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## PREFACE

Today, one of the common bottlenecks encountered by most developing nations in carrying out their economic development projects is a lack of domestic capital. In order to fill their shortage of domestic capital, developing countries have been making constant efforts to obtain foreign capital from advanced countries, by providing even more favourable conditions for foreign investment - such as tax exemption and reduction measures for foreign investors and the development of favourable sites for industrial plants.

In February 1970, the Government of the Republic of Korea launched construction of the Masan Free Zone (MAFEZ), as part of its policy to improve the climate for foreign investment, with a view to obtaining foreign capital.

At first, the area determined as the site of MAFEZ had been a vast expanse of tidal flats. Looking at the site, some were sceptical, saying, "Is it really possible to build industrial plants on such a vast expanse of lowland?". Some others sceptically responded to the question, saying that the construction of MAFEZ might turn out to be a waste of government investment funds.

All such scepticism proved to be unwarranted. Construction work on the free export zone was expedited with the spirit and perseverance of pioneers who were determined to make a new history over the reclaimed land. The Government, on the other hand, developed its activities for the inducement of foreign capital.

As a result, the free export zone, which once had been merely a vast expanse of lowland, has now turned into an outpost of Korean export industries. Not only that, MAFEZ will play a pivotal role in forming an industrial belt along the southern coast.

With confidence gained from the successful operation of MAFEZ, the Government decided, in October 1973, to establish the second free export zone at Iri. Construction of the Iri Free Export Zone is now well under way.

## CHAPTER I. OUTLINE

### I. History

- |                  |  |
|------------------|--|
| 1 January, 1970  | The Law for Establishment of Free Export Zone was promulgated.   |
| 16 March 1970    | Site No.1 of the Masan Free Export Zone (MAFEZ) was designated.  |
| 3 April 1970     | The Office of the Masan Free Export Zone Administration was inaugurated.   |
| 14 July 1970     | The Office started accepting application for occupancy.  |
| 18 December 1971 | Construction of the Office Building and Standard Factory Unit No.1 was completed.  |
| 12 October 1972  | Construction of Standard Factory Units No.2, 3 and 4 was completed.  |
| 12 December 1972 | Site No.3 of the Zone was designated.  |
| 16 January 1973  | The Industrial Estates Administration was inaugurated, while dissolving the Office of the Masan Free Export Zone Administration. |

### II. Objectives

The purpose of establishing free export zones is to induce foreign investment, promote exports, increase employment opportunities and develop technology, thereby contributing to the development of the national economy.

### III. Characteristics

- (1) The Free Export Zone is a specially designated industrial area where foreign-invested firms can freely import raw materials or semi-finished goods, free of duty, and manufacture, process or assemble export products.
- (2) The Zone is characteristic of a bonded area where the application of pertinent laws and regulations is waived or relaxed, in whole or in part.
- (3) It is a specially designated industrial estate where the Government constructs various facilities for sale or lease, including plant sites or factory (standard factory) buildings, for occupant firms.
- (4) It is an industrial area where various privileges in legal aspects and tax incentives are provided to foreign-invested firms.
- (5) It is also an over-all administrative district in which all administrative services, including the licensing of foreign investment, are provided on the spot.

CHAPTER II. SITE CONDITIONS AND SCALE

I. Location and Shape

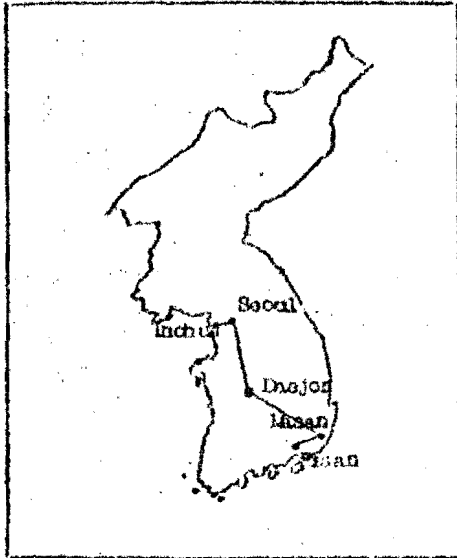


Fig. 1

MAFEZ is located at an expanse of tidal flat to the northern tip of the Masan Bay, in  $35^{\circ}13' N.$  and  $128^{\circ}36' E.$

The Masan City is situated on the southern coast of Korea, about 60 kilometers to the west of Busan, the largest port city in Korea

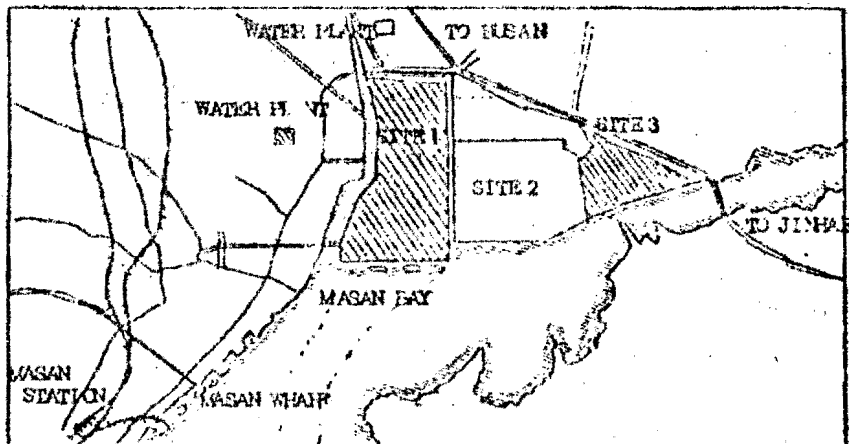


Fig. 2

II. Scale

MAFEZ has a total area of about 94.1 hectares, and is divided into three site

Site No.1 has an area of about 67.5 hectares, in which the development of an industrial estate and the occupancy of the zone by industries have been completed.

Site No.3 has an area of about 26.6 hectares, in which the development of an industrial estate has been completed and the occupancy by industries is now nearly complete.

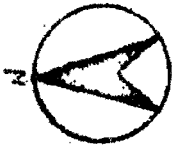
The area of Site No.2 is 78.6 hectares, comprising the Masan City-owned land and privately-owned lands. This area has not yet been designated as part of the free export zone. After an economic feasibility study on it, the Government plans to purchase the privately-owned lands for expansion of MAFEZ.

Table 1 shows the scale of MAFEZ and the total scale of lands programmed for the specific purpose. Figure 3 shows the general layout plan of the free export zone.

