

Interview with Tong-Soo Chung, Head, Invest Korea

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Could you please give a brief presentation of Invest Korea to our readers?

Invest Korea is the national investment promotion agency, responsible for attracting FDI into Korea. We have existed under the current name for the last 5 years. Prior to that time, since 1998, we went by a different name, Korea Investment Service Center. Therefore, Korea has had a full fledged FDI operation for about 10 years.

10 years after the financial crisis of the late nineties and of the creation of Invest Korea through the Foreign Investment Promotion Act, what would be your assessment as to its success in reaching the objectives?

There has been a real paradigm change in terms of inviting FDI before and after 98. Prior to that time, FDI was not really that welcomed. Korea had a different economic strategy which stressed the domestic industry development and encouraged borrowing from overseas. In the aftermath of the crisis, it suddenly became unfashionable and unaffordable to have a heavy debt burden. Therefore, one of the conditions that the IMF imposed in exchange for its rescue package was that Korea opened up its economic system, which we did in 98. Initially, Korea experienced a considerable increase of FDI but then it started declining after 2003. The government tried to address by, among other things, strengthening Invest Korea as an organization. When the new government came to power in February 2008, it made attracting FDI and reversing the trend of the last 3 or 4 years in this regard a priority. Our mission is to increase the FDI inflow, and we have achieved our goals for 2008.

The second half of 2008 was very unstable financially and we have seen an economic downturn practically all over the world. To what extent has this affected FDI flows to South Korea?

A lot of the investments in Korea have been in the manufacturing sector, mainly green field projects, but also through some mergers and acquisitions activity. Typical manufacturing related investments are long term investments, with 20 to 40 years horizon. The investors are companies that have invested in Korea in the same field or in another field so they know the potential Korea has, how fast Korea develops, how fast their market has expanded, how much their business can grow in Korea. They know the current difficulties will pass, there will be Korea after that and their companies will also exist 2-3 years in the future. Strong companies make investments even now in the tough times knowing that investments take 2 to 3 years to implement, so unless they begin now they will not be ready when the good times come back and they will need that extra capacity. In that regard we have been fortunate because many of our manufacturing investors have not been deterred by the short term current disturbances. However, some of the investments that require large amounts of financing such as real estate investments might experience some delays. So, we are seeing both, projects on the industrial side moving forward, and a few others being delayed.

In your view, what is South Korea's key competitive advantage today to attract foreign investments vis-à-vis other emerging players in the region?

Korea's number one advantage is its human resources. You have to look at cost in comparison to productivity, not only at the level of wages. There are multiple factors a company should take into account when they decide to make investments. Not only is productivity lower in China but there are other systemic issues to consider like, for example, the protection of intellectual property rights which is lax in China compared to Korea. You should also take into account the size of the market, the export potential, the quality of the labor, of R&D support, etc. All those factors exist in Korea to left investment, which is why a company like Berna Biotech based their plant in Korea. This is a key example of a global player in the biopharmaceutical sector which decided to come to Korea, establishing a global production base and exporting all around the world including China. Indeed, Korea is geographically well situated, not only because we are in Asia but also thanks to the excellent logistics network and well developed transportation infrastructure. Therefore, you can export to anywhere in the world very easily from Korea.

What is your assessment of the pharmaceutical sector in South Korea in terms of FDI and the development of the domestic industry?

