

The Korea Business Interview Series

October 9, 2011

Commissioner Hank Ahn

"Korea Is a Great Destination for Foreign Direct Investment"

Hank Ahn is Commissioner of [Invest KOREA](#).

For too long, the advantages of Korea as a foreign direct investment destination have been overlooked while overseas companies have poured money into economies of Japan and China. However, with Korea's rise to economic strength, the US Commerce Department reports that American companies' investments in Korea have been more lucrative than anywhere else over the past decade.

It's time for a new perspective on foreign direct investment to Korea and it is the role of Invest KOREA to help foreign investors find and execute their business plans in Korea successfully. In this interview, Invest KOREA Commissioner Hank Ahn shares with KBC listeners about the many advantages of doing business in Korea, as well as the amazing and free services provided by Invest KOREA.

Transcript of the interview by KBC's Tom Tucker
on *October 9, 2011*.

Tom: Hello, and thank you for joining us today at KoreaBusinessCentral.com. My name is Tom Tucker. I am the host and I'm excited to bring you today's conversation in our Korea Business Interview series. Our guest today is Hank Ahn. He is the Commissioner of Invest KOREA.

Commissioner Ahn joined Invest KOREA in 2010, after having served as Vice Chairman of Pyunghwa Chemical, as well as statutory auditor of the sovereign wealth fund Korea Investment Corporation. Before that, he worked in executive roles at BAT Korea, iParkBoston and the Korea Center for International Finance. Commissioner Ahn served in a variety of roles at the World Bank during most of the 1990s, following a distinguished two-decade career as a senior official in the Korea Ministry of Finance and Economy.

Commissioner Ahn, welcome and thank you for joining us today. It's great to have you with us.

Commissioner Ahn: Thank you for having me with you.

Tom: Let's start off kind of broad. Start out by telling us about Invest KOREA. Tell us a little about your history, your mission, and the organization.

Commissioner Ahn: Invest KOREA is Korea's national investment promotion agency set up by the Korean government in 2003. As you know, each country has its own IPA, like Invest Hong Kong, Invest in Spain, and Select USA.

Our mission is to help the government agency formulate FDI regulated policies and execute them. In so doing, we try to help foreign companies successfully launch their businesses in Korea by offering one-stop service to them in close cooperation with the government agencies and local governments. However, I must note that we don't handle portfolio investments such as investments in stocks and bond markets but just foreign direct investment.

Invest KOREA is comprised of about 110 staff in eleven teams at our head office in Seoul, and another 110 staff in 42 overseas offices, including seven offices in the US.

Tom: That sounds quite interesting. It sounds quite vast and broad in scope. You talk about your "One-Stop Service." Elaborate on that a little bit. What does it cost to work with Invest KOREA?

Commissioner Ahn: The gamut of our services span consulting services on market information, and investment incentives offered to foreign investors by the government, meeting arrangements between foreign investors and government officials, and business location support at the pre-investment stage.

Foreign investors wishing to take advantage of our network may lease the space of our new building constructed exclusively for foreign investors at a cheaper rent than market price. All these services are available once foreign investors stop by our office. Just one visit is needed because we have in our investment consulting center government officials from the Korean IRS, Korean Customs Service, Immigration Office, Justice Department, Treasury Department, Commerce Department, and etc. That's why we call it "One-Stop Service."

We also have a global Win-Win Fund in the amount of \$100 million to help foreign investors reduce their investment risk and increase their return on investment in Korea by making core investments with them.

At the post-investment stage, grievances raised by the foreign investment companies operating in Korea are resolved by our ombudsman who is appointed by the country President and co-chairs, the national deregulatory committee, along with the Prime Minister. For your information, our grievance resolution rate has been around 94% over the past five years. In other words, 94 out of 100 cases were addressed in favor of the foreign invested companies.

We also help foreign businesses recruit their local employees by inviting them to our Job Fair. And if a foreign invested company or its corporate venture capital hopes to identify Korean companies

whose technologies fit into their need or with which they wish to jointly conduct research, they simply need to participate in our global alliance project series program exclusively prepared for foreign companies.

Starting last year, we also are providing “Red Carpet Service” to foreign investors upon their arrival at the airport until their departure from Immigration and Customs Clearance Service, and to limo service and interpreter services, of course, free of charge. I’d like to note that we have many more services but all of our services are available to foreign investors free of charge as we are a quasi government agency.