Table 1. Present status of MAFEZ

(Unit: Hectare)

|                      | <u>Site No.1</u> | <u>Site No.3</u> | <u>Total</u> |
|----------------------|------------------|------------------|--------------|
| Public facilities    | 3.5              | 1.5              | 3.0          |
| Factory sites        | 36.5             | 19.2             | 55.7         |
| Standard factories   | 8.3              | -                | 8.3          |
| Roads and quay-walls | 19.2             | 5.9              | 25.1         |
| Total Area           | 67.5             | 26.6             | 94.1         |



SCALE: 1/6,000

MISAN FREE EXPORT ZONE

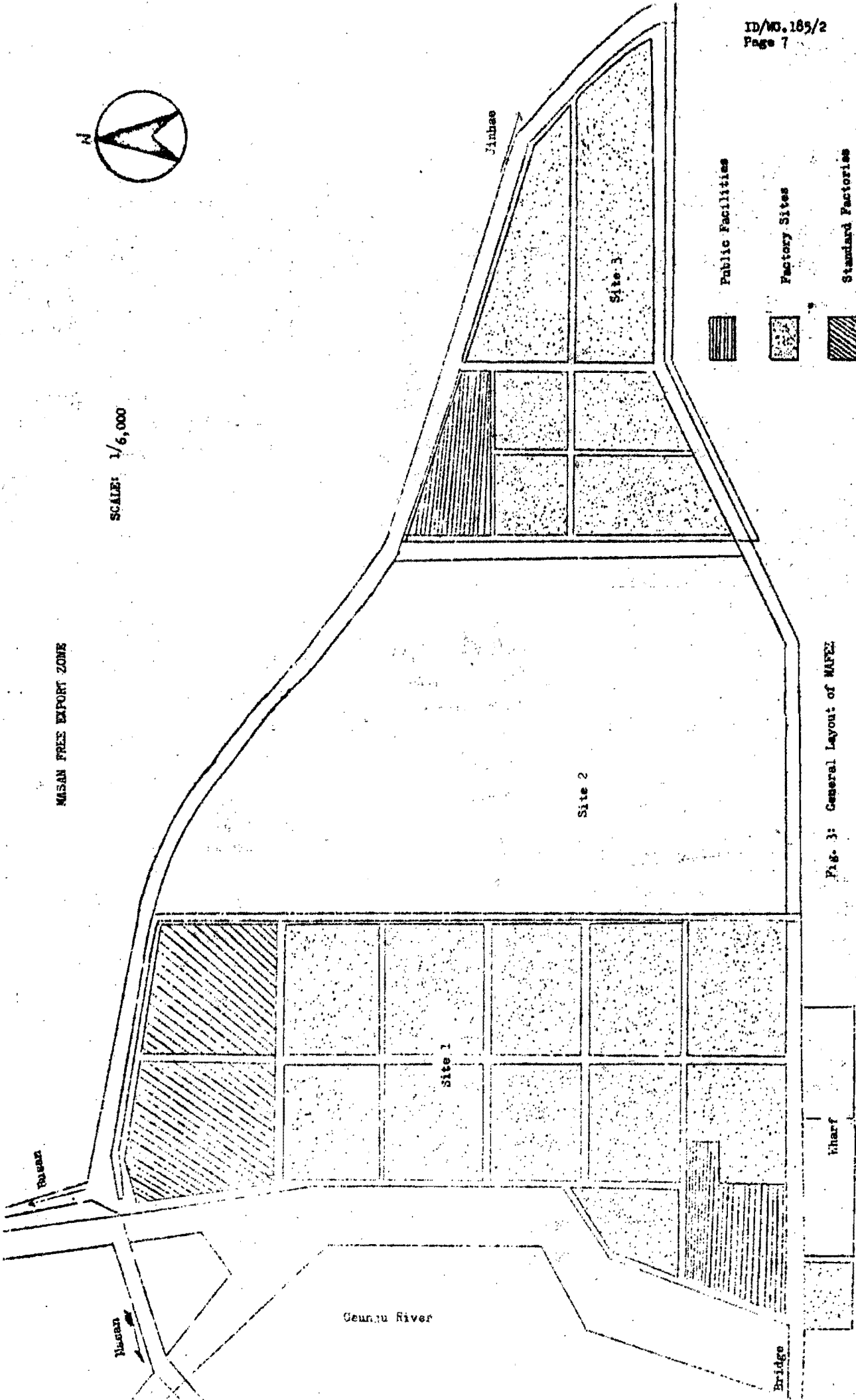


Fig. 3: General Layout of MAFEE

### III. Geology

For construction of MAFEZ, the land was reclaimed to have an average height of 2.0-2.5 metres from the sea level through dredging and on the reclaimed land, earth has been laid in a thickness of 1.0-1.5 metres. The embankment has been constructed with good quality earth.

A solid rock-bed is formed to the depth of 6 to 13 metres. The foundation for all major buildings was built after the piling work.

In order to render the weak ground surface formed by dredging even more solid, a drainage method based on sand pile has been done under the road ground.

Drainage pipes were laid to the depth of about 0.8 metres.

### IV. Utilities

#### 1. Water facilities:

To MAFEZ it is now possible to supply 14,000 tons of industrial water daily. For the water pipes which run to MAFEZ, butt-welded steel pipes were laid so that they may flexibly resist the settlement of the reclaimed land.

#### 2. Power facilities:

The power supplying capacity to MAFEZ is between 10,000 kilowatts. With sufficient surplus power in Masan, the power supply situation in Masan is very good.

#### 3. Drainage facilities:

Rain water falling on the ground surface there runs to the large outfalls located at the intersection, through drains and sewer systems along the roads. From the outfalls, sewages and water are drained through drain pipes connected to the drains. The same drain pipes are utilized in the case of the vertical, sand pile drainage pipes described above.

The factory and office buildings have their independent sewage purification tanks for treatment of solid waste matters, which are linked with special drains so that liquid substances may flow directly through drains.

#### 4. Berth:

MAFEZ has its two own piers, capable of berthing a vessel of a 20,000-ton class. To meet the increasing cargo operating volume of the free export zone, it is planned to additionally construct another pier.



CHAPTER III. TOTAL INVESTMENTS FOR CONSTRUCTION OF MAFEZ AND ECONOMIC EFFECTS

I. Total investments

For construction of sites No.1 and No.3 of MAFEZ, \$16,262,000 had already been invested by the end of 1973. In 1974, \$425,000 will be additionally invested, making the total investments for construction of MAFEZ to amount to \$16,687,000. Table 2 shows a breakdown of investments by construction work.

Table 2. Investments in construction of MAFEZ

(Unit: \$1,000)

|  | <u>Invested</u><br>(by 1973) | <u>Scheduled</u><br><u>investment</u><br>(in 1974) | <u>Total</u><br><u>investments</u> |
|--|------------------------------|--|------------------------------------|
| 1. Site preparation                    | 7,064                        | 325  | 7,389                              |
| 2. Industrial water                    | 488                          | 100  | 588                                |
| 3. Harbour construction                | 2,103                        | -  | 2,103                              |
| 4. Dredging                            | 1,161                        | -  | 1,161                              |
| 5. Public utilities                    | 1,007                        | -  | 1,007                              |
| 6. Standard factories<br>(6 units)     | 3,095                        | -  | 3,095                              |
| 7. Welfare facilities<br>(dormitories) | 787                          | -  | 787                                |
| 8. Ancillary facilities                | 557                          | -  | 557                                |
| Total                                  | 16,262                       | 425  | 16,687                             |

Note: Conversion rate = 400 Won to US\$1.

