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# **Korean Information & Telecommunications Industry and Foreign Direct Investment Policy**

**20 November 1998**

**Ministry of Information and Communication  
Republic of Korea**

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## **I. Economic Outlook & Reform**

### **1. Economic Outlook of Korea**

### **2. Structural Reform and Market Liberalization**

### **3. Investment in Korean Information & Telecommunications Industry: Attractive Opportunity**

# 1. Economic Outlook of Korea

- Total External Liability: \$150.8 Bil. (August 1998)
- Usable Foreign Reserves: \$45.3 Bil. (October 1998)
- GDP Growth Rate: -5.3% (1st Half of '98)
- Industrial Production Growth: -9.7% (1st Half of '98)
- Consumption: -10.7% (1st Half of '98)
- Fixed Investment: -28.9% (1st Half of '98)

# 1. Economic Outlook of Korea

- Unemployment Rate: 7.4% (August 1998)
- Consumer Prices: 8.6% (1st Half of '98)
- Trade Balances: \$ 28.8 Bil. (Jan Sep, '98)
- Corporate Bond Yields: 9.5% (3 years, '98. 11.4)
- Stock Price Index(KOSPI): 413.5 ('98. 11.4)
- Foreign Direct Investment: \$ 5.53 Bil. (Jan Oct, '98)

## 2. Structural Reform and Market Liberalization

### □ Structural Reform

- Revitalizing the Financial Sector
- Restructuring the Corporate Sector under the Principle of Market Competition
- Making Flexible Labor Market
- Making Lean & Efficient Public Sector

## 2. Structural Reform and Market Liberalization

### □ Market Liberalization

- Further Liberalization of Capital Market
- Propelling Trade Liberalization
- Promoting Foreign Direct Investment
- Opening the Real Estate Market

### 3. Investment in Korean Information & Telecommunications Industry: Attractive Opportunity

- Government's Effort to induce FDI
- Devalued Korean Currency
- Low Share Price
- Highly Educated Workforce in Korean Information & Telecommunications Industry
- Korean telecommunications industry:  
Industry of the 21<sup>st</sup> century



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## **II. Korean Information & Telecommunications Industry : Present & Future**

- 1. General Status**
- 2. Sales of Major Telecommunications Service**
- 3. Information & Telecom Equipment Industry**

# 1. General Status

## ○ Telephone

- Number of subscribers: 20.4 million (at the end of September 1998)

## ○ Cellular and PCS

- Number of subscribers: 12.2 million (at the end of September 1998)

## ○ Planning to invest about 30 billion dollars in high-speed information infrastructure by 2010

# 1. General Status

- Owning world-class exchange and transmission technology
  - CDMA digital mobile phone service
- Production capacity
  - The 6<sup>th</sup> largest producer of communication/information equipment in the world
  - The 3<sup>rd</sup> largest producer of electronic parts in the world (Reed, *Yearbook of World Electric Data*, 1997)
- The high growth rate: 21.1% (1996), 23.7% (1997)
  - 1998-2002 : approximately 12-13%

# 1. General Status

## Prospect for the Information & Telecommunications Industry

(Unit: current price, US\$ Bil.)

	'95	'96	'97	'98	'99	2000	2001	2002	1998-2002 average growth rate
Telecommunications service	14.7	19.3	18.6	21.0	23.6	26.6	30.0	33.8	12.7%
Information & Telecommunications equipment	50.1	55.1	58.7	66.3	74.9	84.7	95.7	117.8	13.0%
Software	2.2	3.4	4.0	5.5	7.5	10.3	14.2	20.1	37.2%

## 2. Sales of Major Telecommunications Service

- The demand for wire service relatively diminishes as the demand for mobile phone service increases to a great extent.
- Sales of wireless telecommunications service account for 44.7% of that of the whole services in the first half of 1998
- The number of subscribers of wireless service is soaring.
- In particular, the number of PCS subscribers reached 4.7 million within a year after the start of the commercial service.

## 2. Sales of Major Telecommunications Service

### Subscribers of Wire/Wireless Telecommunications Service (September 1998)

		Start of the Service	Number of Service Providers	Number of Subscribers	Market Share (%)
Local service		'82. 1. 1	2	20,447,546	42.2
Mobile service	Cellular	'88.6.1	2	7,492,272	15.5
	PCS	'97.10.1	3	4,675,323	9.6
	Subtotal	-	5	12,167,595	25.1
Wireless paging		'82.12.15	13	11,109,455	22.9
On-line communications service		'88.1.1	5	4,270,717	8.8
CT-2		'97.3.20	1	443,194	0.9
TRS		'91.11.20	11	59,309	0.1
Wireless data communications		'97.9.1	3	5,625	0.01
Total				48,503,441	100

