



KOREA
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

The Republic of Korea (ROK) has made tremendous economic gains during the past four decades, transforming itself from a recipient of foreign assistance to a high technology manufacturing powerhouse and middle-income donor country in the span of two generations. South Korea experienced real GDP growth of 3.3 percent in 2014, a slight increase from 2013's 3 percent, but lower than the 3.9 percent originally targeted, largely because of a decrease in domestic consumption and investment due to national malaise in the wake a tragic ferry sinking and slower growth in many of its export markets. Growth is expected to remain moderate in coming years, due to the ROK's relatively developed economy, an aging population, and inflexible labor markets. Nonetheless, the ROK has so far weathered the global economic uncertainty and continues to remain a generally favorable destination for foreign investment. Following the 1997-98 Asian financial crisis, South Korea made significant progress in reforming its financial institutions and capital markets. In addition, the Korean government took steps to strengthen its competitiveness, enacting measures to boost foreign investment incentives and allow non-Koreans to own land and real property. With these changes, most Koreans recognize foreign investment and free trade as positive for the nation's development, despite continuing protectionist sentiment among certain elements of society. The highest levels of the Korean government remain committed to ensuring a level playing field for foreign investors. However, many foreign -- and domestic -- firms continue to express concern with what is seen as an overly burdensome regulatory environment. Many regulations are unique to Korea and not consistent with global standards. The regulations are prescriptive and generally only allow activities that are explicitly authorized, thereby constricting the development of disruptive business models. Multiple foreign firms have asserted that they have refrained from increasing investments in the ROK due to what they view as an intrusive bureaucracy that does not create sufficient incentives to invest in the country. President Park Geun-hye publicly acknowledged that the regulatory environment is seen as an obstacle to investment and has initiated efforts to deregulate five sectors: education, healthcare, finance, tourism and ICT. Park has asserted that deregulation will be one of her primary economic goals, and administration officials have allowed limited participation of foreign business associations in the deregulation process. While foreign and domestic industry is receptive to Park's deregulation drive, it remains cautious about committing increasing investments in the ROK.

Improvement in the consistency of the ROK Government's (ROKG) interpretation, transparency, and timeliness in the application of FDI regulations would enhance the investor climate in Korea. Unclear and opaque regulatory decision-making remained a significant concern, including informal "window guidance." This can discourage FDI by creating uncertainty for investors and fostering an impression that the ROK remains hostile to foreign investment. Foreign investors were also concerned about small but significant interest groups that pressure the ROK government to protect the South Korean market from what is perceived as foreign domination. Regarding labor, South Korea boasts a hard-working, educated workforce and high levels of institutional labor protections. However, foreign investors cited volatility in labor-management relations and increasing labor costs as issues that can hamper FDI.

The Korea-U.S. (KORUS) Free Trade Agreement (FTA), which entered into force on March 15, 2012, was a major step forward in enhancing the legal framework for U.S. investors in South Korea. All forms of investment are protected under the FTA, including equity, debt, concessions,

and similar contracts, as well as provision of intellectual property rights. With very few exceptions, U.S. investors are treated the same as South Korean investors (or investors of any other country) in the establishment, acquisition, and operation of investments in Korea. In addition, this equal treatment of domestic and foreign investors is backed by a transparent international arbitration mechanism, under which investors may, at their own initiative, bring claims against the government for an alleged investment breach. Submissions to investor-state arbitration tribunals as well as their hearings will be made public. The U.S. government continues to work closely with the ROK government to ensure full implementation of the KORUS FTA.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The Korean government's attitude toward foreign direct investment is positive, and senior policy makers realize the value of FDI. Following the 2008-09 global financial crisis, inbound FDI continued to trend upwards from USD 5.4 billion in 2010 to USD 11.5 billion in 2014.

Although the Korean government indicates it recognizes the value of FDI and intends to enact policies to attract FDI, foreign investment in South Korea is still at times hindered by insufficient regulatory transparency, including inconsistent and sudden changes in interpretation of regulations, as well as underdeveloped corporate governance, high labor costs, an inflexible labor system, and significant economic domination by large conglomerates, or chaebol.

Other Investment Policy Reviews

The WTO conducted a Trade Policy Review of South Korea in 2012. The report can be accessed here:

[https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?Query=\(%20wt/tpr/g/*\)%20and%20\(\(%20@Title=%20korea%20\)%20or%20\(@CountryConcerned=%20korea\)\)&Language=ENGLISH&Context=FomerScriptedSearch&languageUIChanged=true#](https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?Query=(%20wt/tpr/g/*)%20and%20((%20@Title=%20korea%20)%20or%20(@CountryConcerned=%20korea))&Language=ENGLISH&Context=FomerScriptedSearch&languageUIChanged=true#)

Laws/Regulations of Foreign Direct Investment

The Foreign Investment Promotion Act (FIPA) is the basic law pertaining to foreign investment in Korea. FIPA and related regulations categorize business activities as either open, conditionally or partly restricted, or closed to foreign investment.

FIPA features include:

- Simplified procedures, including those for FDI notification and registration;
- Expanded tax incentives for high-technology FDI;
- Reduced rental fees and lengthened lease durations for government land (including local government land);
- Increased central government support for local FDI incentives;
- Establishment of "Invest Korea," a one-stop investment promotion center within the Korea Trade Promotion Corporation to assist foreign investors;
- Establishment of an Ombudsman office to assist foreign investors.

Korea's court system is independent and not subject to government interference in cases that may affect foreign investors.

The Korean National Assembly website provides a list of laws pertaining to foreigners (including the FIPA) in English. The site can be accessed here:
http://korea.assembly.go.kr/res/low_03_list.jsp?boardid=1000000037

Industrial Promotion

The Ministry of Strategy and Finance (MOSF) administers tax and other incentives to stimulate advanced technology transfer and investment in high-technology services. There are three types of special areas for foreign investment, including Free Economic Zones (FEZ), Free Investment Zones (FIZ), and Tariff Free Zones (TFZ), where favorable tax incentives and other support for investors are available. A good source of information on Korea's various free trade zones is the government-run "Invest Korea," an inward investment promotion organization under the Korea Trade and Investment Promotion Agency (KOTRA). More information is available here:

Invest Korea, KOTRA Bldg.
13, Heolleungno, Seocho-gu, Seoul, Republic of Korea
Tel: (82) 1600 - 7119
Fax: (82-2) 3497 - 1611
<http://www.investkorea.org>

KOTRA also maintains offices in many countries, including the United States.

Limits on Foreign Control

Restrictions on foreign ownership remain for 27 industrial sectors, three of which are entirely closed to foreign investment. The South Korean government reviews the list of restricted sectors from time to time for possible changes. According to the Ministry of Trade, Industry and Energy (MOTIE), the number of industrial sectors open to foreign investors is well above the OECD average. KORUS provides for U.S. companies to be treated as non-foreign entities in selected sectors including broadcasting and telecommunications.

