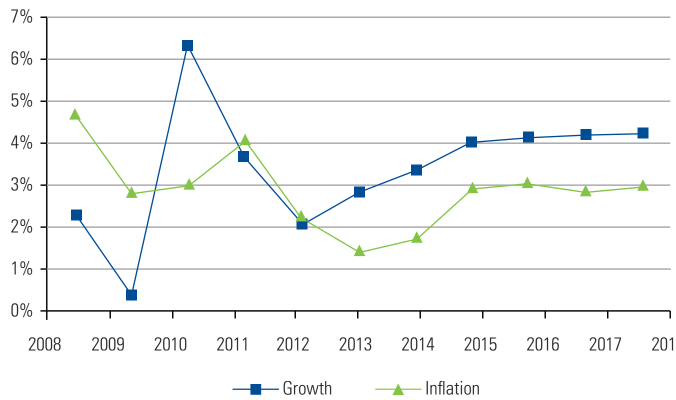
- **Local currency:** South Korean Won (KRW)
- **Exchange rate:** 1,032 KRW = 1 USD (as of 30 April 2014)
- **Interest rate (average annual rate):** 2.5% (as of April 2014); 2.58% (2013); 3.07% (2012); 3.09% (2011); 2.16% (2010); 1.98% (2009)
- **Foreign exchange reserves:** US$341.8 billion
- **Total debt (2013):** external US$430.9 billion; internal public debt: 35.8% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$1.6 trillion and is expected to grow by 3.3 percent** in 2014, due to improvements in the global economy and domestic policy measures that support private consumption. The median household income is expected to increase to US$40,167 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$3.3 (2008); US$5.1 (2013); US$12.5 (2018 forecast); outbound: US$20.3 (2008); US$26.8 (2013); US$35.1 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$552.7 (2012); US$569.4 (2013); US$851.4 (2018 forecast)
- **Imports FOB (billions):** US$514.2 (2012); US$510.0 (2013); US$825.3 (2018 forecast)
- **Sector breakdown:** Service sector: 47%; industrial sector: 39%; agriculture sector: 3%
- **Trade balance (billions):** surplus of US$38.5 (2012); US$59.4 (2013); US$26.0 (2018 forecast)
- **Stock exchanges:** KRX–KOSPI, KOSDAQ

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** Despite policy efforts to reduce dependency on merchandise exports, sales abroad should continue to play a vital role in the economy. As global economic conditions improve, South Korea is likely to grow its exports rapidly. Private consumption growth will increase to 2.5 percent in 2014 as policy measures facilitate job creation and income growth. Following a boost to government spending in 2013 (due to a supplementary budget), growth in government spending is expected to slow in 2014, although it should still contribute 0.4 percent to overall economic expansion. Demographic pressures may force the authorities to further liberalize the labor market and the services sector. At around 71 percent, the labor force participation rate is low by the standards of many other Organisation for Economic Co-operation and Development (OECD) countries. During 2016–2018, the government is expected to invest heavily in developing renewable energy sources.
- **Competition policy:** The Monopoly Regulation and Fair Trade Act — the competition law in South Korea — was first enacted in 1980 and experienced 20 amendments up to 2008, in order to regulate monopolistic or oligopolistic practices and promote fair and free market competition. On 13 September 2013, the South Korean antitrust regulator (the Korea Fair Trade Commission) announced a strengthening of the penalties for unfair business activities.
- **FDI policy:** In 2014, investment growth is expected to slow from a relatively high base in 2013 to 3.1 percent, a figure that is boosted by government support for the housing sector. During 2014–2015, the government is likely to attempt to attract more foreign investment. And between 2016–2018, market openings in the services sector should create fresh opportunities.
- **Foreign trade and exchange controls:** During 2014–2015, free-trade agreements (FTAs) with the US and the European Union (EU) should help to combat South Korea's resistance to foreign investment. Progress is likely in FTA negotiations with other countries, such as Japan and Canada. Discussions with China about the possibility of negotiating an FTA are set to continue. Looking ahead to 2016–2018, pressure may come from trading partners to remove lingering quasi-subsidies, as non-tariff barriers intensify.
- **Financing policy:** In the period 2014–2015, the government is expected to improve access to financing for small-to-medium-sized enterprises (SMEs). During 2016–2018, private-equity funds should emerge as important sources of corporate finance, while consumers are set to benefit from a more sophisticated range of savings vehicles, pensions and insurance.
- **Taxes**: The effective tax rate on corporate income is 24.2 percent. This figure includes a local surcharge of 10 percent of the corporate income tax due. The corporate income tax of 11 percent is levied on the first KRW200 million (US$180,000) of the tax base, rising to 22 percent for income up to KRW20 billion (US$18 million), and 24.2 percent on amounts above KRW20 billion (US$18 million). Korean-sourced capital gains derived by a non-resident are taxed at the lesser of 11 percent of the sales proceeds received or 22 percent of the gains realized. During 2014–2015, some tax breaks are expected to remain in place but there is a risk of a tax rise to fund welfare plans. In 2016–2018, South Korea's rapidly aging population should require increased contributions to the national pension system.
- **Transfer pricing:** The relationship threshold for transfer pricing rules is based on voting power, and applies between parties when ownership is greater than 50 percent, and when parties are under common control and under de facto control in substance. The general statute of limitations for transfer pricing adjustment is 5 years from the date the annual tax return is filed. The Korean Transfer Pricing Regulations, namely the Law for the Co-ordination of International Tax Affairs (LCITA) and the Presidential Enforcement Decree of the LCITA (PED of LCITA) were extensively amended in late 2010. The 2010 amendments were designed to enable the decree to be more in line with the OECD guidelines, and also to increase transparency for interpreting and applying the transfer pricing regulations. The revised regulations are expected to make taxpayers more accountable in managing their own transfer pricing.

KPMG in South Korea

KPMG member firms are among the world's leading providers of Tax, Audit and Advisory services. In Korea, KPMG has approximately 2,100 professionals and two offices.

KPMG in Korea aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in Korea website: kpmg.com/kr/en

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; KPMG in Korea research, 2013–2014; Korea Exchange, 2014; antitrustasia.com, 2014

Designed by Evalueserve.
Publication name: South Korea: High Growth Markets country profile
Publication number: 130913b
Publication date: June 2014