### 3. Information & Telecom Equipment Industry

- Telecom, computer and broadcasting equipment and the components
- More than 50% of investment in telecom goes to this area.
- A fast growing industry : 14.8% in 1996, 25.7% in 1997
- Korea began to provide commercial CDMA service first in the world.
- Major producer of computer and broadcasting equipment and components

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## **III. Foreign Direct Investment Policy of Korea**



## III. Foreign Direct Investment Policy of Korea

□ Increasing the level of tax and rent reduction for the companies foreigners invest

○ Tax Reduction

■ Covered business:

- high-tech business, business in foreign investment zone, and service businesses to assist the advanced industries

■ Period and Rate of Tax Reduction :

- National tax: 8 years → 10 years
- Local tax: 8 years → 15 years

## III. Foreign Direct Investment Policy of Korea

- Reduction of the rent of the government or public-owned factory sites
  - Covered industrial complexes:
    - industrial complexes for foreign companies (Kwang-ju and Chon-an)
    - 25 national industrial complexes, and foreign investment zone (to be designated)
  - Rent reduction
    - 100% reduction: high-tech businesses worth over \$1 million,
    - 75% reduction: general manufacturing industries worth over \$10 million

## III. Foreign Direct Investment Policy of Korea

### □ Liberalization of Capital and Foreign Exchange Movement

- Removed the ceilings on foreigners' stock ownership in listed companies or KOSDAQ-registered companies

(May 1998)

- Deregulated equity investment in unlisted companies (July 1998)

- Removed all restrictions on investments by foreigners in government bonds, public bonds and corporate bonds including special bonds (December 1997)

## III. Foreign Direct Investment Policy of Korea

- Liberalization of Capital and Foreign Exchange Movement (Continued)
  - Lifting the restrictions on the overseas borrowing by foreign investors and domestic companies to be repaid in one year or longer (July 1, 1998)
  - All foreign exchange transaction will be liberalized as of January 1, 2001.

## III. Foreign Direct Investment Policy of Korea

- ❑ Liberalization of M&A of Domestic Companies by Foreign Investors
  - Hostile takeovers became completely liberalized in May 1998.
- ❑ Deregulation of Land Acquisition by Foreigners
  - Foreign investors will be allowed to buy land for non-business purposes as well as for business purposes without restrictions.

## III. Foreign Direct Investment Policy of Korea

- Improvement in Corporate Governance and Transparency in Management
  - Early introduction of the so-called consolidated balance sheet for the conglomerates (originally in 2000, now in fiscal year 1999)
  - The conglomerates need to reduce the loans to 100% of their debts by March 1998 and 0% by March 2000.

## III. Foreign Direct Investment Policy of Korea

### □ Increased Flexibility in Labor Market

- The agreement between the government, businesses and employees provides legal basis for laying off employees in the case of mergers or acquisitions.
- Revised the law on layoffs as agreed between the three parties (February 14, 1998)
- Introduced the temporary employee duty system (February 14, 1998)

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## **IV. Rules on Foreign Direct Investment in Telecom**



## IV. Rules on Foreign Direct Investment in Telecom

### □ Current ceilings on foreign investment

#### ○ Telecom

Category	Facilities-based service provider		Special service provider	Value-added service provider
	KT	Others		
Single person ownership	7%	100%	100%	100%
Foreign aggregate ownership	33%	33%	49%	100%
Foreigner as the largest shareholder	Prohibited	49%	Allowed	Allowed

## IV. Rules on Foreign Direct Investment in Telecom

### □ Current ceilings on foreign investment (Continued)

#### ○ Telecom

- To increase the single person ownership of Korea Telecom from 7% to 15% during this year.
- To increase the foreign aggregate ownership of facilities-based service providers from 33% to 49% starting 1999
- To increase the foreign aggregate ownership of special service providers from 49% to 100% starting January 1, 2001

#### ○ Telecom equipment and software

- No restrictions on foreign investment

## IV. Rules on Foreign Direct Investment in Telecom

- ❑ Promotion of M&A in Telecom
  - To allow M&As between telecom companies as well as acquisitions of a telecom company by a non-telecom businesses.
- ❑ Safeguarding fair competition
  - Strengthened the powers of the Korea Communications Commission to make it an effective telecom regulator.

## IV. Rules on Foreign Direct Investment in Telecom

- ❑ Tariff system for promoting competition
  - Maintain the scope of services required to obtain permission for setting rates at a minimum.
  - Local call rates of Korea Telecom and cellular rates of SK Telecom will only be required to report after setting the rates from the point when actual competition is possible.

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## V. Conclusion

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- We welcome investments by foreign enterprises.
- Cooperation for the future
  - The Korean government will provide an optimal environment for the investments by the foreign businesses.