Relevant ministries must approve investments in conditionally or partly restricted sectors. Most applications are processed within five days; cases that require consultation with more than one ministry can take 25 days or longer. Korea's procurement processes comply with the WTO Government Procurement Agreement, but some implementation problems remain.

The Ministry of Knowledge Economy (MKE – reformed and now called MOTIE) published a 2011 Consolidated Public Notice, updating new code numbers and titles for business sectors in accordance to the ninth revision of the Korea Standard Industry Code (KSIC). According to the 2009 Notice, the number of KSIC industrial classifications of business sectors increased from 1,121 to 1,145 and by the reclassification, business sectors where foreign investment is restricted increased from 28 to 30. There was no further modification of the industry code in the recent MOTIE notice on May 30, 2013.

The following is a current list of Restricted Sectors for Foreign Investment. Figures in parentheses denote the Korean Industrial Classification Code while the numbers of air transport industries are based on the Civil Aeronautics Laws:

Completely Closed

- Nuclear power generation (35111)
- Radio broadcasting (60100)
- Television broadcasting (60210)

Restricted Sectors (partly open not more than 25 percent)

- News agency activities (63910)

Restricted Sectors (partly open not more than 30 percent)

- Hydro electronic power generation (35112)
- Thermal power generation (35113)
- Other power generation (35119)

Restricted Sectors (partly open less than 30 percent)

- Publishing of newspapers (58121)

Restricted Sectors (partly open less than 49 percent)

- Satellite and other broadcasting (60229)
- Program distribution (60221)
- Cable networks (60222)
- Wired telephone and other telecommunications (61210)
- Mobile telephone and other telecommunications (61220)
- Satellite telephone and other telecommunications (61230)
- Other telecommunications (61299)

Restricted Sectors (partly open not more than 50 percent)

- Farming of beef cattle (01212)
- Inshore and coastal fishing (03112)
- Transmission/distribution of electricity (35120)
- Wholesale of meat (46312)
- Coastal water passenger transport (50121)
- Coastal water freight transport (50122)
- Publishing of magazines and periodicals (58122)
- International air transport (51)
- Domestic air transport (51)
- Small air transport (51)

Open but Regulated under the Relevant Laws

- Growing of cereal crops and other food crops except rice and barley (01110)
- Domestic commercial banking except special banking area (64121)
- Radioactive waste collection, transportation, and disposal except radioactive waste management (38240)
- Other inorganic chemistry production except fuel for nuclear power generation (20129)

- Other nonferrous metals refining, smelting, and alloying (24219)

Privatization Program

The ROKG government efforts to privatize government owned assets have been slowed by protests from labor unions and professional associations as well as a lack of interested buyers in some sectors. Foreign investors are allowed to participate in privatization programs as long as they comply with ownership restrictions stipulated for the 27 industrial sectors indicated above.

In the course of stabilizing Korea's banking sector during the 1997-98 Asian financial crisis, the Korean government injected public funds, thereby acquiring de facto ownership of many of Korea's commercial banks, although it publicly committed to refrain from interfering in bank lending and management decisions, except with regard to prudential supervision. In late 2002, the Korean government began its ambitious plan to re-privatize the banks under its control, with the program initially scheduled to end by the first quarter of 2005. Much of this re-privatization has taken place, although the government continues to own the majority of shares in Woori Bank and minority shares in some other banks.

No State Owned Enterprises (SOEs) have been privatized since 2002. The Lee Myung-bak administration called off most plans to restructure SOEs for reasons both political (conflict with labor unions) and economic (concern about the impact the privatizations would have on the economy in the midst of the global financial crisis).

Screening of FDI

The Korean government may review foreign investments that affect national security. The government may restrict investments that disrupt production of military products or equipment, or if the company the foreigner is investing in exports items that may be later used for military purposes differing from their originally intended use. The Korean government may also restrict foreign investment in cases where contracts classified as state secrets may be disclosed or the investment considerably impedes international efforts for achieve world peace or assure security. Foreigners linked to a country or an organization that may pose a threat to national security will also be subject to limitations on their investments in Korean firms. Related government agencies must ask MOTIE to review the case within 30 days of a foreign investor filing an application for regulatory approval, and MOTIE must make a decision within the following 90 days.

If the investment fails the review, the foreign investor must transfer ownership to a Korean national or corporation within six months of the close of the corporate fiscal year.

Competition Law

The Monopoly Regulation and Fair Trade Act authorizes the Korea Fair Trade Commission (KFTC) to review and regulate competition related matters as well as consumer safety. The KFTC is proactive in carrying out its mandate. The Korea Commission for Corporate Partnership (KCCP) reviews competition between SMEs and large corporations and is empowered to limit large corporations from entering or expanding in markets designed for SMEs.

Although the Anti-Monopoly and Fair Trade Act has been amended repeatedly – most recently in January 2015 – the practical impact of Korea's laws and policies regulating monopolistic practices and unfair competition, however, has been limited by the long-standing economic strength of the chaebol. Management control at the chaebol continues to involve complicated webs of cross-shareholdings among chaebol affiliates, and many chaebol still conduct business based on family and personal connections. Chaebol-government relations can also sometimes influence the business-government dialogue, to the detriment of foreign and small and medium-sized enterprises (SMEs). Thus, chaebol influence in the South Korean economy may sometimes cause practical business problems for foreign investors. SME suppliers, for example, may be reluctant to deal with foreign firms for fear of jeopardizing a prized chaebol relationship.

Investment Trends

Inbound foreign direct investment (FDI) rose to record high USD 11.5 billion in 2014, up 17 percent from 2013. Foreign investment in all industries except the finance and insurance sector rebounded last year due to increased capital inflow from China and Asian countries. The Park administration has taken steps to ameliorate those concerns by announcing what is widely viewed as a foreign investment friendly 3-year economic plan. The ROK's sovereign debt rating is ranked at the same levels as Japan and Taiwan. The high ranking reflects the ROK's strong fiscal fundamentals, increasing current account surplus, its ability to withstand domestic risks and external shocks, and the continuation of a status quo in North-South Korea geopolitics. These factors serve to burnish the ROK's reputation as a generally favorable destination for foreign investment.

