

Introduction to Foreign Direct Investment System

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Korea Investment Service Center

This booklet is made for the convenience of English-speaking readers in gaining proper understanding of the system of foreign direct investment in Korea.
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CONTENTS

1. Concept of Foreign Direct Investment (FDI)	
A. Definitions -----	1
B. Related Laws concerning FDI -----	4
C. Businesses Open to FDI -----	5
D. Types of FDI -----	5
E. Notification of FDI -----	6
F. Registration of FDI Company -----	6
2. Protection and Liberalization of FDI	
A. Guaranty of Overseas Remittance -----	10
B. Equal Treatment as Korean Nationals -----	10
C. Liberalization of FDI -----	11
3. Procedures for FDI	
A. Basic Principles for FDI Notification -----	12
B. FDI Procedures by Type -----	13
C. Obtaining Approvals or Permissions for FDI -----	31
D. Post FDI Management -----	40
4. Incentives for FDI	
A. Tax Reduction and Exemptions -----	45
B. Leasing National and Local Government Properties -----	53
C. National Government Supports for Customs Duties -----	56
D. Other Supports and Regulations -----	61
5. Foreign Investment Zone (FIZ)	
A. Designation and Development of FIZ -----	62
B. Support for FIZ -----	64

<Appendix> Form

1. Concept of Foreign Direct Investment (FDI)

A. Definitions

(1) Definitions of FDI

- Acquisition of stocks of domestic companies (Article 2.1.4.1 of the Foreign Investment Promotion Act (FIPA))
 - Acquisition by foreign nationals of shares or equity of a legal entity of Korea or of an enterprise run by a Korean national in order to establish lasting economic relations by means of participating in the management of such entity or enterprise
 - In cases where foreign investors exercise voting rights by owning 10% or more of the total voting stocks issued by, or of the total amount of capital contribution of enterprises run by a Korean national. (Article 2.2.1 of the Enforcement Decree of the FIPA)
 - In cases where foreign nationals are objectively proved by joint venture contracts or other related documentary evidence that they exercise substantial influence over the management of a legal entity of Korea or of an enterprise run by Korean nationals although they own less than 10% of the total shares. (Article 2.2.2 of the Enforcement Decree)
- Long-term loans (Article 2.1.4.2 of the FIPA)
 - In cases where loans with maturity of five years or more are granted to foreign invested enterprises (FDI companies) by their overseas parent company or by an enterprise which has capital affiliation with the parent company.

Enterprise which has capital affiliation with the parent company (Article 2.3 of the Enforcement Decree)

- An enterprise which owns 50% or more of the total issued stocks or of the total amount of capital contribution of the overseas parent company

- An enterprise falls under the following, provided that the overseas parent company of the FDI company owns 50% or more of the total outstanding stocks or of the total amount of capital contribution of the said FDI company
- An enterprise which owns 10% or more of the total stocks or of the total amount of capital contribution of the overseas parent company
- An enterprise of which 50% or more of the total stocks or of the total amount of capital contribution are owned by the overseas parent company

(2) Definitions of foreign investors and object of investment

■ Foreign investors (Article 2.1.1 of the FIPA)

- Individuals possessing foreign nationality

Korean nationals who hold permanent resident status, or equivalent stay permits from foreign countries are also included in the definition of foreign investors. (Article 2.2 of the FIPA; Article 3 of the Enforcement Decree)

Investment by Chinese nationals who hold semi-permanent resident status in Korea (qualified as in F2) is not considered as FDI.

- Foreign legal entities established under the laws of foreign countries
- International organizations, such as International Finance Corporation (IFC), International Bank for Reconstruction and Development (IBRD), Asia Development Bank (ADB), or organizations engaged in international economic cooperation as proxies of foreign governments for overseas investment
- Foreign nationals who own stocks or shares pursuant to the FIPA

■ Foreign invested enterprises (Article 2.1.6 of the FIPA)

Enterprises in which foreign nationals have invested capital

■ Object of investment (Articles 2.1.7 and 2.1.8 of the FIPA)

Investment by foreign nationals which is made for the purpose of acquiring shares

- International means of payment under the Foreign Exchange Transactions Act, or domestic means of payment arising from exchange therefor
- Capital goods
 - Machinery, equipment, facilities, apparatus, components and parts treated as industrial facilities including ships, motor vehicles, airplanes; livestock, seeds, plants, trees, fish and shellfish needed for the development of agriculture, forestry and fisheries
 - Raw materials and spare parts for the initial test operation of facilities deemed necessary by the competent ministers; freight and insurance premium costs for transportation of such materials; and technology or services utilized in installation or consulting with respect to the import of such materials
- Income arising from stocks or shares acquired pursuant to the FIPA (dividends)
- Industrial property rights and other equivalent rights concerning technologies and their use

The price of industrial property rights evaluated by designated technology evaluation institutions shall be considered as certified evaluation value. (Article 30.4 of the FIPA)

- Remaining assets generated from the liquidation of foreign branch or liaison offices in Korea
- Repayments of long-term loan pursuant to the FIPA, with maturity of five years or more to FDI companies by their overseas parent company, and to companies affiliated with the overseas parent company concerned
- Other domestic means of payment

Concept of Foreign Direct Investment (FDI)

The sales proceeds of real estate and stocks or equity, owned by foreign nationals pursuant to the FIPA and the Foreign Exchange Transactions Act, of a legal entity of Korea or of an enterprise run by Korean nationals

(3) Amount and ratio of FDI

- The amount of FDI shall be at least 50 million won per case. (In cases where the number of foreign investors is two or more, the amount shall be 25 million won or more per investor)
There is no ceiling on the FDI amount.
- In cases where foreign investors increase the amount of investment, or invest dividends in a company, there is no minimum in the FDI amount.
- FDI ratio shall be 10% or more, in principle.

In cases where foreign investors are objectively proved by joint venture contracts or other related documentary evidence that they exercise substantial influence over the management of companies, the FDI ratio less than 10% of the total shares shall be allowed.

B. Related Laws concerning FDI

■ Related laws

- The Foreign Investment Promotion Act (FIPA)
- The Enforcement Decree of the Foreign Investment Promotion Act
- The Enforcement Regulation of the Foreign Investment Promotion Act
- Regulations on Foreign Direct Investment and Technology Inducement
- Regulations on Tax Reductions or Exemptions for Foreign Investments

■ Purpose of the FIPA (Article 1)

Introduction to Foreign investment System

The purpose of the FIPA is to contribute to the sound development of the national economy through effective inducement of foreign investment by means of providing support and facilitation.

■ Basic direction of the FIPA

Policies on FDI have been restructured to support foreign investment from the perspective of foreign investors and to facilitate effective inducement of FDI by local governments.

■ Relationship with other laws

- Foreign investment shall be considered as FDI when satisfying requirements of foreign capital in accordance with the FIPA and relevant laws.
- Matters concerning foreign exchange and overseas transactions shall follow the regulations of the Foreign Exchange Transactions Act, except as otherwise provided in the FIPA.
- Even though FDI companies complete procedures stipulated in the FIPA, the companies shall follow the regulations applied to domestic companies under other laws of Korea, and obtain permissions or approvals in accordance with such laws to operate their intended businesses, since FDI companies are regarded domestic companies.

Examples of other laws: Commercial Act, Telecommunications Business Act, Pharmaceutical Affairs Act, Tourism Promotion Act, Food Sanitation Act (Food Manufacturing), etc.

C. Businesses Open to FDI

- Out of total 1,195 sectors based on the Korean Standard Industry Classification, 1,148 sectors, excluding 47 sectors such as public administration, diplomatic affairs, national defense, etc., are subject to FDI.

Concept of Foreign Direct Investment (FDI)

- Completely open businesses: 1,127 sectors
 - Partially open businesses: 14 sectors (FDI may be allowed in cases where the criteria for FDI permission are satisfied)
 - Non-open businesses: 7 sectors
-
- However, individual laws may restrict certain FDI (e.g. newspaper publishing business), or impose obligations to form joint ventures with domestic companies in certain businesses (e.g. coastal water passenger transportation).

D. Types of FDI

- Foreign investors may acquire newly issued stocks or outstanding stocks, and FDI is allowed to both individuals and legal entities.

- Type A: FDI through acquisition of newly issued stocks (Article 5 of the FIPA)

In cases of establishing legal entities or increasing capital in existing legal entities, foreign investors may acquire newly issued stocks.

- Type B: FDI through acquisition of outstanding stocks (Article 6 of the FIPA)

Foreign investors may acquire outstanding stocks of domestic companies.

- Type C: FDI through long-term loans (Article 8 of the FIPA)

- Type D: FDI through mergers (Article 7 of the FIPA)

E. Notification of FDI

- Under the FIPA, both foreign investors and their proxies can file the notification and if necessary, an application for approval.

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

- FDI notification is provided both in Korean and in English at the Korea Investment Service Center (KISC); head-office and branches of domestic banks; branches of foreign banks in Korea.

F. Registration of FDI company

In cases where the payment of object of investment has been completed, or where the price for acquiring outstanding stocks is paid, foreign investors shall file a registration of FDI company within 30 days from the date such action above is taken place.

Businesses Open to FDI

☐ FDI subject businesses (Total 1,148 sectors)

- Total: 1,148 sectors
 - Completely open businesses: 1,127 sectors
 - Partially open businesses: 14 sectors (FDI may be allowed in cases where the criteria for FDI permission are satisfied)
 - Non open businesses: 7 sectors
- Businesses restricted to FDI including those partially open to FDI: 21 sectors

Business	Criteria for Permission ¹	Date of Liberalization ²
Growing of Cereal Grains (01111)	Allowed except for growing of rice or barley	
Farming of Cattle (01212)		Partially open on Jan. 1, 2000 (Allowed for FDI ratio shall be less than 50%)

¹ The current criteria for granting permissions for FDI with respect to the business concerned. Thus, if there is no criteria for granting permission, FDI is not allowed.

² In cases where the date is indicated without any specification, the business concerned will be fully open to FDI from the date listed. In cases where partial or expansion openings are indicated, it means the business concerned will be partially opened, or the scope of the opening will be expanded from the date listed.

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

Business	Criteria for Permission ¹	Date of Liberalization ²
Inshore Fishing (05112)		
Coastal Fishing (05113)		
Publishing of Newspapers (22121)	FDI ratio shall be less than 30%.	
Publishing of Periodicals (22122)	FDI ratio shall be less than 50%.	
Power Generation (40401)	Power generation businesses operated by government-invested institutions are allowed if all of the followings are met; and in other power generation business, FDI will be completely allowed. 1.FDI ratio shall be less than 50% 2.The largest shareholder and the representative of the FDI company shall be a Korean national.	
Wholesaling of Meat (51222)		Partially open on Jan. 1, 2001 (FDI ratio shall be less than 50%)
Coastal Water Passenger Transportation (61101)	Allowed if all of the followings are met: 1.Scope of permission: Passenger or cargo transportation between North and South Korea 2.Must be a joint venture with domestic shipping companies 3.FDI ratio shall be less than 50%.	
Coastal Water Freight Transportation (61102)	Applied same as above	
Scheduled Air Transportation (62100)	FDI ratio shall be less than 50%.	

Introduction to Foreign investment System

Business	Criteria for Permission ¹	Date of Liberalization ²
Non-scheduled Air Transportation (62201)	FDI ratio shall be less than 50%.	
Wire Telegraph and Telephone Service (64201)	<ul style="list-style-type: none">• Key communications businesses are allowed only when the total of shares or equity with voting rights owned by foreign governments, foreign nationals or legal entities of Korea falling under one of the following is 49% or less of the total shares or total equity. However, the FDI ratio of Korea Energy and Power Corporation shall be 33% or less, or 15% or less per person.- A legal entity whose 50% of shares are owned by foreign government or foreign nationals.- A legal entity whose major shareholders are foreign nationals and such nationals own 15% or more of shares of the legal entity• Special communications businesses providing telephone services by connecting to electric communication networks shall be allowed only when FDI ratio is 49% or less.	January 1, 2001
Wireless Telegraph and Telephone (64202)*	Applied same as above	
Other Telecommunications unclassified (64209)	The businesses shall be limited to communication satellite services and communication satellite earth station services, but the criteria for permission is same as wire/wireless telegraph and telephone services.	

Concept of Foreign Direct Investment (FDI)

Business	Criteria for Permission ¹	Date of Liberalization ²
Domestic Banking (65191)	Allowed only for commercial banking businesses	
Trust Fund Companies (65993)	Securities investment trust business is completely allowed. In other financial industries, trust fund business is only allowed, provided that commercial or chartered banks engage in such business together with its original business.	
Radio Broadcasting (92131)		
Television Broadcasting (92132)		
Cable Broadcasting (92133)	General cable broadcasting (excluding news program providing businesses) shall be allowed when FDI ratio is 33% or less.	
News Agency Activities (92200)		Partially open on Jan. 1, 2000 (FDI ratio shall be less than 25%)

Introduction to Foreign investment System

2. Protection and Liberalization of FDI

Guaranty of overseas remittances of dividends and equal treatment as Korean nationals shall be protected in accordance with the FIPA. Thus in cases where foreign investment which is not made pursuant to the FIPA, such guaranty cannot be protected.

A. Guaranty of Overseas Remittance

- Overseas remittance of dividends of stocks and equity owned by foreign investors, of proceeds from sales therein, of principals and interest paid from long-term loan contracts, and of commissions and royalties paid pursuant to technology inducement contracts shall be guaranteed. (Article 3.1 of the FIPA)

Concerning overseas remittances, a confirmation by the head of foreign exchange banks in accordance with the Foreign Exchange Transactions Act is required. (Article 4.1 of the Enforcement Decree)

- Suspension of foreign exchange transactions or other restrictive measures taken under situations of critical and rapid changes in the domestic economic situation, war, or Act of God, stipulated by the Foreign Exchange Transactions Act, shall not apply to FDI made pursuant to the FIPA.

B. Equal Treatment as Korean Nationals

- Foreign investors and their companies investing in Korea shall be treated on equal terms as domestic investors and companies, except as otherwise provided in other laws. (Article 3.2 of the FIPA)

Foreign investors enjoy more favorable treatment than Koreans in tax reductions or exemptions and in the selection of location of the company.

