



**DEFENSE
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Trade Center

Republic of Korea Defense Market Overview



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I. Republic of Korea Defense Market Overview

a. Republic of Korea Economic Snapshot

In 2017, the election of President MOON Jae-in brought a surge in consumer confidence, in part, because of his successful efforts to increase wages and government spending. These factors combined with an uptick in export growth to drive real GDP growth to more than 3%, despite disruptions in Republic of Korea's trade with China over the deployment of a US missile defense system in Republic of Korea.

In 2018 and beyond, the Republic of Korea will contend with gradually slowing economic growth - in the 2-3% range - not uncommon for advanced economies. This could be partially offset by efforts to address challenges arising from its rapidly aging population, inflexible labor market, continued dominance of the chaebols, and heavy reliance on exports rather than domestic consumption. Socioeconomic problems also persist, and include rising inequality, poverty among the elderly, high youth unemployment, long working hours, low worker productivity, and corruption.

Source: [CIA World Factbook](#)

b. Republic of Korea Defense Market Summary

The Republic of Korea is one of the major economies within Asia with a considerable amount of security issues, which calls for a firm security posture. To combat the challenge posed by a nuclear threat from North Korea, the need to replace obsolete military equipment, and a growing necessity for restructuring and modernization of the military, Republic of Korea has introduced the Defense Reform Plan 2020 (DRP 2020) with the aim of transforming the military into a smaller but more capable force.

Republic of Korea maintained a reasonably constant defense budget in relation to growing GDP, and the defense expenditure during 2014-2018 grew at a CAGR of over 5.7%. Defense expenditure during 2019-2023 is expected to grow at a CAGR of about 4.9%, crossing US\$48 Billion in 2023. The reduction in military personnel, acquisition of new technology, and a reduction in the reliance of imports are other factors that impact the dynamics of Republic of Korea's defense expenditure.

The military alliance between the US and Republic of Korea serves as one of the components driving trade statistics. Germany, Israel, and the UK are the other major suppliers of arms to Republic of Korea with shares of about 40%, 6%, and 4.4% respectively.

Source: [Business Insider](#)

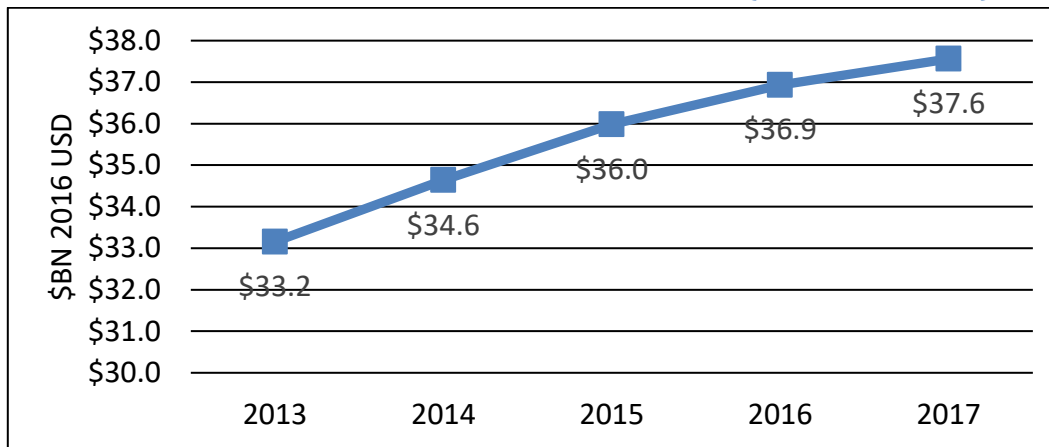
The [Defense Acquisition Procurement Agency \(DAPA\)](#) is responsible for the acquisition of national defense capabilities for the Republic of Korea. DAPA improves the defense capabilities of the nation,



provides military supplies to the Korean military, and fosters the defense industry. The DAPA website lists competitive bids for projects to improve the Korean military.

The [Defense Acquisition Program Institute \(DAPI\)](#) is a branch of DAPA that acts as a consulting agency to assist foreign governments navigate the regulatory framework of exporting defense products to the Republic of Korea. Businesses interested in exporting to the Republic of Korea should contact DAPI first to initiate the defense trade process.

