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SUPPLEMENT

# South Korea

LOOKING TO ITS FREE  
ECONOMIC ZONES  
FOR GROWTH

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## OVERVIEW

**02** South Korea's economy has flourished in the past few decades, thanks in no small part to the success of global conglomerates such as Kia, Hyundai and Samsung. But, Barbara Njau asks, does the dominance of these companies stifle competition in the country, and make it vulnerable to a global downturn?

## ECONOMY

**07** South Korea has the unenviable task of setting itself up as an investment destination that can challenge nearby heavyweights China and Japan. However, the innovative use of free-trade agreements and pro-business policies are helping the country establish itself as a gateway into north-west Asia, says Barbara Njau.

## FREE ZONES

**09** Over the past decade, the South Korean government has attempted to diversify its economy and lessen its reliance on exports through the development of eight free economic zones, each with its own specialism. Barbara Njau reports on their progress.

# South Korea means business

SOUTH KOREA'S ECONOMY HAS FLOURISHED IN THE PAST FEW DECADES, THANKS IN NO SMALL PART TO THE SUCCESS OF GLOBAL CONGLOMERATES SUCH AS KIA, HYUNDAI AND SAMSUNG. BUT, BARBARA NJAU ASKS, DOES THE DOMINANCE OF THESE COMPANIES STIFLE COMPETITION IN THE COUNTRY, AND MAKE IT VULNERABLE TO A GLOBAL DOWNTURN?

The torrential rain in early July did not stop hordes of tourists and local South Koreans from streaming into Myeongdong's narrow streets in the capital of Seoul to sample the street food and check out the clothing stores. Well known as one of Seoul's trendy shopping districts, Myeongdong's roads have been a draw for fashionistas, lined with Western retailers such as Zara and Gap, as well as home-grown South Korean brands such as Eight Seconds and Aland.

On weekday evenings the area serves as a popular hangout for young professionals. Take 25-year-old Hyeryung Chloe Chung. Sipping her Americano in the coffee chain Starbucks while clutching her H&M shopping bag, she epitomises the type of globalised citizen that South Korea has worked to cultivate. Ms Chung complains about the weather in English, while casually reading messages on her Samsung mobile phone.

"It's the start of the monsoon season, so the rain will be heavy for a while," she says. Educated in Seoul and France, and fluent in Korean, English and French, Ms Chung returned from a brief sojourn in Paris to work as a civil servant in South Korea, as she believed the country was rich with opportunities for graduates. "Travelling is exciting, but

my dream was to start my career here as a diplomat," she says.

Although South Korea has become better known for the excessive power of its business conglomerates, locally known as chaebols, and its growing income inequality, Ms Chung's case illustrates how the government has invested in its youth, to promote an innovative and globally competitive workforce.

## **Miracle on the Han River**

Located on the southern part of the Korean peninsula, South Korea shares a border with North Korea. Following a brokered ceasefire between the two countries in 1953, which ended the Korean War, South Korea's economy has expanded rapidly. Between 1960 and 1985 it experienced an average increase in per capita income of 6.8%, according to research from Columbia University. The country's economic take-off was initially centred on Seoul, through which the Han River flows, leading locals to refer to South Korea as "the miracle on the Han River".

The government's export-led growth strategy, which resulted in the country's rapid industrialisation, allowed South Korea to become the first country in north-east Asia to transition from being a recipient of aid from the Organisation for Economic Co-operation and Development (OECD) to becoming a donor. By 1996, South Korea had joined the OECD as an official member.



SOUTH KOREA DEPENDS ON WHAT HAPPENS OUTSIDE, IN THE GLOBAL ECONOMY





March to the top: South Korea not only boasts a number of highly successful global companies, it also has an innovative and globally competitive workforce

Despite being resource-poor, South Korea's development has largely been attributed to the government's overseas focus, which is at the heart of its economic policy. Home to a population of 50 million people, its framework was led by a realisation that South Korea's semiconductor, automotive, steel and shipbuilding capabilities exceeded domestic market demand. And so with government support, the country's chaebols have become global heavyweights. The Korea Trade-Investment Promotion Agency estimates that 14 South Korean chaebols are among the Fortune Global 500 companies, including automobile manufacturer Hyundai, multinational steelmaker Posco and electronics manufacturer Samsung.

