

Free Trade Zone and Free Economic Zone of Korea

Dec. 4th, 2017

MNCCI

Purpose of Investment of Foreign Investors

- Access to Domestic Market
- Establishment of Competitive Production Base
- Setting-up the Strategic Partnership

Desirable environments for Foreign Investors ?

- Open business environment
 - Consistency of economic policy
 - Deregulation

- High economic effects
 - Attractive domestic market
 - Conditions for competitive production base
 - Skilled human resources
 - Existence of the relevant industries

- Peaceful labor-management relations

- Customer-oriented administrative service

Check List for selecting the destination for investment

Check List	Excellent	Good	No Good
Geographical / Strategic location			
Deregulation related to the business activities			
Domestic market			
Reasonable labor-management culture			
International competitiveness of cost factors			
Specialized human resources			
National security / risk			
Relevant industrial base and technological level			
Logistics infrastructure			
Tax and investment incentives			
National sentiment to foreigners and foreign investment			

Incentives given to Hyundai Motor Company by Alabama State

- Factory site : transfer of ownership of 7 million m² factory site to Hyundai free of charge
 - Infrastructure : construction of 4-lane road between the factory and expressway, building the railroad to the inside of the factory and installing the facilities of electricity, gas, water supply and telephone. In addition, fire station and police station
 - Tax : reduction and exemption from corporate tax and local tax for 20 years
 - Training center : constructing the job training center
 - Promotion : advertisement of Hyundai Motor on newspaper and TV for 2 years
 - Administrative service : offering one-stop service by state officials
- ** Alabama state asked Hyundai to employ 2,000 people only. As of today, Hyundai Motor Factory is employing more than 4,000 people.

Special Economic Zones

- Foreign Investment Zones in 1988
- Free Trade Zones in 2000
- Free Economic Zones in 2003

designated to facilitate and induce foreign investment.

Foreign Investment Zone

- Designated by mayors and provincial governors
- Foreign Investment Promotion Act
- 3 types of zones – complex type, individual type, service type
 - Complex type : for attracting small and medium-sized foreign investors
 - Individual type : for attracting large scale investment
 - Service type : for attracting R&D and other service businesses such as finance & insurance, knowledge service, etc.

Foreign Investment Zone

- Designation of 25 complex-type and 80 individual-type zones (as of Dec. 2016)
- Number of resident companies : 204 firms(complex type), 80 firms(individual type)
1 firm(service type)
- Major incentives
 - Tax reduction and exemption
 - * National Tax : 100% (first 3 years), 50%(following 2 years)
 - * Local Tax : reduced or exempted up to 15 years
 - Exemption or reduction of land rent : 75 ~ 100% according to the investment amount and the scale of employment
- Other : No compulsory employment

Free Trade Zone

- Designated by Minister of Trade, Industry & Energy
- Act on the Designation & Management of Free Trade Zones
- 2 types of zones
 - Industrial complex type : for trade promotion and regional development
 - Airport/Seaport or Logistics type : for developing international logistics base

Free Trade Zone

- Designation of 7 industrial complex type and 6 airport/seaport zones
- Number of resident companies : 247 firms(industrial complex type), 436 firms(airport/seaport type) as of Jun. 2017.
 - foreign-invested companies : 272
 - domestic export companies : 411
- Major incentives
 - Tax reduction and exemption
 - * National Tax : equal to the foreign investment ratio for the first 3 years, 50% of the ratio for the following 2 years
 - * Local Tax : exemption for 15 years
 - Exemption or reduction of land rent : 75 ~ 100% to foreign-invested companies in high-technology or industry supporting or parts & materials or manufacturing businesses
- Other : No compulsory employment

Free Economic Zone

- Designated by Minister of Trade, Industry & Energy
- Special Act on the Designation & Management of Free Economic Zones
- Designating for inducing foreign investment by improving the business and living conditions of foreign-invested businesses.
 - Attracting not only foreign-invested companies (manufacturing, logistics), but also medical institutions, educational institutions, foreign broadcasting stations, financial institutions, etc.

