

Free Economic Zones in Korea:

The Future of Northeast Asia

Ministry of Finance and Economy
Republic of Korea



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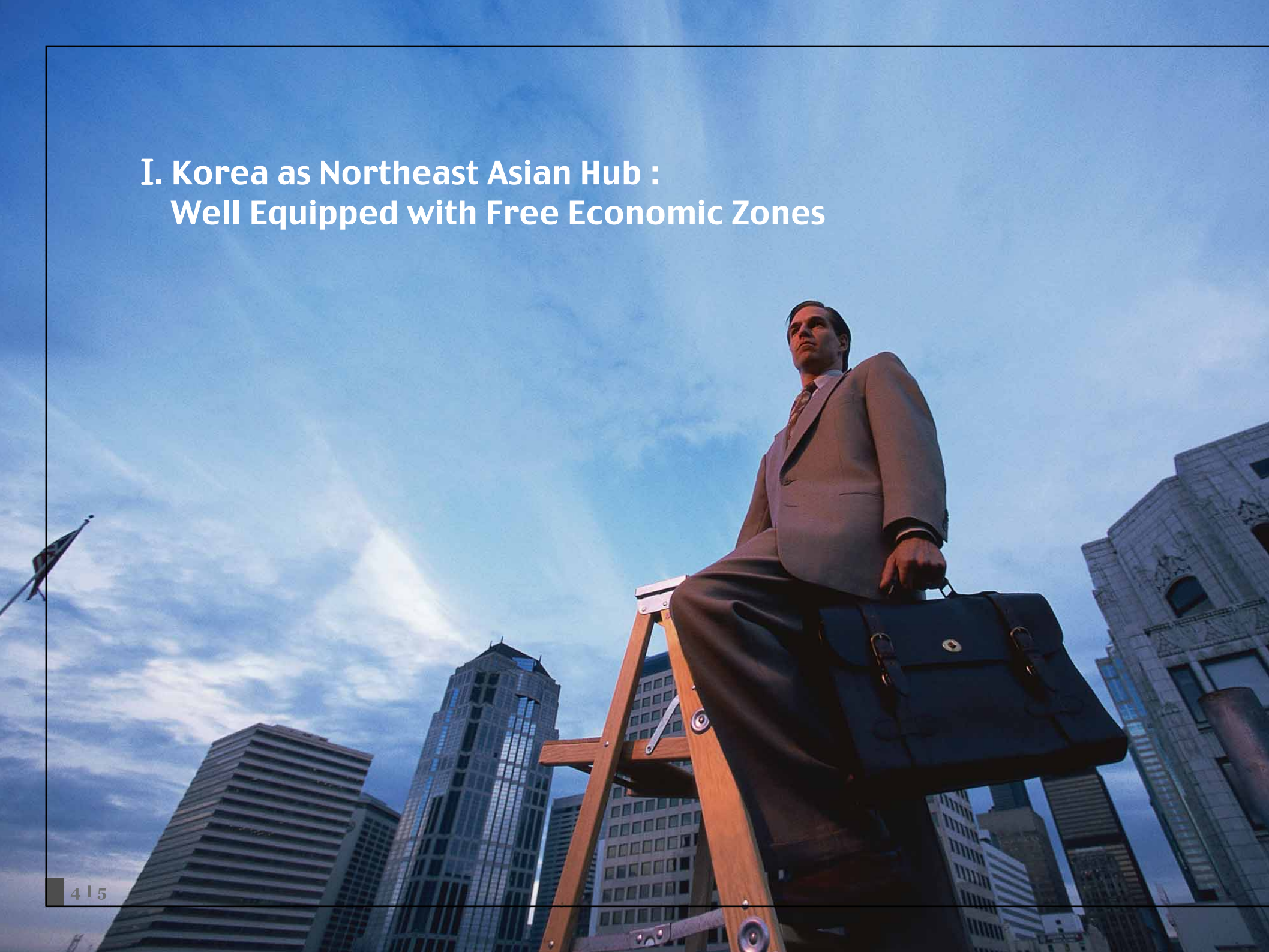
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**Ministry of Finance and Economy
Republic of Korea**

I. Korea as Northeast Asian Hub : Well Equipped with Free Economic Zones



In the era of Northeast Asia, start your business in Korea!

