



Korea: E-Commerce Industry

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Summary

With more than 92 percent of Korean households having access to the Internet, Korea ranks among the top countries in the world for Internet usage and broadband penetration rate. As Korea's high speed-infrastructure continues to grow, along with the new government's initiatives to promote digital convergence, demand for e-Commerce transactions and broadband is increasing. According to the Korea National Statistical Office (NSO), in 2007, the total amount of e-Commerce transactions showed a 25 percent increase from 2006, exceeding USD 518 billion for the first time. In the third and fourth quarter of 2008, the transaction amount was valued at approximately USD 150 billion, of which 91% accounted for Business-to-Business (B2B) transactions. The total amount of e-Commerce transaction 2008 is also forecasted to increase by 20% over 2007.

Demand for new services, such as Wireless broadband (Wibro), Internet Protocol TV (IPTV), Digital Multimedia Broadcasting (DMB), Radio Frequency Identification (RFID) and home networking services, are anticipated to experience explosive growth over the next few years. The phenomenal demand in such services will stimulate strong demand for related Internet business including digital contents businesses, equipments, handsets, components, digital rights management (DRM), security solutions, etc for the next several years.

Market Demand

In anticipation of increased e-commerce transactions and broadband demand, Korea's high-speed Internet infrastructure continues to grow. According to Korea Communications Commission (KCC), as of December 2008, there are 15.4 million broadband Internet service subscribers among 16.7 million households, and 92 percent of them are expected to have access to the fiber to the home (FTTH) network by 2010, requiring more advanced technologies and services for next generation networks such as Broadband convergence Network (BcN).

In November 2008, the realtime and on-demand IPTV service was launched, driving technology and service convergence in the broadcasting and telecom industry, and creating more opportunities for U.S.-based companies. According to industry analysts, over USD 4.5 billion will be invested into the Korean IPTV service over the next 5 years, with USD 2.9 billion invested solely on network establishment. There are currently 1.5 million subscribers for IPTV but as the penetration increases, more customized services will be offered to satisfy consumer needs.

Furthermore, the Ministry of Knowledge Economy (MKE), which is equivalent to the U.S. Department of Commerce, recently designated 22 industries from six fields; energy and environment, transportation systems, new information technology, industrial convergence, biotechnology, and knowledge-based services, as new growth engines, and those plans will also stimulate strong demand for related services and advanced ICT equipment across the industries.

Market Data

E-commerce transactions in Korea are generally categorized as business-to-business (B2B), business-to-consumer (B2C), and consumer-to-consumer (C2C). In 2007, the total amount of transactions for the

Korean B2B market, including business to government (B2G), reached USD 464 billion, a 27 percent increase from 2006, representing about 90 percent of Korea's total e-commerce transactions and is forecasted to grow at an average annual rate of 20 percent. According to the Korea National Statistical Office (NSO), manufacturing companies make up 60 percent of the entire B2B activities and there are 4,500 cyber shopping malls, for which, total amount of transactions was worth USD 15.7 billion in 2007.

As the Internet business is evolving towards Web 2.0, which offers more open environment where users and potential customers can actively participate, many Korean Internet firms have changed their strategies and offered user-friendly/centric services; they have created more content for advertisement, education, games, and shopping, utilizing User Created Contents (UCC) and power-blogging websites and successfully generating more revenue. E-commerce revenues of Korea's top E-business companies, including major portals, comprise approximately 60 to 70 percent of the total revenue and are expected to continue to grow over the next several years.

Statistical Data

1. Number of High-Speed Internet Service Subscribers (September 2008)

(Unit: persons)

Service Providers	xDSL	HFC	Apartment LAN	FTTH	Satellite	Total	Share
KT	3,489,889	N/A	2,087,521	1,176,092	525	6,754,027	44.2%
SK Broadband	293,883	1,623,280	1,127,454	397,921	N/A	3,442,544	22.6%
Dreamline	6	250	215	N/A	N/A	471	0.0%
LG Dacom	763	9,714	27,631	N/A	N/A	38,108	0.2%
LG Powercomm	N/A	876,562	1,167,492	N/A	N/A	2,044,054	13.4%
Cable TV	55,206	2,505,985	213,390	67	N/A	2,774,648	18.2%
VAN Service & Resellers	24,967	39,328	146,660	110	N/A	211,065	1.3%
Total	3,864,720	5,055,119	4,770,363	1,574,190	525	15,264,917	100.0%
Share	25.3%	33.1%	31.3%	10.3%	0.0%	100%	

