Korean Aviation Industry on a Precipice
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FOCUS
08 South Korean Oil Refining Companies Facing Triple Whammy

NATIONAL
10 CNN Reports N.K. Leader Kim Jong-un ‘in Grave Danger after Surgery’ U.S. President Rejects South Korea’s Defense Cost Offer
11 South Korea’s Ruling Camp Secures Full Control of National Assembly Gangneung- Jejin Railway Section to be Restored
12 U.S. Embassy in Seoul Suspends Visa Issuance South Korean Government Tightens Entry Restrictions
13 S. Korea, China Agree on ‘Fast Track’ for Business People Number of Travelers to and from S. Korea Plunges 92% in March
14 Foreign Direct Investment in Korea Plunges 18 percent amid COVID-19 Crisis South Korea’s Foreign Exchange Reserves Show Substantial Decrease
15 More Foreign Currency Liquidity to be Supplied in Forex Swap Market Effects of U.S.-Korea Currency Swap Likely to Be Short-lived
16 Moody’s Maintains South Korea’s Credit Rating and Outlook S&P Maintains Sovereign Credit Rating and Outlook for South Korea
17 S. Korean Economy Contracts 1.4% on Quarter in Q1, Worst in Decade Deflation Looming Large in South Korean Economy
18 South Korean Government Announces 50-Tril.-Won-Plus Financing Package South Korea’s Fiscal Soundness Worst in Decade
19 South Korea’s Government Bond Issue Hits All-time High in Q1 Korean Government Working on Largest Supplementary Budget
20 S. Korean Government to Raise 40 Tril. Won to Assist 7 Key Industries S. Korean Government to Set up New SPV to Buy More CBs and CPs
21 Reshoring from China Becoming Increasingly Important after Coronavirus Shock South Korean Government Still Passive in Promoting Reshoring

COVER STORY
22 South Korean Airlines on the Edge of a Precipice

MONEY
28 BOK Keeps Benchmark Interest Rate Frozen at 0.75% BOK’s Foreign Currency Asset Management Profit Totals 11.8 Trl. Won in 2019
29 Banks’ Demand for U.S. Dollars Falls Short of Supply Foreign Currency Deposits Increase Substantially
30 Banks Advised to Prepare for Completely New Post-COVID-19 Paradigms Bank of Korea to Provide Loans to Securities Firms with Corporate Bonds as Collateral
31 Corporate Bond Market Working Well Despite Concerns By Yoon Young-sil over Crisis Corporate Bond Issuance Market Showing Tendency of Polarization
32 The Amount of Outstanding Bonds Hits Record High of 2,100 Trl. Won Dividend Payment Likely to Lead to Current Account Deficit
33 Shinhan Bank Considering Selling Part of Its Stake in Shinhan Bank China South Korean Banks Focusing on Myanmar’s Growth Potential
34 USAO and NYSDFS Imposes US$86 Mil. Fine on IBK FSS Makes Issue of Internal Control of J.P. Morgan Securities Seoul
35 6 Financial Groups Required to Disclose Governance and Internal Transactions from September 30% Market Cap Limit Abolished

ICT
42 R&D Investments by Korean ICT Companies Top 40 Tril. Won in 2018
43 Samsung Electronics in Talks with Chinese Government to Dispatch Engineers to Xian Chip Plant LG Display Planning to Dispatch Officials to OLED Factory in Guangzhou Through a Charter Flight
44 SK Telecom Accounts for 44.7% of 5G Market in Korea with 2.22 Mil. Users
45 South Korea Comes in First in 5G Penetration Rate
46 First Exception to Network Separation Expected to Accelerate Fintech Innovation Netflix Refuses to Pay Network Fees
47 Samsung Electronics Enhances Chip Production Efficiency Through Process Improvement
48 Samsung Cooperating with Rival Companies to Achieves No. 1 in System Semiconductors Samsung Electronics to Expand Signage and Foundry Businesses
49 COVID-19 Disrupts Samsung’s Plan to Mass Produce EUV-based 5-nm Semiconductors Samsung Electronics Ranks 1st in U.S. Patent Registrations for 3 Years Running
50 China Becoming Increasingly Aggressive in Semiconductor Industry
51 Samsung and LG Facing Patent Litigation in the United States KT Leading Quantum Communication Technology Standardization Efforts
52 SKT Pushing for International Standardization of 5G MEC Interworking Technology
SK Telecom's Quantum Key Distribution Technology Approved as International Standard
53 LG Uplus Exports 5G VR Content to PCCW Group in Hong Kong
Despite U.S. Pressures, More Countries Approve Use of Huawei 5G Equipment
54 OLED Display Panel Sales Forecast to Enjoy Double-Digit Growth This Year
World Demand for Displays Forecast to Drop 10% Due to COVID-19
55 LG Electronics Takes Lead in Narrowing Price Gap between OLED TVs and LCD TVs
LG Electronics Makes Investment in AI and Platform Startups at Home and Abroad

INDUSTRY
56 Samsung Electronics, LG Electronics, Hyundai Motor Shut down Plants in U.S. and Europe
57 Korean Companies’ Overseas Factory Shutdowns to Continue until May
58 Domestic Carmakers Suffer Sharp Drop in Exports due to COVID-19
Auto Production and Exports Increase in March
59 Hyundai Motor Allowed to Export Hydrogen Fuel Cell Systems to U.S. and EU
Environment Ministry Sets Quota for Low-Emission Vehicles at 15% of Annual Sales
60 India’s Mahindra Group Scratches Off
Support Plan for SsangYong Motor
61 Renault Samsung and GM Korea Exploring Ways to Overcome COVID-19 Crisis
62 Three Korean Battery Makers to Continue Massive Investment in 2020
63 U.S. ITC to Review Default Judgment against SK Innovation
Battery Companies and Automakers Racing to Develop All-solid-state Batteries
64 Korea’s Share of Global Shipbuilding Orders Plunges to 4%
Qatar Signs Deal for First of 120 LNG Newbuilding Slots with Chinese Shipbuilder
65 Korea and Japan Fail to Iron Out Differences over Hyundai Heavy Industries-DSME Merger
66 Korean Steelmakers’ Overseas Plants Shut Down Due to COVID-19 Spread
Korean Steelmakers Driven to Reduce Production
67 Government to Provide 1.25 Tril. Won in Emergency Funds to Shipping Companies
HMM Raises 720 Bil. Won by Issuing Convertible Bonds

IR & MANAGEMENT
68 Both FKTU and KCTU Focusing on Unions in Samsung Groups
Conglomerate Owners Increasing Stock Donation and Repurchase
69 Hyosung Group to Build World’s Largest Liquefied Hydrogen Plant
Doosan Heavy Industries & Construction to Restructure Itself
60 Chung Eui-sun Elected as Chairperson of Hyundai Motor Co.’s Board of Directors
Hanjin Group Chairman Cho Reappointed as Inside Director of Hanjin KAL
71 Shin Dong-bin Takes Full Control of Lotte’s Operations in Korea and Japan
Brotherly Feud Reignited at Lotte Group

SME & STARTUP
72 Government to Prepare 81 Venture Funds This Year
73 Startups and Venture Firms Valued over 100 Bil. Won Increase 5 Times in 4 Years
9 out of 10 Auto Parts Makers Say They Have Liquidity Problems

EVENT
74 BIO KOREA 2020 to Go Fully Digital with e-Conference, Online Meeting, and Virtual Exhibition from May 18 to 23
75 Egg Drop Supports Production of tvN’s Thursday Special Drama

SCIENCE & TECHNOLOGY
76 Korean Researchers Develop World’s First Skyrmion-based Artificial Synapse Component
ETRI and SK Telecom Develop Ultra-low-power AI Semiconductor
77 KAIST Develops Technology for AI-based High-resolution Image Creation
Innovative Encryption Algorithm Developed in South Korea
78 UNIST Enhances Quantum Dot Solar Cell Efficiency to 11.53%
Korean Researchers Analyze RNA Transcript of Coronavirus for First Time in World
79 KETI Develops High-performance Immunodiagnostics Reader for Rapid Diagnosis Kit
Advanced Algorithm Developed for Age and Gender Prediction

LIFESTYLE
80 ‘Cheong Kwan Jang Red Ginseng
Extract Every Time’ Surpasses 200 Million Bags in Total Sales
Nongshim Launches Jjapaguri
81 Smart Farming Emerging as Innovative Solution
Samsung Launches Wellness Apps on Its Smart TV Platform
Innovative Solution
82 YouTube Dominating South Korea’s OTT Market
Netflix under Fire for Undermining OTT Ecosystem in Korea
TO OUR READERS

Awful Things Lie Ahead of South Korea

The conservative party of South Korea suffered a crushing defeat at the April 15 general elections. As a result of the elections, the Moon Jae-in administration came to dominate the executive, judicial and legislative branches for the first time since the democratization in 1987 to complete a single huge power.

For the past three years, the left-wing administration concentrated on extending its power only by winning the general elections. During the period, the government came up with a series of policies to serve the political purpose with national interests and the future of the nation neglected. The examples include income-led growth, excessive minimum wage adjustment, excessive working hour reduction, nuclear phase-out, delayed labor reform, corporate banking and anti-market regulations.

The policies have led to dire consequences. The administration has been busy misleading the public, instead of fixing what is wrong, in the face of more than enough evidences of side and adverse effects. It has blamed the others and lied over and over. In addition, it has created fake jobs by pouring taxpayers’ money and tampered with economic indices and figures.

Its economic failure should have led to its defeat at the elections. However, voters were blind by the outbreak of COVID-19, and the ruling forces’ spending to take advantage of the situation determined the winner and the loser.

In the end, the casting vote was exercised by those who chased the government’s disaster relief money, one million won at best, while refusing to hold those in power responsible. The Moon Jae-in administration’s strategy of holding out until the elections resulted in a paradoxical success, taking advantage of the pandemic.

The defeat of the conservative party resulted from its failure in terms of reality check, too. The party remained obsessed with cold war and anti-communism paradigms, which are no longer valid.

Under the circumstances, the ruling party is not planning to change its policy direction. Despite worsening economic indices, it is focusing on nothing but the 2022 presidential election to retain its power. The repercussions of the pandemic, however, will reveal the government’s incompetence and irresponsibility rather than covering up its failure.

The financial resources of the government are already running out and large-scale government bond issuance is likely to continue. The government’s soaring debts cannot but lead to a lower sovereign credit rating and a bigger economic crisis. The voters who produced the result of the recent elections will have to face a new experience in which populism prevails with what is wrong not fixed at all.
South Korean oil refining companies face a triple whammy of falling oil prices, a drop in the value of the Korean currency against the U.S. dollar and the heightening operation rate of Chinese refining facilities. In particular, South Korean oil refining companies are facing the worst situation in which the price of gasoline is lower than the price of crude oil in spite of a drop in international crude oil price. In addition, they are staying alert with the operation of oil refining facilities in China speeding up.

In March, the average per-barrel price of Dubai crude oil was US$29.01 whereas the price of gasoline as a processed product was US$27.98. In the last week of January this year, the international gasoline price per barrel had been about US$10 higher than the per-barrel price of Dubai crude oil. However, the former dropped more than US$40 last month and this month. With the global gasoline demand plummeting, more gasoline sale currently means more losses.

The oil refining margin, which was as high as US$10.1 in September last year, has dropped to below those companies’ break-even point of US$5. In March, the margin reached negative US$1.9 per barrel, falling back to less than zero in about three months.

As oil refiners have been pushed to the edge of a cliff with negative refining margins, a conflict between Saudi Arabia and Russia is getting worse, amplifying a sense of crisis among oil refiners. The possibility of the two countries agreeing to cut production cannot be ruled out, but in this case, cost burden may increase in the short term, dimming the prospect of a recovery in the second quarter.

Saudi Arabia and Russia failed to hammer out an agreement at a meeting in March, causing the international oil prices to plunge to one third the US$60 level recorded earlier this year. In February, the COVID-19 outbreak was limited to some regions such as China, but now it spread all over the world including the United States, Europe and India, further weakening the expectations for a demand recovery. In April, Saudi Arabia is expected to increase production, intensifying the imbalance in supply and demand.

The accelerating facility operation in China also is likely to result in a further drop in product price. According to various media reports, the capacity utilization in Shandong jumped from 37 percent to 49 percent from the end of last month to last week. It is estimated to increase to 57 percent in April with the spread of COVID-19 showing signs of subsiding.

Refiners are expected to run on rough roads in the second quarter, too. Securities firms estimate the four major Korean oil refining companies’ operating losses in the first quarter at one trillion won as inventory valuation losses due to plunging oil prices will combine with worsening margins. In the fourth week of March, Singapore’s combined refining margin entered an unprecedented new territory, continuing a negative for two weeks in a row at US$-1.1 per barrel. The oil refining industry regards US$4 as a break-even point of refining margins.

Even if a dramatic agreement is made between Saudi Arabia and Russia, recovery in the second quarter is unlikely to take place. If the OPEC+ group agrees to cut production in the April 9 meeting, supply burden may be partially eased, but in this case, rising oil prices will definitely increase cost burden.

Rebounding oil prices may generate negative effects in the current situation where demand will hardly recover with the spread of the novel coronavirus and
the refining margin is negative. In reality, representative demand industries such as automobiles, aviation, shipbuilding, and shipping have virtually stopped, so oil refiners do not have buyers to sell products to.

**Facing Short-term Liquidity Crisis**

Oil refining companies are increasing their commercial paper as well as corporate bond issuance in order to respond to a liquidity crisis attributable to a decline in product demand. They are facing financing difficulties as their Q1 operating losses are estimated at over three trillion won and their credit ratings have been falling steadily.

In particular, S-OIL has come under mounting pressure as 1.1 trillion won of corporate bonds are due to expire in 2020 and 2021. S-OIL issued corporate bonds on a large scale in the process of constructing a complex petrochemical facility worth five trillion won. For this reason, 2.63 trillion won worth of bonds will mature by 2025. S-OIL needs to secure additional funding as it is planning to promote a second-phase petrochemical project that will cost 7 trillion won by 2024.

The problem is that the corporate bond market has been frozen due to the spread of the novel coronavirus and the outlook for the refining industry is gloomy. Still, in the first quarter, there was demand for corporate bonds from blue-chip companies, but the situation changed in April, so the companies are expected to have trouble issuing new bonds for refunding.

International credit rating agency Moody’s lowered its credit rating outlook for SK Innovation and SK Global Chemical from stable to negative on April 16. Earlier, on April 13, Korea Ratings lowered its outlook from AA+ to negative in relation to unsecured debentures of SK Energy and S-Oil. This is because their oil refining margins remain below zero and their operating loss estimates have topped one trillion won amid the spread of COVID-19.

The oil refining companies are facing huge burden as oil prices are falling due to a decline in demand. On April 15, the WTI price per barrel fell 1.2 percent to US$19.87, dipping below US$20 for the first time in 18 years.

The companies have gone through a hard time for years due to the U.S.-China trade war. This year, their short-term liquidity conditions are getting worse and worse. Late last month, SK Innovation and Hyundai Oilbank issued commercial papers worth 875 billion won and 780 billion won, respectively. The large-scale issuance means they are under serious financial conditions in that commercial papers are higher in interest than corporate bonds.

“Jet fuel older than two months must be discarded and our inventory cost burden is increasing rapidly as the jet fuel demand is plummeting due to the pandemic,” said a local oil refining company, adding, “The gasoline price is now lower than the crude oil price due to a decline in vehicle movement and demands for products such as diesel oil are plunging without exception to the point of losses increasing with facility operation.”

Under the circumstances, major oil refining companies are trying to reduce their inventory by earlier or longer repair and maintenance. Some already lowered their capacity utilization to about 30 percent.

**Charges on Petroleum Importers and Sellers Expected to Be Cut**

Under the circumstances, the Korean government is planning to set up a council with oil refining companies to discuss how to reduce charges related to the import and sale of petroleum.

At present, oil-related companies in South Korea must pay 16 won per liter in importing crude oil and petroleum products and must pay 36 won per liter and 62,283 won per ton in selling high-octane gasoline and butane in South Korea, respectively. The charges added up to more than 1.8 trillion won last year and the amount is quite burdensome for those companies, whose losses are estimated at four trillion won in the first quarter of this year alone.

The companies asked the ministry to cut the charges with the COVID-19 pandemic affecting their business, and the ministry deferred the payment deadlines for their April to June charges, approximately 900 billion won in total, on April 7. The new council is for a more fundamental review of the charges.

The ministry is planning to review the government’s oil stockpiling policy, too. This is because extremely low oil prices have been triggered by conflicts among oil-producing countries such as the United States, Russia and Middle East countries and are predicted to be prolonged.
Citing U.S. Intelligence

CNN Reports N.K. Leader Kim Jong-un 'in Grave Danger after Surgery'

By Jung Suk-ye

CNN reported on April 21 that the United States is monitoring intelligence that North Korean leader Kim Jong-un is "in grave danger after a surgery."

CNN cited an unidentified "U.S. official with direct knowledge," but offered no further details.

The report came after Daily NK, a South Korean internet news outlet specializing in North Korea, reported that Kim has been receiving medical treatment at a villa in the resort county of Hyangsan, outside of Pyongyang, following a cardiovascular procedure on April 12.

Speculation has arisen about Kim’s health since he missed an annual visit to the Kumsusan Palace of the Sun on the occasion of the 108th birthday of his late grandfather and state founder Kim Il-sung on April 15.

The North Korean leader was last seen on April 11 in state media reports presiding over a political bureau meeting of the ruling Workers' Party, calling for "strict national countermeasures to thoroughly check the infiltration of the virus."

Kim took over as leader after his father and late leader Kim Jong-il died in late 2011.

Meanwhile, the South Korean government said on April 16 that Kim did not visit the Kumsusan Palace of the Sun on April 15, the birthday of the North’s founder Kim Il-sung.

A Unification Ministry official said that Kim’s failure to visit the palace is unprecedented since he has visited the venue every year on his grandfather's birthday.

North Korean media reported earlier in the day that top officials of the North’s ruling party and government had visited the Kumsusan Palace of the Sun the previous day.

According to a Daily NK report on April 15, North Korea had canceled many of the events commemorating Kim Il-sung’s birthday.

“On Monday night, the authorities suddenly announced that many of the events celebrating Kim Il-sung’s birthday have been canceled,” a Ryanggang Province-based source was quoted as saying on April 14.

The country had already cancelled the April Spring Friendship Art Festival and the Pyongyang Marathon, which have traditionally been held to celebrate Kim Il-sung’s birthday, the report said.

‘U.S. Troop Reduction in S. Korea Not an Option’

U.S. President Rejects South Korea’s Defense Cost Offer

By Jung Suk-ye

U.S. President Donald Trump said on April 20 that he turned down South Korea’s offer related to defense cost sharing and South Korea needs to bear more cost. He also remarked that U.S. troop reduction in South Korea cannot be an option.

Earlier, Reuters reported that South Korea suggested a year-on-year increase of 13 percent or more in its cost and U.S. President Donald Trump rejected the offer after talks with State Secretary Mike Pompeo and Defense Secretary Mark Esper.

Last year, South Korea bore 1,038.9 billion won, slightly less than US$1 billion. The United States’ demand in the ongoing negotiations is US$5 billion. The U.S. president stressed that the relations between the two countries are excellent but not fair and South Korea is a rich country.
Ruling DP and Satellite Party Win 180 Seats

South Korea’s Ruling Camp Secures Full Control of National Assembly

By Jung Suk-yee

S
outh Korea’s ruling Democratic Party (DP) of Korea clinched a landslide victory in the April 15 general elections. The party alone has secured 163 of the 253 directly contested seats, becoming the majority party of the 300-member National Assembly on its own.

The DP’s power is much more than that as its satellite Together Citizens’ Party (TCP) has won 17 of the 47 proportional representation (PR) slots. The two parties’ combined seats reached 180 or three-fifths of the 300 seats that are required to pass legislative bills on a fast track.

The ruling party can also expect support from its progressive allies, including the Justice Party which won six seats (one directly contested seat five PR seats), the Open Democratic Party which secured three PR seats, and one independent winner. Altogether, the progressive camp controls 190 seats.

In contrast, the main opposition United Future Party (UFP) suffered a devastating defeat by winning only 84 directly contested seats. Its satellite Future Korea Party (FKP) secured 19 PR seats. Together, the two parties clinched 103 seats, far fewer than the 121 seats the UFP won in the previous elections four years ago. The only solace for the UFP is that its satellite party outclassed that of DP in PR seats.

The conservative camp as a whole secured 110 seats, including the three PR seats gained by the People’s Party, which is led by Ahn Cheol-soo, and four independent winners who are former UFP members.

UFP Chairman Hwang Kyo-ahn has resigned from his post after his party suffered a crushing defeat. He held an emergency news conference at around 12 a.m. on April 16 to announce that he would step down from his post to take responsibility for the election outcome.

Apologizing to the nation for the defeat, Hwang said that he reflect on his roles for the country and citizens. The UFP chairman himself lost in the Jongno district in Seoul to former Prime Minister Lee Nak-yon of the ruling Democratic Party.

To Prepare for Railway Cooperation between Two Koreas

Gangneung-Jejin Railway Section to be Restored

By Yu Kun-ha

T
he South Korean government is planning to restore the Gangneung-Jejin section of the Donghae Bukbu Line in 53 years in commemoration of the second anniversary of the April 27 Panmunjom Declaration.

The Ministry of Land, Infrastructure and Transport and the Ministry of Unification held a ceremony for the restoration on April 27 at the Jejin Station located in Goseong County, Gangwon Province. The ceremony was attended by Land, Infrastructure and Transport Minister Kim Hyun-mi, Unification Minister Kim Yeon-chul, Gangwon Province Governor Choi Moon-soon, etc.

“Restoration is to contribute to balanced national development and prepare railway cooperation between the two Koreas,” the Land, Infrastructure and Transport Minister said in her congratulatory address, adding, “The South Korean government will proceed with speed in line with projects such as subway construction between Pohang and Samcheok.”

The Donghae Bukbu Line between Gangneung and Jejin went out of service in 1967. On April 23, the South and North Exchange and Cooperation Promotion Council held its 313th meeting to select the restoration as an inter-Korean cooperation project. The preliminary feasibility study for the restoration has been omitted in accordance with the National Finance Act.

The project is to build a single line with a total length of 110.9 kilometers from the South Gangneung Station to the Jejin Station via the Gangneung Station. The total cost of the project is 2,852 billion won.

Once the project is completed, the Donghae Line railway will become fully operational and the stage will be set for inter-Korean economic cooperation. In addition, the pan-East Sea economic belt will be further developed and South Korea will become more competitive in terms of freight logistics. The tourism industry is expected to benefit from the outcome of the project, too.
The Embassy of the United States in Seoul suspends visa interviews indefinitely from March 19. South Korean companies are expressing some concerns although visiting the United States for up to 90 days for tourism or commercial purposes is still possible in accordance with the Visa Waiver Program.

The CEOs of large enterprises such as Samsung Electronics vice chairman Lee Jae-yong and LG Group chairman Koo Kwang-mo may be blocked from entering the United States with the United States limiting ESTA-based visa-free entry in the case of those who visited North Korea last year. Still, the South Korean government explained that an emergency visa interview is available when an urgent visit is required.

According to major South Korean companies, the suspension is likely to have no immediate impact. Airlines are also anticipating no significant setback in that they already canceled many flights to the United States after the outbreak of COVID-19. Some companies that planned on resident employee replacement are saying that they can cope with the situation by delaying the replacement.

What they worry about is local marketing. “Although the situation can be dealt with in the short term by means of video conferences and the like, business strategies will be affected if the situation is prolonged,” said a local entrepreneur.

The South Korean government implemented tighter entry restrictions at midnight April 9 in accordance with the principle of reciprocity and within a scope not impairing the principle of openness.

According to the government, a total of 148 countries, including 41 European and 36 Asia-Pacific, are currently blocking the entry of South Koreans. The Korean government's tighter restrictions are to suspend visa exemption and visa-free entry in relation to 54 countries such as Thailand, Russia and France and 34 countries such as Australia and Canada, respectively.

In South Korea, a total of 46,566 persons were in self-quarantine as of April 6. They include 38,424 who entered from abroad. At present, the ratio of those from abroad to newly confirmed COVID-19 infections is on the increase and the coronavirus is poised to spread back from the United States and Europe to Asian countries such as Japan.

On April 8, the number of confirmed COVID-19 infections in South Korea increased by 53, including 14 from abroad, to 10,384. The number remained at 50 or so for the fourth consecutive day. The central government is planning to strengthen the management of those in self-quarantine in cooperation with local governments and the Central Disaster and Safety Countermeasures Headquarters. For instance, sudden inspections will be expanded nationwide from certain local governments and electronic bracelets will be employed after public opinion collection on condition that the devices do not infringe on human rights.
South Korea and China have agreed to set up a "fast track" to allow business people to travel between the two countries amid the COVID-19 pandemic, China's top diplomat in South Korea said on April 28.

Chinese Ambassador to South Korea Xing Haiming made the remarks during his keynote speech for a breakfast meeting organized by the Federation of Korean Industries in Seoul.

Xing said that the two nations have reached an agreement on the plan, with the details expected to be announced soon.

The ambassador told reporters that the two countries have reached an agreement on the general principle of the plan and are now working on details. "I think the details of the plan will be announced this week."

Late last month, China blocked almost all foreigners from entering the country to prevent the inflow of the COVID-19 virus, limiting visa applications to exceptional cases such as those providing necessary economic, scientific or technological services or emergency humanitarian support.

Xing noted that China has issued only 108 visas around the world recently, with many of them issued to South Koreans.

**Entrants Drop More than Outbound Travelers**

**Number of Travelers to and from S. Korea Plunges 92% in March**

By Yu Kun-ha

The number of travelers to and from South Korea plummeted over 90 percent in March from a year earlier due to the COVID-19 pandemic.

According to data released by the Justice Ministry on April 24, the number of outbound South Koreans and inbound visitors totaled 654,000 in March, a 91.7 percent plunge from a year ago.

The number of outbound South Koreans fell 93.8 percent to 145,000, while that of foreigners visiting the nation plummeted 94.2 percent to around 90,800.

Compared with the previous month, the number of outbound South Koreans and foreign entrants slipped by 86.5 percent and 87.4 percent, respectively.

For the first quarter, the number of travelers to and from South Korea fell by 47.9 percent on-year to 12.33 million, with the number of entrants dropping more than outbound travelers.
Green-field Investment Plummets 32.1%

Foreign Direct Investment in Korea Plunges 18 percent amid COVID-19 Crisis

By Jung Suk-ye

The novel coronavirus has put the Korean economy on alert in terms of foreign direct investment (FDI) attraction. In the first quarter of 2020, the amount of FDI arrivals plummeted by 18 percent compared to the same period of 2019. FDI arrivals in the first quarter totaled US$2.4 billion, down 17.8 percent from the same period in 2019, according to a report released by the Ministry of Trade, Industry and Energy on April 9. However, when measured on the report basis, FDI increased 3.2 percent to US$3.27 billion.

