INVEST KOREA

INVESTMENT
OPPORTUNITIES
IN KOREA

Fashion·Beauty

Contents

* Figures on the report show the likely adjustment of average yearly currency rates from Korean Won (KRW) to the US dollar (USD). A rate adjustment is adopted particularly reflecting the recent average market variations to eliminate the valuation effects arising from movements in exchange rates in case when the data expressed shows an annual growth rate on the paper.

* Rate adjusted figures are rounded off, but the sum is correct down or up to the decimal when the rounded values are not equal to the adjustment.

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01

Fashion

1 Industry Trends

Definition and Characteristics

- (Definition of fashion) The term “fashion” is derived from the Latin word “factio” that refers to an “act” or “action.” In the Korean dictionary, “fashion” is defined as a particular piece of clothing, commodity, etc. that became popular at a particular time.
  - (Fashion in a narrow sense) “Fashion” refers to a trend that clearly stands out in the clothing industry.
  - (Fashion in a broad sense) “Fashion” is used in a broad sense to refer to trends in all fields that are related to people’s lives and become their lifestyles as their quality of living improves..
- (Definition of fashion industry) “Fashion industry” refers to a manufacturing industry related to clothing products , such as finished threads made mainly with fiber, knitted textiles, fabric, dyeing process, clothing, accessories, and subsidiary materials.
  - The fashion industry falls under C14 (clothing, clothing accessory and fur product manufacturing) and MTI 44 (textile products) under the Korean Standard Industrial Classification (KSIC) and the Korea Item Code, respectively.
- (Characteristics of fashion industry) The fashion industry creates added value on a large scale based on fashion designs and brand values.
  - Planning and design-fashion manufacturing (sewing, pattern/sample) - The fashion industry creates high added value by closely cooperating with upstream and downstream industries, such as fashion materials, wholesale and retail, distribution, etc., translating consumers’ tastes into fashion designs and combining brand values.
  - The fashion industry greatly contributes to the creation of jobs in downstream and upstream industries, such as the following: fashion manufacturing industries such as sewing, pattern and sample; knowledge service industries such as design and merchandising; fashion material industry, logistics and distribution industry, etc.

1.1 Market Trends in Korea

Although overseas Specialty retailer of Private label Apparel (SPA) brands increase their market share in Korea, local fashion brands attract more and more customers through the planning of various product lines, high quality compared to the price and marketing strategies that reflect trends, etc.

- Sales of the fashion industry in 2017 were USD 38.6 billion, which increased by 5.7% compared to the previous year.

Sales of Textile Materials and Fashion Products

(Unit: USD 100 million)

Classification	2015	2016	2017
Textile material	233	233	230
Fashion product	365	365	386

Source: Bank of Korea, Business Analysis.
Note: Textile materials and fashion products fall under KSIC C13 and C14, respectively.

Ratio of Sales Cost to Sales in the Fashion Industry

(Unit: %)

Classification	2015	2016	2017
Textile materials	83.2	82.4	82.7
Fashion products	67.1	67.1	67.9

Source: Bank of Korea, Business Analysis.
Note: Textile materials and fashion products fall under KSIC C13 and C14, respectively.

- **In the fashion industry, the number of businesses and employment continue to increase or decrease slightly. However, production in Korea has slightly decreased (in terms of businesses with 10 employees or more).**
  - The following factors—such as the progress of fashion in the Korean market, continuous growth of SPA brands and an increase of export to countries where the Korean wave is popular—have a positive effect on production in Korea. However, as the increase of demand in the Korean market is met not by the products manufactured in Korea but by imported products, the production in Korea has slightly decreased.

Trends in Number of Businesses, Employment and Production in the Fashion Industry

Classification \ Year	2013	2014	2015	2016	2017
Number of businesses	23,806	24,793	25,166	24,937	25,118
Employment (person)	138,344	140,776	140,109	140,013	140,164
Production (USD 100 million)	157	156	149	149	144

Source: 1. (The number of businesses and employment) Statistics Korea, Nationwide business survey (survey materials for businesses with one or more employees).
2. (Production) Statistics Korea, Mining and manufacturing industries survey (survey materials for businesses with 10 or more employees).
Note: The fashion industry falls under KSIC C14 (clothing, clothing accessory and fur product manufacturing industry)

- **Fashion industry exports increased from 2009 to 2013, especially in developing countries such as Vietnam, Myanmar, etc. However, exports have begun to decrease since 2014 as consumer sentiment declined because of global recession.**
  - Trade deficit worsens because the re-importation of products manufactured by businesses that have moved their production bases overseas increases and the import of premium luxury brand clothing increases as well.

Export and Import Trends in the Fashion Industry

(Unit: USD million)

Classification \ Year	2009	2011	2013	2014	2015	2016	2017	2018	2019 Jan.-July
Export	2,503	2,702	3,379	3,556	3,322	3,333	3,275	3,356	1,851
Import	4,060	7,121	8,656	9,714	9,799	10,044	10,818	12,466	6,702

Source: Korea International Trade Association, Trade Statistics (textile product export [MTI 44]).
Note: A fashion industry falls under KSIC C14 (clothing, clothing accessory and fur product manufacturing industries).

- **After a period of stagnation (2014-2017) caused by declining consumer sentiment, etc. because of the global recession, the fashion market in Korea has been growing at a slow pace since 2018.**
  - In 2018, the size of the fashion market in Korea amounted to USD 39.2 billion, which increased by 1.8% compared to that in the previous year when the market experienced negative growth.
    - In light of several variables that have an effect on the fashion economy, it is expected that the size of the fashion market will continue to grow by 2.7% to USD 40.3 billion by 2019, and by 3.1% to USD 41.5 billion by 2020 .
    - It is expected that consumer sentiment will rise in 2020 because of the recovery of the real estate market after a period of recession, and increase in employment, etc. Factors like the rise in import prices caused by fluctuations of the exchange rate, etc. will act as variables.

Size of Fashion Market in Korea by Market Segment

(Unit: USD 100 million, % as compared to the same period in the previous year)

Classification	2017	2018	2019					
			First half		Second half		For a year	
			(Result)	Rate of change	(Outlook)	Rate of change	(Outlook)	Rate of change
Men's clothing	39	38	15	1.5	23	0.3	38	0.8
Women's clothing	29	31	15	△0.8	16	△2.2	31	△1.5
Casual wear	137	140	62	3.5	84	5.4	146	4.6
Sportswear	65	68	26	3.7	44	1.7	69	2.4
Underwear	19	20	9	3.6	13	11.3	22	8.1
Children's wear	11	11	4	2.8	7	5.2	12	4.3
Clothing market	300	308	131	2.8	187	3.5	318	3.2
Shoes	60	58	25	△3.2	33	1.9	58	△0.3
Bags	26	26	10	2.8	17	3.7	27	3.4
Fashion market	386	392	166	1.8	237	3.3	403	2.7

Source: Korea Federation of Textile Industries, KFI Research (Interview survey conducted on 1,400 men and women in 16 si and do in Korea).

- In 2018, the sportswear and women's clothing market led the growth of the fashion industry. However, 2019, the casual wear market led the growth in the said industry.
  - The sportswear industry has been on a downturn over the last two years because of the stagnant outdoor market. However, the sportswear industry was on the brink of growing by 5.1% in 2018 because of the retro-style sports trend and the recovery of consumption by consumers in their 10s and 20s. Furthermore, in 2019, the sportswear industry continued to grow by 2.4%
  - The casual wear market that had grown substantially in the past grew only by 3.8% in 2017 and 2.1% in 2018. However, the casual wear market grew by 4.6% in 2019 because of the expansion of collaboration with the sportswear industry, expansion of the street casual market, etc.
  - The shoe market has been on a downturn since 2016 because of the recession of the shoemaking and sneakers markets. However, the sports shoes market (leather and artificial leather sneakers market accounts for 8.2% of the shoe market) that grew substantially because of the successful sports heritage marketing of global sports brands prevented further decline of the shoe market.

Analysis of the Size and Rate of Change of the Fashion Market by Market Segment

(Unit: USD million)

Market segment	Result in 2017	Rate of change as compared to the previous year	Result in 2018	Rate of change as compared to the previous year	Outlook for 2019	Rate of change as compared to the previous year
Casual wear	13,700	3.8%	13,983	2.1%	14,620	4.6%
Sportswear	6,464	△ 5.4%	6,791	5.1%	6,956	2.4%
Shoes	6,030	3.4%	5,824	△ 3.4%	5,805	△ 0.3%
Men's clothing	3,874	△ 7.0%	3,818	△ 1.4%	3,848	0.8%
Women's clothing	2,909	△ 15.1%	3,128	7.5%	3,080	△ 1.5%
Bag	2,551	6.6%	2,619	2.6%	2,707	3.4%
Underwear	1,948	△ 11.6%	2,006	3.0%	2,168	8.1%
Children's wear	1,122	△ 5.7%	1,109	△ 1.1%	1,157	4.3%
Fashion market	38,598	△ 1.6%	39,278	1.8%	40,341	2.7%

Source: Korea Federation of Textile Industries, KFI Research.

1.2 Industrial Competitiveness

- **(Design and technology capability) In Korea, more than 5,000 designers are produced every year from junior colleges or higher.**
  - New designers take an active part in the international arena and improve their understanding of international trends by participating in overseas fashion week events and showrooms in Paris, New York, Shanghai, Hong Kong, etc.
  - The fashion industry in Korea has a sufficient fashion manufacturing workforce with over 20 years of experience in sewing, pattern, sample, etc. Thus, the fashion industry in Korea can produce luxury fashion clothing that integrates world-class quality control and manufacturing technology.