U.S. FDI in Korea totals USD 25.5 billion or 16.8 percent of Korea's total stock of FDI since the 1960's which is comparable to the Japanese investment totaling 28.2 billion or 18.5 percent of Korea's total stock of FDI. Investments from the United States in 2014 increased 4 percent over the previous year whereas investments from Japan decreased over 28 percent, due to continued quantitative easing policies and significant Japanese yen depreciation. Japan recorded USD 2.1 billion of FDI in 2014, much reduced from the USD 2.9 billion recorded in 2013, as the yen depreciated significantly against the Korean won under Japan's Abenomics policy. The IT, auto parts, logistics, and other service sectors are expected to absorb the majority of FDI in Korea in the near future, largely through mergers and acquisitions (M&A), in line with global trends.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	43 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	5 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	16 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 25,920	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

In categories open to investment, foreign exchange banks must be notified in advance of applications for foreign investment. All South Korean banks are permitted to deal in foreign exchange, including branches of foreign banks. In effect, these notifications are pro-forma, and approval can be processed within three hours. Applications may be denied only on specific grounds, including national security, public order and morals, international security obligations, and health and environmental concerns. Exceptions to the advance notification approval system exist for project categories subject to joint-venture requirements and certain projects in the distribution sector.

According to the Foreign Exchange Transaction Act (FETA), only transactions that could harm international peace or public order, such as money laundering and gambling, are controlled.

Three specific types of transactions are restricted:

- 1) Non-residents are not permitted to buy won-denominated hedge funds, including forward currency contracts;
- 2) The Financial Services Commission (FSC) will not permit foreign currency borrowing by "non-viable" domestic firms; and
- 3) The Korean government will monitor and ensure that Korean firms that have extended credit to foreign borrowers collect their debts. The Korean government has retained the authority to re-impose restrictions in the case of severe economic or financial emergency.

Exchange rates are determined by the market.

Remittance Policies

The right to remit profits is granted at the time of original investment approval. Banks control the now pro forma approval process for FETA-defined open sectors. For conditionally or partially restricted investments (as defined by the FETA), the relevant ministry must provide approval for both investment and remittance.

When foreign investment royalties or other payments are proposed as part of a technology licensing agreement, the agreement and the projected stream of royalties must be approved either by a bank or MOSF. Approval is virtually automatic. An investor wishing to enact a remittance must present an audited financial statement to a bank to substantiate the payment. To withdraw capital, a stock valuation report issued by a recognized securities company or the Korean appraisal board also must be presented. Foreign companies seeking to remit funds from investments in restricted sectors must first seek ministerial and bank approval, after demonstrating the legal source of the funds and proving that relevant taxes have been paid.

South Korea routinely permits the repatriation of funds, but reserves the right to limit capital outflows in exceptional circumstances, such as situations when uncontrolled outflows might harm the balance of payments, cause excessive fluctuations in interest or exchange rates, or threaten the stability of domestic financial markets. The Korean government did not impose

such restrictions either during the Asian financial crisis or the global financial crisis, where sharp capital outflows played a major role. However, the government has installed a series of capital control measures under the name of “macro-prudential stability policy,” which includes lowering foreign exchange forward-position limits for foreign bank branches in 2010, re-introducing a withholding tax on foreign investors’ government bond purchases, and imposing a bank levy on non-deposit financing in foreign currency from August 2011. On December 3, 2012, the government lowered the forward-position limits again and changed bank levy provisions to promote long-term financing. On February 27, 2015, the MOSF gave notice that the government would change the bank levy scheme in the second half to exempt the levy on short-term Chinese yuan -denominated debt.

The U.S. Treasury Department reports the South Korean authorities have intervened on both sides of the currency market, but the sustained rise in their reserves and net forward position indicates that they have intervened on net to resist won appreciation. The U.S. government urges South Korea to reduce foreign exchange intervention, allow the won to appreciate, and increase transparency in foreign exchange operations.

South Korea has been a member of Financial Action Task Force (FATF) since 2009 and is identified as a country of concern.

3. Expropriation and Compensation

The ROK follows generally accepted principles of international law with respect to expropriation. Korean law protects foreign-invested enterprise property from expropriation or requisition. If private property is expropriated, it can only be taken for a public purpose and only in a non-discriminatory manner. Property owners are entitled to prompt compensation at fair market value. U.S. Embassy Seoul is not aware of any cases of uncompensated expropriation of property owned by American citizens.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

There exists a body of South Korean law governing commercial activities and bankruptcies that constitutes the means to enforce property and contractual rights with monetary judgments usually levied in the domestic currency. The number of serious investment disputes involving foreigners has been few in South Korea. Foreign court judgments are not enforceable in the ROK.

Bankruptcy

The Debtor Rehabilitation and Bankruptcy Act stipulates that bankruptcy is a court-managed liquidation procedure where both domestic and foreign entities are afforded equal treatment. The procedure commences after a filing by either a debtor, creditor or group of creditors and determination by the court that a company is bankrupt. The court will designate a Custodial Committee to account of the debtor's assets, claims, and contracts. Creditors may be granted voting right in the creditors’ group identified by the Custodial Committee. Shareholders and

contractor holders may retain their rights and responsibilities based on shareholdings and contract terms.

Debtors may be subject to arrest once a bankruptcy petition has been filed even if the debtor has not been declared bankrupt. Individuals found guilty of negligent or false bankruptcy are subject to criminal penalties.

Investment Disputes

Over the past several years, there have been a few high-profile cases involving U.S. firms that have had difficulty exiting the Korean market; these cases have increased the concerns of other potential U.S. investors.

International Arbitration

Korea is a member of the International Commercial Arbitration Association and the World Bank's Multilateral Investment Guarantee Agency (MIGA). South Korean courts may ultimately be called upon to enforce an arbitrated settlement. When drafting contracts, it may be useful to provide for arbitration by a neutral body such as the International Commercial Arbitration Association (ICAA). U.S. companies should seek local expert legal counsel when drawing up any type of contract with a South Korean entity.

Commercial disputes may also be taken to the Korean Commercial Arbitration Board (KCAB). The Korean Arbitration Act and its implementing rules outline the following steps in the arbitration process: 1) parties may request the KCAB to act as informal intermediary to a settlement; 2) if unsuccessful, either or both parties may request formal arbitration, in which case the KCAB appoints a mediator to conduct conciliatory talks for 30 days; and 3) if unsuccessful, an arbitration panel consisting of one to three arbitrators is assigned to decide the case. If one party is not resident in Korea, either may request an arbitrator from a neutral country.

Disputes with the South Korean government may be brought before the International Center for Settlement of Investment Disputes (ICSID). South Korea ratified the ICSID convention in 1967.

The United States has a bilateral Treaty of Friendship, Commerce, and Navigation with South Korea, which contains general provisions pertaining to business relations and investment. During former Korean President Kim Dae-jung's visit to the U.S. in 1998, President Clinton and President Kim agreed to negotiate a Bilateral Investment Treaty (BIT) between the two nations. However, negotiations in 1998 and 1999 stalled after the two sides could not resolve differences on certain issues. The KORUS FTA contains strong, enforceable investment provisions that went into force in March 2012.