In particular, green-field investments reached US$1.13 billion in the first quarter on the arrival basis, down 32.1 percent from the same period in 2019 (US$1.66 billion). This is a whopping 45.3 percent drop compared to the fourth quarter of 2019 (US$2.6 billion). Green-field investments are more effective in stimulating the domestic economy as foreign investors directly build factories and workplaces, creating new jobs.

The United Nations Conference on Trade and Development (UNCTAD) predicted that the new coronavirus fiasco will reduce decisions on making new global green field investment or expanding global green field investment in 2020 or cross-border mergers and acquisitions (M&As). The UNCTAD said that the world recorded at an average of 1200 M&A-type investment cases per month in 2019 but the figure fell to 874 cases in February and to 385 cases in March when the epidemic began to spread.

The UNCTAD predicted that global FDI could decrease by 30 to 40 percent by 2021 as the COVID-19 has been spreading to the United States and Europe.

Due to Market Stabilization Measures

South Korea’s Foreign Exchange Reserves Show Substantial Decrease

By Jung Suk-ye

The Bank of Korea announced on April 3 that South Korea’s foreign exchange reserves decreased US$8.96 billion to US$400.21 billion in March this year. The amount of decrease is the largest since November 2008, when the reserves showed a decline of US$11.75 billion. The amount of the reserves is the smallest since May 2018.

“Market stabilization measures taken by the foreign exchange authorities resulted in the decline along with a strong U.S. dollar that led to a decline in the U.S. dollar values of non-U.S. dollar-denominated foreign currency assets,” the central bank explained.

Last month, the value of the South Korean currency fell as the value of the U.S. dollar as a safe asset soared with COVID-19 spreading across the world. In addition, the euro, pound and yen depreciated vis-à-vis the U.S. dollar, leading to the decline in the U.S. dollar values constituting the foreign exchange reserves.

Marketable securities fell US$13.62 billion to US$357.6 billion whereas deposits increased US$4.62 billion to US$31.72 billion. The IMF SDR edged up US$40 million to US$3.32 billion. South Korea ranked ninth in the world in terms of foreign exchange reserves as of the end of February this year.
Banks' Forward Exchange Position Limit Adjusted

More Foreign Currency Liquidity to be Supplied in Forex Swap Market

By Jung Suk-ye

The South Korean government has adjusted the forward exchange position limit of local banks from 40 percent to 50 percent and that of foreign bank branches in South Korea from 200 percent to 250 percent.

The measure is intended to ensure that companies and financial institutions can carry out foreign currency financing without difficulty and to stabilize demand and supply conditions in the swap market.

The equity capital-related upper limit was adopted in October 2010 for the purpose of suppressing a sudden capital inflow and short-term borrowing. Since then, the upper limit has been flexibly adjusted in accordance with market conditions and so on.

At present, with COVID-19 spreading across the world, the volatility of the foreign currency swap market of South Korea is poised to soar due to temporary lopsidedness attributable to demand related to foreign investors' stock investment funds and the like.

The South Korean government is expecting that the adjustment will lead to more foreign currency fund supply capabilities on the part of banks and more foreign currency fund supply in the market.

Foreign Investors Continue to Dump Korean Stocks

Effects of U.S.-Korea Currency Swap Likely to Be Short-lived

By Yoon Young-sil

South Korea and the United States signed a currency swap contract, worth US$60 billion, in 10 years. The contract is expected to contribute to the stability of the South Korean foreign exchange market. Still, it is also pointed out that the effect of the contract would be short-lived in that the ongoing economic impact of COVID-19 is a real economic impact.

The Korea Composite Stock Price Index (KOSPI) jumped 7.44 percent to close at 1,566.15 points on March 20, showing the steepest increase since Dec. 8, 2008. In addition, the KOSDAQ index spiked 9.2 percent to close at 467.75 points.

The rapid recovery of the stock markets was based on the currency swap contract signed the previous day. During the global financial crisis in 2008, the first currency swap contract between the United States and South Korea led to an 11.95 percent spike in the KOSPI market, raising it back to over 1,000 points. On March 20 this year, the won-dollar exchange rate dropped 39.2 won to 1,246.5 won per U.S. dollar.

According to market experts, however, the effect of the latest currency swap contract is likely to fall short of that signed 12 years ago. This is because the ongoing instability is attributable to real economic contraction rather than financial system-related problems. In 2008, the won-dollar exchange rate dropped from 1,427 won to 1,250 won in one day immediately after the conclusion of the contract. Then, however, the rate continued to increase to an all-time high with instability lingering.

In this regard, Bank of Korea Governor Lee Ju-yeol remarked that the main purpose of the latest contract is to address the shortage of the U.S. dollar in the South Korean foreign exchange market and the contract does not directly counteract a financial crisis attributable to real economic contraction. On March 20, foreign investors in the KOSPI 200 futures market sold futures worth one trillion won for the last 25 minutes after a net purchase. In the KOSPI market, they sold shares worth 584.6 billion won, continuing to sell for 12 trading days.
'Korea Expected to Regain Growth Momentum in the Midterm'
Moody’s Maintains South Korea’s Credit Rating and Outlook
By Jung Suk-ye

International credit rating agency Moody’s maintained its credit rating and outlook for South Korea at "Aa2" and "Stable," respectively.

“Although the spread of COVID-19 is an unprecedented threat to the South Korean economy, it is expected to regain its growth momentum in the midterm,” it said in its credit opinion on April 6, adding, “Although the spread of the pandemic is likely to affect South Korea’s trade, supply networks, investment, tourism and so on and some industries and financial institutions are already under pressure, its impact on the sovereign credit rating of South Korea will be limited.”

It went on to say that whether South Korea’s credit rating will be lowered in the long term depends on whether the South Korean government will succeed in maintaining the country’s economic growth and fiscal stability amid the rapid aging of the population.

“Given that there is no sure-fire way to ensure permanent peace in the Korean Peninsula, military tensions are likely to be repeated periodically as seen in the case of the resumption of nuclear tests in the North early last year,” it mentioned, adding that military conflicts would act as a hindrance to the economy and national finance.

The agency’s credit opinion is for regular update and is not an official evaluation based on procedures in its committee. The agency has maintained the rating at Aa2, the third-highest, since December 2015.

'Credt Indices Sound Enough to Absorb Temporary Shocks'
S&P Maintains Sovereign Credit Rating and Outlook for South Korea
By Jung Suk-ye

International credit rating agency S&P Global Ratings announced on April 21 that it maintained its long-term and short-term credit ratings for South Korea at "AA" and "A-1+," respectively. In addition, the credit rating agency maintained its credit rating outlook for South Korea at "Stable."

“The South Korean economy is likely to show the first negative growth since 1998 in the wake of COVID-19,” S&P explained, adding, “However, its credit indices are sound enough to absorb temporary economic shocks.”

According to S&P, South Korea’s GDP is estimated to fall 1.5 percent this year. For reference, its estimate provided last month was negative 0.6 percent. Still, the agency mentioned that the annual GDP growth of South Korea would reach 5 percent or so in 2021 based on economic stimulus measures and a rapid recovery in consumption.

“Geopolitical risks in the Korean Peninsula are unlikely to affect the fundamentals of the South Korean economy in a couple of years to come,” the agency went on to say, adding that the credit rating of South Korea might be lowered if the risks escalated to the point of affecting South Korea’s economic, fiscal and external indices.
The Bank of Korea said on April 23 that South Korea's economy shrank 1.4 percent on-quarter in the first quarter due to the COVID-19 pandemic.

It marks the sharpest quarterly contraction since the fourth quarter of 2008, when the economy shrank 3.3 percent on-quarter.

Compared with a year ago, the economy grew 1.3 percent, the weakest on-year gain since the third quarter in 2009, when it expanded 0.9 percent.

The first-quarter growth figure, however, was better than market expectations. Many economists expected the economy to shrink more sharply in the quarter due to the COVID-19 outbreak.

Private consumption plunged 6.4 percent on-quarter in the first quarter, the largest drop since the first quarter of 1998, when it slipped 13.8 percent.

Exports decreased 2 percent in the first quarter from the previous one, but facility investment increased 0.2 percent and construction investment gained 1.3 percent.

Deflationary concerns are mounting in the South Korean economy as its growth is likely to become negative in the wake of COVID-19 and low prices are becoming permanent.

At present, most economic research institutes as well as the Bank of Korea and the Ministry of Economy and Finance are extremely pessimistic about the Q1 growth of the South Korean economy. According to Bloomberg, the nine economic research institutes and investment banks including Standard Chartered, Barclays, HSBC and HI Investment & Securities recently estimated the economy’s quarter-on-quarter degrowth at 1.5 percent, adding that the economy would show the lowest growth rate in 11 years and three months. Korea Economic Research Institute's degrowth estimate, 2.3 percent, is even more pessimistic.

Besides, the South Korean economy's Q2 growth rate is sure to be much lower than the Q1 figure given when the coronavirus began to spread worldwide. The IMF's 2020 estimate for South Korea is negative 1.2 percent.

In the meantime, the trend of low prices is not disappearing. South Korea's inflation rate was 1.5 percent in January this year and 1.1 percent and 1 percent in the following months. Last month, the inflation in the service sector stood at 0.5 percent. International oil prices are reaching record lows over and over due to sluggish demands and the prices of agricultural products are rising again but insufficient to raise overall consumer prices.
To Provide Liquidity to Companies with Funding Problems

South Korean Government Announces 50-Tril.-Won-Plus Financing Package

By Jung Suk-yee

The South Korean government announced a 50-trillion-won-plus emergency financing package for small businesses on March 19.

The Korean government has decided to set up a 15-trillion-won bond market stabilization fund to provide liquidity to companies faced with temporary financial difficulties. The fund will be raised by financial institutions such as banks, securities companies and insurance companies and provide liquidity by purchasing high-quality corporate bonds. In December 2008, during the global financial crisis, the Korean government established a 10-trillion-won fund for the same purposes.

In addition, the government will set up a 5-trillion-won stock market stabilization fund through joint investment by financial institutions. The fund will invest in representative index products of the stock market. The government will also issue primary-collateralized bond obligations (P-CBOs) worth 6.67 trillion won over the next three years to stabilize the corporate bond market and help companies raise funds easily.

The Bank of Korea lowered the key interest rate to 0.75 percent, and virtually started quantitative easing. For the first time since 2009, the central bank purchased conditional receivables (RPs) of one trillion won from securities firms. At the same time, it will purchase 1.5 trillion won worth of government bonds on March 20 to stabilize the bond market.

“To overcome the economic crisis, the government will continue to come up with measures and find ways to finance them,” said Hong Nam-ki, deputy prime minister and minister of strategy and finance.

Government Debt Tops 1,700 Tril. Won

South Korea’s Fiscal Soundness Worst in Decade

By Jung Suk-yee

South Korea’s debts topped 1,700 trillion won last year. The current administration’s expansionary fiscal policy led to the worst fiscal soundness in a decade and the government employee and military pension liabilities topped 940 trillion won.

Specifically, the country’s assets and liabilities totaled 2,299.7 trillion won and 1,743.6 trillion won, respectively. The latter increased 3.6 percent from a year ago. The Ministry of Economy and Finance explained that the liabilities increased due to, for example, a 50.9 trillion won increase in outstanding government bonds.

The overall fiscal deficit reached 12 trillion won with the total income and expenditures at 473.1 trillion won and 485.1 trillion won, respectively. It is the first overall fiscal deficit since the global financial crisis of 2008. The deficit is equivalent to 0.6 percent of the country’s 2019 GDP.

The overall fiscal balance excluding social security funds posted a deficit of 54.4 trillion won. The deficit is equivalent to 2.8 percent of the GDP and the ratio is a 10-year high. The ministry ascribed this to fiscal expansion, a slower increase in total income attributable to a sluggish business perfor-


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South Korea’s government bond issuance topped 60 trillion won, for the first time in history, in the first quarter of this year. Its national debt burden is on the increase in the wake of the COVID-19 pandemic.

The issuance totaled 62,400.2 billion won in the first quarter of this year, up 29.6 percent from a year earlier. The quarterly total is the largest since records began in 2006. The previous high, 56,150.2 billion won, was recorded in the second quarter of 2019.

The net government bond issuance, 49,677.9 billion won, also hit an all-time high in the first quarter of 2020. The previous high, 33,690.7 billion won, was in the first quarter of 2019.

It is pointed out that South Korea’s government bond-related burden will continue to increase for a while as supplementary budgets are likely to be repeated to counter the real economic impact of COVID-19. The South Korean government is planning to submit a follow-up supplementary budget bill to the National Assembly this week.

The South Korean government’s budget execution is expected to hit an all-time high this year to deal with the economic repercussions of COVID-19.

The Ministry of Economy and Finance is currently working on this year’s third supplementary budget for submission to the National Assembly in early June. The government came up with the first supplementary budget bill worth 11.7 trillion won in March and the second worth 7.6 trillion won in April. Then, the government increased the size of the second bill to 11.2 trillion won to provide disaster relief funds for everyone. The combined size of the bills is 22.9 trillion won and it is less than the size of the supplementary budget prepared in 2009, 28.9 trillion won.

However, the record high is likely to be exceeded once the third bill, estimated at 30 trillion won, is added. According to the government, its special measures for employment stabilization announced on April 22 require 10.1 trillion won and 9.3 trillion won out of the total will be prepared from the third supplementary budget.

Tax revenue adjustment is also likely to follow with economic growth estimates lowered. The government previously estimated this year’s national tax revenue based on an annual nominal growth rate of 3.4 percent, which is no longer valid.

The size of the adjustment is likely to exceed 2.4 trillion won. Recapitalization of Korea Development Bank and the Export-Import Bank of Korea, estimated at two trillion won to four trillion won, will be carried out with the third supplementary budget, too. Including spending for economic stimulus purposes, the third supplementary budget is forecast to reach 30 trillion won or so, and then this year’s total supplementary budget will exceed 53 trillion won.

The government’s fiscal soundness cannot but deteriorate as a result. Until the pre-revision second supplementary budget, the government’s overall fiscal deficit in relation to the GDP was 2.3 percent and real fiscal deficit in relation to the GDP was 4.3 percent, the highest since 1998. The latter may top 5 percent if the third supplementary budget is executed and this year’s economic growth falls below zero.
KDB to Issue Government-guaranteed Bonds

S. Korean Government to Raise 40 Tril. Won to Assist 7 Key Industries

By Jung Suk-ye

The South Korean government announced on April 22 that it would issue 40 trillion won of government-guaranteed bonds to assist the seven key industries of aviation, shipping, shipbuilding, automobile, general machinery, electric power and communications. Beneficiaries must come up with employment stabilization measures based on labor-management agreements and some of the provided funds will be allowed to be converted into stocks in a profit-sharing scheme.

Korea Development Bank (KDB) will issue the bonds and private funds and special purpose vehicles will make additional investments. The assistance will be available for five years and a deliberation committee will be set up in KDB for flexible, transparent, professional and responsible fund management.

Approximately 20 percent of the financial assistance is planned to take the form of convertible preferred stocks and stock-linked securities such as bonds with warrants and convertible bonds. The three-month average immediately before assistance will be used as the stock price in the case of conversion. For example, the government fund will buy bonds with warrants for corporate recapitalization and the bonds will be subsequently converted into stocks for share acquisition.

The Financial Services Commission stressed that the share acquisition does not mean nationalization and it is to share future profits with the society rather than to intervene in management. It also explained that the provided funds cannot be used for high salary payment, dividend expansion and share buyback.

Applications can be filed for one year following the implementation of the program. The government is planning to use various target-specific methods such as lending, payment guarantee and investment. In addition, investment and credit exposure in relation to related funds and special purpose vehicles will be allowed so that private funds and their know-how can be utilized. The Financial Services Commission mentioned that beneficiaries can be added down the road if necessary.

To Provide Liquidity to Companies with Low Credit Ratings

S. Korean Government to Set up New SPV to Buy More CBs and CPs

By Jung Suk-ye

The South Korean government has decided to set up a special purpose vehicle (SPV) with a size of 20 trillion won in order to buy corporate bonds and commercial papers with low as well as high credit ratings.

“CBs and CPs with low credit ratings have failed to benefit from the bond market stabilization fund, P-CBO and the Bank of Korea’s special loans for financial market stabilization,” the Financial Services Commission remarked on April 22, adding, “The SPV will be based on financial support, participation of government-run financial institutions and liquidity support from the Bank of Korea.”

Details of the SPV are scheduled to be fixed after talks with the central bank. It is likely that a government-run financial institution such as Korea Development Bank will make an investment in the SPV and the Bank of Korea will provide lending for the SPV. In addition, bond purchase by the vehicle is likely to be carried out on condition of beneficiaries’ efforts for maintaining employment.

The government increased the P-CBO for COVID-19 response by five trillion won, too. This year’s P-CBO issuance went up from 1.7 trillion won to 6.7 trillion won and the issuance for three years to come rose from 6.7 trillion won to 11.7 trillion won.
To Reduce China Risks
Reshoring from China Becoming Increasingly Important after Coronavirus Shock

By Jung Suk-yee

The Korea Institute for Industrial Economics & Trade recently conducted a survey with 218 South Korean companies in China. According to that survey, the companies’ business survey index (BSI) for the first quarter of this year is 22 and 20 in terms of market conditions and sales, respectively. The figures fell 64 points and 73 points from the previous quarter, reaching the lowest levels since the records began in 2015.

In the survey that covered the seven industries including electrical and electronics, automobile, chemical, and wholesale and retail, the local sales BSI dropped 75 points to 22 and the facility investment BSI fell 33 to 68 in the range of 0 to 200. In addition, the business environment BSI dropped 49 to an all-time low of 22 and the sales BSI of the manufacturing sector plunged by 76 to 19.

More than 31 percent of the respondents answered that the local demand remains sluggish and 19.3 percent mentioned export-related difficulties. Also, 9.2 percent, 7.3 percent and 6.9 percent mentioned a rise in labor cost, intensifying competition and local government regulations as their difficulties in China, respectively. No less than 90 percent of the respondents answered that COVID-19 is adversely affecting their business.

Under the circumstances, experts point out that the South Korean government needs to bring them back to their home country in order to reduce their China risks and be prepared for the global supply network adjustment to follow the pandemic. “The coronavirus has highlighted global supply risks and put the brakes on companies’ overseas expansion,” said the Korea Economic Research Institute, adding, “Unemployment issues to be triggered by the pandemic can be addressed well if the government systematically and proactively supports companies wishing to return.”

The United States, Japan and Europe are already engaged in such efforts to reduce their dependence on China in the manufacturing sector. Especially, Japan is planning to spend US$2.2 billion for Japanese enterprises relocating from China to Japan, Southeast Asia, etc.

More Incentives Needed for Large Companies
South Korean Government Still Passive in Promoting Reshoring

By Jung Suk-yee

An increasing number of governments are expanding their reshoring policies with global manufacturing networks seriously affected by the spread of COVID-19.

For example, the Japanese government recently announced that it would bear half of reshoring costs for large corporations relocating some of their production facilities to Japan and two-thirds for non-large companies doing so.

A notable point is that the Japanese government’s incentives for reshoring are not limited to smaller companies. In fact, reshoring of large corporations has already resulted in sizeable economic effects in Japan. For instance, Toyota returned to Japan in 2015 and Nissan, Honda and Canon followed suit in 2017 to 2019 to increase both investment and employment in their home country.

On the other hand, the South Korean government has yet to come up with more incentives for large companies. According to its plan, subsidies, corporate tax incentives and support for facility automation will be provided for large and smaller companies returning with each other.

However, companies’ requests for lower criteria and so on have not been met. According to the government, a reshoring company must relocate at least 25 percent of its facilities. Companies are claiming that the ratio is excessively high. Besides, the corporate tax incentives are reduced in the case of those returning to the metropolitan area.
COVER STORY

Facing Unprecedented Crisis

SOUTH KOREAN AIRLINES ON THE EDGE OF A PRECIPICE

By Jung Min-hee
The COVID-19 pandemic dealt a fatal blow to the Korean aviation industry which had suffered already difficulties from the struggle for management power or the management change, and the unionized workers urged the South Korean government to provide more employment and livelihood support for aviation and airport workers stricken by the pandemic.

In the wake of the pandemic, the number of South Korean airlines’ passengers to China and international flight passengers plunged by 91.4 percent and 91.7 percent year on year, respectively. Their sales are estimated to fall by at least 6.3 trillion won if the current situation continues until June this year.

Under the circumstances, the South Korean government announced on March 18 that it would exempt them from parking fees until June, postpone the imposition of safety facility fees by three months, and indefinitely postpone the collection of unused slots and traffic rights. According to airlines, however, these measures are not effective in that the aviation industry entails huge fixed costs, the financial support itself is insufficient and it will take at least months until the actual aid.

The United States, in the meantime, passed an emergency bill on March 25 to prop up its aviation industry. According to the bill, passenger airlines will be given US$25 billion in subsidies and those allocated for freight airlines and partner firms in the industry amount to US$4 billion and US$3 billion, respectively. In addition, the funds are going to be actually provided within 10 days. Loans and payment guarantees will be available to the same extent as the subsidies and taxation on air transport and aviation fuel will be deferred until Jan. 1, 2021. The German government has launched unlimited financial support for German airlines and the Taiwanese government will provide local airlines with government loans worth a total of 1.1 trillion won.

South Korean airlines are demanding more effective and prompt assistance comparable to those of the United States, Germany and Taiwan. Their demands
include government guarantee for corporate bond issuance and financial support expansion based on less strict criteria such as credit rating and debt ratio.

At the requests from the industry, the Korean government is moving to give more supports. The government has decided to cut the aircraft property tax by 25 percent to 30 percent for full service carriers (FSCs) such as Korean Air and Asiana Airlines.

Currently, a 50 percent reduction in the aircraft property tax is offered to low cost carriers (LCCs) under the Restriction of the Special Local Taxation Act which is scheduled to terminate in late 2021.

The central government is judging that a 25 percent cut, which is half the cut for LCCs, is appropriate for FSCs in consideration of the tax conditions of each local government. The central government’s basic idea is to suggest a 25 percent cut to local governments in the form of a guideline, but local governments can adjust their final reduction rates depending on their own conditions.

If the reduction rate is set at around 25 to 30 percent, the tax cut benefit for Korean Air and Asiana Airlines is expected to be about 10 billion won.

The aircraft acquisition tax can be cut by up to 60 percent for both FSCs and LCCs, but this option is unlikely to be included in the government’s tax cut package for carriers.

The airline industry is demanding that state-owned banks such as the Korea Development Bank provide payment guarantees as airline companies can hardly issue corporate bonds with their own credit ratings.

The South Korean government recently announced that most of its financial support for the aviation industry, 3.2 trillion won in total, would go to Korean Air and Asiana Airlines.

The two full-service carriers are scheduled to receive 90 percent of the money. Specifically, Korea Development Bank and the Export-Import Bank of Korea decided on April 21 to provide 1.7 trillion won for Asiana Airlines and 1.2 trillion won for Korean Air. The financial support for LCCs is limited to 300 billion won, which was announced two months ago.

10 Trillion Won Fund Promoted for Aviation Industry

Korean Air’s borrowings subject to redemption or refunding within this year add up to 4,806 billion won. As of the end of last year, the airline’s corporate bonds, asset-backed securities and bank borrowings totaled 16,962 billion won.

The money that must be paid back this year includes perpetual bonds worth a total of 590 billion won. Although the perpetual bonds have maturity of 30 years or more, those are generally regarded as high-interest bonds with maturity of two to three years due to a step-up clause.

In the case of Asiana Airlines, the borrowings that must be paid back within this year amount to more than two trillion won. Although HDC Hyundai Development Co. is scheduled to take over the airline, whether the acquisition will actually take place is still up in the air. It is already said that Asiana’s excessive borrowings will be a winner’s curse for HDC. Korea Development Bank will have to bear the burden if the takeover fails.

In the meantime, industry insiders are saying that the Ministry of Land, Infrastructure and Transport and the Ministry of Economy and Finance will form a task force to discuss an aviation industry restructuring fund of 10 trillion won. Under the government’s restructuring plan, Korean Air is supposed to carry out intensive restructuring efforts on its own, while Asiana Airlines and Eastar Jet should pursue normalization by finding new investors.

As of the end of last year, Korean Air’s and Asiana Airlines’ debt ratios amounted to 871.5 percent and 1,386.7 percent, respectively. The Financial Supervisory Service is expected to make investments in them to have stock-related rights instead of providing lending to add to their debts. Under the circumstances, some experts are predicting that the government will acquire some shares in the two airlines.

In the meantime, the credit ratings of asset-backed securities (ABS) issued by Korean Air and Asiana Airlines have been downgraded. Korea Investors Service said on April 13 that it has lowered the ABS rating of Korean Air from “A” to “A-” and of Asiana Airlines from “BBB+” to “BBB.”

An airline issues ABS against the proceeds from future ticket sales. They are a key means of raising funds for aviation companies. As of the end of March, the outstanding amount of ABS issued by Korean Air is estimated at some 1.3 trillion won and Asiana at nearly 470 billion won.

The agency said the recovery of the airlines’ ABS worsened in March after most countries around the world implemented strict entry restrictions to prevent a fast spread of COVID-19. If the two airlines’ ABS recovery remains low in the
months to come, they could face early redemption demands, which will pose serious liquidity problems to them.

Korean Air Facing Rugged Road Ahead Despite Liquidity Support

Korean Air is moving to increase capital as the government said that airlines need to proactively make financing efforts before it injects emergency funds into them. Earlier, the government said that major airlines should raise funds in the financial market on their own or make the most of their credit limits at financial institutions, with the state-run banks limiting their role to resolving their otherwise unmet needs for funds.

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To increase capital, Korean Air actually considered several methods including issuing mezzanine bonds such as convertible bonds (CBs) and bonds with warrants (BWs). But it was difficult for the airline to raise funds on its own as selling idle assets, sending employees on six-month paid leaves, returning executives’ salaries, and the consideration of the sale of non-profit business units, but the burden of expenses such as matured borrowings and lease payments are putting mounting pressure on the airline.

Korean Air needs to repay about 4.3 trillion won of debt in 2020. If this situation holds, Korean Air will face a drop in its credit ratings, which in turn increase the possibility of a default due to demands for early repayment of ABS.

Under the circumstances, the South Korean government announced on April 22 that it would provide liquidity for local companies including airlines, which face a liquidity crisis, by raising a fund of 40 trillion won. If the new coronavirus crisis subsides in the second half of 2020, the airline will be able to escape from its liquidity crisis. Otherwise, Korean Air can hardly survive.