Tom: That sounds terrific. It sounds comprehensive. And certainly, those are very valuable services for any organization looking to do business in Korea.

Tell me, who is your typical client? What are some of the other types of investors that you are targeting as well?

Commissioner Ahn: Our typical clients are just the foreign businesses which plan to launch operations in Korea. I can call it a greenfield type of investment. We are targeting that, but we are also targeting M&A-type investments by helping foreign investors, individuals or corporations purchase Korean local businesses. For instance, we helped Mahindra and Mahindra, an Indian company, to purchase SsangYong Motors last year.

Tom: Let's talk about some of the opportunities for doing business in Korea. Foreign executives doing business in Korea were surveyed recently by KOTRA and Invest KOREA and they listed highly-qualified manpower, purchasing power in the domestic market, the strength of Korean companies in the international marketplace and a stable political and social environment as being the top attractions to doing business in Korea. Would you like to elaborate on these items? What are some other advantages of Korea to point out?

Commissioner Ahn: I'll give you seven reasons why foreign businesses pick Korea as their investment destination, including what you want me to elaborate on.

Above all, Korea has a locational advantage since it is located at the center of Northeast Asia, which is comprised of China, Japan, and Korea, and which accounts for 25% of global GDP, on par with the market size of the US. Hence, all big cities in Northeast Asia are accessible within two hours from Korea by plane.

Secondly, Korea has no natural resources other than world-class human capital. Korean educational zeal and passion for work are incomparably outstanding. For instance, Korean students are the third largest student source for US universities, even though Korea only has a population of nearly 50 million.

You may have heard of “goose fathers.” It is an analogy of Korean fathers who work hard in Korea to wire funds to their kids studying in other countries. Their wives are staying with the kids to take care of them. That’s why they are called “goose fathers.”

Thirdly, Korea's scientific infrastructure is another investment attraction. For your information, Korea ranks third after the US and Japan in terms of scientific infrastructure according to IMD report.

Fourthly, Korea has extensive world-class transportation networks, such as internationally recognized airports, like the "world's best" Incheon Airport, seaports like Busan port and Gwangyang port, high-speed railways, and nationally well-connected highways.

Fifthly, Korea is famous for quick decision-making and implementation as Koreans are used to "pali pali." It's amazing to foreigners that every order including landline phone service is delivered in a snap, and that Korea is the only country where your order of burgers is delivered by motor bike. Still, it doesn't mean that Koreans are impatient. Rather, Koreans successfully demonstrated their patience by winning the bid for the 2018 Winter Olympics on their third try.

Sixthly, Korea allocates \$90 billion or 2% of GDP for low carbon, Green Growth initiatives in the strong belief that "green is green." According to the World Bank, the global green industry amounts to \$600 billion but is projected to grow to be \$1.8 trillion by 2020. It's larger than the global auto market of \$1.4 trillion.

Seventhly, FTA with the EU has already taken effect and with the US will come into effect sometime this year. With this being said, companies based in the Japan and China like to relocate their manufacturing base to Korea.

Lastly, Korea's GDP and GDP per capita amounts to \$1.4 trillion and \$31,000 respectively at purchasing power parity exchange rate. This obviously tells you that Korea is an attractive marketplace.

In addition to this attraction, foreign businesses in Korea offer a good supply chain because 14 Korean companies are included in the Global Fortune 500 companies, such as Samsung Electronics, Hyundai Motors, LG Electronics, SK, Hanhwa, etc.

According to the Economist Intelligence Unit's Democracy Index Report, Korea ranks 20th in the world, making it the most democratic country in Asia. Nineteen countries are ahead of Korea but they are just European countries, including the UK which ranks 19th, just one notch ahead of Korea, and the US which ranks 17th. This implies how politically and socially stable Korea is.

Tom: Many people talk about Korea as a "test bed marketplace." What do you mean by this? Can you give us some examples?

Commissioner Ahn: With strong consumer purchasing power, the Korean market is an ideal test bed for global companies for everything from Motorola cell phones and Starbucks Green Tea Lattes to Samsonite luggage. Highly wired, highly adapting, and trend-sensitive consumers love to try and assess new technology products. This means fast, new product diffusion, and high product turnover.

For example, Intel's Sonoma notebook which uses the latest semiconductors was introduced in Korea first. And Motorola strategically premiered new cell phones in Korea, and expanded sales to China. The Lexus ES350 and the Nissan new G35 made their marketplace debut in Korea. In the case of Starbucks – I told you about their Green Tea Latte – it was released in Korea first; and Samsonite I mentioned.