ICSID Convention and New York Convention

The ROK is a member of the International Center for the Settlement of Investment Disputes (ICSID). It has also acceded to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention).

Duration of Dispute Resolution

Although commercial disputes can be adjudicated in a civil court, foreign businesses often feel that this is not a practical means to resolve disputes. Proceedings are conducted in Korean, often without adequate translation. South Korean law prohibits foreign lawyers who have not passed the Korean Bar Examination from representing clients in Korean courts. Civil procedures common in the United States, such as pretrial discovery, do not exist in South Korea. During litigation of a dispute, foreigners may be barred from leaving the country until a decision is reached. Legal proceedings are expensive and time-consuming and lawsuits often are contemplated only as a last resort, signaling the end of a business relationship.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

South Korea does not maintain any measures notified to the World Trade Organization (WTO) as being inconsistent with (or that are alleged to be inconsistent with) the WTO Agreement on Trade-Related Investment Measures (TRIMs Agreement).

Investment Incentives

The Korean government allows the following general incentives for foreign investors:

- Cash grants for the creation and expansion of workplaces for high-tech business plants and R&D (research and development) centers;
- Reduced rent for land and site preparation for foreign investors;
- Grants for establishment of convenience facilities for foreigners;
- Reduced rent for state or public property; and
- Preferential financial support for investing in major infrastructure projects.

Research and Development

Several organizations affiliated with the Small and Medium Business Association (SMBA) support private sector R&D. The Korea Technology and Information Promotion Agency (TIPA) supports R&D investment and the Korea Technology Credit Guarantee Fund (KIBO) provides credit guarantees for technology development. The Ministry of Science, ICT, and Future Planning also support R&D projects. According to the SMBA, foreign companies are eligible to apply for public R&D funds through a South Korean subsidiary.

Performance Requirements

The ROK ceased imposing performance requirements on new foreign investment in 1989 and eliminated all pre-existing performance requirements in 1992. The ROKG has no requirement that investors purchase from local sources or export a certain percentage of output. There is no ROKG requirement that Korean nationals must own shares in foreign investments or that technology be transferred on certain terms. The Korean government does not impose "offset" requirements on investors to invest in specific manufacturing, R&D, or service facilities. There are also no government-imposed conditions on permission to invest.

Data Storage

Foreign companies are not required to use domestic content or technology, nor are they required to turn over source code or provide access to surveillance to South Korean authorities. However, the government restricts the off-shore transfer of financial and consumer payment data. Payment systems and mobile credit information of Korean consumers must be maintained on servers based in South Korea. ROK implementation of KORUS FTA commitments governing cross-border data transfer in the financial services sector has fallen short. A cumbersome and non-transparent application process has resulted in few approvals and has hindered integration of Korea-based financial institutions with global systems. The U.S. government is working with ROK government and relevant industry stakeholders to resolve this issue. The Financial Service Commission sets the policy regarding financial information and the Financial Supervisory Service is the enforcement body.

6. Right to Private Ownership and Establishment

Korea fully recognizes the rights of private ownership and has a well-developed body of laws governing the establishment of corporate and other business enterprises. Private entities may freely acquire and dispose of assets; however, the Fair Trade Act may limit cross-ownership of shares in two or more firms if the effect is to restrict competition in a particular industry.

7. Protection of Property Rights

Real Property

The Alien Land Acquisition Act (amended in 1998) grants non-resident foreigners and foreign corporations the same rights as Koreans in purchasing and using land. The Real Estate Investment Trust (REIT) Act supports sound indirect investments in real estate and restructuring of corporations. The REIT Act allows investors to invest funds through an asset management company, and in real property such as office buildings, business parks, shopping malls, hotels, and serviced apartments. Property interests are enforced and there is a reliable system for registering mortgages and liens

Intellectual Property Rights

The ROK's progress on intellectual property rights (IPR) led to its removal from the Special 301 Watch List in 2009. Since then, the ROK has remained off the Watch List and demonstrated continued commitment to strong IPR enforcement. The importance that the ROK government places on IPR protection has increased in recent years as the digitization of Korea's economy has significantly enhanced the ability to produce and spread unauthorized reproductions of copyrighted material. With Korea's products and trademarks enjoying global success, Korean creators of intellectual property stand to benefit from improvements in the domestic intellectual property protection regime. Investors can submit online registrations for all types of intellectual property with the Korean Intellectual Property Office (<http://www.kipo.go.kr/>). The KORUS FTA contains state-of-the-art protections for all types of intellectual property, requirements to join key multilateral IPR agreements, and strong enforcement provisions. However, concerns remain over new forms of online piracy, corporate end-user software piracy, unauthorized use of

software in the public sector, book piracy in universities, and counterfeiting of consumer products.

The ROK amended its copyright law in 2011 to conform to commitments under the Korea-EU and KORUS FTAs. Subordinate regulations, including presidential and ministerial decrees, were also amended to implement the law in 2011. In 2012, the ROKG began implementation of the 2011 amendment to reflect the KORUS FTA. The ROKG also began implementing the presidential decree on “Authentic Software and its Management” that mandates the central government to use legal software. In 2014, 2,478 agencies conducted self-audits and the MCST (ROKG’s lead ministry on IPR issues) conducted on-site investigations at 199 agencies. The Korean Copyright Act was amended so that people can use material for which copyrights are owned by the State or local autonomous bodies without obtaining permission. In addition, educational use, exhibition use, and public transmission of copyrighted material became possible without obtaining the permission of right holders, with some limitations. The amendment was announced on Dec. 30, 2013 and implemented from July, 2014.

The MCST continued its strong efforts to combat IPR violations through a variety of enforcement activities in calendar year 2014:

- In 2014, the MCST deleted a total of 141.7 million illegal online files, an increase from the 130.3 million files it deleted in 2013 but down from 176.3 million files it deleted in 2012. Furthermore, the MCST destroyed 15.7 million illegal physical copies of music, video, publications, games, and cartoons in 2014, more than 24 times the 639,290 items destroyed in 2012.
- Under the 2009 “three strikes” law, when illegal material is discovered online, KCC sends corrective recommendations to both the online service provider (OSP) and the user. If the OSP or the user ignores the corrective recommendations after three warnings, MCST can issue takedown orders and suspend the user’s account. In 2014, the KCC issued 296,360 corrective recommendations, up 73 percent from the 170,867 issued in 2013 but down 49.9 percent from the 591,772 issued in 2012. However, MCST did not need to issue any warnings or suspend user accounts as all violators complied with corrective recommendations issued by the KCC.
- In 2014, the MCST requested that the KCC block service to 44 illegal file-sharing OSPs, up from 13 OSPs in 2013. Most of the sites were music and film sites hosted on overseas servers. Although many of the sites can migrate to other servers, the action marked an important shift in Korea’s efforts to combat piracy. MCST made use of the Telecommunications Act to block access to such illegal file-sharing sites, whereas in the past, the Telecommunications Act had solely been used to restrict traffic to pornographic or North Korea-related online material.
- The MCST investigated Korean university campuses in and confiscated 15,474 illegally copied books in 2014, up 21 percent from the 12,739 copies seized in 2013.
- In 2014 the MCST Judicial Police conducted software inspection at 431 companies in 2014 and found 9,374 copies of illegal software with a piracy rate of 30.2 percent. In 2013, the MCST raided 480 companies with a piracy rate of 21.5 percent.