Industry analysts say Korean Air may not be able to last for more than three months despite this support. Korean Air has to pay 1.7 trillion won just for lease fee this year.

Asiana Airlines Kept Afloat until Acquisition by HDC

Asiana Airlines was sold to the consortium of HDC Hyundai Development and Mirae Asset Daewoo as the consortium was selected as the preferred bidder for the acquisition of the airline on November last year. On Dec. 27, the consortium signed a share acquisition agreement worth 2.177 trillion won with the airline.

HDC successfully prepared 320.7
billion won for the acquisition by capital increase in March this year after having prepared 170 billion won by private placement corporate bond issuance in the previous month. HDC also planned to participate in Asiana’s 1.47 trillion won capital increase to repay the 1.17 trillion won loans from KDB and Export-Import Bank of Korea. In addition, it planned to finalize the acquisition process by the end of April by issuing additional bonds and obtaining acquisition financing once conditions are met with regard to the approval reviews by the related authorities at home and abroad. However, the capital increase that was scheduled for April 7 has been indefinitely postponed.

Initially, it planned to participate in Asiana’s 1.47 trillion won capital increase to repay the 1.17 trillion won loans from KDB and Export-Import Bank of Korea. In addition, it planned to finalize the acquisition process by April by issuing additional bonds and obtaining acquisition financing.

Under the circumstances, Korea Development Bank and the Export-Import Bank of Korea decided on April 21 to provide a 1.7 trillion won loan for Asiana Airlines. In April last year, creditors already provided 1.6 trillion won for the airline and the airline’s borrowings from the market, which must be repaid within this year, total 2.5 trillion won. The airline’s monthly fixed cost is approximately 200 billion won.

The banks’ decision is because of the dire situation of Asiana Airlines, which is currently incapable of paying wages. In addition, it is to smoothly complete the acquisition with HDC mulling over the acquisition. Asiana Airlines has conducted a no-pay leave of absence since February this year. Its executives have returned 30 percent to 100 percent of their wages since that month.

To make it worse, the airline’s financing in the market is becoming increasingly difficult. Asset-backed securities worth 410 billion won mature this year and early redemption is around the corner with Korea Ratings having recently lowered the rating of Asiana Airlines’ ABS from BBB+ to BBB. ABS with a credit rating of lower than BBB- are subject to early redemption. Besides, HDC may give up on the airline to make the situation even worse. In that case, the banks will have to pour more money into the airline.

What matters was how HDC will move. As it was expected, HDC has postponed its acquisition of Asiana Airlines indefinitely. The company announced on April 29 that it would delay the acquisition of Asiana Airlines shares. It was scheduled to acquire the shares on April 30. But it delayed the date to “10 days after the prerequisites for transaction completion have been met” or “the day chosen by the two parties as the transaction completion day.” In other words, the company fell short of specifying the stock acquisition date, leaving the takeover schedule open.

The original stock purchase agreement between HDC and Kumho Industries stipulates that the deal needs approval from the Korean Fair Trade Commission and foreign countries. Asiana Airlines has requested approval for business combination from six countries such as the United States, China, Kazakhstan, Turkey, Vietnam and Thailand. Russia has not yet approved the corporate marriage. HDC changed the takeover schedule citing the uncompleted approval procedure. Yet market observers say it is nothing more than a pretext.

They believe that HDC will put more pressure on creditors to change the terms of the acquisition. It is asking creditors to extend the deadline for Asiana Airlines’ repayment of loans, cut the interest rates, and convert loans into equities.

HDC’s trouble is that the situation has changed a great deal. As Asiana Airlines’ management difficulties have deepened due to the spread of the new coronavirus (COVID-19), some say that it is better to give up the acquisition itself. Not only have Asiana Airlines’ borrowings increased, its debt ratio has also risen since the end of 2019. Asiana Airlines is expected to lose more than one trillion won in 2020, including the massive losses it had suffered in the first quarter.

Those in the financial industry predicted that the acquisition of Asiana Airlines will be prolonged even if HDC does not give up. Mirae Asset Financial Group, which partnered with HDC as a financial investor, is suffering financial difficulties so its will to take over the airline has been weakened. Mirae Asset does not have sufficient funding due to losses from equity-linked securities (ELSs) and the ongoing negotiation for the acquisition of 15 hotels in the United States.

“Deteriorating situations in the airline industry is making it impossible to find another company to take over Asiana Airline,” said an aviation industry insider. “There is no silver bullet except receiving more support from the government.”
Korean LCCs Facing Life and Death Crisis

Korea’s nine low cost carriers (LLCs) are being forced to restructure themselves in the face of the recent spread of the novel coronavirus.

Air Busan’s debt ratio in 2019 stood at 812 percent, an eight-fold increase from 99 percent recorded in the previous year, the Financial Supervisory Service said on April 7. Jeju Air, the first-ranked LCC in Korea, more than doubled its debt ratio from 170 percent to 351 percent over the same period. The same goes for Jin Air (95 percent to 267 percent) and T’way Air (91 percent to 328 percent). The COVID-19 outbreak is expected to worsen the financial health of these LCCs in 2020.

Korean LCCs are vulnerable to external shocks because the market is overcrowded. Korea has nine LCCs, the same number as the United States. Korea has three more LCCs than China where travel demand is exploding.

Aviation industry experts say that competition among provincial governments and greed sparked off the establishment of too many LCCs compared to the size of Korea’s population. The Korean LCC industry had six LCCs until 2018, but three new LLCs — Fly Gangwon, Air Premia, and Aero K — were added in 2019. The three additional operators entered the LCC market at a time when LCC sales already plunged due to a diplomatic conflict between Korea and Japan. In the end, there was no restructuring other than Jeju Air’s takeover of Easter Jet which is believed to be in capital erosion.

In the meantime, the possibility of resale of Air Busan and Air Seoul is being continuously mentioned as Asiana Airlines is scheduled to be sold in whole. With the aviation industry extremely uncertain, however, it remains to be seen whether the LCCs under Asiana Airlines will succeed in drawing attention after being put on the market.

The problem is that the novel coronavirus crisis generated pressure on the government to provide support to LCCs, creating an environment where LCCs may be able to stay afloat. Experts say that as LCCs are based on regions, and employ a large number of local residents, they cannot be easily restructured due to political reasons.

Following Jeju Airlines, four low-cost carriers (LCCs) are receiving applications for unpaid leave from employees, and Asiana Airlines has received applications for an unpaid leave of absence from cabin crew members.

Jeju Air’s sales increased last year, but it swung to an operating loss of 32.9 billion won and net loss of 34.1 billion won. T’way Airlines turned to a deficit, even though its sales increased by 10.7 percent to 910.4 billion from 731.8 billion won in the same period of 2019. Jin Air not only saw a decrease in sales last year, but posted an operating loss and net loss.

The most direct cause of these carriers’ poor performance is oversupply. As service routes overlap, airliners started a ticket price war, hurting themselves. To make matters worse, Korean tourists boycotted tours to Japan, and a new coronavirus broke out in Wuhan of China. If the coronavirus fiasco is prolonged, some carriers could lose their licenses due to capital impairment.

Refund requests by passengers are also negatively affecting LCCs’ earnings. As the corona-19 virus spreads around the world, passengers demand refunds of their tickets, including those to China which have no refund commissions. For some carriers, the amount of refunds has surpassed that of new ticket sales. In this way, LCCs are running out of operating funds. They are now asking the government to ease regulations for the time being and provide them with financial support to jointly purchase fuel and cover labor costs.

The government announced in February this year that Korea Development Bank and the Export-Import Bank of Korea would supply a liquidity of 300 billion won to LCCs, which are taking a direct hit from the COVID-19 pandemic. The coronavirus has resulted in a 98.1 percent decline in the LCCs’ international flights and their losses are estimated to exceed 6 trillion won in the first quarter of this year alone.

As a result, the government is now considering increasing its liquidity support for LCCs from 300 billion won. The additional liquidity supply is likely to take some time in that the initial support budget is yet to be fully executed. At present, the budget execution stands at around six billion won for T’way Air, 20 billion won for Air Seoul, 30 billion won for Air Busan, 40 billion won for Jeju Air and 30 billion won for Jin Air. The additional assistance is likely to be carried out after the first budget execution is completed.

Korea’s nine low cost carriers (LLCs) are facing an unprecedented crisis due to the recent spread of the novel coronavirus.
Central Bank to Buy Bonds from State-run Banks

BOK Keeps Benchmark Interest Rate Frozen at 0.75%

By Yoon Young-sil

The Bank of Korea (BOK) kept the benchmark interest rate frozen at the current level of 0.75 percent per year on April 9. However, BOK Governor Lee Joo-yeol suggested that there is still room for a rate cut next month by saying that the effective lower limit may be lowered depending on how developed countries decide on interest rates.

The central bank also decided to push forward with its plan to stabilize the corporate bond market. Yet it changed its plan to directly purchase corporate bonds and decided instead to buy bonds to be issued by state-run banks.

The central bank’s bond purchasing is normally limited to government bonds and government-guaranteed bonds. Yet it decided to acquire bonds issued by state-run banks to supply additional liquidity to the economy. It is the first time since 2008 that the central bank expands the scope of bonds it purchases.

If the Bank of Korea buys bonds from state-run banks, it helps them issue bonds at lower interest rates. These banks use the funds raised through bond issuance to purchase corporate bonds. The BOK also plans to actively purchase government bonds.

To expand its bond purchasing activity, the central bank revised the open market operation regulations. The amendment allows it to purchase bonds issued by Korean Development Bank, Industrial Bank of Korea, the Export-Import Bank of Korea and Korea Housing Finance Corp.

Meanwhile, the BOK governor forecast that it will not be easy for the Korean economy to achieve 1 percent of economic growth due to the spread of the pandemic.

Profit from Investment in Foreign Stocks

BOK’s Foreign Currency Asset Management Profit Totals 11.8 Tril. Won in 2019

By Yoon Young-sil

The Bank of Korea’s net profit derived from foreign currency asset management totaled 11.8 trillion won last year, up 34.1 percent from a year ago and an all-time high since 2012. The amount was 12.4 trillion won in 2012.

At present, the central bank’s foreign currency assets are classified into cashable assets and investment assets. The latter are divided into direct investment assets and entrusted investment assets.

As of the end of 2019, the cashable, direct investment and entrust investment assets accounted for 4.6 percent, 74.6 percent and 20.8 percent of the foreign currency assets. As compared with the previous year, the ratio of the cashable assets fell from 5.3 percent to 4.6 percent while that of the investment assets rose from 94.7 percent to 95.4 percent. In addition, the ratio of the direct investment assets fell to 74.6 percent and that of the investment assets entrusted to Korea Investment Corporation, asset management firms, and the like rose to 20.8 percent.

The ratio of government bonds increased from 42.9 percent to 44.6 percent whereas those of government agency bonds, corporate bonds, and asset-backed bonds were adjusted from 18 percent to 15.8 percent, from 13.7 percent to 13.4 percent, and from 12.8 percent to 12.5 percent, respectively. The ratio of stocks to the foreign currency assets was raised from 7.6 percent to 8.7 percent.
Financial institutions bid for a total of US$2,119 million in the Bank of Korea’s fourth competitive bid for Korea-U.S. currency swap-based foreign currency lending on April 21. The amount is approximately half of the supply limit of US$4 billion.

The competitive bid was conducted for commercial banks, Korea Development Bank, Industrial Bank of Korea and the Export-Import Bank of Korea. Lending with maturity of six days constituted one-eighth of the supply limit and lending with maturity of 84 days constituted the rest. The final bid amounts were zero and US$2,119 million, respectively.

A total of US$8.72 billion, US$4,415 million and US$2,025 million were successfully bid in the first to third bids, respectively. The final bid amount has been about 50 percent of the supply limit in each of the four bids.

In the meantime, the won-dollar exchange rate rose 9.2 won per U.S. dollar to close at 1,229.7 won on April 21. The opening exchange rate was 1,222 won, up 1.5 won from the previous day, and the rate soared after news about North Korean leader Kim Jong-un’s surgery.

The South Korean government is planning to continue to supply foreign currency liquidity to the market. The Ministry of Economy and Finance remarked that the government was working on additional measures to that end.

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Korean Companies Increase U.S. Dollar Holdings
Foreign Currency Deposits Increase Substantially

The Bank of Korea announced on April 20 that the foreign currency deposits of residents added up to US$75.29 billion at the end of last month, up US$6.78 billion from a month earlier. The deposits include US$64.46 billion deposited in the U.S. dollar, which increased US$5.92 billion last month.

The residents here can be defined as South Korean individuals and enterprises, foreigners who resided in South Korea for at least six months, and foreign companies doing business in South Korea. The South Korean and foreign companies’ foreign currency deposits increased US$6.51 billion to US$59.35 billion. On the other hand, the South Korean and foreign individuals’ foreign currency deposits edged up US$270 million to US$15.94 billion last month.

The deposits in South Korean banks rose US$6.65 billion to US$64.29 billion while those in foreign exchange banks’ local branches increased US$130 million to US$11 billion.
Non-face-to-face Business Soaring
Banks Advised to Prepare for Completely New Post-COVID-19 Paradigms

By Yoon Young-sil

Han Institute of Finance said in its report on April 14 that South Korean banks need to accelerate their digital conversion by making more use of open application program interfaces (APIs) with the ratio of non-face-to-face business soaring in the wake of COVID-19, which will drastically change their business models in the end.

U.K.-based deVere Group, one of the largest financial consulting firms in the world, also said that more and more people are avoiding contact these days and this new tendency is leading to more demand for related fintech services. For example, U.S. fintech firm 401GO, which provides retirement pension services, is expanding its customer base by zero fee.

Under the circumstances, the concept of Blockchain as a Service (BaaS) is drawing more and more attention in the banking sector. It can be defined as an API-based platform on which a banking system and a third-party service are interconnected for banking services for customers.

The examples include the API-based platform of ICICI Bank in India, which was recently released with more than 500 services so that customers can handle their mortgage loans, insurance, and many more on the single platform.

Central Bank’s First Ever Corporate Bond Loan
Bank of Korea to Provide Loans to Securities Firms with Corporate Bonds as Collateral

By Yoon Young-sil

The Bank of Korea will provide a special loan of 10 trillion won using corporate bonds as collateral. It is the central bank’s first corporate bond loan. The bank has provided no individual loan for securities companies and insurers and has provided no corporate bond loan for banks.

Specifically, the direct lending for banks, securities companies and insurers has an upper limit of 10 trillion won and will be based on AA- or higher corporate bonds. The lending will be available for three months starting from May 4, the maturity is six months, and pre-maturity redemption is also possible. The lending rate is 0.85 percentage point plus the rate of the 182-day monetary stabilization bond. The borrower-specific limit is 25 percent or less of its equity capital.

The special loan is to stabilize the corporate bond market and improve the beneficiaries’ financial conditions. As of the end of last month, 16 banks’ corporate bonds eligible for the special lending add up to approximately 11 trillion won. The amount is about four trillion won in the case of 16 securities companies and 23 trillion won in the case of six insurers.

“Although the Bank of Korea said that it would be engaged in quantitative easing, the corporate bond market is still not free from credit crunch,” HI Investment & Securities explained, adding, “It seems that the new policy is to minimize market participants’ concerns.”
A-rated as well as AA-rated corporate bonds have been successfully issued, in spite of the economic impact of COVID-19, to give more leeway to the government in terms of bond market support. With leading companies’ bonds successfully handled in the market, the government’s bond market stabilization fund, which totals three trillion won in the first stage and is scheduled to reach 20 trillion won in total, now can be invested with more flexibility.

The target of the government’s fund is AA-rated corporate bonds and it is pointed out that the fund does not have to be mobilized in a hurry as corporate bonds with high ratings are handled well in the market. “The corporate bond market is working well in spite of concerns over an economic crisis,” said a bond market expert, adding, “The bond market stabilization fund should be mobilized only when the market malfunctions and now is not that time with orders to buy in excess in the blue-chip corporate bond market.”

Examples of corporate bonds successfully sold recently include AA-rated bonds of SK Energy and GS and A-rated bonds of Poongsan and Hyundai Autron. The bond market stabilization fund recently placed orders for the three-year bonds of SK Energy and GS.

Non-gilts Resorting to Private Bond Market

Corporate Bond Issuance Market Showing Tendency of Polarization

By Yoon Young-sil

The corporate bond market is polarizing rapidly with gilts, which are targeted by the government’s bond market stabilization fund, filling the public offering market and non-gilts resorting to the private bond market. Non-leading companies’ bond issuance is likely to become increasingly difficult with interest rates remaining low and a recession looming large.

At present, a number of companies with a credit rating of AA or higher are standing by in the public bond market. Specifically, 11 companies, including SK Energy, GS, Lotte Holdings, LG Hausys and LG CNS, are preparing demand forecasts.

The bond market stabilization fund targets AA-rated or higher debentures with maturity of three years or less. As such, the companies are preparing financing in the public bond market after postponed demand forecasts. Most of their bonds have a maturity of three years. On April 6, Lotte Food conducted its demand forecast with a target value of 70 billion won and the final result was twice the value.

Nonetheless, bond market experts point out that it is still too early to mention the market stabilization effect of the government’s bond in that a small number of institutions participated in the demand forecast and the company’s rate was higher than the average of private valuation firms. “In addition, even after the actual execution of the fund, bonds will be distinguished between those more promising and the rest,” one of them mentioned.

In the meantime, companies with a credit rating of BBB or less are hardly found in the public bond market these days. They are continuing with financing in the private bond, CP and ABS markets. For example, Asiana Airlines (BBB-), Halla (BBB0), Hanwha E&C (A-) and E-Land Retail (BBB+) recently issued private bonds.
The amount of outstanding bonds in Korea has surpassed 2,100 trillion won as the issuance of bonds such as financial bonds, government bonds, and asset-backed securities (ABS) increased sharply in March.

The Financial Investment Association announced on April 8 that the amount of bonds issued in March totaled 79 trillion won, an increase of 10.11 percent (7.25 trillion won) from the previous month. Net issuance increased by 31.45 trillion won, boosting the aggregate value of outstanding bonds to a record high of 2,000.89 trillion won.

The amount of government bonds issued in March reached 27.27 trillion won, an increase of 24.65 percent (5.35 trillion won) from the previous month. The amount of financial bonds and ABS issuance also increased by 75.9 percent and 101.4 percent to 22.285 trillion won and 2.424 trillion won, respectively.

Of the corporate bonds issued, those with a credit rating of A or higher accounted for 54.32 percent, while those with a BBB rating or lower 2.65 percent. Due to an intensifying credit crunch fueled by financial market instability, four of 25 demand forecasts in March remained unsold.

An economic recession kindled by the global spread of the novel coronavirus caused steepening where short-term interest rates declined and long-term interest rates rose despite a emergency cut in the benchmark interest rate and stabilization measures in the bond market (1.25 percent to 0.75 percent) Steepening.

As of the end of March, the balance of foreign bonds held by foreigners increased to 4.33 trillion won from the previous month (128,916.8 billion won). In the same month, foreign net purchases of Korean bonds amounted to 7.4 trillion won.

The Financial Supervisory Service and Korea Exchange announced on April 6 that the top 20 South Korean companies in terms of dividend payment are scheduled to pay foreigners a total dividend of US$4.37 billion this month.

In the case of Samsung Electronics, which pays quarterly dividends, the upcoming payment totals 2,405.4 billion won. With foreigners’ shareholding in the company at 56.9 percent as of the end of last year, they are scheduled to receive 1,368.6 billion won in the middle of this month. POSCO, which also pays quarterly dividends, pays 164.7 billion won to foreigners this month.

Shinhan Financial Group, KB Financial Group, Hyundai Motor Company and SK Hynix pay dividends once a year. Their payments to foreigners, which are scheduled for this month, are 569.2 billion won, 572.6 billion won, 315.4 billion won and 345.4 billion won, respectively.

Many firms such as Samsung Electronics, SK Telecom and Samsung C&T increased their dividends this year and the 20 companies’ combined dividend payment to foreigners is likely to exceed last year’s amount. Under the circumstances, South Korea is likely to post a current account deficit this month as the U.S. dollar will flow out in the form of dividends.

Back in April last year, the outflow added up to US$6.7 billion amid a poor export performance and, as a result, South Korea posted its first current account deficit, US$390 million, since April 2012. The same is likely to occur this month according to the financial investment industry.
Shinhan Bank is considering selling a portion of its stake in Shinhan Bank China to increase the Chinese subsidiary’s capital and expand its sales power by joining hands with a local partner.

Shinhan Bank is reportedly considering selling about 40 percent of its stake in Shinhan Bank China. It plans to increase the affiliate’s capital by issuing new shares along with the sale of old shares.

Shinhan Bank plans to maintain its position as the largest shareholder even after the stake sale. Yet the sales process is not moving forward due to the COVID-19 outbreak.

In 2019, Shinhan Bank China’s total assets and liabilities were 5,451.6 billion won and 4,987.5 billion won, respectively. Its operating profit in 2019 was 226.9 billion won, down 20 percent from the previous year. Its net income increased by 11 percent during the same period to 35.3 billion won.

The planned stake sale reflects the bank’s strategy to strengthen Shinhan Bank China’s sales power. It is looking for a local partner to expand the Chinese subsidiary’s business scope.

South Korean banks are focusing on Myanmar in that the country is close to both China and India and has huge growth potentials as a manufacturing base and a consumer market.

For example, KB Kookmin Bank and Industrial Bank of Korea (IBK) obtained preliminary banking licenses from the central bank of Myanmar on April 10. That day, Korea Development Bank (KDB) obtained an approval to set up branches. The final approvals of KB and IBK can be obtained after nine months of preparation. KDB Myanmar can handle both corporate finance and retail banking and can establish up to 10 branches.

Myanmar has a population of more than 52 million and their consumption is expected to increase a lot, which means a lot of retail banking opportunities for South Korean banks. The per-capita GDP of the country reached US$1,200 last year and is expected to top US$10,000 in 2023. Last year’s figure is significant in that large-scale durable goods consumption is regarded as starting at a per-capita GDP of US$1,000.

At present, approximately 300 South Korean companies are doing business in Myanmar. In addition, the Korea-Myanmar Economic Cooperation Industrial Complex, which is expected to house 300 companies, is currently under construction near the capital city of Yangon. South Korean banks’ role is expected to expand along with the business of those companies.
For Violation of Anti-Money Laundering Law

USAO and NYSDFS Imposes US$86 Mil. Fine on IBK

By Yoon Young-sil

The U.S. Attorney’s Office and the New York State Department of Financial Services imposed a fine of US$86 million on Industrial Bank of Korea (IBK) for its violation of the U.S. anti-money laundering law.

From February to July 2011, a South Korean trading company in intermediate trade with Iran conducted overseas remittance of the U.S. dollar after receiving export proceeds by using a won payment account in the bank. The Public Prosecutor’s Office of Korea detected a false transaction of the CEO of the company in January 2013, and he was arrested and charged with a violation of the Foreign Exchange Transactions Act. According to the Public Prosecutor’s Office, IBK employees were not aware of the fact and did not conspire with him at that time.

The U.S. Attorney’s Office conducted investigations regarding the transactions of the company and then suspended the indictment of IBK New York as a financial agent through the recent agreement on the fine.

IBK must pay US$51 million to the U.S. Attorney’s Office and US$35 million to the New York State Department of Financial Services.

Internal Control Failure by J.P. Morgan Securities

FSS Makes Issue of Internal Control of J.P. Morgan Securities Seoul

By Yoon Young-sil

The Financial Supervisory Service (FSS) recently told the Seoul branch of J.P. Morgan Securities to strengthen its internal control with regard to inter-subsidiary relations.

According to the FSS, J.P. Morgan Securities Seoul involved in transaction size and price determination, beyond customer introduction, during J.P. Morgan Chase Bank’s structured deposit marketing. “In addition, J.P. Morgan left no records as to bond marketing managers’ meetings and did not inspect messenger chats during its meeting and communication record inspection and the inspection stopped at checking five-day emails of just one staff member in each department,” the FSS explained.

The FSS also called for J.P. Morgan to improve its monitoring in relation to trading of research objects. The FSS said that trading without evidence documents and clear reasons occurred in its subsidiaries between 2016 and May last year.

These days, the moral hazard of foreign securities companies involved in naked short selling, scalping, and the like is coming under increasing criticism. According to Democratic Party lawmaker Kim Byung-wook, a total of 101 securities companies, including 94 foreign, were sanctioned for naked short selling in South Korea during the past 10 years.
Supervision on Non-bank Financial Groups Tightened

6 Financial Groups Required to Disclose Governance and Internal Transactions from September

By Yoon Young-sil

South Korea’s six non-bank financial groups -- Samsung, Hyundai Motor, Mirae Asset, Hanwha, Kyobo, and DB -- will be required to disclose their ownership and governance structures, internal control and risk management systems, capital adequacy, and internal transactions starting in September.

The Financial Services Commission announced on April 29 that it has decided to revise its regulations on the supervision of financial groups and implement them for one more year. This amendment included clauses on improving the financial adequacy evaluation system of financial groups, establishing an internal control system, and introducing financial disclosures by groups.

The Capital Adequacy Evaluation System previously measured concentration risk and transfer risk separately, but the amendment adopted a method of evaluating concentration risk and transfer risk as a group risk.

Regarding the establishment of the financial groups’ internal control systems, the rules of the internal control system of the financial group were introduced, focusing on representative companies. Through discussions among affiliated financial companies, a common internal control policy at the financial group level will be established, and the Internal Control Standards on Financial Groups will be established based on the common internal control policy.

Moreover, beginning this September, financial group level disclosures will be become mandatory. Previously, discussions were conducted in the form of public disclosures after the provision of laws in the model standards, but the amendment removed the provision for the suspension of disclosures. Companies representing financial groups will have to disclose their financial companies’ ownership and governance structures, internal control and risk management systems, capital adequacy, and internal transactions every quarter and every year.

Rules for Fund Management Eased

30% Market Cap Limit Abolished

By Yoon Young-sil

Korea Exchange announced on April 28 that it has decided to abolish the 30 percent market cap limit that has been applied to the KOSPI 200 and KRX300 indices. It explained that the measure is for fund management-related deregulation in the local capital market.

A revised enforcement ordinance of the Capital Markets Act became effective on April 1. According to the enforcement ordinance, an ETF following a major market index such as KOSPI 200 is allowed to contain a stock to the same extent as its ratio in the index. Previously, the ratio of a certain stock in an index was limited to 30 percent.