Tom: Companies are moving to China in droves. Is Korea a bridge to the Chinese marketplace? Why is that?

Commissioner Ahn: Some companies land in Korea before moving to China. Their failure risk is smaller in Korea than in China as the Korean market environment is more similar to those in the developed economies. Further, they see social culture and geographical proximity between Korea and China. Hence, they can sell their products in the Chinese market by operating in Korea. So why do they need to move to China first?

Tom: So, Korea does serve as an effective bridge to the Chinese market for sure.

Commissioner Ahn: Yes.

Tom: Other than as a test bed or a bridge, what makes Korea a great investment destination in its own right?

Commissioner Ahn: Korea's talent pool with a good scientific infrastructure makes it a great investment destination. For instance, Solvay recently moved its research head office to Korea. No wonder you see tons of research centers of global companies in Korea.

Tom: Let's talk about some of the challenges of doing business in Korea. In the survey I mentioned a moment ago, foreign executives also mentioned difficulties in doing business in Korea, including inflexibility in the labor market, Korean business standards that are not in line with international norms, too many financial regulations, as well as language and business process barriers. What is your response to these perceived challenges?

Commissioner Ahn: Given that Koreans have achieved the miracle on the Han River to the world like the miracle on the Rhine, in a very short time frame, labor market inflexibility in Korea is inevitable. As the Japanese labor market has evolved to become a flexible market from inflexible origins, time will tell.

Further, the government has a roadmap for building a business-friendly environment and keeps working on it. Still, some immediate attention is being paid to issues raised by foreign invested companies operating in Korea by our ombudsman as I mentioned earlier. This ombudsman system is so efficient that the United Nations strongly recommended that countries adopt it. And US President Obama appointed America's first ombudsman last month, along with reconfiguring American IPA.

The presence of American and European business service companies such as law firms, accounting firms, consulting firms, and recruiting firms will enhance Korean business standards after FTAs go into effect.

For your information, according to the World Bank study, Korea ranks 16th in terms of ease of doing business. Korea ranks third in Asia, after Singapore and Hong Kong. Time will tell that Korea is the right place for foreigners to do business.

Tom: Recognizing that Korea is a tough country for foreigners to do business, the Korean government has been setting up special zones with tax breaks and other inducements for foreign companies, including various manufacturing complexes, Songdo Foreign Economic Zone and others. By sending foreign companies to these designated areas, don't you see this as a problem because it further isolates the foreign community outside the business mainstream? Shouldn't the efforts be spent on connecting the foreign community to the heart of Korean business? Why or why not?

Commissioner Ahn: You are absolutely right in terms of the objective of FEZs. They were set up to provide a better business environment to foreign businesses. It helps to form a business cluster with other companies in the same line of business. I don't think it would isolate the foreign community from the business mainstream.

They join the Chamber of Commerce, and we invite them to several events to help them communicate with the government and private sector, such the International Advisory Council meetings, foreign CEO Summit, job markets for foreign invested companies, etc.

Tom: It seems that virtually all foreign direct investment is centered on the Seoul area. This reflects Korea's society, politics, and business in general. Is there any hope for getting FDI out into other regions and rural areas? Or is Korea's main selling point the fact that everything is in one place?

Commissioner Ahn: There must be some misunderstanding in people's perception of Seoul, particularly associated with the foreign invested companies. Seoul is the political, economic, social, and cultural center in Korea. Businesses, local and foreign, hope to move to Seoul. However, the government has long implanted the Balanced Development Plan where many disincentives are bestowed on the companies setting up businesses in Seoul on top of higher land prices.

Thanks to the development of transportation and communication, there's little difference between living in Seoul and living in other regions. We encourage foreign businesses to set up in regions other than Seoul. That's why you can find various kinds of business clusters in many regions.

For instance, R&D cluster in Daedeok near Daejeon City, advanced machinery cluster in Changwon, digital electronics industry cluster in Gumi, auto parts global supply cluster in Ulsan, advanced parts and materials cluster in Banwal Shihwa, photonics industry cluster in Gwangju, auto and machinery parts cluster in Gunsan, and bio-innovation cluster in Osong.

Tom: The threat from North Korea is never ending. What would you tell foreign companies who are having second thoughts about doing business in South Korea because of the dangers in the geopolitical neighborhood?