REPUBLIC OF KOREA MILITARY EXPENDITURES (2013 TO 2017)



Source: [SIPRI](#)

c. U.S. Defense Exports to the Republic of Korea

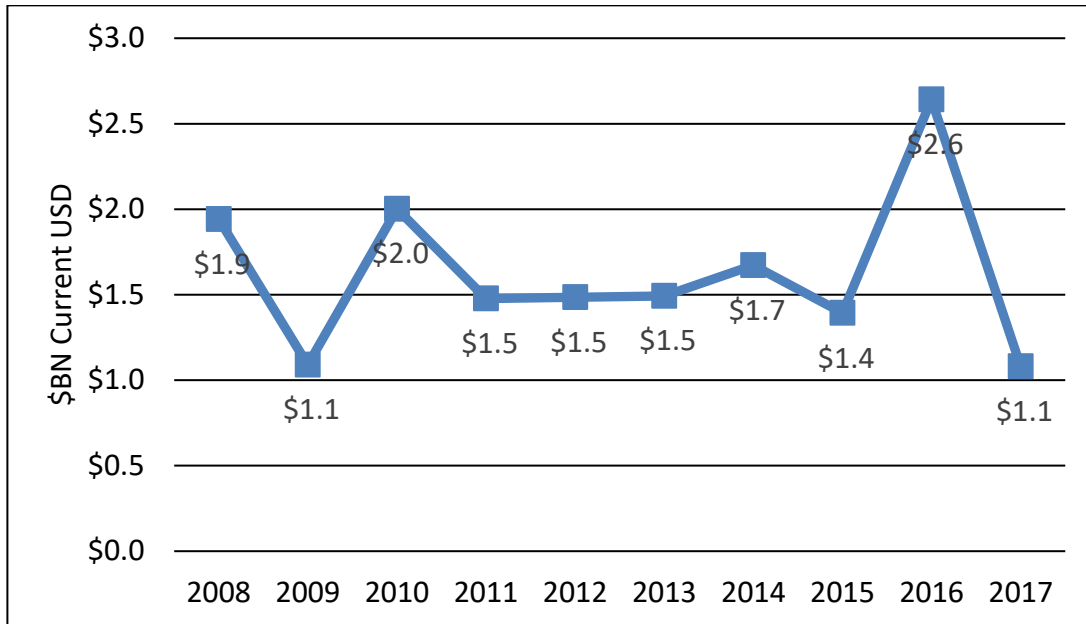
TOP 10 U.S. DEFENSE EXPORTS TO THE REPUBLIC OF KOREA

Codes	Description	ANNUAL 2015	ANNUAL 2016	ANNUAL 2017
	TOTAL ALL COMMODITIES	1,392,522,643	2,640,830,362	1,080,486,319
880330	Parts Of Airplanes Or Helicopters, Nesoi	341,422,100	504,133,808	326,327,422
841191	Turbojet And Turboproller Parts	299,247,860	256,186,198	201,439,152
930690	Bomb Mines Ot Ammntion Projctions Etc And Parts	176,320,611	358,954,282	168,525,283
841199	Gas Turbine Parts Nesoi	100,105,851	95,595,859	114,712,718
880260	Spacecraft & Suborbital And Space Launch Vehicles	54,124	0	68,141,000
880390	Parts Of Non-Powered & Powered Aircraft Etc Nesoi	116,374,801	99,963,269	57,468,799
871000	Tank & Ot Armored Fight Veh, Motorized; And Parts	58,879,697	47,763,047	55,439,462
880310	Propellr Rotor & Pts Of Gliders & A/C, N-Pwr/Pwr	5,531,231	7,632,075	17,929,685
930591	Parts & Accessor. Of Military Weapons Of Head 9301	44,486,802	45,560,315	16,470,861
841181	Gas Turbines Of A Power Not Exceeding 5,000 Kw	6,003,239	5,572,428	10,600,421

Source: *WISERTrade, data from the U.S. Census Bureau Foreign, Trade Division.*



TOTAL US DEFENSE EXPORTS TO REPUBLIC OF KOREA (2008 TO 2017)



Source: WISERTrade, data from the U.S. Census Bureau Foreign, Trade Division.