II. Economic effects

With the construction and successful operation of MAFEZ, the free export zone is expected to increase annual exports to \$350 million and its employment to 45,000 workers by 1976. In addition, the net amount of foreign exchange earnings at MAFEZ alone is projected at \$100 million.

In addition, MAFEZ is expected to bear the correlation effects, both forward and backward, on the related domestic industries, and the effect of obtaining advanced technology from highly industrialized nations.

Table 3 shows the annual exports, employment, and net foreign exchange earnings

Table 3. Annual economic effects of MAFEZ

(Unit: \$1 million  
1,000 persons)

|      | <u>Exports</u> | <u>Employment</u> | <u>Net foreign<br/>exchange earnings</u> |
|------|----------------|-------------------|--|
| 1971 | 0.9            | 1.2               | 0.2                                      |
| 1972 | 9.8            | 7.1               | 2.5                                      |
| 1973 | 70.4           | 21.2              | 19.6                                     |
| 1974 | 200            | 31                | 60                                       |
| 1975 | 250            | 41                | 75                                       |
| 1976 | 350            | 45                | 105                                      |
| 1977 | 350            | 45                | 105                                      |

CHAPTER IV. ADMINISTRATIVE ORGANIZATION AND MANAGEMENT SYSTEM

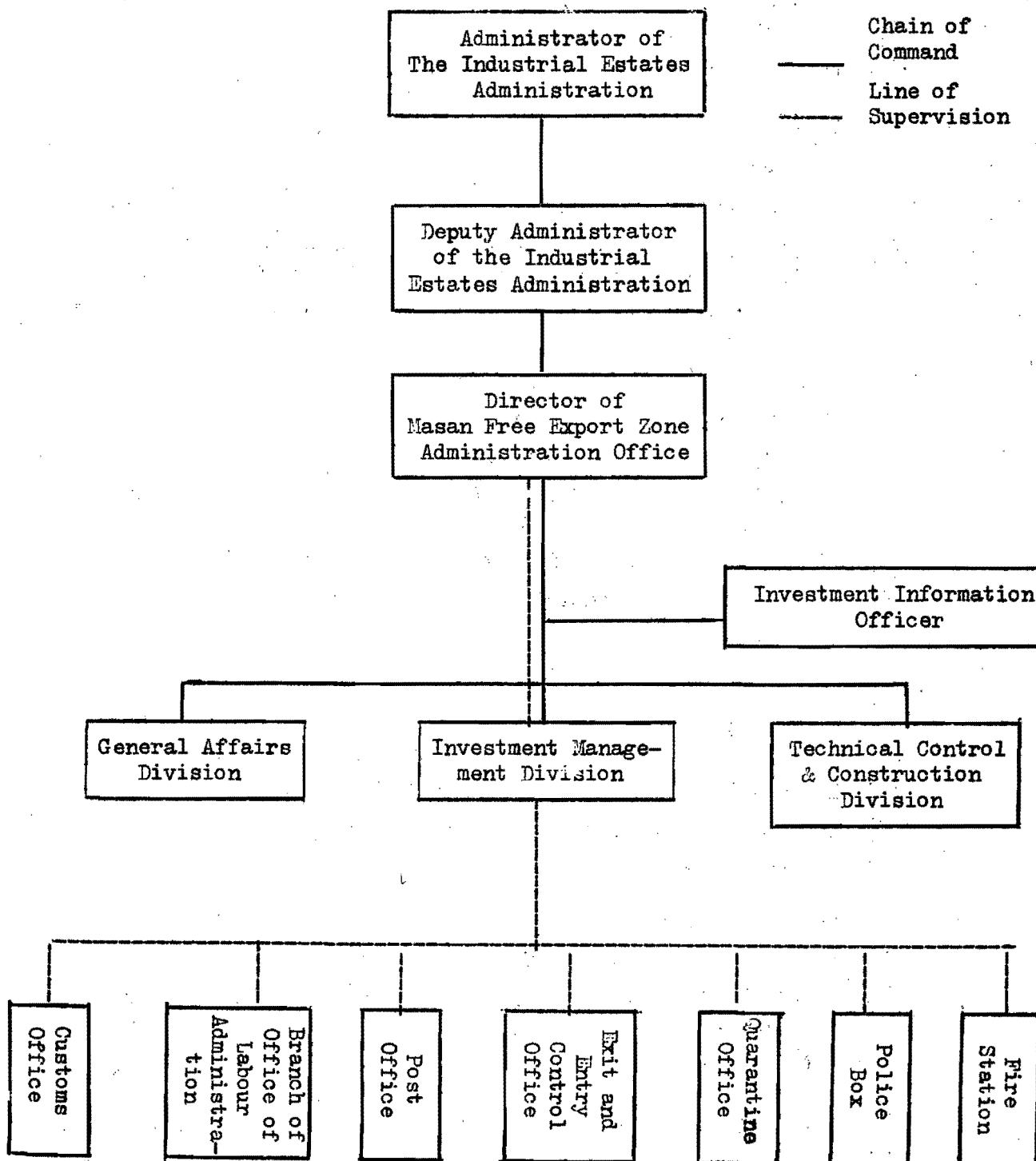
I. Administrative organization and functions

The Industrial Estates Administration has the general control over the management and operation of industrial estates scattered all over the nation. Under the direction and supervision of the Administration, the Masan Free Export Zone Administration Office is primarily in charge of the management and operation of MA

The Director of the Masan Free Export Zone Administration Office has not only the functions described in the following, but also the authority and responsibility to supervise administrative agencies stationed in MAFEZ, such as the customs office, post office, and exit and entry control office.

The organization of the Masan Free Export Zone Administration Office and its functions are as follows:

1. Organization Chart



2. Functions

A. Investment Information Officer:

- (1) Reception of foreign guests.
- (2) Protocol affairs and guide to MAPEZ.

B. General Affairs Division

- (1) Security
- (2) Custody of official seals.
- (3) Appointment, services, education and training of public officials, pension, and other personnel administration.
- (4) Receipt and dispatch, control, safekeeping of documents, and other matters related to documents.
- (5) Budget implementation and accounting.
- (6) Procurement of office supplies.
- (7) Custody of goods and state-owned property.
- (8) Receipt of revenues within MAPEZ, and contracting for lease and sale of land and standard factories.
- (9) Licensing and supervision of supporting firms.
- (10) Co-operation with administrative agencies within MAPEZ.
- (11) Management of utilities and welfare facilities.
- (12) Security guarding of MAPEZ.
- (13) Employment agency service.
- (14) Industrial accident insurance service.
- (15) Labour-employer co-operation service.
- (16) Services for improvement of working conditions.
- (17) Safety management.