1. As it was in the 20th century, Northeast Asia is expected to be one of the most economically dynamic regions in the 21st century.

- Northeast Asia has a population of 1.5 billion, four times the population of Europe. Northeast Asian GDP is expected to account for 30 percent of global GDP by 2020 to emerge as one of three major trade blocks that fuel global economic growth.
- The Korean market will double in size by 2010 to US\$1 trillion.

2. Geographically, Korea is situated at the center of Northeast Asia.

- It can benefit from the markets and abundant human or material resources of three large neighboring economies, including China, Japan, and Russia.
- Fifty-one cities with populations of more than one million people are located within a 3.5-hour flight radius of Seoul. Put differently, 700 million people live within 1,200 km of Seoul, which is more than the populations of the United States and Europe combined.
- Korea's geographical advantage will be augmented, by linking Eurasian and Pacific Rim economies via the Trans Siberian and Trans China Railways.

3. Korea will provide world-class logistical infrastructure including Incheon International Airport (IIA) and Gwangyang and Busan seaports.

- Once the second-stage of the IIA expansion project is completed by 2008, the government will promote IIA, Incheon Port, and Songdo Intelligent City as the logistics hub of Northeast Asia rather than Korea.

- Busan New Port and Gwangyang Port and industrial sites in surrounding areas will be designated as both Customs-free and Free Economic Zones, which will rank them among the best sites for trade, finance and logistics .

4. The investment environment in Korea is improving and will in the near future be second to none.

- All business-related regulations in Korea will be modified to meet global standards. Financial laws in particular will be made compatible with those in advanced countries.
- The new Korean administration focuses on economic competitiveness, transparency, and a fair, free and open market economic system, which will make it possible for Korea to attain per capita annual income of US \$20,000.
- On September 4th the Government unveiled a labor relations reform plan which is designed to raise Korean labor practices to global standards and prevent indiscriminate strikes.
 - According to the reform plan, management will have the discretion to close business operations during illegal strikes (currently only allowed during legal strikes). This will create a more balanced labor-management relationship and reduce the possibility of illegal strikes.
 - Public sector management will be allowed to use replacement workers to minimize public inconvenience and protect property rights during legal strikes.
- State-of-the-art information technology (IT) and communications infrastructure, a highly educated workforce, and sophisticated manufacturing technology make business opportunities in Korea even more interesting.
- Korea will soon be the best site in the region for the R&D headquarters of logistical and cutting edge knowledge-based industry multinationals.

II . “FEZs” : The Future of Northeast Asian Cities

1. There is no reason to hesitate about investing in Korea.

- Optimum business and living conditions for foreign executives and staff will be guaranteed in FEZs. Companies from abroad should have no concerns about investing in Korean FEZs, since FEZs were created in response to foreign suggestions about administrative regulations, children's education, housing, medical institutions and the language barrier.
- These improvements will include new hospitals and schools so life for foreigners will be convenient and worry free.
- One-stop administrative services, such as investment consultation and advice, and license and permit approvals, will be available at an independent administrative agency.
- Regulations and complicated administrative procedures will be streamlined to meet global standards. Thirty-four regulations are covered by the FEZ law.
- FEZs will serve as a Northeast Asian business hub by capitalizing on the state-of-the-art strengths of individual companies in IT and high-value-added service industries like logistics and finance.

2. Progress has been made in transforming the Incheon, Busan, and Gwangyang regions into FEZs, each of which possesses well-established infrastructure including an international airport and seaports. Foreign-invested firms have begun to take a close look at the benefits of locating in one of these zones.

- Three areas in Incheon – Songdo Intelligent City, Yeongjong Area (IIA), and Cheongna Area – were first designated as a free

economic zone in August 2003.

The Busan, Jinhae and Gwangyangman areas are also to be designated as FEZs by October 2003.