Commissioner Ahn: I'd like to sincerely ask foreign investors who are reluctant to invest in Korea. Why? Thirteen thousand global companies, including about 300 Global Fortune 500 companies are doing business in Korea despite the threat from North Korea.

I would then ask them where the notorious tsunami took place six years ago killing many people, and where the earthquake and the ensuing tsunami happened this spring? The odds of these kinds of calamities happening are higher than those of military attack from North Korea.

Also, we have lived peacefully together with North Korea for almost 60 years since the Korean War stopped in 1953. If that's a real threat, I wouldn't come back to Korea from the US where my daughters are still living.

Tom: What does foreign direct investment mean to Korea? Let's talk about this a little bit. Korean inward FDI is extremely low and this is not a short-term trend. For decades, Korea has invested more overseas than foreigners are investing in Korea. And even today, the ratio of inward to outward investment remains lower than in any of the other economically developed countries. Why do you think this is the case? Is the situation improving? Does it matter? Does it reflect on the success of Invest KOREA in executing its core role?

Commissioner Ahn: Korean businesses' overseas investment has exceeded FDI inflow since 2006, reflecting the global economic situation where advanced economies are in trouble, while emerging economies in Asia showed their economic strength. Hence, this trend will remain there.

Of course, FDI inflow into Korea is lower than that into other developed countries. Likewise, according to the 2008 UNCTAD report, Korea ranks 16th in terms of FDI growth potential, while Korea's actual FDI performance ranks 123rd. Many reasons can be told but in my view, there are two main reasons we can see such a big gap between FDI potential and actual FDI performance.

First, Korea has developed her economy not relying on FDI, but on overseas borrowing, to protect her infant industries, until the so-called IMF crisis took place in 1997. FDI inflow into Korea jumped up during the Asian financial crisis because foreign businesses could purchase good, Korean companies at a fire sale price.

FDI inflow has slowed down since Korea got out of the crisis as M&A type FDI constitutes 60-70% of all FDI. In other words, Korea still retains a little conservative attitude toward foreign investors when it comes to M&A opportunities. This is a reason for the low FDI inflow.

I'd like to take this opportunity to tell you one notable thing associated with FDI inflow. Korean companies became stronger after they went through the hard knocked corporate reform measures caused by the 1997 Asian financial crisis. They are now so competitive in their local market that foreign businesses are reluctant to enter the Korean consumer market, although the Korean

consumer market itself is big enough to enter. In other words, almost all foreign companies are doing business in Korea.

Hence, foreign businesses these days consider Korea as their investment destination in order to get into the supply chains Korean global companies create, such as automakers, shipbuilders, aircraft makers, chemicals, electronic manufacturers, steel makers, etc. This reflects Korea's economic development level which is more advanced than China's.

Secondly, Korea is located next to China, which offers such an attractive and huge consumer market. China sucks up almost all FDI inflows. It's like a small tree next to a big oak tree that doesn't grow well as the oak tree sucks up water and nutrients.

In addition to these two, the global economy is not friendly to FDI inflows. Therefore, I don't see any improvements in the foreseeable future. Again, this trend will remain there.

What can we do then to attract more FDI to Korea? Korea needs to make a level playing field for foreign investors in terms of M&A opportunities, instead of kicking them out as bidding candidates. Also taking into account our economic development level, we will pay attention to the jobs created by FDI inflow with a focus on service industries, which helps create more jobs than the manufacturing industry, as France and other European countries do, instead of focusing on the FDI inflow amount.

Tom: Talk about some of the incentives which Korea provides to investors.

Commissioner Ahn: We have four kinds of incentives offered to foreign investors. First, tax exemptions. In case of corporate income tax, 100% is exempted for three to five years, and then lowered to 50% for additional two years. Also acquisition tax is exempted, property tax is exempted for 5-15 years, and tariffs and value-added tax (VAT) for capital goods are exempted for five years. This is all about tax exemptions and benefits.

We also provide cash grant to foreign investors just to help them finance the construction of facilities or the purchase of equipment related to investment when the foreign investors meet the conditions. The conditions are just to bring in advanced technologies and create more jobs.

Thirdly, we are also providing location support by offering reduced rent or offering the exemption of rent. We are also offering subsidies for hiring local people and training them.

Then lastly, we are supporting foreign investors in settling down in Korea.

Tom: Which countries are investing the most in Korea? And, what do you see are some businesses that have high potential?