- **(Balanced production capacity) As all textile fashion streams including upstream, midstream and downstream industries develop in balance, it is possible to reduce purchasing costs.**
  - Fashion businesses are able to secure stable supply of fiber threads and yarns, fabrics and clothing materials required to produce fashion clothing in Korea, which helps reduce costs.

- **(Market creation capability) The fashion clothing market in Korea has continued to grow because of the new Korean Wave led by K-pop since the mid-2000s.**
  - In particular, the Dongdaemun fashion market has established itself as a self-sustainable industrial cluster, and attracts consumers through its capabilities to produce fast fashion items that reflect the latest trends of consumers.
    - It is possible to create a fast fashion market by minimizing the time required for logistics and distribution, and reducing costs with industrial clusters in which the following fashion-related value chains are integrated: purchasing fabrics and subsidiary materials, planning and design, manufacturing prototypes (patterns, samples), garment cutting and sewing and wholesale and retail distribution.

      * As all production, logistics and distribution are completed within a 5 km radius, it is possible to maintain the product price at an affordable level by reducing costs incurred in production, logistics and distribution.
    - Furthermore, it is possible to respond to spot orders quickly and flexibly with self-sustainable industrial integration, close cooperation and trust relationships among manufacturers, wholesalers and retailers.

- **(Opportunity factor) Opportunity factors are as follows: Korean Wave led by K-pop, excellent ICT foundation and technology, and expansion of internal markets in developing countries, etc.**
  - The Korean wave through K-drama and K-pop contributes to the country's fashion industry expanding to the global market, improving Korea's brand image and promoting awareness and preference to Korean-made products.
  - It is expected that it would be possible to develop smart clothing based on the world's best ICT technology and innovate logistics and distribution through Fourth Industrial Revolution technologies such as artificial intelligence (AI), virtual reality (VR) and augmented reality (AR), etc.
  - The following are expected to act as opportunity factors to Korea's fashion industry: difficulty in expanding internal markets and supplying production personnel in developing countries, such as China, etc. and the weakening of price competitiveness because of the increase in wages, etc. in developing countries such as China.

1.3 Promising Fields in Korea

- **The growth of the online shopping market has created the need for fashion businesses to reinforce their online channels.**
  - According to Statistics Korea, the sales of online fashion shopping increased from USD 15.9 billion in 2017 to USD 18.5 billion in 2018. Moreover, the said sales increased in 2019, and the growth is expected to continue in the future.
  - Compared to offline channels, the online channels can lower product prices by saving maintenance costs and release trendy products by quickly responding to customers' reactions. Thus, online channels are particularly appropriate for consumers in their 20s and 30s.

- **Advent of customized Office to Online (O2O) services**

> - Online channels are growing rapidly and offline channels are being specialized through hands-on stores, such as flagship stores, etc. Thus, the trend is to devise a plan to maximize brand identity.
> - It is expected that major fashion brand businesses will operate key stores in main business districts and reinforce online businesses to sell their products on a substantive basis.

  - Customized O2O services connect and unify an offline channel in which consumers can experience a store with an online channel so that they can search and purchase goods conveniently.

- The services increase consumer benefit and sales with omni-channel distribution strategies with which consumers can purchase products at the same price and promotions irrespective of online or offline sales.

  * Omni-channel consumers spend 4% more in a store and 10% more online than single-channel customers do. As the number of channels in use increases, the amount consumed increases in proportion thereto (Harvard Business School).

As technologies such as AI, AR, VR, etc., which are closely related to the Fourth Industrial Revolution, are applied to the fashion industry and have a great effect on the purchasing process of consumers and the production process of businesses.

- A new business model is emerging in which a business supplies consumers with customized services using AI and consumers purchase a product that is recommended by AI from a VR shopping mall after wearing the product in an AR fitting room.
  - Convergence between IT and the fashion industry will have positive impact on resolving the problem of accessibility in offline shopping and the problem of decline in quality satisfaction in online shopping.
  - Customers can enjoy a new shopping experience through AI, VR and AR. Furthermore, businesses can analyze consumers' tastes and create new designs. Thus, businesses can propose an optimal fashion item to customers.
- With AI, fashion businesses can secure a customer base that is loyal to their brand and promote to increase sales. Thus, various fashion businesses can expand their scope of business using AI.
  - More and more IT businesses are entering the fashion industry.

Manufacturers produce customized goods in which personalized demands are reflected through the measurement of customers' size, size data analysis, etc. using IT.

- An era is approaching in which customized goods are produced through 3D scanning, body measurements with 360° scanning, 3D pattern manufacturing and 3D printing. The manufacturing of customized goods is expected to grow substantially through the development of new technology, progress of materials, etc.

  * In 2020, the Compound Annual Growth Rates (CAGR) for 3D scanner, 3D printing and 3D CAD are expected to be 13.3%, 27.6% and 5.8%, respectively (Grand View Research Report).

- The technology to manufacture and distribute clothing with 3D technology converts the fashion industry, which has been a traditional manufacturing industry, into a high value-added industry.
  - As 3D technology transforms a vertical value chain into a radial value chain and causes consumers to intervene in planning, production and distribution, 3D technology will break down the boundary between consumers and producers.
    * If an online drawing is purchased and printed when 3D printing is commercialized, the "social manufacturing industry" is realized in which consumers become producers.
  - A new business model can be created in which values, such as communication, representation, experience, etc., are provided, breaking out from the existing profit models that sell products and services.

Major 3D technologies related to fashion

- (3D scanner) A device that helps acquire and digitalize 3D configuration information of an object and analyze and process the said information in accordance with the intended purposes
- (3D design and pattern manufacturing) Design technology using simulation and 3D pattern manufacturing technology that extracts 2D patterns from 3D the human body or clothing
- (3D printing) A production method that manufactures 3D products by continuously laminating layers based on digital design data
- (3D solution-related virtual technology) Virtual fashion show, virtual clothing with 3D avatars, digital stores with "magic mirrors," and mobile shopping, etc.

Cases in Korea

- Snoopick, which is a curation service business specialized in men's fashion, provides one-on-one, customized and personalized styling service.
  - A customer does not select goods exposed in Snoopick's home page. If a customer provides his or her personal information, such as his/her favorite color, price range, taste, occupation, etc., Snoopick analyzes the customer's profile information and recommends goods for him/her.
- Samsung C&T Corporation attempts to bring AI and the fashion industry together by investing in Alina, an AI-based fashion startup.
  - Alina reflects AI in the process in which a stylist recommends clothing at the request of consumers.
    * If consumers request a stylist to recommend clothes that they could wear for a blind date, the stylist recommends five clothes with AI in consideration of the customers' survey results, previous purchases, etc.

2 Trends of Foreign Direct Investment

2.1 Status of Foreign Direct Investment

- **Foreign direct investments continue flow into the fashion industry, which is susceptible to the effects of the global economy.**
  - Foreign direct investments had continued to flow into the fashion industry in Korea (including textile and fabric) but had slightly slowed down from 2013. However, foreign direct investments in the fashion industry have declined since the end of 2017 because of the decrease in global foreign direct investments.
    - In the past, global fashion businesses used to prefer to have a stronghold in Japan or Hong Kong to enter the Asian market. However, they now prefer to directly enter the Korean market for consumers in China and Korea.

Foreign Investment Trends in the Fashion Industry (Fiber, Textile and Clothing)

(Unit: no. of cases, USD million)

Classification	2011	2012	2013	2014	2015	2016	2017	2018	First half of 2019
Number of reported cases	17	29	16	15	15	13	14	6	4
Reported amount	10	316	51	35	363	72	72	1	3

Source: Ministry of Trade, Industry and Energy, Statistics on Foreign Direct Investments.

  - Foreign investments tend to be concentrated in the distribution of global fashion brands, rather than in clothing manufacturing. In general, global SPA brands, such as UNIQLO, ZARA, etc. make investments through joint ventures.
  - The size of the luxury goods market in Korea grew by 4.6% in 2018 and is now the eight largest luxury goods market in the world.
    - The number of luxury goods businesses is on the rise. In light of the continuous growth of Korea's fashion industry and the country's consumers who are trend-sensitive, these businesses try to directly enter the Korean market after their agreements with Korean distributors are terminated.
    - Such luxury goods businesses directly target consumers in Korea without the intervention of importers or distributors.

      * (Mulberry) Mulberry tries to administer the Korean market on its own initiative by purchasing 40% of the interest in Mulberry Korea from SHK, which import and distribute Mulberry products in Korea, thus securing 100% of the interest in Mulberry Korea.

      * (Givenchy) Givenchy has conducted its business in earnest since 2019 by terminating an agreement with Shinsegae International and establishing Givenchy Korea early in 2019.

      * (Dolce & Gabbana) Dolce & Gabbana established Dolce & Gabbana Korea after terminating an agreement with Shinsegae International.

2.2 Success Cases of Major Foreign-Invested Companies

ZARA Retail Korea

- In 2007, Lotte Shopping decided to establish with ZARA, a global fashion brand, and ZARA Retail Korea, which is a joint venture for opening and operating stores in Korea.
  - At that time, the capital stock of ZARA Retail Korea was USD 590 thousand. Inditex, a Spanish business that co-runs ZARA with Lotte Shopping, took up 80% of the investment at USD 470 thousand, and Lotte invested USD 120 thousand, which accounted for 20%.
- In 2018, the sales and operating profit of ZARA Retail Korea (a corporation that settles its accounts in January) were USD 334 million and USD 150 thousand, respectively, a 3.6% and 43.4% year-over-year increase, respectively. The current net income was USD 120 thousand, a 49.1% increase year-over-year.
  - ZARA Retail Korea has continued to grow since it entered the Korean market in 2007. However, its sales remained sluggish at USD 181 million for a while. It has grown steadily since 2016 in which its sales exceeded USD 272 million for the first time.
    * Sales/operating profit (unit: USD million) by year: (2012) 185/9 → (2013) 206/10 → (2014) 206/-7 → (2015) 264/7 → (2016) 313/23 → (2017) 322/10 → (2018) 334/15
  - ZARA Retail Korea expanded stores by launching not only clothing stores but also ZARA Home, a home furnishing brand, which proved to be a highly effective strategy.