- The Ministry of Finance and Economy has established the Planning Office of Free Economic Zone to provide administrative support for foreign investors. The Planning Office is responsible for FEZ designations and operations, and investment attractions.
- An independent regional administrative agency will be established in each FEZ, thereby providing one-stop administrative services for investors.





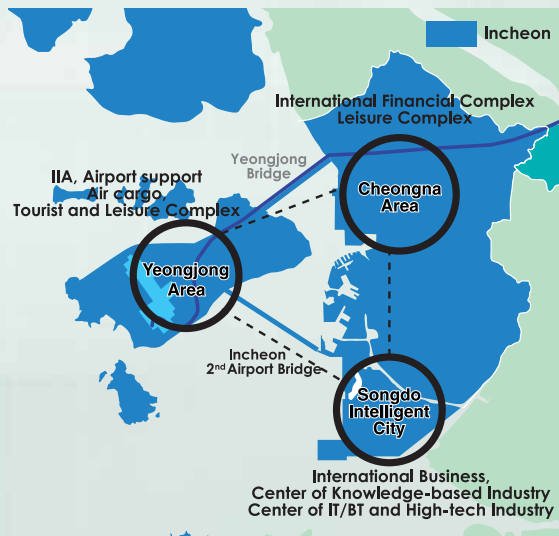
3.The FEZs offer a variety of advantages for foreign-invested firms.

- First, synergy will be leveraged as industrial clusters are formed by logistics, financial, and high-tech industries.
- Second, national and local tax incentives along with reduced land costs will lighten the corporate financial burden.
- Third, foreign-invested firms that locate in a FEZ will be allowed to give employees unpaid weekly holidays (paid leaves currently required) and labor flexibility will be enhanced by allowing highly skilled and professional work to be outsourced.
- In addition, administrative red tape will be kept to a minimum in FEZs to eliminate as much foreign investor inconvenience as possible.

What are Free Economic Zones?

Sector	Benefits
Tax breaks	<ul style="list-style-type: none"> • Income and corporate tax exemptions for the first 3 years and a 50 percent reduction for the following 2 years (for investments of more than US\$50 million, a 100 percent exemption for the first 7 years and a 50 percent reduction for the following 3 years) • A flat 17 percent income tax for CEOs and executives at foreign companies • Capital goods import tariff exemption for 3 years • Acquisition, registration, property, and aggregate land tax exemptions for the first 3 years and a 50 percent reduction for the following 2 years
Financial support	<ul style="list-style-type: none"> • Companies that locate in FEZs will either be exempt from or subject to reduced land fees. • Financial assistance for the construction of such facilities as hospitals and schools to make life more convenient for foreigners.
Deregulation	<ul style="list-style-type: none"> • Minimal land-use regulations governing factory construction and enlargement. (currently applicable to Seoul metropolitan area) • Lift restrictions on entering businesses reserved for SMEs. • Direct foreign currency payments for current transactions of less than US\$10,000 allowed.
Employment and labor management	<ul style="list-style-type: none"> • Unpaid weekly holidays allowed (currently paid). • Exemption from obligatory employment of veterans, the disabled, the elderly.
Educational improvements	<ul style="list-style-type: none"> • Schools can be established by foreign investors. • Domestic residents can attend foreign schools.
Foreign hospitals and pharmacies	<ul style="list-style-type: none"> • Foreign-financed hospitals and pharmacies for foreigners allowed.
Foreign broadcasting	<ul style="list-style-type: none"> • The ratio of cable network foreign broadcasting retransmission channels expanded from the current 10 to 20 percent.
Administrative support	<ul style="list-style-type: none"> • English allowed for processing of public documents. • Foreign investment Ombudsman's office will be established.

III . Incheon Free Economic Zone



The Incheon Free Economic Zone triangle includes the Songdo Intelligent City, Yeongjong Area (includes IIA), and Cheongna Area.

- The Incheon Free Economic Zone triangle includes the Songdo Intelligent City, Yeongjong Area (includes IIA), and Cheongna Area. (Total area 209km², Projected population 475,000)
- These areas will become self-sufficient cities with international logistics and business centers, high-tech knowledge-based industries, and leisure & tourism complexes.