d. Maine Defense Exports to the Republic of Korea

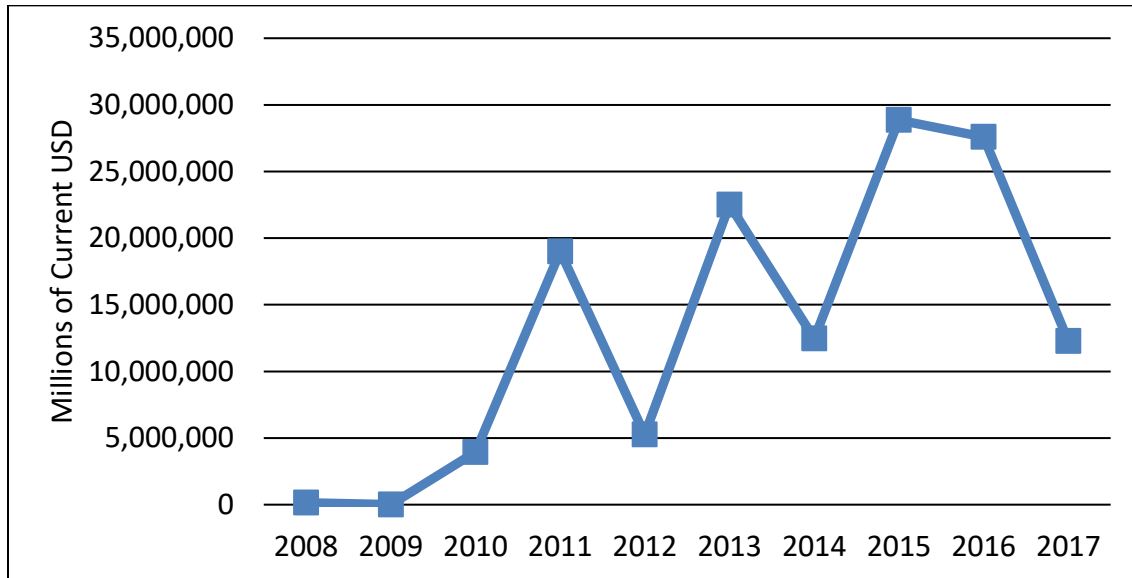
TOP MAINE DEFENSE EXPORTS TO REPUBLIC OF KOREA (2008 TO 2017)

Codes	Description	ANNUAL 2015	ANNUAL 2016	ANNUAL 2017
	TOTAL ALL COMMODITIES	28,858,717	27,593,630	12,279,524
930591	Parts & Accessor. Of Military Weapons Of Head 9301	24,571,436	23,450,582	10,854,326
930190	Military Weapons,Oth Thn Revol,Pist,&Hd 9307,Nesoi	4,275,781	4,132,448	1,425,198
930630	Cartridges And Parts Thereof, Nesoi	0	10,600	0
930110	Military Artillery Weapons (Eg, Guns Howitzer Etc)	11,500	0	0

Source: WISERTrade, data from the U.S. Census Bureau Foreign, Trade Division.



TOTAL MAINE DEFENSE EXPORTS TO REPUBLIC OF KOREA (2008 TO 2017)



Source: WISERTrade, data from the U.S. Census Bureau Foreign, Trade Division.

II. Opportunities for Defense Trade in the Republic of Korea

a. Major Defense Sectors in the Republic of Korea

Republic of Korea defense forces use many of the same systems as the U.S. military, most equipment, parts and components are widely used in all 3 branches (i.e. the Korean Air Force, Navy and Army). The three primary defense sectors that align best with Maine defense industry sectors in the Republic of Korea are:

Aerospace

The Korean Air Force consists of approximately 65,000 troops with core equipment comprised of 460 combat aircraft, 60 ISR aircraft, 50 air mobility aircraft, 160 trainers, and 40 helicopters. The Air Force strives to achieve increased operational reach capabilities, air superiority, and precision strike capabilities internally.

Key Players:

- [Korean Aerospace Industries](#): an exclusive manufacturer of finished aircraft, produces over 50% of total aircraft production in the Republic of Korea.
- [Korean Airlines](#): the flagship commercial carrier in Korea actively carries out both civilian and military projects for finished aircraft and maintenance, repair, and overhaul.



