



# Measures for Revitalizing Foreign Direct Investment<sup>1)</sup>

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## Economic Growth and the Slowing Growth Rate

### ▪ The Korean economy has dramatically grown in scale; however, its growth rate is declining.

- Korea's economy became the world's 13th largest economy in 2022<sup>2)</sup>.
  - despite its declining growth rate.
  - It recorded an average annual real growth of 2.7% from 2012 to 2022.
- The potential growth rate has continued to slow down due to a maturing economy, and industrial and demographic changes, weakening growth engines<sup>3)</sup>.
  - The potential growth rate averaged around 4% in the 2000s; however, it declined to around 2% in the 2010s due to economic shocks such as the financial crisis and COVID-19, and rebounded to 2.3% in 2022.<sup>4)</sup>

[Figure 1] Growth and Growth Rate Trends in the Korean Economy

(Unit: KRW trillion, %)



Source: Reproduced by NABO based on data from the Bank of Korea

## Enhancing Competitiveness Through FDI

### ▪ Attracting foreign direct investment (FDI) to secure new growth engines and capital inflows

- Attract FDI to create a stable industrial environment for Korean high-tech companies
  - Strengthen the leading position of Korean industries and fill in the gaps<sup>5)</sup>; ensure a stable supply chain for the products needed at each stage of the process.
  - Actively attract FDI from leading technology companies so that newer Korean industries, such as the bio-technology industry, can promptly access advanced technologies.

1) Based on the Grand Debate on Policy Issues: How to Revitalize Foreign Direct Investment, on September 21, 2023

2) Statistics are from the IMF's World Economic Outlook (April 2023) and are based on nominal prices in USD.

3) NABO, "Structural Change in the Korean Economy and Response Strategies I", August 7, 2020

4) NABO, "2024 and the Mid-term Economic Outlook IV", October 5, 2023

5) While the Korean semiconductor industry leads the world in semiconductor memory manufacturing, it does not maintain a leading position in all semiconductor sectors and process stages, including system semiconductors, design, materials, parts, and equipment.



- Korea should secure capital for investment by inducing the capital inflow leaving China due to the US-China conflict and the instability of the Chinese economy.
  - Attract foreign capital for high-tech industries to enhance the growth of the Korean economy and the global competitiveness of the industry
  - Attract FDI to create high-quality jobs and secure overseas talent

**[Table 1] Competitiveness Analysis of the Korean Semiconductor Industry**

	Human Resources/ Technology	Capital (Finance/Land)	Environment	Institutions/ Infrastructure	Total
Semiconductor memory (IDM)	○	○	○	×	○
Fabless (design)	×	×	×	△	×
Foundry (manufacturing)	△	△	×	×	△
Materials, parts & equipment	×	×	×	△	×
Packaging/testing	×	×	△	×	×
Sensors	×	×	×	△	×