Source: Korea Communications Committee (KCC), September 2008 *

2. E-Commerce Transaction Revenues

(Unit: USD thousand)

Transaction Category	2006		2007		Comparison	
	Rate	Rate	Rate	Rate	2006 vs. 2007	
E-commerce Total	413,584	100.0%	516,514	100.0%	102,930	24.9%
B2B	366,191	88.5%	464,456	89.9%	98,264	26.8%
B2G	34,435	8.3%	36,801	7.1%	2,366	6.9%
B2C	9,132	2.2%	10,226	2.0%	1,094	2.0%
C2C	3,826	0.9%	5,032	1.0%	1,206	31.5%

Source: National Statistical Office, Statistics on E-Commerce Transactions, March 2008

3. Web Site Rankings by Category

Rank	Portals	Entertainment	Shopping Malls	News Media	Gaming
1	Naver.com	Pandora.tv	Auction.co.kr	Joins.com	Hangame.com
2	Daum.net	Gomtv.com	Gmarket.co.kr	Moneytoday.co.kr	Netmarble.net
3	Cyworld.com	Mncast.com	Interpark.com	Chosun.com	Nexon.com
4	Nate.com	Newsen.com	11st.co.kr	Sbs.so.kr	Gameangel.com
5	Empas.com	Mgoon.com	Gseshop.co.kr	Hankooki.com	Migame.tv

Source: KoreanClick, October 2008

Best Prospects

KT, SK Broadband, LG Dacom, and LG Powercom are Korean Internet service providers (ISPs) that own and operate their own Internet backbone networks. Of Korea's high-speed Internet providers, KT has the most with 44.2 percent market share and 6.7 million users, followed by SK Broadband (formerly Hanaro Telecom) at 22.6 percent market share and 3.4million users in 2008. The number of subscribers for the Wireless Broadband (WiBro) Internet market is expected to reach 8.5 million by 2010, and its market value will expand to USD 3 billion, creating a new series of e-business opportunities. In addition, wireless full-browse Internet services through new handheld devices like smart phones could play a role in expanding e-Commerce transactions.

Korea's new Lee Myung-Bak administration announced an ambitious plan to promote digital convergence and spend USD 1 billion in convergence technology development over the next five years. This plan covers five key industries; automobile, shipbuilding, medicine, textile and construction. Under the digitalization promotion plan, the Korean government hopes to eliminate digital divide, through infrastructure upgrade and global cooperation. The government is encouraging the private sector to create high-tech logistics and payment infrastructure for B2B networks across 20 business sectors.

The overall transaction volume of Korean e-commerce is anticipated to grow over the next several years, which will lead to growing demand for e-commerce solutions, equipment, networking, software, and services to develop and support e-commerce related websites and transactions.

Key Suppliers

Key suppliers for e-Commerce convergence technologies include the following companies:

Network equipment, storage, and solution providers: Samsung Electronics, Cisco, LG-Nortel, Alcatel-Lucent, Nokia, EMC, Network Appliance, and other small and medium size solution providers.

Systems/network integrators: Samsung SDS, LG CNS, Hyundai Information & Technology, SK C&C, and other small-and-medium sized companies.

Software solutions providers and digital content providers: There are many key suppliers in all of these areas, with different factors determining key suppliers in each sub-market. For further information, please contact Commercial Service Korea (CS Korea).

IPTV: KT (Mega TV), SK Broadband (Broad&TV), LG Dacom (myLGtv). More companies are planning to apply for IPTV service license.

U.S. suppliers for a wide range of ICT products, software, digital content, and solutions will continue to enjoy significant competitive advantages in technology and price and should continue to benefit from major opportunities in Korea's rapidly growing e-commerce market.