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- [Hanwha Techwin](#): the sole gas turbine engine manufacturer in the Republic of Korea. It has strategic alliances with top aircraft engine makers from assembly to overhaul activities and parts production for gas turbine engines.

Naval Vessels

The Korean Navy currently consists of approximately 70,000 troops with core equipment of 110 surface fighting vessels, 50 submarines/auxiliary vessels, and 50 helicopters/maritime patrol aircraft. To enhance security, the Republic of Korea is specifically interested in targeting naval vessels and next generation submarine production and supply.

Key Players:

- [Hyundai Heavy Industries](#): a shipbuilding company that also specializes in offshore and industrial plant engineering, marine diesel engine and electro electric system production, construction equipment production, etc.
- [DSME](#): builds a wide range of advanced naval ships by specializing in building various submarines and destroyers, offshore platforms, drilling rigs, and floating offshore plant products.
- [Hanjin Heavy Industries and Construction](#): builds high-speed patrol boats, frigates, corvettes, landing ship tanks, oceanographic vessels, salvage ships, midget submarines, and hovercraft.

Communications and Electronics

The Republic of Korea Army has approximately 560,000 troops with core equipment of 2,400 tanks, 5,400 pieces of field artillery, and 2,800 armored vehicles. The Army has set up a high technology-oriented system by applying the consolidated combat system that is based on a simultaneous network to maximize combat effectiveness. The Army strives to achieve high tech in C4ISR by acquiring advanced network systems

Key Players:

- [LIG Nex1](#): develops Korean high technology defense and weapon systems. The company has provided a wide range of solutions, including R&D, testing, production, and logistics support of advanced weaponry systems such as precision strike munitions surveillance systems, communications systems, electronic warfare systems, avionics, and reconnaissance.
- [Huneeed](#): a defense market leader in tactical communications equipment and systems in Korea, providing HF/VHF/UHF radios to the Korean military.
- [EO System](#): a leader in supplying electro optical devices to the Korean armed forces. It has manufactured high quality optical components from simple optical lenses to complete soldier systems and continues with development of related advanced technologies.

Source: [South Korea Defense Industry Report, PA DECD](#)



b. Opportunities for Maine Defense Exporters

For 2017, a total of 36.67 billion USD has been announced for Korea's defense budget, which includes 11.09 billion USD for its force improvement plan (FIP). The total budget and FIP budget have increased by 4.0 percent and 4.8 percent, respectively, compared to the previous year. For 2017, Korea's defense budget is around 1.9 percent of its GDP and constitutes about 10.1 percent of the total national budget. Korea is estimated to have the 10th largest defense budget in the world.

Recently, the ROK government has shown a preference for Direct Commercial Sales (DCS) over Foreign Military Sales (FMS) on some programs, in an effort to reduce purchase price and work with a faster and more simple process.

Opportunities of Maine Companies:

- Aircraft Upgrade (fighters, multi-role airlift aircraft)
- Asymmetric warfare/littoral/coastal surveillance and patrol
- Support for Combat Equipment (fighter aircraft, etc.)
- Anti-terrorism products
- High-tech sensors, radars, and missile systems

The U.S. remains Korea's most significant military ally, largely due to the presence of 28,500 U.S. troops in Korea as a deterrent to any aggression from North Korea and with its 61 years of close alliance history, U.S. standards are generally accepted in Korea. Most Korean defense systems are based on American standards. This has affected defense procurement decisions.

III. Regulatory Environment

a. U.S. Controls on Defense Exports to the Republic of Korea

There are two primary regulatory bodies that administer US export control laws for defense or military-related products and services.

1. The Department of State Directorate of Defense Trade Controls (DDTC) administers the **International Traffic in Arms Regulations (ITAR)** 22 C.F.R. §§ 120-130, which controls items considered defense articles and services.
2. The Bureau of Industry and Security (BIS) in the Department of Commerce administers **the Export Administration Regulations (EAR)** 15 C.F.R. §§ 730-774, which controls purely civilian items, items with both civil and military, terrorism or potential WMD-related applications, and items that are exclusively used for military applications but that do not warrant control under the ITAR.