- In cases where FDI companies additionally conduct business open to FDI, an additional

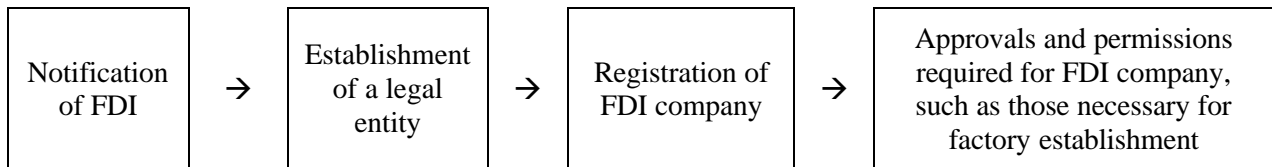
notification is not required. (Article 22.3 of the FIPA)

C. Liberalization of FDI

- Except as otherwise provided in other laws, no restriction shall apply to a foreign national in performing FDI activities within Korea. (Article 4.1 of the FIPA)
- However, FDI may be restricted in cases where the maintenance of national security and public order is threatened; where public health or environmental preservation damages; or where social morals and customs are threatened. (Article 4.2 of the FIPA)
- FDI restrictions other than those stipulated by the FIPA will be compiled and posted by the Minister of Commerce, Industry and Energy every year. (Article 4.4 of the FIPA)

3. Procedures for FDI

< Procedures for FDI under the FIPA >



A. Basic Principles for FDI Notification

- FDI through acquisition of newly issued stocks (Type A): Prior notification
- FDI through acquisition of outstanding stocks (Type B): Prior notification

In cases of the acquisition of outstanding stocks of enterprises in defense industry, approvals shall be given after the Minister of Finance and Economy has reviewed the associated application.

- FDI through long-term loan (Type C): Prior notification
- FDI through acquisition of stocks following mergers (Type D): Post notification

In cases where foreign investors acquire stocks of either existing enterprises or newly established enterprises following mergers with other enterprise, the notification shall be made within 30 days after the said acquisition.

Prior notification matters

- Notification of FDI through acquisition of newly issued stocks
- Notification of FDI through acquisition of outstanding stocks
- Notification of FDI through long-term loans
- Notification of changes in the FDI notification listed above

Post notification matters

Notification shall be made within 30 days after one of the following:

- Notification of stocks or shares following mergers, etc.
- Notification of transfer or reduction of shares, etc.
- Application for changes in FDI company registration

B. FDI Procedures by Type

(1) FDI through acquisition of newly issued stocks (Type A)

1. Establishment of a new company (100% subsidiary or joint venture with a Korean company)
2. Participation in capital increase of a domestic company (including FDI company)

■ Notification of FDI (Article 5.1 of the FIPA)

- Persons submitting notification: Foreign investors or their proxy
- Institutions accepting notification: Head-office and branches of domestic banks, branches of foreign banks, KISC
- Documents to be submitted:
 - FDI notification form for acquisition of newly issued stocks (2 copies; provided)
 - To be submitted only if applicable (1 copy each)
 - Document verifying proxy (power of attorney, etc.)
 - Document verifying the price evaluation of industrial property rights evaluated by a technology evaluation institution
 - Document verifying the remaining properties following liquidation of branches, liaison offices or legal entities
 - Document verifying the reimbursement amount of overseas loans

- Document verifying the exercise of substantial influence over the management of the legal entity or enterprise concerned
- Document verifying the amount received through a sale of stocks or real estates
- Processing period: On-the-spot
- Institutions accepting the notification shall issue a certificate of accepting the notification after review of the notification whether items required are fully satisfied, or the intended business is restricted to FDI, etc.

In cases where changes in the notification are sought by foreign investors with respect to the following items, a prior notification is required. (Article 6 of the Enforcement Decree)

- a. Amount, method and ratio of FDI
- b. Company name (or representative's name) and nationality of foreign investors
- c. Business to be run
- d. Address of FDI company

■ Introduction of FDI capital for acquisition of newly issued stocks

- In cases where foreign capital is remitted to domestic foreign exchange banks:
 - (1) FDI capital is remitted to head office or branches of domestic foreign exchange banks from foreign countries: Proxies or FDI companies with pseudo-names are qualified as a recipient of the FDI capital.
(In cases where proxy becomes the recipient, foreign investors shall deposit the capital in a share subscription account, not into the account of proxy)
 - (2) After the FDI capital is deposited in the account, the bank will issue a certificate of payment and deposit of the share subscription, and the foreign investors shall use the certificate when registering the company at the Korean Court Registry.

Also, after the FDI capital is deposited in the account, foreign investors must be issued a certificate confirming purchases (deposit/withdrawal) of foreign currency

by the banks. The certificate is required when foreign investors apply for registration of FDI company. (The certificate confirming purchases (deposit/withdrawal) of foreign currency is the document proving the capital in question has been introduced from foreign countries as FDI

Introduction to Foreign investment System

capital)

- In cases where FDI capital is carried in through customs:
 - (1) In cases where foreign investors personally bring in foreign currency in cash or by traveler's checks, they shall notify the currency to the customs authorities concerned.
 - (2) They then deposit the foreign currency by opening a foreign currency account for non-residents in foreign exchange banks. (When opening the non-resident foreign currency account, a registration certificate of the foreign currency and the passport are required)
 - (3) To deposit the currency in a share subscription account: The banks will issue a certificate of payment and deposit of the share subscription, and the foreign investors shall use the certificate when registering the company at the Korean Court Registry.
- In cases where capital goods are imported as FDI in kind, foreign investors should prepare a list of the imported capital goods and apply for review and confirmation of the list to the President of KOTRA or to the head of foreign exchange banks in Korea before the shipment of such goods.
 - Documents to be submitted:
 - 3 copies of application verifying the list of imported capital goods
 - A certificate confirming the sale of imported capital goods with price verification
 - The certificate confirming the list of imported capital goods, issued by foreign exchange banks, shall be regarded as an import license under the Foreign Trade Act.
 - When completing the import of the capital goods, foreign investors shall apply for a certificate confirming the completion of FDI in kind.
 - Foreign investors shall submit (1) the application in duplicate confirming completion of FDI in kind and (2) a certificate of import declaration to the official from Korean Customs Service seconded to KISC. Since the confirmation on completion of FDI in kind is categorized as "on-the-spot processing of permits and approvals" under the FIPA, the customs official seconded to KISC will process such confirmation on-the-spot.

Concept of Foreign Direct Investment (FDI)

- The certificate confirming the completion of FDI in kind is required when registering the company at the Korea Court Registry.

■ Registration of FDI company/business registration

- Registration of establishment of a legal entity and business registration will be handled in accordance with the regulations of the Corporate Tax Act and the Non-Contentious Case Litigation Procedure Act.
- The processing of the application for business registration is categorized as “on-the-spot processing of permits and approvals” under the FIPA, thus the official from the National Tax Administration seconded to KISC will process the said application on-the-spot.
- Registration of FDI company (Article 21.1 of the FIPA, Article 27 of the Enforcement Decree, Article 17 of the Enforcement Regulation)
 - In cases where the payment of object of investment has been completed or where the price for acquisition of outstanding stocks is fully paid, foreign investors shall register FDI company within 30 days from such payment or price has been completed.
 - Documents to be submitted:
 - Application form for FDI company registration
 - A certificate confirming purchases (deposit/withdrawal) of foreign currency
(In cases of FDI in kind, a copy of certificate verifying completion of FDI in kind)
 - A certified copy of company registration issued at the Korean Court Registry
(In cases of personal business, a copy of certificate of business registration)

In cases where foreign investors only pay part of the FDI amount, they cannot register their company; however, in cases where foreign investors need a certificate for FDI company registration, they may register the company after submitting notification of changes in FDI.

FDI through acquisition of newly issued stocks (Type A)

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

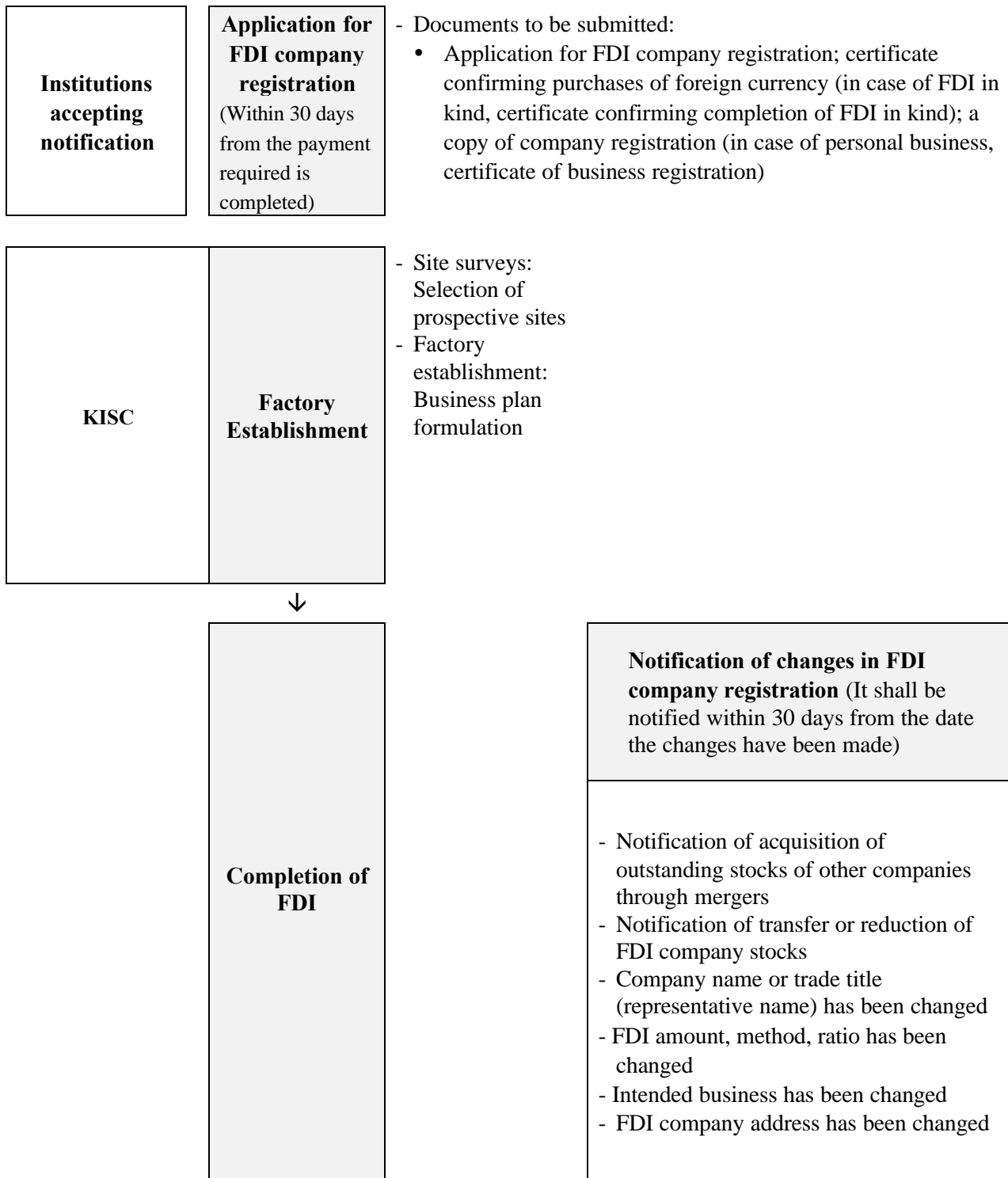
KISC	Investment consultation	<ul style="list-style-type: none"> - Various FDI consultation - Introduction to domestic joint venture partners - Guidance on domestic tax system and investment environments of provinces - Acting on behalf of foreign investors concerning selection of factory sites and factory establishment - Extension of the sojourn period of foreign corporate personnel, and confirmation of FDI in kind, etc. - Introduction to investment related agencies, law firms and accounting firms, etc.
	Preparation of FDI notification	<p>Documents to be submitted are listed in pp.14 hereof.</p>
<p style="text-align: center;">Institutions accepting notification</p> <ul style="list-style-type: none"> * Head-offices and branches of domestic banks * Branches of foreign banks * KOTRA (KISC, including KOTRA'S overseas and domestic offices) 	Submission of notification	<ul style="list-style-type: none"> - Application for tax reduction/exemption can be filed at the same time with FDI notification. <ul style="list-style-type: none"> • In cases where application for tax reduction/exemption is made separately: Investment Policy Division in Economic Cooperation Bureau of MOFE • It is also possible for foreign investors to check with the Investment Policy Division whether tax reduction/exemption will be granted or not before submitting FDI application. - Time limits of application for tax reduction/exemption <ul style="list-style-type: none"> • In cases of new FDI: Before the last day of the tax year in which the business is started • In cases of capital increase: Within 2 years from the date of FDI notification acceptance
Institutions accepting notification	Issuance of approval certificate (on-the-spot)	<ul style="list-style-type: none"> - A certificate of accepting notification shall be issued on-the-spot after review of the notification. - Notification of changes in FDI shall be made in cases where the following items have been changed: <ul style="list-style-type: none"> - FDI amount, method and ratio - Company name and name/nationality of foreign investor - Business to be run - Address of FDI company

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

	Remittance of FDI capital	<ul style="list-style-type: none">- In cases of FDI in kind:<ul style="list-style-type: none">• Confirmation of the list of imported capital goods by President of KOTRA or head of foreign exchange banks in Korea is required.• Customs officials seconded to KISC can issue a certificate confirming the list of the imported items.- In cases of introduction of FDI capital in cash:<ul style="list-style-type: none">• Remittance to domestic foreign exchange bank in foreign currency shall be made. (Money remitted from the domestic market will not be allowed)• Carrying in foreign currency in person via customs is allowed.
KISC	Incorporation	<ul style="list-style-type: none">- Documents to be submitted in establishing company:<ul style="list-style-type: none">• Application for company formation and associated articles of incorporation (notarized)• Document certifying subscription for stocks issued• Record of examinations by directors, auditors and inspectors and its related documents• Minutes of inaugural general meetings, and minutes of board-of-director meetings regarding representative directors.• Document confirming FDI notification acceptance or approvals and document confirming custody of paid-in capital (issued by associated banks)• Inspector report or document confirming completion of FDI in kind (in case of FDI in kind)

Concept of Foreign Direct Investment (FDI)



Introduction to Foreign investment System

(2) FDI through acquisition of outstanding stocks (Type B)

In cases where foreign investors acquire domestic shareholders' outstanding stocks of a domestic company (including FDI company) operating in the domestic market

- Direct transactions between foreign investors and domestic shareholders
- Foreign investors' acquisition of outstanding stocks in the stock exchange market (10% or more)

■ **FDI notification or application for approval of FDI (Articles 6.1 and 6.3 of the FIPA)**

- Acquisition of outstanding stocks of companies not in defense industry: Notification
 - Persons submitting notification: Foreign investors or their proxy
 - Institutions accepting notification: Head-office and branches of domestic banks, branches of foreign banks, KISC
 - Documents to be submitted:
 - FDI notification form for acquisition of outstanding stocks (2 copies; provided)
 - To be submitted only if applicable (1 copy each)
 - Document evidencing whether transferees are a specially related person in the case of two or more transferees
 - Document verifying that capital contribution is made from residual properties following liquidation of branches, liaison offices or legal entities
 - Document verifying that capital contribution is made from reimburses amount of overseas loans or other overseas borrowings
 - Document verifying that capital contribution is made to exercise substantial influence over the management of the legal entity or enterprise concerned
 - Document verifying that capital contribution is the proceeds of disposed shares or real estate
 - Processing period: On-the-spot
 - Institutions accepting the notification shall issue a certificate of accepting the notification after review of the notification whether items required are fully satisfied, or the intended business is restricted to FDI, etc.