Free Economic Zone

- Designation of 8 zones including Incheon Free Economic Zone
- Number of resident companies : 2,235 (as of the end of 2014)
 - foreign-invested companies : 206
- Major incentives
 - Tax reduction and exemption
 - * National tax : equal to the foreign investment ratio for the first 5 years and 50% of the ratio for the following 2 years
 - * Local tax : exemption for 15 years
 - Exemption or reduction of land rent : 50-100% according to the determination of the managing authority
- Other : No compulsory employment

Free Economic Zone

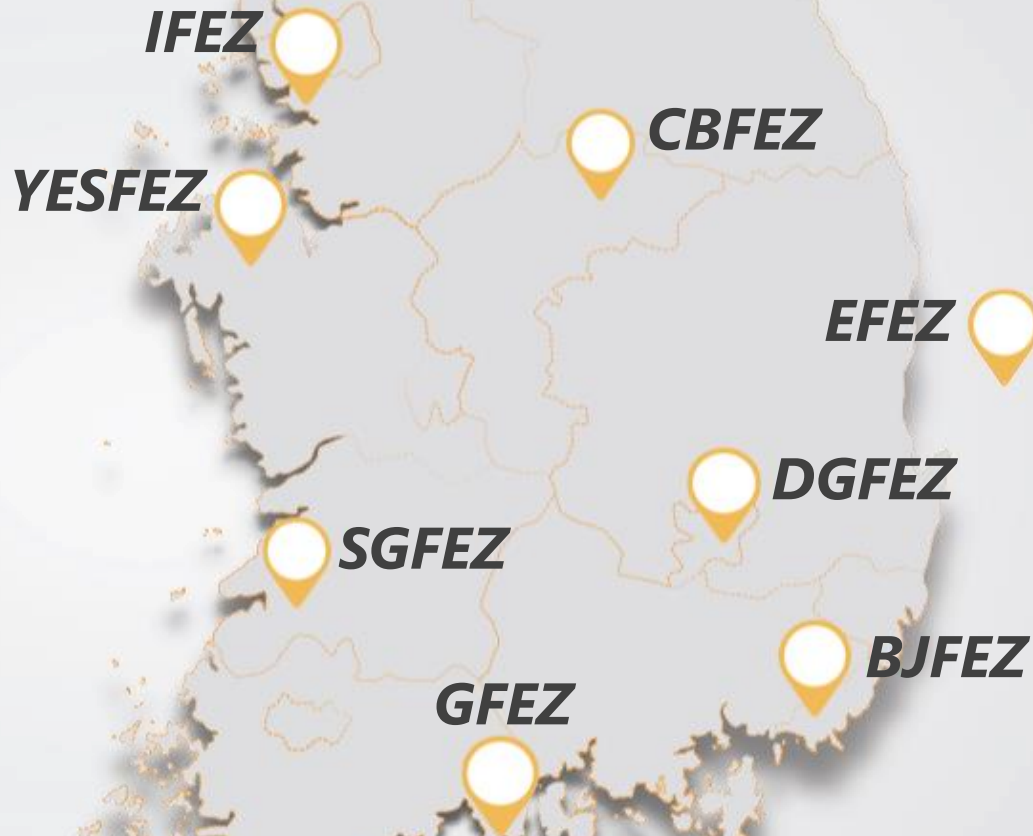
Business location support for various zone types

8 Free ECONOMIC ZONES

105 FOREIGN INVESTMENT ZONES

13 FREE TRADE ZONES

1,168 INDUSTRIAL COMPLEXES



Incheon Free Economic Zone (IFEZ)

- International city : offering a convenient living environment in addition to free economic activities
- Location
 - In west coast of Korea, adjacent to Seoul(approx.50km from downtown Seoul)
 - Bridge role between China and Japan, 1 or 2 hours away from Incheon
- Total area : 123.65 sq.km
- Expected population : 539,000 people
- Period of project : 2003 – 2020
- Development costs : W81.5 trillion(approx.\$74 billion)

Incheon Free Economic Zone (IFEZ)

- Contractors : Incheon city, Ministry of Maritime Affairs & Fisheries, Korea Land & Housing Corp., Incheon Port corp., Incheon International Airport Corp., Songdo Techno Park Corp., etc.
- Status of investment attraction by sector
 - Biology sector : 14 companies including Samsung BioLogics, Dong A Pharmaceutical Co. Ltd.
 - High-tech industry sector : 40 companies including Amkor Technology
 - Education sector : Chawick International School, State University of New York Korea, George Mason University's Songdo Campus, University of Utah Asia Campus
 - Logistics service sector : 5 companies including Lotte Mall
 - Financial sector : Hana Financial Group Inc.
 - International organization : Green Climate Fund(GCF)

Gateway to China

1,500 flights a week to **40** cities in China



Incheon Free Economic Zone (IFEZ)