C. Investment Management Division

- (1) Licensing and after service of occupant firms.
- (2) Receipt and processing of applications for authorization of foreign investment.
- (3) Receipt and processing of applications for technology inducement.
- (4) Permission for transfer and mortgaging of land and factories.
- (5) Export and import license, and matters pertaining to export promotion.

D. Technical Control and Construction Division

- (1) Technical review for export and import licensing.
- (2) Export and import inspection.
- (3) Technical review for authorization of foreign investment.
- (4) Public nuisance control.
- (5) Matters pertaining to temporary carrying of goods out from the zone.
- (6) Training of skilled workers.
- (7) Vocational training.
- (8) Building permit, and permission for establishment of facilities.
- (9) Supervision of construction work.
- (10) Repair and maintenance of harbour.

II. Management system

1. Occupancy system

A. Qualification for occupancy

Eligible enterprises for operation of business within MAFEZ should be those meeting the following requirements:

- (1) Enterprises manufacturing, processing or assembling goods for export;
- (2) Foreign-invested firms or joint ventures with the nationals of the Republic of Korea.

Enterprises whose business purpose is to sell their products in Korea are not eligible for occupancy in MAFEZ. Korean nationals may take up the occupancy in a joint venture with foreign investors, but not independently.

However, even in the case of a Korean national, he may possibly take up the occupancy if he has been resident in a foreign country for 10 years or more; because such a Korean businessman is regarded as a foreigner.

B. Criteria for permission of occupancy:

A permission for occupancy in MAFEZ is determined by comprehensively reviewing the applicant's export prospect, foreign exchange earning rate, manufacturing technology and labour-intensive degree of the industry. Table 4 shows details of the criteria for occupancy permission.

Table 4. Criteria for permission of occupancy

| Item   | Own factory                           | Standard factory                      |
|--|---------------------------------------|---------------------------------------|
| (1) Export   | \$500 or more per pyong               | \$600 or more per pyong               |
| (2) Net foreign exchange earning rate                    | 20% or more                           | 20% or more                           |
| (3) Employment   | 20 workers or more for each 100 pyong | 25 workers or more for each 100 pyong |
| (4) Manufacturing technology                             | Excellent                             | Excellent                             |
| (5) Investment scale                                     | \$200,000 or more                     | \$100,000 or more                     |
| (6) Use of domestic raw materials or secondary materials | As much as possible                   | As much as possible                   |

Net: Net foreign exchange rate is calculated according to the following formula:

$$\frac{\text{Amount of domestic raw and secondary materials used} + \text{Wages} + \text{Rent} + \text{Utility Rates}}{\text{Export Amount}} \times 100$$

Even when an applicant firm fails to meet part of the foregoing criteria, a permission for his occupancy may be granted in consideration of the objectives of establishing the free export zone.

C. Eligible types of industries for occupancy:

Eligible types of industries are determined and announced by agreement between the Ministry of Commerce and Industry and the Industrial Estates Administration, taking into consideration their competition with related domestic industries on the world market. Table 5 shows the details of the eligible types of industries:

Table 5. Eligible types of industries for occupancy in Free Export Zone

| Type of industry                                       | Restrictive measures   |
|--|--|
| (1) Food processing                                    | Excluding laver for export to Japan                          |
| (2) Cosmetics  |  |
| (3) Plastic products                                   |  |
| (4) Rubber products                                    |  |
| (5) Leather products                                   |  |
| (6) Packing materials                                  |  |
| (7) Art printing                                       |  |
| (8) Potteries  | Excluding traditional potteries                              |
| (9) Metal products                                     | Except spoons, forks and table-ware                          |
| (10) Machinery and apparatus                           |  |
| (11) Electric appliances and equipment                 |  |
| (12) Electronics industry products                     |  |
| (13) Yachts and small boats                            |  |
| (14) Optical instruments and appliances                |  |
| (15) Medical and scientific instruments and appliances |  |
| (16) Precision machines                                |  |
| (17) Musical instruments                               | Excluding guitars for export to the United States of America |
| (18) Furnitures and decorative items                   |  |
| (19) Handicrafts                                       | Excluding wigs and false eyelashes                           |
| (20) Toys  |  |
| (21) Travel equipment and sporting goods               |  |

Table 5. Eligible types of industries for occupancy in Free Export Zone (cont'd)

| Type of industry   | Restrictive measures               |
|--|------------------------------------|
| (22) Permissible items among textile products            | Export countries may be restricted |
| 1. Metal thread  |                                    |
| 2. Sewing thread   |                                    |
| 3. Silk fabrics  |                                    |
| 4. Fabrics woven of flax, hemp, ramie or jute            |                                    |
| 5. Clothing, knitted                                     | Excluding nylon products           |
| 6. Men's outer garments, knitted                         |                                    |
| 7. Sweaters  | Excluding acrylic products         |
| 8. Clothing, textile fabric                              |                                    |
| 9. Women's and children's outer garments, textile fabric |                                    |
| 10. Clothing accessories                                 |                                    |
| 11. Stockings  |                                    |
| 12. Gloves   |                                    |
| 13. Gaiters  |                                    |
| 14. Headgear and accessories                             |                                    |

However, even in the case of the types of industries and items not listed or types of enterprises restricted in the above, they may be allowed for occupancy with approval from the Minister of Commerce and Industry as he deems it specially needed under the trade policy for efficient operation of the free export zone.

D. Method of occupancy:

An occupant firm may construct its own factory on a leased plant site or take up the occupancy of a standard factory constructed by the Government through the purchase or lease.

E. Procedures for occupancy:

- (1) Any applicant for occupancy in MAFEZ should submit the following documents either to the Industrial Estates Administration or the Masan Free Export Zone Administration Office:



- (1) Project plan;
  - (2) Contract on joint venture or papers certifying the acceptance of stocks or shares;
  - (3) Documents evidencing the right of representation (in the case of applying for authorization of agency);
  - (4) Nationality certificate of a foreign investor wishing to accept stocks or shares, and a letter of recommendation issued by the head of a Korean diplomatic mission overseas;
  - (5) Transcript of the Articles of Incorporation or the corporation register of an enterprise, whose stocks or shares the applicant wish to underwrite.
- (2) Conclusion of land or factory lease contract:
- (1) An enterprise granted of the permission for occupancy should conclude a land or factory lease contract with the Masan Free Export Zone Administration Office within 50 days from the date of approval. When it is impossible to conclude the contract within that period, it should submit an application for extension of the period;
  - (2) The lease period is 10 years, and the lease contract is renewable upon the expiry. Upon concluding the contract, the occupant firm is required to deposit an amount equivalent to the rent for 3 months as a key money.
- (3) Permission for factory construction:
- An occupant enterprise is required to submit an application for construction of its own factory to the Masan Free Export Zone Administration Office within 70 days from the date of approval. It should apply for the extension of the period in case it fails to file the application within that period.