Introduction to Foreign investment System

- Acquisition of outstanding stocks of companies in defense industry: Approval required
 - Persons submitting application: Foreign investors or their proxy
 - Institutions accepting application: Investment Policy Division in Economic Cooperation Bureau of the Ministry of Finance and Economy (MOFE)
 - Documents to be submitted:
 - FDI application form for approval in acquisition of outstanding stocks (2 copies; provided)
 - To be submitted only if applicable (1 copy each)
 - Document evidencing whether transferees are a specially related person in the case of two or more transferees
 - Document verifying that capital contribution is made from residual properties following liquidation of branches, liaison offices or legal entities
 - Document verifying that capital contribution is made from reimburse amount of overseas loans or other overseas borrowings
 - Document verifying that capital contribution is made to exercise substantial influence over the management of the legal entity or enterprise concerned
 - Document verifying that capital contribution is the proceeds of disposed shares or real estate
 - Processing period: 15 days (If unavoidable, the period can be extended by another 15 days)
 - Officials shall decide on approval after consulting related matters with the competent ministers and shall notify the result to the applicants. There may be attached conditions in cases where the application is approved.

Company names in defense industry of Korea

Concept of Foreign Direct Investment (FDI)

Classifications	Companies
Companies producing special defense materials 1)*	Kangnam Inc., Kumho Tire, Kia Heavy Industry, Kukje Electronics, Kiwon Electro-Communications, Korean Air Lines, Tongyang Steel, Daeyang Electronics, Daeyoung Electronics, Daewoo Electronics, Daewoo Precision Industry, Daewoo Heavy Industry, Daewoo Telecom, Tongmyung Heavy Industry, Doowon Heavy Industry, Doorae Air Metal, Mando Machinery, Seoul Engineering, Samgong Products, Seoul Chassis, Samsung Electronics, Samsung Air, Samyang Chemistry, Ssangyong Heavy Industry, Saetbang High-Tech, Unsung Inc., Asia Automobile, Yunhap Precision, Oriental Industry, Leewha Electronics, LG Wire, LG Precision, Jeil Precision, Jinyang Industry, Changwon Steel, Chonji Industry, Techraf Inc., Taesan Precision, Tongil Heavy Industry, POSCO, Pyongwha Industry, Pungsan Inc., Hankook Fiber, Hanjin Heavy Industry, Hanwha Inc., Hanwha Machinery, Hankook Optics, Hankook Heavy Industry, Hankook Communications, Hanil Iron, Hyupjin Precision, Hyundai Space and Aviation, Hyundai Precision, Hyundai Heavy Industry, Korea Takoma, Kony Electronics
Companies producing general defense materials 2)*	Kia Precision, Kia Motors, Kwanglim, Kookje Machinery, National Plastics, Nowoo Electronics, Daemyung Inc., Tongjin Electrics, Daedong Gear, Daeshin Metal, Daewon Steel, Daehung Machinery, Tongyang Lining, Samjung Turbine, Suwon Pipe Inc., Samwoo Metal, Shinil Metal, Ssangyong Motors, Ilshin Communications, Jinyoung Precision, Halla Heavy Industry, Hanbell Helicopter, Hankook Heat-treat, Hankook Special Pack, Hyundai Electronics
Total	81

*1) Companies that produce fire equipment; guided weapons; military planes and war vessels; ammunition; tanks and other military vehicles; air fighters; radar and identification equipment; electronic and telecommunications equipment; night vision scopes and other optical equipment; demolition engineering equipment for military use; and other goods designated by the Minister of National Defense.

*2) Companies that manufacture defense machinery and equipment other than those mentioned above.

Introduction to Foreign investment System

■ Introduction of FDI capital for acquisition of outstanding stocks

- In cases where FDI capital is remitted to domestic foreign exchange banks:
 - The remitted capital shall be withdrawn and converted into Korean won at foreign exchange banks to pay for acquisition of outstanding stocks from domestic shareholders, or the remitted capital will be transferred directly to the account of domestic shareholders in foreign currency.
 - However, in cases where foreign investors intend to pay the amount for acquisition of outstanding stocks by withdrawing foreign currency in person, they shall obtain an approval from the President of the Bank of Korea.
 - Foreign investors need to be issued a certificate confirming purchases (deposit/withdrawal) of foreign currency by foreign exchange banks. The certificate is required when registering FDI company.
- In cases where FDI capital is carried in through customs:
 - The foreign currency must be reported to the customs authorities and be converted into Korean won to pay for acquisition of outstanding stocks, or may be transferred directly to the account of domestic shareholders in foreign currency.
 - Foreign investors need to be issued a certificate confirming purchases (deposit/withdrawal) of foreign currency by foreign exchange banks. The certificate is required when registering FDI company.

■ FDI company registration and application for approval required in other individual laws

- Registration of FDI company shall be filed within 30 days after acquisition of outstanding stocks. (Article 21.1 of the FIPA; Article 27 of Enforcement Decree)

Documents to be submitted are listed in pp. 17 hereof.

- Obtaining approvals required in other laws

Foreign investors must submit application for approval individually for cases of notification of corporate mergers under Article 21 of the Monopoly Regulation and Fair

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

Trade Act concerning the acquisition of outstanding stocks when such acquisition is made over certain amount.

■ Items to be noted

- The notification of FDI through acquisition of outstanding stocks of domestic companies should be distinguished from the notification of acquisition or transfer of outstanding stocks of FDI companies by purchase, inheritance, testament, or gift. (Article 7.1.3 of the FIPA)
 - In cases where foreigners acquire outstanding stocks of FDI companies by merger, inheritance, testament or gift, they shall notify such acquisition within 30 days from the acquisition date.
 - In cases where foreign investors have already notified the transfer of outstanding stocks under Article 23 of the FIPA, they are not required to notify.
- Acquisition of outstanding stocks in stock exchange market (Article 7.6 of the Enforcement Decree)
 - In cases where foreign nationals, who already acquired 9% of the total outstanding stocks in stock exchange market, intend to additionally acquire 1.1% of the total outstanding stocks (thus making the total acquisition ratio 10% or more), they shall file FDI notification through acquisition (or file an application for approval) of outstanding stocks prior to acquiring the additional 1.1%.
 - The outstanding stocks a foreign investor acquires in stock exchange market shall be included in the acquisition ceiling of outstanding stocks; and the outstanding stocks a foreign national other than the foreign investor concerned acquires in stock exchange market shall not be included in the acquisition ceiling.
- Acquisition of outstanding stocks of companies in FDI-restricted businesses (Articles 7.6, 7.7 and 7.8 of the Enforcement Decree)

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

- In cases where foreign investors acquire outstanding stocks of a company operating two or more restricted businesses, the acquisition ceiling shall be the lowest FDI ratio allowed for FDI among the businesses operated by the said company.
- In cases where the revenue from the restricted business is 1% or less of the total revenue of the company, such business shall not be regarded as business the said FDI company operates.
- In cases where the revenue of restricted business exceeds 1% of the total revenue of the FDI company after foreign investors acquired the outstanding stocks, the foreign investors shall transfer the outstanding stocks acquired in excess of the acquisition ceiling to a Korean national or a legal entity of Korea within six months from the closing date of the business year in which the said excess has occurred.
- In cases where transferees are more than one in acquisition of outstanding stocks, foreign investors shall notify (or apply for approval) in cases where the foreign investors and a special related person jointly acquire the outstanding stocks. (Article 7.1 of the Enforcement Decree)

Introduction to Foreign investment System

FDI through acquisition of outstanding stocks (Type B)

**Institutions
accepting
notification
(application for
approval)**

* Businesses not in
defense industry
(Notification):
Institutions accepting
FDI notification

* Businesses in defense
industry (Approval):
Investment Policy
Division in Economic
Cooperation Bureau of
MOFE

**Submission
of
notification/
application
for approval**

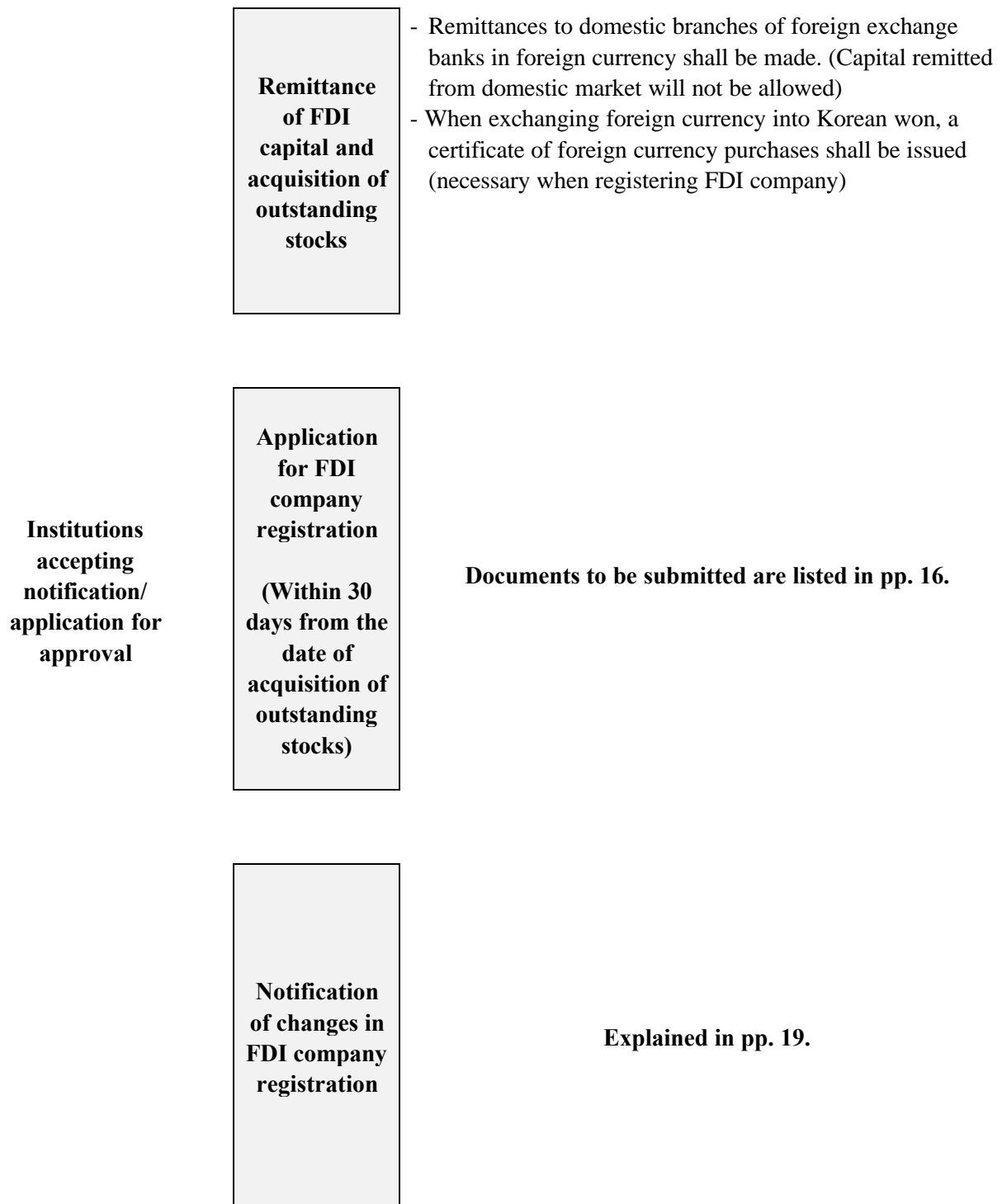
Documents to be submitted are listed in pp. 20.

**Institutions
accepting
notification/
application for
approval**

**Issuance of
notification
certificate/
approval
notices**

- Processing periods:

- Notification: On-the-spot
- Approval: 15 days (If unavoidable, the period can be extended by another 15 days)



(3) FDI through long-term loans (Type C)

Providing loans with maturity of five years or more to FDI company by its overseas parent company or by an enterprise which has capital affiliation with the said parent company

■ Notification of FDI (Article 8.1 of the FIPA)

- Persons submitting notification: Foreign investors or their proxy
- Institutions accepting notification: Head-office and branches of domestic banks, branches of foreign banks, KISC
- Documents to be submitted:
 - FDI notification form through long-term loan (2 copies; provided)
 - A copy of the document verifying the identity of the overseas parent company or enterprise which has capital affiliation with such parent company
 - A copy of the loan agreement
- Notification of changes in FDI through long-term loan (Article 5.2 of the Enforcement Decree)
 - In cases of changes in loan contract: 2 copies of notification form and 1 copy of modified loan contract
 - In cases of changes in loan provider: 2 copies of notification form and 1 copy of modified loan contract; 1 copy of the document verifying loan providers as being overseas parent company or as having capital affiliation with such parent company

Prior notification of long-term loan shall be made to the institution accepting FDI notification in cases where the following items are changed.