The market cap limit was introduced in June last year so that an abnormal dependence on a certain stock can be prevented. After the introduction, the limit drew much attention in relation to Samsung Electronics, which is substantially the only stock that is capable of reaching the limit.
**Profitability Plunges**

Operating and Net Profits of Listed Companies Nosedive

By Yoon Young-sil

Korea Exchange announced on April 1 that 583 KOSPI-listed companies that recently submitted consolidated financial statements and do not include those with a fiscal year-end of December and financial companies posted 2,006 trillion won, 102 trillion won and 52 trillion won in 2019 sales, operating profit and net profit, respectively. The operating and net profits dropped 37.04 percent and 52.82 percent whereas the sales edged up 0.47 percent.

Their profitability plunged, too. Specifically, the operating profit-to-sales ratio fell 3.03 percentage points to 5.09 percent and the net profit-to-sales ratio fell 2.95 percentage points to 2.61 percent.

When Samsung Electronics, which accounts for 11.48 percent of the sales, is excluded from the statistics, the sales edged up 1.3 percent to 1,776 trillion won, the operating profit dropped 28.02 percent to 74 trillion won and the net profit plummeted 54.04 percent to 31 trillion won. In addition, those companies’ consolidated debt ratio rose 7.34 percentage points to 111.86 percent in 2019.

The 583 companies include 416 in the black and 167 in the red. The net profit increased 137.23 percent in the textile and apparel industry, 78.64 percent in the construction sector, and 51.12 percent in transportation equipment industry.

On the other hand, it dropped 64.75 percent, 60.45 percent, 55.85 percent, and 55.54 percent in electric and electronics, chemical, paper and wood, and precision medicine. The transportation and warehousing sector and the electricity and gas industry remained in the red last year.

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**Korean Firms' Foreign Currency Bond Spreads Increasing Fast**

Large Number of Companies Facing Credit Rating Cut

By Yoon Young-sil

S&P and Moody’s have become more pessimistic about the credit ratings of no less than 45 South Korean companies for the past three months that followed the outbreak of COVID-19. For reference, the number stood at 29 even after Lehman Brothers went under in 2008.

According to investment banking sources, the international credit rating agencies have reviewed the credit ratings of South Korean companies since late January. The number of companies subject to the review was two in January, 11 in February and 15 in March. It is 17 this month. A lowered credit rating is highly likely to entail serious repercussions such as companies in the black going bankrupt for a short-term liquidity shortage.

Back in 2008, the two credit rating agencies lowered the credit ratings of seven South Korean companies, adjusted the outlooks of 17 and considered lowering the ratings of two. This year’s figures are eight, 14 and 23, respectively. The 23 include major corporations such as Hyundai Motor Company, SK Innovation, LG Chem, KCC and Mirae Asset Daewoo.

Under the circumstances, the foreign currency bond spreads of South Korean companies are increasing fast. For example, the yield gap between POSCO’s five-year U.S. dollar bond and the five-year U.S. Treasury bond more than doubled from 1.07 percentage points to 2.16 percentage points from July 12 last year to April 22 this year.
Due to Lack of Quorum

Agenda Items Rejected in Multiple Listed Companies

By Yoon Young-sil

The Korea Listed Companies Association and the KOSDAQ Listed Companies Association recently looked into 754 KOSPI-listed and 1,275 KOSDAQ-listed companies with a fiscal year end of December and announced on April 2 that a total of 340 companies have failed to win approval on their agenda items due to an insufficient quorum.

The ratio of such companies, which stood at 3.9 percent in 2018, jumped to 9.4 percent in 2019 and 16.8 percent this year. The abolition of shadow voting and the limitation on the largest shareholder’s shareholding in director appointment are mentioned as causes of the increase.

Auditor appointment accounted for 92.6 percent of the rejected items, followed by a change in the articles of association (12.1 percent) and director compensation approval (5.3 percent).

According to the associations’ survey, the companies with the rejected items provided shareholder meeting-related information before statutory deadlines and actively adopted electronic voting and power of attorney for a higher participation rate. Specifically, most of the companies completed agenda disclosure more than three weeks ahead of the date of shareholder meeting and 86 percent of the companies introduced electronic voting.

“The shadow voting was abolished in 2017, and then the auditor appointment demand increased to result in a large number of rejections,” the associations explained, adding, “The commercial code needs to be revised without delay and the 3 percent rule related to the largest shareholder’s shareholding in director appointment has to be repealed immediately.”

Rules on PEFs Strengthened

Mandatory External Audit Applied to Certain PEFs

By Yoon Young-sil

The Financial Services Commission and the Financial Supervisory Service released a PEF market improvement plan on April 26 so that the recent accidents related to derivatives-linked funds and LIME Asset Management are not repeated.

According to the plan, a mandatory external audit is applied to every PEF with a total asset of more than 50 billion won and every PEF with a total asset of 30 billion won to 50 billion won entailing additional issuance within six months. In addition, when it comes to cross trading, every asset without a reliable market price is subject to assessment by an independent organization such as an accounting firm and the monthly size of cross trading is limited to up to 20 percent of the average trust for the preceding three months.

The minimum capital requirement has been changed from 700 million won to capital accumulation in proportion to the trust by a factor of 0.03 percent. Also, PEF managers must submit internal control and risk management reports to the supervisory authorities.

Maturity extension or redemption deferment in the case of a qualified non-institutional investor’s PEF worth 300 million won or more is subject to a collective meeting within three months for redemption-related mandatory determinations.
About 70% Growth from Previous Quarter

Korean Investors’ Direct Purchases of Overseas Stocks Hit a New High in Q1 of 2020

By Yoon Young-sil

The amount of Korean investors’ investment in foreign securities reached a new high in the first quarter of 2020.

The settlement amount of foreign currency securities by Korean investors stood at US$66.586 billion in the first quarter, said the Korea Securities Depository on April 16. This was an increase of 68.2 percent from the previous quarter (US$39.57 billion). Payments for foreign currency stocks (US$27.48 billion) inflated 162.9 percent, and payments for foreign currency bonds (US$391.3 billion) climbed 34.3 percent.

Payments for stocks in the Euro market touched US$ 3.37 billion, representing the highest proportion of 49.9 percent of the total.

The Euro market was followed by the United States (US$29.75 billion), Hong Kong (US$2.52 billion), China (US$980 million), and Japan (US$540 million).

It was Tesla stocks (US$ 1.47 billion) in the United States that Korean investors purchased most. The amount of Tesla stocks purchased by Koreans rose 764.7 percent from the previous quarter. Tesla was followed by large U.S. tech giants including Apple (US$1.15 billion), Microsoft (US$1.6 billion), Amazon (US$1.5 billion), and Alphabet A (US$59 million).

Individual Investors Account for 68.1%

Foreign Derivatives Trading by Local Investors Increases Substantially in Q1

By Yoon Young-sil

The Korea Financial Investment Association announced on April 22 that South Korean investors’ foreign derivatives trading totaled 42.06 million contracts in the first quarter of this year, up 56.9 percent from a year ago and up 82.8 percent from the previous quarter. Futures trading accounted for 87.6 percent of the total.

A total of 20.81 million contracts were carried out in March, 9.86 million in January and 11.39 million in February.

Individual investors accounted for 68.1 percent of the total, up 95.8 percent from a year ago and up 99.1 percent from the previous quarter. The ratio of individual investors’ trading to the total rose from 54.6 percent to 68.1 percent in one year.

Securities companies constituted 18.4 percent while banks, futures trading companies and asset management firms represented approximately 1 percent. Other corporate bodies accounted for 9.3 percent.
Large Valuation Losses

Net Assets of Overseas Investment Funds Fall 7 Tril. Won in March

By Yoon Young-sil

The Korea Financial Investment Association announced on April 12 that the net asset of overseas investment funds totaled 186,983.5 billion won at the end of March this year, down seven trillion won from a month earlier.

During the same period, the total size of the funds decreased from 188,090.2 billion won to 187,797.7 billion won. The net asset fell seven trillion won while the size decreased by 290 billion won, and this means the valuation losses are pretty large. During the period, the net asset of stock funds fell more than two trillion won to 17,529.6 billion won.

The net asset of overseas funds of funds fell approximately three trillion won to 28,888.8 billion won and that of derivative funds fell from 16,951.1 billion won to 15,890.4 billion won. Likewise, that of mixed asset funds decreased from 11,830.6 billion won to 11,511.1 billion won. On the other hand, the net asset of special asset funds rose from 47,489.8 billion won to 48,311.2 billion won.

Last month, the net asset of public funds decreased more than the net asset of private funds. Specifically, those fell approximately five trillion won and two trillion won, respectively. For reference, the sizes of the funds were about 37 trillion won and about 150 trillion won at the end of March, respectively.

Focusing on ETFs

Foreign Investors Increase Investment in ETFs

By Jung Suk-yeo

Korea Exchange announced on April 13 that foreign investors posted a net purchase of 233.8 billion won in the KODEX 200TR ETF last week and Monday this week. During the same period, they net-bought 110.1 billion won of KODEX MSCI Korea TR and 48.5 billion won of TIGER MSCI Korea TR.

In addition, in the KOSDAQ market, their net purchase totaled 42.7 billion won, 23.3 billion won and 9.1 billion won for KODEX KOSDAQ, KODEX KOSDAQ 150 Leverage and KODEX KOSDAQ 150 Futures, respectively. On April 10, their top 10 net purchases included five ETFs in both markets.

With the total return ETFs for dividend reinvestment constituting the top net purchases, more and more foreign investors are expected to prepare a long-term investment in the South Korean stock markets.

However, analysts say that foreign investors are not optimistic about the markets yet. “It seems that the investment in the total return ETFs is for futures hedging or basket hedging and foreign investors are using the ETFs for short-term as well as long-term trading,” an asset management firm explained.

According to market experts, foreign investors, who sold South Korean stocks worth more than 13 trillion won last month alone, are betting on a short-term rally and adjusting their portfolios with ETFs rather than resuming a large-scale investment in the local stock markets. Especially, they bought a lot of ETFs in the KOSDAQ market during this month’s rally. “Leveraged ETFs are used for short-term gains and the purchase seems to have to do with arbitrage trading,” one of them mentioned.
Volume of Virtual Asset Transactions Decreases
4 Virtual Asset Exchanges’ Sales Plunge by 600 Bil. Won in 2019
By Yoon Young-sil

Korea's top four virtual asset exchanges -- Upbit, Bithumb, CoinOne, and Korbit -- suffered a sharp drop in their sales in 2019. According to their audit reports, combined sales plunged from 902.4 billion won in 2018 to 299.5 billion won in 2019. The decline in their sales means that the volume of domestic virtual asset transactions decreased as their main income sources are trade commissions.

In fact, the four exchanges except CoinOne posted a sharp drop in operating profit compared to 2018. CoinOne’s audit report covers its business performance only for the second half of 2019. When its business results in the first half are counted, it probably suffered a drop in full-year operating profit.

Upbit posted 142.2 billion won in sales in 2019, about 70 percent down from 479.5 billion won in 2018. Its operating profit also plummeted to 42.2 billion won in 2019 from 285.2 billion won in 2018. As a result, a change was made in the two-runner race between Upbit and Bithumb. Upbit ranked first in 2018 in terms of sales, operating profit, and net profit, but it fell to second place in all areas in 2019.

CoinOne recorded 12 billion won in net loss even though it posted an operating profit. Its non-operating expenses increased significantly in 2019. In 2018, CoinOne launched CGEX, a virtual asset exchange in Indonesia and Malta, to expand its overseas exchange business, but they were all shut down, with loss from the investment counted as non-operating expenses.

In 2019, Korbit posted 3.7 billion won in sales, a significant decrease from 26.8 billion won in 2018. However, by reducing fixed costs such as labor cost and monthly rents, the exchange cut operating costs by half. As a result, Korbit recorded a deficit of 12.8 billion won in 2019, which represented an improvement from a net loss of 45.7 billion won in 2018.

Bithumb recorded a net loss of 205.7 billion won in 2018 but turned to a surplus by achieving a net income of 37.2 billion won in 2019. Its sales decreased by more than 60 percent to 144.6 billion won compared to 391.6 billion won in 2018.

Demand for U.S. Dollar on the Increase
Competition Intensifying in Dollar Insurance Market
By Yoon Young-sil

Competition in the dollar insurance market is heating up as demand for the U.S. dollar as a safe asset is on the increase with interest rates remaining low. The Q1 sales of some dollar insurance products almost tripled from a year ago and insurers are coming up with more and more such products.

Prudential Life Insurance’s whole-life dollar insurance launched in 2018 posted 5,335 new contracts in Q1, up almost 300 percent year on year. In addition, the total sales of MetLife’s dollar insurance amounted to 116,000 cases at the end of March this year with an initial premium of approximately 33 billion won. In short, the dollar insurance demand is increasing fast with uncertainties and volatilities rising in financial markets.

In this regard, MetLife recently released annuity insurance providing a life annuity in dollar and allowing won-based subscription even without a foreign currency account and the dollar.

Prudential Life Insurance’s new products include whole-life dollar insurance that can be conveniently bought even by those with diseases and senior citizens. KDB Life Insurance released a similar product early this year, too.
Financial holding companies’ competition in the non-bank sector is likely to heat up with Prudential Life Insurance successfully acquired by KB Financial Group.

At present, Shinhan Financial Group’s life insurance arms Shinhan Life Insurance and Orange Life are planning to complete their merger in July next year and Woori Bank’s equity investment in MG Non-life Insurance is scheduled to be completed this week. In addition, Hana Financial Group is planning to become a leading player in the digital insurance market of South Korea based on Hana Life Insurance, The-K Non-life Insurance it acquired early this year and fintech firm Bomapp it invested in last year.

Once KB’s acquisition of Prudential is completed, the contribution of the financial group’s insurance business unit to the net profit of the entire group will rise from 7.3 percent to 11.3 percent. Then, KB can get the upper hand in the non-bank competition given that the contribution was 8 percent and 1 percent last year when it comes to Shinhan and Hana, respectively.

KB and Shinhan are less vulnerable to new life insurance regulations such as IFRS 17 and K-ICS in that the RBCs of Prudential and Orange are the highest in the industry. Market value-based valuation of liabilities is scheduled to become effective in 2023 and the RBCs of most local life insurers are likely to fall below the 100 percent standard with their liabilities increased amid low interest rates. However, the RBCs of Prudential and Orange as of the end of last year are 424.3 percent and 393.9 percent, highest and second-highest in the industry, respectively. This means KB and Shinhan can create new business opportunities while the others have to collect more cash for recapitalization and the two can pose a threat to existing life insurers such as Kyobo and Hanwha.

Hana Financial Group is also trying to increase its share in the local insurance market. The combined market share of The-K Non-life Insurance and Hana Life Insurance currently stands at 0.7 percent or so, and the group is likely to focus on digital insurance to make the most of its small size.

Woori Financial Group, which has no subsidiary in the insurance industry now, is expected to initiate M&A targeting a life insurer in the near future. The potential targets include MetLife, Kyobo and Tongyang. 📝
Korean ICT companies' R&D investment in 2018 amounted to 40.22 trillion won, exceeding 40 trillion won for the first time. The figure represented 58.4 percent of the aggregate R&D investment in all industrial sectors, which amounted to 68.83 trillion won.

According to data released by the Ministry of Science and ICT, the ICT sector’s R&D investment in 2018 increased 11.9 percent from 35.948.8 billion won in 2017. ICT companies’ R&D investment increased by nearly 10 trillion won in just two years after surpassing 30 trillion won in 2016. The number of ICT R&D personnel touched 169,281, an increase of 7 percent from 158,197 in 2019.

The Ministry of Science and ICT derived the data based on responses from a 2018 R&D activity survey data conducted by the Korea Institute of Science & Technology Evaluation and Planning (KISTEP) on companies with R&D organizations. A total of 13,024 ICT were polled by the survey.

By company type, R&D investment by venture companies increased by 19.7 percent on year to 3.3 trillion won, the largest increase, followed by medium-sized companies (14.5 percent), large companies (11.4 percent) and small companies (5.0 percent).

Total R&D investment amounts were 32.854.0 trillion won for large companies, 2,114.1 trillion won for mid-sized companies, and 1,910.8 trillion won for SMEs.

R&D concentrations calculated by R&D investment compared to sales were 8.5 percent for large companies and 7.2 percent for venture companies while mid-sized companies and small companies recorded only 2.8 percent and 4.2 percent, respectively. The R&D concentration of the entire ICT industry reached 7.4 percent.

By sector, ICT and broadcasting equipment companies, including producers of semiconductors and smartphones, accounted for 92.6 percent of the total R&D investment and 73.8 percent of the R&D workforce. Among ICT and broadcasting equipment companies, the electronic components industry including semiconductors invested 9,244.3 billion won and communication and broadcast equipment companies including smartphone makers 19,337.8 billion won. The combined amount of the two industries’ R&D investments amounted to 28,582.1 billion won, accounting for approximately 71 percent of the total R&D investment. In particular, the survey found that ICT and broadcasting equipment companies accounted for 32,340.7 billion won of the 32,854.0 billion won R&D investment by large companies. ICT and broadcasting equipment companies took the lion’s share of the investments by medium-sized companies, small companies and venture companies, even though their share was relatively small.

Private funds used for investments amounted to 37,647.6 billion won (93.6 percent of the total). Government funds amounted to 1.52 trillion won, and financial resources in the public sector reached 5.5 billion won. The share of investments by the SW and digital content development and production business among ICT R&D personnel has steadily increased from 19.5 percent in 2015 to 20.8 percent in 2016, 21.7 percent in 2017, and 23.1 percent in 2018.
For Expansion of 2nd Plant in Xian

Samsung Electronics in Talks with Chinese Government to Dispatch Engineers to Xian Chip Plant

By Kim Eun-jin

Samsung Electronics is in consultation with the Chinese government to dispatch semiconductor engineers to China. If the Chinese government, which has blocked foreigners’ entry due to fears of a resurgence of the new coronavirus, grants special entry, it will be the first large-scale business trip by employees of a Korean company after the blockage in China.

The Korean semiconductor giant is reportedly planning to send about 200 engineers to China with regard to the expansion of its second plant in Xian.

If the Chinese authorities give Samsung Electronics the permit, the engineers will undergo quarantine for seven to 14 days depending on their health conditions.

The Xian factory is Samsung Electronics’ only overseas base for memory semiconductor production. The second factory produces V-NAND flashes with a three-dimensional structure. Samsung Electronics has invested US$7 billion in the second factory since 2017, and plans to invest an additional US$8 billion for the second-phase expansion. When the plant is expanded as planned, it will be able to process 130,000 units of wafer per month for production of NAND flashes.

Chinese Premier Li Keqiang visited the Xian plant in October 2019 to encourage Samsung Electronics to expand investment. He said at the time that China welcomed high-tech investment in China by foreign companies from all over the world, including Samsung Electronics.

China Rejects Request for Exemption from Quarantine Regulation

LG Display Planning to Dispatch Officials to OLED Factory in Guangzhou Through a Charter Flight

By Michael Herh

LG Display has decided to dispatch its officials to China through a chart flight later this month to make final preparations for the operation of its new organic light emitting diode (OLED) panel factory in Guangzhou.

The company plans to start operation of the new plant, which was completed in August last year, in the second quarter of 2020.

LG Display has recently finished the selection of necessary personnel to operate the OLED panel factory, and informed them of a business trip plan with the departure date set at March 26.

However, it is unclear whether the inspection team can start work at the plant as planned if Chinese authorities force travelers from Korea to isolate themselves for two weeks. The team consists of more than 100 officials, including researchers and engineers.

LG Display has asked Asiana Airlines, which operates flights to Guangzhou, to arrange a charter flight to depart on March 26.

LG Display planned the large-scale business trip despite a decision in January by all LG Group affiliates to minimize business trips to China because of the COVID-19 outbreak. This means that a countdown began for the operation of the Guangzhou OLED panel plant. LG Display initially planned to put the plant into operation in August last year, and it was postponed afterwards. So the company judged that it could not delay the factory’s operation any longer.

LG Display plans to supply a significant amount of OLED panels from the Guangzhou plant to LG Electronics which makes OLED TVs. OLED panel supply to LG Electronics has not been smooth so the TV maker has not been able to roll out 48-inch OLED TVs as planned.

However, Guangzhou has been implementing immigration measures on travelers from Korea since February. LG Display officials who need to be immediately put into the production process at the factory can be isolated in a quarantine facility for at least two weeks.

Recently, the Korean Ministry of Foreign Affairs and LG Display have requested the Guangzhou government to exempt the LG team from the quarantine regulation, but the request was rejected. LG Display has included officials who returned to Korea from China shortly after the virus outbreak in the inspection team as new business travelers have trouble in receiving a visa from China. As a result, there is concern that China’s strict immigration measures could delay or abort LG Display’s manpower dispatch plan.
SK Telecom announced on March 30 its 5G milestones achieved over the past year since launching the world’s first 5G service on April 3, 2019, along with its plans going forward.

According to data released by the Korean Ministry of Science and ICT in January 2020, SK Telecom has established itself as the leader in the 5G market with around 2.22 million subscribers and 44.7 percent market share.

SK Telecom has increased customers’ 5G experience and acceptance by creating around 70 5G Clusters in key commercial districts and densely populated areas throughout the nation. To date, around 1 million customers visited 5G Clusters to experience differentiated 5G services including ‘Jump AR Zoo’ and ‘5G LoL Park.’

According to SK Telecom’s analysis on 5G subscribers, people in their 30s and 40s are taking up 53 percent of the company’s total 5G subscriber base, which is significantly higher than the proportion of people in their 30s and 40s in total LTE subscriber base, which currently stands at 32 percent.

The total amount of data consumption of SK Telecom’s 5G subscribers reached 62,000 TB on average per month over the past three months (Dec. 2019 - Feb. 2020). During the same period, the average monthly data usage of subscribers who switched devices from LTE to 5G has increased about twofold from 14.5 GB (LTE) to 28.5 GB (5G) per person.

SK Telecom’s 5G subscribers are found to be using media services, which generally require greater speeds and bandwidths, much more actively than LTE subscribers. As of February 2020, 5G subscribers are using 7 times more VR services, 3.6 times more video streaming services and 2.7 times more game apps than LTE subscribers.

Armed with its strong capabilities in 5G, SK Telecom has successfully expanded into new business areas. The company is cooperating with Microsoft and Amazon Web Services in the area of cloud, and has ventured into the U.S. next-generation broadcasting (ATSC 3.0) market with Sinclair Broadcast Group.

SK Telecom also shared its experience and know-how in 5G with other mobile operators across the globe including Deutsche Telekom, Taiwan Mobile and IT&E.

Going forward, SK Telecom aims to earn the title of the world’s best 5G service provider through hyper-collaboration with strong global companies. At CES 2020, SK Telecom’s President and CEO Park Jung-ho suggested “Hyper-Collaboration” with diverse Korean ICT companies to achieve innovations in areas including artificial intelligence.

For consumers, SK Telecom plans to focus on providing differentiated 5G services that innovate user experience through borderless collaboration with diverse ICT companies including cloud service providers, device manufacturers and telecommunications companies.

It plans to continue to work closely with Microsoft to prepare mobile cloud streaming games and will also open ‘Jump Studio,’ a mixed-reality content production facility.

SK Telecom and Microsoft are currently providing 92 different games through Project xCloud. Cloud gaming service is being highlighted as the ‘game changer’ that will shift the paradigm in the gaming industry by enabling users to play high quality, premium games anywhere, anytime by accessing the cloud server.

Jump Studio will provide solutions that enable the creation of 3D content like holograms by combining the technological
strengths of augmented and virtual reality technologies. SK Telecom expects Jump Studio to accelerate the popularization of realistic media by significantly reducing time and cost for content creation.

SK Telecom plans to release mobile device applied with global leading quantum cryptography technologies and provide advanced security solutions to 5G users.

In B2B, SK Telecom announced its vision of expanding the enterprise business in full scale by marking 2020 as the first year of its B2B business. To this end, the company will work closely with companies of diverse industries to serve as a catalyst for industrial innovations in Korea.

SK Telecom plans to build 5G MEC (Mobile Edge Computing) Centers in 12 different locations across Korea to lead a cloud-driven industrial revolution. To this end, the company is preparing to launch nationwide 5G edge cloud service by joining hands with global leading cloud companies such as Amazon Web Services and Microsoft.

5G edge cloud, once commercialized, will provide ultra-low latency connectivity for services like unmanned delivery robots and telemedicine, thereby bringing unprecedented changes to all industries including manufacturing, distribution and healthcare.

SK Telecom plans to deploy a private 5G network at SK Hynix’s semiconductor manufacturing facility to realize 5G smart factory that can lead to a supercycle in the semiconductor industry. The company is planning to add cutting-edge ICT including AI video analytics and AR technology to its 5G network.

SK Telecom is also cooperating with Korea Hydro & Nuclear Power (KHNP) to realize 5G smart power plant. It will first upgrade real-time drone monitoring system for dams, remote water level monitoring system, and situation sharing system by applying private 5G network and quantum cryptography technologies to KHNP’s hydro-electric/pumped storage power plant.

Furthermore, the company will continue to work closely with Seoul Metropolitan Government to accelerate the C-ITS (Cooperative Intelligent Transportation System) project by applying Road Learner, which consists of 5G ADAS (Advanced Driver Assistance System) and Live HD Map Update solution. 5G ADAS and Live HD Map Update solution are key technologies for autonomous driving as 5G ADAS improves driving safety through features including lane departure warning and forward collision avoidance, and Live HD Map Update solution reflects road situations to HD maps in real time.

In 2020, SK Telecom will bring the total number of its 5G Clusters to 240 and expand 5G coverage to neighborhoods (‘dong’) of 85 cities nationwide by working closely with telecommunications equipment manufacturers.

The company will also secure indoor coverage for a total of 2,000 buildings, including not just airports, department stores and large shopping malls but also small-to medium-sized buildings, by applying its sophisticated 5G in-building solutions.

“SK Telecom was able to secure new business opportunities ahead of others by achieving the world’s first 5G commercialization,” said Ryu Young-sang, vice president and head of MNO Business of SK Telecom. “We are confident that the 5G business models to be launched this year will drive the company’s growth over the next decade.”

As of April 2, South Korea’s 5G subscribers topped 5.77 million with 115,000 base stations in operation nationwide, according to the data released by the Ministry of Science and ICT. In terms of the number of 5G subscribers, Korea ranked second in the world after China. Yet Korea has the highest penetration rate of 9.67 percent.

The rates of major foreign countries are 1.3 percent for Australia, 0.69 percent for China, 0.63 percent for the United States and 0.56 percent for United Kingdom, according to the GSMA.

Korea’s 5G achievements are the result of steady investment by mobile service operators. In 2019, the capital expenditure (CAPEX) of the three Korean mobile operators reached 8.08 trillion won, about 60 percent increase from the previous year. Their CAPEX-to-sales ratio is 20.9 percent, which is about 6 percentage points higher than that of U.S. mobile carriers. SK Telecom’s CAPEX increased 37 percent on year and its CAPEX-to-sales ratio stood at 25.5 percent, about 9.2 percentage points higher than that of Verizon in the United States.