•In 2014, the MCST recommended 2,136 IPR related cases for legal action to prosecutor up 79 percent from 1,192 cases in 2013. Total number of people who were indicted by prosecutors for Copyright Act violations was 41,679, up 10.5 percent from 2013's 37,692.

Lastly, the MCST judicial police conducted special enforcement of five illegal game sites and 10 web storage and torrent sites. From those raids, MCST submitted to prosecutors for indictment 15 operators of game sites and 58 persons who illegally uploaded on web storage and torrent sites. Estimated damage from the 10 web storage and torrent sites was around 82.6 billion won (USD75 million).

The Korea Intellectual Property Office (KIPO) also stepped up its enforcement activities in 2014. KIPO's Special Judicial Police seized 1,114,192 counterfeit items from 430 persons in 2014, up from the 822,360 items seized from 376 persons in 2013 and up dramatically from the 131,599 items from 302 persons in 2012. In addition, KIPO suspended 5,348 online transactions in 2014, up from 4,422 cases in 2013. KIPO closed 454 online shopping malls in 2014, down from 828 in 2013.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Resources for Rights Holders

The contact at U.S. Embassy Seoul for IPR issues is:

Hyon Sim
Economic Officer
Tel: +82-2-397-6424
Email: simhb2@state.gov

Additional local resources are as follows:

The American Chamber of Commerce in Korea
#4501, Trade Tower 159-1
Samsung-dong, Kangnam-gu
Seoul, 135-729
Tel: +82-2-564-2040
Fax: +82-2-564-2050
Email: amchamrsvp@amchamkorea.org
<http://www.amchamkorea.org/index.php>

U.S. Embassy Seoul List of Attorneys
http://photos.state.gov/libraries/korea/187344/ACS/Lawyers_List.pdf

8. Transparency of the Regulatory System

The Korean regulatory environment can pose challenges for all firms, both foreign and domestic. Laws and regulations are often framed in general terms and are subject to differing

interpretations by government officials, who rotate frequently. Regulations are sometimes promulgated with only minimal consultation with industry and with only the minimally required comment period. Lastly, regulatory authorities often issue verbal guidelines or other legally enforceable dictates that many firms find burdensome and often difficult to follow. President Park's deregulation plan seeks to eliminate the use of verbal guidelines and dictates or subject them to the same level of regulatory review as written regulations. The KORUS FTA also includes provisions designed to address such issues.

According to Korea's Administrative Procedures Act, proposed laws and regulations (Acts, Presidential Decrees or Ministerial Decrees) should be published and public comments solicited at least 40 days prior to promulgation. Draft bills are often available on the web sites of relevant ministries without notice that they have been published. The rule-making process often remains non-transparent, particularly for foreigners. Proposed rules are sometimes published with insufficient time to permit public comment and industry adjustment. For example, regulatory changes originating from legislation proposed by members of Korea's National Assembly are not subject to public comment periods. When notifications of proposed rules are made public, they usually appear in the Official Gazette, but not consistently, and only in the Korean language; thus, much of the 40-day comment period can be exhausted translating complex documentation.

9. Efficient Capital Markets and Portfolio Investment

Foreign portfolio investors now enjoy good access to the ROK stock market. Aggregate foreign investment ceilings in the Korean Stock Exchange (KSE) were abolished in 1998, and foreign investors owned 31.6 percent of KSE stocks and 12.7 percent of the Korean Securities Dealers Automated Quotations (KOSDAQ) as of the end of 2014. The market turnover rate was 254 percent of market capitalization in 2014. Retail investors are extremely active in the Korean stock markets. More than 80 percent of KSE and KOSDAQ retail trading is conducted online. Thus, a large majority of retail investors are day traders, implying a constant source of volatility for the markets. The Korean government permits stock purchases on margin, requiring that transactions be settled within three business days.

Portfolio investors have shown less appetite for the smaller, more volatile, technology-rich KOSDAQ. Since the collapse of the Daewoo Group in 1999, Korea's largest corporate bankruptcy, the country's bond market has been almost moribund, as sellers have far outnumbered buyers. The total assets of Korea's commercial banks as of the end of September 2014 were 1,465 trillion won, or about USD 1.3 trillion.

In recent years, foreign portfolio investment has fluctuated, influenced by external factors such as U.S. Federal Reserve's tapering of its quantitative easing policy, slowing of the Chinese economy and the Yen's depreciation. At the end of 2014, foreign shareholders owned 31.6 percent of KSE stocks and 12.7 percent of the tech-heavy KOSDAQ Index shares.

Foreign firms are able to access credit on the local market. However, obtaining access to credit may be complicated by the privileged relationships competing Korean family-run conglomerates, chaebol, enjoy with local banks, although this is mitigated by the fact that regulations limit a bank's exposure to any single chaebol group's companies to 25 percent of capital, and stipulate that at least 25 percent of all banks' lending must go to SMEs.

Money and Banking System, Hostile Takeovers

Financial sector reforms are often cited as one reason for the ROK's rapid rebound from the 2008 global financial crisis. Financial sector reforms have aimed to increase transparency and investor confidence and generally purge the sector of moral hazard. Since 1998, the Korean government has recapitalized its banks and non-bank financial institutions, closed or merged weak financial institutions, resolved many non-performing assets, introduced internationally-accepted risk assessment methods and accounting standards for banks, forced depositors and investors to assume appropriate levels of risk, and taken steps to help end the policy-directed lending of the past. These reforms addressed weak supervision and poor lending practices in the Korean banking system that helped cause and exacerbate the 1997-98 Asian financial crisis.

Capital account liberalization under the Foreign Exchange Transaction Act (FETA) has also been extensive. All capital-account transactions are permitted unless specifically prohibited. In addition, 72 of the 91 transactions specified by the OECD code of liberalization of capital movements now are permitted. Non-residents may open deposit accounts in domestic currency (South Korean won) with maturities of more than one year and may engage in offshore transactions and issue won-denominated securities abroad.