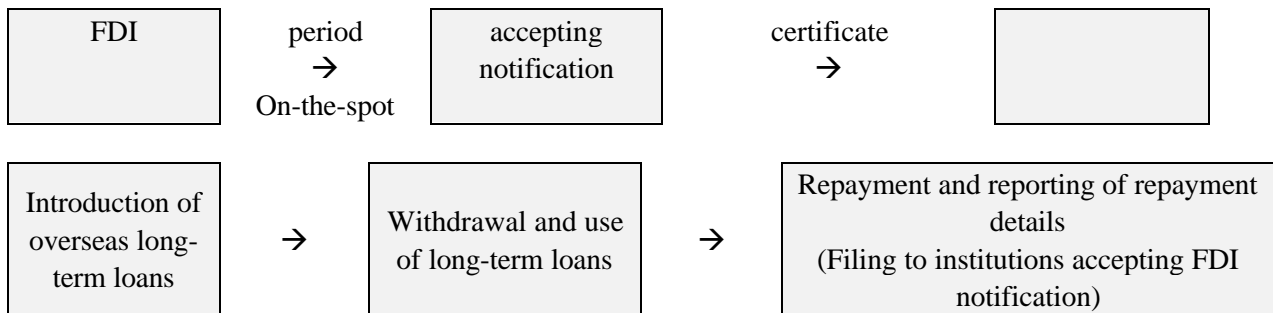
- Company name or nationality of foreign investors
 - FDI amount (loan amount), ratio and method
 - Businesses to be run
 - Address of FDI company
-
- Processing period: On-the-spot

FDI through long-term loans (Type C)

Notification of Processing Institutions Issuance of notification Applicants →

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)



(4) FDI through acquisition of stocks following mergers (Type D)

- In cases where foreign nationals acquire stocks of a FDI company whose stocks are issued following a transfer of reserved surpluses or revaluation reserves into capital of the said FDI company
- In cases where foreign nationals acquire stocks of a legal entity which survives, or is newly organized following mergers between a FDI company and other enterprises, based on rights arising from ownership of the stocks of the FDI company
- In cases where foreign nationals acquire stocks of a FDI company from a foreign investors by means of a purchase, an inheritance, a testament, or a gift
- In cases where foreign nationals acquire additional stocks by capital contribution of returns of profits derived from stocks acquired in accordance with the FIPA
- In cases where foreign nationals convert convertible bonds or corporate bonds with the option to purchase company stocks

■ Notification of FDI (Article 7.1 of the FIPA)

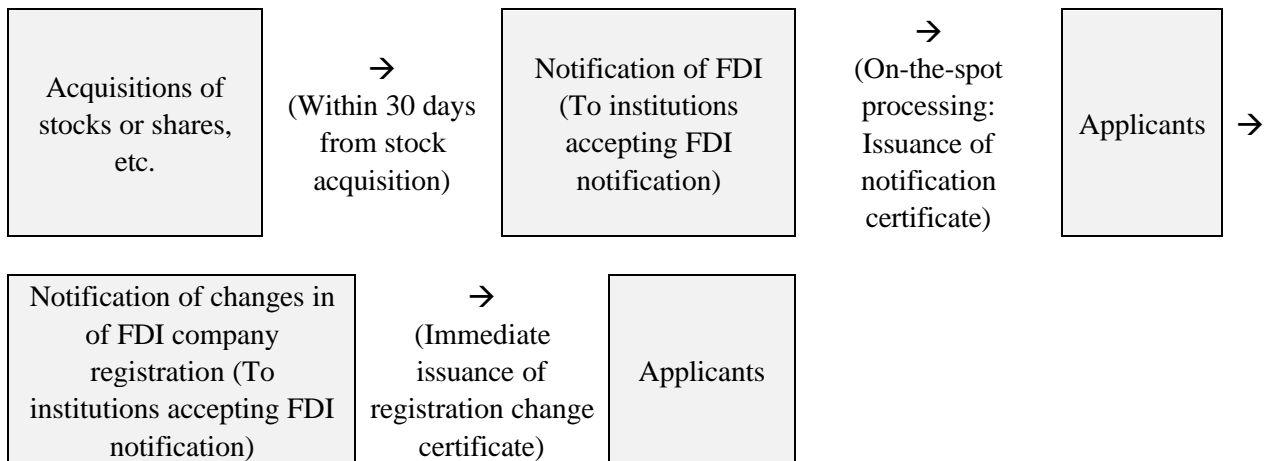
- Persons submitting notification: Foreign investor or their proxy
- Institutions accepting notification: Head-office and branches of domestic banks, branches of foreign banks, KISC
- Documents to be submitted:
 - FDI notification form for stock or shares acquisition (2 copies; provided)
 - 1 copy of the document verifying acquisition of stocks or shares
 - 1 copy of a document verifying that capital contribution is made to exercise substantial influence over the management of the legal entity or enterprises concerned (In cases of acquisition amounting to less than 10% of the total shares)
- Filing period: Within 30 days from the date of acquiring outstanding stocks, etc.

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

- Processing period : On-the-spot
- Application for modification in FDI company registration (Article 21 of the FIPA, Article 27 of the Enforcement Decree)
 - Foreign investors shall notify changes in FDI company registration within 30 days after notification of share acquisitions by merger, etc.
 - Documents to be submitted: Application form for FDI company registration (application form for changes in FDI company registration) and documents verifying the reasons therefor

FDI through acquisition of stocks following mergers (Type D)



C. Obtaining Approvals or Permissions for FDI

(1) Types of civil applications

- Comprehensive processing of permits and approvals necessary for investment projects
- Individual processing of permits and approvals

Introduction to Foreign investment System

- On-the-spot processing of permits and approvals

(2) Processing civil applications by type

On-the-spot processing of permits and approvals

■ Concept (Article 17.2 of the FIPA)

Civil applications may be processed directly by the officials seconded to KISC. In such case, the head of related administrative authorities with which such officials are affiliated shall empower the officials to handle applications.

■ Procedures (Article 24.1 of the Enforcement Decree)

- After foreign investors or their proxies file civil applications to KISC, officials seconded to the government ministries will process the applications on-the-spot.
- However, in cases of business registration, foreign investors shall apply for FDI company registration of within 20 days from business commencement (In cases of legal entity, they may apply for FDI company registration together with the filing for the establishment of legal entities) → The application shall be transferred to the Tax Office → A certificate of business registration shall be issued by the Tax Office → The Tax Office may send the certificate to KISC, or the applicant may be issued the certificate directly by the Tax Office.

Foreign investors or their proxies may apply directly to the Tax Office.

■ Application types and processing periods: Attachment 1 of the Enforcement Decree

Types of Civil Applications	Legal Bases	Processing Periods
1. Confirmation on completion of FDI in kind	Article 30 (3) of the FIPA	On-the-spot

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

2. Granting of status of sojourn	Article 23 of the Immigration Control Act	On-the-spot
3. Permission for changes of status of sojourn	Article 24 (1) of the Immigration Control Act	On-the-spot
4. Permission on extension of sojourn period	Article 25 of the Immigration Control Act	On-the-spot
5. Permission for reentry	Article 30 (1) of the Immigration Control Act	On-the-spot
6. Report on modification in foreigner registration matters	Article 35 of the Immigration Control Act	On-the-spot
7. Business registration	Article 5 of the Value-added Tax Act	7 days

Comprehensive processing of permits and approvals necessary for investment projects

■ Concept (Article 17.3 of the FIPA)

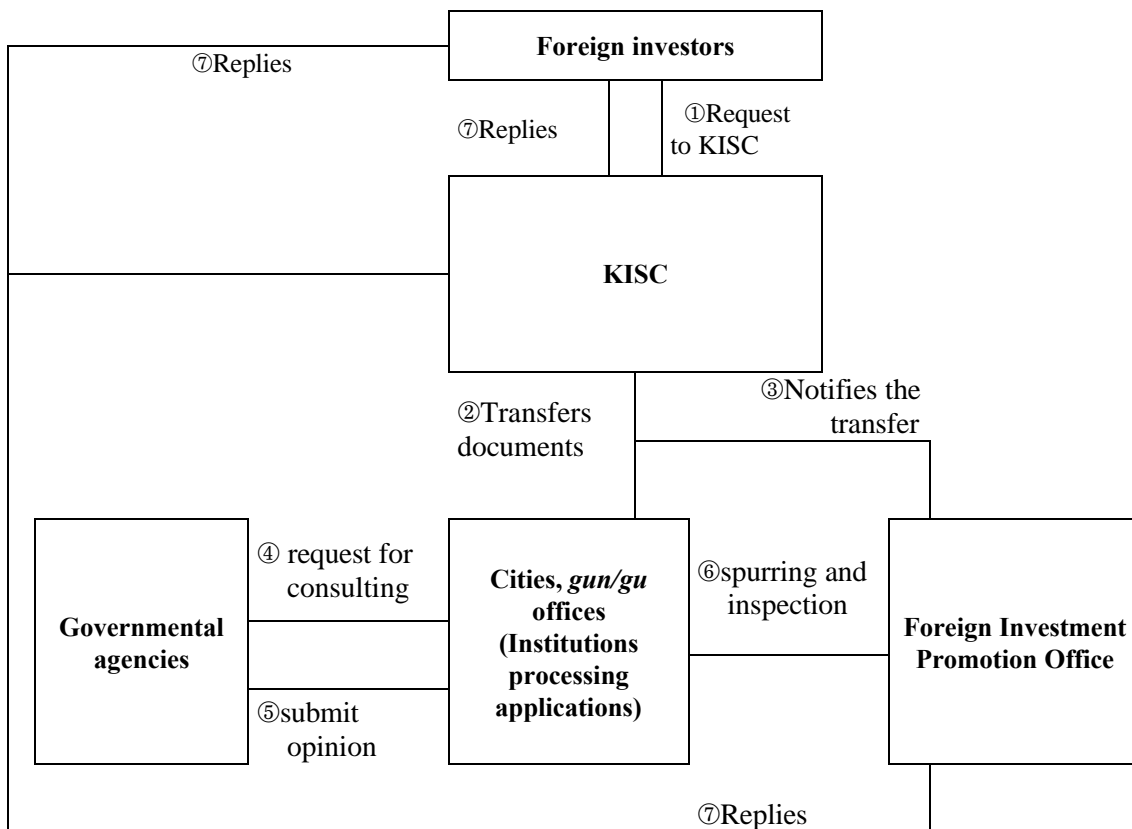
- Supplementary approvals concerning factory establishment and business commencement shall be regarded as being made when main approvals were made. The comprehensive processing system includes the approvals over five categories such as approvals of factory establishment, business commencement and construction, etc. (Article 17.1 of the FIPA)

→ To minimize inconvenience of foreign investors, civil applications are handled directly by authorities so that foreign investors do not have to visit every relevant government

Introduction to Foreign investment System

agency.

■ Procedures for handling civil applications



- (1) Foreign investors may request KISC to prepare and submit applications for approvals and permissions to authorities in charge of processing the applications. (Applicants may submit the applications directly to the authorities)
- (2) KISC shall transfer the applications to the mayors, the head of *gun/gu* offices together with other required documents.
- (3) KISC shall notify this matter (transferring the applications) to the Foreign Investment Promotion Office.

The Foreign Investment Promotion Office may be established in cities and provinces to actively

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

facilitate FDI, and to provide an effective assistance with respect to permissions, approvals, licenses, sanctions, designations, notifications, suggestions and agreements relating to FDI. (Article 16.1 of the FIPA)

- (4) The head of the authorities in charge of processing the applications shall consult with the head of related organizations without delay after receiving the civil applications, and the head of such organizations, if consulted, shall submit the opinions within the specified time period.
- (5) In cases where the head of related organizations disagrees with application, the head shall notify the reasons therefor, and should there be no response to the application within the time period stipulated by the FIPA, the organizations shall be regarded as having no negative opinions.
- (6) Foreign Investment Promotion Office should urge and check the processing of the applications, and if necessary, provide assistance to processing of the applications.
- (7) If applications for approvals or permissions are rejected, the reasons and specific legal bases for the rejection must be reported in writing to the foreign investors concerned. (Article 17.5 of the FIPA)

■ Items to be noted in processing the applications

- All civil applications shall be processed within specified time period, and in cases where such applications are not handled within the said time period, FDI application for approvals or permissions shall be regarded as being granted on the following day of the expiration date for the processing period. (Article 17.5 of the FIPA)
- In cases where the applied documents being incomplete, such as lacking attached documents, the head of relevant authorities may grant permission in advance on condition that such documents will be provided later. (Article 17.10 of the FIPA)
- In cases where foreign investors submit documents verifying the elimination of reasons for the rejection, thus meeting approval requirements, the head of relevant authorities shall approve the originally requested application within three days from the submission of the said documents.

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

In such case, the said head or officials shall not reject the repeat application for the same reasons as the first application. (Article 17.7 of the FIPA)

- Matters not stipulated in the FIPA or the Enforcement Decree regarding the processing of the applications of approvals or permissions shall be governed by the laws concerning the processing of civil applications. (Article 24 of the Enforcement Decree)

Application types and processing periods: Attachment 1 of the FIPA; Attachment of 2 of the Enforcement Decree

Types of Approval or Permission	Number of Approvals Required	Processing Periods
Type 1. Approvals of factory construction pursuant to Article 13 (1) of the Industrial Placement and Factory Construction Act	26 approvals in 16 individual acts	In the case where the application for approval of the Type 1 is applied: 7 days
		In the case where the all items of the application for approval of the Type 1 are under the authority of mayor or head of local districts, and where the application does not encompass modification of the zone use stipulated in the Act on the Utilization and Management of National Territory: 14 days
		Other cases including the case where the application encompasses modification of the zone use stipulated in the Act on the Utilization and Management of National Territory: 30 days

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

Type 2. Approvals of business plans pursuant to Article 21 of the Support for Small and Medium Enterprise Establishment Act	26 approvals in 14 individual acts	In the case where the application for approval of the Type 2 is applied: 7 days
		In the case where the all items of the application for approval of the Type 2 are under the authority of mayor or head of local districts, or where the application encompasses modification of the zone use stipulated in the Act on the Utilization and Management of National Territory: 14 days
		Other cases including the case where consultation with other administrative authorities is necessary: 21 days
Type 3. Permissions for construction pursuant to Article 8 of the Building Act	27 approvals in 17 individual acts	Buildings to be constructed based on basic design documents: 7 days (3 days)
		Buildings subject to inspection by city and provincial construction committees (including buildings subject to prior approval from mayor or governor): 30 days (15 days)
		Other buildings: 14 days (7 days)
Type 4. Permissions for wastewater discharge facilities pursuant to Article 10 of the Water Quality Conservation Act (Permissions for facilities of air pollutant discharge pursuant to Article 10 of the Clean Air Conservation Act in the case where there is no wastewater discharge facility)	7 approvals in 6 individual acts	7 days
Type 5. Approvals of use of building pursuant to Article 18 of the Building Act	12 approvals in 11 individual acts	In the case where the water quality testing conducted by testing institution is required: 14 days
		Other cases: 6 days

Introduction to Foreign investment System

Note:

1. () indicates the processing period for the case where a certified architect is commissioned to carry out the field survey, inspection and confirmation of construction works when permission for construction is granted.
2. In the case where inspection of environment impact by an external expert is required when granting permission, and where the processing period for such case takes less than 14 days, the processing period shall be 14 days.