Licensing and other export certification requirements for exporting a military-related product (or service), are dependent upon the item's technical characteristics, the destination, the end-user, and the



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end-use. You, as the exporter, must determine whether your export requires a license. When making that determination consider:

What are you exporting? Where are you exporting? Who will receive your item? What will your item be used for?

You must first determine which regulatory jurisdiction your product or service falls under before you can export. To do this, follow these steps:

1. Use the [U.S. Munitions List \(USML\)](#) to identify products or services that fall under ITAR jurisdiction.
2. Use the [Commerce Control List \(CCL\)](#) to identify products or services that fall under EAR jurisdiction and require a license. If the item is not on the CCL it still may fall under EAR jurisdiction; please consult [§ 734.2 Scope of the EAR](#) for further guidance.
3. If you are unsure if the desired export falls under the USML or CCL you can file a [Commodity Jurisdiction](#) request through the DDTC or you can file a [Commodity Classification](#) request through the BIS using SNAP-R.

Failure to comply with ITAR can result in civil fines as high as \$500,000 per violation, while criminal penalties include fines of up to \$1,000,000 and 10 years imprisonment per violation. Under EAR, maximum civil fines can reach \$250,000 per violation. Criminal penalties can be as high as \$1,000,000 and 20 years imprisonment per violation. Additionally, the United States has limited or banned the export of some defense products and services to specific countries. It is important to know whether the export of the product or service to a specific country is legal.

b. Republic of Korea Controls on Defense Imports

The [Defense Agency for Technology and Quality \(DTaQ\)](#) implements the quality assurance and quality management system for the DAPA and systematically conducts inspection, analysis, assessment, and information management of defense technology, to acquire quality munitions.

Companies looking to export defense-related goods to the Republic of Korea must comply with DTaQ and should ensure compliance with all quality requirements. To begin your defense trade compliance with the Republic of Korea, contact the DTaQ at Tel.+82-55-751-5717

The Republic of Korea does have a defense offset program which was first introduced in Korea in 1982, to fulfill the objective of developing Korea's aerospace industry, but it gradually became an important means to acquire core technologies to develop the defense industry. An offset obligation is imposed upon the foreign supplier/contractor when the main defense contract amount of a unit acquisition program exceeds 10 million USD. Exceptions exist where an offset obligation is imposed on a contract of less than 10 million USD in value. For programs with competing suppliers, usually 50 percent of the estimated main contract amount should be allocated to an offset program. For sole source programs, 10 percent or more of the estimated main contract amount is expected. The following programs are



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considered for offset: co-production, licensed production, overseas investment, technology transfer, counter purchase, buy-backs, etc. DAPA is the leading entity governing offset policy and oversees the execution. Technology evaluations are done by the Defense Agency for Technology and Quality, an organization under DAPA.

[Source: Export.gov](https://www.export.gov)

IV. Business Etiquette

With the differences in culture, history, language and life styles, business etiquette, especially in the defense industry sectors, is quite important to pay attention to when doing business in Republic of Korea. Although Republic of Korea is quite open and similar in style to western business culture, those wishing to do business with Republic of Korean companies should be aware of certain business etiquette practices.

'Chae-myun' refers to keeping one's honor, pride, and dignity. Republic of Koreans are very concerned with saving face of others as well as their own, thus, failure to maintain 'chae-myun' may be fatal to business relationships. Since age and hierarchy is highly respected in Korea, respecting one's age, social standing and reputation is very important. Individuals who are the most senior in age are generally the highest ranking and Koreans almost automatically assume the oldest person in the room is also the ranking person. When there is large number of people attending a meeting, U.S. companies should remember to talk to the 'highest' ranking person during the meeting. In addition, it is advised to talk around the circle, avoid being too upfront or 'brutally honest' and to allow some time for face building before getting down to business.

While contracts are considered in the U.S. as the final step of an agreement with fixed terms and conditions, in Korea, they are considered as the starting point of an agreement with modified terms and conditions. Therefore, trust and credibility is more critical than a legal binding agreement. In addition, requests for change are generally understood and accepted in the Korean business environment. It is also advised to leave a margin for renegotiation and be flexible with contract terms.

