

South Korea: Understanding the investment climate

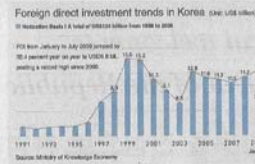
It did not take long after the Asian Financial Crisis of the mid nineties for South Korea to map high on the investment radar of investors globally. Aggressive strategies to attract foreign investment leveraging the newly established Foreign Investment Promotion Act paid rich dividends on the FDI front. Another jolt came in the form the September 2001, terror attacks and got the authorities back to the strategy room. Reduced liquidity and capital mobility in the global financial market after the attacks led to a significant deceleration in the FDI growth path of South Korea.



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It was only in 2004 after a comprehensive plan for attracting foreign investment into the country was implemented that the FDI figures got a push northwards. The FDI inflows in the country from then on have remained largely stable at around \$10 billion till 2009.

While the FDI trends are a significant indicator of the attractive economic destination that South Korea is emerging into, there are other factors that contribute to its overall lucrative positioning on the global map.

RESILIENT KOREA
The global recession spelled havoc for international investments into most countries. Korea, although not immune to the setback, showed great resilience with a stable growth in FDI, actually it's highest since 2000. The share of the United States certainly went down but the decline was overwhelmed by a categorical rise in investments from Japan and the European Union. As per the available figures Service sector dominated the FDI receipts in 2009 with a share of around 72%. The manufacturing sector came second with a share of 25.5%. These are significant numbers in context of the health of the global economy. Not only is the inflow and allocation to sectors is something



impressive, one can only be positive about the capacity augmentation or new project creation that this money will do. As the clouds of recession turn while the investment into South Korea shall certainly prove to be an asset to leverage. The economy is already warming up as a China Daily report that highlighted using the third quarter GDP growth of South Korea.

IMMINENT GROWTH
While the global economy has been reeling under the pressure of the global recession, Asia has been proving the vanguard of growth for the world. The emerging economies especially have provided the much needed steers to this resumption. South Korea has also shown impressive performance in the last two quarters with positive trends



ment expressing itself at the macro level. As per the report "As per an advance estimate by the Bank of Korea (BOK), the country's GDP increased by 2.9 percent during the July-September period from three months ago, compared with a 2.6 percent growth tallied in a quarter earlier. The figure marked the highest since the first quarter of 2002 when the GDP advanced at 3.8 percent on quarter." Exports believe that the future also looks bright for the Asian giant as the highly sophisticated consumer market of South Korea with a deepening penetration of high tech industry coupled with improving global liquidity come together as a resounding positive signal. The average GDP growth beyond 2000 has been robust at over 5%.

DIVERSIFICATION OF THE ECONOMY
The impressive growth on the foreign investment side has ensured that the Korean Economy has taken a positive direction. Not only are the traditional businesses rising but the economy is seeing categorical diversification into high skill areas such as R&D, Chip Manufacturing and Bio-Industry. The proportion of FDI into greenfield ventures in FDI has also risen considerably.

FACILITATING POLICY AND REGULATORY FRAMEWORK
South Korea has been proactive in its response to the global meltdown and the new Korean regime since its assumption of office has taken a cate-

gorical note of the need of a strong yet facilitating Policy and Regulatory Framework for business. Not only have the policies adorned a pro-growth character, the President himself has underlined a categorical 'green growth' underlines towards the countries policies across the board. Following are some key initiatives that the Korean government has taken in order to stimulate positive economic activity in South Korea.

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INCENTIVES FOR FOREIGN COMPANIES INVESTING IN KOREA

- The government currently offers tax relief to foreign companies with the potential to make major contributions to the Korean economy.
- The government also provides them with industrial sites or assists them with site location and acquisition, and provides cash

grants and other types of financial support.

- Cash grants have been available from 2009 for foreign investment in high-tech industries and in sectors that are likely to create new jobs.
- Land within Foreign Investment Zones designated to the parts and material industries can be rented with a higher level of discount.
- Financial support for the construction and extension of international schools are available in the acquisition of sites and construction costs according to ordinances set by local governments.
- In light of the factors discussed above, South Korea comes across as an attractive business destination. The recent economic data from the country also reflects the positive economic outlook. Here is a snapshot of some important indicators captured from the monthly economic trend report, 'Green Book', Sept 2009 of the Ministry of Strategy and Finance as we conclude this brief analysis of South Korea's investment climate.

- September's industrial output went up 11 percent from the previous year
- Service output also increased by 4.2 percent over the last year
- Year-on-year sales figures for consumer goods grew for a fifth straight month, with those of September reaching 6.7 percent
- Facilities investment recorded its first increase of 5.8 percent since last September after strong demand for machinery and transport equipment
- In September, 71,000 more jobs were created from the same month of the previous year and the unemployment rate decreased to 3.4 percent from 3.7 percent the previous month.

Tax Reliefs

- Businesses deemed as "high-tech" or foreign investors who have contributed in excess of a minimum level within Foreign Investment Zones or Free Economic Zones for businesses including manufacturing, logistics, R&D, and hotel/tourism are given tax relief including a 6- or 7-year reduction on corporate, income, and local taxes, as well as on dividends received.
- If a business that has been acknowledged to receive tax relief acquires capital goods, reports that have completed declaration within 3 years after the investment was registered are subject to a lower tariff.
- Apart from the tax incentives available to foreign investors, various tax benefits are provided including tax credit for investment and tax relief for small and medium enterprises (SMEs).