Status of Major Foreign-Invested Companies in Fashion Clothing

Business name	Field	First registration of foreign investment	Representative investing country	Sales in 2018 (Unit: USD million)
FRL Korea (UNIQLO)	Wholesale of Shirt and Outer Wear (46413)	2004	Japan	1,248 (September 2017 - August 2018)
ZARA Retail Korea	Wholesale of Shirt and Outer Wear (46413)	2008	Spain	334 (February 2018 - January 2019)
H&M Hennes & Mauritz Korea	Retail of Shirt and Other Clothes (47416)	2009	Spain	226 (December 2017 - November 2018)
Gucci Korea (LLC)	Wholesale of Non-Specialized Goods (46800)	1998	Netherland	220 (2013)
Burberry Korea	Wholesale of Shirt and Outer Wear (46413)	2002	United Kingdom	238 (April 2014 - March 2019)

Source: Ministry of Trade, Industry and Energy, Data Analysis, Retrieval and Transfer System of the Financial Supervisory Service.

JD Sports Fashion Korea

- JD Sports, which is a multi-brand shop in the UK, launched JD Sports Fashion Korea in April 2018. JD Sports Fashion Korea reached USD 90 million in sales within one year from its launching.

3 Policy and Locations

3.1 Government Policies and Incentives

- Compared to other manufacturing industries, the fashion industry creates more employment and higher added value. The industry establishes a balanced foundation for the whole streams, which is the only case among advanced nations in terms of manufacturing. Furthermore, Korea establishes and enforces various policies that utilize the said foundation.

Establishment of the "Plan to Invigorate the Dongdaemun Fashion Market" to turn Dongdaemun into a global fashion hub

- To invigorate the Dongdaemun fashion market, the Ministry of Trade, Industry and Energy and the Seoul Metropolitan Government plan to promote the following: create and lead a new industry for personalized and customized clothing, digitalize the Dongdaemun ecosystem and create a Dongdaemun playground that integrates culture and tourism.
  - It is expected that this plan will expand startups led by young adults and high-quality jobs, increase the consumption of materials produced in Korea and help the Dongdaemun fashion market emerge as a fashion hub in Northeast Asia through a change in its ecosystem.

  ① (Creation of high-quality jobs) Convert low-priced clothes sewing (market sewing) businesses into high-quality customized sewing businesses, create more jobs for aged workers in the sewing industry and increase the inflow of young workforce

  ② (Expansion of startups headed by young adults) Recruit new creative designers and create various distribution and marketing startups through customized design and short design cycles

  ③ (Increase consumption of Korean-made materials) Increase the sales of materials produced in Korea (Daegu, the northern region of Gyeonggi-do, etc.), develop new products by a 24-hour lead time and increase demand for high-quality fabrics

  ④ (Change in Dongdaemun ecosystem) Improve the existing wholesaler-centered structure of the Dongdaemun ecosystem to develop a structure in which design, manufacturing and distribution are linked through digitalization and cooperation thereof is invigorated.

Dongdaemun Fashion Market

- The Dongdaemun Fashion Market accounts for 17% (USD 13.6 billion) of the sales of textile fashion in Korea as the country's largest fashion clothing cluster in which production and distribution of fashion clothing are integrated.
- The market accounts for 21% (USD 3 billion) of Korea's textile fashion exports, 11% (25,000 businesses) of the number of businesses and 26% (180 thousand employees) of employment. Furthermore, its daily floating population is about 1 million people (the 2nd most preferred place for visitors)
- It became an innovative startup incubator* and a region in which fabrics produced in Korea are consumed the most (consumes 20% of fabrics produced in Daegu and the northern region of Gyeonggi-do). Moreover, it became a major supplier of wholesale and retail clothing nationwide (USD 1 billion/day)

* A total of 3,000 IT startups (known as "Dongtart-up") have emerged based on the Dongdaemun fashion market

Project to reinforce innovative capability in textiles and clothing

- Purpose of the project
  - Through the project, the government seeks to reinforce textile businesses' innovative capability by developing smart textile manufacturing process technologies for improved manufacturing competitiveness and developing convergent products with other industries.
- Fields eligible for support
  - (Smart manufacturing system) Develop technologies for smart manufacturing systems and processes so that textile manufacturing businesses in Korea can benefit from market competitiveness in terms of price, productivity, quality, etc.
  - (Convergent textile products) Prepare to dominate a market of promising industries in advance by developing technologies with which the textile industry can converge with other industries, such as IT, transportation, etc.

Training of more human resources who can manufacture high-quality clothing and support for startups headed by young adults in the fashion industry.

- The project is aimed at promoting the inflow of new workforce by providing training in advanced clothing manufacturing technologies, and training more advanced clothing manufacturing technicians through on-the-job training at selected companies.
- The project also supports trainees who complete the advanced training courses with outstanding results, by providing them with office spaces and equipment free of charge, and offering a continuous stream of work (fashion manufacturing micro-factory).

Support for overseas marketing

- The plan involves employing fashion experts overseas as marketing directors (MDs), expanding textile fashion exhibitions in Korea,* and holding events that connect the Korean Wave and K-Fashion, etc.

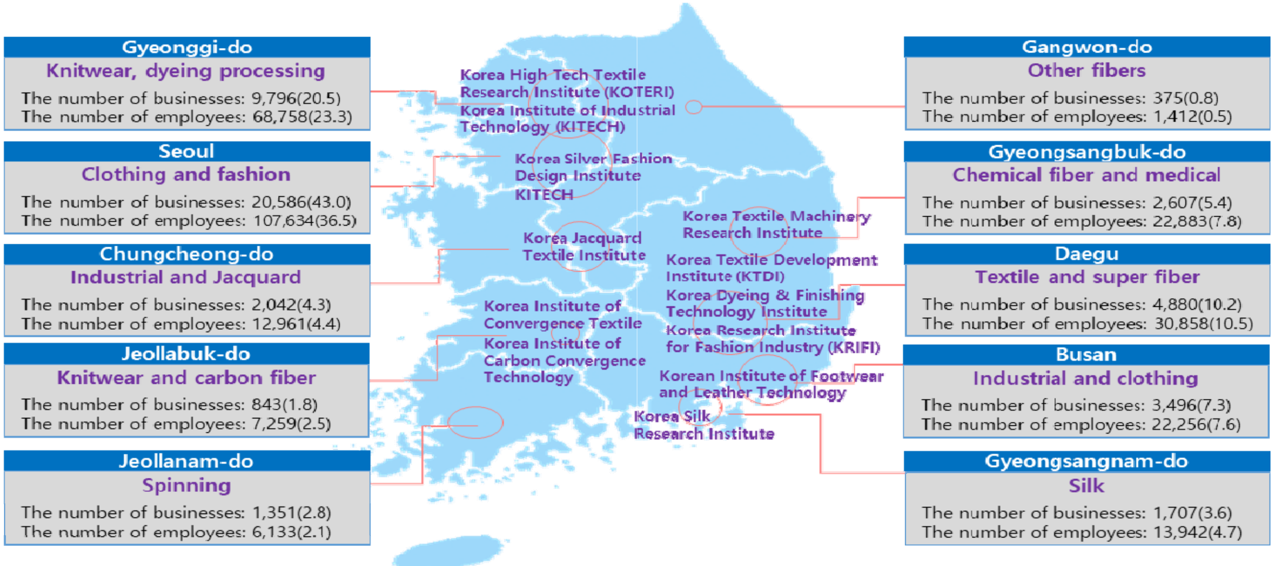
  * The number of textile fashion exhibitions held in Korea: (2018) 14 times → (2019) 16 times

3.2 Major Locations

- **The Seoul Capital Area is the largest gathering place for several fashion businesses that lead trends and distribution and has the largest consumption market. Furthermore, each region produces its unique items.**
  - (Knitwear industry) Concentrated in the northern region of Gyeonggi-do and Jeollabuk-do
    - The northern region of Gyeonggi-do is the world's largest area for knitwear production and accounts for about 90% of knitwear production in the country.
    - The world's only short-term (within one week) production and delivery system has been developed in the northern region of Gyeonggi-do. Moreover, this region has all production processes from thread and yarn to post-processing as well as the industrial foundation favorable to the development and commercialization of new products.
    - Jeollabuk-do is the foundation for various streams from the filature and spinning industry to the sewing and clothing manufacturing industry, focusing on underwear made with natural fibers and clothing for children and infants.
  - Businesses that develop household fibers, such as fashion using Jacquard*, home interior products, etc. are concentrated in Chungcheongnam-do.

    * Fabrics on which a pattern is woven using threads with various colors
  - In Busan, large-scale clothing brand businesses, such as Parkland, Indian, Kolping, GREENJOY, etc. operate sewing factories with automation facilities. Original equipment manufacturer (OEM) businesses are located within a 50 km radius from Busan Metropolitan City.
    - Busan has harbors and an international airport, which enable the region to quickly absorb international trends. Busan also offers the benefit of high logistics competitiveness and rapid adaptation to changes in international demands.
  - Daegu and Gyeongsangbuk-do are Korea's largest center for textiles and synthetic fibers. Both conduct various joint R&D with businesses based on various research infrastructure and actively invest in the development of new technology and products.
  - Gyeongsangnam-do and Jinju area account for 80% of the silk production in Korea and 70% or more of the Korean silk market.
    - Gyeongsangnam-do and Jinju area convert the silk production industry from an industry with a focus on demand in Korea to an industry with a focus on exports by converting from OEM to direct production in the original design manufacturer, and expand their products to high-sensitive materials with various uses.