Telecom industry experts say that the world’s best 5G infrastructure in Korea will contribute to the Korean economy’s recovery from the COVID-19 crisis. Just as the Korean economy overcame the 1997 crisis and the global financial meltdown in 2008 through massive investment in CDMA technology and smartphones, 5G is expected to play a role in overcoming the COVID-19 crisis.

Korean mobile carriers have decided to increase their investment in 5G networks in the first half of 2020 by 50 percent from 2.7 trillion won to 4 trillion won. In addition, they are planning to expand coverage by installing 5G indoor base stations in about 2,000 sites including subways, airports, department stores, and small and medium-sized buildings.
The Financial Services Commission decided on April 1 to make an exception to the fintech research institute of Kakao Bank, which is scheduled to be established next year, with regard to network separation. Under the circumstances, fintech innovation in South Korea is expected to speed up.

At present, South Korean financial and fintech companies must maintain intranet systems and external communication networks, such as the Internet, separately. It has been pointed out that this regulation is not suitable in terms of work efficiency when remote work is required due to reasons such as the ongoing spread of COVID-19.

According to those in the industry, network separation acts as a hindrance to the development of innovative services although it is effective in terms of security. Especially, it has been difficult for developers to utilize open sources and cloud computing as internal servers must be physically separate from external communication networks.

They have called for a change such as network separation exception limited to development activities. “Innovative technologies such as open source libraries cannot be utilized under the current regulations,” said a developer in the local fintech industry, adding, “Work efficiency can be boosted if terminals used for development purposes and leading to no customer information leakage can be excluded from the regulations.”

In addition, those in the industry say that data-level network separation can be effective in terms of efficiency and security alike. According to the current regulations, a network must be divided into internal and external networks, general and confidential data must be stored in the former, and data utilization analysis tools must be located in the latter.

Netflix has declared not to pay network fees in South Korea, following in the footsteps of Google and Facebook.

Netflix Korea filed a suit against SK Broadband on April 13, claiming that it does not have to pay the costs for network operation, expansion and use requested by the latter.

Their network fee conflict dates back to last year. SK Broadband claimed that Netflix caused a surge in data traffic without paying the price. Netflix, in response, said that no content provider must pay the fee and proposed free cache server installation for easier traffic management.

The two sides negotiated on the issue, failed to reach an agreement, and asked the Korea Communications Commission (KCC) to intervene in November last year. As a result of the filing, however, the KCC is no longer a part of the issue.

“We made repeated requests for cooperation with SK Broadband as in the previous cases of LG U+, LG Hello and D’live,” Netflix explained, adding, “Despite the suit, we will continue to work for consumers together with SK Broadband.”
Widening Gap with Chinese Semiconductor Companies

Samsung Electronics Enhances Chip Production Efficiency Through Process Improvement

By Michael Herh

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amsung Electronics has increased semiconductor output by about 40 percent when measured in terms of data unit, while maintaining its wafer input at a level similar to that of the previous year.

Samsung Electronics spent 1.86 trillion won for wafer purchases in 2019. In the preceding year, it spent 1.66 trillion won to purchase wafers. Considering that the price of new wafers increased by 12 percent in 2019 on year, there was virtually no change in the amount of wafer input during the two years.

On the other hand, the amount of semiconductors produced by Samsung Electronics in 2019 was 889 billion giga bits (Gb), up 39 percent from 711 billion Gb in 2018. Samsung Electronics increased semiconductor supply and increased profitability through process improvement rather than facility expansion, which requires an increased wafer input.

Samsung Electronics’ investment in the semiconductor sector declined to 23.72 trillion won in 2018 and 22.56 trillion won in 2019 after peaking at 27.35 trillion won in 2017. But its productivity has increased significantly. In 2020, its plan is to respond flexibly to changes in the semiconductor market with the focus on a process improvement.

Samsung Electronics is also accelerating its semiconductor micro-fabrication process. In the case of DRAMs, the chipmaker is working to convert its first-generation 10-nm (1x) process to a second-generation (1y) or third-generation (1z) one. As a DRAM production process is upgraded, the number of semiconductor chips produced with one wafer increases by 20 to 30 percent. In particular, in the case of mass production of 4th-generation 10-nm (1a) DRAMs by applying the extreme ultraviolet (EUV) process, it is possible to double production of semiconductors per wafer compared to a 1x process.

Samsung Electronics also succeeded in mass-producing sixth-generation (1xx-layer) NAND flashes in 2019. Sixth-generation NAND flashes have a smaller chip size than that of fifth-generation (9x-layer) products, and their productivity per wafer is about 20 percent higher than that of fifth-generation (9x-layer) products. Samsung Electronics forecast that NAND flashes’ bit gross (growth of semiconductor production per bit unit) will also be within 30 percent in 2020 so semiconductor shipments in terms of data are expected to increase further.

Some semiconductor industry experts say that China’s big bet on the semiconductor industry will not virtually pay off due to Samsung’s overwhelming cost competitiveness. Recently, YMTC announced that it will mass-produce 128-layer NAND flashes in 2020, but they significantly lag behind Samsung’s sixth-generation products. Samsung Electronics’ sixth-generation products reportedly applied channel hole etching technology that drills over 100 cells at one time through an etching process, while YMTC applied a method of stacking 64-layer NAND flashes on top of 64-layer NAND flashes, which is inferior technology compared to that of Samsung. Currently, Samsung Electronics is the only chipmaker where mass production of nine-layer or higher 3D NAND flashes can be mass-produced through one etching process.
Joining Hands with Google to Develop Application Processors

Samsung Cooperating with Rival Companies to Achieves No. 1 in System Semiconductors

By Michael Herh

Samsung Electronics is reportedly working with Google to develop a mobile application processor (AP), industry sources said on April 26. Industry analysts say that Samsung Electronics is cooperating with Google from the chip design stage in order to secure manufacturing of the chips at its foundry.

Samsung Electronics and Google can both benefit from cooperation. Samsung can increase the number of its foundry customers through production of APs for Google, while at the same time proving its AP design capabilities. Google believes that diversification of parts supply lines will reduce reliance on Qualcomm, and collaboration from the design stage will increase manufacturing productivity. Samsung expects that its cooperation with Google will help it expand its market share by winning additional contracts from global companies.

Samsung Electronics has been cooperating with its competitors at home and abroad in the field of system semiconductors. Samsung has adopted Qualcomm AP in place of its own products for its latest smartphone Galaxy S20. It was a move designed to win the latest modem chip foundry production order from Qualcomm.

Previously, Samsung Electronics has expanded the customers for its AP, including Chinese companies such as Vivo. China’s Huawei also recently announced its intention to use semiconductors from Samsung Electronics to avoid U.S. sanctions, increasing Samsung Electronics’ foundry customers.

In the image sensor field, Samsung Electronics continues to expand the customer base for its products. It has already supplied 180 million pixel image sensors to Xiaomi and Motorola.


Focus on Future Businesses

Samsung Electronics to Expand Signage and Foundry Businesses

By Michael Herh

Samsung Electronics is showing a strong will to foster its signage and foundry businesses.

Samsung Electronics’ U.K. subsidiary will provide a free remote management solution for customers of its digital signage for six months until October to ensure that no problem is caused by the spread of COVID-19.

With this solution, companies using Samsung’s digital signage can monitor and manage remotely their display solutions and update content without having to go to the sites in person.

With this solution, all screen displays can be controlled as if they were managed on the spot, and software can be automatically upgraded to keep signage in their best conditions. In addition, it detects more than 40 hardware errors in the network, diagnoses the problems by finding out the causes even without a service request, and tells users how to solve the problems.

On top of that, Samsung Electronics is further strengthening cooperation with global companies in the foundry sector. It has recently developed a 5 nm process-based system-on-chip (SoC) design tool and AI semiconductor design optimization (DSO ai) solution in cooperation with Synopsys, a global semiconductor electronic design automation (EDA) tool company.

"Development of DSO ai requires more than a month of hard work by several experts, but we only needed just three days," said Park Jae-hong, vice president of design services at the foundry division at Samsung Electronics.

Samsung Electronics held its first Samsung Advanced Foundry Ecosystem (Forum) Forum in 2019 and introduced its partnerships with ARM and Cadence, semiconductor design asset (IP) companies in the U.K., as well as Synopsis.

Due to the nature of the foundry business, cooperation with design specialists is vital to pioneering many future system areas such as smartphones and autonomous vehicles.
The Netherlands’ ASML is the world’s sole producer of extreme ultraviolet (EUV) exposure equipment used for semiconductor production. Yet the company is having difficulty exporting its equipment due to COVID-19, negatively affecting major global semiconductor producers including Samsung Electronics and TSMC. Some experts say that bigger damage will be done to Samsung than TSMC.

A delay in ASML equipment delivery is forcing the two foundry giants to change their development and production roadmaps. Taiwanese TSMC is considering postponing the test production of 3-nm semiconductors from June to October. Samsung Electronics was scheduled to begin mass production of 5-nm semiconductors in 2020, but a delay appears inevitable.

This situation is more painful to Samsung Electronics than TSMC. TSMC plans to produce 5-nm semiconductors for Apple, Qualcomm, Huawei, and AMD within the second quarter of 2020. The company is a step ahead of Samsung, which is yet to come up with a detailed schedule for mass production of 5-nm products.

Last year, Taiwanese companies led by TSMC swept ASML’s EUV equipment, accounting for 51 percent of the Dutch company’s total sales. Korean companies took up 16 percent of ASML’s sales. As Samsung’s acquisition of EUV equipment last year included that for DRAM production, its acquisition of EUV equipment for the foundry business is not enough compared to TSMC.

Samsung Electronics is confident of taking the top spot in the system semiconductor market in 2030, but the problem is that its gap with TSMC in the foundry market is widening. TSMC’s foundry share in the first quarter of 2020 increased by 1.4 percentage points from the previous quarter to 54.1 percent, while Samsung Electronics recorded a decrease of 1.9 percentage points to 15.9 percent, TrendForce said.

The EUV-based foundry market is a two-runner race between Samsung Electronics and TSMC. If Samsung Electronics fails to go ahead in technology, the market share gap will inevitably widen.

Samsung Electronics was the first company to introduce EUV in the foundry process, but it has failed to secure a technological edge in micro-fabrication process. If Samsung Electronics lags behind in the micro-fabrication competition with TSMC, it will be virtually impossible to win orders for semiconductors from IT industry leaders such as Apple and Qualcomm.

Kim Ki-nam, vice chairman of Samsung Electronics, said in its general shareholders' meeting in March, “There is a gap between Samsung Electronics and TSMC in the foundry business, but we will develop our foundry business by securing leadership in new processes.” Yet the company cannot take leadership in new processes if its introduction of EUV equipment is delayed.

Samsung Electronics has topped the U.S. patent list for three consecutive years.

The Korea Institute of Intellectual Property said on March 11 that Samsung Electronics has secured the top spot in a list of top 100 U.S. patent companies, which was announced in February by IAM, a U.S. publication that reports on intellectual property, and ktMINE, an intellectual property rights data analysis platform.

As of Jan. 1 2020, Samsung Electronics held 87,208 U.S. patents, followed by IBM with 55,678 patents, Canon with 38,657 and Microsoft with 36,372. Samsung Electronics has retained the top spot for the third year in a row after surpassing IBM in the 2018 survey.

The Korean tech giant registered 7,634 patents in the United States in 2019, the largest number.

Four other Korean companies were among the top 100. They were LG Electronics (5th), SK Group (55th), Hyundai Motor (64th), and LG Display (67th). The total number of the patents held by the top 100 companies edged up 2.8 percent from the previous year. The list included seven financial institutions.
The Chinese government declared in 2015 that China would achieve self-sufficiency in the semiconductor industry within 10 years. China’s investment to this end amounts to one trillion yuan and its endeavor is going on.

Samsung Electronics and SK Hynix are concerned over a decrease in their market share and sales to result from China’s move. Besides the Chinese government’s aggressive support, Chinese semiconductor companies are stealing patents and personnel to add to their concerns.

YMTC recently unveiled a sample of its 128-layer NAND flash memory X2-6070. The Chinese company succeeded in manufacturing 64-layer products last year and is expected to start manufacturing the 128-layer product late this year. Samsung Electronics and SK Hynix produced their first 128-layer NAND flash memory products last year, and the technological gap between the South Korean and Chinese companies is likely to become less than two years once YMTC produces its 128-layer product as scheduled.

Tsinghua Unigroup is expanding its business to cover mobile application processors. The company acquired Spreadtrum and RDA Microelectronics in 2013 to enhance its system chip design capabilities. Unisoc, Tsinghua Unigroup’s fabless subsidiary, is planning to produce 6-nm 5G modems and application processors via TSMC.

Unisoc is not a well-known company in the application processor industry. Its 6-nm application processor design is likely to be based on support from the Chinese government in that only a handful of companies, such as Qualcomm, Samsung Electronics, Apple and Huawei, are currently capable of handling it. It is also said that HiSilicon, Huawei’s subsidiary whose application processor market share cannot be raised due to U.S. restrictions, is sharing its application processor design capabilities with Unisoc.

It was said that YMTC, which is in charge of Tsinghua Unigroup’s NAND flash memory business, would have a hard time developing its technology as its headquarters and manufacturing facilities are located in Wuhan, where COVID-19 originated. However, YMTC ran its facilities as usual during the shutdown of Wuhan that continued for months. This would have been impossible without assistance from the Chinese government.

Samsung Electronics and SK Hynix accounted for 35.5 percent and 9.6 percent of the global NAND flash market in the fourth quarter of 2019, respectively. During the period, China accounted for almost half of the global semiconductor demand. Last year, the South Korean companies’ sales in China totaled 38,040.5 billion won and 12,570.2 billion won, respectively. The ratio of SK Hynix’s sales in China to its total sales amounted to 46 percent. In the global NAND flash market, the Chinese companies including YMTC are likely to make an aggressive effort to catch up with the South Korean companies in that the market’s entry barriers are relatively lower than those of the DRAM market. Besides, Micron Technology is about to manufacture 128-layer 3D NAND flash products and Intel is expected to manufacture the first 144-layer NAND flash products in the industry within this year.

Samsung Electronics is responding to the challenges by increasing its investment. For example, it has invested US$7 billion in its second plant in Xi’an, China since 2017 and an investment of US$8 billion is scheduled to be added. The monthly NAND flash output of the plant, which is producing 3D vertical NAND flash chips with 90 or more layers, will reach at least 130,000 units once the investment is completed. SK Hynix is also planning to keep Chinese companies at bay by investing more. The company’s average annual investment in the industry topped 13 trillion won for the past three years.

In fact, the Chinese government’s one trillion yuan investment is not enough to overtake Samsung Electronics and SK Hynix. From 2017 to 2019, the South Korean companies invested 7.3 trillion won and 4 trillion won in the industry, respectively. Meanwhile, the Chinese government’s investment, approximately 17 trillion won, is a sum for 10 years. In other words, Chinese semiconductor companies need more financial resources.

This is why experts point out that Chinese companies will adopt a fast follower strategy based on patent and personnel stealing, tax incentives, and so on and the Chinese government will continue to support the companies until they achieve an economy of scale with, for example, Chinese PC manufacturers using those companies’ DRAM and NAND flash chips in spite of their low precision.

China continues to invest aggressively in the semiconductor industry.
U.S. Healthcare Firm Files Suit against Samsung

Samsung and LG Facing Patent Litigation in the United States

By Kim Eun-jin

U.S. healthcare company Fat Statz recently filed a patent suit against Samsung Electronics with the United States District Court for the Eastern District of Texas. Fat Statz made an issue of wearable devices, the Galaxy 20 series, the Galaxy Z Flip, and many other phones coming with the Samsung Health application.

“Our patents are used in generating user comparison data based on genders, ages, heights, time zones, and so on to motivate users,” Fat Statz claimed, adding, “The Samsung Health application provides similar features by infringing upon our patents.”

In the meantime, Sovereign Peak Ventures, a subsidiary of intellectual property transaction and advisory firm Dominion Harbor Enterprises, filed a patent lawsuit against LG Electronics with the same court. LG Electronics’ products facing the litigation include the V60, V50S and V50 ThinQ.

A total of six patents are related to the litigation, including a processor supporting augmented reality and an LTE modem. Dominion Harbor Enterprises bought the patent portfolios from Panasonic in 2018 and 2019.

Credited with Completing 2 ITU-T Standards

KT Leading Quantum Communication Technology Standardization Efforts

By Michael Herh

K

T is stepping up efforts to lead standardization of quantum cryptography communication technologies. KT is the only carrier to establish two standards in this field that have been approved by the ITU Telecommunication Standardization Sector (ITU-T).

KT is managing six of the 14 quantum technology standardization projects covered by ITU-T Study Group (SG) 13 (future network) and 17 (security). This means that KT is taking the lead in about 40 percent of all standardization R&D activities at the two study groups. Thus far, three standards have been completed, with one managed by SK Telecom and two by KT.

Quantum cryptographic communication is the only way to provide complete security. As quantum technologies use quanta to generate an encryption key, it is impossible to hack a quantum cryptographic communication system with current technology. If a third party attempts to intercept data in the middle, the value of a quantum is damaged, which makes data copying impossible.

Currently, there are 14 quantum technology standardization projects that have been promoted by the ITU-T. Among them, KT’s open hierarchical structure technology has been approved as the world’s first international standard in the field of quantum cryptographic telecommunications. In addition, KT has also obtained preliminary approval on quantum cryptographic communication network technology.

The open hierarchical structure was proposed by KT in June 2018. After about a year of R&D and verification, it was confirmed as an international standard in October 2019.

The standardization work has opened the building a quantum cryptographic communication network to all interested companies, contributing to the expansion of the domestic ecosystem. Previously, foreign manufacturers such as Magic Q in the United States, Toshiba in Japan, and QuantumCtek in China, exclusively built such a network. However, through the standardization of open hierarchies, KT allowed Korean operators to participate freely in the construction of quantum cryptographic telecommunication networks.

Requirements for preliminarily approved quantum cryptographic telecommunication network technology include stable control and management methods for quantum cryptographic telecommunication networks based on KT’s know-how in wired and wireless network operation management. The pre-approved standard will be adopted as the final standard if there is no objection after an adjustment of opinions among member countries.
SK Telecom announced on March 16 that its 5G mobile edge computing (MEC) interworking platform was adopted as an international standardization task at the International Telecommunication Union Telecommunication Standardization Sector (ITU-T) Conference, which was held through a video conferencing system due to the COVID-19 outbreak. The technology adopted as an international standardization task becomes a global standard after discussions among dozens of countries within the ITU-T.

SK Telecom proposed multi-access edge computing technology to the ITU-T to improve the versatility of 5G MEC technology and services and rapidly develop a technology ecosystem. The ITU-T approved its proposal. Multi-access edge computing is intended to establish a separate channel for interworking 5G MEC systems in each carrier, allowing the service provider to offer the same 5G MEC services regardless of regions or carriers.

This standard is expected to increase the convenience of both 5G MEC service subscribers and service developers. When 5G MEC interworking is realized based on international standards, consumers can use 5G MEC services regardless of regions or operators. Service developers can boost development efficiency by reducing the process for optimizing the same service for each carrier’s 5G MEC system.

SK Telecom will conduct research on the structure, signals, specifications and requirements of multi-access edge computing technology to complete an international standard in 2022 at SG11 Q7, which studies a 5G MEC standard on artificial intelligence (AI), big data, and mobility services at the ITU-T.

SK Telecom announced on March 31 that its technical report on the security requirement for the quantum key distribution application network was finally approved as an international standard at an ITU-T conference held online from March 17-26.

In particular, this standard is the first quantum key distribution standard completed by the Study Group 17 (SG17), a research organization of the prestigious international organization International Telecommunication Union-T (ITU-T) that focuses on communication security.

SK Telecom set up a global standard on the level of security required for communication points that manage quantum key distribution along with security conditions required for the transmission of quantum keys between communication points far away from each other.

In April 2019, SK Telecom enhanced the security of 5G communication and LTE data transmission and reception by applying ID Quantique (IDQ)’s quantum key distribution technology to the Seoul-Daejeon section, a key transmission section of national data traffic.
A Partnership with Hong Kong Telecom

LG Uplus Exports 5G VR Content to PCCW Group in Hong Kong

By Michael Herh

LG Uplus announced on March 22 that the mobile carrier has forged a strategic alliance with Hong Kong PCCW Group and will supply 5G virtual reality (VR) content to Hong Kong Telecom, the No. 1 telecom operator in Hong Kong with 4.3 million subscribers.

Officials of the companies exchanged the MOU through email as they were unable to meet or hold official events such as a signing ceremony due to the COVID-19 outbreak. The two companies have been negotiating content supply since PCCW head Janis Lee's visit to Korea at the end of last year. As the COVID-19 virus made it difficult to take overseas business trips, they signed an online contract through conference calls and video conferences.

Hong Kong Telecom, a subsidiary of PCCW Group, is a leading carrier in Hong Kong with 33.3 billion Hong Kong dollars in annual revenue. The company offers services in 3,000 cities in 140 countries including China and Hong Kong.

Under this partnership, LG Uplus will first provide a total of 120 items of VR content, including K-Pop music broadcasting being provided in Korea, to Hong Kong Telecom, which is scheduled to launch commercial 5G services next month. The two companies laid the foundation for a leadership in the 5G global market through service and technology synergies.

Germany and France Allow Use of Huawei Gear

Despite U.S. Pressures, More Countries Approve Use of Huawei 5G Equipment

By Kim Eun-jin

Despite pressures from the U.S. government, a growing number of countries are authorizing the use of Huawei's equipment in building 5G networks.

Huawei said on March 22 that Germany and France have announced that they will approve the use of Huawei equipment following the decision in January by the United Kingdom and the European Union not to exclude Huawei 5G network equipment.

Huawei believes that the main reason these countries are allowing the use of Huawei’s 5G equipment is its technological excellence.

Since 2008, Huawei has invested about 60 trillion won in R&D for over 10 years. In particular, it has continued to invest in basic scientific fields such as algorithm research for improving performance and the quality of 5G base stations, and material research for lighter equipment for 5G base stations.

In addition, a recent analysis of the number of European patent applications registered in 2019 by the European Patent Office showed that Huawei ranked first with 3,524 registrations. The number of its registrations increased by 41.8 percent compared to 2485 in 2018 and it rose by one notch from second place. Huawei is the only company with over 3,000 patent registrations followed by Samsung Electronics (2nd, 2,858) and LG Electronics (3rd, 2,817). Huawei's patent registrations included a variety of technologies needed to build a 5G network.

Meanwhile, Huawei announced that it has signed a total of 91 5G commercialization contracts and shipped more than 600,000 5G base stations at a briefing session on Huawei 5G products and solutions in London, the United Kingdom in February. Until the third quarter of last year, Huawei ranked first with a 31.2 percent share of the global 5G equipment market, followed by Ericsson (25.2 percent), Nokia (18.9 percent), and Samsung Electronics (15 percent), U.S. market research firm Dell’Oro Group said in a report.
TV industry insiders forecast that only OLED TVs will continue to grow as overall display panel demand has been falling due to the impact of the COVID-19 virus outbreak.

Market researcher Omdia recently said in a report that the COVID-19 outbreak could be a driving force for the growth of active organic light emitting diode (AMOLED) TV panels. “In 2020, demand for OLED TV panels will swell 39 percent to 4.2 million square meters from a year ago.”

On the contrary, LCD panel shipments are expected to decrease by 9 percent in 2020 compared to the previous year as panel prices rise despite a contraction in TV set sales due to the spread of the novel coronavirus. However, demand for 65-inch or larger LCD panels is expected to increase rapidly as Chinese companies including BOE and China Star are ramping up output from their 10.5-generation production lines.

LG Display is virtually monopolizing the market of OLED panels for TV and LG Electronics is also leading the TV market by preoccupying 56 percent of the European premium OLED TV market with the OLED brand.

Meanwhile, Omdia forecast that the overall smartphone display market will shrink by 10 percent from 2019, while AMOLED demand will increase by 11 percent. It is expected that the adoption of OLED panels will be increased not only by Samsung but by Apple and Chinese smartphone manufacturers. In this market, Samsung Display is leading the market with a more than 80 percent market share and LG Display among others are in pursuit of it.

Accordingly, in 2020, total OLED panel shipments area including those of OLED panels for TVs and smartphones are expected to increase by 20 percent from the previous year.

Global demand for display panels, one of Korea’s major export items, is expected to slide by nearly 10 percent compared to the previous year due to the spread of the new coronavirus.

The Korea Export-Import Bank’s Overseas Economics Research Institute forecast in a report published on April 8 that global demand from main display buyers will drop by 7 to 9 percent compared to 2019.

Omdia, a market research company, predicted that global TV shipments will reach 203.5 million units in 2020, down 8.7 percent from 222.9 million units in 2019. This is a decrease of 9.7 percent from its previous forecast of 2,484.8 million units.

Mobile phone sales are expected to decline 7 percent due to slowing demand in major regions such as China, Europe, and North America. The spread of the deadly virus is on the wane in China, the largest smartphone market, but COVID-19 patients are on the rise in North America and Europe.

Moreover, it is unclear whether cell phone production outside of China will be normalized. India’s cell phone plant will be temporarily closed by April 14 in compliance with the Indian government’s order. According to market research firm Strategy Analytics, the share of mobile phone production by country is in the order of China (70 percent), India (13.6 percent) and Vietnam (9.7 percent).

The report predicts that PC shipments will also decrease by 9 percent. "China, the world's PC production base, is expected to see an increase in workers' return from March, but production is expected to go to normalcy after May due to parts supply issues,” the report said.
Price Gap Narrowing Fast in Premium TVs

LG Electronics Takes Lead in Narrowing Price Gap between OLED TVs and LCD TVs

By Michael Herh

The price gap between OLED TVs and LCD TVs is narrowing rapidly.

As of the end of February 2020, the average price of an OLED TV was US$2,538 against US$1,116 of an LCD TV, according to market research firm Omdia. The price difference represented a reduction of about US$1,000 from a year ago when their prices were US$3,557 and US$1,047, respectively.

In particular, the price gap is shrinking faster at the premium level. The average price of an 4K 55-inch LCD TV decreased by about US$450 from US$1,794 in 2018 to US$1,343 in 2019, while the price of an OLED TV of the same size fell more sharply from US$2,062 to US$1,622 during the same period.

This marked the first time that the average price of an OLED TV fell below the US$2,000 mark. When premium 55-inch products are compared, the price difference between the OLED and LCD TV's dropped by about US$100 in one year.

TV industry insiders expect the price difference between OLED TVs and LCD TVs to further contract. LCD panel prices rebounded this year after going downhill due to a price war initiated by Chinese LCD TV makers, while those of OLED panels has been on a decline.