1. Songdo Intelligent City: International Business and High-Tech Mecca

- Songdo Intelligent City, a 15-minute drive from IIA after the completion of the Second Airport Bridge, will be developed as a center for Asia-Pacific multinational headquarters, global business, and a high value-added knowledge-based and information industrial complex.
- The British construction firm AMEC has signed a memorandum of understanding with the city of Incheon to build a Second Airport Bridge that will link Songdo Intelligent City and IIA. The Second Airport Bridge will be completed by 2008.

- The US-based Gale Company (master developer and marketing agent) reached a real estate joint venture agreement with POSCO Engineering & Construction (construction manager), the second largest steel manufacturer in the world in March 2003, to develop Songdo Intelligent City as one of the world's largest urban centers to be built from the ground up.
- The new partnership, called NSC, will be responsible for developing 1,364 acres of reclaimed land on the waterfront at a cost of more than US\$12.7 billion. Songdo Intelligent City will be developed over an 8 year period. In the first phase, an international convention center and 60-story world trade center, 60 other office buildings, deluxe hotels, shopping malls, and golf course will be built by 2008. Currently under construction, "Techno Park" will be completed by 2004 and the Korean Industrial Institute of Technology along with other research centers and venture start-ups will begin moving there in 2003. A Knowledge and Information Industrial Complex (2.65km²), and Bio Complex will also be built by 2008.

- U.S.-based VaxGen, a company noted for its AIDS vaccine, signed a contract in February 2002 with Korea Tobacco and Ginseng Corp. and Nexol Biotech (also of Korea) to set up a domestic joint venture named Celltrion that started construction for a research and development center and manufacturing facilities in May 2002 and will finish in April 2004.

2. Yeoungjong, Yongyu, and Muui areas: Sky, Sea and Nature in Harmony

IIA is currently the 4th largest air freight handler worldwide.

- The area surrounding IIA will be designated as a customs free zone in October 2003 and efforts are under way to encourage global logistics firm investments including express cargo.
- Sufficient runway capacity will pave the way for a high-value-added air logistics base where high-end parts air-freighted from production centers in neighboring countries can be assembled. The freight terminal will be expanded from the current 132,000 to 429,000 square meters by 2020.

Islets and resorts near IIA make the areas an ideal location for business, tourism and leisure.

- Approximately 150 islets scattered in the West Sea are blessed with abundant tourism resources including scenic vistas and sandy beaches. These beautiful islets are very well suited for the fun-in-the-sun demands of tourists from around the world as well as residents from the Incheon FEZ, since they are located along well traveled traffic routes near IIA.

3. Cheongna Area : New Cradle of International Finance and Entertainment

- A landmark International Finance Center, residential complex for foreign workers, and other residential complexes will be developed in Cheongna.
- Plans include a beautiful floral complex, spacious golf course, and sports and leisure complex, to be followed by a theme park and other recreational facilities.

- The expected density of population is 60 people or less per hectare, which will mean residential, commercial and public facilities surrounded by broad and pleasant open spaces.
- The Cheongna (17.9km²) area provides excellent traffic routes to IIA, making it a convenient location to live for international business personnel. The business traveler can easily commute to any destination in Northeast Asia within 24 hours. Since this part of Korea is located in a metropolitan area, it already has all the amenities required by tourists and services needed for an international financial and leisure complex.

These areas will become self-sufficient cities with international logistics and business centers, high-tech knowledge-based industries, and leisure & tourism complexes.



IV. Busan and Jinhae Free Economic Zone



A new seaport with 30 berths will be built in Busan and Jinhae by 2011 to make it a Northeast Asian maritime capital in the 21st century.

- Busan International Seaport is the third largest in the world in terms of cargo handling capacity and 60 shipping multinational companies do business there.

1. A new seaport with 30 berths will be built in Busan and Jinhae by 2011 to make it a Northeast Asian maritime capital in the 21st century.