Almost no restrictions remain on foreign ownership of stock in Korean firms. Korean law permits foreign direct investment through mergers and acquisitions with existing domestic firms, including hostile takeovers. Nonetheless, no hostile takeovers have occurred in Korea in part because of the lack of relevant implementation regulations for the Foreign Investment Promotion Act. In addition, the political environment for hostile takeovers remains unfriendly.

10. Competition from State-Owned Enterprises

Many South Korean state-owned enterprises (SOEs) continue to exert significant control over certain segments of the economy. Today, there are 34 remaining SOEs in Korea, active in the energy, real estate, and infrastructure (railroad, highway construction) sectors. The legal system has traditionally sought to give SOEs a leading role in these sectors, but over the past several years, the government has increasingly tried to attract more private participation as well, especially in the real estate and construction sectors. Generally, SOEs are subject to the same regulations and tax policies as private sector competitors and do not have preferential access to government contracts, resources, and financing. The state-owned Korea Land and Housing Corporation is given preferential access to developing state-owned real estate projects, notably housing. The court system functions independently from the government and gives equal treatment to SOEs and private enterprises.

The South Korean government does not provide any official data on SOEs' market shares. The ROKG requires each entity to disclose financial statements, the number of employees, and average compensation figures.

OECD Guidelines on Corporate Governance of SOEs

The Public Institutions Management Act (PIMA) gives authority to the Ministry of Strategy and Finance (MOSF) to administer control of many SOEs, mainly focusing on administrative and

human resource management. SOEs subject to PIMA are required to report to a line minister; the President or line ministers appoint senior government officials or politically-affiliated individuals as CEOs or directors. SOEs are explicitly obligated to consult with government officials on their budget, compensation, and key management decisions (i.e. pricing policy for energy and public utilities). For other issues, the government officials informally require the SOEs to either consult with them before making decisions or report ex post facto. South Korea is an OECD Member state and reports significant changes in the regulatory framework for SOEs to the OECD.

Responding to political pressure and criticism of inefficiency, lax management and high levels of debt at SOEs, the Korean government introduced a plan to rein in excess debt and upgrade lax management policies in its 3-Year Plan for Economic Innovation, introduced on February 27 2014. According to the debt reduction plans, debt for the 18 ‘highly indebted’ SOEs, which had been forecast to continue climbing until 2017, will begin falling in 2016 and the debt ratio for 41 SOEs will drop to 200 percent in 2017 from 237 percent in 2013. As of end 2013, total debt for 231 non-financial public institutions was 1,238 trillion won (USD 1.1 trillion), up 75 trillion won or 6 percent from the previous year. The debt level was equal to approximately 87 percent of the nation’s nominal GDP, up 2.3 percent point from the previous year.

Sovereign Wealth Funds

The Korea Investment Corporation (KIC), a sovereign wealth fund, was established in July 2005 under the KIC Act. KIC is wholly government-owned with an independent steering committee that has the authority to undertake core business decisions. KIC is on the PIMA list. Korea has no asset management bureau. KIC is mandated to manage assets entrusted by the Government and the BOK. Based on the continued increase in entrusted assets and gains realized on investments, assets under management stood at USD 72 billion at the end of 2013.

KIC has no role in the local economy as it has only engaged in overseas investments to date. It is required by law to publish an annual report and to submit its books to the steering committee for review. KIC is also required to follow all domestic accounting standards and rules.

11. Corporate Social Responsibility

Corporate social responsibility (CSR) awareness is growing in Korea but is still in a nascent stage. For those South Korean firms that publish CSR reports, environmental impact, particularly on land and water resources, is the primary focus. Many NGOs promote CSR activities and business associations maintain CSR committees. Korean CSR reflects the continued impact of traditional notions of corporate CSR as charity. The Korean government is increasingly encouraging companies, including foreign subsidiaries and branches, to engage in CSR activities, particularly with the Administration’s emphasis on shared growth. The American Chamber of Commerce Korea (AmCham) strongly encourages CSR activities and publishes the CSR activities of both U.S. and South Korean member companies in its quarterly journal.

Foreign companies operating in Export Processing Zones are exempt from some labor regulations. Exemptions include provisions that mandate paid leave, requiring companies with more than 50 persons to recruit persons with disabilities for at least 2 percent of their workforce,

encouraging companies to reserve 3 percent of their workforce for workers over 55 years of age, and restricting large companies from participating in certain business categories.

OECD Guidelines for Multinational Enterprises

South Korea is an OECD member country, and adheres to the OECD Guidelines for Multinational Enterprises.

12. Political Violence

The Democratic People's Republic of Korea (DPRK, or North Korea) and the ROK technically remain in a state of war. There is general peace and stability on the Korean peninsula because of an armistice agreement that has lasted over 60 years. From time to time, DPRK military provocations, including missile launches and nuclear tests, have increased tension between the countries. The unprovoked sinking of a ROK naval vessel by the DPRK in March 2010 killed 46 South Korean sailors. The artillery shelling of an island off the northwest coast of the ROK in November 2010 resulted in the deaths of two South Korean soldiers and two civilians. While cross-border military incidents have primarily been limited to the area surrounding the five geographically isolated Northwest Islands, in October and November 2014, ROK and DPRK forces exchanged gunfire within the Demilitarized Zone (DMZ). In February 2013, North Korea conducted its third nuclear test which the international community roundly condemned.

The ROK does not have a history of political violence directed against foreign investors. Embassy Seoul is unaware of any politically motivated threats of damage to foreign-invested projects or foreign-related installations of any sort, nor of any incidents that might be interpreted as having targeted foreign investments. Labor violence unrelated to the issue of foreign ownership, however, has occurred in foreign-owned facilities in the past.

13. Corruption

Korea, in an effort to combat corruption, has introduced systematic measures to prevent civil servants from inappropriately accumulating wealth and conducting opaque financial transactions. Korea has passed the Anti-Corruption Act, which requires high-ranking officials to disclose their assets, including how they were accumulated, and report gifts they receive, thereby making their holdings public. The Anti-Corruption Act also requires companies to put measures in place to prevent corruption. Most companies maintain an internal audit function to prevent and detect corruption. However, Korea still faces challenges in effectively implementing anti-corruption laws. Transparency International's Corruption Perception Index ranks Korea 43 out of 175 countries and gives it a score of 55 out of 100 (with 100 being very clean) and rates Korea's anti-corruption enforcement efforts as moderate.

There are several government agencies responsible for combating government corruption including the Board of Audit and Inspection, which monitors government expenditures and the Public Service Ethics Committee, which monitors the civil servants' financial disclosures and their financial activities within their tenure and first few years into their retirement. The Anti-Corruption and Civil Rights Commission (ACRC), South Korea's main anti-corruption agency, manages the public complaints and administrative appeals on corrupt government practices and

reports annually to the National Assembly and the President and makes its reports publicly available. The Financial Intelligence Unit has cooperated fully with U.S. and United Nations efforts to identify and shut down sources of terrorist financing. Transparency International has maintained a National Chapter in the ROK since 1999.