#### Friends in high places

As the world's eighth largest trading country, South Korea has developed strategic ties with several countries including the US, Japan and UK. Outward FDI from South Korea is significantly higher than FDI into the country, according to greenfield investment monitor fDi Markets. Between January 2003 and May 2013, South Korean companies invested \$250bn in 2310 greenfield projects overseas, while foreign enterprises invested \$90bn into 1124 projects in South Korea during the same period. Christoph Heider, secretary-general of the European Chamber of Commerce in South

Korea, maintains that while Korean outbound investment is considerable, it is important not to understate the interest of European enterprises in the country.

"From a foreign point of view I feel the Korean economy is developing nicely, although the expected GDP growth rate of 2.8% [this year] is dependent on [global economic conditions]," he says. "Hence there are a few Europeans that are very active here, including German and French companies."

Although data from greenfield investment monitor fDi Markets for 2003 to 2012 shows that the US and Japan were the leading investors in South Korea, accounting for a combined 497 projects, Germany follows as the third largest investor, accounting for 73 projects. France ranks as the fifth largest investor, with 48 projects from the likes of car maker Renault and retail outlet Carrefour.

Despite the protracted slowdown in global trade, inward FDI flows to South Korea have remained relatively stable and the GDP growth this year reveals prospects may be brightening for foreign enterprises. The Bank of Korea reported that GDP growth in the second quarter of this year was 2.3%, which was the country's fastest quarterly expansion recorded in more than two years. Although this was mainly boosted by a rise in state spending by president Park Geun-Hye's new administration, consumer spending has rebounded, ►

#### COUNTRY PROFILE SOUTH KOREA

Population:	49 million
Pop. growth rate:	0.18%
Area:	99,720 sq km
Real GDP growth:	2%
GDP per capita:	\$32,800
Current account:	\$3.14bn
Largest sector (% of GDP):	Services
Labour force:	25.5 million
Unemployment rate:	3.2%

Source: CIA World Factbook, 2013



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Cosmopolitan living: South Korea has embraced many global brands, as well as creating a number of its own, such as electronics conglomerate Samsung (top left) and car manufacturer Hyundai (top right)

which could further reinforce foreign investor confidence in South Korea.

**Structural weaknesses**

Yet Xavier Coget, the head of the trade section of the delegation of the EU to South Korea, maintains that while South Korea has made notable attempts to draw inward FDI, the country has not proven that it is immune to the global recession. Asked whether the growth in the early part of 2013 is sustainable once the government withdraws its stimulus measures, Mr Coget says: “South Korea depends on what happens outside, in the global economy. The EU is one the largest economic blocs of the world and one of the largest trading partners of Korea, so the EU crisis has affected Korea’s trade.”

In addition, while South Korea’s reliance on its chaebols has not only resulted in a problematic monopolisation of key industries, making market entry difficult for foreign enterprises, it has also resulted in the country’s high exposure to the global recession. This was particularly evident when the country’s economic growth dropped from 6.2% in 2010 to 3.6% in 2011, according to research firm Roubini Global Economics. Although South Korea’s conglomerates contributed to the country’s economic success, they are increasingly becoming a source of fragility.

“The Hyundai Kia Motor Group’s market share in the automotive industry [in South Korea] is 70%,” says Mr Heider. Pointing to Samsung, currently the world’s largest smartphone maker, Mr Heider says the company’s ubiquity in South Korea seeps into several aspects of citizens’ lives. “There are several hospitals that bear the Samsung brand,” he says. “It also has a credit card company, offers life insurance, it has amusement parks, and it is also involved in construction.”