As OLED TVs have proved superior to LCD TVs in terms of picture quality, the transition from LCD TVs to OLED TVs will accelerate if the price difference is narrowed. On March 22, Consumer Reports, the leading consumer magazine in the United States, gave an LG OLED TV (model: 65C9) the highest overall rating among more than 200 evaluated models, and the model received the highest points in Europe as well.

Looking for Future Growth Engines

LG Electronics Makes Investment in AI and Platform Startups at Home and Abroad

By Michael Herh

LG Electronics is actively looking for future growth engines in new technology areas ranging from artificial intelligence (AI) to autonomous driving and information technology (IT) platforms.

According to LG Electronics' 2019 business report, the company has acquired equities in 10 promising startups with technologies related to the 4th Industrial Revolution in the past two years.

In 2019, the company invested 5.6 billion won in VueReal, a Canadian micro light emitting diode (LED) design company. In 2018, it invested 3.9 billion won in Bosa Nova Robotics, a U.S. firm that develops robots using AI and big data.

In addition, LG Electronics invested in domestic mobility service platform Code 42, U.S. mobile laundry platform startup Washlava, and startup accelerator Futureplay.
Until March, Korean companies were concerned about production disruptions due to the spread of the novel coronavirus in China. As the virus has spread around the world, they are now faced with disruptions in global demand and supply. The global value chain has been paralyzed, impacting on major Korean industries such as automobiles, electronics, and steel.

Korean companies are halting overseas plants one after another to prevent the spread of COVID-19. In the case of Hyundai Motor Group, its factories in Korea continue to roll out cars, but among its 12 global production bases, all factories except those in China have stopped or are expected to stop their operations. Hyundai Motor Co.'s factories in the United States, the Czech Republic, Russia, Brazil, Turkey and India are all closed down.

Kia Motors has halted the operations of its plants in the United States, Slovakia, and India and its plant in Mexico has decided not to run for a week starting April 6, so four of its five plants are not in operation. Kia Motors’ Mexican plant has decided to stop operating for six to eight days in consideration of reduced automobile demand and employee safety triggered by the spread of COVID-19. Hyundai’s Alabama plant in the United States, the first to be placed on a lockdown among Hyundai’s global bases, closed down on March 18 as an employee tested positive for COVID-19 and will stop its operation until April 10.

Kia Motors’ Georgia plant, which receives engines from the Alabama plant, was also shut down for about 20 days due to the suspension of the Alabama plant, but the plant will be stopped again from March 30 to April 10.

Plant shutdowns in Europe are also continuing. Hyundai’s Czech plant will cease production from March 23 to April 13 and Kia’s Slovakian plant will stop from March 23 to April 3.

Hyundai's Turkish plant will also be shut down from March 27 to April 12. The plant moved up a planned shutdown (April 1 to 12) to prepare for production of a new model (i20). In addition, Hyundai’s Chennai plant and Kia’s Andhra Pradesh plant in India will be shuttered from the March 23 to April 14 in accordance with the Indian government’s policy to stop plant operations.

The electronics industry is concerned about production disruptions in North America, South America, Europe, and India. Samsung Electronics will shut down its plants in Noina and Chennai, India from March 23 to April 14 in compliance with the state government policies. They produce smartphones and home appliances, respectively.

In Brazil, two production plants of Samsung Electronics have been closed down. The Campinas factory, which produces smartphones, will be shut down for two weeks from March 30 and the Manaus factory which produces smartphones and TVs has also extended its shutdown period to April 12.

In Europe, Samsung Electronics’ Polish plant will be shut down from April 6 to 19. Its Hungarian and Slovakian plants were shut down until April 1, and its plant in Russia has been shut down.

LG Electronics also put a halt to the operation of six of its 41 production bases. Its home appliances factory in Noida and TV Factory in Pune of India will be closed down from March 25 to April 14th.

In the United States, LG Electronics’ washing machine plant in Tennessee has been shut down since March 30th and its Detroit auto parts factory since March 20. Its plants in Manaus, Brazil, and Ruza, Russia, have also been shut down since the end of March.

In addition, LG Electronics’ battery cell plant and Samsung SDI's battery pack plant in Michigan in the United States have been suspended since March 25 as Michigan State issued a “stay-home” order for three weeks.

The situation goes similar in the steel industry, too. POSCO’s processing centers in Italy, India, the Philippines, and Malaysia stopped one after another. Of Hyundai Steel’s nine countries’ processing centers, those in countries except China stopped operating partially or entirely. Deteriorating profitability forced the steelmaker to decide to cut production at a hot-rolling mill with electric furnaces in Dangjin, Korea.
A ‘Production Cliff’ Due to Extended Shutdowns

Korean Companies’ Overseas Factory Shutdowns to Continue until May

By Michael Herh

The shutdowns of Korean companies’ overseas factories, which started in March, have been extended to late April or May, causing them a “production cliff.”

Samsung Electronics has delayed the restart of its smartphone and home appliance factories in India, washer factory in the United States, and home appliance factory in Poland by two to three weeks. They were originally scheduled to resume operation in mid-April.

LG Electronics has also extended the shutdown of its Indian and Brazilian factories producing TVs, smartphones and home appliances by two weeks.

Hyosung TNC and Hyosung Heavy Industries, which ceased operations of their plants in India at the end of March, were planning to resume operations in mid-April, but postponed the time to restart them to early May as the Indian government extended its COVID-19 lockdown to May 3.

Even companies that avoided plant shutdowns in March are suffering production disruptions this month. LG Innotek has stopped operating its Mexican factory that produces automotive parts from April 9 to 30. Winia Daewoo's plant in Mexico which produces washing machines, refrigerators and microwave ovens is also virtually closed, with only a minimal number of lines in operation.

The auto industry is facing a worse situation. Downtime is spreading not only to overseas bases, but also to domestic plants. Hyundai Motor's Alabama plant shutdown period was extended to May 1 (local time) and the resumption of operations in Turkey and Brazil's production plants were pushed back to the end of April. Kia Motors has also delayed restarting operations in the United States and Mexico to after April 24.

In Korea, Hyundai Motor will lock down Ulsan 5 Plant Line 2 (Tucson production line) until April 17, and Kia Motors is considering whether to close three factories — Sohari 1 and 2 Factories in Gwangmyung near Seoul and Gwangju 2 Factory — for a week from April 23.

Major overseas factories operated by Korean companies will stop for nearly two months, leading to a production cliff.

Moreover, not only large-sized consumer electronics stores such as North America's Best Buy and Europe's Media Markt, but also small and medium-sized retailers have shortened their business hours or shuttered their shops since last month, and sales and consumption activities have been all stopped. Although it is already mid-April, the COVID-19 crisis is still worsening around the world, and governments in many countries are likely to maintain factory and distribution lockdowns throughout the second quarter. "It is a big problem that there is no distribution channel to sell even if production plants are immediately restarted," an industry insider said.
The five major carmakers in Korea — Hyundai Motor, Kia Motors, GM Korea, Renault Samsung Motors, and SsangYong Motor — suffered a setback in exports in March due to the spread of the novel coronavirus. March sales results announced on April 1 showed that the five automakers sold 597,826 units, down 14.9 percent from the same month last year. Domestic sales increased by 9.2 percent to 151,025 units, but overseas sales fell by 20.87 percent to 446,801 units, pulling down overall sales.

Earlier, Hyundai Motor and Kia Motors shut down plants in the United States, Europe, and India. Hyundai Motor saw its overseas sales fall 26.2 percent to 236,323 units, while Kia Motors posted an 11.2 percent drop by selling 175,952 units.

Exports of GM Korea and SsangYong Motor fell 20.8 percent and 4.6 percent, respectively, to 28,953 units and 2,485 units. Renault Samsung suffered the sharpest drop of 57.4 percent due to the decrease in the contract production volume of the Rogue for Nissan. The Rogue production contract with Nissan ended on March 31.

Considering the current trend of the novel coronavirus spread around the world, it will be difficult for Korean automakers to recover overseas sales in the short term. In the case of Hyundai Motor and Kia Motors, it is unclear when to reopen their overseas plants.

In the domestic market, however, the automakers enjoyed robust sales due to the government’s consumption tax cuts for automobiles and new model launches. All companies that launched new models posted sales growth. Hyundai and Kia sold 72,180 and 51,008 units in Korea, respectively, up 3 percent and 15.3 percent from the same month in 2019. Hyundai Motor’s domestic sales growth was led by the Grandeur which sold 16,600 units including 3,032 hybrids. The Grandeur achieved the highest sales in three years and three months since 17,247 units in December 2016.

Renault Samsung reclaimed third place in monthly domestic sales in five months since October 2019. Its sales surpassed 10,000 units in 14 months. Domestic sales reached 12,012 units, up 83.7 percent from the same month in 2019.

GM Korea also recorded 8,965 units in domestic sales, a 39.6 percent increase, thanks to the new model Trailblazer. On top of that, sales of the Spark increased 20.6 percent to 2,551 units. The Traverse sold 532 units, the highest-ever monthly figure.

SsangYong, the only carmaker that did not release a new model, recorded a drop in sales in March. Its sales hit 6,860 units, down 37.5 percent from the same month of 2019, the lowest among the five carmakers. Car industry experts say that it will be difficult for SsangYong to return to third place in the domestic market again as its new model launch plan is unclear.

Domestic Sales Grow on New Model Launches
Domestic Carmakers Suffer Sharp Drop in Exports due to COVID-19
By Michael Herh

Auto Production and Exports Increase in March
COVID-19 to Hit Automakers Beginning April
By Jung Min-hee

Korea’s automobile production, exports and domestic sales all increased in March. However, the March data did not reflect the spread of the new coronavirus to the United States and the European Union (EU). The negative effects of the epidemic are expected to begin to be felt in earnest in April.

In March, automobile production increased by 6.8 percent on year to 369,165 units, the Ministry of Trade, Industry and Energy said. The increase was attributable to the fact that the number of operating days rose by two days from a year before and that carmakers launched new models such as Hyundai Genesis’ first SUV model GV80 and new sedan G80, and Renault Samsung’s SUV XM3.

Domestic sales of automobiles increased 10.1 percent on the back of a 70 percent individual car tax cut which started in March. GM Korea’s small SUV, the Trailblazer enjoyed a 424 percent increase in sales compared to February, leading the growth in domestic sales. Among imported cars, German brands including Mercedes-Benz and BMW posted a 56 percent increase in sales compared to the same period in 2019.

Exports hit 21,900 units, up 1.3 percent from the same month of 2019. Exports to North America increased 19.5 percent from March 2019, and exports to the Middle East (34.9 percent) and Oceania (8.3 percent) also swelled. Auto parts exports also increased 0.5 percent on year thanks to strong exports to North America.
Seeking to Preempt U.S. Hydrogen Vehicle Market

Hyundai Motor Allowed to Export Hydrogen Fuel Cell Systems to U.S. and EU

By Jung Min-hee

The Ministry of Trade, Industry and Energy has allowed Hyundai Motor Co. to export its hydrogen fuel cell technology to the United States and the European Union.

The ministry made the decision at a meeting of the Industrial Technology Protection Committee on April 20. Hyundai Motor’s hydrogen fuel cell system produces electricity using hydrogen. It is the core of Hyundai Motor’s hydrogen vehicle technology. Only a few companies such as Hyundai Motor and Toyota of Japan have the capability to design and manufacture hydrogen cars.

The ministry’s approval allows Hyundai Motor to combine its hydrogen fuel cell system with the motor technology of Cummins, a U.S. diesel engine manufacturer to lead the U.S. hydrogen vehicle market. The hydrogen vehicle market is projected to grow 57.1 percent a year in North America and 84.2 percent in the European Union until 2028.

Meanwhile, 69 technologies including the hydrogen fuel cell system are designated and managed as national core technologies. In order to export core technology developed with government support, the owner of the technology must receive approval from the Industrial Technology Protection Committee in accordance with the relevant laws.

Automakers Under Pressure to Develop Eco-friendly Cars

Environment Ministry Sets Quota for Low-Emission Vehicles at 15% of Annual Sales

By Choi Moon-hee

The Ministry of Environment has set this year’s quota for low-emission vehicles at 15 percent of annual sales. The ministry will analyze sales figures of automakers by dividing vehicles into three groups -- electric and hydrogen vehicles, hybrid vehicles, and LPG- and gasoline-powered vehicles -- with different weights assigned to each vehicle type.

The proportion of low-emission vehicles that automakers are required to sell will rise to more than 15 percent beginning next year as the ministry set the minimum quota this year. In particular, in accordance with the General Plan for Fine Dust Management issued by the Ministry of Environment, LNG- and gasoline-powered cars will be excluded from the list of low-emission cars three years later. This means that domestic automakers, which are now focused on vehicles with internal combustion engines, face a need to step up efforts to develop electric and hydrogen vehicles promptly.

The problem is Korean carmakers’ financial conditions. Korean automakers’ performance has been rapidly deteriorating with the rapid spread of the COVID-19 virus. According to a report released by the Ministry of Trade, Industry and Energy, automobile production, domestic demand and exports in February fell by 26.4 percent, 18.8 percent and 25.0 percent, respectively, compared to the same period in 2019.

“If even Korean carmakers roll out electric cars, we are skeptical about their sales,” an industry insider said. “If market reactions are lukewarm, Korean carmakers will feel a bigger burden.”

To make matters worse, companies that do not meet the low-pollution vehicle supply target are likely to be held accountable beginning 2022. They are likely to be forced to pay a certain amount of “contribution” for each unit of the unfulfilled quota.
India's Mahindra Group Scratches Off Support Plan for SsangYong Motor

By Michael Herh

India's Mahindra Group scratched off a 230 billion won support plan for SsangYong Motor, its struggling Korean subsidiary, on April 3 (local time). This reminded the domestic business community of China's Shanghai Motor in 2008. SsangYong Motor entered a workout in 1999. Shanghai Motor acquired it for 590 billion won (a 48.9 percent stake) in 2004. But it withdrew from SsangYong Motor when the carmaker fell into a liquidity crisis due to an economic downturn and sluggish sales. Shanghai Motor did not keep its promise to address SsangYong Motor's liquidity problem. This is why some Korean auto industry experts say that Mahindra may actually give up on SsangYong.

SsangYong Motor should manage to stay afloat with 40 billion won, which will be injected into it over three months. However, its urgent issue is to repay a debt of 90 billion won to Korea Development Bank which falls due this July. Although SsangYong Motor says it will raise funds for new investments, it is a big challenge to find a new investor in the carmaker in the ongoing COVID-19 crisis.

Mahindra decided to dump a plan to invest 230 billion won and provide only 40 billion won in temporary operating funds. Mahindra initially sought to turn SsangYong Motor into a profitable company by 2022 by combining its own investment, Ssangyong's self-help efforts, and support from Korea Development Bank. But now many experts say that the plan is a long gone notion. Mahindra wants SsangYong Motor to get on its feet without receiving help from the outside, but it is a tall order for SsangYong Motors, which can hardly stay afloat with not many valuable assets to sell and a low credit rating.

Mahindra's 40 billion won is less than one tenth of SsangYong Motor's annual labor cost. For Ssangyong, which has posted a deficit for 12 consecutive quarters, it is difficult to stand three months with 40 billion won. Of course, the carmaker can continue to eke out a scanty existence with money from car sales. But this idea can hardly work out now as the novel coronavirus fiasco has pulled down car sales a great deal. SsangYong Motor's sales in March fell 29 percent on year.

In addition, short-term borrowings are coming due. Korea Development Bank and SsangYong Motors are scheduled to discuss the extension of the maturity of the short-term borrowings in June based on its business results until May. At this point, SsangYong Motor has no choice but to fully follow a decision to be made by the bank. Whether the will extend the deadline of the maturity remains to be seen. Unless the bank extends the deadline, SsangYong is highly likely to face a bankruptcy crisis.

Even if bank gives a maturity extension, SsangYong Motor's nightmare will hardly come to an end. Continuing deficits threaten the automaker's existence. Previously, SsangYong Motor's auditor, KPMG Samjong Accounting Corp., said in a report in 2019 that the accounting firm was skeptical about the carmaker's ability to run normally as a company.

SsangYong Motor's operating profit has been in the red for three years in a row. The carmaker posted 65.2 billion won in deficits in 2017, 64.2 billion won in 2018, and 60 billion won in 2019. SsangYong Motor's operating profit continues to plunge and in 2020 it posted a deficit for 12 consecutive quarters, its worst performance in three years.

SsangYong Motor's labor and management are calling for government support to stay afloat. The automaker announced on April 20 that it held a signing ceremony for wage and collective bargaining agreements for 2020 at its Pyeongtaek plant on April 17. The labor and management reached a dispute-free settlement for 11 consecutive years. Ssangyong was the first automaker in Korea to wrap up wage and collective bargaining negotiations for 2020. In order to stabilize employment, the labor and management have agreed to share pain.

The company's labor and management are implementing all possible pain-sharing measures for survival. In 2019 alone, they came up with two self-help plans including the introduction of a sabbatical system for white-collar workers with over 25 years of service, returning 200 percent bonuses and suspending or reducing 22 welfare benefits for employees. In 2020, they even froze wages. In order to secure liquidity, non-essential assets such as Busan Logistics Center have been put up for sale. Recently, India's Mahindra Group, SsangYong's parent company, has finalized its plan to provide 40 billion won to solve the Korean firm's short-term liquidity problems.

The ailing carmaker's survival hinges on support from Korea Development Bank (KDB). However, the bank has not clarified its position. There is no justification for the bank's financial support for the carmaker as the state-run bank does not hold any stake in it. Even so, it is unreasonable for KDB to let SsangYong Motor go under with its 5,000 employees. Industry analysts say that SsangYong Motor needs to take additional self-rescue measures in order to attract support from KDB.
Renault Samsung Motors and GM Korea are drawing up plans to overcome the COVID-19 crisis after wrapping up the drawn-out 2019 wage negotiations.

Renault Samsung is focusing on securing export contracts for the small sports utility vehicle (SUV) XM3, which sold 5,581 units in the domestic market in March, accounting for about 50 percent of the automaker's total sales of 12,012 units. GM Korea has begun a real-time inspection of parts supply and other factors that can cause production disruptions. The company is determined to avoid production disruptions.

Renault Samsung plans to resume talks with Renault Group of France to export the XM3 to Europe. Earlier, Renault Group considered outsourcing the production of the Arcana, an export version of the XM3, to the Busan plant, but it put off a decision as frequent strikes by the labor union threatened production stability.

An Renault Samsung official said, "I think the conclusion of the wage negotiations has resolved concerns about production stability. Now, Renault Samsung will be able to secure an Arcana export contract." However, talks with Renault Group could be delayed due to the spread of COVID-19 in Europe.

Auto industry insiders believe that even if a deal is clinched on Arcana exports in the near future, production will be possible in October or November. In addition, Renault Samsung plans to release the Capture, the successor to the compact SUV QM3, in the first half of this year. It intends to continue the sales growth momentum generated by the XM3 through the launch of the Capture.

GM Korea will focus on keeping its plants running normally. "As most GM plants around the world have been locked down, GM Korea's importance is growing," a company official said. "We are maintaining stability by checking parts supply on a daily basis and making utmost efforts to combat the novel coronavirus."

Based on this, GM Korea plans to maintain the growth of domestic sales and exports achieved through the launch of the compact SUV Trailblazer. The Trailblazer has risen as a big hit while posting 3,187 units in domestic sales and 14,897 units in exports in March. At the moment, the ongoing pandemic is a factor to consider, but GM Korea plans to prepare for its business operations after the end of the novel coronavirus fiasco by minimizing production disruptions.
GM Korea is undergoing a transformation based on improved labor-management relations and strong sales of a new model in the Korean and overseas markets. Auto industry observers say that if the current trend continues, it can emerge as an example for other foreign automakers running in Korea.

GM Korea sold 8,965 units in the domestic market in March, up 39.6 percent on year. Compared to the previous month, its sales increased 80.1 percent on the back of the launch of the new model Trailblazer. The Trailblazer sold 3,187 units in March alone, accounting for 35 percent of the company’s domestic sales. It was the best-selling car among GM Korea models in the first month of sales. The Trailblazer was the first model GM Korea promised to produce in Korea after receiving 810 billion won in support funds from the Korean government in 2018.

GM Korea is also enjoying high growth in exports. The Trailblazer placed third among the most exported models during the first three months of the year.

GM Korea made a surprising announcement in August 2019. The carmaker decided to join the Korea Automobile Importers and Distributors Association (KAIDA). Already a member of the Korea Automobile Industry Association (KAMA), GM Korea became a member of the two associations.

After introducing the Chevrolet brand into the Korean market in 2011, GM Korea has launched a variety of imported vehicles in the Korean market, including the Bolt EV, the Equinox, the Impala, the Camaro, the Colorado, and the Traverse.

GM Korea’s ‘two-track strategy’ has met with a positive assessment. In the first quarter of 2020, it broke into the top three players in the imported car market in Korea. The pickup truck Colorado sold 1,764 units in the first three months of the year, ranking third among imported cars past the BMW 520i and the Mercedes-Benz E250. The Traverse (1,039 units) joined the top 10 in imported car sales in the first quarter.

The GM Korea labor and management wrapped up wage negotiations for 2019 on April 14. The two sides shared a sense of crisis as the global automobile market has been pushed into a slump following the spread of the novel coronavirus.

The three major Korean electric vehicle (EV) battery manufacturers — LG Chem, Samsung SDI, and SK Innovation — invested a total of seven trillion won in production facilities in 2019. They are determined to continue to invest aggressively in 2020.

Last year, LG Chem invested 3.9 trillion won, more than twice its investment in the previous year. Samsung SDI also spent 1.59 trillion won, which was a bit smaller than its investment in 2018.

SK Innovation publicly discloses facility investments every two years. It invested 2.29 trillion won in facilities for the battery business in 2018 and 2019. Considering that the amount spent in the previous two years (2017-2018) was 879 billion won, the company’s investment in 2019 is estimated to have exceeded 1.5 trillion won.

The aggregate investment made by the three companies in 2019 represented an increase of 3 trillion won compared to 2018 (about 4 trillion) and the largest amount ever. Battery cells, like semiconductors, require large-scale facility investment.

The three Korean battery makers are expected to make large-scale investments in 2020. LG Chem has already announced that it plans to invest 3 trillion won in facilities this year. The company recently purchased a site in Poland to expand its battery plant. It plans to increase the Polish plant’s output from the current 100 GWh to 120 GWh by 2021, which can charge about 2.4 million EVs.

SK Innovation also has an order backlog worth 60 trillion won, and plans to increase battery production more than 10 times in two years to meet the orders. The company is investing in facility expansion in the United States and Europe.

Samsung SDI has not disclosed its order backlog specifically but its order volume is reportedly similar to or more than that of SK Innovation.

Korean battery makers had stayed at the top spot in the battery market until several years ago, but have been pushed back by their Chinese competitors backed by the Chinese government. Chinese competitors have waged a price war. According to market research firm SNE Research, the three Korean companies’ combined market share exceeded 40 percent for the first time in February. This was largely due to the contraction of the Chinese domestic market arising from the end of the electric vehicle subsidy policy in China.
Initial Determination Unlikely to Be Reversed
U.S. ITC to Review Default Judgment against SK Innovation
By Michael Herh

The U.S. International Trade Commission (ITC) has accepted SK Innovation’s request to review an initial determination regarding the battery trade secret infringement lawsuit between the company and LG Chem.

The ITC announced on April 17 (local time) that it will review the initial determination it announced in February this year “in its entirety.”

At the time, it made a default judgment against SK Innovation, saying that SK Innovation destroyed evidence that it stole LG Chem’s trade secrets about lithium-ion batteries for electric vehicles.

Industry watchers say that the ITC’s acceptance of the request does not mean that it will reverse its initial determination.

The ITC decides a full review of its initial determinations for about 15 percent of the requests for reviews. For a review of its initial ruling, the ITC has asked the two companies to present data regarding the evidence that is alleged to have been destroyed, the consequences of SK Innovation’s alleged use of LG Chem’s trade secrets, and the economic damage LG Chem suffered due to the alleged trade secret theft.

Industry experts believe that an exceptionally early default judgment is the background of the commission’s decision to review the initial determination in its entirety. The ITC has to decide, before making the final judgment in October, on such matters as whether SK Innovation violated Article 337 of the U.S. Customs Act, what remedy measures the company can take and how much money it has to deposit. Depending on the final ruling, SK Innovation’s battery-related parts and equipment may be prohibited from being imported to the United States, but industry watchers say that the ITC does not have enough grounds for making such a decision.

However, there has been no case since 2010 where the ITC reversed its initial determinations through a review. For this reason, industry watchers say that the two companies will ultimately have to settle the legal battle out of the court.

LG Chem has also filed a trade secret infringement lawsuit against SK Innovation with the U.S. Federal District Court in Delaware. The two companies have also filed patent infringement lawsuits against each other with the U.S. ITC and Delaware Court.

A Next-generation EV Battery
Battery Companies and Automakers Racing to Develop All-solid-state Batteries
By Michael Herh

Competition is heating up among global chemical and automobile companies to develop a solid-state battery that is expected to lead the future electric vehicle (EV) market.

The Fuji Economic Institute in Japan predicts that the market for all-solid-state batteries will grow to 38 trillion won in 2035. Japan has been the most proactive in developing all-solid-state batteries. The country has made a large-scale investment in the development of the new battery through the New Energy Industry Technology Development Organization (NEDO). In particular, Toyota has invested 1.5 trillion yen in developing all-solid-state batteries in a bid to launch an EV loaded with them by 2022.

In addition to Japanese carmakers, Germany’s Volkswagen and BMW are planning to launch models with all-solid-state batteries in 2025 or 2026. They have forged a partnership with American QuantumScape and Solid Power, respectively.

The Renault-Nissan-Mitsubishi Alliance and Hyundai Motor Group are also preparing for the era of all-solid-state batteries by investing US$1 billion and US$5 million, respectively, into Ionic Materials, a U.S. battery technology startup.

As global automakers are preparing for the next-generation battery era in various ways, chemical companies, which are currently leading the EV battery market, are also seeking to secure future growth engines. The electric vehicle market is expected to move from lithium-ion batteries to all-solid batteries in the future. Three Korean battery manufacturers — LG Chem, Samsung SDI, and SK Innovation — are conducting research on the development of all-solid-state batteries with the goal of developing them around 2025.

However, existing battery producers are relatively less enthusiastic than automobile producers in developing all-solid-state batteries. Most battery makers are focusing on upgrading the performance of existing batteries, believing that it will take at least 10 years to popularize all-solid-state batteries. “Next-generation batteries still have a long way to go compared to lithium ion batteries,” an LG Chem official said at a conference call earlier this year. “Their sample will come out in the mid-2020s at the earliest.”