- The first phase of construction will include 6 container terminal berths to be completed by 2006, and another 24 berths will be built by 2011 to increase the cargo handling capacity.
- A four million square meter international logistics and business complex will be built to house logistics handling, distribution services, and maritime & oceanic affairs centers.

2. Sinho and Macheon Areas: State-of-the-Art Industry Complex

- An industrial complex will be built to produce advanced parts materials.
- Automobile parts production will be promoted as a strategic manufacturing industry in association with Renault-Samsung Motors, which produces 240,000 cars annually. Renault-Samsung is currently considering increasing investment to raise production to 500,000 cars. The government is planning to attract Renault-Samsung's Asia-Pacific headquarters to the Sinho district.

3. New garden cities overlooking beautiful beaches will be created.

- An upscale housing complex near beautiful coastlines will be developed to provide a comfortable living environment for foreigners and local residents.
- Residential districts with golf courses and jogging paths will be created in the scenic new cities, where the need for quality housing, leisure and recreation will not go wanting.
- Satellite campuses of prestigious overseas universities and world-class international medical institutions will be sought to set up shop in the FEZ.
- A 5-kilometer race track will be built on the 1.3 million square meter swath of land in Woongdong district, where Formula One car races will be held.

An industrial complex will be built to produce advanced parts materials, and new garden cities overlooking beautiful beaches will be created.



V . Gwangyangman Free Economic Zone



Gwangyang Port will be modernized to be a Northeast Asian maritime hub equipped with 33 berths.

1. Gwangyang Port will be modernized to make it deeper and wider, so it can service more and larger ships. By 2011 it will be developed along with Busan Port into a Northeast Asian maritime hub equipped with 33 berths.

- Unimpeded business and investment activities will be assured for multinationals by the customs-free zone designation in and around the port. As of this writing, 1.4 million square meters have already been designated as a customs-free zone and another 1 million square meters will be in the near future.
- By 2008, another 2 million square meters in the surrounding area will be developed into a Central Terminal System for large-scale freight transshipments.

2. The Gwangyangman FEZ will create an optimal business environment by providing the necessary infrastructure including a metropolitan transportation network connected to three nationwide systems and airport expansion.

- Travel time to the capital will be reduced by 1 hour (80km²) due to the early opening of the container port service road and the construction of the Gwangyang-Jeonju Expressway.
- A Light Rail Transit line connecting the entire FEZ will be built and Yeosu Airport and the railroad network will be expanded.

3. The Gwangyangman FEZ will provide a comfortable urban environment adjoining beautiful Hallyo Marine National Park with all the conveniences expected by the international business community.

- A dignified residential complex with 33,000 residences will be built in a greenzone and 3,000 will be made available to foreign companies.

- Infrastructure will include U.S.-based Pinecrest School, and world-class hospitals and hotels are being courted to locate in the Shindae district, which consists of 2.64 million square meters set aside in Suncheon, a city best known for its quality schools, where a living environment that will meet the needs of expatriate workers will be created.

4. The Gwangyangman FEZ will be able to provide the world with a glimpse into the future of Korean industrial, leisure and maritime affairs if its bid to host the 2012 World Exposition is successful.

- A resort complex with a global cultural village and marina facilities will be developed on 990 million square meters of land in the Hallyeosudo and the Hwayang districts of Yeosu, as the marine tourism industry linking Cheju and South Gyeongsang provinces is promoted.



VI. Epilogue

Korea will become a Northeast Asian hub of peace and prosperity, thereby contributing to the revitalization of economies in Northeast Asia and around the world.

- Outstanding opportunities will be available for overseas companies in FEZs, where people, products, capital, technology and information can transcend borders, oceans and continents freely!
- Korea will transform itself into a Northeast Asian logistics, financial, business, and R&D hub by linking the Pacific Rim economies with the Eurasian continent.
- Looking for a good return on your investment? Korea is a vibrant society seeking foreign partnerships to help unleash the profitable potential of a very dynamic economy. Invest in Korea, the hub of Asia.



Planning Office of Free Economic Zone
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