■ Applications forms and required documents

- Applications for approvals of factory establishment, etc.
 - (1) A copy of business plans
 - (2) A copy of cadastral map indicating a planned site of the factory establishment
 - (3) A copy of a legal statement regarded as permission for factory establishment
 - (4) A copy of a document stating the right to use land and building (Limited to a case wherein the application for factory establishment through a use of existing building is submitted)
 - (5) A copy of a document stating FDI ratio (Limited to a case wherein the application to receive they levy reductions or exemptions for diverting the use of land)
- Applications for approvals of business plans, etc.
 - (1) A copy of business plans (Limited to a case wherein the application for approval is submitted)
 - (2) A copy of a document stating modification in the business plans and reasons (Limited to a case wherein the application for approval of the modification is submitted)
 - (3) A copy of a document described the original contents of the business plans and modified contents (Limited to a case wherein the application for approval of the

modification is submitted)

- (4) A copy of a legal statement regarded as permission for business plans
 - (5) A copy of a document stating FDI ratio (Limited to a case wherein the application to receive the levy reductions or exemptions for transfer of use in agricultural areas, etc.)
- Applications for construction permission
 - (1) A document proving the land size for building construction and the land ownership or the right to use such land
 - (2) A copy of basic blueprint of the building (including an outline of the building)
 - (3) A copy of a legal statement regarded as approval for construction permission
 - (4) A copy of the document stating FDI ratio (Limited to a case wherein the application to receive the levy exemption or reductions for transfer of use of agricultural areas, etc.)
 - Applications for approvals of installation of discharge facilities
 - (1) A copy of flow chart of operation process of facilities
 - (2) A copy of a legal statement regarded as permission for wastewater or air pollutant discharge facilities
 - Applications for approvals of building, etc.
 - (1) A copy of a report on the completion of construction supervision
 - (2) A copy of blueprint (Limited to a case required to report pursuant to Article 9 (1) of the Construction Act)

Individual processing of permits and approvals

■ Concept (Article 24.2 of the Enforcement Decree)

Civil applications required approvals and permissions may be processed by individual cases in accordance with the relevant laws.

■ Procedures

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

Same as comprehensive processing of permits and approvals necessary for investment projects

- Application scope: Attachment 2 of the FIPA, Attachment 3 of the Enforcement Decree and Attachment 1 of the Enforcement Regulation (Total 112)

D. Post FDI Management

(1) Changes in FDI company registration (Article 27 of the FIPA)

■ Reasons for changes in FDI company registration

- In cases where foreign investors acquire stocks or shares following mergers (Article 7 of the FIPA)
- In cases where foreign investors transfer stocks of FDI companies to others (Article 23.1 of the FIPA)
- In cases where the name of FDI company or its trade name are changed (Article 27.2.3 of the Enforcement Decree) or where company name or its trade name of the foreign investors owning stocks or shares of the said FDI company are changed. (Article 6 of the Enforcement Decree)
- In cases where the contents of FDI notification, such as the amount, ratio and method of investment; business to be run; or address of the company has been changed. (Article 6 of the Enforcement Decree)

■ How to apply for changes in FDI company registration

- Foreign investors shall notify such changes to the institutions accepting FDI notification within 30 days from the date of the occurrence of reasons for the changes.
- Documents to be submitted:
 - Application form of FDI company registration (application form of changes in FDI company registration)
 - Documents verifying the reasons for the changes

(2) Disposition of capital goods imported with the exemption of customs duties (Article 22 of the FIPA)

- In cases where the period of import license issued is less than five years: Prior notification is

required.

- Institutions accepting notification: Institutions accepting FDI notification
- Documents to be submitted:

Notification form for disposition of capital goods

- In cases where such period is more than five years: Notification is not required.

Capital goods can be disposed of with no particular notification.

(3) Operation of additional businesses by FDI companies

- In cases where FDI ratio is less than 10% of the FDI companies

FDI companies can additionally conduct business in all types of industry, i.e. fully open, partially open and non-open businesses without filing a notification.

- In cases where FDI ratio is 10% or more of the FDI companies (Article 29.2.1 of the Enforcement Decree)
 - Cases where additional business can be operated: Notification is not required
 - In cases where FDI companies additionally operate a business fully open to FDI
 - In cases where FDI companies additionally operate a business partially open to FDI within the allowable scope of stock acquisition
 - Cases where additional business is prohibited:
 - In cases where FDI companies operate a business partially open to FDI beyond an allowable scope
 - In cases where FDI companies additionally operate the non-open businesses

(4) Acquisition of outstanding stocks of a domestic company by FDI companies

- In cases where FDI ratio is less than 50% and where the largest shareholder of the FDI company is not a foreign investor:

Introduction to Foreign investment System

FDI companies can acquire outstanding stocks of other domestic companies.

- In cases where FDI ratio with respect to the total share amount is 50% or more, and the largest FDI company shareholder is a foreign investor. (Article 29.2.2 of the Enforcement Decree)
 - Cases where FDI companies can acquire outstanding stocks of other domestic companies
 - In cases where FDI companies acquire outstanding stocks of other domestic companies operating business open to FDI
 - In cases where FDI companies acquire outstanding stocks of other domestic companies operating business partially open to FDI within the allowable scope of criteria stipulated
 - In cases where FDI companies acquire outstanding stocks amounting to 10% or more of the total stocks of other domestic companies operating business non-open to FDI
 - In cases where FDI companies operating financing or insurance businesses, whose primary or partial business objective is to acquire stocks of other companies, acquire such stocks in accordance with the regulations of other laws
 - Cases where FDI companies are prohibited from acquiring outstanding stocks of other domestic companies
 - In cases where FDI companies acquire outstanding stocks of other domestic companies operating business partially open to FDI beyond the allowable scope of stock acquisition
 - In cases where FDI companies acquire outstanding stocks amounting to 10% or more of the total stocks of other domestic companies operating non-open businesses

(5) Notification of transfer/reduction of stocks (Article 23.1 of the FIPA, Article 30.1 of the Enforcement Decree)

■ Reasons for notification

- In cases where foreign investors transfer owned shares to others

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

- In cases where foreign investors reduce share ownership following capital reduction

- Time period for notification

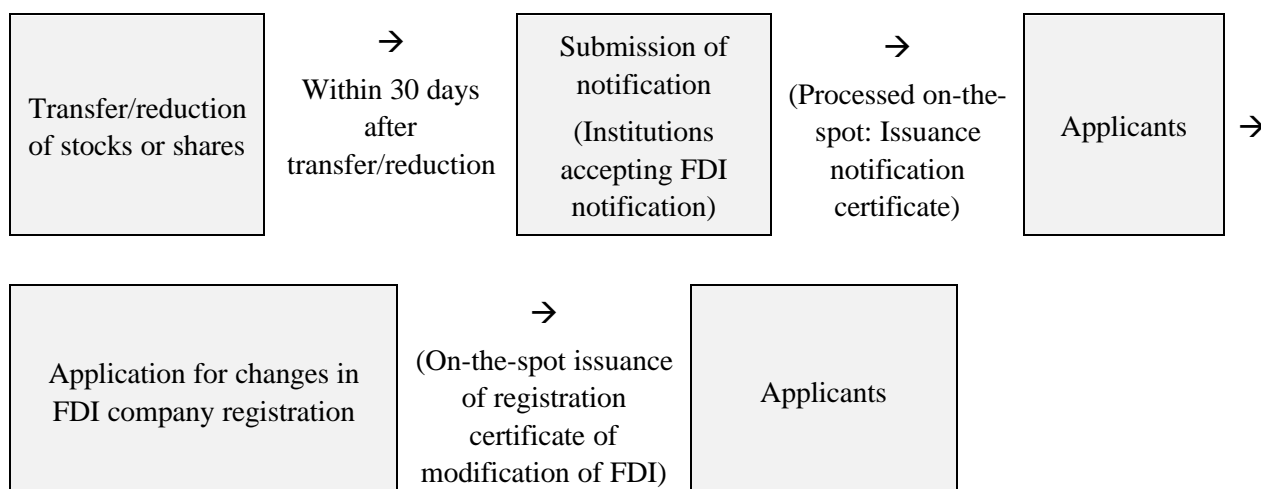
- Within 30 days from the date on which the transfer agreement is signed in cases of share transfer
- The last day of notification period for creditors pursuant to Article 439 of the Commercial Act, in cases of a reduction of capital

■ Documents to be submitted:

- Notification form for transfer or reduction of stocks or shares
- A copy of the document verifying a transfer or reduction of shares
- A copy of the certificate issued by a director of District Tax Office confirming the amount of tax paid (Only applicable when the purchaser is a foreigner)

Post FDI management

■ Notification of transfer/reduction of stocks or shares



■ Application for changes in FDI company registration



Introduction to Foreign investment System

Report on notification of transfer or decrease of outstanding stocks or shares	Application for modification in FDI company registration
<ul style="list-style-type: none">- Documents to be submitted:<ul style="list-style-type: none">• 2 copies of notification form for the transfer or reduction of stocks or shares• A copy of a document verifying a transfer or reduction of shares• A copy of a certificate issued by the National Tax Office confirming tax amounts paid or due (only if applicable)- Notification time period: Within 30 days from the date of the transfer or reduction- Institutions accepting notification: Institutions accepting FDI notification- Processing period: On-the-spot	<ul style="list-style-type: none">- Documents to be submitted:<ul style="list-style-type: none">• A copy of the application for changes in FDI company registration• A copy of a document verifying reasons for the changes- Notification period: Within 30 days from the transfer or reduction- Institutions accepting application: Institutions accepting FDI notification- Processing period: On-the-spot

4. Incentives for FDI

A. Tax Reductions or Exemptions

Tax reductions or exemptions on corporate, income, acquisition, registration, property and aggregate land taxes may be granted to FDI pursuant to the Special Tax Treatment Control Act. (Article 9 of the FIPA)

(1) Businesses eligible for tax exemptions or reductions

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

■ Businesses carrying advanced technologies or service industries supporting manufacturing sector

- 436 business sectors carrying advanced technologies and 97 service industries supporting manufacturing sector acknowledged by the Minister of Finance and Economy through consultation with the Foreign Investment Committee
- Businesses carrying advanced technologies or service industries supporting manufacturing sector shall satisfy the following requirements:
 - Technologies bringing substantial economic and technological effects on the national economy and that are critical to the advancement of industrial structures and to strengthen industrial competitiveness
 - Technologies of which the induced period is less than three years from the date of FDI notification or of technology inducement contract; or technologies of which induced period is more than three years but are evaluated as having greater economic and technological superiority than the previously induced technologies
 - Technologies of which processing of major components is mainly operated in Korea

■ Businesses located in Foreign Investment Zones (FIZ)

- Designation of FIZ

A mayor of cities and a provincial governor can designate areas desired by foreign investors for FDI as FIZ through examination of the Committee.

- Criteria of designation of FIZ
 - Installation of factory facilities for manufacturing business and for other businesses carrying advanced technologies and service industries supporting manufacturing sector, satisfying the following criteria:
 - The amount of FDI equals or exceeds US\$100 million
 - A FDI company with the FDI ratio is 50% or more, and the number of new employees is 1,000 or more
 - A FDI company with the FDI amount equals or exceeds US\$50 million, and the

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

number of new employees is 500 or more

- A FDI company with the FDI amount equals or exceeds US\$30 million, and the number of new employees is 300 or more in cases where the all or part of the completed national or regional industrial complexes are designated as FIZ

- Tourist hotel business and international convention facility business

The FDI which is newly notified by December 31, 2000, of which the amount equals or exceeds US\$30 million (Any FDI whose capital contribution of object of investment completed by December 31, 2002 will be acknowledged as FDI)

- Resort complex businesses located in Cheju Island, or in tourist resort areas designated by the Decree of MOFE (Bomun, Jungmun, Sungsanpo, Hwawon in Haenam, Gahmpo, Wolsong in Wonju, Paro in Hwachun, Kimchun Hot Springs, Bongpyung in Pyungchang, Sorak Mt., Daegwanryung)

The FDI which is newly notified by December 31, 2000, of which the amount equals or exceeds US\$50 million (Any FDI whose capital contribution of object of investment completed by December 31, 2003 will be acknowledged as FDI)

■ Businesses located in Free Export Zones (FEZ)

For reductions or exemptions for tax and lease of FEZ established under the FEZ Establishment Act shall be regarded as those of FIZ. (Article 6 of Addenda of the FIPA) Thus the companies located in FEZ enjoy the same benefits as those located in FIZ.

- Tax reductions or exemptions shall not be granted to FDI through acquisition of outstanding stocks. (Article 121 (1) 9 of the Special Tax Treatment Control Act)

However, other supports shall be continuously provided to FDI through acquisition of outstanding stocks, such as leasing public property or providing administrative support.

(2) Periods and rates of tax reductions or exemptions

Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

■ Corporate and income taxes of FDI companies (Article 121-2 (2) of such Act)

- Businesses carrying advanced technologies, service industries supporting manufacturing sector which are designated as subject to tax reductions or exemptions, and businesses located in FIZ, shall enjoy the same tax reductions or exemptions.
- Period and ratio of tax reductions/exemptions
 - For seven years from the year in which the profit is first made: 100%
 - Three years thereafter: 50%

If profit is not generated after five years from the business commencement:

 - Full exemption for seven years
 - 50% reduction for the next three years

■ Corporate and income taxes on dividends of FDI companies (Article 121-2 (3) of such Act)

Period and ratio of tax reductions or exemptions are applied same as corporate and income taxes of FDI companies.

■ Acquisition, registration, property and aggregate land taxes on buildings and land acquired by FDI companies (Article 121-2 (4) of such Act)

- Period and ratio of tax reductions/exemptions
 - For first five years from the business commencement: 100%
 - Three years thereafter: 50%

With respect to acquisition of properties made after decision on tax reduction/exemption:

 - Full exemption for five years from the date of property acquisition
 - 50% for the next three years

In cases where the local government extends the period for tax reduction/exemption up to 15 years, or increases the rates by enacting new local government regulations, such shall be followed.

