



2016 Top Markets Report **Building Products and Sustainable Construction** Country Case Study

Korea

U.S. building products in general enjoy duty-free market access in Korea under the Korea-U.S. Free Trade Agreement. The market is fiercely competitive, offering stable business practices, market-oriented policies and a democratic government. The Korean construction market is entering a period of growth, albeit modest, and reflects the national commitment to green building and strategic “smart” urban planning. Energy efficiency is a long-standing national objective. U.S. building product exporters may benefit from establishing an in-country presence or strong local partners in Korea.

| | | | |
|----------------------|-------------------|----------------------------|--------------------------|
| Overall Rank | HVACR | Lighting | Plumbing Products |
| 10 | 11 | 4 | 8 |
| Wood Products | Insulation | Windows & Doors | Glass |
| 11 | 5 | 11 | 58 |

Korea Construction Market

The Korean construction industry is expected to see growth in the range of 2.5 percent annually during 2015 to 2019,¹ following a five year downturn. Expansion is expected across residential, commercial and infrastructure segments. In the Korean market, residential construction is the largest segment. Government policies geared to stimulating the residential segment play a role in boosting this segment, as do urbanization trends. In other market segments, prospects are brightened by policies including the U-turn Company Support Law,² under which incentives and subsidies are deployed to Korean companies to bring back their manufacturing facilities from overseas. The country’s growing population and increase in tourism is expected to boost the retail segment of the market.

Korea imports an estimated 97 percent of its energy, and the building sector has long been an area of focus when seeking areas to reduce energy

consumption. For decades Korea has emphasized the need to increase building performance to conserve resources.

Green Building in Korea

In 2001 the Korean Ministry of Land, Infrastructure and Transportation (MLIT) launched the Korea Green Building Certification (KGCB) rating and certification system. This certification is mandatory for residential, mixed-use dwellings, office buildings and schools. Rating criteria include: land development and transportation, energy and resource consumption and environmental load, indoor environmental quality, ecological environment and other aspects including noise and acoustics, energy consumption, alternative energy use, grey water systems, sunlight in living areas, among others.

Looking beyond green building, the concept of smart cities has gained considerable focus in conjunction

with Korea's national policy of low carbon, green growth. The urban landscape throughout Korea reflects decades in which rapid industrialization and urbanization fueled uncontrolled urban expansion. In 2006 the Korean government embarked on its U-Korea Master Plan, a strategy for "ubiquitous development" under which the central government and regional and local government entities would focus on greener, more sustainable cities reflecting a convergence of the construction, ICT and service sectors.

Korea's Building Regulatory System

The building regulatory system in Korea is highly structured and centralized under the Building Act, which is administered by the MLIT. Green features of buildings are introduced via the Building Act, which currently mandates specified levels of energy efficiency, construction waste recycling and reuse, and water efficiency standards for buildings. In addition, the Ministry of the Environment has mandated standards for indoor air quality, storm water management and the environment.³

Korean Standards (KS) are referenced by ordinances under the Ministry of Land, Transport and Maritime Affairs (MLTM). The Ministry also allows equivalent international standards in place of KS where applicable.

Challenges & Barriers to Sector Exports

U.S. building products enjoy strong brand recognition and a reputation for high quality in Korea. The types of barriers and challenges U.S. building product exporters face in Korea suggest a number of potentially productive ways USG agencies can assist to increase U.S. exports. The barriers noted below affect U.S. exporters across the seven subsectors. Engagement to increase U.S. companies' understanding of the Korean commercial environment and a focus on subsector-specific trade promotion and partner matchmaking is indicated.

Highly competitive market environment

While the KORUS FTA provides important market access advantages to U.S. exporters, the competitiveness of Korea's commercial environment should not be underestimated. The country stands in close proximity to lower-cost Asian producers of building products, has free trade agreements in place with China and Australia, and has access to

global suppliers of the highest-quality building products.

While enjoying the tariff reduction benefits of KORUS, U.S. suppliers still must overcome transport costs and deliver on product performance and post-sales service requirements to compete in Korea. Winning sales often requires regular direct engagement with buyers to distinguish specific product performance from competitors. To provide needed sales follow-up support, U.S. exporters are well-served by an in-country presence.

Business customs

A capable in-country partner or local presence may be needed to help U.S. companies navigate the local markets to understand sales channels, the competitive state of play, applicable regulations and standards, as well as other aspects of the Korean commercial landscape. A key component of a Korea market entry strategy is providing ongoing support to the local partner.

Regulatory environment

Detailed knowledge of the product standard and conformity assessment process is important to building product exporters, and providing access to relevant information would be meaningful to U.S. exporters.

Opportunities for U.S. Companies

Korea imported \$10.2 billion in HVACR, lighting, plumbing, wood products, insulation, windows and doors and glass from the world in 2014. This reflects a 6 percent compound annual growth rate of building product imports during 2009 through 2014. For the sector as a whole, the United States is the third largest source of Korea's imports with a 9.6 percent import market share.