China Sweeps 90% of Orders

Korea’s Share of Global Shipbuilding Orders Plunges to 4%

By Michael Herh

The Korean shipbuilding industry is being hit hard by the new coronavirus. Korea took up about 70 percent of the global shipbuilding orders in the first two months of the year, but its share plunged to a mere 4 percent in March. While Korea was faltering, China took up 90 percent of the order volume thanks to contracts awarded by Chinese clients.

World ship orders reached 720,000 CGTs and 21 vessels in March, said Clarkson Research, an analysis agency of the shipbuilding and shipping market in the United Kingdom, on March 7. China took first place with orders of 650,000 CGTs (17 ships and 90 percent), followed by Korea’s 30,000 CGTs (one vessel, 4 percent) and Japan’s 29,000 CGT (two vessels, 4 percent). However, Korea’s order book did not include an order for an LPG ship placed on Hyundai Heavy Industries and an order for a VLCC to Daewoo Shipbuilding & Marine Engineering in March.

The March landscape is completely different from that of February. In February, Korea’s order receipts reached 200,000 CGTs (eight ships), accounting for 67 percent of the global total. In the same month, China took one order for a 680-TEU container ship (8,000 CGTs). As a result, Korea regained its position as the world’s No. 1 in terms of shipbuilding orders. China placed first in January with 510,000 CGTs (22 ships), but it performed poorly in February as shipbuilders could not operate their shipyards due to COVID-19.

China’s orders improved significantly in March thanks to an increase in orders from Chinese clients. Orders of 560,000 CGTs (88 percent) to China were tankers and container ships from them.

The total orders by country in the first quarter of 2020 were 1.15 million CGT for China (55 vessels, 65 percent), 360,000 CGT for Korea (13 vessels, 16 percent), and 180,000 CGT for Japan (12 vessels, 8 percent).

Orders to Korea fell sharply due to the absence of orders for LNG ships, its flagship shipbuilding model. Those in the Korean shipbuilding industry believe that rankings among countries are not significant as absolute value in orders is not large.

Other Agreements with S. Korean Shipbuilders Set to Follow

Qatar Signs Deal for First of 120 LNG Newbuilding Slots with Chinese Shipbuilder

By Michael Herh

Qatar has signed a deal with a Chinese shipbuilder for the first batch of its project to build 120 LNG carriers. According to TradeWinds, the world’s biggest shipping news service, Qatar Petroleum (QP) has signed a milestone LNG newbuilding berth reservation deal for a potential 16 vessels worth 20 billion yuan (US$2.85 billion) with Hudong-Zhonghua Shipbuilding Group.

The report added that other agreements with South Korean shipbuilders are set to follow.

The contract with the Chinese shipbuilder involves 16 units -- eight confirmed units plus eight optional units. They will be delivered between 2024 and 2025. Each vessel is approximately
South Korea and Japan held talks on the merger between Hyundai Heavy Industries and Daewoo Shipbuilding & Marine Engineering (DSME) on March 30 but failed to iron out their differences, the Korean Ministry of Trade, Industry and Energy said on March 31.

The ministry said it had bilateral negotiations with officials from the Japanese Ministry of Land, Infrastructure and Transport and Tourism and the Japanese Ministry of Foreign Affairs of Japan on March 30. Considering the spread of the new coronavirus, the bilateral talks were held via a video conferencing system.

Earlier in 2018, Japan already filed a complaint with the WTO, claiming that the Korean government financially supported Korean shipbuilders in the process of restructuring the Korean shipbuilding industry.

In January, Japan added the merger between Hyundai Heavy Industries and DSME to its complaint. Japan took issue with Korea Development Bank’s receipt of 9.12 million convertible shares and 6.1 million common shares from Korea Shipbuilding & Marine Engineering, the shipbuilding holding company of Hyundai Heavy Industries Group, in exchange for investing approximately 59.7 million DSME shares in Hyundai Heavy Industries. It also claimed that the bank’s decision to provide 1 trillion won in additional aid to Korea Shipbuilding & Marine Engineering when it faces a shortage of funds is a kind of illegal government support.

However, the Korean government pointed out that Japan was making a false claim. “In this consultation, we pointed out that Japan’s claim was unfounded and emphasized that the Korean government’s financial support for the Korean shipbuilding industry was carried out in a manner that matched WTO rules,” said an official of the Korean Ministry of Trade, Industry and Energy. The two countries were unable to find any breakthrough as there was a discrepancy in the two sides’ opinions.

At the moment, Korea and Japan, have yet to find points of contact in the dialogue related to Japanese export regulations against Korea that have continued since 2019 apart from the merger issue in the Korean shipbuilding industry. The two countries held the “Eighth Export Management Policy Dialogue” to discuss ways to resolve export restrictions in about 3 months on March 10, but left the meeting without reaching any agreement.

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175,000 cubic meters in size and costs approximately US$180 million.

The agreement marks the start of the world’s largest LNG carrier procurement project by Qatar. The project has received much attention from the three major Korean shipbuilders — Hyundai Heavy Industries, Samsung Heavy Industries, and Daewoo Shipbuilding & Marine Engineering (DSME). They all submitted a final proposal, as did China’s Hudong-Zhonghua.

“This agreement was reportedly reached on the condition that China buys natural gas from Qatar. In other words, Hudong-Zhonghua did not beat the Korean companies in the actual tender,” said an industry insider.

Qatar, the world’s largest LNG producer, is planning to expand its annual LNG output from 77 million tons to 126 million tons by 2027.

Qatar’s Energy Minister Saad Al-Kaabi said in an interview with S&P Global Platts that Qatar will build at least 60 to 80 LNG carriers and will sign slot reservation contracts for up to 120 vessels. He added that Qatar has signed a contract with a shipyard for the first batch and will sign contracts for the remainder before this summer.

If Qatar places orders for 60 to 80 LNG carriers, the total order amount is estimated to be US$10.8 billion to US$14.4 billion. If the order volume increases to 120 units, the project will grow to about US$21.6 billion.

“Since China’s Hudong-Zhonghua has a capacity of building five LNG carriers per year, it is unlikely to be able to win additional orders,” a shipbuilding analyst said. “I expect Qatar to additionally place orders for about 50 units, with most of them going to Korean shipbuilders.” The three Korean shipbuilders are able to build about 50 LNG carriers a year.
The new coronavirus outbreak is now taking its toll on Korean steel manufacturers. Overseas factories of Korean companies such as POSCO and Hyundai Steel have suspended their operations. Amid a deepening recession in downstream industries such as shipbuilding and automobiles, their shutdowns are starting to lead to a drop in steel demand.

POSCO will stop operating its stainless steel plant “POSCO-IITPC” in Verona, Italy from March 26 to April 3. POSCO IITPC’s production capacity is 40,000 tons per year.

The steelmaker’s four processing centers in India and Southeast Asia will also be locked down until March 31. This is because the governments of India, the Philippines and Malaysia have taken steps to contain the spread of the epidemic.

The per-ton price of the emission rights has jumped from 27,500 won to 40,500 won in just one year. In addition, the price has risen by no less than 74 percent in two years. This is because companies are buying the rights in quantity prior to strengthening the regulations. In the third emission trading scheme scheduled to be effective from 2021 to 2025, enterprises’ mandatory reduction or emission right purchase is 10 percent instead of 3 percent.

Steelmakers’ cost burden is increasing under the circumstances. Hyundai Steel, which spent 110 billion won to buy emission rights last year, must pay twice the amount to do so this year. The same applies to many more South Korean steelmakers, including Dongkuk Steel. “The costs related to the rights are reflected in our production costs as they are,” one of them explained, adding, “With the pandemic seriously affecting our business, there is no other option but to reduce production.”

Those companies are complaining about the emission trading scheme led by the Ministry of Environment. “Although the original purpose of the scheme is to reduce greenhouse gas emissions by enhancing market functions, the ministry is focusing on regulations in running the scheme,” they pointed out, adding that the ministry needs to work more closely with the Ministry of Economy and Finance and the Ministry of Trade, Industry and Energy to make better use of market functions. They also mentioned that their burden is much heavier than power generation companies, which emit a lot of greenhouse gas, with Korea Electric Power Corporation paying 80 percent of their emission right purchase cost in place of them.

South Korean steelmakers are going through difficulties as the spread of COVID-19 is leading to a decline in demand, raw material prices are unstable, global trade wars are ongoing and greenhouse gas emission rights are acting as a burden in terms of cost.

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HMM to Receive 470 Bil. Won
Government to Provide 1.25 Tril. Won in
Emergency Funds to
Shipping Companies
By Michael Herh

The Ministry of Oceans and Fisheries announced on April 23 that it will provide additional liquidity support of 1.25 trillion won to Korean shipping companies that are struggling due to the worldwide spread of the novel coronavirus.

The Korean shipping industry is suffering from a decline in cargo volume. In March, the cargo volume on the U.S. and European routes dwindled 11.1 percent and 4.8 percent on year, respectively. The World Trade Organization (WTO) forecast that in 2020, world trade volume will shrink by up to 32 percent from 2019. This year, global container freight rates are expected to drop 6 percent from last year. As the shipping market outlook has been deteriorating, the Korean shipping industry has been calling for proactive liquidity support from the government.

The Ministry of Oceans and Fisheries has decided to expand vessel financing. Korea Ocean Business Corp. has set aside 100 billion won to provide additional liquidity to shipping firm by increasing loan-to-value (LTV) ratios of their existing vessels, which is normally 60 percent to 80 percent of their market prices, to 95 percent.

In addition, if a shipping company which has received vessel financing support from Korea Development Bank (KDB) and the Export-Import Bank of Korea has liquidity problems, the ministry will also provide additional policy financing through the Basic Industry Stability Fund announced at an emergency economic meeting.

The payment of principal and interest will be deferred for all ships under the Sale and Lease Back (S&LB) Program for one year. S&LB refers to the support of liquidity by purchasing a ship from a shipping company and leasing it to the shipping company. Accordingly, 19 ships will benefit from the suspension of the payment of principal and interest amounting to 23.58 billion won annually, in addition to the vessels operating on the Korea-China route operation vessel that are benefiting from a similar measure announced on Feb. 17. It is also planning to expand S&LB funding from 100 billion won to 200 billion won.

In particular, KDB and Korea Ocean Business Corp. are preparing support plans for HMM to help it overcome damage from the novel coronavirus spread. The ministry will provide support funds of up to 470 billion won to HMM in consideration of financial market conditions.

COVID-19 Crisis May Give
HMM an Opportunity
HMM Raises 720 Bil. Won by Issuing
Convertible Bonds
By Michael Herh

HMM has recently raised 720 billion won by issuing convertible bonds (CBs).

The shipping company sold on April 17 unsecured CBs worth 720 billion won to Korea Development Bank (KDB) and Korea Ocean Business Corp., a state-run corporation set up to support shipbuilding and shipping companies.

KDB and KOBC are the shipper’s two largest shareholders. They will each acquire CBs worth 380 billion won. Depending on HMM's decision, the bonds’ maturity can be extended for 30 years under the same conditions of the issuance.

HMM plans to use 400 billion won for facility investment and 320 billion won in operating funds. HMM has decided to invest 143 billion won to lease 48,980 container boxes to use on 12 large 24,000-TEU container ships that will be put into service beginning April and eight 16,000 TEU-class vessels to be built in 2020.

Shipping industry insiders say that HMM’s capital expansion plan is quite meaningful in that it came out at a time when the world’s shipping industry is suffering from a reduced cargo volume and liquidity issues. HMM will be able to seize an opportunity as the landscape of the world shipping industry is changing with only competitive players expected to survive. Recently, the international shipping industry is facing a growing liquidity problem amid a sharp drop in demand arising from the spread of the novel coronavirus. For instance, Singapore shipping company Pacific International Lines is currently selling 12 ships as it has difficulties in repaying debt due to cash flow problems.

HMM believes that it will be able to survive with super-large container ships even in the worst case where the overall shipping volume shrinks by 20 percent to 30 percent. In the case of 24,000 TEU super ships, HMM will use only 5,000 TEU hold spaces and lease the remainder to The Alliance, a shipping alliance to which HMM belongs. If HMM’s ally shipping companies, Hapag-Lloyd or ONE, order large ships, HMM will be able to get its leased hold spaces back. It may be a merit in a tough market environment to have a business structure with more hold spaces leased.

“As HMM’s sales power grows, it can make more profit by filling slots. If HMM purchases eight 16,000 TEU container ships next year as planned, it will be able to further lower the cost of slots and increase competitiveness,” an HMM official said.
The number of unionized Samsung Display workers has recently topped 1,000 and the union requested negotiations with the management to work on a collective agreement. The two sides already had one round of negotiations to that end.

The union was established on Feb. 17 this year. At present, approximately 25,000 persons are working for the company. The labor union of Samsung Electronics, which is under the Federation of Korean Trade Unions (FKTU), requested collective bargaining, too.

At present, both the FKTU and the Korean Confederation of Trade Unions (KCTU) are concentrating on those labor unions. This is because Samsung Group is symbolically highly significant in labor movements. Solidarity with the unions in the group that recently discarded the principle of no union is essential for the leading labor group title.

It is the KCTU that opened a way through the group via the Samsung Electronics Service union in 2018. However, the subsequent union expansion in the group was led by the FKTU. According to experts, this is because the FKTU is more preferred for its emphasis upon social dialogues, employee welfare, etc. “Samsung Group employees still hesitate to accept the hard-line stance of the KCTU,” one of them explained.

In the meantime, the labor union of Samsung Display is planning to join the Samsung Group Union Alliance scheduled to be established next month. The FKTU is going to request the group to substantially guarantee union activities. At present, the unions of Samsung Display, Samsung Electronics, Samsung Welstory, Samsung Fire & Marine Insurance Anycar, Samsung Fire & Marine Insurance and Samsung SDI are under the FKTU.

Owners of major companies are giving more shares and increasing stock repurchase after the recent plunge of the stock market. The purpose is to save taxes and prop up their stock prices and control.

SPC Samlip announced on April 8 that its chairman Hur Young-in gave 400,000 shares to his eldest son and vice president Hur Jin-soo. The value of the shares is 26.5 billion won. CJ Group chairman Lee Jay-hyun canceled the Dec. 9 donation of 1,841,336 preferred stocks to CJ CheilJedang manager Lee Sun-ho and CJ ENM managing director Lee Kyenog-hoo for re-donation. The size of the donation has been reduced from 120.4 billion won to 76 billion won.

In the meantime, a total of 358 listed companies reported stock repurchase in the first quarter of this year. Hyundai Motor Group executive vice chairman Chung Eui-sun bought 581,333 Hyundai Motor Company shares worth more than 40.5 billion won and 303,759 Hyundai Mobis shares worth 41.1 billion won from March 23 to 27. His share in the two companies rose from 1.81 percent to 2.02 percent and from 0 percent to 0.32 percent, respectively.

GS Caltex president Hur Jae-hong, who is GS Caltex chairman Hur Dong-soo’s eldest son, bought 441,110 GS shares worth approximately 19 billion won in February and March. GS Energy senior managing director Hur Seo-hong, who is the eldest son of Samyang International chairman Hur Kwang-soo, bought 79,100 GS shares during the same period. Their shares in the company rose to 2.28 percent and 1.81 percent, respectively.

Likewise, Shinsegae Department Store president Chung Yoo-kyung bought 50,000 Shinsegae shares by investing 13.7 billion won from Jan. 31 to Feb. 1. Her share rose from 9.83 percent to 10.34 percent.
Hyosung Group to Build World’s Largest Liquefied Hydrogen Plant

By Michael Herh

Hyosung Group will set up a value chain that covers the installation and operation of liquefied hydrogen production, transportation, and charging facilities by investing a total of 300 billion won by 2022 in partnership with the Linde Group, a global chemical company specializing in industrial gas.

Hyosung Group chairman Cho Hyun-joon and Linde Korea chairman Seong Baek-seok signed a memorandum of understanding on this matter at Hyosung’s main office in Seoul on April 28.

The two sides decided to establish a liquefied hydrogen plant on a site of about 30,000 square meters on the premise of Hyosung Group's plant in Ulsan. When completed, it will be the world's largest facility of its kind. It will have an annual output of 13,000 tons, which can be supplied to 100,000 cars. To this end, they will establish a joint venture in 2020 and start the construction of the plant in the first quarter of next year for completion in 2022.

The new plant will produce liquefied hydrogen by applying Linde's hydrogen liquefaction technology and equipment to by-product hydrogen from Hyosung’s Ulsan Plant. Hydrogen liquefaction technology liquefies high-pressure gaseous hydrogen. Linde has the world’s most advanced hydrogen production technology.

Liquefied hydrogen can be used in various mobility fields such as vehicles, drones, ships, and forklifts, so it will contribute to the development of related industries.

The two companies will also build liquefied hydrogen filling infrastructure timed with the completion of the plant. In order to supply liquefied hydrogen, they have decided to develop a partnership for hydrogen supply including establishing about 120 hydrogen stations in major cities nationwide (50 newly established stations and 70 expanded liquefied hydrogen filling facilities).

Hyosung Heavy Industries entered the CNG charging system business in 2000. It has been building hydrogen charging stations since 2008. Currently, it ranks first with a 40 percent market share in the Korean hydrogen filling market with hydrogen filling stations in 15 locations nationwide.

Meanwhile, in August 2019, Hyosung announced a plan to invest in carbon fiber to boost the hydrogen economy. President Moon Jae-in attended the ceremony held at the Carbon Fiber Plant in Jeonju. Cho said at the time that Hyosung will invest two trillion won in Jeonju to produce 24,000 tons of carbon fiber per annum by 2028.

Pledging to Raise 3 Tril. Won

Doosan Heavy Industries & Construction to Restructure Itself

By Jung Min-hee

Doosan Group announced on April 27 that it has submitted its final restructuring plan, through talks with creditors, which is designed to raise at least three trillion won. In response, the creditors including Korea Development Bank are going to provide Doosan Heavy Industries & Construction with an additional support of 800 billion won.

According to the plan, Doosan Heavy Industries & Construction will conduct a paid-in capital increase, make efforts for cost reduction, and dispose of non-essential assets. In addition, zero dividend and bonus will be implemented and wages will be returned to a sizeable extent. The company is going to focus on gas turbine-based power generation and renewable energy-based power generation while improving its financial structure.

Korea Development Bank and the Export-Import Bank of Korea are planning to check the details of the plan before the ongoing due diligence is completed. Then, they will come up with a business stabilization plan for Doosan Heavy Industries & Construction next month.

Earlier, the two banks provided the company with 500 billion won each. In addition, the Export-Import Bank of Korea provided 600 billion won by bond-loan conversion. A total of 2.1 trillion won or more is scheduled to be invested in the company, whose bond redemption scheduled for this year is 4.2 trillion won in total.
More Power in the Hands of Group Heir Apparent

Chung Eui-sun Elected as Chairperson of Hyundai Motor Co.’s Board of Directors

By Michael Herh

Chung Eui-sun, executive vice-chairman of Hyundai Motor Group, has been elected the new chairman of Hyundai Motor Co.’s board of directors. The company said on March 19 that its board of directors has elected Chung as the new chairperson, a post that has been held by Chung Mong-koo, chairman of Hyundai Motor Group and the father of the new chairperson, for 21 years. The appointment reflects the automotive group’s strong will to overcome the COVID-19 crisis by allowing him to double as the CEO and board chairman of Hyundai Motor Co.

The senior Chung resigned as an inside director of Hyundai Motor Co. at the regular general shareholders’ meeting for this year, a move that suggested junior Chung’s ascendancy to the post of board chairman.

However, this does not mean that the senior Chung has handed over the group’s control to his son. He still remains an unregistered executive and maintains his position as Hyundai Motor Group chairman, and will make important management decisions as before.

Chung Eui-sun was promoted to a senior vice-chairman in September 2018. At the general shareholders’ meeting in 2019, he was elected as the CEO of Hyundai Motor Co. and Hyundai Mobis.

Meanwhile, Hyundai Motor revised its articles of incorporation at the general shareholders’ meeting to begin a transition to a smart mobility solution company.

Defending Managerial Control of Hanjin Group

Hanjin Group Chairman Cho Reappointed as Inside Director of Hanjin KAL

By Choi Moon-hee

Hanjin Group chairman Cho Won-tae has succeeded in extending his term as an executive director of Hanjin KAL, the group’s holding company.

Cho was supported by 56.67 percent of the shareholders at the general shareholders’ meeting held on March 27. He faced a challenge from a three-party alliance consisting of Cho Hyun-ah, a former vice president of Korean Air and his elder sister, activist private equity fund KCGI, and Bando Engineering & Construction.

Cho successfully defended his managerial right. But he is facing another serious challenge, this time from the novel coronavirus. The aviation industry is struggling in a life-or-death crisis with most flights halted in the aftermath of the COVID-19 outbreak. Some analysts say that shareholders chose the current management of Hanjin KAL expecting it to overcome the growing crisis.

“Currently, the global pandemic is preventing Korean Air from flying more than 90 percent of its airplanes,” Cho said. The airline’s executives have decided to return up to 50 percent of their salaries beginning April until management normalization.

Cho said the group will sell off idle assets such as the previously announced site in Songhyeon-dong in Seoul and expand its capital in consultation with the board of directors.
Hotel Lotte IPO Likely to Be Put on Fast Track

Shin Dong-bin Takes Full Control of Lotte’s Operations in Korea and Japan

By Choi Moon-hee

Lotte Group announced on March 19 that group chairman Shin Dong-bin was elected as the chairman of the board of directors of Lotte Holdings in Japan on March 18. As Shin has become the chairman of Lotte Holdings, the initial public offering of Hotel Lotte is expected to speed up.

The listing of Lotte Hotel is the first step towards cutting the link between Lotte’s operations in Korea and Japan. Shin has made a promise to the Korean people that he would dismantle the shareholding structure where Lotte Holdings in Japan controls Lotte Group in Korea through Hotel Lotte.

"Shin has secured full control of Lotte’s operations in Korea and Japan," Japan’s Nihon Keizai Shimbun said. Shin is expected to expand the hotel business to Japan while preparing to list Lotte Confectionary in Japan by March 2022, it reported.

Shin’s ascendancy to Lotte Holdings’ chairmanship is expected to end his dispute with his brother over the control of the Lotte business empire. Shin Dong-joo, the chairman of SDJ Corp. and a former vice chairman of Lotte Holdings in Japan, did not show any reaction to his younger brother’s appointment as chairman of Lotte Holdings.

Shin will officially take office as chairman of Lotte Holdings on April 1. The post was held by honorary chairman Shin Kyuk-ho, the founder of Lotte Group who passed away in January, and has remained vacant since the senior Shin was promoted to the honorary chairman in 2017.

A Bitter Sibling Feud

Brotherly Feud Reigned at Lotte Group

By Choi Moon-hee

The bitter sibling feud between Lotte Group chairman Shin Dong-bin and his elder brother, SDJ Corp. chairman Shin Dong-ju, has been reigned as the latter is seeking to remove his younger brother from the board of Japan’s Lotte Holdings.

Lotte Holdings, the holding company of Lotte Group’s Japanese operations, is scheduled to hold a regular shareholders’ meeting in June this year. Shin Dong-ju has reportedly submitted a shareholder proposal demanding the dismissal of Shin Dong-bin from the company’s board. The proposal included a request to revise the articles of incorporation to prevent a person who was convicted from taking office as a director.

Lotte Group chairman Shin Dong-bin was convicted in a trial in 2019. Shin Dong-ju argues that the younger brother’s conviction undermined the brand value, reputation, and corporate value of Lotte Group severely. This is the reason for his demand that the Lotte chairman be removed from the board of Lotte Holdings.

Shin Dong-joo said that if his shareholder proposal is rejected in the general shareholders’ meeting, he is planning to file a lawsuit with a Japanese court to request the dismissal of Shin Dong-bin as the Japanese company law bans a convicted person from becoming a corporate director.

Shin Dong-bin was sentenced to two years and six months in prison with four years of probation in October of 2019 on charges of bribing former President Park Geun-hye. He was elected chairman of Lotte Holdings in March and took office this month. The post had been left vacant since 2017 when the group’s former chairman, the late Shin Kyuk-ho, was promoted to an honorary chairman. Shin died in January 2020.

Since 2015, Shin Dong-ju has submitted a proposal for the dismissal of his brother five times, all in vain. His proposal is unlikely to be accepted this time either. Major shareholders of Lotte Holdings include Kwang Yoon Sa (28.1 percent), employee holding company (27.8 percent), affiliates (13.9 percent), and executive holding company (6 percent). Shin Dong-ju is the largest shareholder of Kwang Yoon Sa, but all other major shareholders are in support of Shin Dong-bin.
The eight ministries including the Ministry of SMEs and Startups, the Ministry of Culture, Sports and Tourism and the Ministry of Science and ICT are planning to raise 81 venture funds worth a total of 2,479.8 billion won by making a fund-of-funds investment of 1,084.1 billion won. The size of the 81 venture funds to be raised within this year has been increased from the previous target of 2,222.5 billion won. In addition, it exceeds the size of last year’s venture funds, 2,413 billion won.

According to the Ministry of SMEs and Startups, four relatively large funds, worth at least 100 billion won each and 586 billion won in total, have been prepared this year so that sizeable financing is available for firms in their non-early growth stages. The funds are expected to contribute to the South Korean government’s K-Unicorn Project scheduled to be put into full operation this year.

The 81 venture funds are subject to the government’s latest venture investment promotion measures. Specifically, the fund of funds will temporarily bear investment losses for every fund investment executed by 20 percent or more within this year and incentives will be provided in relation to management fees and so on. In addition, fund management firms can register funds and start their investment even with just 70 percent of the funds on condition that the rest is obtained within three months.

The funds include 38 for startups (705.1 billion won) and 13 for startup growth assistance (1,272.5 billion won) prepared by the Ministry of SMEs and Startups. The private investment in the funds for startup growth assistance, introduced for the first time this year, exceeded the target value of 950 billion won.

A total of 17 funds (336.4 billion won) will be prepared in the fields of culture content, tourism and sports. The Ministry of Science and ICT raised two digital content funds (32.1 billion won) in relation to immersive content development. The Ministry of Environment is going to raise two funds (35.4 billion won) for investment in green technologies and industries, particulate matter reduction, etc. The Ministry of Oceans and Fisheries is planning to raise two funds (30 billion won) this year for investment in marine equipment, marine leisure and tourism, etc. The Ministry of Land, Infrastructure and Transport’s fund (17 billion won) will be invested in venture firms engaged in construction and civil engineering.

The Ministry of SMEs and Startups said that the second fund-of-funds investment project would be launched in the near future. In that project, the Korean Intellectual Property Office, the Ministry of Health and Welfare, the Ministry of Culture, Sports and Tourism, the Ministry of Oceans and Fisheries and the Ministry of Science and ICT are expected to invest 83.5 billion won to raise funds worth 330 billion won.
High-value Startups

Startups and Venture Firms Valued over 100 Bil. Won Increase 5 Times in 4 Years

By Jung Min-hee

The number of startups and venture companies with a corporate value of more than 100 billion won increased about five-fold in four years.

