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FOREIGN DIRECT INVESTMENT

According to UNCTAD's [World Investment Report 2023](#), FDI to the Republic of Korea fell by 18.4%, to USD 18 billion in 2022, when the country was the 20th-largest recipient worldwide. In the same year, the total stock of FDI stood at USD 272.3 billion, around 16.4% of the country's GDP. According to the Ministry of Trade, Industry, and Energy (MOTIE), FDI pledges to South Korea surged by 7.5% year-on-year in 2023, reaching an unprecedented peak of USD 32.7 billion, driven by the strong performance of the chip, battery, and transportation sectors. In manufacturing, FDI dropped by 4.5% to USD 11.9 billion, while the service sector saw a 7.3% rise to USD 17.8 billion, led by investments from Saudi Arabia's sovereign wealth fund and financial firms. From the EU, investments fell by 17% to USD 6.2 billion due to previous large investments. However, Korea saw significant increases from countries like France. Combined EU and UK investments reached USD 9.8 billion, up 21.6% year-on-year. Meanwhile, FDI from the U.S. and Japan decreased to USD 6.1 billion (-29.4%) and USD 1.3 billion (-14.7%), respectively, while those from Greater China surged to USD 3.1 billion, up 65.6% from the previous year, rebounding to pre-2022 levels after a decline during the COVID-19 pandemic. In terms of stock, Japan, the U.S., the Netherlands, Singapore and the UK hold most of the FDI, according to data from OECD. Investments have been mainly oriented towards manufacturing, finance and insurance, trade, hospitality, and real estate.

South Korea's appeal in terms of foreign direct investment is the result of the country's rapid economic development and the country's specialisation in new information and communication technologies. The World Bank qualifies the Republic of Korea as a country with a highly developed business environment. However, despite the economy's sophistication and complexity, foreign investors encounter difficulties due to South Korea's intricate, opaque, and country-specific regulatory framework. Additionally, the competitiveness of the country's manufacturing sector has been undermined notably by low-cost producers like China. Recently, the Republic of Korea has opted to offer a cash reimbursement of up to 50% for foreign investments in critical sectors like chips, batteries, and vaccines. Both foreign and domestic private entities are permitted to establish and own business enterprises and participate in profit-making activities across numerous sectors of the economy. Nonetheless, limitations on foreign ownership persist for 30 industrial sectors under the Foreign Exchange Transaction Act (FETA). Notably, three sectors, including nuclear power generation, radio broadcasting, and terrestrial broadcasting, remain closed to foreign investment. South Korea ranks 10th among the 132 economies on the [Global Innovation Index 2023](#) and 14th out of 184 countries on the [2023 Index of Economic Freedom](#). Moreover, it is at the 19th place in Kearney's [Foreign Direct Investment Confidence Index 2023](#).

Foreign Direct Investment	2020	2021	2022
FDI Inward Flow <i>(million USD)</i>	8,765	22,060	17,996
FDI Stock <i>(million USD)</i>	260,801	280,085	272,328
Number of Greenfield Investments*	83	103	116
Value of Greenfield Investments (million USD)	3,710	4,965	13,405

Source: UNCTAD - Latest available data.

Note: * Greenfield Investments are a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

Country Comparison For the Protection of Investors	South Korea	OECD	United States	Germany
Index of Transaction Transparency*	8.0	6.5	7.0	5.0
Index of Manager's Responsibility**	6.0	5.3	9.0	5.0
Index of Shareholders' Power***	8.0	7.3	9.0	5.0

Source: Doing Business - Latest available data.

Note: *The Greater the Index, the More Transparent the Conditions of Transactions. **The Greater the Index, the More the Manager is Personally Responsible. *** The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action.

WHAT TO CONSIDER IF YOU INVEST IN SOUTH KOREA

Strong Points

South Korea's strong points include:

- Highly skilled workforce thanks to an efficient education system
- Advanced R&D capabilities
- Dominant position in high-end electronics
- High quality infrastructure
- Solid banking sector
- Strong international financial position (currency reserves and low external debt)
- Growth of investment in Asia
- Brand savvy consumers willing to spend on quality products
- High level of disposable household income
- Strong shipping and air cargo infrastructure

Weak Points

South Korea's weak points include:

- Regulatory frameworks can be restrictive and opaque
- Dominance of big industrial groups (chaebols)
- Cost of manpower is comparatively high
- Ageing population
- Frequent contract negotiations throughout a business relationship are common
- Property (leased or owned) is expensive
- Unique industry standards

- Dependence to raw materials imports
- Household indebtedness and high unemployment rate among young people
- Regional tensions with North Korea and competition from China (steel, shipbuilding, electronics)

Government Measures to Motivate or Restrict FDI

The Foreign Investment Promotion Act was enacted to support and facilitate efforts to attract foreign investment. Most of FDI incentives offered by the Korean government are provided via:

- Tax support (corporate tax and income tax reduction, acquisition tax and property tax reduction, exception from custom duties)
- Cash grant (land purchase expense, lease expense, employment/education/training subsidy)
- Industrial Site Support (location support, subsidy for difference of sale price, rent reduced-subsidized)

Nevertheless, some restrictions and interdictions exist in public administration, education, national defence, energy, media sectors.

For more information, visit the [Invest Korea](#) website.

The South Korean government significantly increased cash incentives for foreign companies to encourage more investment at home. In 2021, FDI flows to South Korea recorded a historical high of USD 29.51 billion.

INVESTMENT OPPORTUNITIES

The Key Sectors of the National Economy

Shipbuilding, semiconductors, automobile and automobile components, electronics (TV, mobile phone, etc), cosmetics, education services, defence industry, tv and music production (strong imports of Korean culture), textile.

High Potential Sectors

Aerospace, biotechnology, display, environmental industry, IT industry, logistics, nano-industry, cyber-security, new and renewable energy sources, R&D, real estate development, semiconductors, Smart Production, tourism, chemical, venture industry.

Privatization Programmes

Among the latest privatisations in South Korea are the state-owned banks such as the Korea Development Bank and Woori Bank, partially sold in December 2016. However, the government is currently at a standstill in an attempt to fully privatise Woori Financial Holdings because of the low price of its shares due to the increasing market volatility triggered by the COVID-19 pandemic. The privatisation of shipping company HMM is also scheduled for 2022.

Tenders, Projects and Public Procurement

[Public Procurement Service](#), Tenders

[DgMarket](#), Tenders Worldwide

Sectors Where Investment Opportunities Are Fewer

Monopolistic Sectors

Some sectors are totally closed to FDI:

- Nuclear energy
- Broadcasting (TV and radio)

Other sectors have restrictions on FDI (from 25% to 49%)

- Water and thermal energy
- Newspaper publication
- Telecommunication services

Finally, in numerous sectors, FDI cannot exceed 50%. The government has the right to approve FDI in the domain of defence.

Sectors in Decline

Agriculture

Finding Assistance For Further Information

Investment Aid Agency

[Invest Korea](#)

[Korea Trade Investment Promotion Agency \(KOTRA\)](#)

Other Useful Resources

[Korean Free Economic Zones](#)

Doing Business Guides

[Doing business in South Korea \(Thomson Reuters Practical Law\)](#)

[Exporting to Korea \(Export.gov\)](#)