Prospective Buyers

Most of the largest prospective buyers for the e-commerce industry include facility-based telecom and broadcasting service providers, major portals, and the government/public sector. Korea's explosive market demand for e-commerce transactions is a result of the country's widespread broadband access. Future factors bolstering continued growth in e-commerce transactions will include Korean consumers and enterprise users of new wireless Internet services.

Market Entry

One of the best strategies for entering the Korean market for U.S. suppliers of Internet-related products and services is to promote products through online and offline advertising in professional trade and technology journals, trade shows, and technical seminars. However, it is essential that the proper regulatory and technical groundwork be carried out prior to such activities and that the right local partners be found to handle marketing and customer support (For further details, please see FAQ section below).

Market Issues and Obstacles

In response to several privacy infringement cases in recent years, the Korean government announced measures for increased privacy protection through implementing the "Comprehensive Information Protection Plan". Relevant regulations previously established under different ministries is being integrated into one new law called "Personal Information Protection Act", restricting the use of personal information within the e-commerce market. However, certain industries must comply with the regulations of multiple ministries/government authorities, causing confusion over what regulations they must follow.

Financial Services Commission (FSC) regulates financial institutions with the "Real Name Act" and the "Credit Information Act" which stipulates that individual consent is required to obtain individual financial data with every transaction, which poses a major concern to foreign IT service companies that want to offer data-outsourcing services to the Korean financial institutions from database servers located overseas.

KCC and the Ministry of Health and Welfare (MOHW) also have established specific regulations. KCC created a new requirement that requires Internet users to verify themselves with their names and resident registration numbers before leaving comments on web sites. MOHW enacted regulations protecting patients' medical records; this measure has the potential to encourage growth in the virtual medical treatment market.

In the case of e-commerce disputes, one can turn to the Electronic Commerce Mediation Committee under the Korea Institute for Electronic Commerce. This committee has been handling e-commerce disputes since April 2001 when the law on the promotion of Utilization of Information and Communication Networks and the Protection of Data was enacted. OECD compliance may be required for international disputes.

Effect of the U.S.- Korea Free Trade Agreement (KORUS- FTA) on the E-Commerce Industry

The KORUS-FTA negotiations were concluded in April 2007, and the major ICT industry chapters include: 1) a cap on foreign ownership of Korean telecom operations at 49 percent; and 2) provisions that technology standards guidelines will be maintained at current levels.

The KORUS-FTA chapter on e-commerce also includes: 1) non-discriminatory and duty-free treatment of all digital products through online purchases, 2) principles ensuring consumers' reasonable access to the Internet for e-commerce, and 3) commitments facilitating the use of electronic authentication in their respective markets.

For more information on how the KORUS-FTA could benefit your company in the future, please contact CS Korea.

Frequently Asked Questions

This FAQ section is intended to help U.S. companies better comprehend the current e-commerce environment in Korea.

What are the most popular search engines in Korea? How does a U.S. manufacturer submit sites to those search engines?

Naver (www.naver.com), which belongs to NHN (Next Human Network), is the most popular portal that offers a search engine in Korea. U.S. manufacturers can contact each search engine portal to submit sites. Daum (www.daum.net), Yahoo Korea (kr.yahoo.com/), Empas (www.empas.com), and Google (www.google.com.kr) are also categorized as part of the top five search engine portals in Korea.

Is it necessary to have the site written in Korean for the website to be indexed?

No. You can use English or other languages on Korean search engines to find web sites.

Is it necessary for the site to have the domain of the country? If so, is it possible for a U.S.-based site to obtain a local domain?

It is not required for a site to have a '.kr' domain. For example, Amazon.com maintains its www.amazon.com address in Korea, and Korean consumers can purchase books online. However, Amazon's domain is not implemented in Korean, so it could be inconvenient for Koreans who are not familiar with the English language. Google, however, maintains an address in Korea (www.google.co.kr). It does have a Korean language version in its '.kr' domain.

The National Internet Development Agency of Korea (NIDA) gives a thorough explanation of the process to register domains (www.nic.or.kr/english).

Registrants must abide by the following terms and conditions:

- 1) Registrants must have a local presence within Korea
- 2) Registrants must meet certain criteria that are classified by the characteristics of the secondary domains such as co/ne/or/re.

