



商業信託
Commercial Trust



Country Profile: South Korea

The Facts

Location	Eastern Asia, southern half of the Korean Peninsula bordering the Sea of Japan and the Yellow Sea
Languages	Korean
Nationality	Korean
Religions	Christian – 26.3% Buddhist – 23.2% Others – 1.3% None – 49.3%
Government	Republic
Head of Government	Prime Minister
Legislature	Unicameral National Assembly
Constitutional Document	Constitution of the Republic of Korea
Economy	South Korea is the world's 8 th largest exporter, one of the G-20 economies. It has a huge well-developed market, ranks 15 th in the world by nominal GDP and 12 th by purchasing power parity. The economy is largely supported by exports of shipbuilding, automobile, electronics, ICT, semiconductor, steel and petrochemical. The government has an effective and efficient law and judicial system, which ensures strong protection of private property rights.
Currency	South Korea Won (KRW)
GDP (2011)	Total – KRW 1.116 trillion Per capita – KRW 35.78 million Real GDP growth – +3.6%
Population	48,860,500 (approx.)
Percentage of population	Homogeneous (except for about 20,000 Chinese)
Area	99,720 km ²
Time zone	KST (UTC+9)
Public Holidays	National holidays – 11
Climate	Temperate



Sources: The National Assembly of the Republic of Korea, Invest Korea, Central Intelligence Agency

South Korea

South Korea ranks 109 in the world in terms of area. It is a small country located in the eastern edge of Asia. The country has seen phenomenal economic growth during the last few decades. South Korea joined the trillion dollar club of world economies in 2004. Currently, it is the 12th largest economy of the world, and the 4th largest in Asia. The economy of South Korea is driven mostly by exports. In 2010, the country became the seventh largest exporter in the world. Many foreign investors are currently looking to invest in South Korea to be able to capitalize on the country's healthy economic condition.

According to the report, S. Korea increases budget to lure foreign investment, by Yonhap News Agency, published on September 19, 2012, the Government of South Korea is set to invest around US\$268.1 million to attract more foreign investments in the country in 2013. This will mark an approximately 36.1 percent increase in the country's spending for attracting foreign investment, as compared to that in 2012. Since the South Korean government is keen on pulling in more FDI to the country, this is perhaps the best time to invest there. Here are some other reasons why foreign investors should invest in the country.

The South Korea Business Climate

There are several reasons to invest in South Korea:

- **Favorable business environment:** According to the 2012 Doing Business Report by the World Bank Group, South Korea ranked 8th out of 183 economies in terms of ease of doing business. The country's ranking for the same was 15 in 2011. The Doing Business Report also revealed rankings by each aspect of doing business. According to the report, South Korea's ranking in terms of the ease of starting a business improved from 59 in 2011 to 24 in 2012. South Korea benefits investors with a favorable business environment.
- **Steady GDP growth:** As of 2012, South Korea has a GDP of more than US\$1 trillion, which is equal to two percent of the global GDP. The country's average annual GDP growth rate from 1970 to 2012 was 1.75 percent. Despite the global economic crisis, the country's GDP growth rate for 2010 and 2011 was 6.2 percent and 3.6 percent, respectively. South Korea is expected to see a steady increase in GDP in the coming years.





- **Extensive Global Network:** On October 15, 2009, a free trade agreement was signed between South Korea and the European Union (EU). The treaty came into effect temporarily on July 1, 2011. Once it finally comes in force, it will eliminate around 97 percent of the taxation barriers between the EU and South Korea. Thus, investors will be able to save a lot of their time, energy and money that would have been otherwise spent on fulfilling the tax requirements. The country has also established free trade agreements (FTA) with the US, and the Association of Southeast Asian Nations (ASEAN). South Korea is also looking to establish free trade agreements with Japan, China, Russia, Israel, South America and several other countries.
- **Huge investment opportunity:** South Korea benefits foreign investors with a rapidly flourishing market. Investing in the following sectors of the country can pay dividends to foreign investors:
 1. **Automotive:** The country's automotive industry has been ranked as the fifth largest in the world for three consecutive years. The industry still has a lot of space to grow. There are opportunities in the manufacturing and supply of low carbon low carbon and electric vehicles.
 2. **Aerospace:** The government of South Korea is currently trying to build an aircraft manufacturing value chain in the country. This requires huge investment, giving foreign investors a chance to enter into the market.
 3. **Energy:** The country currently imports around 96 percent of its energy requirements from foreign countries. However, it is now planning to generate power from renewable sources to reduce dependency on foreign imports. With huge investment requirements in the country's energy sector, foreign entrepreneurs can expect some tax incentives and other benefits for making an investment in this sector.

There are lucrative investment opportunities in the consumer products and education sectors of the country as well.