• Development Plan

Name of District	Area(sq.km)	Major Projects
Songdo International City	53.36	<ul style="list-style-type: none"> · Int'l business district(convention center, trade center, school, hospital, etc.) · Knowledge & information industry complex · Bio complex · High-tech industrial cluster(cluster construction of universities and research institutions)
Yeongjong District	52.48	<ul style="list-style-type: none"> · Yeongjong sky city(the function of Residence, Industry, Tourism, Cultural Facilities, etc.) · Resort complex(hotel, casino, entertainment) · Aviation cluster(pilot training, engine assembly/repair/performance check)
Cheongna International City	17.81	<ul style="list-style-type: none"> · Hana Financial town · Complex shopping mall · Medical complex · GM Korea R&D center · Robot land · Incheon high-tech park · Central lake park



Yeongjong

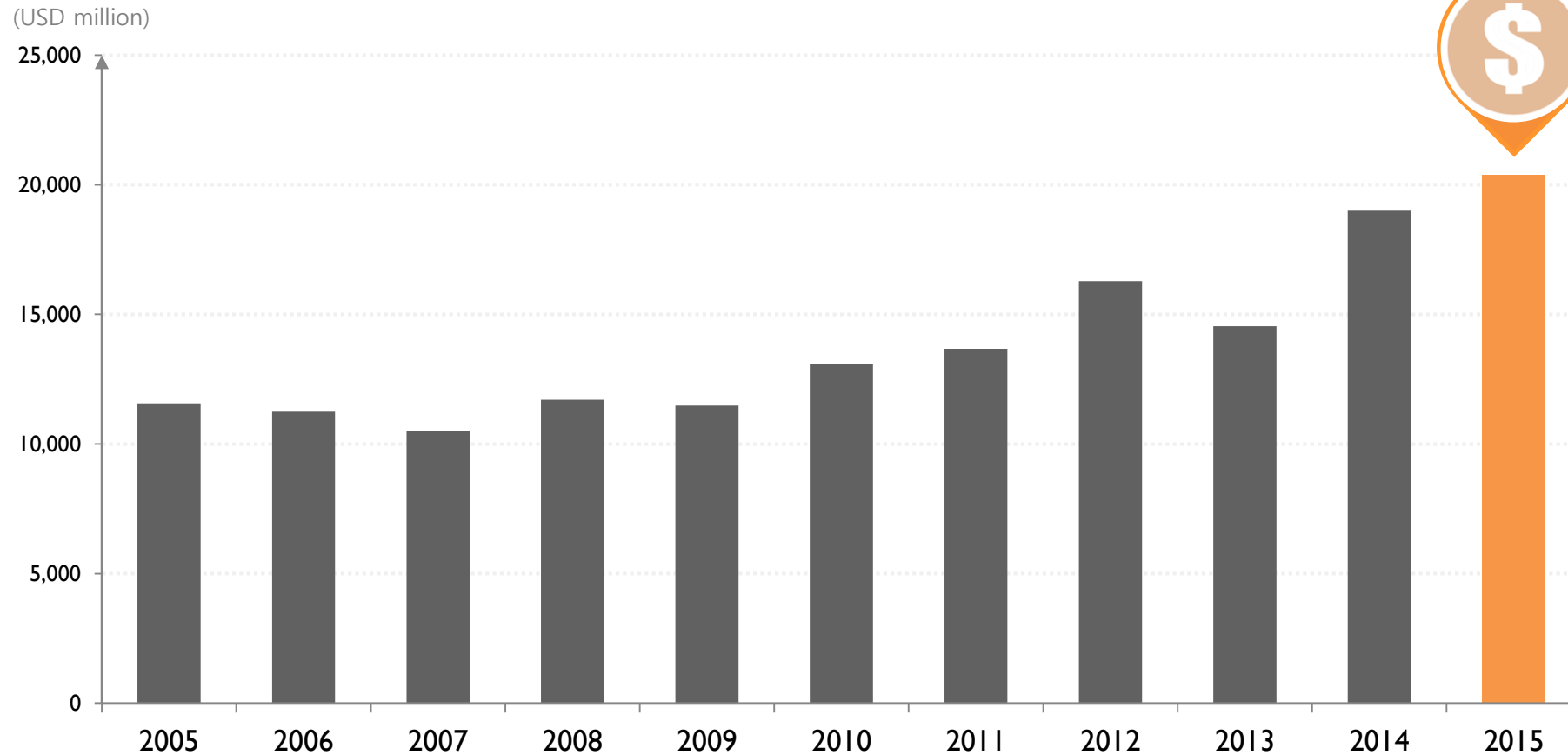
Cheongna

Songdo



FDI Statistics

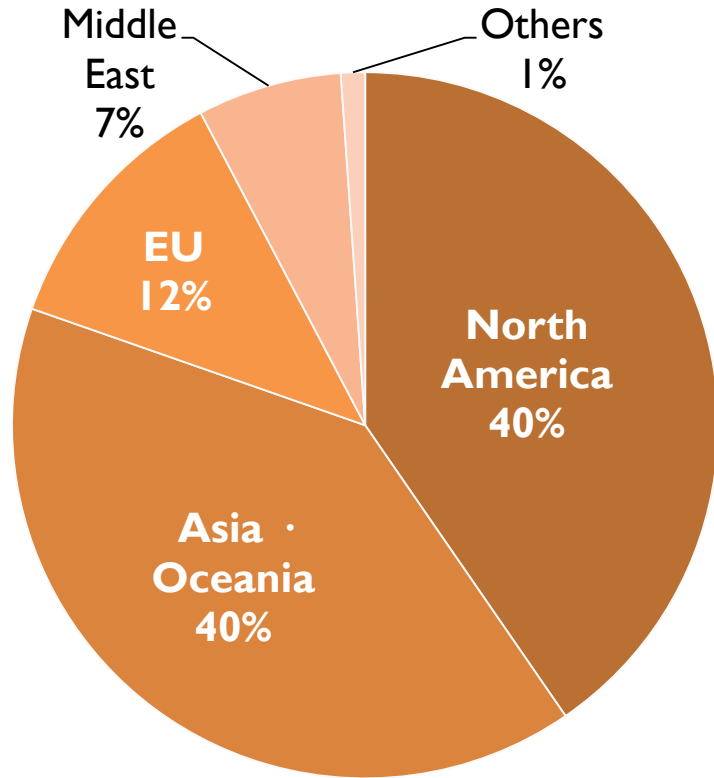
20.9
Billion



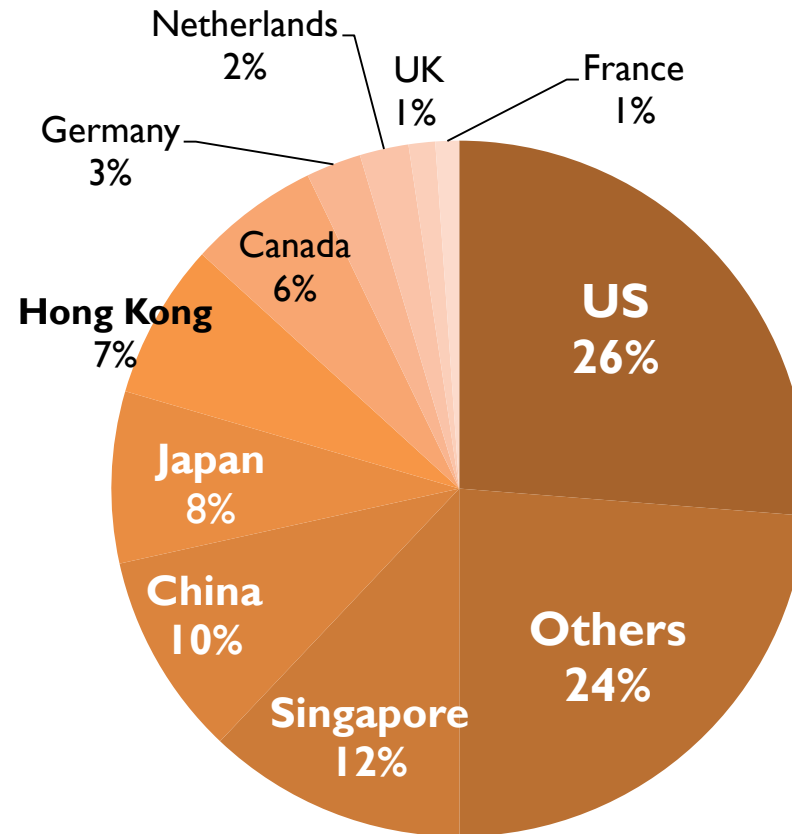
*Source : INSC(based on declared amount)

FDI by Region and Country

FDI in Korea by Region('15)



FDI in Korea by Country('15)



*Source : INSC(based on declared amount)