Many leading international pharmaceutical companies have been making public commitments to increase R&D spending, conducting clinical trials, and new drug development in Korea. Indeed, the infrastructure already in place with world class hospitals, medical and R&D institutions can provide support to these global pharmaceutical companies. Currently in Korea we are seeing the 'industry leader effect' after Pfizer announced an MOU with the government in 2007 for plans to invest some \$300 million in the country over the following 5 years. Now the other main competitors in the industry are increasing their level of activity and commitments to invest in Korea as well. Senior executives from many of the leading pharmaceutical companies in the world have been visiting Korea and are realizing what a hidden gem it is. Korea is now well positioned in the global pharmaceutical industry and we are in the take off stage to reach a new level. It is very important that global players have finally noticed and started to pay attention to what they can do in Korea by themselves or in collaboration with Korean local companies, universities, R&D institutions, hospitals, etc. The potential for growth in this field is huge. As the global pharmaceutical companies become more comfortable in doing different things in Korea, FDI investments will naturally follow and increase in the next 5 years. There are already clear signs of this new level of confidence in the exponential growth of investments in clinical trials in recent years, which I believe is only the first step of a broader role Korea can play in the global pharmaceutical industry. In terms of the local industry, what Korea needs today is to use these opportunities to develop its own industry. Developing a new chemical compound is easily a 10 to 12 year effort with a high cost and rate of failure: it's not a risk that many companies can undertake. But some companies, even though they are small by international standards, have developed a niche and are very innovative. It is a challenge for the government and the companies to find a way to develop and grow a domestic pharmaceutical industry to compete with international giants. There is a need to carve out a niche for domestic players, and this is what the government and industry players are struggling to do determine in order to survive and grow. One approach is illustrated by Celltrion which has started out as a Contract Manufacturing Organization (CMO) working with global pharmaceutical companies. This is allowing Celltrion to establish an operation generating a steady income which they can then plough back into R&D for their own product development. I believe that this is a model that suits Korea well, because the country is well known for its manufacturing expertise, so it is possible to transfer manufacturing know-how from other industries into the pharma and biotech sectors and carve out a niche for itself. Another area where Korea is strong is in generics, but companies can still do much better in terms of exporting and marketing their products overseas. One of the most interesting opportunities is in bio-equivalents, an area in which local company Yuyu has established a joint venture with Batelle Memorial Institute called

International Scientific Standards. Batelle's initial entry into Korea was under a program to support foreign R&D centers in Korea. In terms of new drug development, a few companies like LG Life Sciences have been successful in terms of getting regulatory approval and bringing innovative medicines to the global market, and hopefully there will be more because for the moment the vast majority of domestic players are operating through licensing agreements. The pharma and biotech industry has been identified as one of the new pillars of Korea's knowledge based economy, but we have yet to see a big name emerge in this sector as we have seen in others like IT, auto, shipbuilding, etc.

Do you believe this will change in the coming years?

I have been one of the many people advocating for consolidation in the domestic pharmaceutical industry, but unfortunately this has not happened yet. Somebody will have to emerge from the mass of small players to become a giant for Korea, but it is not clear yet who that will be. I suppose that whoever figures out a successful formula will take that leap forward. We have thousands of educated people with PhDs from the US and Europe that have returned to Korea to work in this field, and I believe in that eventually they will help lead it to success. Attracting FDI is of course about offering a good business environment, but also to an extent about the image a country has in the world. Korea is one of the top economies in the world and is surely recognized as a country that has gone a long way, but many still fail to realize just how advanced it is.

How is Invest Korea working to change this and build up the country's name in the world?

I believe we can still do a better job in this regard. Korea has positioned itself as an OK place to do a lot of things, but it's not the first place that will come to the mind of many global business executives. That's the challenge that faces me, my organization and Korea as a whole: how can we elevate this image and heighten the status of Korea as a business-friendly country. What I hear from business executives who visit Korea is that it is a good place to live and do business, but in most of the world it is seriously underrated. Its true value is not well known in the global business community. One of the key obstacles is the lack of use of English in this country, even though things have improved in the last 10 years. I've been advocating to make English the second official language in Korea, which is one of the main pillars of Singapore's success for example. This alone could make a huge difference for Korea's perception in the business world. Also, we need to do a better job in terms of marketing, to let the world know what Korea has to offer. The executives of Pfizer came to Korea with a huge delegation, visited hospitals and other sites, and within 6 months the MOU was signed. So what we need to do is invite more people to come for themselves to take a look at Korea. Getting them here is half the battle.

What is your final message to the potential investors, readers of Pharmaceutical Executive, on behalf of Invest Korea?

Korea is still a hidden gem for many, and I am sure that they will be happy to come and discover all it has to offer. All the necessary ingredients are here for pharmaceutical companies to succeed in business and in their product development. Even the biggest and most successful pharmaceutical companies in the world are now struggling to be more effective in drug discoveries, improve process, and reduce cost. Korea can be the solution they are looking for. We have the qualified people, top-notch universities and hospitals, excellent infrastructure in IT and transportation... all this to support your business objectives. We also have a sizeable and growing domestic market which can provide revenues. With the ratification of the KORUS FTA, there will be even further improvement in the protection of IPR and in general the regulatory framework will be more advanced in order to allow companies to do business comfortably. Therefore, I invite everyone to come, take a look, stay, invest, and enjoy the fruits of success in Korea.

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