Commissioner Ahn: Historically, the US has been the largest investor. Japan, Germany, the UK, and the Netherlands are just behind the US. I see high potential in electric cars, information and communication technology areas, medical and bio-industries, low carbon, Green Growth industries,

including renewable energy, and culture content industries like Korean pop, Korean movies, and Korean TV shows.

Tom: If the Korea-US Free Trade Agreement comes into effect, what is Korea's expectation for inward investment from the United States? Do you see a big increase there?

Commissioner Ahn: Yes. Local economic research institutes project that additional FDI will be made annually in the amount of between \$2.3 billion and \$3.2 billion over the next ten years. FDI will be activated in the form of American companies' investments as a base for Asian market expansion and American companies' investment in Korea's service industry. And also, third country companies' investment in Korea as an export base to the US.

Businesses with a high potential are, as I mentioned earlier, media, communications, finance, legal, accounting, and consulting industry, as these industries will be opened through the FTAs. Also, there will be some investments in autos, electric and electronics, wireless communications equipment, chemicals, medical equipment industries, as cost will not increase due to geographical proximity. I'm talking about Japan and China. But they can enjoy the lower customs duties. So, both from the US and from our neighbor countries such as Japan and China, there will be more investment in Korea.

Tom: Do you have any examples of Korean companies that are aggressively searching for international investors? What do they have to offer to a potential partner?

Commissioner Ahn: We know that about 400 companies hope to identify investment partners. Maybe more companies hope for investment, but I cannot disclose their names. About 10% of them are in the biomedical industry.

They want investment from multinational firms or overseas venture capitalists. There are two reasons. First, they hope to enhance their reputation or brand recognition by partnering with multinational firms or overseas venture capitalists, and they hope to enter into overseas markets by taking advantage of investors' global networks.

Tom: The Korean economy has been transformed repeatedly over the last 50 years. Lately, the government has targeted a number of industries for investment, including green energy and biotechnology. What can you tell us about the foreign component of these new industries and what does it mean to be a government-supported industry in Korea?

Commissioner Ahn: The Korean economy is obviously an open economy. We welcome foreign companies to enter into the Korean market, especially associated with the new Green Growth industries.

We are just providing indirect support to Korean local companies. For instance, we are providing some market information and we are providing incubation service and tech support. We cannot provide direct support because it's against WTO regulations.

Tom: What's the next transformation for Korea and what role will foreign companies play in this?

Commissioner Ahn: Obviously, what Korea lags behind in is the area of creativity, and Korea will be able to catch up with other advanced countries based on developments in this area. Accordingly, I believe the presence of foreign businesses will help Korea become more creative. So, I welcome all foreign businesses, whatever business they are in.

Tom: Can you talk about some recent examples of successful investments into Korea?

Commissioner Ahn: I'll give you a few examples. SUH International Developer – that's an American investor focusing on multi-resorts. They are investing in Korea in the amount of \$100 million to build a Hollywood-based theme park. They form a consortium and the investment place will be in North Kyongsang Province.

There's another Chinese investor focusing on regional development. They are investing in Jeju Island in the amount of \$200 million.

Tom: That all sounds terrific and very exciting. It must be rewarding and gratifying for you to see these types of investments happening as this is something that you and your organization are so focused upon.

In closing, what final message would you like to share with our listeners about doing business in Korea?

Commissioner Ahn: I can tell all foreign investors that Korea is a very safe and open investment destination. According to the data prepared by the US Commerce Department, American companies' investments in Korea have been more lucrative than in any other places over the past ten years. I can tell them just to come to Korea, and if they have any kinds of inquiries or troubles, just feel free to reach out to Invest KOREA. We will help them resolve any issues with the help from our ombudsman.

Tom: That certainly sounds like an attractive offer and one that will be hard to turn down I'm sure. Thanks again, Commissioner Hank Ahn. It's been a real pleasure hearing your thoughts today and I think everything that you shared will certainly be some welcome information for our members here at Korea Business Central. It was a real pleasure having you today.

Commissioner Ahn: Thank you for sparing your precious time with me.

Tom: You're welcome. It was wonderful to hear from you. Thanks again to Hank Ahn who is the Commissioner of Invest KOREA, for participating in this KBC interview.

This has been the latest in our ongoing Korea Business Interview series. I'm your host, Tom Tucker, inviting you to improve your business results in Korea by joining KoreaBusinessCentral.com today. Thanks for listening and have a great day.