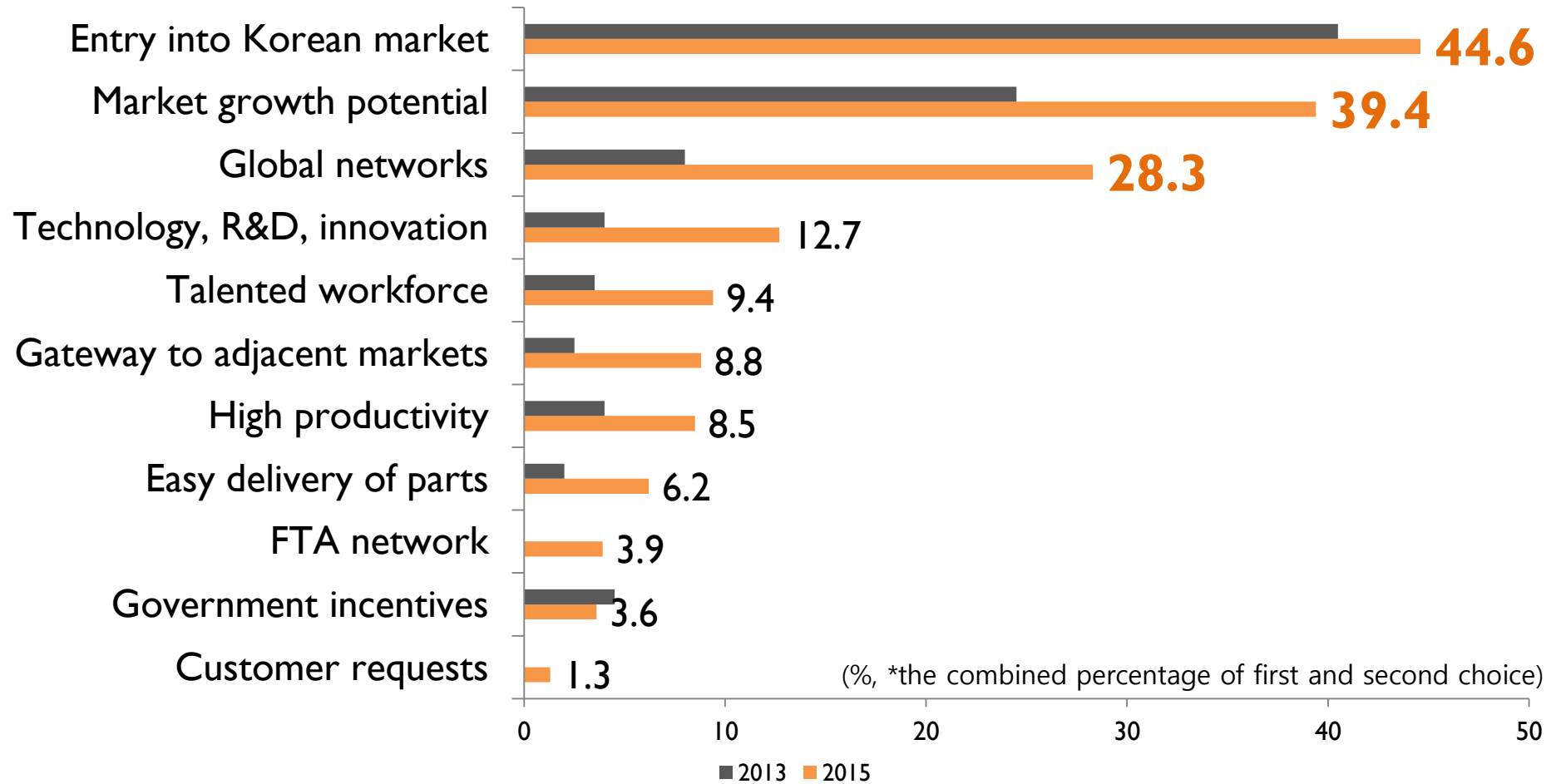
Foreign-Invested Companies in Korea



*Source: KOTRA, 2015

Reasons for Investing in Korea

Reasons for investing in Korea



*Source : Invest KOREA(2015)

Challenges and Implications

- FDI in 3 economic zones : only a little more than 21% of total FDI from 2004 – 2014, not satisfactory level
 - Too many and analogous economic zones due to political background
 - No differentials among economic zones
 - Relatively high factor costs including land rent, wage, etc.
 - Administrative regulations
 - Lack of consolidated management organization

Challenges and Implications

- Implications
 - Integration of analogous zones
 - Differentiation of each economic zone through attracting high value-added industry in FEZ, foreign investment focusing on domestic market in Foreign Investment Zone and export-oriented businesses in Free Trade Zone
 - Providing favorable incentives including factor costs such as rent, wages, etc.
 - Designation economic zones as 'regulation-free zone'
 - Establishing only one organization controlling the management of each zone

Thank you very much !