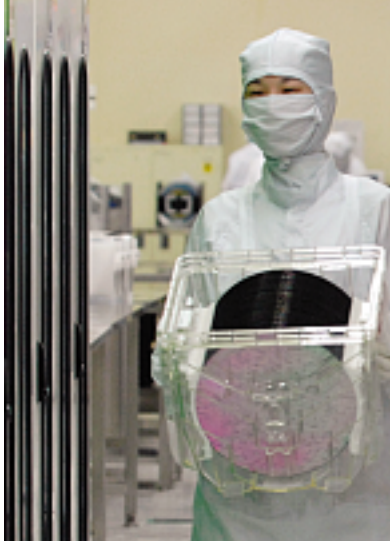
**Geographical fault lines**

While South Korea has been commended by international rating agencies such as Standard & Poor’s for managing its finances with aplomb against a difficult global backdrop, diplomatic tensions especially with North Korea continue to pose an ominous threat. Although Standard & Poor’s issued a stable AA- rating for South Korea’s local currency, the country’s diplomatic fall out with North Korea in April 2013 led North Korea to block access to the shared Kaesong Industrial Complex, highlighting the fact that South Korea sits on delicate fault lines.

Such bouts of sabre-rattling from North Korea combined with territorial disputes over islands with Japan and China are a concern, but Michael Reed, the head of FIL Asset Management’s South Korea operations, says these issues are usually overstated abroad. “If you look at the news, it is all driven by international media,” he says. “The foreign press were wrapped up in the [Kaesong Industrial Complex] story, but if you were here, there was no effect.”

While the good news is that the political reality of such fallout has been largely decoupled from the investment climate of South Korea, and its business continues as usual, the bad news is the export-led growth that has underpinned South Korea’s success may no longer be the silver bullet that will solve the country’s short-term needs. It remains to be seen whether the government’s spending will power the growth of its small and medium-sized enterprises, which provide 90% of jobs in the country, and whether decentralising growth away from its chaebols, as well as encouraging consumer spending, will enable South Korea to weather the global slowdown in trade. ■





Facing forward: South Korea is known as one of the leading markets for high-speed internet and advanced mobile technology (right), while it is attracting increasing levels of investment in the chemicals (top left) and real estate (bottom left) sectors

# A gateway to growth

SOUTH KOREA HAS THE UNENVIABLE TASK OF SETTING ITSELF UP AS AN INVESTMENT DESTINATION THAT CAN CHALLENGE NEARBY HEAVYWEIGHTS CHINA AND JAPAN. HOWEVER, THE INNOVATIVE USE OF FREE-TRADE AGREEMENTS AND PRO-BUSINESS POLICIES ARE HELPING THE COUNTRY ESTABLISH ITSELF AS A GATEWAY INTO NORTH-WEST ASIA, SAYS BARBARA NJAU

**W**hen president Park Geun-Hye entered office in February 2013, amid election promises that her administration would improve the lot of South Korea's working classes, kick-start the country's floundering economy, and seek diplomatic rapprochement with North Korea, the country's first female president also had to face the nagging issue of falling inward FDI.

Greenfield projects in South Korea have progressively decreased from 133 projects worth \$7bn in 2011, to 109 projects worth \$6bn in 2012, according to data from **fDi Markets**. The number of greenfield

FDI projects carried out overseas by South Korean companies has also fallen, from 221 projects in 2011 to 200 in 2012.

With the gap between inward and outward FDI closing against a backdrop of sluggish global economic growth (which the International Monetary Fund expects will not exceed 3% this year), the South Korean government has been working to reduce its external exposure by positioning the country as an international investment gateway into north-east Asia.

## Coming to an agreement

As part of its efforts to establish itself as such a gateway, free-trade agreements (FTAs) have become a key pillar of South Korea's strategy to attract more foreign investment. According to the Korea Free Economic Zones (KFEZ) authority, the country has signed FTAs with some 46 countries across the Americas, Europe and Asia.