Source: [South Korea Defense Industry Report, PA DECD](#)

V. Conclusion and Recommendations

The Republic of Korea will be a strong international defense market for Maine companies for the next few years. Increasing tensions between the United States and China will likely force US Allies in the region to build up their militaries. Maine companies should try to build trust with Korean actors in the aerospace, naval vessels, and communications industries as this will facilitate business.

One of the most important aspects of doing business in the Republic of Korea is to ensure the good name and quality associated with your brand, this is especially true for defense trade in Korea. Maine



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companies interested in doing business in the Republic of Korea should contact DAPA and DTaQ to begin the international trade process, identify possible opportunities in Korea, and ensure trade compliance.

The Republic of Korea is an important trade partner for the United States and vis versa. Because the DAPA is beginning to focus on direct commercial sales (DCS) this allows companies to interact with foreign entities directly, rather than going through the US government. This will increase the pace at which defense trade is done with Korea and reduce the amount of trade compliance regulations. However, defense companies must be particularly mindful about exporting their products and be aware of all ITAR or EAR US trade controls.

VI. Additional Resources

a. Key Contacts

[Korea Defense Acquisition Procurement Agency](#)

Building #3,4, Government Complex-Gwacheon, 47, Gwanmun-ro, Gwacheon-si, Gyeonggi-do, Republic of Korea. 13809

Tel: 82-2-1577-1118

[Defense Agency for Technology and Quality](#)

(p.o.) 52851 420, dongjin-ro, jinju-si, gyeongsangnam-do, korea

Tel: +82-55-751-5717

[Korean Ministry of National Defense](#)

22, Itaewon-ro, Yongsan-gu, Seoul 04383

Tel: 02)748-1111

Email : cyber@mnd.go.kr

[Korean Customs Service](#)

920, Tunsan-dong, Soe-gu

Taejon, Republic of Korea

Tel: 82-42-472-2120

[Korea Defense Industry Association](#)

13th Fl, Sungwoo Bldg, Mapodaero 49 Mapo-Gu, Seoul, 04158

Tel: 82-2-3270-6057

b. Defense Trade Shows

[Seoul International Aerospace & Defense Exhibition](#)

Dates: 10/15/2019 – 10/20/2019

Venue: Seoul Airport, Seoul, South Korea



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The Seoul ADEX has been playing a major role in rapidly developing Korea's aerospace and defense industries. Seoul ADEX is being held at the Seoul Airport, the indoor and outdoor exhibition, demo-flight and seminars will take place at the same location. The last exhibition was divided into a commercial exhibition and an airshow that operated separately in other places. Furthermore, thanks to the runway rebuilding construction, it becomes possible for co-organizing office to provide expanded exhibition space which can create much more pleasant and efficient exhibition environment.

[Defense Expo Korea](#)

Dates: 09/12/2018 – 09/16/2018

Venue: KINTEX Hall 7, 8 & Outdoor Display / ROK Army OO Field Training Site

DX Korea 2018 is a rising platform for land forces equipment exhibition to display and market defense products not only to the international buyers but also to many significant VIPs and defense purchasing decision makers from all around the world. It is the only exhibition specialized in land forces equipment in Korea and hosted by AROKA (Association of the Republic of Korea Army) and co-organized by KOTRA (Korea Trade-Investment Promotion Agency).

c. Relevant Bid Announcements for Republic of Korea Defense Procurement

Use this website [Bid Announcements for Spare Parts and Equipment](#) to find a list of government tenders for defense commerce.

d. Sources for Additional Information

For more information about Maine's Defense Industry, see the "Maine Defense Industry Report" in the Trade Resources page of the Defense Industry Maine Website.

Other Relevant Links:

[Korea Trade-Investment Promotion Agency](#)

[Korea Aerospace Industries, LTD.](#)

[Defense Trade Services](#)

e. Note About Data Used in this Report

In the [2016 Defense Markets Report](#), the International Trade Administration (ITA) identified all of the HS codes that are associated with defense exports; the HS codes they identified are 10-digit HS codes. The trade data used in this report are based on 6-digit HS classifications of the ITA codes because WISERTrade only includes the 6-digit level of trade specificity. Therefore, some of the trade data may be overestimated due to the inclusion of exports that are characterized by the 6-digit HS codes but not the 10-digit codes.