Main Production Items and Businesses by Region



Source: "National Statistics Portal" nationwide business survey by the Statistics Korea (survey materials for businesses with one or more employees)

4 Potential Partners

4.1 List of Related Companies

List of companies in the fashion clothing industry

Business name	Main item	Website	Location
Namyeung Vivien	Women's lingerie	www.namyeung.co.kr	Yongsan-gu, Seoul
BYC Co., Ltd.	Undershirt, lingerie, T-shirt	www.byc.co.kr	Jeonju-si, Jeollabuk-do
Beaucre Merchandizing	Women's clothing	www.ibeaucre.co.kr/	Geumcheon-gu, Seoul
Eland Group	Children's wear, casual wear, SPA	www.elandretail.com	Mapo-gu, Seoul
LF Group	Ready-made clothes and fashion accessories	www.lfcorp.com	Gangnam-gu, Seoul
Samsung C&T Fashion Division	Casual wear, men's wear	samsungcnt.com	Seocho-gu, Seoul
Kolon Industries	Outdoor wear, golf, women's clothing, etc.	kolonindustries.com	Gwacheon-si, Gyeonggi-do
FRL Korea	Wholesale and retail of casual wear	www.uniqlo.com	Jung-gu, Seoul
Adidas Korea	Sports clothing	www.adidas.co.kr	Seocho-gu, Seoul

Business name	Main item	Website	Location
Hyungji Group	Women's casual wear	www.hyungji.co.kr	Gangnam-gu, Seoul
Nike Korea	Sports clothing	www.nike.co.kr	Gangnam-gu, Seoul
Sejung Group	Men's/women's wear, outdoor, sports clothing	www.sejung.co.kr	Geumjeong-gu, Busan
Shinsung Tongsang	Men's casual wear, Men's suits, SPA	www.ssts.co.kr	Gangdong-gu, Seoul
Descente Korea	Sports clothing, golf wear	www.descentekorea.co.kr	Gangnam-gu, Seoul
K2 Korea	Outdoor	www.k2.co.kr	Seongdong-gu, Seoul
Blackyak	Outdoor	www.blackyak.com	Seocho-gu, Seoul
Parkland	Men's clothing	www.parkland.co.kr	Geumjeong-gu, Busan
Sungoo D&D	Casual wear	www.sungjoogroup.com	Gangnam-gu, Seoul
LS Networks	Sports clothing	www.lsnetworks.co.kr	Yongsan-gu, Seoul
Youngone Outdoor	Outdoor	www.yooutdoor.co.kr	Changwon-si, Gyeongsangnam-do
Fila Korea	Sports clothing	www.fila.co.kr/	Seocho-gu, Seoul
ZARA Retail Korea	SPA	www.zara.com/kr	Gangnam-gu, Seoul
Shinwon	Women's suits	www.sw.co.kr	Mapo-gu, Seoul
MK Trend	Casual wear	www.mktrend.co.kr	Gangnam-gu, Seoul
Millet	Outdoor, trekking clothes	www.millet.co.kr	Mapo-gu, Seoul
Aioli	Women's casual wear, women's suits	www.aioli.co.kr	Gangnam-gu, Seoul
Baba Fashion	Women's suits	www.babafashion.com	Seocho-gu, Seoul
Giordano	Casual wear	www.giordano.co.kr	Seocho-gu, Seoul
Handsome	Women's clothing	www.handsome.co.kr	Gangnam-gu, Seoul
YK 038	Women's clothing	www.yk038.co.kr	Seocho-gu, Seoul
GSGM	Casual wear	www.gsgm.co.kr	Gangnam-gu, Seoul
Biltmore	Men's suits	www.ibiltmore.com	Gangdong-gu, Seoul
The Basic House	Casual wear, children's wear	www.basichouse.co.kr	Gangnam-gu, Seoul
Demoo	Women's clothing	www.demoo.com	Gangnam-gu, Seoul
Valencia	Women's clothing	www.valencia.co.kr	Seongdong-gu, Seoul
Chatelaine	Women's clothing	www.chatelaine.co.kr	Gangnam-gu, Seoul
Agabang Company	Children's wear	www.agabangncompany.com	Gangnam-gu, Seoul

List of companies in the textile material industry

Company name	Main item	Website	Location
Hyosung Co., Ltd.	Filament yarn	www.hyosung.co.kr	Mapo-gu, Seoul
Huvis Co., Ltd.	PSF	www.huvis.com	Gangnam-gu, Seoul
Taekwang Industry Co., Ltd.	Spandex, nylon fabric	www.taekwang.co.kr	Jung-gu, Seoul
TK Chemical Co., Ltd.	PF, DTY, spandex	www.tkchemi.co.kr	Buk-gu, Daegu-si
Seong-An Synthetics Co., Ltd.	Polyester long fiber	www.sasyn.co.kr	Gumi-si, Gyeongsangbuk-do
Daenong Co., Ltd.	Cotton modal, tencel, modal	www.daenong21.com	Cheongju-si, Chungcheongbuk-do
SG Choongbang Co., Ltd.	Cotton yarn, blended yarn	www.sgchoongbang.com	Seongnam-si, Gyeonggi-do
Daehan Synthetic Fiber Co., Ltd.	Polyester	www.daehansf.co.kr	Nam-gu, Ulsan-si
Samyang Corporation	Polyester high-strength yarn	www.samtangcorp.com	Jongno-gu, Seoul
KP Chemtech Co., Ltd.	Nylon yarn	www.kpchemtech.co.kr	Nam-gu, Ulsan-si
Torey Chemicals	Polyester long and short fiber	www.toray-tck.com	Gumi-si, Gyeongsangbuk-do
Samheung Co., Ltd.	PP long fiber	www.maxlon.co.kr	Pocheon-si, Gyeonggi-do
Shinwon Synthetic Fiber	Polyester DTY	www.chewon.co.kr	Gumi-si, Gyeongsangbuk-do
Dongil Corporation	Cotton yarn, cotton fabric, etc.	www.dong-il.com	Gangnam-gu, Seoul
Jayeong Co., Ltd.	Worsted wool, carded wool, pure wool and blended spinning	www.daewon.co.kr	Cheongju-si, Chungcheongbuk-do
Taihan Textile Co., Ltd.	Cotton fabric, knitwear fabric, yarn, etc.	www.thtc.co.kr/	Yeongdeungpo-gu, Seoul
Seong-An Co., Ltd.	Polyester fabric	www.startex.co.kr	Buk-gu, Daegu
Duckwoo Corporation	Polyester fabric	www.duckwoo.kr	Chilgok-gun, Gyeongsangbuk-do
TCK Textile Co., Ltd.	Two-way stretch (PET, NYLON etc)	www.tcktextiles.com	Gumi-si, Gyeongsangbuk-do
Ulhwa Co., Ltd.	Fabric for chador	www.peacetex.co.kr	Gumi-si, Gyeongsangbuk-do
Chonbang Co., Ltd.	Pure cotton fabric, cotton blend fabric	www.chonbang.co.kr	Seodaemun-gu, Seoul
Jeongsan International Co., Ltd.	Laminated fabric	www.jeongsan.com	Gangseo-gu, Busan
Sinhanbang Co., Ltd.	Circular knitting	www.sinhan.net	Guro-gu, Seoul
Ducksan Enterprise Co., Ltd.	Knitwear fabric with napping side	www.ducksanbj.co.kr	Pocheon-si, Gyeonggi-do
Saechang Commercial Co., Ltd.	Wrap knitting	www.saechang.co.kr	Icheon-si, Gyeonggi-do

Company name	Main item	Website	Location
Mogae Textile Co., Ltd.	Polyester knitting	www.mogaetextile.com	Saha-gu, Busan
Young Shin Textile Co., Ltd.	Fabric dyeing and processing	www.youngst.com	Yangju-si, Gyeonggi-do
Bomyung Industry Co., Ltd.	Poly blended spinning products/printing products	www.bomyung.co.kr	Ansan-si, Gyeonggi-do
Hyundai Textile Co., Ltd.	Worsted yarn and carded yarn products	www.hyundaitex.co.kr	Yangsan-si, Gyeongsangnam-do
Aztech WB	100% wool fabric dyeing	www.aztechwb.co.kr	Saha-gu, Busan
Special Print Co., Ltd.	Print	www.specialprint.co.kr	Siheung-si, Gyeonggi-do
Bukwang Co., Ltd.	Mesh material	www.bukwang.com	Saha-gu, Busan
Sunggwang	Polyester material fabric	www.sunggwang.co.kr	Jung-gu, Seoul
Seong-An	Polyester high-twist yarn	www.startex.co.kr	Songpa-gu, Seoul
Pucheon	Warp knitting and circular knitting	www.pucheon.co.kr	Gangnam-gu, Seoul
Vision Land	Natural fiber, metallic yarn	www.visionland.co.kr	Gangbuk-gu, Seoul
Youngpoong Filltex	Skin plus processing	www.filltex.com	Guro-gu, Seoul
Ducksan Enterprise	Outdoor/casual wear knitwear material	www.ducksanbj.co.kr	Seongdong-gu, Seoul
Shin Heung	Soft fiber union cloth	www.monotex.co.kr	Gangnam-gu, Seoul
Alpha Fabrics	Cotton nylon union cloth	www.alphafabric.co.kr	Gangnam-gu, Seoul
Young Textile	Union cloth weaving	www.youngtex.com	Gangnam-gu, Seoul