Park Jaeyung, director of the Policy Planning Office of Free Economic Zones at South Korea's Ministry of Trade, Industry and Energy, says that these FTAs will be significant in boosting FDI from for-

eign businesses that seek to operate in a relatively low-cost yet highly structured market that has established important tariff exemptions with two-thirds of the world's markets.

"We want to be a global business hub, and we want foreign companies to see us as a place that is rich in opportunities in research and development, logistics and commercial real estate," says Mr Park. "Korea is transforming itself into a gateway to the north-east Asia market. Although the country is just 0.1% of the world's geographical size, the FTAs that South Korea has enabled it to cover 61% of the world's economic territory."

## Innovative strength

Ranked eighth globally by the World Bank's Doing Business report for 2013, South Korea prides itself on being a global leader in high-speed internet and advanced mobile technology. As the US-based consultancy firm McKinsey asserts in a report, South Koreans were some of the first adopters of new digital devices, which demonstrates the country's openness to innovation.

Christoph Heider, the secretary-general of the European Chamber ▶



## SOUTH KOREA MARKETS ITSELF AS A CHEAPER BUSINESS DESTINATION THAN JAPAN, WHILE WEAK REGULATION MAKES CHINA A LESS ATTRACTIVE VALUE PROPOSITION



of Commerce in South Korea, believes the government's active approach to producing regulation that is in step with new products highlights the country's dynamism.

"South Korea moves very quickly, and you can connect your smartphone or laptop to a hotspot anywhere in places like Seoul," says Mr Heider. "Europe is not so quick when it comes to uptake. Korean companies move fast and the regulatory environment evolves accordingly." Additionally, the Bank of Korea reports that between April to June this year, private consumption rose by 0.4%, revealing that domestic demand is also powering opportunities in the retail, financial and consumer goods sectors.

### Drawing investment

Although foreign companies have mainly invested in software and IT services, as well as the chemicals and electronic components industries, which combined attracted \$36bn-worth of FDI between 2003 and 2013, according to fDi Markets, FDI into South Korea's financial services sector grew by 20% in 2012, while FDI into consumer products increased by 300%. This would suggest that the government's efforts to boost consumer expenditure through supporting wage increases for South Koreans has been a draw for foreign enterprises that wish to tap into the country's consumer base.

Steven Craig, the managing director of real estate services firm

Jones Lang LaSalle's office in South Korea, believes that commercial real estate is another sector that is set to experience a significant upswing in demand in the country.

fDi Markets shows that between 2003 and 2013, South Korea's real estate sector ranked fifth in attracting foreign capital expenditure, as investors spent \$4bn on greenfield projects during this period. In Mr Craig's opinion, most of this investment has been channelled into Seoul, as foreign companies believe the country's capital city remains a prime location for serving the domestic market, as well as accessing the rest of north-east Asia.

"Demand for [commercial real estate] increased last year, and we think the level of demand for office space will further increase [this year]," says Mr Craig. "One of the factors that should be considered is that South Korea's capital markets are very strong, and have a lot of liquidity. Several investors are competing to buy into large commercial property investments. The opportunities are large and I am excited about the market."

### Looming weaknesses

Although South Korea's labour force ranks among the most educated in Asia, a common challenge that foreign investors face is in finding English speakers among the country's workers. Also, the dynamics of large capital inflows and a small domestic market means that busi-

nesses find they have little option but to seek opportunities outside of the country. Therefore overseas exports remain critical for South Korea's future growth.

While China and Japan have also made similar efforts to promote themselves as gateway locations, Simon Hoggett, the marketing manager of Daegu-Gyeongbuk Free Economic Zone Authority, believes that investors will still find that South Korea is the prime location for their operations in north-east Asia. "When foreign companies speak of working in China, once they get there they find that it is actually very saturated, and very hard to do business due to heavy government regulation," says Mr Hoggett. "Japan is not that much easier to do business in either."

