South Korea

South Korea, ranking 12th in our analysis, is one of the most stable markets for cloud computing due to existing infrastructure and government financing of ICT and cloud expansion. Moreover, foreign and U.S. providers have ample experience in the market, yet still are finding opportunities for growth, particularly in the private cloud sector. Operating in South Korea comes with certain regulatory challenges, particularly in dealings with public institutions. In addition, large U.S. and foreign providers already exist in the market and many Korean SMEs have established cloud enterprises. That said, the market is primed for ample growth and presents a strong and stable environment with high demand for cloud services.

South Korea has an advanced existing telecommunications infrastructure that has supported substantial growth in the information and communications technology (ICT) sector for years. The country has been a regional leader in both ICT and cloud computing, and has the distinction of being one of five mature markets in the Asia-Pacific and Japan (APJ) region – along with Australia, Japan, New Zealand, and Singapore.

Even with the advanced ICT and cloud infrastructure, South Korea represents a top market for significant future growth. Research and Markets analysts predict the South Korean cloud computing market is on pace to grow roughly 22 percent through 2018. One key driver for the projected growth is expected substantial government investment in private cloud computing for government agencies, a bidding process open to U.S. providers.

The South Korean government has or is expected to enter into numerous public-private partnerships to expand cloud services regionally through data center development. Additionally, South Korea has existing universal broadband access, driving demand for investments utilizing the universal broadband to expand access to new technologies, such as cloud services. South Korea is the global leader in broadband penetration – at 97 percent – as well as a leader in average peak connection – 68.5 megabits per second according to Akamai Technologies in Q1 of 2014.

In its 2014 report on regional “cloud readiness,” the Asia Cloud Computing Association indicated that South Korea has the 6th highest level of readiness among the 14 countries examined in the region. It ranks among the highest in broadband expansion, a key component of the cloud infrastructure. While South Korea tied India for the largest fall in position compared to previous rankings (down four spots from second), this was due more to gains in other countries than to faults in South Korea’s cloud readiness.

Along with the other mature markets in the APJ region, South Korea offers strong growth prospects for cloud services. Cloud management and security services, for example, are projected to grow nearly 30 percent in 2015 to $264.5 million in the APJ as a whole. Gartner, a leading global information technology research company, predicts that by 2018, total public cloud services spending in the APJ region will be $11.5 billion. South Korea’s commitment to investing in cloud services for government agencies sets the country as a leader in the APJ region for public cloud services spending.

Gartner offered an interesting sector outlook on the APJ cloud market, providing guidance for cloud sector investment through 2018. The firm predicts that at 21.5 percent, software-as-a-service (SaaS) will make up the largest sector share of the overall market; platform-as-a-service (PaaS) will account for 3 percent; cloud management/security services 4 percent; infrastructure-as-a-service (IaaS) 9.8 percent; with the remaining 52.5 percent attributable to the cloud advertising market.

While overall the market is strong, there are issues for U.S. companies looking to enter. The most important challenge relates to security concerns within the South Korea government and among the general population, which have been exacerbated by recent global breaches of information stored on clouds in numerous countries, including South Korea. This psychological barrier to storing data in the cloud will be an ongoing issue for U.S. providers in South Korea. Relatedly,
concerns over the hacking of information on public clouds have driven the South Korean market towards adopting private clouds, which are considered more secure.

Another challenge is the potential for slower growth in the South Korean economy. While the market is still predicted to perform well in terms of growth and investment, particularly in the ICT sector, in December 2014 the finance ministry revised a previous 2015 economic growth estimate down from 4 percent to 3.8 percent. Higher U.S. interest rates and a weak Japanese yen were the largest factors in the downward revisions (a decreasing Japanese yen hurts the South Korean economy by making Japanese exports cheaper than equivalent Korean goods). Further, American companies are not alone in recognizing the market opportunities in South Korea. In January 2015, Chinese company Alibaba announced plans for a joint investment with the South Korean city of Incheon to create a $912 million business area in the city. It is unclear if this investment is explicitly to expand cloud services. However, the announcement comes after a summer 2014 request by South Korean President Park Geun-hye for Alibaba to assist South Korean small- and medium-sized enterprises (SMEs) in entering the Chinese market. Additionally, the SME market contains a substantial number of domestic cloud providers who benefit from government investments and incentives for local companies.

The implicit challenges of entering a somewhat saturated market should not overshadow the real growth potential in South Korea. While the country’s slip in the “cloud readiness” ratings signaled a potential weakening in cloud infrastructure compared to its Asian competitors, the government has recently invested in an executive structure within the official bureaucracy to support ICT development.

Specifically, in 2013, the Ministry of Science, ICT, and Future Planning was created. The new ministry saw a budget increase of more than $12 billion in 2014, and the aforementioned drop in regional competitiveness could spur even greater investment in the 2015 budget, a development that should be carefully tracked. Therefore, South Korea seems well-positioned to sustain its position as a cloud and technology leader in the Asia-Pacific.

In March 2015, the Korean National Assembly passed the Act on Cloud Computing Promotion and Protection of Users (Cloud Bill). Industry has expressed concerns about the legislation, including its requirement that cloud service providers inform users about where data is stored, as well as a prohibition on the transfer of data to third parties without user consent, a court order, or a warrant signed by a judge.

Before final passage of the legislation, some in U.S. industry came out against the Cloud Bill, citing mandatory requirements that are difficult to follow for foreign companies, providing an advantage for domestic ones. However, potentially positive changes to the regulatory environment are part of the Cloud Bill as well. For example, government agencies are required to promote cloud implementation with a separate promise, per industry reports, that at least 15 percent of government services will be cloud-based by 2017.

South Korea’s historic strength in ICT infrastructure and cloud development in the Asia-Pacific region is leading to strong participation by U.S. companies, including numerous plans for the future. In January 2015, for example, Microsoft released a predictive cloud service based on Azure learning machine released in the United States in 2014. The service differs from existing data mining, analysis, and artificial intelligence as it is capable of making predictions based on data trends, which could advance the demand for cloud services in a number of fields.

Along with this release, Microsoft is planning to invest $450 million over five years on a South Korean data center, as part of a predicted $5.2 billion investment in the country through expanded infrastructure projects and jobs. IBM has plans to complete a South Korean data center in the first half of 2015. In addition, Cisco has committed to expanding its Intercloud business in support of developing South Korea’s Internet of Things (IoT) market. Cisco invested $2 billion in Intercloud globally in 2014 and is expected to make significant further expansion a priority.

The Intercloud system involves a global interconnection of public, private, and hybrid clouds for processing, contributing to the growth of IoT industry. Lastly, Google is expected to build a community hub, called a Campus, in Seoul. This will enable entrepreneurs to learn and share ideas, while expanding the company’s presence in the country. While impressive, these are only a few of the major
cloud investments U.S. companies are making in South Korea.

South Korea represents a historically strong market for cloud services, despite existing market competition and the presence of established providers. Demand, which will be supported by local and national infrastructure investments, is still projected to be strong for capable U.S. vendors, and South Korea should be a top market considering the growth potential for cloud services in 2015.
This case study is part of a larger Top Markets Report. For additional case studies or to view other Top Markets Report, please visit: www.trade.gov/topmarkets