4.2 Related Associations & Organizations

List of major cooperation associations related to the fashion industry

Name of institution	Website	Main role
Korea Federation of Textile Industries	www.kofoti.or.kr	Promote growth and development of the textile industry by formulating a plan to reinforce the competitiveness of the textile industry
Korea Chemical Fibers Association	www.kcfa.or.kr	Develop chemical fiber technology, improve quality and productivity and reinforce international competitiveness
Korea Textile Trade Association	www.textra.or.kr	Promote sound development of the trading of fiber and textile and the enhancement of common interest among member companies
Spinners & Weavers Association of Korea	www.swak.org	Expand demand for cotton spinning products, purchase components and materials in group, preserve facilities in group, investigate industry trends at home and abroad and provide materials and data
KDTI	www.textopia.or.kr	Support businesses in Korea to prepare for a change in trend and improve the competitiveness of the fiber industry through R&D

Name of institution	Website	Main role
Korea Fashion Industry Association	www.kaia.or.kr	Develop an overseas market for the clothing and fashion export industry, promote export goods overseas, investigate an overseas market, propose to the government, etc.
KRIFI	www.krifi.re.kr	Strengthen capability, R&D and business support of the fashion industry
Korea Knitwear Cooperation Association	www.knit.or.kr	Support the knitwear industry to reinforce its competitiveness
Korea Institute of Convergence Textile	www.knitcenter.re.kr	Support R&D, prototype production, fashion and design development, marketing and startup of small- and medium-size businesses for the development of the knitwear industry
Korea Textile Machinery Association	www.kotma.org	Support development of a foundation system for cooperative research, such as core material development, automation system development, etc. and R&D of small- and medium-sized textile machinery businesses
Korea Textile Machinery Convergence Research Institute	www.kotmi.re.kr	Develop textile and machinery industry infrastructure and accomplish the technology independence of the textile machinery and core component
KOTITI Testing & Research Institute	www.kotiti.re.kr	Conduct test and analysis, quality test, R&D, etc. on fabric product, environmental hygiene, industrial material, etc.
KOTERI	www.koteri.re.kr	Develop advanced core technology, train experts in specialized production and function, support to manufacture prototypes, analyze and supply technical information, etc.
DYETEC Institute	www.dyetec.or.kr	Develop advanced processing technology and secure original technology in the dyeing and processing field and support R&D closely related to businesses
FITI Testing & Research Institute	www.fiti.re.kr	Provide comprehensive consulting, such as test, inspection, certification, examination, training, etc. focusing on fashion clothing and consumable fields
Korea Apparel Testing & Research Institute	www.katri.re.kr	Test, inspect and certify fabric and fashion testing fields
Korea Research Institute for Fashion and Distribution Information	www.cft.or.kr	Collect, analyze and distribute international color information, systematically accumulate various data on design, lifestyle, etc. and provide key information necessary to develop products
Korea Garment Industry Cooperative	www.uniform.or.kr	Sell and purchase in group for the garment industry, provide support, develop a new product, propose to the government, etc.

INVESTMENT
OPPORTUNITIES
IN KOREA

02

Beauty

1 Industry Trends

Definition and Classification

- (Definition) Cosmetics are items which are applied, rubbed, sprayed or used in other similar ways on the human body to enhance one's attractive qualities by cleansing and beautifying the human body, brightening the appearance, or improving the condition of hair and skin, while having mild effects on the human body (KFDA).
  - Cosmetics are distinguished from pharmaceuticals or quasi-drugs in that a clear therapeutic effect cannot be expected of the former in a short period of time. The Republic of Korea (Korea) enacted the Cosmetics Act in 1999 to distinguish pharmaceuticals and cosmetics.
- (Classification) Currently, the functional cosmetics category includes products applicable to hair dye, hair removal, acne, hair loss prevention, and atopy. Cosmetics also include cosmetic soap, hair filler power, and hair removal wax.

1.1 Market Trends in Korea

Overview of market

- Korea's cosmetics market has been steadily growing, reaching eighth or ninth in size in the global market, and has been transforming from a domestic market-oriented to an export-oriented industry since 2010.

Korea's Cosmetics Market Size and Global Market Share

(Unit: USD billion, %)

Country name	2015		2016		2017 (E)		2018 (E)	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Korea	10.4	3.0	10.9	3.0	11.5	3.0	12.1	2.9

Source: Korea Health Industry Development Institute (2018)

- Korea's cosmetics-related industry has grown steadily, with the numbers of cosmetics manufacturers and brand holders increasing every year.
  - The number of manufacturers with production facilities increased at a compound annual rate of 13% in the past five years, reaching 2,367 in August 2019.
  - The brand holders, in charge of brand authority and distribution, are in the spotlight thanks to the recent growth of K-beauty exports.
  - In particular, due to factors such as the production of original equipment manufacturer (OEM) products, entry barriers for large corporations and SMEs are relatively low compared to other industries, with the compound annual growth rate (CAGR) reaching 27% in the past five years and the number of brand holders exceeding 14,000 in August 2019.

Overview of Cosmetics Companies

(As of Aug. 12, 2019, unit: No. of business)

Classification	2015	2016	2017	2018	2019	CAGR
Manufacturer	1,455	1,655	1,877	2,179	2,367	12.9% ('15~'19)
Brand holder	5,403	7,210	9,394	12,106	14,070	27.0% ('15~'19)

Source: Ministry of Food and Drug Safety (2019)

- Korea's cosmetics production increased by more than 14% thanks to the continuous expansion in exports and the rapid growth of the domestic market.
  - As for K-Beauty, which has grown based on the development of basic cosmetics, production of basic cosmetics has the largest share of the total at over 56%, followed by color cosmetics and hair products.

Production Trends of Cosmetics Industry

(Unit: USD billion, %)

	2014	2015	2016	2017	2018	CAGR
Cosmetics production	8.2	9.8	11.9	12.3	14.1	14.6('14~'18)

Source: Ministry of Food and Drug Safety (2018), Production data by year

- Korea has been posting a high CAGR of 28.6% in cosmetics thanks to the Korean Wave such as K-Beauty but its cosmetics imports have been decreasing due to domestic recession, resulting in Korea transitioning from a cosmetics importer to a net exporter in 2014.
  - Korea's CAGR of cosmetics exports was 35.2% for the past five years, ranking first among the world's major cosmetics-exporting countries. In recent years, exports to the U.S., Europe, and ASEAN regions, as well as China, Hong Kong and Taiwan, have been a major factor for growth.

Cosmetics Import and Export Trends

(Unit: USD million, %)

Year	Export		Import		Trade balance
	Export amount	Year-on-year growth	Import amount	Year-on-year growth	
2014년	1,873	52.2	1,386	8.7	487
2015년	2,910	55.3	1,397	0.8	1,513
2016년	4,183	43.7	1,433	2.6	2,750
2017년	4,952	18.4	1,523	6.3	3,429
2018년	6,263	26.7	1,615	5.5	4,648

Source: Korea Customs Service, Foundation of Korea Cosmetic Industry Institute (based on Korea's cosmetics classification criteria, 2018)

Note: Compound annual growth rate (CAGR) over the past five years (2014-2018) – Export: 35.2% / Import: 3.9%)

Market trends

- (Expansion of functional cosmetics market) The growth of functional cosmetics that have hybrid characteristics between medicine and cosmetics is remarkable. Complex-function cosmetics show the highest share (14.7%) and growth trend, and single-function products show a slight decline.
  - In the production data for products related to hair dye, hair loss, acne, hair removal, and atopy newly added to the functional cosmetics category in 2017, hair dyes accounted for 1.4% of the total in 2018, followed by hair loss-related products at 1.1%, with the others showing insignificant shares.
- (Changes in cosmetics distribution trends) As for the recent distribution trends in the cosmetics industry, single-brand shops centering on offline stores have seen a decrease in sales. At the same time, the offline market is being restructured with the focus on specialty multi-brand cosmetics shops and H&B (Health and Beauty) stores, dealing in various brands, with the support of young consumers.
  - Olive Young is Korea's largest H&B store, and Watsons, a drug store chain, has strengthened its skin-care category with a store brand called Lalavla. Meanwhile, CHICOR secured its competitiveness by specializing in the color cosmetics category, and in October 2019, Sephora, a global cosmetics distribution chain, opened its online and offline stores.
  - As the online and mobile markets continue to grow explosively, the same goes for the products and platforms that are tailored to consumers from their teens to their 30s, who are the main customers of these distribution channels.
  - The development and introduction of various mobile payment systems serve as catalysts for market growth.
  - Aekyung, L&P Cosmetic and Carver Korea are focusing on entering the overseas market with "hit products" that have grown through home shopping channels. Recently, there have been a number of hit products which first became popular in duty-free shops and overseas markets as well.

1.2 Industrial Competitiveness

World market share

- The global market for cosmetics was worth USD 408.8 billion in 2018, up 5.9% over the previous year. (Source: Euromonitor Beauty and Personal Care Data, 2018)
  - By country, the U.S. occupied 18.9% of the total, followed by China at 12.4%, Japan at 8.4%, Brazil at 6.9%, Germany at 3.9%, the UK at 3.8% and France at 3.1%. Korea ranked 8th with 2.9%.

