



Seoul Searching

SOUTH KOREA IS OFFERING INVESTMENT PROSPECTS IN ABUNDANCE. MARK MOBIUS TRAVELS THE COUNTRY TO SEE THE LIE OF THE LAND



BRIGHT LIGHTS

FROM TOP

Seoul at night;
the ski resort of
Alpensia at
Pyeongchang,
built for the 2018
Winter Olympics

THE SOUTH KOREAN ECONOMY AND stock market has been doing well in recent years. Although GDP fell in 2009 to less than 1 per cent due to the sub-prime crisis, there was a dramatic recovery in 2010 to more than 6 per cent and, in 2011, the expectation that growth would moderate to about 4 per cent. The Korean won, like other emerging market currencies, has been strengthening against the US dollar, while the Korean stock market index has almost tripled from the sub-prime lows of late 2008 and early 2009.

Unlike some other countries, the Korean government and central bank have been disciplined on the monetary front and have restricted money supply. In order to head off inflation, the central bank has also raised interest rates. Korea's government budget is in surplus, the trade balance is positive, the current account is positive and foreign reserves now stand at more than US\$300 billion.

I arrive at the old but beautifully refurbished Gimpo Airport and head for Seoul's Westin Hotel. The next day, we head for Busan on the *KTX*, a high-speed train that travels at 300 kilometres per hour and has cut the journey to two

hours and 40 minutes – 20 years ago it took a whole day. The 412 kilometre corridor between Seoul and Busan accounts for 66 per cent of the whole country's passenger rail traffic and serves 71 per cent of the population. Modelled on France's Trains à Grande Vitesse (TGV), the US\$16 billion line was a pleasure to ride.

Once back in Seoul, we take a 90-minute drive on a modern eight-lane highway towards Korea's east coast through the mountainous Gangwon Province bordering North Korea. The east coast of Korea is a fascinating place and, until recently, largely ignored by Koreans and foreigners alike.

In an effort to attract tourism and money to the area, the government built a casino, the only one open to Koreans. It is extremely popular. All other casinos in Korea are restricted to foreigners. We had visited Gangwon Province previously to meet executives of the listed company Gangwon Land, operator of that casino and resort in the mountains. There are also a number of other attractions, such as a golf course, ski slopes, a subterranean virtual-reality theme park and acrobatic shows.

Next, we head for the ski resort of *Alpensia* at Pyeongchang, which was built for the 2018

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Winter Olympics. Although the Koreans lost the 2014 Winter Olympics to Russia, they are definitely ready for 2018 with this first-class resort, complete with five slopes, a huge ski jump, three hotels (InterContinental, Holiday Inn & Suites and Holiday Inn), a first-class spa and a massive indoor and outdoor water park.

After checking into the InterContinental, we stop at Jeongdongjin and are shocked to see a massive ship perched on a cliff overlooking the ocean. It is the Sun Cruise Resort, built like a luxury ocean liner. The views from the hotel are superb and we enjoy coffee at the revolving restaurant on the top deck. Surrounding the hotel is an array of sculptures, while glass-bottomed cliff-side stairways offer a thrilling look at the crashing surf hundreds of metres below.

In Seoul, our company visits reflect the changing Korean business environment, with the move to higher value-added products and technology.

Retailing and distribution have transformed with the rise of home-shopping. At one firm, 70 per cent of sales came from TV shopping, 19 per cent from the internet and 9 per cent from catalogue sales. The competition for favourite cable TV channels is heating up among home-shopping companies, as well as new multi-channel providers. Korea now has more than 100 cable TV operators. Between 1996 and 2002 sales growth was very good, moving at more than 100 per cent compounded per year. But since 2003, sales have slowed down and a 2004 credit-card bubble and crash in Korea hit the industry hard. Since 2007, however, operating profit growth has accelerated due to sales of insurance policies on the internet and TV.

Korea has one of the world's leading shipbuilding industries, and large shipbuilding companies are benefiting from the boom in offshore oil-drilling production rigs, as well as sophisticated liquefied natural gas (LNG) carriers. LNG demand from Japan and Korea is increasing and South American countries are announcing huge investment plans for LNG terminals. Qatar exports LNG to China and Korea and is buying Korean ships to carry the LNG. In the oil exploration and development area Korean yards are building highly sophisticated drill ships that can go down to 4 kilometres and can drill down 10 kilometres beneath the seabed.

Korean construction and engineering firms are also active globally. One leading firm has a



diversified business portfolio ranging from housing to overseas chemical plants, architectural services and civil engineering for road, bridges and other such facilities. This firm had projects in Uzbekistan, Vietnam, Indonesia, Egypt and Algeria. These less-developed countries were attractive since they required financing that the Korean companies were able to develop through various equipment providers and government banks.

In the domestic housing arena, the market in Seoul is down in recent years, but better in other cities and provincial areas – one firm was able to sell 700 units of small-to medium-sized apartments in Busan within three days. Real demand, as opposed to speculative demand, is for apartments such as these. From 2010, construction companies provided discounts on larger apartments, which began to attract demand. The Korean government is trying to ease the property market by supplying low- and mid-end apartments, reducing or removing tax on multi-home owners and deregulating the redevelopment market to increase the number of new apartments.

Korea's auto industry is large and has nurtured an equally successful auto parts industry. One firm not only makes original parts for Korean automobile manufacturers, but also has a large and profitable replacement-parts business. It is now developing parts for electric vehicles and electronics for automatic drive monitoring. The firm's largest overseas factory is in China, which has already supplied more than one million auto modules.

Auto manufacturers need steel, so Korean firms have developed technology for producing steel more efficiently to overcome the disadvantage of not having raw materials at home. Recent price volatility in iron ore and coking coals imported from Australia and Brazil has created difficulties. In addition, they are subject to competition from Japanese and Chinese imports, but the stronger Korean won is more attractive to importers.

Korean companies are targeting more specialised and higher value-added products, such as electric car batteries and batteries for notebook computers. A firm, which produces both prismatic batteries for mobile phones as well as polymer batteries for smartphones, is expanding overseas, starting with a plant in the state of Michigan to supply batteries to GM and Ford. That firm is also building a plastics factory in Kazakhstan in a joint venture with the Kazakhstan government.

I'll have to increase my visits to South Korea to learn more about the many new investment opportunities. ■



SHIPSHAPE

FROM TOP
Mark Mobius at the Sun Cruise Resort; giant hand sculptures at Jeongdongjin