Policies for attracting foreign direct investment (FDI) can be categorized as follows. Starting with simple capital attraction for filling coffers, economies pass through a stage in which they aim for economic revitalization by creating jobs and boosting domestic demand. They then enter the strategic FDI promotion stage, a mature phase for fostering strategic industries for industrial sophistication. In the final stage, a country creates a business investment hub, which is key to developing FDI attraction policies. Turning the Asian Financial Crisis of 1997-98 into an opportunity, Korea actively promoted FDI based on the recommendations of the International Monetary Fund in order to build up foreign reserves, which led to rapid economic growth. Today, Korea’s FDI policies are in the mature stage of strategic FDI promotion.

At a Blue House meeting with the CEOs of foreign-invested companies hosted by Korean President Park Geun-hye early last year, the government unveiled a set of policies to actively promote FDI as a first step toward economic innovation. The policies focus on attracting high-value added investment by hosting more regional headquarters and research and development (R&D) centers of global companies through introducing a system that acknowledges these headquarters and R&D centers as what they are and reinforcing support measures. As the key role of multinational companies in Korea has shifted from manufacturing to serving as regional headquarters or global R&D centers, the Office of the Foreign Investment Ombudsman has continually suggested that the government expand incentives for these establishments. The government has decided to come up with reasonable acknowledgment standards through considering the characteristics of headquarters and cases of other countries, and to offer a range of incentives tailored for headquarters.

The government revised the Foreign Investment Promotion Act last October to introduce recognition/acknowledgment standards for regional headquarters and R&D centers and amended the Restriction of Special Taxation Act in December to offer tax benefits. In accordance with the revision, a company should meet the following requirements to be recognized as a regional headquarters. First, the sales of its parent company should have exceeded KRW 3 trillion (USD 2.7 billion), on average, for the past five years, or the company should be acknowledged by the Foreign Investment Committee based on the development market index, global market share and asset size. Second, it should perform core tasks, such as sales, production, raw material supply and HR policy regulation, for more than two overseas corporations. Third, it should have more than 10 full-time employees. And fourth, its foreign investment should account for more than 30 percent of the total investment.

To be recognized as an R&D center, a center should recruit more than five full-time researchers who have a master’s degree or a bachelor’s degree and more than three years of research experience, and should invest more than KRW 100 million in R&D facilities. Also, its foreign investment should account for more than 30 percent of the total investment.

With customized incentives for headquarters, foreign executives and employees of the headquarters will be continuously entitled to a special income tax rate of 17 percent, regardless of income amount, for years to come. In addition, an advance adjustment system, through which the National Tax Service and Korea Customs Service adjust tax bases for the proper imposition of income tax and customs duty, will be introduced for transactions between the domestic corporation of a foreign company and overseas subsidiaries, to resolve uncertainties arising from discrepancies between national tax and customs assessment standards. The range of subjects to be exempted from the mandatory submission of evidentiary materials for taxes on the service transactions of global companies will be expanded.

For R&D centers, foreign engineers working in them will be subject to a 50 percent reduction of income tax for two years, until 2018. The government will support the participation of these centers in industry-academia-institute research and joint research with domestic institutes for government projects. The centers will receive support for renting both state-owned land and buildings. And to receive these benefits, companies should apply for regional headquarters / R&D center acknowledgement by submitting required documents to the Ministry of Trade, Industry & Energy.

These institutional improvements and this policy implementation are expected to not only help multinational companies in Korea set up proper business strategies, but also serve as a turning point to attract high-value added foreign investment.

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