- The Korean cosmetics market has grown at a compound annual rate of 34.8% since 2014, leading to an increase in its share of the global market.
  * Korean cosmetics' global market ranking: 10th (2014) → 9th (2017) → 8th (2018)

Cosmetics Export by Country (2014 to 2018)

(Unit: USD thousand, %)

Ranking	Country	Export amount					CAGR (2014-2018)
		2014	2015	2016	2017	2018	
1	France	14,816,607	12,951,571	13,212,297	15,162,672	16,881,744	3.3%
2	U.S.	9,005,262	9,152,411	9,285,810	9,935,240	10,516,994	4.0%
3	Germany	9,049,037	7,883,344	8,078,082	8,520,813	9,346,556	0.8%
4	Singapore	3,385,433	3,381,847	3,994,998	5,190,548	6,712,688	18.7%
5	Korea	1,901,801	2,938,060	4,204,127	4,974,619	6,285,391	34.8%
6	Italy	4,095,474	3,928,384	4,489,307	5,013,152	5,498,122	7.6%
7	Japan	1,548,014	1,860,350	2,682,113	3,668,412	5,201,097	35.4%
8	UK	5,069,962	4,472,852	4,446,148	4,625,347	4,704,285	-1.9%

Source: International Trade Centre (ITC) (2019)
Note: Cosmetics export, by country. Based on domestic cosmetics classification criteria.

- In 2018, Korea became the world's fifth largest cosmetics exporter after France, the U.S., Germany and Singapore based on the amount of exports.
  - Excluding Singapore, which mainly deals with brokerage rather than manufacturing of cosmetics, Korea is regarded as one of the top four cosmetics exporters.
  - Among the major cosmetics exporting countries, Korea shows an overwhelming growth rate along with Japan, and aims to become No. 3 by early 2020 according to export trends in the next 2-3 years.

Technology and product development

- Recently, Korean cosmetics technology has been regarded as being near world-class, thanks to product innovation by leading companies as well as investment in the development of manufacturing technology by OEM/ODM companies.
  - Korea's original development manufacturers (ODMs) such as Kolmar Korea and Cosmax are also rapidly growing based on the increase in the global cosmetics brands' orders for Korean ODMs, development of global market-leading products, growth of the Chinese local markets and their increased orders for Korean products.

- K-Beauty is leading the development of technology and products in the global market of basic cosmetics and sheet mask products. Furthermore, its technology is recognized worldwide for its major products such as BB cream and cushion pacts, leading to an increase in the production of global brand products in addition to domestic brand ones.
- Cushion foundation products are recognized for their technology, e.g., Christian Dior of France entered into a technical alliance agreement with AMOREPACIFIC for the development and production of its products.

- Korean cosmetics companies' increasing efforts to develop raw materials.
  - Currently, large corporations such as SK Group actively participate in developing cosmetics ingredients, and continue to invest in developing new raw materials related to whitening and wrinkle reduction or in developing Korean natural extracts.
  - In its own laboratory, AMOREPACIFIC has developed MelaSolv, Kozo extract, oil-soluble licorice extract, seletinoid, white Chrysanthellum indicum extract, Saururus chinensis extract and Hedyotis diffusa extract as whitening-function raw materials, and had them listed as whitening ingredients by the KFDA.
  - Cosmax has developed core cosmetics ingredients in its own laboratory, recently discovering the world's first microbiome related to aging and securing its own technology for manufacturing titanium oxide and zinc oxide.
  - Kolmar Korea has developed its own zinc oxide ingredients that can replace grain-fermented ingredients and titanium dioxide powder.
- Global hit products include skin-care products and color cosmetics such as BB cream, CC cream and foundation cushion.
  - K-Beauty's main products include skin-care products such as sleeping masks and sheet masks, accounting for more than 50% of all items.
  - Color cosmetics such as BB cream, CC cream and cushion foundation are also export items representing K-Beauty.
- Increased influence as a test bed for the development of global brand products
  - Global luxury brands such as CHANEL and GIORGIO ARMANI are utilizing the Korean market as a test bed by releasing their new products for the first time in Korea.
  - Nineteen major global luxury brands including L'Occitane, SK-II, La Prairie, La Mer and TOM FORD are selling exclusive items in Korea's duty-free shops.
  - This is because the Korean market is evaluated to be highly expandable to other markets considering Chinese tourists.

- World's No. 1 men's beauty market
  - Korea's influence is even greater in the men's cosmetics market. According to Euromonitor, Korea was ranked the world's No. 1 in 2018, spending USD 1.09 billion on men's cosmetics.
  - Biotherm Homme (global No. 1 men's skin-care brand) and SK-II MEN are at the forefront of the development and launching of new products in Korea.

1.3 Promising Fields in Korea

- Trends for natural products
  - The demand for natural cosmetics continues to expand because of consumers' concerns about product safety.
  - Standards on natural and organic Korean cosmetics are in place, thus enabling legal distribution of the products.
- Expansion in demand for efficacy and effect
  - (Cosmeceutical) With the concept of therapeutic effects added through the use of ingredients aimed at drug development, cosmeceutical products are drawing attention as being items which create a promising market, with pharmaceutical and bio companies entering the cosmetics market.
  - (Custom cosmetics) Regulations on the manufacturing and sales of products tailored to the condition and characteristics of one's skin have been established and are being enforced. Also, related services by major companies and consumers' interest are expected to increase in the future.
  - (Microbiome) This is classified as a promising field along with research on aging skin, and major Korean companies have been leading the development of related products.
- Development of raw cosmetic materials
  - (Nano-materials) Among the major raw cosmetic materials imported to Korea, nano-materials are difficult to procure domestically, for which the production of related raw materials and the development of technology is expected to accelerate.
  - (Korean-origin raw materials) After the Nagoya Protocol* was entered into force, the demand for Korean-origin (new) raw materials has been increasing, bringing about the urgent development of Korean raw materials to boost exports.

    * Nagoya Protocol: International agreement signed in Nagoya, Japan in 2010 for the preservation of biodiversity and sustainable use, in which a country researching or developing a product by use of another country's genetic resource shall provide the country of origin with the benefit thereof.

- (Alternative raw materials for functional cosmetics) Investment is expected to increase in the development of nature-derived or more effective ingredients to replace the existing major raw materials related to whitening and wrinkle reduction functions.

2 Trends of Foreign Direct Investment

2.1 Status of Foreign Direct Investment

- Increase in direct investment by global companies
  - Overseas investors are becoming more and more interested in the growth of unlisted stocks and companies. For example, HAVE&BE continued to grow after Estée Lauder acquired a 33.3% stake in it in 2015.
    Unilever, a global cosmetics company, acquired Carver Korea for about USD 2.6 billion in 2016, while L'Oréal, a global company, acquired Stylenanda for approximately USD 540 million in 2018 to expand sales in Korea and China.
  - Other foreign companies continue to make direct investments.

Overview of Major Foreign Companies' Investment in Korea

Country	Parent company name	Domestic company name	Location	Production items	No. of employees in Korea
Italy	INTERCOS GROUP	Shinsegae International	Osan, Gyeonggi-do	Cosmetics	131 (As of December 2018)
Singapore	ARDMORE MEDICAL GROUP	Thuringen Korea	Daegu	Cosmetics, filler	32 (As of July 2019)
China	Anjung Fashion Group	Zero to Seven	Seoul/China	Cosmetics	242 (As of June 2019)
Switzerland	Credit Switzerland (CS)	L&P Cosmetic	Seoul	Cosmetics	250 (As of April 2019)
U.S.	Estée Lauder	HAVE&BE	Seoul	Cosmetics	411 (As of December 2018)
Netherlands	Unilever	Carver Korea	Seoul	Cosmetics	240 (As of April 2019)
France	L'Oréal	Nanda	Seoul	Fashion, cosmetics	300 (As of April 2018)
Japan	Kolmar Japan	Kolmar Korea	Seoul/Sejong	Cosmetics, pharmaceuticals	1,178 (As of June 2019)

Source: Press releases

2.2 Success Cases of Major Foreign-Invested Companies

Kolmar Korea

- Korea KM Co., Ltd., incorporated as a joint venture with Kolmar Japan on May 15, 1990, had its name changed to the current one in December 1990, and was registered as a foreign-invested company in January 1991.
  - Enhancing its technology through a joint venture with Kolmar Japan and investing about 6% of sales in research and development (R&D) every year, it achieved a world-class level of technology through continuous technology sharing with the U.S. and Japanese production bases.
- After its OEM production stabilized to an extent, Kolmar Korea moved away from being just a subcontractor and began manufacturing cosmetics on an original development manufacturing (ODM) basis.
  - It is evaluated as competitive in R&D, planning and design.
  - With its main business composed of cosmetics and pharmaceuticals, it supplies cosmetics to more than 160 leading Korean and overseas companies, including LG Household & Health Care, Johnson & Johnson (U.S.) and Herbalife (U.S.).

Shinsegae-Intercos Korea

- Incorporated in August 2014, Intercos Korea Co., Ltd. changed the registered name to Shinsegae Intercos Korea Co., Ltd. after negotiations for a joint venture in 2015. Then, the joint venture built a factory.
  - Italy's INTERCOS GROUP, a 40-year-old OEM company, provides product development and technology, while Shinsegae International maximizes support for distribution and marketing, laying the foundation for competitiveness in the global market in the near future, as well as in the Korean market.
  - After building a factory in Osan, Gyeonggi-do in 2017, it launched full-scale operations such as in-house production and R&D.
- It leads the color cosmetics market based on sales through distribution channels in Korea.
  - It conducts stable product supply and sales by centering on the CHICOR channel initially launched in 2016.
  - It is deemed to emphasize color cosmetics, in contrast to the existing K-Beauty companies and brands centered on skin care.
  - By launching lip product-centered color cosmetics brands such as VIDIVICI, WOODBURY and AMUSE, it seeks to appeal to various consumers and overseas markets.