■ Tax exemption/reduction for capital increase (Article 121-4 of such Act)

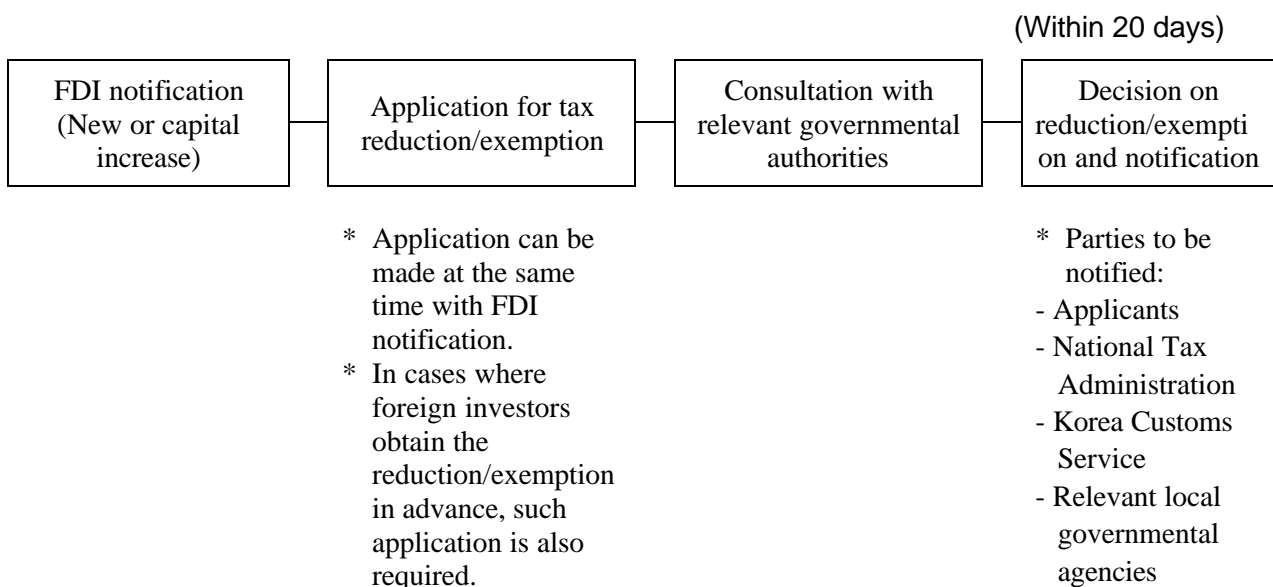
Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

- For a capital increase by FDI companies, in respect of tax reduction/exemption for such increase, same regulations as newly notified FDI shall be applied.
- For stocks which foreign investors acquire through capital transfer of reserves, asset revaluation surplus or other reserves, the reduction/exemption shall be made depending on the remainder of such reduction/exemption period and the reduction/exemption for stocks forming a bases for such accrual.
- However, in cases where after FDI companies reduce capital stock by payment on cash and then increase fresh capital within five years from the dates of capital reduction and then apply for TER, only the FDI portions of the net increased capital shall be tax exempted and or reduced.

(3) Application for tax reduction/exemption

Decision-making procedures for tax reduction/exemption



Concept of Foreign Direct Investment (FDI)

■ Application for tax reduction/exemption (Article 121-2 (6) of the Special Tax Treatment Control Act)

- Time limit
 - For newly notified FDI: No later than the closing date of the tax year in which FDI companies started its business
 - For a capital increase: The date on which it comes the second year from the date of notification of capital increase
- Prior to filing FDI notification, foreign investors shall be notified whether their business to be run is subject to tax reduction/exemption when they request to MOFE.
- Application for modified contents of tax reduction/exemption shall be made within two years from the date on which for such change occurred.
- Institution accepting application:
 - Investment Policy Division in Economic Cooperation Bureau of MOFE
 - Foreign exchange banks and KISC

■ Documents to be submitted:

- Application form for tax reduction/exemption (3 copies; provided)
- Document explaining the technologies concerned
- Document describing the products and scope of the use of services produced or provided by the technologies concerned
- Document describing production method and its procedures (Limited to manufacturing technologies)
- Document showing economic effects or technological performance: Matters concerning performance, quality and cost savings compared with equivalent or similar products
- Other documents showing that the technologies concerned are advanced technologies
 - Industrial property rights, notes of authentication, certificates proving success of examinations, data related to technology developments, past records of technologies provided to third countries.

Introduction to Foreign investment System

In cases where foreign investors make a prior request whether their business to be run is eligible for tax reduction/exemption, the above documents should be submitted.

■ Determination of tax reduction/exemption

- Processing period: Within 20 days from the filing date of the application
- The Minister of Finance and Economy shall consult with the head of local government and with the competent minister when reviewing the application for tax reduction/exemption.
 - The competent minister will be consulted whether the business concerned carries advanced technologies or is in service industry supporting manufacturing sector
 - The head of local government will be consulted in respect of tax reduction/exemption for acquisition, registration, property and aggregate land taxes under the regulations set by local government. (Article 121-2 (8) of the Special Tax treatment Control Act)
- In cases where the Minister of Finance and Economy decides to grant tax reduction/exemption, he shall notify the decision to the applicants, Commissioner of the National Tax Administration, Commissioner of the Korea Customs Service and the head of the local government.

■ Determination of tax reduction/exemption of capital increase

In cases where FDI companies file application for tax reduction/exemption by increasing its capital within five years after its substantial reduction of capital, the Minister of Finance and Economy shall make a decision on the reduction/exemption only for the ratio of FDI to net increased portion against before its capital reduction. (Article 116-6 (1) of the Special Tax Treatment Control Act)

■ Notification of business commencement

- FDI companies which have obtained a decision on tax reduction/exemption prior to business commencement shall make a report on starting business to the head of the tax office having jurisdiction over its business place within 20 days from the date of business commencement.
- The head of the tax office concerned will confirm the said business starting date and notify the head of the local government.

(4) Tax exemption for royalties regarding technology inducement (Article 121-6 of the Special Tax Treatment Control Act)

■ Scope of exemption

- In cases where Korean nationals or legal entities of Korea induce advanced foreign technologies critically needed to strengthening international competitiveness of domestic industry, corporate tax or income tax on royalties for technical license which the licensor receives according to the contract.
- Advanced technologies subject to tax exemptions shall be chosen and posted by the Minister of Finance and Economy through the review of the Committee (445 items for advanced technologies, 89 items for service industries supporting manufacturing sector: 534 items total)

■ Period of exemption: Five years from the date of the first royalty payment is made under royalty contract

■ Time limit for application: Those dates defining one year from the date contract is signed, or the dates on which the first royalty payment is made, whichever are earlier.

■ Institutions accepting application: Ministers in charge of the technologies concerned

■ Processing period: Seven days

■ Documents to be submitted:

- A copy of application for tax exemption respecting royalty payments against technology inducement
- A copy of technology inducement contract
- A certificate showing that the technologies or products have passed qualifying test by publicly certified organizations, or have been evaluated by the said organizations, together with data concerning the associated industrial property rights
- Documents proving technology development-related fund proving and technologies are advanced ones

Current system for notifying contracts on technology inducement (Article 25 of the FIPA)

- Subjects for notification: Contracts whose effective term or payment period for technology inducement equals or exceeds one year from the date of technology inducement
 - Advanced technologies subject to tax exemptions
 - Technologies concerning aircraft and spacecraft (including ground support facilities) and their components in accordance with Articles 2 (2) and (3) of the Aerospace Industry Development Promotion Act
 - Technologies concerning national defense materials in accordance with Items 1, 2, 4, 6, 7 and 10, of the Article 4 (2) of the Act on Special Measures for Defense Industry
- Institutions accepting application: Ministers in charge of the specified technologies
- Processing period: On-the-spot

However, it can be seven days in cases where application for tax exemptions is made concurrently with the notification of technology inducement

- Effective tax exemption period: A technology inducement contract shall be executed within six months from the date of notification. However, the period may be extended by approval from the Minister of Commerce, Industry and Energy.

B. Leasing National and Local Government Properties

(1) Leasing national government properties (Article 14 of the FIPA)

■ Rental period and rate:

- The rental period can be up to 50 years, and it can be renewed up to 50 years.
- Rental fees shall be calculated by multiplying the price of rented land by 1% or more

■ Exemption or reduction of rental fees

- Subject to tax exemptions/reduction: Industrial complex for FDI companies, national industrial complexes and national government land in FIZ
- Criteria and ratio
 - Businesses subject to full exemption:
 - Businesses operated by FDI companies in FIZ
 - Businesses operated by companies located in industrial complexes reserved exclusively for FDI companies with the FDI amount equals or exceeds US\$1 million concerning advanced technologies
 - Businesses subject to reduction up to 75%:
 - Manufacturing businesses located in FIZ with the FDI amount equals or exceeds US\$10 million
 - Businesses that contribute substantially to assured supply of social overhead capital, adjustment of industrial structure or financial independence of local governments, which are designated by the Minister of Commerce, Industry and Energy following the review of the Committee

Introduction to Foreign investment System

- Businesses subject to reduction up to 50%:
 - Businesses carrying advanced technologies with the FDI amount equals or exceeds US\$1 million renting national government properties in national industrial complexes
 - Manufacturing businesses with the FDI amount equals or exceeds US\$10 million

(2) Rent reduction/exemption for local government properties (Article 13 of the FIPA)

- Rental period: Up to 50 years same as national government properties
- Scope and ratio of rent

Businesses eligible for rent reduction/exemption for properties owned by local government and the rate for such reduction/exemption shall be decided by ordinances of the local government concerned.

(3) Lease and sale of national and local government properties

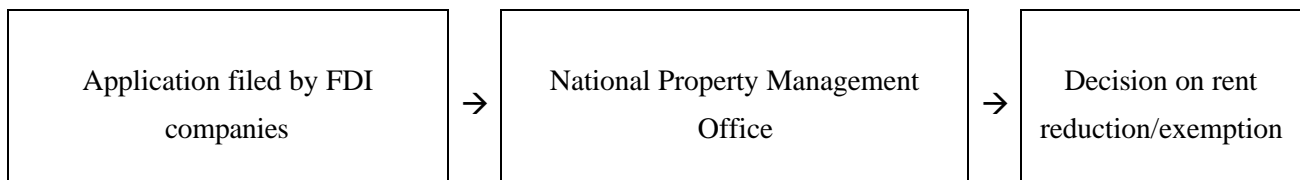
- Procedures
 - With respect to national and local government properties, land, factories and public assets, FDI companies may use, earn profits from, lease or purchase through free contracts.
 - The lease period can be up to 50 years, and FDI companies can construct facilities such as factories on the leased land on condition that the facilities are donated or returned to the national or local government after restoration to their original condition when the lease contract is terminated.
 - With respect to the sale of national or local government properties to FDI companies, the purchase price may be paid by installment in cases where lump-sum payment for the price is considered difficult to be paid by the purchaser. In this case, applied interest rate is less than 4% per annum.
- Government-owned properties: The payment may be extended up to one year, or the period for the installment payments may be allowed for 20 years.

Introduction to Foreign investment System

- Local government-owned properties: The payment period shall be extended, or installment payments must be allowed according to the ordinances of the local government concerned.

■ Procedures for rent reduction/exemption for public properties

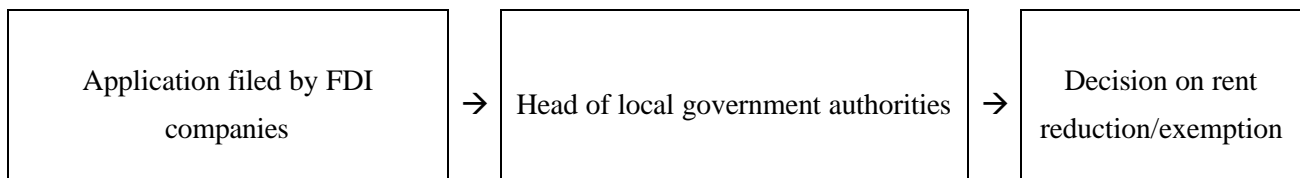
- Procedures for rent reduction/exemption application for national government properties



Documents required for application for rent reduction/exemption

- (1) Documents verifying that the business concerned is subject to rent reduction/exemption
- (2) A copy of lease contract

- Procedures for rent reduction/exemption application for local government properties



C. National Government Support for Customs Duties

Introduction to Foreign investment System

(1) Customs tax reductions/exemptions (Article 10 of the Special Tax Treatment Control Act)

■ Subjects eligible for reduction/exemption

- Imported capital goods used in businesses subject to tax reduction/exemption incentives, which apply only to the capital goods imported in accordance with notification of the acquisition of newly issued stocks
- Capital goods an FDI company receives from foreign investors as international means of payment or domestic means of payment
- Capital goods foreign investors introduce as object of investment

It shall not be applied to FDI through acquisition of outstanding stocks.

Capital goods means the following items:

- Machinery, equipment, facilities, tools, parts, accessories, livestock, seeds, trees, fish and shellfish in addition to others used as industrial facilities including ships, vehicles, airplanes, etc.
- Raw materials and spare parts which the competent Minister deems necessary for the initial test operation of the facilities. Also, freight and insurance costs incurred in the inducement of the said industrial facilities, raw materials and spare parts, along with technology or services utilized in installation or consulting with respect thereto.

■ Application time periods (Article 116-5 of the Special Tax Treatment Control Act)

- Notification of imports in accordance with the Customs Duties Act should be completed within three years from the date of FDI notification.
- However, in cases where FDI companies cannot notify imports within the above-specified time period due to unavoidable reasons, such as delays in approval for factory establishment, this time period can be extended by another three years in accordance with the approval of the Minister of Finance and Economy.

■ Applicable taxes: Customs, special excise tax, value-added tax

Introduction to Foreign investment System

- Institutions accepting application: Customs collector
- Documents to be submitted:
 - A copy of application for exemption from customs taxes
 - A copy of certified document verifying the businesses concerned is qualified for reduction/exemption of corporate taxes (Official documents posting tax reduction or exemption determination)
 - A copy of a detailed list of imported capital goods
 - A copy of document verifying that the items concerned imported as object of investment

(2) The special customs clearance regulation

- Items subject to be confirmed for the list of imported capital goods
 - Capital goods imported by FDI companies from foreign investors as international or domestic means of payment
 - Capital goods foreign investors introduce as object of investment in kind
- Procedures for confirming the list of imported capital goods

A person who seeks to import capital goods shall prepare a detailed list of the capital goods with quantity, size, price and manufacturer, and shall request to review and to confirm such list to the head of foreign exchange banks and the President of KOTRA prior to shipment. When applying, FDI companies should submit documents verifying the prices such as an offer sheet.

Procedures for customs clearance

- FDI companies shall notify the import of capital goods to a customs authority and obtain a certificate of import notification in order to take out the goods.
- Documents to be submitted in cases where capital goods are exempted from customs taxes, etc.
 - Application form
 - Document verifying the business is subject to tax reduction/exemption
 - Document verifying the capital goods imported from foreign investors as international or domestic means of payment, or capital goods imported by foreign investor as object

of investment

- Certificate confirming the list of imported capital goods
- Other basic documents to be submitted when going through customs (e.g. invoices, B/L, certificates showing prices, various documents required by consolidated government postings, etc.)

Capital goods not subject to customs tax exemption may be exempted from value-added tax only when business registration is filed prior to import of capital goods.

When capital goods are imported as object of investment, it is required to complete business registration to the District Tax Office prior to the import of capital goods in order to get exemption on value-added tax.