In 2014, to reduce collusion between government regulators and regulated industries that contributed to the tragic sinking of the Sewol ferry, the Korean government tightened regulations governing the employment of retired government officials. The government expanded the list of sectors restricted from employing former government officials during a mandated period after retirement, extended the mandated post-retirement period from two to three years, and increased scrutiny of retired officials seeking jobs in fields associated with their former official duties.

On March 3, 2015, the Korean legislature passed a comprehensive anti-corruption law known as the “Kim Young-ran Act,” named after the original drafter of the bill and former head of the ACRC. The anti-corruption law institutes strict limits the value of gifts that can be given to public officials, reporters, and private school teachers. The law also extends to the spouse of officials, but does not specifically cover political parties. The law is scheduled to take effect in September 2016; however, concerns over its constitutionality may lead the government to revise the law before implementation.

The Act on the Protection of Public Interest Whistleblowers is designed to protect whistleblowers in the public and private sectors and equally extends to reports on foreign bribery. The Anti-Corruption and Civil Rights Commission (ACRC) operates a whistleblower reporting center.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

The ROK signed the United Nations Convention against Corruption on December 10, 2003 and ratified it on March 27, 2008. The ROK is also a party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and a member of the Asia Pacific Economic Cooperation Anti-Corruption and Transparency Experts Task Force (APEC ACT).

Resources to Report Corruption

The Korean government anti-corruption agency is:

Anti-Corruption and Civil Rights Commission
Government Complex-Sejong, 20, Doum 5-ro
Sejong-si, 339-012
Tel: +82-44-200-7151
Fax: +82-44-200-7916
Email: webmaster@acrc.go.kr
<http://www.acrc.go.kr/eng/index.do>

An independent anti-corruption monitoring organization is:

Anti-Corruption Network in Korea (aka Transparency International Korea)
#1006 Pierson Building, 89-27 Sinmunro 2-ga, Jongno-gu
Seoul, 100-761
Tel: +82-2-717-6211
Fax: +82-2-717-6210
Email: ti@ti.or.kr
<http://ti.or.kr/x/e/intro>

14. Bilateral Investment Agreements

South Korea has signed 91 Bilateral Investment Treaties and 15 International Investment Agreements including nine FTAs.

The United States has a bilateral Treaty of Friendship, Commerce, and Navigation with South Korea, which contains general provisions pertaining to business relations and investment. During former Korean President Kim Dae-jung's visit to the U.S. in 1998, President Clinton and President Kim agreed to negotiate a Bilateral Investment Treaty (BIT) between the two nations. However, negotiations in 1998 and 1999 stalled after the two sides could not resolve differences on certain issues. The KORUS FTA contains strong, enforceable investment provisions that went into force in March 2012.

Bilateral Taxation Treaties

South Korea has a bilateral income tax treaty with the United States that entered into force in 1979.

15. OPIC and Other Investment Insurance Programs

U.S. investments in Korea are eligible for insurance programs sponsored by the U.S. Overseas Private Investment Corporation (OPIC). OPIC has not, however, guaranteed any U.S. investments in Korea since 1998, when OPIC reinstated coverage it had suspended in 1991 due to concerns about worker rights. Coverage issued prior to 1991 is still in force. Korea has been a member of the World Bank's (IBRD) Multilateral Investment Guarantee Agency (MIGA) since 1987.

16. Labor

According to the Ministry of Employment and Labor (MOEL), there were approximately 26 million economically active persons in ROK with an employment rate (OECD standard) of approximately 65.3 percent. The overall unemployment rate of 3.4 percent in 2014 was much lower than the unemployment rate of youth aged 15-29, which at 9.0 percent is becoming a domestic concern. Since 2004, South Korea has implemented a "guest worker" program known as the Employment Permit System (EPS) to help protect the rights of foreign workers. EPS allows employers to legally employ a certain number of foreign workers from 15 countries, including the Philippines, Indonesia, and Vietnam, with which the ROK maintains bilateral labor

agreements. For 2015, South Korea increased its quota to 55,000 migrant workers. At the end of May 2014, approximately 459,000 foreigners (including overseas Koreans) were said to be working under EPS in manufacturing, construction, agriculture, livestock, service, and fishery industries.

Korean law provides workers with the right to associate freely and allows public servants to organize unions. The labor law was amended in 2011 to authorize union pluralism. The 2010 revision of the Trade Union and Labor Relations Adjustment Act (TULRA), which became law in 2011, restricted the number of full-time labor union officials and banned employers from paying wages to such officials for union work. The TULRA revision also allowed the formation of multiple unions at the same workplace, but required only one bargaining channel. The ratio of organized labor to the entire population of wage earners at the end of 2013 was 10.3 percent; this ratio has remained relatively stable over the last ten years or so. Korea's trade union participation is lower than the latest-available OECD average of 16.9 percent in 2013; more information is available at http://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN.

The country has three national labor federations. The Korean Confederation of Trade Unions (KCTU) has 2,313 labor unions and 819,755 members and the Federation of Korean Trade Unions (FKTU) has 356 labor unions and 626,035 members. KCTU and FKTU are affiliated with the International Trade Union Confederation (ITUC). Most of FKTU's constituent unions maintained affiliations with international union federations. The Korean Labor Union Confederation (KLUC) is the smallest and newest federation, with only 100 unions and 21,000 members, and attracts those seeking a trade union that is neither militant nor political. There are 2,509 unions with 318,575 workers who do not belong to a nationwide federation but rather focus just on their corporate issues.

The Trade Union and Labor Relations Adjustment Act provides for the right to collective bargaining and collective action, and allows workers to exercise these rights in practice. The law also empowers workers to file complaints of unfair labor practices against employers who interfere with union organizing or who discriminate against union members. The National Labor Relations Commission can require employers found guilty of unfair practices to reinstate workers fired for engaging in union activities.

Labor organizations are permitted in export processing zones (EPZs), but foreign companies operating in EPZs are exempt from some labor regulations. Exemptions include provisions that mandate paid leave, requiring companies with more than 50 persons to recruit persons with disabilities for at least 2 percent of their workforce, encouraging companies to reserve 3 percent of their workforce for workers over 55 years of age, and restricting large companies from participating in certain business categories.

The Labor Standards Act prohibits the employment of persons under age 15 without an employment authorization certificate from MOEL. Because education is compulsory through middle school (approximately age 15), few employment authorization certificates were issued for full-time employment. To obtain employment, children under age 18 must obtain written approval from either parents or guardians. Employers must limit minors' overtime hours and are prohibited from employing minors at night without special permission from MOEL.