South Korea markets itself as a cheaper business destination than Japan, while weak regulation – particularly in the area of intellectual property rights – makes China a less attractive value proposition for foreign firms. "The South Korean government has worked to protect foreign companies, who sometimes suffer from other firms encroaching their patents [in other parts of Asia]," says Mr Park. "South Korea's government established a special force for intellectual property rights in 2008 to look after investors' patents. The country is changing and the government will continue to work on establishing a foreigner-friendly environment for businesses." ■



Taking shape: Songdo International Business District (pictured), one of South Korea's eight special economic zones, is due to be completed by 2018

# A better balance

OVER THE PAST DECADE, THE SOUTH KOREAN GOVERNMENT HAS ATTEMPTED TO DIVERSIFY ITS ECONOMY AND LESSEN ITS RELIANCE ON EXPORTS THROUGH THE DEVELOPMENT OF EIGHT FREE ECONOMIC ZONES, EACH WITH ITS OWN SPECIALISM. BARBARA NJAU REPORTS ON THEIR PROGRESS

**R**esidential apartments on the top floor of the towering First World complex offer a panoramic view of the Songdo International Business District (IBD), where shimmering glass skyscrapers and the sprawling low-rise Songdo convention centre intersect with the neatly trimmed lawns of the Central Park, replete with a museum and a sea water canal catering to residents and visitors in the Incheon metropolis, South Korea's third most populous city.

Currently home to 22,000 residents, a figure expected to rise to 27,000 people by the end of this year, it is hard to believe that just 10 years

ago, Songdo IBD was underwater. Constructed on six square kilometres of reclaimed land along the Yellow Sea, Songdo IBD is part of Incheon Free Economic Zone (IFEZ), and it has been ranked by the Massachusetts Institute of Technology as the largest ever private real estate venture.

Forming part of the government's efforts to attract inward FDI into South Korea, the development of Songdo IBD is estimated to cost \$35bn upon completion. Gale International, a US-based real estate and development company, will construct four square kilometres of residential and retail complexes, and the entire project is expected to be finished by 2018.

"After the Asian financial crisis [in 1997], the government realised that the country's economy needed to be targeted towards inward FDI," says Scott Summers, vice-president of foreign investment at Gale International. "It decided to fill two islands and then created Incheon. The masterplan for Songdo IBD was put together and the government searched for international

developers. That is how Gale International came in."

## **Balancing act**

Songdo IBD illustrates the government's efforts to reduce its reliance on the performance of its chaebols, which are South Korea's principal exporters, through promoting itself as a headquarter location for foreign companies which wish to do business in north-east Asia, via its free economic zones (FEZs). In 2003 the government started designating new FEZs, and in a bid to attract new enterprises all FEZs offered investors one-stop services for their administrative needs, as well as three-year tariff exemptions and seven-year corporate tax exemptions.

"Although we host many companies that have headquarters in Seoul, we want to develop other regions to promote a balanced development," says Park Jaeyung, director of the policy planning office of free economic zones at the Ministry of Trade, Industry and Energy.

"There are eight Korean FEZs in total," says Simon Hoggett, marketing manager of Daegu-Gyeongbuk ▶



Bold ambitions: Daegu-Gyeongbuk Free Economic Zone Authority (pictured) has 10 sites and is home to more than 600 foreign companies

Free Economic Zone Authority (DGFEZ). “The first group of FEZs were designated in 2003, and they were all port-based. In 2008, the government designated the Daegu, Saemangeum and Yellow Sea regions as FEZs. The final two, namely East Sea and Chungbuk FEZs, were created this year. Each of these sites was designed to be close to some kind of industry cluster.”

#### **High flying**

IFEZ is the oldest and best-known FEZ in South Korea. Home to Incheon International Airport, it is also the closest of the eight FEZs to the country’s capital city, Seoul.