(3) Confirmation on the completion of FDI in kind

■ Confirmation on the completion of FDI in kind (Article 30 of the FIPA)

- With respect to capital goods (FDI in kind) as object of investment, foreign investors should apply for a certificate of confirmation on the completion of FDI in kind issued by Customs Service official seconded to KISC after customs clearance.
- In cases where foreign investors contribute investment in kind, a certificate confirming the completion of FDI in kind with regard to types, quantities, prices, shall be regarded as an inspection report carried out by inspectors as stipulated under Article 203 of the Non-Contentious Case Litigation Procedure Act, notwithstanding Article 299 of the Commercial Act.
- Application for certificate of confirmation on the completion of FDI in kind shall be made when the last shipment of the capital goods is made through customs, in cases where the capital goods concerned pass through customs in many shipments. Documents to be submitted are application form and a copy of certificate confirming import. It will be processed on-the-spot.
- Upon the filing of a confirmation on completion of FDI in kind, the Commissioner of Korea Customs Service shall immediately report the matter to the Governor of the Bank of Korea.

■ Registration of capital and FDI companies

When FDI companies complete the import of capital goods (FDI in kind) as object of investment,

Introduction to Foreign investment System

the FDI companies are issued a certificate confirming the completion of FDI in kind, and they submit it when registering the company at the Korea Court Registry, and when registering their company to the head of foreign exchange banks or the President of KOTRA.

(4) Disposition of capital goods (Article 22 of the FIPA; Article 29 of the Enforcement Decree)

■ In cases where disposition of capital goods is restricted:

- In cases where FDI companies transfer, lease or use imported capital goods granted customs tax exemption for other purposes other than notified, the FDI companies should submit a notification in advance to the head of foreign exchange banks or the President of KOTRA, and the companies should be issued a certificate accepting notification.

However, imported capital goods granted customs tax exemptions can be disposed of or used after five years the import declaration has been accepted.

- When FDI companies do not submit notification for the disposition of capital goods, they shall be punished by an imprisonment for five years or less, or by a fine of 50 million Korean won. (Article 33 of the FIPA)

■ In cases where customs taxes are additionally collected:

- Where FDI company registration is cancelled, or where FDI companies close down its business: To collect additionally tax amount reduced or exempted within three years (five years for special excise tax and value-added tax) retroactive from the date of the cancellation or closedown. (Article 116-8 (1) 1 of the Special Tax Treatment Control Act)
- Where imported capital goods are used or disposed of for any purpose other than as notified: To collect additionally tax amount reduced or exempted within three years (five years for special excise tax and value-added tax) from the date of import declaration. (Article 116-8 (2) 2 of such Act)
- Where foreign investors transfer stocks acquired pursuant to the FIPA to Korean nationals or legal entities of Korea: To collect additionally tax amount reduced or exempted within three years from the first day of the taxable year in which profit is first made from the business or the taxable year in which it becomes the fifth year from the date of business commencement,

whichever comes earlier. (Article 116-7 (1) 4 of such Act)

- In cases where the price of the capital goods is decreased because such goods have been deteriorated or damaged, reductions or exemptions corresponding to the reduced price may be applied when calculating additional tax collection.
- In cases where additional customs tax is exempted: (Article 121-5 (5) of such Act)
 - Where FDI company registration is cancelled for being dissolved due to mergers
 - Where capital goods in use after being imported with their customs duties exempted are used or disposed of for any purpose other than their original one on approval by the Minister of Finance and Economy as they were unable to be used for their original purpose due to the existence of a national disaster, *force majeure* or any other cause beyond control or any depreciation, technological progress or other changes in economic conditions
 - Where FDI companies transfer stocks to Korean nationals or legal entities of Korea in order to make it go public pursuant to the securities and Exchange Act
 - Where the purpose of tax reduction or exemption other than those listed is deemed to have been achieved as determined by the Enforcement Decree

D. Other Supports and Regulations

- In cases where FDI companies divert or change agricultural land or forest conservation areas for the purpose of establishing factories, such companies may enjoy levy reduction/exemption for diverting the use of land. The scope of the FDI companies qualified for such reduction/exemption as well as the ratio thereof shall be determined by the Enforcement Decree. (Article 17.12 of the FIPA)
- FDI companies may allot dividends by or with newly issued stocks up to the amount equivalent to the total amount of the dividends determined by the special resolution pursuant to Article 434 of the Commercial Act notwithstanding Article 462-2 (1) of the same Act prohibiting share

dividends from exceeding 1/2 of the total profits. (Article 30 (2) of the FIPA)

- In cases where technology evaluation institutions stipulated by the Enforcement Decree evaluates the price of industrial property rights invested as object of investment, such evaluation shall be regarded as appraised by certified evaluators pursuant to Article 299-2 of the Commercial Act. (Article 30.4 of the FIPA)

5. Foreign Investment Zone (FIZ)

A. Designation and Development of FIZ

(1) Criteria of FIZ designation

Businesses	Designation Criteria
Manufacturing business; businesses carrying advanced technologies; service industries supporting	<p style="text-align: center;"><Newly developed FIZ></p> <ul style="list-style-type: none">• Where FDI amount is US\$100 million or more• Where FDI ratio is 50% or more, and the number of new permanent

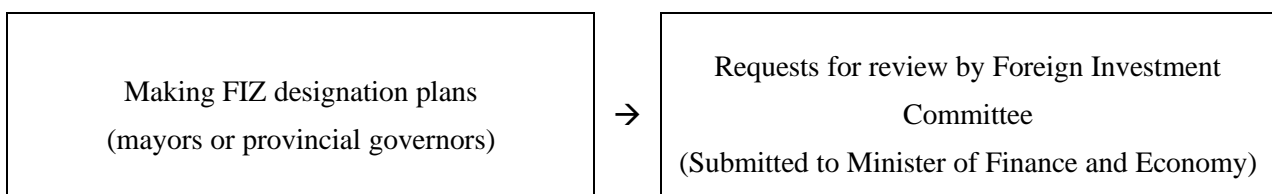
Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)

manufacturing sector	<p>employees is 1,000 or more</p> <ul style="list-style-type: none"> Where FDI amount is US\$50 million or more, and the number of new permanent employees is 500 or more <p style="text-align: center;"><Where existing industrial complexes are designated as FIZ></p> <ul style="list-style-type: none"> In cases where all or part of existing national or regional industrial complexes is designated as FIZ, FDI amount is US\$30 million or more, and the number of new permanent employees is 300 or more.
Tourist businesses	<ul style="list-style-type: none"> Tourist hotel businesses, international conference facility businesses As FDI newly notified by December 31, 2000, whose amount shall equal or exceed US\$30 million. (FDI whose capital contribution shall be completed by December 31, 2002 will be acknowledged as new FDI) Resort complex businesses As newly notified FDI by December 31, 2000, whose amount shall equal or exceed US\$50 million in Cheju Island or within tourist areas under Article 23 of the Tourism Promotion Act. (FDI whose capital contribution shall be completed by December 31, 2003 will be acknowledged as new FDI)

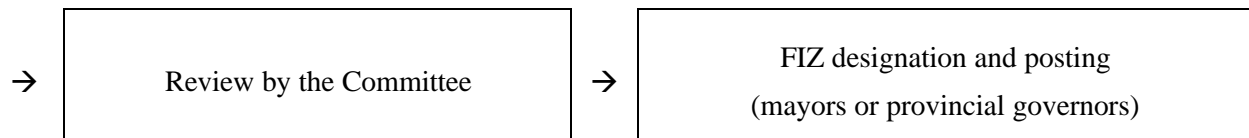
(2) FIZ designation

- Mayors or provincial governors can designate areas desired by foreign investors for investment as FIZ through the examination of the Committee.
- Designation procedures



Introduction to Foreign investment System

Concept of Foreign Direct Investment (FDI)



(3) FIZ development and management

- In principle, FIZ shall be developed and managed by mayors or provincial governors who have jurisdiction over the FIZ.
- However, in cases where national or regional industrial complexes are partially or totally designated as FIZ, the organization that had been managing the affairs relating to the FIZ concerned will be in charge of administration of FIZ. (Article 18.3 of the FIPA)

(4) Cancellation of designation

- In cases where FDI companies housed in FIZ fail to satisfy the FIZ designation criteria, mayors and governors may demand such companies satisfy the criteria within the certain time period not exceeding six months. (Article 25.6 of the Enforcement Decree)
- However, if it is deemed that unavoidable reasons are acknowledged to exist, the mayors or governors may extend corrective period once only within the period not exceeding the original requested period.
- In cases where FDI companies do not comply with the request within the settled period, the mayors or provincial governors concerned may cancel the FIZ designation through review of the Committee.

B. Support for FIZ

(1) Tax reductions or exemptions

- The reduction/exemption shall be applied to all FDI companies located in FIZ.
 - National taxes (corporate and income taxes): 100% for seven years; 50% for next three years
 - Local taxes (acquisition, registration, property and aggregate land taxes): Reduced/exempted for 8-15 years

Introduction to Foreign investment System

(2) Other exemptions or reductions (Article 19 of the FIPA)

- Full exemption on rents for national properties in FIZ
- Exemption on the traffic inducement fee for construction of facilities in FIZ
- Support for medical, educational and housing facilities in FIZ shall be determined by the Committee

(3) Governmental support for FIZ development

- The development of FIZ shall be supported *mutatis mutandis* concerning construction costs and basic facilities in accordance with criteria of national industrial complexes.

Items of governmental support concerning national industrial complexes (Articles 28 and 29 of the Industrial Sites and Development Act)

- Costs for construction of basic facilities such as roads, water and sewage facilities, and costs of purchasing the land will be supported by up to 50% of the total costs.
- Facilities such as harbors, roads, water facilities, railroads, communications and electricity facilities will be preferentially supported.
- The various taxes and fees imposed on developers of industrial complex projects shall be reduced or exempted.
- Exemptions or reductions on transfer income tax, acquisition and registration taxes

(4) Exclusion of application of other laws

- In cases where land is divided within FIZ, the required approvals from relevant mayors, the head of local districts (*Gun/Gu* offices) shall be waived.
- FDI companies within FIZ shall be excluded from application of restrictions on participation in business peculiar to small and medium sized enterprises, obligations to commission production of designated systemized items to small and medium sized enterprises, obligations to hire persons deemed of merit to the country.

Concept of Foreign Direct Investment (FDI)

Exemptions from obligations to hire persons deemed of merit to the country shall be temporary, until December 31, 2003.

(5) Interim measures on FEZ (Article 6 of Addenda of the FIPA)

Free Export Zone shall be regarded as FIZ respecting the reduction or exemption for tax and lease

However, for tax reductions or exemptions already granted in accordance with the Foreign Direct Investment and Foreign Capital Inducement Act before the FIPA becomes effective, the regulations of the Foreign Direct Investment and Foreign Capital Inducement shall apply.

**Introduction to
Foreign Direct Investment System**

APPENDIX

(FDI Notification and Application Form)

[Form No. 1]

Foreign Investment Notification Form for the Acquisition of Newly Issued Stock

[Form No. 2]

Notification Form of a Change in Content of Foreign Investment in regards to the Acquisition of Newly Issued Stock

[Form No. 3]

Foreign Investment Notification Form/Authorization Application Form for the Acquisition of Outstanding Stock

[Form No. 4]

Notification Form/Authority Application Form for a Change in Content of Foreign Investment in regards to the Acquisition of Outstanding Stock

[Form No. 5]

Notification Form for Stock or Share Acquisition

[Form No. 6]

Notification Form/Change in Content Form of a Foreign Investment Made in the Form of a Long-term Loan

[Form No. 22]

Notification Form for the Transfer/Reduction of Stock or Shares

[Form No. 80]

Application Form for Tax Reduction or Exemption/Application Form in regards to a Change in Content of Tax Reduction or Exemption

[Form No. 81]

Application Form for Prior Checking of Tax Reduction or Exemption

[Form No. 83]

Application Form for Exemption from Customs Duty, Special Consumption Tax and Value-added Tax

〈Front Side〉

[Form No 1]

Foreign Investment Notification Form for the Acquisition of Newly Issued stock						Foreign investment	
						Term of Completion	
						Immediate	
Foreign Investor	①Name				③Nationality		
	②Address						
Domestic Investor	④Name						
Foreign Invested Enterprise	⑤Name				⑥Capital	Before the Acquisition Won	
				After the Acquisition. Won			
	⑦Business Registration Number						
	⑧Address (factory location)						
	⑨Business of Intent						
		※in Korean standard industrial classification code no.		(will be provided by the Delegated Agency)			
⑩Previous Foreign Investment Amount and Percentage		Won, %					
⑪Present Foreign Investment Amount and Percentage		Won (USD), %					
⑫Method of Investment	Cash Amount	Won (USD)			Intellect-Property-Rights	Won (USD)	
	Capital in Kind	Won (USD)					
⑬Content of Stock (Shares) to be Acquired	Type (Classification)		Face value per stock		Acquisition Price per Stock		
	Quantity (Amount)		Total Amount of face Value of Stock		Total Acquisition Price		
⑭Foreign Investment Amount and Percentage after Acquisition		Won (USD), %					
In accordance with regulations in Article 5, Paragraph 1, of the Foreign Investment Promotion Act, the above is notified							
Applicant (or Power of Attorney)		Year	Month	day	(Signature or Seal)		
Delegated Authority				(Telephone No)		
For the Applicant Notification No The above notification is confirmed <div style="text-align: right;"> Year Month Day Delegated Authority </div> <div style="text-align: right; border: 1px solid black; padding: 2px; display: inline-block;"> Official Seal </div>							

Processing Fee
Exempt
<p style="text-align: center;"><u>Required Document</u></p> <ol style="list-style-type: none"> 1 A copy of a document providing proof of the monetary value of an Intellectual Property Right evaluated by a technology evaluation authority stipulated in Article 39, Paragraph 2, of the Enforcement Decree (Only in the event of the application of Article 2, Paragraph 1, Item 7, Sub-Item "Ra", of the Foreign Investment Promotion Act) 2 A copy of a document providing proof of the remaining property after liquidation of a branch or representative office (Only in the event of the application of Article 2, Paragraph 1, Item 7, Sub-Item "Ma", of the Foreign Investment Promotion Act) 3 A copy of a document providing proof of the reimbursement amount of a type of an overseas loan (Only in the event of the application of Article 2, Paragraph 1, Item 7, Sub-Item "Ba", of the Foreign Investment Promotion Act) 4 A copy of a document providing proof of the exercise of material influence over the management of the concerned legal person or enterprise by a foreign national (Only in the event of the application of Article 2, Paragraph 2, Item 2, of the Enforcement Decree) 5 A copy of a document providing proof of the amount received through the sale of stock or real estate (Only in the event of the application of Article 2, Paragraph 4, of the Enforcement Decree)

[Form No 2]