Note: ○: strength, △: average, ×: weakness

Source: Korea Semiconductor Industry Association

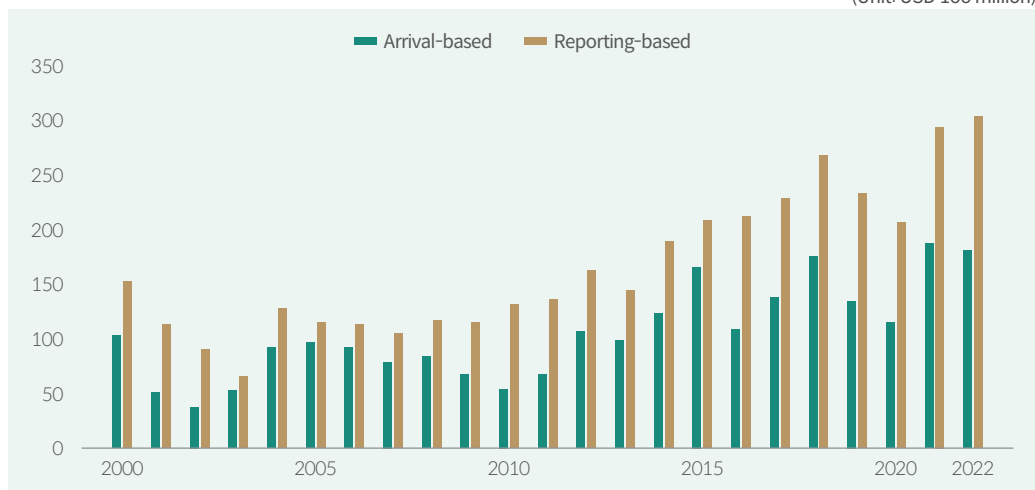
## Measures for Revitalizing FDI

### ▪ Korea's efforts toward attracting FDI

- As a follow-up to the “2014 Plan for Revitalizing Foreign Investment” (announced at a meeting with foreign-invested companies on January 9, 2014), a system for recognizing foreign-invested companies' R&D centers has been established and operated since 2015.
  - If a company is designated as an R&D center after deliberation by the Foreign Investment Committee, it will receive support such as an income tax breaks for foreign engineers and easing conditions for obtaining permanent residency.
- Attraction efforts through a cash support system
  - After abolishing corporate tax cuts in 2018, the cash support system was improved to increase investment in areas with high economic contribution, such as high-tech industries and R&D.
  - The system provides partial cash support for foreign investment through joint sharing between the central and local governments.

**[Figure 2] Trends in Korea's FDI Attraction**

(Unit: USD 100 million)

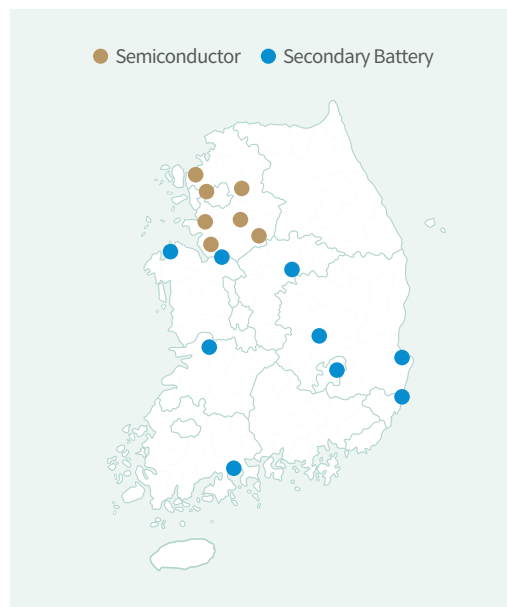


Source: Reproduced by NABO using data from the Ministry of Trade, Industry and Energy

## ▪ Policy tasks for increasing FDI attraction

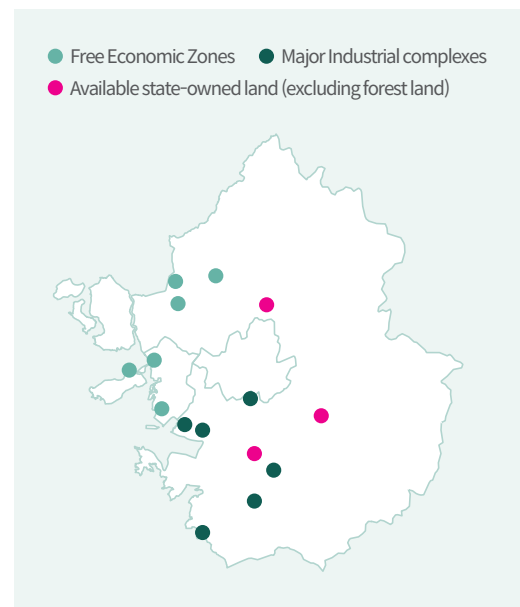
- Foster high-tech industry clusters with leading Korean companies as anchor organizations<sup>6)</sup>
  - Create an ecosystem encompassing all production processes by attracting related downstream and upstream industries, centered on Korean anchor companies
- Actively utilize non-cash support measures such as leasing land at a low cost
  - Identify and utilize idle state-owned land to attract FDI by offering sites at low rent in addition to cash support
  - Search for sites in the Seoul metropolitan area that offer more access to talented workers, which is a key determinant in attracting FDI
- Support smooth administrative procedures by improving FDI regulations
  - Establish a flexible support system that reflects various situations in the field
  - Establish a support system for settling foreign-invested companies' employees in Korea

**[Figure 3] Clusters Centered on Korean Anchor Companies**



Source: Reproduced by NABO using data from the Korea Trade-Investment Promotion Agency

**[Figure 4] Utilization of State-Owned Land in the Seoul Metropolitan Area**



Source: Reproduced by NABO using data from the Korea Land and Geospatial Information Corporation

## Institutional Support for Attracting FDI

## ▪ Revision of institutions for bolstering FDI

- Review ways to facilitate the attraction of FDI by improving current systems such as free economic zones, R&D special zones, and industrial complexes
- Consider enacting special laws for key locations related to fostering national high-tech industries
  - The main challenge is developing a social consensus that respects regional balanced development and national economic effects.