Designed to leverage South Korea’s global position as a trade and aviation hub, IFEZ is among a handful of economic zones globally that has developed as an ‘aerotropolis’. Incheon International Airport’s aviation capacity, which South Korea’s free zone authority Korea FEZ estimates is the second largest airport in the world for cargo handling, was combined with its business, high-tech and education industries, by integrating three cities that serve selected industries.

Songdo City makes up one-third of IFEZ, and Songdo IBD is expected to be South Korea’s largest ‘smart

city’. Its buildings have been designed to emit a third of the greenhouse gases typically produced in urban centres. Set to become Incheon’s business district, by 2018, Gale International estimates that Songdo IBD will accommodate 70,000 residents and 300,000 commuting workers.

Two other cities make up the other two-thirds of IFEZ. Cheongna City will serve as the zone’s leisure and tourism hub, while Yeongjong Island is set to become the logistics centre by 2020. Having attracted global companies such as Germany-based BMW, and Boeing from the US, Mr Summers is confident that cities such as Songdo IBD will fare well in attracting FDI from companies seeking cheaper rents in cleaner and greener environments.

“Songdo IBD is a 20-minute drive from Incheon airport, and its residents enjoy a cleaner quality of life at a lower cost,” he says. “International organisations are looking at Songdo as the place to be and, when the Green Climate Fund chose to headquarter in Songdo IBD, it really validated our vision.”

#### **All in the logistics**

Located in the south-east of South Korea, Busan-Jinhae FEZ was devel-



## ALTHOUGH WE HOST MANY COMPANIES THAT HAVE HEADQUARTERS IN SEOUL, WE WANT TO DEVELOP OTHER REGIONS TO PROMOTE A BALANCED DEVELOPMENT



oped around the Port of Busan, which is the world's fifth largest container handling port. Formed in 2003, and encompassing 21 districts, BJFEZ has evolved as a strategic outpost for international exporters in South Korea.

"Almost every business in South Korea exports out of Busan, as BJFEZ has one of the largest deep-water ports in Asia," says Mr Hoggett. "For example, there is a company in the north of the country that transfers its goods via a three-hour trip on the highway, in order to ship their items out of Busan."

The zone, which currently hosts industrial parks that cater to advanced research and design companies, high-tech industries, and tourism and leisure operators, is constructing a new port, which will have 45 berths by 2020.

Designed with a primary focus on maritime logistics, Gwangyang Bay Area FEZ (GFEZ) also caters to the manufacturing, tourism and construction industries. Situated close to the Gwangyang Port, which handles 242 million tonnes of cargo annually, and connected to the Seoul Metropolitan Area via the KTX express railway, its transportation links are its key asset.

GFEZ has experienced success in attracting companies involved in heavy industry, including South Korean firms such as Posco and Hyundai Engineering. Mr Park believes that GFEZ's coastal location will continue to make it integral to the government's efforts in attracting inward FDI. "FDI into FEZs located on the coastline has been on the rise," he says. "We have many

global Korean firms such as Samsung and Posco that have established themselves in GFEZ. As a result, many foreign companies want to set up their factory in these FEZs, in order to directly sell components to these Korean companies."

### Brain powered

Formed in 2008, with the aim of developing South Korea's knowledge-based, manufacturing and services industries, Daegu-Gyeongbuk Free Economic Zone Authority (DGFEZ) encompasses 10 districts that focus on a selected number of sectors. Its close proximity to 51 universities and five public research institutions has enabled DGFEZ to become South Korea's foremost R&D centre, and Mr Hoggett says that the region's ability to supply more than 70,000 graduates annually has led it to become well known for offering companies a ready supply of high-quality staff.

"One of our sites is a special R&D zone, and it houses public institutions, including a university that is focused on developing next-generation technology," says Mr Hoggett. "We have the raw materials, the labour and each industry in DGFEZ has its own cluster that is connected to the next segment of the supply chain. We built R&D institutes into the value system, and one of the leading projects we are engaging in is developing facilities that cater to the intelligent transportation of vehicles. This is the only facility of its kind in the country, exclusively for intelligent and electronic-based vehicles."