The Ministry of SMEs and Startups analyzed the corporate value of 3,381 startups and venture companies that received investment between 2015 and 2019. The aggregate value of these companies stood at 124.77 trillion won, which is equivalent to 59 percent of the total market capitalization of KOSDAQ-listed firms. In the KOSPI market, the figure was larger than the market capitalization of any other company except Samsung Electronics, the most valuable company in Korea.

In particular, startups and venture companies with corporate value of more than 100 billion won increased 4.6 times from 51 in 2015 to 235 in 2019. The number surged in 2018 (43) and in 2019 (77).

By industry, the value of companies in the bio and medical sectors was the highest at 61.5 billion won, followed by games (45.1 billion won) and chemicals and materials (39.8 billion won). Among sectors related to the 4th Industrial Revolution, the 5G sector had the highest corporate value at 67.2 billion won. In addition, investors' investment focus shifted to blockchains in 2017, 3D printing in 2018, and cloud computing in 2019. The area with the highest multiple of corporate value compared to investment amount in 2019 was the cloud computing sector with 20.6 times.

The average number of employees of companies with corporate value of more than 100 billion won was 4.7, surpassing those with corporate value of less than 100 billion won which employed four on average.

Sales Drop Due to Shrinking Demand

9 out of 10 Auto Parts Makers Say They Have Liquidity Problems

By Jung Min-hee

Nine out of 10 Korean auto parts makers say they are suffering liquidity shortages due to the new coronavirus (COVID-19) crisis.

The Korea Automotive Industry Association conducted a survey of 96 auto parts companies to see the impact of COVID-19. It found that 93.8 percent of the respondents had liquidity problems.

The main culprit behind their liquidity crisis was a drop in sales (69.5 percent) due to shrinking demand. The survey found that half of the companies suffered a 20 percent drop in sales in the first quarter compared to a year before. Other factors included unstable operation funds due to labor costs (41.1 percent), unstable operations of overseas factories (33.7 percent), reduced export volume (15.8 percent), and difficulties in financing (14.7 percent).

However, more than half of the auto parts makers in a temporary liquidity shortage said they needed less than five billion won, which is not a very large amount.
**An Online-only Event**

**BIO KOREA 2020 to Go Fully Digital with e-Conference, Online Meeting, and Virtual Exhibition from May 18 to 23**

By Jung Suk-ye

BIO KOREA 2020 International Convention, where global bio experts correspond, is shifting to an online-only event.

BIO KOREA Organizing Committee has taken its final measures to execute a full digitalization of the event considering the health and safety of its participants and prevention of the further spread of Coronavirus (COVID-19) ultimate importance above all other matters concerned. In place of hosting an in-person format in Seoul, it will digitally take place over the entire week of May 18 - 23, 2020.

Under the main theme “A New Paradigm in the Age of Data Science”, BIO KOREA 2020 will be held as an online convention, maintaining its five main programs consisting of Conference, Business Forum (Partnering), Exhibition, Invest Fair, and Job Fair.

BIO KOREA 2020 Online Convention - from e-Conference, Online Meeting, and Virtual Exhibition

Regardless of the current outbreak of COVID-19, BIO KOREA 2020 will continue to cater for its participants to its best means. As the five main programs of BIO KOREA (Conference, Business Forum (Partnering), Exhibition, Invest Fair, and Job Fair) are delivered online, its participants can partake in the convention with safety and convenience. Moreover, this pioneering move will greatly enhance the efficiency in terms of time and effort put in by the presenters and all other participants for the preparation and operation of BIO KOREA 2020.

The five main programs of BIO KOREA 2020 will create an arena where in-depth academic knowledge and innovative entrepreneurial ideas are exchanged by way of e-Conference and Online Business Forum with partnering (Online Meeting). Those gems of knowledge and innovation will then be elaborated and visualized by numerous leading bio-companies around the globe in Virtual Exhibition. Not only that, BIO KOREA 2020’s Invest Fair and Job Fair will provide invaluable opportunities for general investors and the public to directly participate into the global bio industry.

BIO KOREA Organizing Committee stated that it is spurring towards preparing BIO KOREA 2020 as an online convention determined to support the information exchange of the bio industry. In addition to its advanced implementation including the operation of VR Zone and Live streaming, the Committee aims to conduct a safe and successful delivery of BIO KOREA 2020 as an online convention, turning the global crisis into opportunity.

BIO KOREA is a place of practical business correspondence as well as international information and technology exchange, invigorating the bio industry. In its 15th year of bringing together various international academics, professionals, and CEOs of global bio companies to obtain, exchange, and discuss diverse affairs, BIO KOREA had been providing abundant opportunities to assure competitive edges within the convergence industry centered around biotechnology.

For more information, visit BIO KOREA’s Official Website and Youtube.
A Prosperous Egg Sandwich Brand in Korea

Egg Drop Supports Production of tvN's Thursday Special Drama

By Yoon Young-sil

Egg Drop supports the production of tvN's Thursday special "Wise Doctors' Life."

Egg Drop, Korea's first egg sandwich brand, supports tvN's Thursday special drama "Wise Doctors' Life."

The drama is about people who seem ordinary but actually have a special routine. It is built around the chemistry among 20-year-old friends who can tell what they are thinking just by looking into each other's eyes.

The first episode of the drama was aired at 9 p.m. on March 19 on tvN, a general entertainment network available on cable, SkyLife and IPTV platforms.

Appearing in the drama are top-notch actors and actresses, including Jo Jung-seok, Yoo Yeon-seok, Jung Kyung-ho, Kim Dae-myeong and Jeon Mi-do.

According to an Egg Drop official, the drama is expected to continue the success of the "Reply" series and "Prison Playbook." He said Egg Drop decided to support the drama as it is in line with Egg Drop's slogan "Improve Your Daily Life." "The cast of the drama are so good that we expect it to hit the big time."

Unlike other brands that transfer costs to store owners, Egg Drop bears the entire cost of supporting the drama.

"This year, Egg Drop plans to take aggressive steps for growth this year," the official said. "We will develop new menus, expand marketing, and enter overseas markets. We expect such efforts will lead to increased sales of member stores."

Egg Drop has sought to boost the depressed startup market since its launch in 2017. Egg Drop is currently operating 180 stores nationwide and is in talks with a number of potential overseas partners, including those in the United States, for overseas expansion. It has become a highly successful brand with outstanding popularity and originality that has generated numerous copy brands both overseas and at home.
A team of Korean researchers has developed a core part of an artificial intelligence (AI) semiconductor, which is needed to develop computers like the human brain and nervous system. This part saves a new computer 10 times more power compared to running a current AI computer system.

The Korea Institute for Science and Technology (KIST) announced on March 29 that a joint research team led by Dr. Song Kyung-mi, Dr. Joo Hyun-soo, Director Jang Joon-yeon and Dr. Woo Sung-hoon of IBM at its Next Generation Semiconductor Research Institute has developed a core part for the world’s first neuromorphic computer using a skyrmion. The researchers predict that if the part is made smaller and several of it is connected to each other, it will lead to the development of an AI CPU that combines a CPU and a memory of the current PCs.

“We came up with the world’s first skyrmion-based artificial synapse component which had been suggested only through theories,” Dr. Song explained.

The researchers electrically controlled a skyrmion to mimic the movement of electron spins in a synapse that transmit excitement and stimulation from neurons of the human brain.

The team conducted a Modified National Institute of Standards and Technology (MNIST) recognition test using this artificial synapse material and found that it obtained a high recognition rate of 90 percent with 15,000 times of learning alone. Other artificial synapse materials required hundreds of thousands of iterative learning sessions to achieve a 90 percent recognition rate. This means that the technology developed by the team requires less than 10 percent of power.

“The component closely mimics the human brain that regulates synapses by controlling synapses’ weights according to the number of electrically controlled skyrmions,” Dr. Song said.

The results of this study were published on the March 16 online edition of the global journal Nature Electronics.

The Korea Electronics and Telecommunications Research Institute (ETRI) and SK Telecom have jointly developed an artificial intelligence (AI) semiconductor based on neural network processing units (NPUs), which can be applied to data centers and Internet of Things devices, the Ministry of Science and ICT announced on April 7.

ETRI and SK Telecom developed Korea’s first ultra-low-power AI semiconductor (AB9) for servers that can be applied to high-performance servers at cloud data centers. Currently, the CPUs and GPUs used for AI computation consume a large amount of power and have a large chip size, which limits their efficiency.

The research team realized high computational performance by integrating 16,384 computing devices in an area of the size of a coin (17 mm wide and 23 mm long). In particular, it is possible to minimize power consumption by applying software technology that can operate and cut off power to each computing device.

The new AI semiconductor can process data 40 trillion times per second and consumes power as low as 15W to 40 W. The research team will conduct empirical tests at SK Telecom’s data centers that provide intelligent CCTV and voice recognition services in the second half of the year.

ETRI has also developed a visual intelligence chip (VIC) that recognizes vision through AI, in cooperation with the Korea Electronics Technology Institute and fabless companies.

An AI semiconductor can recognize objects 30 times per second on a circuit area equivalent to half the size of an adult’s nail (5 mm wide and 5 mm long) so it can be used in mobile and IoT devices. Its power consumption is only 0.5 W, which is one-tenth of conventional semiconductors’ power consumption.

The research team plans to promote demonstration and commercialization by applying it to intelligent CCTVs and drones in the second half.
A Generative Adversarial Networks Processing Unit

KAIST Develops Technology for AI-based High-resolution Image Creation

By Kim Eun-jin

The Korea Advanced Institute of Science and Technology (KAIST) announced on April 6 that professor Yoo Hoi-jun and his research team have succeeded in developing a generative adversarial networks processing unit (GANPU) as an AI chip processing GAN with low power and high efficiency. The AI chip is capable of quickly processing arithmetic operations required for image synthesis and restoration on a mobile basis. The single chip is capable of realizing image recognition, inference, learning and determination with low power and high efficiency and is expected to contribute to the use of AI in mobile devices for more purposes.

GAN can be defined as AI technology in which a deep learning network generating fake data and a deep learning network distinguishing the fake data learn while competing with each other. The technology, which results in hardly distinguishable fake data, is applied to deepfakes, which are becoming increasingly problematic these days.

Existing AI technology has been used for object recognition, inference, voice recognition, facial recognition, etc. On the other hand, GAN, which are capable of generating and regenerating images, can be widely used for image conversion, synthesis and restoration and in various mobile applications. Various industries and academic fields are paying much attention to the versatility of the technology nowadays.

Still, this new type of network is made up of multiple deep neural networks unlike existing deep learning networks and, as such, it is not easy to increase the operation speed and a lot of operations are required in the case of high-resolution images. This means the network cannot be realized by software alone on mobile devices such as smartphones, which are limited in operation capacity and usable memory capacity.

The AI chip developed by the research team is characterized by being capable of learning on a mobile basis while processing multi-column deep neural networks such as GAN as well as single deep neural networks. The chip is capable of learning GAN on its own in a mobile device without data transmission to a server.

The team succeeded in setting up a face correction system by means of the chip. In that system, 17 features related to hair, glasses, eyebrows and so on can be automatically added to or deleted from a picture taken with a tablet PC camera. Details of the research were presented at last month’s International Solid-State Circuits Conference (ISSCC) in San Francisco.

Even Quantum Computers Cannot Crack

Innovative Encryption Algorithm Developed in South Korea

By Kim Eun-jin

The National Institute for Mathematical Sciences announced on April 27 that it has developed a multivariate and simultaneous quadratic equation-based public-key encryption algorithm capable of coping with attacks by means of quantum computers.

According to the institute, the algorithm is designed such that a user’s digital signature value can never be falsified unless the solution of a multivariate and simultaneous quadratic equation is obtained. “Unlike existing public-key encryption algorithms such as RSA and ECDSA, the algorithm is not based on integer factorization and discrete logarithm equation, and thus Shor’s algorithm is not applied to the algorithm,” it added.

The new algorithm allows quick encryption even in a low-performance CPU and is applicable to IoT devices equipped with such CPUs. The institute explained that the application of the algorithm to an 8-bit CPU resulted in public-key encryption 30 times faster than the international standard.

“With public-key cryptography highly dependent on foreign technologies, the new algorithm is very meaningful in terms of integrity, authentication, non-repudiation, and many more,” the institute said, adding, “It is expected to be utilized for device authentication in various environments such as self-driving cars, unmanned aerial vehicles, smart manufacturing and wearable devices.”
By Using Organic Polymers
UNIST Enhances Quantum Dot Solar Cell Efficiency to 11.53%
By Kim Eun-jin

Usan National Institute of Science and Technology (UNIST) has increased the efficiency of a quantum dot solar cell, which converts sunlight into electricity using quantum dots, to 11.53 percent by combining quantum dots and organic polymers.

UNIST announced on April 23 that Professor Jang Seong-yeon of the Department of Energy and Chemical Engineering has developed a photovoltaic device that maximizes the performance of quantum dot solar cells by using organic polymers.

The research team explained that solar cells use a property that absorbs sunlight (photoactive layer) to create electrons and holes. When electrons escape from the photoactive layer, holes are formed as if they were formed in places where electrons were removed. At this time, electrons and holes move to the cathode and anode of the solar cell, respectively, leading to power generation. Therefore, in order to increase the efficiency of the solar cell, the number of electron-hole pairs must increase, and these must be transported well to the electrodes.

The research team switched one side of the quantum dot solar cell to an organic polymer to better create and transport holes. This is because the newly developed organic polymer has an excellent hole creating capability and prevents electrons and holes from recombining, thereby transporting holes to the anode.

Normally, a quantum dot solar cell combines electron-rich quantum dots (n-type quantum dots) and 'hole-rich quantum dots (p-type quantum dots). In this study, organic polymers are attached instead of p-type quantum dots. A solar cell was constructed by synthesizing it with a certain molecular weight in consideration of the chemical structure of monomers constituting a polymer, and bonding it to an n-type quantum dot. The efficiency of the resulting quantum dot solar cell was 11.53 percent higher than that of current p-type quantum dot-based devices (10.80 percent). In particular, the newly developed organic polymer material can be made through an easy solution process, so that it is possible to manufacture an entire solar cell device via a solution process at room temperature.

This research was selected as the back cover of the Feb. 24 edition of "Advanced Energy Materials," an authoritative academic journal in the field of energy materials.

Paving Way for Development of COVID-19 Treatment
Korean Researchers Analyze RNA Transcript of Coronavirus for First Time in World
By Choi Moon-hee

Kim Bitnaeri, a renowned life science professor at Seoul National University, has analyzed the RNA transcript of the virus that causes COVID-19 infections for the first time in the world, paving the way for the development of high-precision reagents and therapeutic drugs for the novel coronavirus.

The Institute of Basic Science (IBS) announced on April 9 that a research team led by Kim has completed a high-resolution genetic map of SARS coronavirus 2 (SARS-CoV-2), which is the cause of COVID-19 infections.

Kim is head of the RNA Research Division of the IBS and her team included Professor Jang Hye-shik of the Life Science Department of the SNU and a research fellow of the IBS. The team conducted research in cooperation with the Korea Center for Disease Control.

The joint research team analyzed the genome of the SARS coronavirus 2 and, going one step further, the RNA transcript that is produced after the virus’s penetration of the host cell. It used two types of next-generation sequencing methods including nanopore direct RNA sequencing.

The SARS coronavirus 2 is composed of a gene in the form of an RNA, not a DNA, and penetrates a host and replicates an RNA in cells. In addition, the sub-genome forms a complete virus body in a cell of the host together with the cloned gene by synthesizing several proteins constituting a virus particle structure. When it escapes the cell, it spreads in a way that infects new cells.

Earlier, the Public Health Clinical Center in Shanghai, China released the DNA genome information for the SARS coronavirus 2 for the first time in January, but the information could not accurately determine the location of a gene and could only predict it.

The results of this research by Professor Kim’s joint research team confirmed the exact location of a virus gene that causes COVID-19 infections. In addition, the study made it possible to determine the composition of a transcript of the virus.
Faster and More Accurate than Existing Devices

KETI Develops High-performance Immunodiagnostic Reader for Rapid Diagnosis Kit

By Choi Moon-hee

The Korea Electronics Technology Institute (KETI) has developed a device that measures the results of an antigen and antibody immune response test, one of simple influenza tests, faster and more accurately.

KETI announced on April 7 that the newly developed high-performance immunodiagnostic reader digitizes and accurately measures the results of a test from a rapid diagnosis kit.

A rapid diagnosis kit can be used to quickly and easily determine the presence or absence of a disease within about 10 minutes through an antigen and antibody immune response test by injecting a test sample of a patient’s blood, urine, or body fluid. Typically, it is used for self-diagnosis of pregnancy or simple tests for flu.

Recently, it has been widely used for rapid on-site diagnosis of three major infectious diseases -- dengue fever, influenza, and pandemic hemorrhagic fever. However, in the case of the COVID-19 virus, the Korea Center for Disease Control is using a quasi-diagnostic method instead of an antigen-antibody rapid diagnosis kit to boost accuracy.

KETI’s quantitative reader has improved performance by more than three times and reduced the time required from 10 seconds to less than 3 seconds compared to currently commercially available time-division type (TRF) readers. In particular, the image analysis program that automatically recognizes and quantifies a test line area enhances user convenience.

Using Retinal Fundus Photographs

Advanced Algorithm Developed for Age and Gender Prediction

By Kim Eun-jin

Professor Park Sang-joon at Seoul National University Bundang Hospital announced on April 14 that his research team has developed a deep learning algorithm accurately predicting ages and genders from retinal fundus photographs.

In developing the algorithm, the team used 412,026 retinal fundus photographs accumulated at the hospital. In recent tests, the algorithm succeeded in predicting general males’ and females’ ages with an average error of 3.1 and those of diabetes and hypertension patients with an average error of 3.6 or less. The accuracy of the algorithm is higher for up to 60, which is an age group showing more change in eyeball as the age increases, and the average error of the algorithm does not exceed 2.9 in any age group. When it comes to genders, the prediction accuracy is 96 percent or more regardless of underlying medical conditions.

The new algorithm is meaningful in that it retains its accuracy even in the presence of underlying medical conditions. This implies that a change in eyeball attributable to those conditions such as diabetes and hypertension and a change in eyeball attributable to aging are unique and distinguishable in relation to each other although they appear to be similar to each other.

Details of the research are available on the Mar. 12 online edition of the Scientific Reports journal.
Korea Ginseng Corp (KGC) announced that “Cheong Kwan Jang Red Ginseng Extract Every Time” broke through a milestone of 200 million bags in cumulative sales — about four bags per a Korean citizen.

Cheong Kwan Jang Red Ginseng Extract Every Time is very portable and easy to have by adding only purified water to six-year-old Korean red ginseng concentrate. It is the first red ginseng product in the form of a stick. Since its launch in 2012, Cheong Kwan Jang Red Ginseng Extract Every Time’s cumulative sales have grown rapidly to three million bags in 2013, 25 million bags in 2015, and 110 million bags in 2017, topping 200 million bags in 2019. Its growth has not stopped.

KGC regards the convenience of ingestion and ease of portability as the key to the strong popularity of Cheong Kwan Jang Red Ginseng Extract Every Time. KGC devised a small stick pouch so it became easy to take and carry red ginseng concentrate without a spoon, taking into consideration the fact that consumers preferred simplicity and ease of use. The product name “Every Time” means that consumers can easily enjoy it anywhere and anytime.

The launch of Cheong Kwan Jang Red Ginseng Extract Every Time scaled up the proportion of Cheong Kwan Jang sales among those in their 20s and 30s. The proportion stood at five percent in 2012, but recently surpassed 15 percent. The benefits of Cheong Kwan Jang Red Ginseng Extract Every Time which can be easily taken and enhance human health overlapped with the needs of young people who have a big interest in their health. This point fueled consumption by those in their 20s and 30s.

Red ginseng is a health functional food officially approved by the Korean Ministry of Food and Drug Safety (MFDS). It can help improve human immunity, blood flows by inhibiting platelet aggregation and people’s power of memory, remove fatigue and promote antioxidation, the MFDS said. Everyone can take the product and benefit from it regardless of their wages and genders.

KGC is strengthening its product lineup by segmenting customer groups such as those who want to travel (Every Time for Travel) and golfers (Every Time for Golfers) as more and more customers pay attention to their health and stamina during activities that cost them much energy such as travel and golf.

Nongshim announced that it launched the Jjapaguri instant cup noodle product in South Korea on April 21 before launching in overseas markets in the near future. Jjapaguri began to gain popularity about two months ago with the film Parasite.

“Jjapaguri is a combination of two different ramyeon products and how to mix them differs from person to person,” the company explained, adding, “This is why the new product is a cup, which can be enjoyed with ease both indoors and outdoors.”

In the South Korean market, the company released a spicier version in view of the preference of younger consumers, who consume more instant cup noodles than the others. Ordinary and spicier versions will be available at the same time in the other markets.

“The popularity of Jjapaguri is still going on across the world and lots of consumers are expressing their interests and sharing their recipes via our SNS channels,” Nongshim went on to say, continuing, “Especially, a large number of foreign consumers not familiar with cooking instant noodles have requested the cup version.”

The company is planning to launch the product next month in the United States, Southeast Asia, Japan, Australia and Russia before releasing it in other countries.
India, Vietnam Ban Rice Exports

Smart Farming Emerging as Innovative Solution

By Choi Moon-hee

Food security concerns are mounting due to rice and wheat export bans, migration restrictions and labor force shortages. India and Vietnam, which are the world’s largest and third-largest rice exporters, recently banned rice exports. In addition, Russia implemented a 10-day suspension starting from March 20 with regard to every grain. More and more countries are banning food exports amid the rapid spread of COVID-19.

The Ministry of Food and Drug Safety of South Korea, in the meantime, recently announced that South Korea’s food imports for 2019 totaled 18.6 million tons worth US$28.1 billion, which are divided into approximately 738,000 cases from 168 countries.

South Korea is currently facing problems such as narrow arable land, vulnerable cultivation environments and a shortage of farmers. Besides, unsystematic crop supply has led to repeated crop price fluctuations. Under the circumstances, smart farming is emerging as a solution to such problems.

Smart farming is to optimize environments related to crops, livestock and marine products by means of the Internet of Things, big data and artificial intelligence and automatically and remotely control those environments by means of personal computers and smartphones. The smart farming industry of South Korea is expected to keep growing based on the government’s plan for smart farm development.

Samsung Launches Wellness Apps on Its Smart TV Platform

In Partnership with Leading Personal Fitness Brands

By Choi Moon-hee

Samsung Electronics Co., Ltd. announced on April 21 that users of Samsung Smart TVs in a variety of regions around the world will have access to six new health and wellness apps, which are provided in partnership with leading fitness brands -- barre3, Calm, Echelon, Fitplan, Jillian Michaels Fitness and obé Fitness.

The company said these apps will be part of Samsung Health, a comprehensive fitness platform for Samsung Smart TVs announced at this year’s Consumer Electronics Show, later this year. But with homebound consumers needing fitness solutions, the company and its partners are bringing consumers early access to over 5,000 hours of free at-home wellness content right now.

“As our community grapples with unprecedented disruptions to their daily routines, it is important for homebound consumers to have access to free high-quality health and wellness offerings,” said Salek Brodsky, vice president of Strategic Partnerships and Business Development for Samsung Electronics.

“Our partnership with these premium brands redefines the boundaries of what free streaming services can provide, and we look forward to enhancing these offerings by bringing a full Samsung Health experience to our TVs later this year.”

Over 250 instructive videos are available now – from barre classes and guided meditations, to celebrity-led personal training sessions – for Samsung Smart TV consumers to access from home.

These premium health and wellness apps will be fully integrated into Samsung Health, which will launch soon on 2020 Samsung Smart TVs, and will expand upon the suite of apps available today. Samsung Health plans to provide consumers with more alternatives to traditional exercise options, like gyms and group classes, and adapt to each consumer’s unique schedule, allowing it to become a crucial pillar of consumers’ daily routines for years to come.
YouTube, Netflix, Instagram and Facebook are dominating the online video service market of South Korea, in which Naver is the only local company among the top five.

KT Group’s digital media lab Nasmedia recently released the result of this year’s Netizen Profile Research. In the survey that covered 2,000 persons, 93.7 percent of the respondents answered that they watch videos via YouTube. In addition, the ratio of Netflix users more than doubled from 11.9 percent to 28.6 percent this year.

More than 51 percent of the respondents, up 8 percentage points from a year earlier, said that they use paid OTT services. Slightly less than half of the users mentioned content diversity as a reason for their use and 43.6 percent mentioned exclusive content. In addition, 30 percent of the paid OTT service users experienced the services with TVs such as smart TVs and viewers. This implies video platform services can further grow based on TV.

The use of online videos by Internet users, 94.6 percent, changed little. More than 62 percent of the respondents answered they watch online videos mainly or only on a mobile device. The respondents spent 98 minutes watching online videos on an average day. The figures are 155 minutes and 126 minutes for teenagers and those in their 20s, respectively.

Netflix is under fire for disrupting the ecosystem of Korea’s over-the-top (OTT) industry. The OTT ecosystem consists of viewers, OTT services, platforms and program operators. Industry watchers note that Netflix is undermining the ecosystem by refusing to pay fees for using telecom networks.

Among OTT service providers operating in Korea, global operators such as Netflix and YouTube are virtually paying no network use fees. OTT service providers are expected to pay fees for supplying content through networks built by cable TV, Internet (IP) TV, and satellite broadcasting companies. Korean OTT services such as Wavve, Seezn and TVing are paying network fees in exchange for using platforms.

Network fees are used to upgrade platforms and paid to program providers, including terrestrial TV companies and general programming channels, for using their content. An OTT market ecosystem cannot work if OTT service providers refuse to pay the fees for using platforms.

Netflix has declared that it will skip the process between OTT services and platforms in this ecosystem. Netflix signed a contract with LG Uplus, but the deal caused controversy as the profit-sharing ratio was one-sidedly in favor of Netflix. Netflix is pursuing a structure where it can skip platforms and connect with program providers.

The establishment of an OTT service-program operator relationship also has advantages in the short term. This is because Korean content can be distributed to the global market through Netflix. The Kingdom series, Netflix’s original content, is the case in point. However, from a long-term point of view, the link that bypasses Korean platforms may trigger too much dependence on Netflix in the end.

The viewer-OTT service relationship is also a point to ponder. Unlike YouTube, Netflix receives service fees from viewers. Netflix’s service fee is monthly, and viewer membership grades (Basic, Standard, and Premium) determine video quality, and the number of concurrent users. This is why experts criticize that Netflix makes profits by taking service fees without paying network use fees.