2. Land and standard factory management system

A. Land management system:

Under the Law for Establishment of Free Export Zone, the Administrator of the Industrial Estates Administration is authorized to sell or lease the plant sites to the occupant firms within a free export zone. Under the present Government policy, however, the land is only leased, and not offered for sale.

(1) Agency determining lease price

The lease price for land is determined by agreement between the Administrator of the Industrial Estates Administration and the Minister of Finance.

(2) Lease price and payment method

- (i) Lease price: W75 per pyong monthly;
- (ii) Payment method

Rent should be paid by the end of each month.  
 In the event of a failure to pay it within the period, arrears of rent equivalent to 5 per cent of the rent are collected.

(3) Allotment of land

Land is allotted at the minimum piece of 500 pyong or more, according to the business scale of the occupant firm. However, for the efficient utilization of land, plant sites are allotted within the limit of two times the building space.

B. Standard factory management system:

- (1) Total number of factory units: 6
- (2) Total floor space: 19,440 pyong  
 (1,080 pyong/floor x 3 stories  
 x 6 units)

(3) Structure:

Standard factories are of three-storied, reinforced concrete buildings, each unit equipped with toilets, hoists, electric and fire facilities, heating facilities and various other modern facilities, such as dust shoots. Their total load is 1,000 kilogrammes per square metre and a loading capacity, 600 kilogrammes per square metre.

(Photograph of standard factories)

(Caption ) standard factories

- (4) Agency determining sales or lease prices (see 2.A.(1), page 17)
- (5) Sales or lease prices

|           | <u>Lease price</u>        | <u>Sales price</u>       |
|-----------|---------------------------|--------------------------|
| 1st floor | US\$0.5558/m <sup>2</sup> | US\$69.18/m <sup>2</sup> |
| 2nd floor | US\$0.4946/m <sup>2</sup> | US\$61.60/m <sup>2</sup> |
| 3rd floor | US\$0.4718/m <sup>2</sup> | US\$58.76/m <sup>2</sup> |

(6) Payment method

- (i) Rent (see 2.A.(2)(ii), page 17)
- (ii) Sale

- (1) Payment in full sum, or
- (2) Installment payments:

Upon concluding the sales contract, 20 per cent of the total amount is payable in lump sum, and the balance payable in equal instalments over 4 years, from 9 months after the contract signing. (Annual interest rate: 5%).

### 3. Export-import system

#### A. Waiver of export-import business licence:

Occupant enterprises are regarded as those who have obtained trader's business license prescribed in the Foreign Trade Transaction Law, and allowed to freely operate the export-import business without the license.

#### B. Export-import licence:

In importing raw materials, machinery and equipment needed for production at one's own factory, the occupant enterprise may import even those import-banned items or import-restricted items prescribed in the Foreign Trade Transaction Law, with a permission from the Director of the Masan Free Export Zone Administration.

#### C. Abolition of Raw Material Requirements Certification System:

In MAPEZ, the raw material requirements certification system applied in general industries has been waived, thus imposing no restrictions on the import quantity of raw materials.

#### D. Export inspection system:

The Administrator of the Industrial Estates Administration is authorized to waive an export inspection if he deems it unlikely to damage the reputation of the export goods. More in detail, no inspection of export goods is required in the following cases:

- (1) Products of an enterprise with similar inspection facilities to those of a designated inspection agency prescribed in the Export Inspection Law, which have been inspected by the enterprise itself;
- (2) Products of an enterprise which either has obtained the permission for use of the Korean Industrial Standards Mark or has the quality control system required for the production of standard goods of a foreign country similar thereto;
- (3) Products of an enterprise which employs one or more inspection officer prescribed in the Export Inspection Law as its quality control specialist, which have been subjected to the quality inspection prescribed in the same law;
- (4) Goods on which it has been stipulated under an export letter of credit or an export contract to have undergone the inspection by an international inspection agency;

- (5) Goods produced under a bonded processing and export contract;
- (6) Goods produced under an order placed by a firm selling them by attaching its own trademark or merchandise name, through its own sales network;
- (7) Products of an enterprise whose rate of failure in export inspection in the previous year is not more than 3 per cent and which has not been adjudged as responsible for any quality claim, and which have been inspected by the enterprise itself;
- (8) In cases where an occupant firm exports, without cost, its goods manufactured, processed or assembled by using raw material imported, without cost; and where it exports, with compensation, the goods manufactured, processed or assembled by using raw materials imported, with compensation, through an inter-account transfer method.

4. After service system for occupant enterprises

A. Permission for change of product items:

If an occupant enterprise wishes to change items it manufactures, processes or assembles, it is required to obtain a permission for such change. Any occupant firm changing its items without permission will be subject to imprisonment for not longer than five years or a fine equivalent to two to five times the value of the goods so manufactured, processed or assembled.

B. Use and management of imported goods:

Goods carried into or imported to the free export zone should be kept or used in a bonded state only within the zone. However, in the following cases, the goods may be carried out from the free export zone temporarily, with approval from the Director of the Masar Free Export Zone Administration Office and permission of the customs director:

- (1) In the event of carrying the imported machines out for repairing;
- (2) In the event of carrying them out for processing outside the zone. However, the processing of them outside the zone is allowed within the limit of 40 per cent of the total process.

C. Restriction on carrying in products:

Goods imported into the free export zone, products manufactured, processed or assembled in the zone or waste goods and by-products generated in the production process should not be carried into a tariff area. Accordingly, an occupant enterprise is required to manufacture, process or assemble the raw materials it has imported for export in their entirety. Waste goods and by-products generated in its production process should be either exported abroad or burned or destroyed. However, in the following cases, they may also possibly be carried into a tariff area:

- (1) Those goods which are inevitably carried into since they are deemed essential for the national defence or the national economy;
- (2) Such goods required to be imported inevitably as may be carried into for the purpose of using them for production of export goods;
- (3) Waste goods (including packing materials used for the imported goods) or by-products generated in the production process of an occupant enterprise which are deemed specially necessary to be carried into.

D. Transaction system of goods within the zone:

When products of an occupant enterprise are supplied to other occupant firms as raw materials, they may possibly be sold with approval from the Director of the Masan Free Export Zone Administration Office. However, in this case, such sales should not exceed 40 per cent of the occupant firm's actual export records of the past one year.