Currently home to more than 600 foreign companies, including

US-based energy firm Exxon Mobil, German telecommunications firm Siemens and the Japanese advanced materials maker Toray, Mr Hoggett says that DGFEZ's efforts in developing modern facilities have attracted \$60bn in FDI to date.

Also designated in 2008 to attract FDI into the creative and knowledge-based industries, Yellow Sea FEZ's (YSFEZ's) main focus is on exporters catering to the Chinese market. The zone has worked to integrate logistics, production and R&D processes across three districts, and YSFEZ is expected to develop into an international business district for companies targeting China.

Saemangeum-Gunsan FEZ (SGFEZ), which was built on a reclaimed archipelago of more than 60 islands, was created with a heavy focus on the maritime industry. In addition to Songdo IBD, SGFEZ is the government's other pilot programme that will develop a low-carbon city, in order to attract renewable energy companies, as well as further its goals of reducing its greenhouse gas emissions.

### Pressing ahead

The government's decision in 2013 to designate two more FEZs formed part of its resolve to develop South Korea's smaller seaport routes and expand its light manufacturing industry. East Sea Rim FEZ (EFEZ) is expected to become a hub for companies wishing to export high-tech materials to Japan, Russia and China.

Government officials are confident that EFEZ's tourism industry is also poised for growth. In the run up to the Pyeongchang 2018



All angles covered: Songdo International Business District comprises four square kilometres of residential and retail complexes, including a convention centre (bottom right), golf course (top right) and schools (left)

Winter Olympics, which will be hosted in Gangwon province in EFEZ, it is hoped that international hoteliers will invest in the zone to cater to the influx of tourists for the games.

The second of 2013's new FEZs is Chungbuk FEZ (CBFEZ). CBFEZ was formed with a focus on developing South Korea's biomedicine industry, as well as its ecology and information and communications technology sectors. As the country's newest FEZ, it remains to be seen how it will fare in attracting foreign companies.

While the government's scramble to designate a plethora of FEZs appears an apt response to the country's slowing export performance, questions have been raised as to whether the government's plan to create inward FDI through its FEZs is flawed. Commentators suggest that the 'one size fits all' approach in offering similar incentives across all FEZs not only increases each zone's already tricky task of differentiating itself, but they say that the

incentives may not be customised enough to suit all company's needs.

Michael Reed, the head of FIL Asset Management's South Korea operations, says that having the special designation of being a FEZ can actually have the undesirable effect of making a company seem insular and separate from the wider South Korean market. In a culture where appearing integrated in the local business framework is key, and cultivating close ties with South Korean customers is valued, FEZs could actually distance companies from their customers.

"We came to Korea to be with the Koreans, and to be part of the society and the economy," says Mr Reed. "If you place us in a FEZ, we appear foreign, and I believe we should be a part of the greater Korean society."

**Making it work**

Seoul is well known as South Korea's business hub and so an added issue that FEZs further inland face is that few international companies are aware of where they

are. Therefore, increasing their brand exposure is a challenge.

"Just like when tourists think of Asia, they think of the Forbidden City in Beijing, or Tokyo – and they usually consider Seoul when they think of South Korea – the same goes for foreign companies," says Mr Hoggett. "When they look at South Korea, they look at Seoul because they want to be close to the capital."

He does note that these perception issues are changing though. Pointing to the upcoming global World Energy Conference that will be hosted by DGFEZ, Mr Hoggett says that more FEZs have worked to showcase their regions' strengths by hosting such international events. This is encouraging evidence that the government's proactive attempts to promote inward FDI through these FEZs might just work. While the challenges that South Korea's FEZs face are considerable, they could perhaps become the critical lifeline that South Korea needs to revamp its slowing FDI performance. ■

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