Korea’s New Trade and Outward FDI Policies: Facilitating the Presence of Korean SMEs in Regional and Global Markets

July, 2007

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Recent Developments in Korea’s Trade and FDI Policies
Developments in Korea’s Trade Liberalization Policy

Five measures of trade liberalization

- Reduction of tariff barriers
- Elimination of quantitative restrictions
  Major items: live cattle and beef products
- Prohibition of trade-related subsidies
- Enhancement of transparency in import certification procedures
  Customs services, IT-based clearance system, a new audit system
- Establishment of FTAs
Inward Investment Liberalization Policy

- After the financial crisis of 1997, extensive government liberalization of FDI.

- Full liberalization of the real estate sector
- Allowance of hostile M&As by foreign companies
- Simplification of the FDI approval process
  - Procedures revised from a process of report and approval to notification.
- Simplification of administrative procedures
  - Establishment of INVEST KOREA (IK), a one-stop agency for foreign investors, and the Office of the Investment Ombudsman
- Expanding the range of incentives available to foreign investors
  - Tax exemptions and reductions, reduction of rental fees on government-owned factory sites and a range of subsidies
Korea’s Current Support Policy for OFDI

- **Loan programs**
  - Loan program under the Export-Import Bank of Korea to finance OFDI: up to 80% of the total OFDI amount
  - Loan program under the International Economic Cooperation Fund initiated by the Korean government: applicable to OFDI in developing countries with long-term return periods

- **Information provisions**
  - Agencies: Export-Import Bank of Korea and the Korea Trade and Investment Promotion Agency

- **Reduction of non-commercial risks**
  - Korean Export Insurance Corporation offers export insurance to investors to reduce non-commercial risks, such as losses from war, nationalization, etc.
  - Korean government signed *Investment Protection Agreements* with more than 80 countries, and tax treaties with more than 70 countries
Overview of Korea’s Support Policy to Increase Global SME Presence
Overview of Korea’s Support Policy to Increase Global SME Presence

- Among the 1501 support programs in Spi1357 (a policy information system for SMEs operated by the Small and Medium Business Administration), 537 projects (36%) were related to market expansion and exports.

- The purpose of the system is to improve export competitiveness and increase exports by supplying market information, funds, human resources and infrastructure.

Policy Measures to Increase Global SME Presence

- Financial support programs
- Capacity building programs
- On-site facilitation programs
Policy Measures to Increase Global SME Presence (1)

- **Financial support programs**

  - **Loan programs**: 「Trade Finance Banks」, 「Korea EXIM Bank's Special Export Credit Loan for SMEs」, 「Support Loans from the KITA Trade Fund」, 「Direct Loans for Export Financing by the Small Business Corporation」

  - **Insurance programs**: Exchange rate fluctuation insurance, Export credit guarantee by the Korea Export Insurance Corporation
Policy Measures to Increase Global SME Presence (2)

- **Capacity building programs**
  - **Trade promotion delegation**: Support participation in overseas exhibitions in order to tap into technology trends and information.
  - **Consultation services by consulting firms in foreign countries**: Supplement the lack of local information that SMEs face and assist in the successful expansion of businesses. Facilitate business networks, export marketing, local investments, technical cooperation, attracting capital, overseas marketing.
  - **Global brand program**: Support brand strategy consultations, development of brands, consultation by overseas marketing agencies, naming, design, and overseas marketing.
  - **Fostering Specialists to Expand Overseas Markets**: Developing trade specialists by selecting qualified workers with language proficiency in SMEs, educating trade business practices, and dispatching them to local countries.
  - **Support in Attaining International Standards**: Assist SMEs in improving reliability and exports by bearing a portion of the costs related to acquiring international standard certificates.
Policy Measures to Increase Global SME Presence (3)

- **On-site Facilitation Programs**
  
  - **Branch Programs**: support marketing and export-related activities through KOTRA employees in local areas (operated by KOTRA)
  
  - **Korea Business Development Center Programs (KBDC)**: relocate 10-20 export SMEs to each respective KBDC and support local marketing and export activities (by the Small Business Corporation)
  
  - **I-Park Program**: similar to KBDC, but subject firms are limited to IT companies, and overseas bases are located in only six areas, including Beijing, Tokyo, Shanghai, Silicon Valley, Boston, and London (operated by the Korea Software Industry Promotion Agency)
Best Practices in Supporting the Global Presence of Korean SMEs: Win-Win Programs for Korea and Host Countries
Korea Business Development Center

- **Operating Agency:** Small Business Corporation (SBC)

- **Main Contents**
  - Move 10-20 exporting SMEs into KBDCs located in major cities and support the local business activities of Korean SMEs.
  - KBDCs are now established in 16 major export bases, including Beijing, Frankfurt, Ho Chi Min, Shanghai, Tokyo, Singapore, New Delhi, New York, LA and Dubai.
  - KBDCs provide management support offices and support services, such as marketing, legal, and accounting services.
  - Marketing services are mainly provided by local marketing consultants.
  - Each SME can stay in a KBDC for a maximum of up to 3 years.
  - Most SMEs after leaving KBDCs establish branches or subsidiaries in local markets: *Beneficial not only for Korean SME businesses, but also for the economic development of host countries (through Korean SME investments)*
**Industrial Cooperation Consultants**

- **Operating Agency:** Small Business Corporation (SBC)

- **Main Contents**
  - Send agents from major Korean promotional agencies, such as SBC, as Industrial Cooperation Consultants to investment promotion agencies or business promotion agencies in host countries in order to help overseas Korean SMEs.
  - Korea sent its first Industrial Cooperation Consultant to Manila in 2006.
  - **Benefits for Korean SMEs:** 1) High quality business information can be provided by Industrial Cooperation Consultants, who in turn acquire valuable information through investment promotion agency networks in host countries; 2) Quality information might reduce the possibility of business failure and help Korean SMEs settle down in host countries.
  - **Benefits for Host Countries:** Host countries can effectively attract Korean investments to their countries. Investments by Korean firms can contribute to the economic development of host countries.
Thank you very much.