The minimum wage is reviewed annually. Labor and business set the minimum wage for 2015 at 5,580 won (approximately USD 5) per hour, a 7.1 percent increase from last year that is relatively in line with the 2.3 percent increase in the minimum cost of living. The Labor Standards Act also provides for a 50 percent higher wage for overtime.

The government sets health and safety standards, and the Korea Occupational Safety and Health Agency (KOSHA) is responsible for monitoring industry adherence to these standards. KOSHA conducts inspections both proactively according to regulations and reactively in response to complaints. It also provides technical assistance to resolve any deficiencies discovered during inspections. KOSHA reports on its website descriptions of and statistics on work-related injuries and fatalities biannually. In 2013, there were 91,824 work-related accidents and 1,929 fatalities, a 0.47 percent decrease and 3.49 percent increase respectively from the previous year. KOSHA provides training and subsidies to improve work safety and reduce work-related accidents. Its services are extended to migrant workers as are its training modules and materials which are available in 10 languages and disseminated to various worksites.

Contract and other "non-regular" workers accounted for a substantial portion of the workforce. MOEL reported that there were approximately 6.59 million non-regular workers, comprising approximately 25.3 percent of the total workforce as of March 2014. Korea Statistics reported that in 2011 non-regular workers performed work similar to regular workers but received approximately 57 percent of the wages of regular workers.

The Act for Part-Time and Temporary Workers' Protection prohibits the discrimination of non-regular workers and requires that non-regular workers employed longer than two years be converted to permanent status. The two-year rule went into effect on July 1, 2009. Both the labor and business sectors have complained that the two-year conversion law forced many businesses to limit the contract terms of the non-regular workers to two-years and incur additional costs with the entry of new labor every two years. The government had proposed extending the two-year limit to four-years as part of efforts to reform the labor sector, however, labor unions did not agree with this proposed change. A tripartite commission consisting of labor, government, and companies was formed to come to consensus on labor reform, however, discussions fell apart in April 2015 when labor representatives quit the discussions and threatened strikes.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

The Foreign Investment Promotion Act (FIPA) is meant to support potential investors and create a business environment conducive to increased foreign investment. FIPA offers foreign investors various incentives including tax breaks and cash grants for projects.

Korea aims to attract more foreign investment by promoting its eight Free Economic Zones (FEZ): Incheon (near Incheon Airport, to be completed in 2020); Busan/Jinhae (in South Gyeongsan Province, to be completed in 2020); Gwangyang Bay (in South Gyeongsan Province, to be completed in 2020); Yellow Sea (in South Chungcheong Province, to be completed 2020); Daegu/Gyeongbuk (in North Gyeongsan Province, to be completed in 2020); Saemangeum/Gunsan (in North Jeolla Province, to be completed in 2020), East Sea (in Donghae and Gangrung, to be completed in 2014) and Chungbuk (in North Chungcheong Province, to be

completed in 2010). The FEZs differ from other zones designated for foreign investment in their focus on creating a comprehensive living and working environment with biotechnology, aviation, logistics, manufacturing, service and other industrial clusters as well as international schools, recreational facilities, and international hospitals. In 2009, the National Assembly passed the Special Act on Free Economic Zones to increase tax benefits for investment, increase the FEZ infrastructure budget, and streamline the approval process for land development. On December 28, 2010, the government announced a plan to abolish inefficient, underperforming, and unfeasible portions of the nation's free economic zones as part of its efforts to reorganize the specially created districts. By the plan, the Ministry of Knowledge Economy (now named the Ministry of Trade, Industry, and Energy) removed the FEZ status from 90.51 square kilometers (22,366 acres), or 15.9 percent of the total land in the zones in February 2012. To revitalize foreign investment and ensure it is diversified throughout the country, the Korean government designated new FEZs in North Chungcheong Province and in Gangwon Province in 2013. According to the FEZ Planning Office, the country plans to invest 140 trillion won (USD 135 billion) on their infrastructure and promotion by 2020.

Songdo City in the Incheon FEZ in 2012 won the right to host the UN's Green Climate Fund and aims to become an innovative, state-of-the-art Northeast Asia business hub. The city is the first LEED (Leadership in Energy and Environmental Design) certified district in Korea and the largest project outside North America to be included in the LEED Neighborhood Development Pilot Program. It offers commercial office space, residences, retail shops, hotels, schools, hospitals, and cultural facilities. Additional information is available at <http://www.songdo.com>.

As of April 2014, there are also four foreign-exclusive industrial complexes in Gyeonggi Province (Hyungok, Pyosung, Chupal, and Hansan), designed to provide inexpensive plant sites, with the national and local governments providing assistance for leasing or selling in such sites at discounted rates. In addition, there are 13 Free Trade Zones in Donghae, Suncheon, Gunsan, Daebul, Masan, Ulsan, Gimje, Yulchon, and seven logistics areas near airports and harbors, where companies may pursue their business with government support, but without the usual legal requirements such as approval procedures for export and imports and customs duties. There are also 23 Foreign Investment Zones designated by local governments to accommodate industrial sites for foreign investors. Special considerations for foreign investors vary among these options.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2014	1,410,000	2013	1,300,000	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2014	25,527	2013	32,807	http://bea.gov/international/factsheet/factsheet.cfm?Area=626
Host country's FDI in the United States (\$M USD, stock positions)	2014	56,776	2013	32,456	http://bea.gov/international/factsheet/factsheet.cfm?Area=626
Total inbound stock of FDI as % host GDP	2014	10.8%	2013	13.3%	http://data.imf.org/CDIS

*Sources: GDP - <http://ecos.bok.or.kr/>; inbound FDI - <http://www.motie.go.kr/>; outbound FDI - <http://www.exim.go.kr/>

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	172,554	100%	Total Outward	230,506	100%
Japan	48,003	28%	China, Mainland	64,348	28%
United States	31,303	18%	United States	41,319	18%
Netherlands	16,617	10%	China, Hong Kong	11,168	5%
UK	13,630	8%	Australia	8,206	4%
France	7,157	4%	Netherlands	7,393	3%

"0" reflects amounts rounded to +/- USD 500,000.

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	196,420	100%	All Countries	138,383	100%	All Countries	58,037	100%
United States	73,333	37%	United States	57,258	41%	United States	16,075	28%
UK	13,632	7%	Luxembourg	10,206	7%	France	6,953	12%
Luxembourg	12,420	6%	UK	7,906	6%	Brazil	6,180	11%
France	10,593	5%	Japan	7,703	6%	UK	5,726	10%
Japan	9,511	5%	China, Mainland	7,155	5%	Cayman Islands	2,410	4%

Source: IMF Coordinated Portfolio Investment Survey

19. Contact for More Information

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liukm@state.gov