E. Restriction of transfer of land:

Occupant enterprises are required to obtain permission from the Director of the Masan Free Export Zone Administration Office for their transfer, lease (including sub-lease), or letting others use, or offering for mortgage of the land or factories owned by them.

The parties to a contract on transfer or use are limited to occupant enterprises or supporting enterprises.

Any occupant firm which has transferred, leased or let others use its land or factories without permission will be subject to imprisonment of not more than five years or to a fine of not more than W5 million.

F. Reporting of business activities:

Occupant enterprises are required to submit their reports to the Director of the Masan Free Export Zone Administration Office on the following matters:

- (1) Status of the manufacture, processing or assembly of goods;
- (2) Import status of goods;
- (3) Export status of goods;
- (4) Arrival status of goods under a foreign investment;
- (5) Suspense of business for more than a month;
- (6) Others.

G. Occupancy cancellation system:

- (1) Grounds for cancellation

When an occupant enterprise comes under one of the following items, its occupancy permission may be cancelled:

- (1) When it fails to conclude a contract on sale or lease of the land or a standard factory within 50 days from the date of permission for occupancy;
- (2) When it fails to apply for a permission for construction of factory building within 70 days from the date of permission for occupancy;
- (3) When it continues to suspend business for more than three months, without justifiable reasons;
- (4) When it violates the terms and conditions of permission;
- (5) When it is subjected to punishment for violation of the provisions of the Customs Law.

(2) Effects of cancellation

(i) Suspension of business activities

When a permission for occupancy is cancelled, the occupant firm must immediately discontinue its business, except the following activities:

- (1) Activities for export or import that has been approved at the time of the cancellation;
- (2) Subsidiary activities related to the business activities in the preceding item.

The period for the foregoing residual business activities is limited to not more than 50 days.

(ii) Settlement of business

Any occupant enterprise cancelled of the permission for occupancy should submit a business settlement plan within 15 days from the date of cancellation. The plan shall state the following matters:

- (1) Transferred and scheduled date for transfer;
- (2) Land or factory to be transferred;
- (3) Furniture;
- (4) Raw materials and secondary materials;
- (5) Personnel employed;
- (6) Remittance and disposition of proceeds from sales;
- (7) Other matters.

(iii) Transfer of building

Any occupant firm cancelled of the permission for occupancy should transfer its owned land or factory to an occupant enterprise or a supporting enterprise within three months. The land or factory not transferred within the same period will be purchased back by the Government at an announced price.

5. Free export zone security system.

A. Restriction on exit and entry

Personnel and vehicles having access to the free export zone are required to carry the pass and vehicle pass issued by the Director of the Masan Free Export Zone Administration Office; and goods carried or transported are required to be examined by the customs director.

B. The boundary of MAFEZ is set by the fence. For security guarding of MAFEZ, there are 16 security guards standing on guard at five different posts.

## CHAPTER V. INVESTMENT INCENTIVES

In order to expedite the occupancy of MAFEZ by foreign-invested enterprises, various privileges are granted to occupancy enterprises both in tax and legal aspects. Most typical examples of investment incentives provided are the finalization of all administrative procedures, including those for approval of foreign investment, at MAFEZ, the guarantee of remittance of principal and interest, tax incentives, waiver of the application of pertinent laws and regulations, in whole or in part, stationing of supporting administrative agencies, and occupancy of supporting enterprises.

### I. Treatment as Korean nationals

Foreign-invested enterprises and foreign investors are provided with the same treatment as for the nationals of the Republic of Korea on their business activities unless otherwise specially prescribed in the law. Accordingly, except where special restrictions or privileges are provided in other laws, the same treatment as the Korean nationals is guaranteed. The non-nationalization of their properties is, of course, guaranteed.

### II. Finalization of administrative procedures on the spot

The Masan Free Export Zone Administration Office is empowered with the authority delegated from the Government or local autonomous bodies to handle various administrative services, including the authorization of foreign investment. Its authorized services are as follows:

#### A. Matters delegated by the Minister of Economic Planning Board:

- (1) Approval, cancellation and after service of foreign investment;
- (2) Authorization, cancellation and after service of technology inducement contracts.

#### B. Matters delegated by the Minister of Commerce and Industry:

Matters pertaining to export and import business.

#### C. Matters delegated by the Minister of Home Affairs:

Matters pertaining to permission for acquisition of land by foreigners.



D. Matters delegated by the Minister of Finance:

Matters pertaining to the management of state-owned properties.

E. Matters delegated by the Minister of Health and Social Affairs:

Matters pertaining to public nuisance.

F. Matters falling under the authority of the head of a local autonomous body:

Building permit.

III. Waiver of application of pertinent legal provisions

A. Foreign Capital Inducement Law

- (1) Under the Foreign Inducement Law, foreign investment and technology inducement contracts are required to be deliberated at the Foreign Capital Inducement Deliberation Committee. Such requisite procedures are not necessary, however, in the case of a free export zone.

- (2) Inquiry to related Government Ministries

The procedures for inquiring into the opinion of the competent Minister (Minister of Commerce and Industry) required under the Foreign Capital Inducement Law prior to the authorization of a foreign investment or a technology inducement contract, are not necessary.

- (3) Possibility of importing domestically available items

The Foreign Capital Inducement Law provides for, that no domestically available items may be imported with foreign capital. In the case of a free export zone, the relevant provisions are waived, rendering it possible to import even such domestically available items with foreign capital.

B. Foreign Trade Transaction law

- (1) Waiver of procedures for licensing export-import business (Cf. chapter IV, III-1).
- (2) Possibility of importing import-banned and import-restricted items prescribed in the Semiannual Trade Plan announced (Cf. chapter IV, III-2).
- (3) Partial exemption of export inspection (Cf. chapter IV, III-3).

C. Law on Employment of Persons Subject to Veterans Relief

The law on Employment of Persons Subject to Veterans Relief is not applicable to occupant enterprises. Under the law, any enterprise with 16 or more workers employed is required to employ such persons subject to veterans relief within the limit of 3 to 8 per cent of the total number of employees. However, such obligations are not placed on occupant enterprises.

- D. On other businesses operated by occupant enterprises, the legal provisions for the respective business in relation to the requisite approval, license and registration are not applied. For instance, in the case of an enterprise manufacturing and exporting firearms, it is required to obtain permission from the Minister of Home Affairs under the Firearms and Explosives Control Law, and to obtain an export license from the Minister of Home Affairs each time it exports its products. Such requisite permission is not necessary, however, in the case of occupant enterprises in a free export zone.

#### IV. Tax exemption and reduction

Various taxes are exempt or reducible on occupant enterprises under the Foreign Capital Inducement Law, Business Tax Law and Income Tax Law.

##### 1. Tax exemption and reduction under foreign capital

###### Inducement Law

##### A. Income tax, corporation tax, property tax and acquisition tax:

These taxes are exempt for the initial five years and reducible by 50 per cent for the following three years.