Stylenanda

- Stylenanda, originally an apparel brand, entered the overseas market after launching the cosmetics brand 3CE (3 Concept Eyes) in 2009.
  - It began to distribute cosmetics in full swing after establishing a cosmetics division and entering into a contract for Cosmax production.
- It entered major Korean and overseas shopping malls, and the Chinese market.
  - Starting with the Korean, Japanese, and Taiwanese markets in 2013, it then entered Singapore and China.
- It diversified its distribution network in the Korean and Chinese markets after the acquisition of 3CE by L'Oréal, a global corporation.
  - In 2018, L'Oréal, the global No.1 cosmetics company, acquired a 100% stake in Nanda Co., Ltd. which operates Stylenanda.
  - Future sales growth is expected as a result of brand localization and promotion through differentiated, country-by-country marketing strategies.

HAVE&BE

- After launching the brand Dr.Jart +, it seeks to enter the overseas market.
  - It fully entered the U.S. market after product registration with the FDA in 2009, and began to sell products in drug stores in Japan.
  - Its sales in the overseas market such as China are picking up, and its unique designs and product concepts are popular with consumers in the U.S. market.
- Its export sales expanded, and its international competitiveness showed a marked improvement after the acquisition of interest by Estée Lauder.
  - It won the USD 10 million Export Award in 2013, the USD 30 million Export Award in 2017, and the USD 50 million Export Award in 2018. The total sales also showed a trend of solid increase, from USD 320 million in 2017 to USD 430 million in 2018.
  - Since Estée Lauder, a global cosmetics company, acquired a 33.3% interest in HAVE&BE in 2015, it has shown a clear rise in ranks, e.g., being selected by WWD as among the world's top 100 beauty companies – 92nd in 2016, 71st in 2017 and 62nd in 2018.

3 Policy and location

3.1 Government Policies and Incentives

Comprehensive Development Plan for the Cosmetics Industry

- (Purpose) Focusing on the cosmetics industry as a major future export industry by designating it as part of the national project
  - Achieving USD 11.9 billion in the cosmetics export and 60,000 jobs in the cosmetics industry by 2022 and establishing a vision to become one of the world's top powerhouse countries in cosmetics
- Four goals and eleven strategies
  - (Goal No. 1, R&D) Developing promising technologies by applying dermatology (skin science) and utilizing the leading technologies of the Fourth Industrial Revolution
  - (Goal No. 2, Foundation) Building a systematic support and development system for the cosmetics industry
  - (Goal No. 3, Export promotion) Diversifying exports by supporting the development of potential export markets for Korean cosmetics
  - (Goal No. 4, System improvement) Promoting the cosmetics industry through rational improvement of cosmetics regulations
  - (11 execution strategies) Applied research in skin science, development of common cosmetics technology, development of future technology, establishment of a cosmetics control tower, cultivation of professional human resources, construction of corporate resource infrastructure, support of overseas market entry, support of K-cosmetics brands, improvement of raw materials and packaging regulations, operation of the cosmetics industry promotion committee, and enactment of the Cosmetics Industry Promotion Act.

Since March 2016, "Customized Cosmetics Sales," a pilot project representing a new form of cosmetics sales, has been implemented.

- (Background) In response to the needs of consumers who value individuality and diversity, a new sales method by which cosmetics stores sell cosmetics by blending manufactured or imported cosmetics has been introduced.
- (Description) Clarifying the concept of "custom cosmetics," and preparing institutionalization plans through safety check and inspection.
- (Applicability) Manufacturer/seller-operated shops, duty-free cosmetics shops and cosmetics shops in the 30 special tourist zones nationwide (Myeong-dong, Jeju-do, etc.)

- (Applicable products) Custom cosmetics to be sold include four fragrance products such as perfume and cologne, ten basic cosmetic products such as lotion and cream and eight color cosmetic products such as lipstick. These are available for sale by mixing with existing cosmetics or by mixing materials with existing cosmetics, in the store.

Introducing regulation-free zones for the cosmetics industry

- (Concept) Selecting zones where free enterprise activities are guaranteed as a result of eliminating core regulations in connection with the regional strategic projects of local governments. (Among 27 strategic projects, two were designated for each of the 14 local governments and Chungcheongbuk-do, a local government, was designated as the center of the cosmetics industry.
- (Purpose) Regulations other than what are minimum and necessary are completely or partially eliminated to ensure free enterprise activities of the corporate tenants.
- (Ease of regulation) Easing the obligation to register manufacturing/manufacturing and sales businesses, easing the obligation to report production data and raw materials list, expanding the claim for functionality review, easing the obligation of labeling, and easing the obligation to hire manufacturing and sales managers, etc.
- (Management) Safety and quality of cosmetics are assured and managed jointly by the KFDA and the relevant local government.

Applicable laws for entry into the industry

- Cosmetics Act: Prescribing matters concerning the manufacture, import and sale of cosmetics
- Chemical Substances Control Act (K-REACH)
  - It aims to protect the lives and property of the people or environment from chemical substances by preventing risks posed by such substances to public health and the environment, by proper control measures and prompt response to accidents.
- Act on Registration, Evaluation, Etc. of Chemical Substances (effective January 1, 2015)
  - It aims to protect public health and the environment by prescribing the matters regarding the registration of chemical substances, the review and assessment of hazards and risks of chemical substances and hazardous chemical substances, the designation of hazardous chemical substances, and by producing and utilizing information on chemical substances.
- Other cosmetics regulations
  - Regulations on Demonstration of Contents of Labeling and Advertisements (Revised in 2019)

- Regulation on Examination of Functional Cosmetics (Revised in 2019)
- Regulation on Cosmetics Safety Information Management
- Standards on Manufacturing and Managing of Good Cosmetics
- Enforcement of Price Indication of Cosmetics
- Regulation on Reporting of Cosmetics Production/Import Results and Raw Materials List
- Regulation on Registration, Etc. of Responsible Cosmetics Distribution Business (Revised in 2019)
- Designation of Certification Body for Natural and Organic Cosmetics (Introduced in 2019) (Newly established in 2019)

3.2 Major Locations

Overview of major locations of cosmetics industry

- The main cluster for the cosmetics industry in Korea is the capital area where the market and distribution infrastructure are concentrated, accounting for 57.9% of the cosmetics businesses and 57.1% of the cosmetics workers nationwide (Statistics Korea, 2018).
  - In the capital area, Gyeonggi-do has the largest number of cosmetics businesses and workers (36.2% and 38.1%, respectively).
  - In 2014, Gyeonggi-do had the largest number (675) of cosmetics manufacturers and, in 2017, the number increased to 1,003; however, the rate of increase was the highest in Gwangju during the same period.
  - Recently, the central government and local governments (e.g., Jeju-do, Chungcheongbuk-do and Gyeongsangbuk-do) have been promoting regional cosmetics specialization projects to attract a growing number of cosmetics companies, resulting in the expansion of cosmetics businesses nationwide.

Overview of clusters

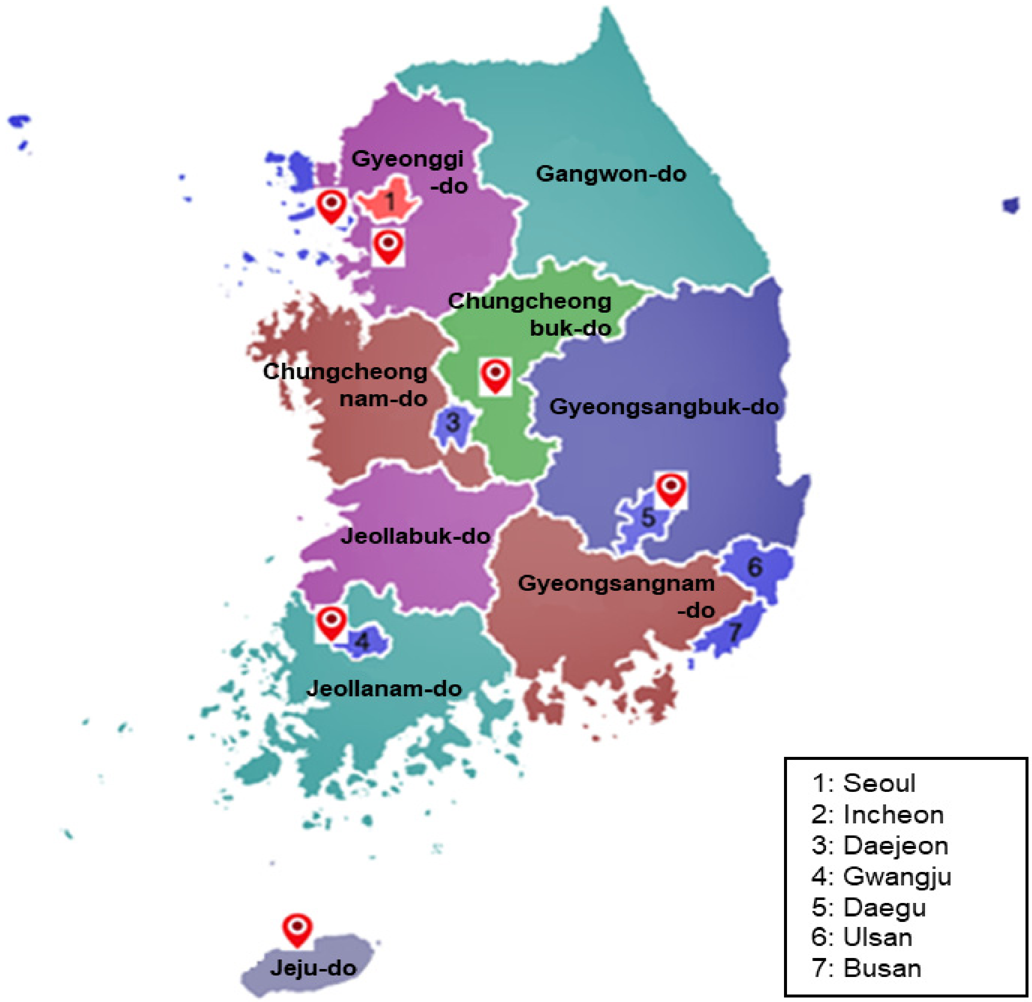
- The survey of nine local governments (seven upper-level local governments and two lower-level local governments) shows active support for the industry in the four cities and provinces of Chungcheongbuk-do, Jeju-do, Gyeongsan-si (Gyeongsangbuk-do) and Gyeonggi-do.

