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The head of the government agency charged with attracting and promoting FDI in Korea discusses how the country has ideally positioned itself between China and western markets through a series of free trade agreements, and the climate for investment in the life science sector.

Compared to previous years, how successful was Korea at attracting FDI in 2014?

2014 was an excellent year for a variety of reasons. The three main factors were the global economic environment, the enthusiasm surrounding the establishment of the Korea-China FTA and favorable circumstances from previous trade deals, and finally the government's attitude towards foreign investors and FDI related issues.

As far as performance relative to our targets, Japan was the only major market that invested less than expected, but only by a small margin. In 2012, due to the yen's strength at that time, we had a record level of investment from Japan that included a few M&A transactions, and these stunning, somewhat anomalous, numbers have biased some of our expectations upwards. Investment was quite strong from the US and EU due to the Korea-China FTA negotiations, as was investment from China itself.

What are the major implications of the Korea-China FTA that received preliminary approval in February 2015?

The significance of this FTA is much greater than that of the previous FTAs with the EU and US, primarily because we actually face some significant tariffs in China without it whereas the tariffs from the U.S. and EU were relatively low. Furthermore, since it is physically such a close market, the tariffs are actually the primary barrier, instead of a relatively minor one compared to shipping and transport costs. Thus, the FTA will radically change trade conditions between China and Korea once ratified, and make exporting to China much more feasible for companies in Korea.

One of the implications for Korea is that this will make Korea an even better entry point for global firms to target the Chinese market than it currently is. Entering either China or Japan directly can be complicated and/or risky, due to political and regulatory barriers in China, and economic/exchange rate issues in Japan. Positioned between Asia's two largest markets, China and Japan, and with favorable trade conditions with both, Korea will be an ideal location for business to enter the region and locate manufacturing facilities. Furthermore, the FTA will also make it easier for Chinese companies to enter Korea, and our agreements with the US and EU will make us an attractive platform for them to export their products to the rest of the world.

The government is formally promoting this "entry point" mechanism, and as such we are not recommending, either formally or informally, that any Korean or foreign companies invest significantly in China. This is contrary to our position on other markets, as we often will suggest that Korean enterprises invest in the US or EU, as we can expect some degree of reciprocity and continued investment from these markets.

What is the current brand appeal of 'made in Korea' to foreign markets?

In general, 'made in Korea' is seen as a mark of quality amongst Chinese consumers, regardless of product type. In the US or EU this association with quality isn't as strong, but Korean products are usually considered to be good value. However, the size and proximity of the Chinese market makes it far more important to the Korean economy due to the enormous growth potential. Many western companies are beginning to recognize Korea's reputation in China, and many are even seeking to use Korean brands in the Chinese market.

What are some of the unique investment dynamics for the life science industry?

The pharmaceutical and life science industry is a big market, and has a very important relationship with Japan. In recent years Japan has begun to rely on Korea as a high quality but relatively low cost manufacturer of generic products and medical devices. With the devaluation of the yen over the past four years, and the aging population and high healthcare costs, Japanese hospitals and corporations are under pressure to avoid buying high priced American medical devices and pharmaceutical products, and instead are working more and more with Korean suppliers.

Could you give us an overview of Invest Korea’s involvement in the broader government initiative, Pharma Vision 2020, to develop the R&D capacity of the Korean Life Science industry?

We play two important roles in the life science sector, first as fundraiser, and second as an independent source of information and analysis. In recent years, we have helped to promote and advertise the specialized funds that the government has organized, such as the Korea Drug Development Fund and the Global Pharmaceutical Industry Development Funds, amongst potential investors. We are in contact with more than 100 private equity firms from around the world, many of which are specialized in the life science and healthcare industry, and have helped to encourage them to participate in these funds.

In our other role, we provide market research and neutral unbiased advice to the government and potential investors. This also involves acting as a liaison between these different stakeholders, ensuring that there is some degree of communication between these potential foreign investors and the Korean government. For example, last week we hosted a dinner and seminar with representatives from over 50 global life science companies and a few government officials, allowing the executives to have a chance to voice and discuss their opinions. This was a rare chance for these foreigners to be able to communicate their concerns to the government, but more regularly we at Invest Korea help to aggregate and communicate these messages to the government.

Of course, one of our priorities is to also attract high value added investments in life science such as R&D facilities, and since Korea has now built up the necessary infrastructure through public investments, we have a lot of attractive features to showcase to potential investors.

What are some of the current limiting factors for life science FDI in Korea?

At present, the Korean pharmaceutical industry is still protected by some specific regulations, and as a consequence it can be difficult for foreign investors to invest in some companies. The government is working on some deregulation plans that include opening up the hospital market.

Looking forward a few years, what do you think should be the top priorities for Korea in terms of economics and trade?

At present there is a reasonable degree of financial uncertainty in Korea. Part of this is due to Prime Minster Abe’s aggressive efforts to improve growth in Japan. And our economy is dominated by just a few conglomerates, with the top ten accounting for more than 80 percent of our GDP, and over 90 percent of our stock exchange market capitalization. We need to expand our intangible networks, negotiating more aggressive free trade agreements such as the currently proposed Trans Pacific Partnership. Deregulating some of our markets to attract more investment and facilitate competition will also help to diversify our economy.

Timing wise, I would point out that Korea has made a lot of public investments in infrastructure for the life science industry over the last several years, and now that we have this strong basis we can promote it. We have built up the necessary scientific and industrial infrastructure, the healthcare R&D centers, and the human resources and experience needed to carry out some of these high value added activities in biotech and pharma, and now is the time to invest in Korea's life science industry.

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