##### B. Profit dividend and dividend of earned surplus accruing from principal owned by foreign investor:

Tax is exempt for the initial five years and reducible by 50 per cent for the following three years.

##### C. Customs duty, commodity tax and textiles tax on capital goods, raw materials, parts and semi-furnished goods imported by occupant firms:

Exempt in full amount permanently.

##### 2. Tax exemption and reduction under Business Tax Law

Under the Business Tax Law, business tax is exempt on such foreign exchange earning businesses as export and tourist businesses. Occupant enterprises, since they export the goods in their entirety, are eligible for being exempt permanently from business tax.

##### 3. Tax exemption and reduction under Income Tax Law

Foreigners engaged in an occupant enterprise are exempt from salary and wage income tax permanently in full amount under the Income Tax Law.

##### 4. Table 6 shows the tax rates exempt and reducible for occupant enterprises:

Table 6. Tax exemption and reduction for occupant firms

| Tax                           | Tax basis  | Tax rate                            | Details   |
|-------------------------------|--|-------------------------------------|---|
| 1. Income tax                 | Amount of income of receipts   | 16.5%-60.5%                         | Exempt for 5 years, and reducible for the following 3 years |
| 2. Corporation tax            | (1) Income of each business year   | (1) Open corporation: 16.5%-27.5%   | Exempt for 5 years, and reducible for the following 3 years |
|                               | (2) Liquidation income   | (2) Closed corporation: 27.5%-49.5% | "   |
| 3. Property tax               | Value of land, building and ship   | (1) Land: 0.2%                      | "   |
|                               |  | (2) Building and ship: 0.3%         | "   |
| 4. Acquisition tax            | Acquisition value of real estate, motor vehicles, buildings and ship     | (1) 1%                              | "   |
|                               |  | (2) 2% in Seoul and Pusan           | "   |
| 5. Commodity tax              | (1) Delivery price and quantity at manufacturing plant                   | 5 to 100% of 66 items               | Goods imported as capital goods are free from the tax       |
|                               | (2) Import declared value and quantity                                   |                                     |   |
|                               | (3) Other sales price and quantity                                       |                                     |   |
| 6. Textiles tax               | 10. Items  | 10 to 100%                          | When imported as capital goods, tax is exempt               |
| 7. Business tax               | Amount of receipts   | 0.5 to 3%                           | Permanently exempt on foreign exchange earning business     |
| 8. Salary and wage income tax | Salaries and wages paid to foreigners engaged in a foreign-invested firm | 7.7 to 55%                          | Permanently exempt  |

V. Guarantee of remittance overseas of principal and interest

The remittance overseas of profit dividend is guaranteed from the initial year of business operation and that of principal of investments from two years after the beginning date of business operation.

However, the remittance of proceeds from sales may be limited, in consideration of the foreign exchange situation, to 20 per cent of the amount of investments or of proceeds from sales for each year.

VI. Stationing of supporting administrative agencies

In order to expedite administrative services for occupant enterprises, these government agencies in charge of necessary administrative services for business activities by occupant firms are located by establishing branches or stationing their personnel in MAFEZ. For such administrative services, there are now Customs Office, Post Office, branch of the Office of Labour Affairs, Immigration Office, Quarantine Office, Fire Station, and Police Box in MAFEZ.

VII. Occupancy of supporting enterprises

In MAFEZ, there are supporting enterprises established, such as warehousing, express service, loading and unloading, and packing firms, to support the business activities of occupant firms.

A. Criteria for permission of occupancy by supporting enterprises

Supporting enterprises applying for occupancy in MAFEZ are required to obtain permission, which is granted according to the following criteria:

- (1) Suitable business types for operation of a free export zone.
- (2) Enterprises which have obtained approval, license and registration prescribed in the pertinent laws and regulations governing the respective business.
- (3) They must have business plans suitable for supporting business activities of occupant enterprises.
- (4) They must have a definite financial basis.

B. Scope of supporting firms

The scope of eligible supporting firms for occupancy in a free export is as follows:

- (1) Banks
- (2) Insurance business
- (3) Restaurants
- (4) Transportation, warehousing, loading and packing, customs broker and trade services
- (5) Service business
- (6) Retail business

C. Occupancy status of supporting firms, as shown by the following table:

Table 7. Supporting firms now having occupancy in MAFEZ

| Business type   | Number of firms |
|---|-----------------|
| (1) Banks   | 2               |
| (2) Insurance firms   | 3               |
| (3) Restaurants   | 2               |
| (4) Transportation, warehousing, loading and packing, customs broker and trade services | 5               |
| (5) Service business  | 8               |
| (6) Retail business   | 3               |
| Total   | 23              |

### III. Supporting facilities

There are the following supporting facilities in and outside MAFEZ to indirectly support production activities of the occupant enterprises:

- (1) Apartments for foreigners (outside the zone).
- (2) Dormitories for employees (within the zone).
- (3) Exhibition hall for products of occupant firms (within the zone).
- (4) Exhibition hall of domestic raw materials and secondary materials (within the zone).

IX. Special protection from labour disputes

Concerning labour disputes and mediation within a free export zone, the same provisions for public utilities in the Labour Dispute Adjustment Law are applied to the occupant enterprises, so as to protect their production activities from labour disputes.

Major details of such protective measures provided to public utilities under the law are as follows:

- (1) Any labour dispute in public utilities will be speedily handled in preference to any other labour dispute.
- (2) It is provided that labour disputes should not be raised within 20 days in ordinary business enterprises or within 30 days in public utilities from the date of filling a report on such labour disputes.
- (3) If a labour dispute is concerning public utilities, the Minister of Health and Social Affairs may decide on an emergency mediation. When his decision on an emergency mediation is announced, the workers are required to discontinue dispute activities immediately, and may not resume dispute activities unless 30 days have elapsed since the date of such announcement.

X. Labour supply and employment service

The Masan Free Export Zone Administration Office, through its employment registration card system, provided assistance in recruiting workers for occupant enterprises, for supply of excellent and literate workers.