Support of Regional Cosmetics Industrial Clusters in Korea

Classification	Major projects	Note
Gyeonggi-do (Osan Gajang Industrial Complex)	- Holding a beauty expo - Creating a beauty & cosmetics valley	- Focusing on infrastructure (e.g., cosmetics valley and expo)
2. Incheon (Incheon Namdong Industrial Complex)	- Creating "beauty city" image - Consulting and education for beauty service business	- Focusing on the beauty service industry (hair styling) - Focusing on infrastructure (e.g., beauty cluster) and export support
3. Chungcheongbuk-do (Osong Cosmetics Industrial Complex)	- Holding the Osong cosmetics & beauty expo - Building a global cosmeceutical and cosmetics promotion center - Creating the Osong Bio Valley	- Holding a global-level expo - Creating a systematic industrial complex and developing convergence industry - Constructing cosmetics industry-related infrastructure, developing human resource and supporting marketing activities.
4. Jeju-do (Jeju National Innovation Cluster for Cosmetics & Foods - under promotion)	- Activating cosmetics cluster - Operating a certification system for natural cosmetics - Building a cosmetics hub city	- Creating a cosmetics valley - Supporting the perfume industry and natural raw material development - Constructing infrastructure (e.g., laying foundation for industry development), export support, brand marketing activities, etc.
5. Daegu (Daegu Haany University Cosmetics Specialty Complex)	- Holding the Daegu Beauty Expo - Promotion of beauty tour and beauty center	- Focusing on the fashion and hair beauty industry - Focusing on infrastructure such as beauty center
6. Gwangju (Gwangju National Industrial Complex for Advanced Science)	- Creating a beauty street - Consulting, and academy operation	- Promoting the beauty industry - Focusing on infrastructures
7. Daejeon (Daejeon Industrial Complex)	- Planning to hold a beauty festival	- Focusing on research park - Constructing infrastructure
8. Gyeongsangbuk-do (Gyeongsan Cosmetics Specialty Complex)	- Supporting overseas market entry - Cosmetics industry networking project	- Constructing infrastructure such as cosmetics complex, and supporting export/marketing - Project to support product R&D
9. Jeollabuk-do (Namwon Cosmetics Cluster Complex)	- Creating an eco-friendly cluster and eco-friendly cosmetics manufacturing facility - Creating herb valley and holding herb festival	- Creating eco-friendly themes and cluster - Constructing infrastructure to promote eco-friendly cosmetics

Source: Foundation of Korea Cosmetic Industry Institute (2018)

Locations of Major Cosmetics Industrial Clusters in Korea



4 Potential Partners

4.1 List of Related Companies

List of Major Companies in the Cosmetics Industry

Company name	Main items	Website	Location
AMOREPACIFIC	Cosmetics and beauty products	www.amorepacific.com	Jung-gu, Seoul
LG Household & Health Care	Cosmetics and beauty products	www.lgcare.co.kr	Jongno-gu, Seoul
THE FACE SHOP	Cosmetics and beauty products	www.thefaceshop.com	Jongno-gu, Seoul
Innisfree Co., Ltd.	Cosmetics and beauty products	www.innisfree.co.kr	Yongsan-gu, Seoul
Kolmar Korea	Cosmetics OEM / Pharmaceuticals	www.kolmar.co.kr	Seocho-gu, Seoul
Aekyung Industrial Co., Ltd.	Cosmetics and beauty products	www.aekyung.co.kr	Guro-gu, Seoul
Able C&C	Cosmetics and beauty products	www.able-cnc.co.kr	Geumcheon-gu, Seoul
CJ Olive Networks Co., Ltd.	Cosmetics distribution	www.cjolivenetworks.co.kr	Seongnam, Gyeonggi-do
Atomy	Cosmetics and beauty products	www.atomy.kr	Gongju, Chungcheongnam-do
Nu Skin Korea	Cosmetics and beauty products	www.nuskinkorea.co.kr	Gangnam-gu, Seoul
Etude House	Cosmetics and beauty products	www.etude.co.kr	Jung-gu, Seoul
Nature Republic	Cosmetics and beauty products	www.naturerepublic.com	Gangnam-gu, Seoul
Cosmax	Cosmetics OEM	www.cosmax.com	Seongnam, Gyeonggi-do
Its Hanbul Co., Ltd.	Cosmetics and beauty products	www.itshanbul.com	Gangnam-gu, Seoul
Tony Moly	Cosmetics and beauty products	www.etonymoly.com	Seocho-gu, Seoul
Skin Food	Cosmetics and beauty products	www.theskinfood.co.kr	Seocho-gu, Seoul
Shinsegae Intercos Korea	Cosmetics and beauty products / Cosmetics distribution	www.shinsegaeintercos.com	Seongnam, Gyeonggi-do
HAVE&BE	Cosmetics and beauty products	https://haveandbe.recruiter.co.kr/appsite/company/index	Gangnam-gu, Seoul
Cosmecca Korea	Cosmetics OEM	www.cosmecca.com	Eumseong, Chungcheongbuk-do

List of Cosmetics Distributors

Classification	Company name	Website	Location
Department store	Lotte	www.lotte.com	Jung-gu, Seoul
	Shinsegae	www.shinsegae.com	Jung-gu, Seoul
	Hyundai	www.ehyundai.com	Gangnam-gu, Seoul
Supermarket	E-mart	www.emartcompany.com	Seongdong-gu, Seoul
	Homeplus	corporate.homeplus.co.kr	Gangseo-gu, Seoul
	Lotte Mart	company.lottemart.com	Songpa-gu, Seoul
Shopping center	Save Zone	www.savezone.co.kr	Nowon-gu, Seoul
	Central City	/www.centralcityseoul.co.kr	Jung-gu, Seoul
	Times Square	www.timessquare.co.kr	Yeongdeungpo-gu, Seoul
	IFC Mall	www.ifcmallseoul.com	Yeongdeungpo-gu, Seoul
	Garden Five	www.garden5.com	Songpa-gu, Seoul
	Techno Mart	www.tm21.com	Gwangjin-gu, Seoul
H&B store	Olive Young	www.oliveyoung.co.kr	Yongsan-gu, Seoul
	Lalavla	lalavla.gsretail.com	Gangnam-gu, Seoul
	boots	https://www.boots.com/beauty	Jung-gu, Seoul
	LOHBs	lohbs.co.kr	Songpa-gu, Seoul
	Chicor	chicor.com	Jung-gu, Seoul
Open market	G-Market	www.gmarket.co.kr	Gangnam-gu, Seoul
	Auction	www.auction.co.kr	Gangnam-gu, Seoul
	11th Street	www.11st.co.kr	Seongnam, Gyeonggi-do
	Interpark	www.interpark.com	Gangnam-gu, Seoul

Classification	Company name	Website	Location
Social commerce	Wemakeprice	www.wemakeprice.com	Gangnam-gu, Seoul
	Coupang	www.coupang.com	Gangnam-gu, Seoul
	Timon	www.ticketmonster.co.kr	Gangnam-gu, Seoul
General shopping mall	GS SHOP	www.gsshop.com	Yeongdeungpo-gu, Seoul
	Lotte.com	www.lotte.com	Jung-gu, Seoul
	CJmall	www.cjmall.com	Seocho-gu, Seoul
	Hyundai Hmall	www.hyundaihmall.com	Gangdong-gu, Seoul
	Shinsegae Mall	shinsegaemall.ssg.com	Jung-gu, Seoul
	AK Mall	www.akmall.com	Seongnam, Gyeonggi-do
	Home&Shopping	www.hnsmall.com	Mapo-gu, Seoul

4.2 Related Associations

Major Associations and Organizations Related to the Cosmetics Industry

Name	Website	Major Role
Foundation of Korea Cosmetic Industry Institute	www.kcii.re.kr	Supporting the survey of the overseas cosmetics industry, research on cosmetics safety, R&D on raw cosmetic materials and products, inspection of cosmetics quality, and cultivation of professional workforce in order to enhance international competitiveness of the cosmetics industry and improve public health.
Korean Cosmetic Association	www.kcia.or.kr	Supporting the survey and research for the development of the cosmetics industry, improvement of laws and regulations, and cultivation of cosmetics-related technology and international competitiveness.
Korea Health Industry Development Institute	www.khidi.or.kr	Professionally and systematically performing support projects to promote and improve the health industry and improve health services, thereby enhancing international competitiveness of the health industry and supporting the improvement of public health.

KOTRA 20-014

Investment Opportunities in Korea
Fashion & Beauty

Publisher	KOTRA	**Writer**	Investment Public Relations Team, KOTRA
Date of Publication	Jan. 2020	**Reference**	Korea Federation of Textile Industries
Contact information (Call)	(82-2) 1600-7119		www.kofoti.or.kr (Lim, Sung Chae)
Official website	www.kotra.or.kr		Korea Cosmetic Industry Institute
	www.investkorea.org		www.kcii.re.kr (Sohn, Seongmin)
Copyright ⓒ 2020 by KOTRA. All rights reserved.		**ISBN**	979-11-6490-159-3 (95320)