Addressing the types of barriers described above may help U.S. exporters improve their share of Korea's market. This section provides a review of the current state of play and competitive landscape, suggesting where there may be the greatest room for growth.

Figure 1: Korea's Import Market

| Sector | Imports (2014, USD) | U.S. Rank as Import Source | U.S. Import Market Share |
|-----------------|---------------------|----------------------------|--------------------------|
| HVACR | \$4.8 billion | 3 | 13.3% |
| Lighting | \$985 mil. | 4 | 7.0% |
| Plumbing | \$411 mil. | 3 | 6.9% |
| Wood products | \$2.8 billion | 7 | 5.9% |
| Insulation | \$196 mil. | 2 | 22.2% |
| Windows & Doors | \$85 million | 3 | 14.7% |
| Glass | \$878 mil. | 6 | 1.8% |

HVACR

Korea's imports of HVACR products grew at a compound annual growth rate of 9.1 percent over the 2009 to 2014 period. Products from the United States hold the second largest share of the Korean import market after China. Imports of HVACR products from the U.S. grew at a rate of 6.2 percent annually over the same timeframe, during which the import market share of U.S. products decreased to 13.3 percent in 2014 from 15.3 percent in 2009.

Top 5 Import Sources and Market Share:

1. China (22.2%)
2. Japan (13.4%)
3. United States (13.3%)
4. Germany (11%)
5. France (5.9%)

Lighting

Korea's imports of lighting grew at a rate of 2.3 percent annually during the 2009 to 2014 period, with imports of products from the U.S. growing at the higher rate of 9.1 percent during the same period. U.S.-sourced lighting products now have an import market share of 7 percent in Korea, after those sourced in China, Germany and Japan.

Top 5 Import Sources and Market Share:

1. China (49.6%)
2. Germany (14.8%)
3. Japan (11%)
4. United States (7%)
5. Norway (2.6%)

Plumbing Products

Plumbing products sourced in the U.S. hold a 6.9 percent share of Korea's import market, making it the third largest source of imports. The Korean plumbing product import market grew at a 5.7 percent compound annual growth rate during 2009 through 2014. The same period saw imports from the U.S. growing at a far higher rate of 22 percent annually.

Top 5 Import Sources and Market Share:

1. China (66.6%)
2. Japan (11.4%)
3. United States (6.9%)
4. Vietnam (2.6%)
5. Germany (2.4%)

Wood Products

The United States is the seventh largest source of wood products in Korea's import market. The country's imports of wood products grew at an 8.3 percent compound annual growth rate during 2009 through 2014, with imports from the U.S. decreasing at a -4.8 percent rate during the same period. U.S. product market share has decreased from 11.3 percent to 5.9 percent during that timeframe.

Top 5 Import Sources and Market Share:

1. China (19.3%)
2. New Zealand (13.6%)
3. Malaysia (9.7%)
4. Canada (7.9%)
5. Vietnam (7%)

Insulation

Korea's imports of insulation saw robust growth at a rate of 18.3 percent during 2009-2014, while imports from the United States showed even stronger growth at 21.8 percent annually during this timeframe. U.S. product import market share

increased to 22.2 percent from its 19.2 percent level in 2009. Imports of products from China have grown dramatically during the same period.

Top 5 Import Sources and Market Share:

1. China (32.1%)
2. United States (22.2%)
3. Japan (13.9%)
4. Malaysia (8.8%)
5. Germany (6.2%)

Windows and Doors

Korea's imports of windows and doors grew at a 5.9 percent compound annual growth rate during 2009 through 2014, and imports of products from the U.S. grew at a like rate of 6 percent annually during the same period. U.S.-sourced products now hold the third largest share of Korea's window and door import market at 14.7 percent.

Top 5 Import Sources and Market Share:

1. China (28%)

2. Norway (20.7%)
3. United States (14.7%)
4. Indonesia (11.3%)
5. United Kingdom (5%)

Glass

Korea's imports of glass from the U.S. decreased at a rate of -2.2 percent annually during the 2009 to 2014 period as did the country's overall glass imports at a rate of -7.5 percent. U.S.-sourced glass imports hold the sixth largest import market share position in Korea.

Top 5 Import Sources and Market Share:

1. Japan (64.2%)
2. China (15.5%)
3. Taiwan (8.0%)
4. Indonesia (2.9%)
5. Saudi Arabia (2.8%)

Resources for U.S. Exporters

Please visit www.export.gov/southkorea for information from U.S. Commercial Service (CS) Korea, including

- Market research
- Trade events
- Trade leads
- Services available to U.S. companies
- Contact information for CS offices in Korea
- Info on subscribing to regular updates or connecting on social media
- Other information to assist U.S. exporters with Korea export market development

¹ Construction In South Korea – Key Trends and Opportunities to 2019, Timetric (2016)

² Korean Ministry of Trade, Industry and Energy

³ APEC Building Codes, Regulations and Standards, APEC Subcommittee on Standards and Conformance (2013)