6) Companies acting as anchors for attracting FDI as they are leaders in the technology industry and exert a great market influence

**[Table 2] Improvement Task for the Current System**

System	Improvement Task
Free economic zone	<ul style="list-style-type: none"> <li>• Increase the support for infrastructure and research facilities (roads: currently 50% state funding)</li> <li>• Further reduce the land rent for foreign investors (currently at least 50% reduction)</li> <li>• Provide tax support, including corporate tax breaks for foreigners in free economic zones</li> </ul>
R&D special zone	<ul style="list-style-type: none"> <li>• Offer training, tax incentives for foreign-invested research facilities, etc. <ul style="list-style-type: none"> <li>- Singapore provides package support for equipment investment, professional services, etc.</li> </ul> </li> <li>• Improve living conditions for foreigners (special housing, schools, etc.)</li> </ul>
Industrial complexes	<ul style="list-style-type: none"> <li>• Improve living conditions in aging industrial complexes <ul style="list-style-type: none"> <li>- Refer to a case in Spain for a knowledge-intensive high-tech industrial complex</li> </ul> </li> <li>• Adjust land rent for foreigners (utilizing state and public land)</li> <li>• Simplifying the licensing procedures for establishing factories and providing foreign language services</li> </ul>

Source: Reproduced by NABO using data from the Korea Trade-Investment Promotion Agency, the National Assembly's Trade, Industry, Energy, SMEs, and Startups Committee, etc.

## Become a High-Tech Hub by Attracting FDI

### ▪ Secure leadership in the East Asian region by creating a high-tech industrial ecosystem linked to the manufacturing base.

- Actively utilize FDI for research and facility investment to enhance the competitiveness of the Korean economy under changing market conditions

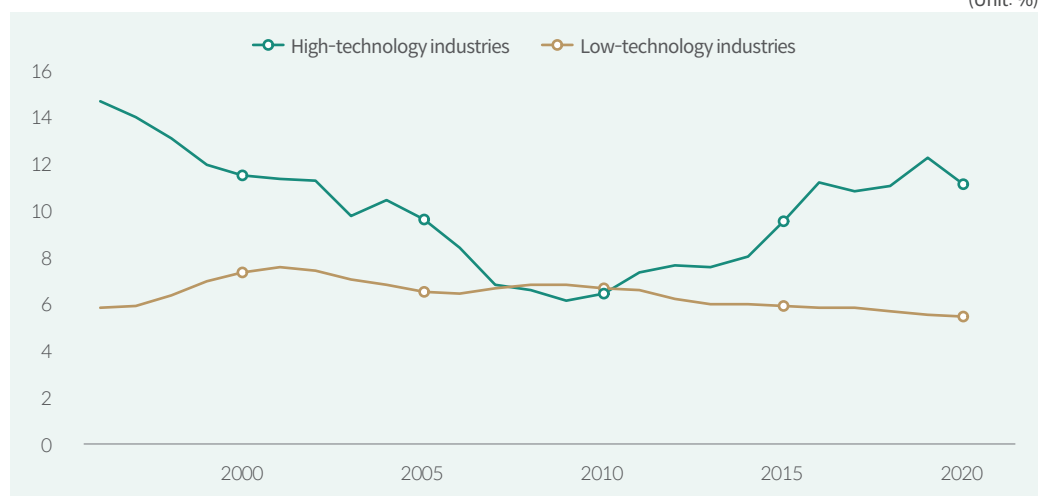
- As high-tech industries drive economic growth in Korea, it is important to consolidate current technological advantages and strategically improve deficiencies.
- Major foreign countries actively promote FDI to improve their national competitiveness, especially in research and facilities in high-tech industries.

- It is necessary to identify the difficulties foreign-invested companies face to create a more favorable environment than competing countries as an investment destination.

- Provide practical investment incentives by reflecting industry needs in policies, such as improving settlement conditions for foreign workers, providing land at competitive rental rates for facility investments, improving the convenience of administrative procedures, and reorganizing regulations

**[Figure 5] Operating Income to Sales by Skill Level (5-year moving average)**

(Unit: %)



Note: The decline in the operating income to sales of high-tech industries in 2008 was due to the global recession in the semiconductor market.  
Source: Reproduced by NABO using data from the Industry Statistics Analysis System (ISTANS)