Individuals/organizations that have a local presence within Korea are eligible for registering a '.kr' domain name.

Are there any popular online marketplaces or auctions (e.g., Amazon.com, ebay.com) in Korea?

GS Homeshopping (www.gseshop.co.kr), Interpark (www.interpark.com), CJ mall (www.cjmall.com), G Market (www.gmarket.co.kr) and 11st (www.11st.co.kr) are well-known online marketplaces primarily dealing with online products. Auction e-Bay (<http://www.auction.co.kr>, which was acquired by eBay) is also famous for online auctioning.

There are online marketplaces dealing with specific items such as computer components, books, etc. Some of the most popular computer shopping mall sites include Danawa Corp. (www.danawa.co.kr) and eNuri.com (www.enuri.com). These sites compare all the computer components and recognize the most inexpensive ones.

Kyobo Bookstore (www.kyobobook.co.kr) and Youngpoong Bookstore (www.ypbooks.co.kr) are based offline but are also popular for purchasing books on the Internet. Aladdin (www.aladdin.co.kr) and Yes24 (www.yes24.com) are solely online bookstore companies that have become popular and sell more than just books (CDs, DVDs, etc). Online shopping benefits customers who can receive discounts of up to 40 percent through online purchases.

Can a U.S. exporter advertise its Internet site/product/service in pop up ads on the local ISP networks? Are there any regulations on spam or privacy? Are there other e-commerce specific laws?

Generally, the exporter can advertise, but it depends on the content of the advertisement and their contracts with ISPs. There are specific regulations on spam and privacy, which are included in the Act on the Promotion of Information & Communication Network Utilization and Information Protection (KCC Act 7262, December 30, 2004). The Korean Ministry of Knowledge Economy (MKE) regulates the Basic Electronic Commerce Act (MKE Act 6614, July 1, 2002) and relevant implementing regulations. Source: Ministry of Knowledge Economy (www.mke.go.kr). Korean email SPAM policy is consistent with the U.S. system of "opting out," i.e., unsubscribing.

Are there restrictions on advertising (for example, are comparative ads allowed? Are there restrictions on ads targeting children? Is it permissible to use lotteries, competitions, contests, games, or bets as part of a promotional offer?)?

There is no specific law pertaining to Internet advertising, but it should abide by and not conflict with the existing laws and regulations set forth by MIC or the Ministry of Government Public Administration and Security in the Youth Protection Act (MOPAS Act 6479, May 24, 2001).

According to the Youth Protection Act, youth-harmful advertisements broadcast via the media should not be aired during specific time slots (MOPAS Act 6479, Article 19, Limitation of Broadcasting Time). The Ministry of Culture, Sports and Tourism (MCST) also refers to the Youth Protection Act in that advertisements promoting youth-harmful music, video, and game contents must not be distributed or posted (MCST Act 7426, Article 38, Limitation of Advertisement, Promotion). The Act on the Promotion of Information & Communication Network Utilization and Information Protection (KCC Law 7262, December 30, 2004) Article 42-2 is designed to protect personal data that restricts youth-harmful media.

The Korean Fair Trade Commission (FTC) has become less stringent with comparative advertisements since 2001.

Lotteries, competitions, contests, games, or bets can be utilized as part of promotional offers in Korea.

Source: Korea Communications Commission (www.kcc.go.kr),
National Youth Commission (www.youth.go.kr)

To what extent can a buyer in this market pay for an order over the Internet by use of a credit card or other Internet-based financing vehicles, such as PayPal?

There are many ways to complete transactions on the Internet. By using a credit card, real-time cash transfer, Internet security payment (ISP), or mobile phone (or SMS), it is possible to buy or sell through the Korean Internet. One can also use financing vehicles, including Payplus, Globalpay, Billgate, etc. As the size of online transactions is still growing rapidly, the e-commerce industry continues to upgrade its security solutions and systems to minimize the security risk. However, at all times, one should be aware and cautious when dealing with Internet based transactions.

Are Internet transactions recognized as legal sales contracts? Is there a digital signatures law that recognizes digital signatures?