				Foreign Investment	
Notification Form of a Change in Content of Foreign Investment in regards to the Acquisition of Newly Issued Stock				Term of Completion	
				Immediate	
Content of Foreign - Investment Notified prior to Change	①Date of Notification	Year	Month	Day	
	②Name of Foreign Investor		③Nationality		
	④Amount of Foreign Investment and Percentage	Won (USD), %			
	⑤Method of Investment				
	⑥Business of intent				
	⑦Address of Foreign Invested Enterprise				
	Change of Content	⑧Content Previously Notified		⑨Content after Change	
In accordance with regulations in Article 5, Paragraph 1, of the Foreign Investment Promotion Act, the above is notified					
<div style="text-align: right;">Year Month Day</div> <div style="text-align: center;">Applicant (Signature or Seal)</div> <div style="text-align: center;">(or Power of Attorney) (Telephone No)</div> <div style="text-align: center;">For the Delegated Authority</div>					
For the Applicant Notification Number The above notification is confirmed <div style="text-align: right;">Year Month Day</div> <div style="text-align: right;">Delegated Authority.</div> <div style="border: 1px solid black; padding: 2px; display: inline-block;">Official Seal</div>					
Required Document				Processing Fee	
				Exempt	
A copy of a document providing proof of the exercise of material influence over the management of the concerned legal person or enterprise by a foreign national (Only in the event of the application of Article 2, Paragraph 2, Item 2 of the Enforcement Decree)					

Appendix

[Form No. 3]

Foreign Investment						Foreign Investment		
<div><input type="checkbox"/> Notification Form</div> <div><input type="checkbox"/> Authorization Application Form</div>						Term of Completion		
						Notification : Immediate Authorization : 15 days		
Enterprise of Stock Issuance	①Name		②Business Registration No.					
	③Address							
	④Factory location		(Telephone No. :)					
	⑤Present Business		⑥Capital					
	*in Korean Standard Industrial Classification code no.					(will be provided by the Delegated Authority)		
⑦Previous Foreign Investment Amount and Percentage			Won (USD), %					
⑧Acquire of stock (shares)		Name		⑨Nationality				
⑩Seller of Stock (shares)		Name						
⑪Present Foreign Investment Amount and Percentage			Won (USD), %					
⑫Content of Stock (shares) to be Acquired	Type	Face value per Stock		Acquisition Price per Stock				
	Quantity	Total Amount of Face Value Stock		Total Acquisition Price				
⑬Foreign Investment Amount and Percentage after the Acquisition			Won(USD), %					
In accordance with regulations in Article 6, Paragraph 1, and Paragraph 3, of the Foreign Investment Promotion Act, the above is notified.								
Year Month Day								
Applicant (Signature or Seal) (or Power of Attorney) (Telephone No. :)								
For the Delegated Authority (or the Minister of Commerce, Industry and Energy)								
For the Applicant								
Notification (Authorization) No : The above notification (authorization) is confirmed. Authorization Condition : Year Month Day Delegated Authority (or The Minister of Commerce, Industry and Energy) : <table border="1"><tr><td>Official Seal</td></tr></table>								Official Seal
Official Seal								
Required Documents						Processing Fee		
						Exempt		
1.A copy of a document in relation to regulations in Article 2, Paragraph 1, Item 2 to Item 5, of the Working Rules 2.In the event there are more than two recipients of the stock, a copy of a document of proof must be provided to prove the status of a specially related person								

[Form No. 4]

		Foreign Investment	
<input type="checkbox"/> Notification Form <input type="checkbox"/> Authority Application Form		for a change in Content of Foreign Investment in regards to the Acquisition of Out-standing Stock	
		Term of Completion	
		Notification : Immediate	
		Authority Application: 15 days	
① Date of Notification (Authorization) of stock Acquisition		Year	Month Day
② Name of Foreign Investor		(Telephone No. : -)	
③ Name of Enterprise Issuing Stock			
Change of Content	④ Content Previously Notified (Authorized)		⑤ Content After Change
<p>In accordance with regulations in Article 6, Paragraph 1 and Paragraph 3 of the Foreign Investment Promotion Act, the above is notified.</p> <p style="text-align: center;">Year Month Day</p> <p style="text-align: center;">Applicant (Signature or Seal) (or Power of Attorney) (Telephone No. :)</p> <p>For the Delegated Authority (or The Minister of Commerce, Industry and Energy) :</p>			
<p>For the Applicant</p> <p>Notification (Authorization) No. :</p> <p>The above notification is confirmed.</p> <p style="text-align: center;">Year Month Day</p> <p>Delegated Authority (or The Minister of Commerce, Industry and Energy) : Official Seal</p>			
<u>Required Document</u>		Processing Fee	
		Exempt	
<p>1. A copy of a document providing proof of the exercise of material influence over the management of the concerned legal person or enterprise by a foreign national. (Only in the event of the application of Article 2, Paragraph 2, Item 2 of the Enforcement Decree)</p> <p>2. In the event there are more than two recipients of the stock, a copy of a document of proof must be provided to prove the status of a specially related person</p>			

Appendix

[Form No. 5]

Notification Form for Stock or Share Acquisition						Foreign Investment	
						Term of Completion	
						Immediate	
Foreign Invested Enterprise	①Name				②Business Registration No.		
	③Address (factory location)				④Capital		Before the Acquisition: Won
	⑤Present Business						After the Acquisition: Won
	※ Korea Standard Industrial Classification Code No.				(will be provide by the Delegated Authority)		
Foreign Investor	⑥Name				⑦Nationality		
	⑧Address						
⑨Previous Foreign Investment Amount and Percentage			Won (USD), %				
Content of Stock (Share) to be Acquired	⑩Type	⑪Quantity	⑫Face Value per Stock	⑬Total Amount of Face Value of Stock	⑭Acquisition Price per Stock	⑮Total Acquisition Price	
16)Basis of Acquisition							
17)The Total Quantity of Stock (Shares) owned, Amount of Foreign Investment, and Foreign Invested Percentage after the Acquisition				Shares, Won, %			
In accordance with regulations in Article 7, Paragraph 1, of the Foreign Investment Promotion Act, the above is notified.							
Year Month Day Applicant (Signature or Seal) (or Power of Attorney) (Telephone No. :) For the Delegated Authority							
For the Applicant Notification No. : The above notification is confirmed. Year Month Day Delegated Authority Official Seal							
Required Documents						Processing Fee	
						Exempt	
1.A copy of a document providing the acquisition of stocks or shares 2.A copy of a document providing proof of the exercise of material influence over the management of the legal person or enterprise concerned by a foreign national. (Only in the event of the application of Article 2, Paragraph 2, Item 2 of the Enforcement Decree)							

[Form No. 6]

<input type="checkbox"/> Notification Form of a Foreign Investment made in the Form of a <input type="checkbox"/> Change in Content Form Long-Term Loan						Foreign Investment Term of Completion Immediate
Debtor	① Name					
	② Address		(Telephone No. :)			
Lender	③ Name		④ Nationality			
	⑤ Address					
Content of the Loan	⑥ Amount of the Loan		(USD)			
	Loan Condition	⑦ Grace Period	⑧ Repayment Schedule			
		⑨ Rate of Interest	⑩ Others			
⑪ Method of Loan	Cash Amount		Capital		Other Methods	
⑫ Purpose of Loan						
* ⑬ Change of Content	Previously Notified Content			Content After Change		
In accordance with regulations in Article 8, Paragraph 1, of the Foreign Investment Promotion Act, the above is notified.						
Year Month Day Applicant (Signature or Seal) (or Power of Attorney) (Telephone No. :)						
For the Delegated Authority						
For the Applicant Notification No. : The above notification is confirmed.						
Year Month Day Delegated Authority :						
<div style="display: flex; justify-content: space-between; align-items: center;"> <div>Required Document</div> <div style="border: 1px solid black; padding: 2px;"> Processing Fee Exempt </div> </div>						
(In case of notification) 1. A copy of a document certifying the identity of the overseas parent company or enterprise which has capital affiliation with the parent company 2. A copy of the loan agreement contract						
(In case of a change in content of notification) 1. A copy of a document certifying the identity of the overseas parent company or enterprise which has capital affiliation with the parent company (Only in case of change in lender) 2. A copy of the changed loan agreement contract						

* ⑬: Only applies to those applicants filling out a Change in Content Form.

Appendix

[Form No. 22]

Notification Form for the <input type="checkbox"/> Transfer <input type="checkbox"/> Reduction of Stock or Shares							Foreign Investment	
							Term of Processing	
							Immediate	
Foreign Invested Enterprise	①Name				②Business Registration No. (Telephone No.)		()	
	③Address				④Capital before the Transfer or Reduction			
⑤Transferrer(Reducer)						⑥Nationality		
⑦Transferee (applicable only where the transferee is a foreign national)						⑧Nationality		
Content of Stocks (Shares) to be Transferred (reduced)	⑨Quantity	⑩Face Value per Stock (Shares)	⑪Total Amount of Face Value of Stock (Shares)	⑫Transfer Price per (Shares)	⑬Total Transfer Amount of stock (Shares)			
⑭The quantity, monetary worth and percentage the Foreign Investor shall possess, in terms of (stock) shares, after the transfer or reduction		Shares Won, %						
⑮Others								
In accordance with Regulations in the Article 23, Paragraph 1, of the Foreign Investment Promotion Act, the above is notified.								
<div style="display: flex; justify-content: space-between;"> <div> Year Month Day Applicant (or Power of Attorney) For the Minister of Commerce, Industry and Energy (or Delegated Authority) </div> <div> (Signature or Seal) (Telephone No. :) </div> </div>								
For the Applicant Notification No : The above notification is confirmed. <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div> Year Month Day The Minister of Commerce, Industry and Energy : (or Delegated Authority) </div> <div style="border: 1px solid black; padding: 2px;"> Official Seal </div> </div>								
							Processing Fee	
							Exempt	
<p style="text-align: center;"><u>Required Document</u></p> <ol style="list-style-type: none"> 1. A copy of a document certifying the transfer or reduction of stock (shares) 2. A copy of a statement issued by a Director of District Tax Office concerned confirming the amount of the tax paid (or to be paid). (Only applicable when the Transferee is a foreigner) 								

[Form No.80]

						Foreign Investment	
<input type="checkbox"/> Application Form for Tax Reduction or Exemption						Term of Processing	
<input type="checkbox"/> Application Form in regards to a Change in Content of Tax Reduction or Exemption						20 Days	
Foreign Investor		①Name				②Nationality	
③Name of the Foreign Invested Enterprise				④Business Registration No.			
Content of Foreign Investment	⑤Date of Notification						
	⑥Business of Notification						
	⑦Foreign investment amount and percentage			Won (USD), %			
⑧Method of Investment	Cash Amount	Won (USD)	Capital in Kind	Won (USD)	Intellectual Property Right, etc.	Won (USD)	
⑨ Factory Location							
⑩Type	<input type="checkbox"/> New Investment <input type="checkbox"/> Additional Investment			⑪The initial date of business operation			
Content of Application for Tax Reduction or Exemption	⑫Type of Tax		<input type="checkbox"/> Corporate or Income Tax of a Foreign Invested Enterprise <input type="checkbox"/> Corporate or Income Tax on Dividends <input type="checkbox"/> Acquisition Tax, Registration Tax, Property Tax, Aggregate Land Tax				
	⑬Legal Basis		Pursuant to Article 9, Paragraph 1, Item () of the Foreign Investment Promotion Act				
⑭Reason for Tax Reduction or Exemption							
※⑮Change of Content	Content of decision previously received for Tax Reduction or Exemption			Content of application for change in previous Tax Reduction or Exemption decision			
In accordance with Paragraph 6 of Article 121-2 of the Special Tax Treatment Control law, tjis application is summited by the undersigned.							
Year Month Day							
Applicant (Signature or Seal)							
(or Power of Attorney) (Telephone No :)							
To the Minister of Finance and Economy							
Required Documents						Processing Fee	
						Exempt	
A Copy of document certifying or explaining the reason for tax reduction (exemption) a change in content of tax reduction or exemption							

※⑮ : Only applies to those applicants filing out an Application Form in regards to a Change in Content of Tax Reduction or Exemption.

22225-04411Civil-Affair Form
Approved. 98.11.

210mm×297mm
(Standard Paper 60g/m²(Recycled Paper))

[Form No. 81]

				Foreign Investment	
Application Form for Prior Checking of Tax Reduction or Exemption				Term of Processing	
				20Days	
Applicant	①Name			②Nationality	
	③Address	(Telephone No. :)			
Content of Application	④Business of Intent				
	⑤Location				
	⑥Type of tax		<input type="checkbox"/> Corporate or Income Tax of a Foreign Invested Enterprise <input type="checkbox"/> Corporate or Income Tax on Dividends <input type="checkbox"/> Acquisition tax, Registration Tax, Property Tax, Aggregate Land Tax		
⑦Reason for Tax Reduction or Exemption					
<p>In accordance with Paragraph 7 of Article 121-2 of the Special Tax Treatment Control Law, this application is submitted by the undersigned.</p> <p>Year Month Day</p> <p>Applicant (Signature or Seal) (or Power of Attorney) (Telephone No. :)</p> <p>To the Minister of Finance and Economy</p>					
<u>Required Documents</u>				Processing Fee	
				Exempt	
A copy of a document certifying the transfer or reduction					

[Form No. 83]

							Foreign Investment	
Application Form for Exemption from Customs Duty, Special Consumption Tax, and Value Added Tax							Term of Processing	
							3 Days	
①Name of Foreign Investor				②Nationality				
Foreign Invested Enterprise	③Date of Notification				④Date of Decision for Tax Reduction or Exemption (Related document No.)			
	⑤Name							
	⑥Location of Institution for Induced Capital Goods							
⑦Specification of Induced Capital Goods		HSK classification No.	Item	Dimensions	Quantity	Producer	Price	
<p>In accordance with Paragraph 2 of Article 121-3 of the Special Tax Treatment Control Law, this application is submitted by the undersigned.</p> <p style="text-align: center;">Year Month Day</p> <p style="text-align: center;">Applicant (Signature or Seal) (or Power of Attorney) (Telephone No. :)</p> <p>For the Director of the Customs Office</p>								
							Processing Fee	
							Exempt	
<u>Required document</u>								
<p>1. A copy of a document certifying that the project concerned is eligible for an exemption or reduction of the income tax, etc., under Paragraph 1 of Article 121-2 of the Special Tax Treatment Control Law</p> <p>2. A copy a of a document certifying that the capital goods concerned fall under the description stipulated in each of the items of Paragraph 1 of Article 121-3 of the Special Tax Treatment Control Law</p> <p>3. A copy of a specification of the imported goods, including capital goods certified in accordance with Paragraph 2 of Article 38 of the Decree of Foreign Investment Promotion Act.</p>								