Setting up a Business in South Korea

According to the Doing Business Guide 2012, published by the World Bank Group, starting a business in South Korea takes seven working days. Here are some important procedures that you need to complete to get started:

- The first thing to do is to decide on a name for the proposed company.
- The next step is applying for approval of the proposed company name, and getting a certificate of name availability.
- Establishing a company also requires:
 1. Filing an application of incorporation
 2. Making the company seal
 3. Obtaining the corporate registration tax bill
 4. Registering the tax identification number
 5. Registering for the Public Health Insurance Program
 6. Acquiring Employment Insurance, the National Pension Fund and Industrial Accident Compensation Insurance.



Business Structures in South Korea

Foreign investors who want to start a business in South Korea require choosing among any of the following four business structures. The Foreign Investment Promotion Act allows them to establish a local corporation and/or a private business. On the other hand, the Foreign Exchange Transactions Act allows them to foreigners can establish a branch of an existing foreign company and/or open a liaison office. Let's now take a look at the some major features of each of these four business types:

- **Local Corporation:** Forming a local corporation in South Korea requires a minimum investment of KRW 100 million. This type of corporation is governed by the Foreign Investment Promotion Act and the Korean Commercial Act. Establishing a local corporation also requires registering with the Korean authority. One major benefit of forming is type of company is that there is minimum liability on the personal assets of the owner. However, the company formation process usually takes longer than usual.
- **Private Business:** Establishing a private business is easier and less time consuming as compared to establishing a local corporation. The minimum investment requirement, KRW 100 million, is the same as required for a local corporation. Forming this type of business doesn't require any registration.
- **Brach of Foreign Company:** A foreign entrepreneur should appoint a local representative, and provide him/her with the power attorney to complete all branch establishment procedures in South Korea. A branch of a foreign company is recognized as permanent establishment in the country. The branch is subject to paying tax at the same rate that a branch of a domestic firm pays. Minimum investment required to form a branch is KRW 100 million.
- **Liaison Office:** Foreign investors who need to conduct some non-sales activities in South Korea can choose to setup a liaison office in the country. By law, a liaison office is not allowed to conduct any business activity that may generate profit.

Types of Corporations in South Korea

Foreign investors who choose to establish a local corporation should make another choice regarding the type of corporation they want to form. There are four types of corporations. Let's take a close look at each type:

- **General Partnership (Hapmyeong Hoesa):** Forming this type of company requires at least two partners.
- **Limited Liability Partnership (Hapja Hoesa):** There can be two types of partners in this type of company – active partners and sleeping partners. While liabilities of active partners are unlimited, there is no liability on the sleeping partners. The authority of the company's management stays with the active partners.
- **Public Limited Company (Chusik hoesa):** Forming this type of corporation requires a minimum of two and a maximum of 50 partners. Liability of each partner is limited to the amount they contributed.
- **Private Limited Company (Yuhan Hoesa):** It is a separate legal entity that requires a minimum of two and a maximum of 50 partners. The liability on each shareholder is limited to what they contributed to the company.

Taxation

The tax system in South Korea requires a business to pay two types of taxes – local taxes and national taxes. Foreign entrepreneurs are liable to pay corporate tax for doing business in South Korea. This corporate tax is charged only on income received from sources within South Korea. Moreover, a foreign corporation doing business South Korea doesn't need to pay any tax for the liquidation of income.

All rules and regulations regarding calculation, payment and reporting of taxable income are applicable to foreign corporations that have a domestic place of business.

A corporation has to pay a total of up to 11 percent for an annual tax base of up to KRW 200 million. This includes 10 percent as corporate tax and one percent as local tax. For corporations with an annual tax base of more KRW 200 million, the total tax implications can go all the way up to 24.2 percent of the total income.

The South Korean government offers certain tax benefits to foreign investors doing business in Korea. Depending upon the nature of business, total income of the corporation and some other criteria, a foreign investor may qualify for full or partial exemption of corporate tax.

The government of South Korea has also established some free economic zones in the country. Foreign investors can gain a lot of benefits if they start and run a business in these free economic zones.

Immigration and Visa Requirements

American citizens do not require a tourist visa for a stay of up to 90 days in South Korea. However, foreign nationals who want to visit the country for professional or business reasons should apply for a visa. South Korea provides different types of visas for those who want to visit the country for professional reasons. For example, scientists coming to the country for research should apply for the E-3. On the other hand, foreigners coming to the country for mentoring purposes should obtain the E-2. When applying for a business visa, a foreigner needs to submit the following documents:

- Copy of valid passport
- Duly filled visa application form
- Two passport size, color photos
- Proof of the fact that the applicant has enough financial resources to stay in the country for the entire length of the stay specified in the application form
- Copy of the business registration from the company in Korea
- A business letter from the parent company in the country of origin, stating the purpose of the visit (the letter should be on the parent company's letterhead)

Immigration to South Korea is subject to certain conditions. In order to obtain permanent residency in the country, a foreigner needs to either be married to a South Korean citizen or invest more than US\$5 million in the country.

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Contact

Website: www.cmltrust.com

Email: inquire@cmltrust.com

Tel: +852 2162 7371