Yes, the Electronic Signature Act has been effective since 1999 in Korea. The E-Signature Certification Management Center was established within the Korea Information Security Protection Agency to implement the full force of the Act.

Source: Korea Electronic Certification Authority (www.crosscert.com)

Would there be any Customs or related delays incurred on Internet-transacted sales?

In general, customs duty and value added tax (VAT) can be applied to online-imports valued higher than USD 150. Online transactions of downloading immaterial assets, including software, movies, and music are exempt from customs duty. Customs duty details are available on-line based on HS codes from the Korean Customs Service (www.customs.go.kr), and VAT is a single flat rate of 10 percent.

Is there a national web seal or trust mark program in this market that increases consumer confidence? e.g., BBBOnline in the U.S.

The Korea Institute for Electronic Commerce (KIEC, www.kiec.or.kr/www.etrust.or.kr) operates an e-trust mark committee and authenticates Korean web sites which are listed on the KIEC website. KIEC participates in the Global Trustmark Alliance that includes BBBOnline in the U.S. There are I-safe marks and ePrivacy marks authenticated by the Korean Association of Information and Telecommunications (KAIT, www.privacymark.or.kr). The ePrivacy and I-safe marks are awarded after a comprehensive review of the individual web site's administrative systems. Under this review, web sites should have an effective privacy and security system to ensure the protection of Internet users.

Can U.S. manufacturers participate in local government procurements via Internet based tenders? If so, how are these tenders publicly advertised?

Korea joined the WTO Government Procurement Agreement (GPA) on April 15, 1994; the GPA went into effect on January 1, 1997, in Korea. Korea enacted the Act Relating to Contracts to which the State is a Party (ARCSP), in accordance with the GPA, in 1995. The ARCSP applies to contracts to which a State is a party, such as the case of government contracts through international tendering subject to the GPA or contracts between a State and a citizen of the Republic of Korea. The term "State" refers to the central government agencies of Korea. The ARCSP is the fundamental law outlining the basic principles and procedures of government procurement. It also prescribes that government procurement exceeding certain threshold values should be conducted by international tendering as provided in the GPA.

The Public Procurement Service (PPS, www.pps.go.kr/english) launched a Government e-Procurement System (GePS, www.g2b.go.kr, www.pps.go.kr/neweng/html/bid/i_bid_030.html) in October 2002, which digitalizes the entire bidding process from order to payment for public organizations. The bidding

information, which is legally required to be publicized in GePS, includes estimated costs, technical specifications, and evaluation criteria. However, U.S. manufacturers must have a business license or a Korean partner to register with PPS as a supplier.

Trade Events

19th Korea International Broadcast, Audio & Lighting Equipment Show (KOBA 2008)

Dates: May 28-31, 2009

Location: COEX Atlantic/Convention Hall

www.kobashow.com

World IT Show 2009

Dates: June 17-20, 2009

Location: COEX Convention Hall

www.sek.co.kr

Broadcast Worldwide Exhibition & Conference (BCWW 2009)

Date: September 2009

Location: Coex Convention Hall

www.bcww.net

IT EXPO BUSAN 2009

Dates: September 2-5 2009

Location: Bexco, Busan

www.itexpo.or.kr

2009 Korea Electronics Show (KES)

Dates: October 13-16, 2009

Location: KINTEX

www.kes.org

Resources & Contacts

The U.S. Commercial Service office at the U.S. Embassy (CS Korea) should be the first stop for any company seeking to sell their goods and services in the broadcasting and telecommunications sectors in South Korea. CS Korea offers counseling, market research, and a range of fee-based services to assist companies in the market.

Korea Communications Commission (KCC)

www.kcc.go.kr

Ministry of Knowledge Economy (MKE)

<http://www.mke.go.kr>

Korea Institute for Electronic Commerce (KIEC)

www.kiec.or.kr

National Information Society Agency (NIA)

www.nia.or.kr

Korea Information Security Association (KISA)

www.kisa.or.kr

Korean Statistical Information Office
www.kosis.kr

For More Information

The U.S. Commercial Service in Seoul, Korea, can be contacted via e-mail at: chris.ahn@mail.doc.gov;
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