ANNEX 1

PRESENT STATUS OF MAFEZ (As of 31 December 1973)

1. Lease Status

(Unit: Hectare)

| Category         | Leasable Area | Leased Area | Remaining Area |
|------------------|---------------|-------------|----------------|
| Own Factory      |               |             |                |
| Site No. 1       | 36.0          | 36.0        | -              |
| Site No. 3       | 18.5          | 12.9        | 5.6            |
| Total            | 54.5          | 48.9        | 5.6            |
| Standard Factory | 6.9           | 6.6         | 0.3            |

2. Occupancy Status

A. Summary

| Category         | Occupant Firms | In Operation | Under Construction | Yet to start Construction |
|------------------|----------------|--------------|--------------------|---------------------------|
| Own Factory      |                |              |                    |                           |
| Site No. 1       | 55             | 42           | 8                  | 5                         |
| Site No. 3       | 17             | 1            | 13                 | 3                         |
| Standard Factory | 43             | 28           | 1                  | 14                        |
| Total            | 115            | 71           | 22                 | 22                        |

## B. Occupancy Status by Type of Industry

| Type of Industry                                      | Number of Enterprises |
|---|-----------------------|
| Electronics industry products and electric appliances | 27                    |
| Machinery and metal products                          | 42                    |
| Industrial chemicals                                  | 16                    |
| Handicrafts and toys                                  | 10                    |
| Textiles  | 7                     |
| Food processing                                       | 2                     |
| Optical instruments                                   | 6                     |
| Others  | 5                     |
| Total   | 115                   |

## C. Annual Status of Company

| Year  | Number of Firms |
|-------|-----------------|
| 1970  | 4               |
| 1971  | 18              |
| 1972  | 47              |
| 1973  | 46              |
| Total | 115             |



3. Investment Status

(Unit: \$1,000)

|       | Joint Venture |        | Foreign-Invested |        | Total  |        |
|-------|---------------|--------|------------------|--------|--------|--------|
|       | Number        | Amount | Number           | Amount | Number | Amount |
| Japan | 29            | 8,781  | 77               | 65,907 | 106    | 74,588 |
| USA   | 1             | 1,100  | 6                | 1,269  | 7      | 2,369  |
| Other | -             | -      | 2                | 959    | 2      | 959    |
| Total | 30            | 9,881  | 85               | 68,035 | 115    | 77,916 |

Note: In "other" nationalities, there are an Italian firm and a USA-Japan joint venture.

4. Export and Employment Status

| Year | Exports<br>(\$1 million) | Employment<br>(1,000 persons) |
|------|--------------------------|-------------------------------|
| 1971 | 0.9                      | 1.2                           |
| 1972 | 9.8                      | 7.1                           |
| 1973 | 70.4                     | 21.2                          |

ANNEX 2

LAW FOR ESTABLISHMENT OF FREE EXPORT ZONE

Article 1 (Purpose)

The purpose of this Law is to establish Free Export Zones in specified coastal areas and to induce foreign investment, with a view to ensuring the promotion of exports, increased employment and the improvement of industrial technology, thereby contributing to the nation's economic development.

Article 2 (Definition of Terms)

Paragraph 1: The term "Free Export Zone" used in this Law (hereinafter referred to as "Free Zone") shall denote an area designated pursuant to Article 3 of this Law which shall have the characteristics of a bonded area where the application of pertinent laws and regulations shall be waived or relaxed in whole or in part.

Paragraph 2: The term "Occupant Enterprises" used in this Law shall denote an enterprise permitted in accordance with paragraph 1, article 8.

Paragraph 3: The term "Foreigner" used in this Law shall denote a natural person who holds foreign nationality, a juridical person created under foreign laws or a natural person who holds the nationality of the Republic of Korea but who has resided abroad for not less than ten (10) years.

Paragraph 4: The term "Tariff Area" in this Law shall denote any area outside a Free Zone in which customs duties are levied.

Paragraph 5: The terms "exports" and "imports" in this Law shall denote exports and imports conducted in accordance with the Trade Transactions Law.

Article 3 (Designation of Free Zone)

A Free Zone shall be designated by the Minister of Commerce and Industry from a list of prospective areas selected by the Minister of Construction following consultation with the Minister of Home Affairs.

Article 4: (Construction of Free Zone)

Paragraph 1: The preparation of the site and construction of roads, water supply and harbour facilities, including dredging shall be conducted by the Minister of Construction. However, certain occupants as determined by Presidential Decree may be permitted to conduct site preparation themselves when they so desire. Such a case requires the approval of the Minister of Commerce and Industry in consultation with the Minister of Construction.

Paragraph 2: Only the Administrator of a Free Zone, occupant enterprises and those permitted under paragraph 3, article 8 (hereinafter referred to as "supporting-enterprises"), and others as prescribed by Presidential Decree may construct plants and other structures (hereinafter referred to as "plants, etc.").

Article 5 (Establishment of Administration Office)

Paragraph 1: In order to manage and operate the affairs of a Free Zone, a Free Zone Administration Office (hereinafter referred to as "Administration Office") shall be established in each Free Zone and function under the jurisdiction of the Minister of Commerce and Industry. However, when necessary two or more Free Zones may be placed under the management and operation of one Administration Office. In such a case a field office may be established in the Zones or Zones having no Administration Office of their own.

Paragraph 2: The Administration Office shall manage the following affairs:

1. Establishment of various supporting facilities.
2. Recommendation of occupant enterprises and granting of permits to supporting enterprises.
3. Supervision of the construction of plants, etc.
4. Issuance of export and import licences.
5. Supervision over occupant enterprises and supporting enterprises.
6. Assistance in the recruitment and employment of workers.
7. Other matters concerning the management and operation of the Free Zone.

Paragraph 3: The name, location, area of jurisdiction organization of the Administration Office and other necessary matters shall be prescribed by Presidential Decree.

Paragraph 4: The name, location, area of jurisdiction, and other matters concerning the functions of the field offices provided for in paragraph 1 above shall be prescribed by the Ministry of Commerce and Industry.

Article 6 (Establishment of Branch Offices, etc.)

The Government agencies responsible for the administration of affairs related to the activities of occupant enterprises may establish branch offices or have officials stationed within a Free Zone for the expeditious execution of their proper functions.

Article 7 (Sale and Lease of Land, etc.)

Paragraph 1: The Administrator of a Free Zone (hereinafter referred to as "the Administrator") may sell land or plants, etc. to occupant enterprises or lease same to occupant enterprises or supporting enterprises in such manner as may be prescribed by Presidential Decree.

Paragraph 2: The Minister of Commerce and Industry shall, following consultation with the Minister of Finance and regardless of the regulations of the National Property Law, determine the prices of land or plants, etc. to be sold or leased pursuant to the preceding paragraph, and, where necessary, may state such prices in terms of foreign currency.

Paragraph 3: Those who desire to purchase land in accordance with paragraph 1 shall be permitted to do so in accordance with the Alien Land Law. This, however, shall not apply in the case of lease of land.

Article 8 (Permission to Take up Occupancy, etc.)

Paragraph 1: Those who intend to conduct a business of manufacturing, processing or assembling export products within a Free Zone shall obtain a permit from the Minister of Commerce and Industry in such manner as may be prescribed by Presidential Decree.

Paragraph 2: The preceding paragraph shall also apply where an occupant enterprise intends to change the kind of products it manufactures, processes or assembles.

Paragraph 3: Those who intend to operate in a Free Zone a business concerning warehousing, transportation, stevedoring, packing and other such businesses as determined by decree of the Ministry of Commerce and Industry, for the purpose of supporting the activities of occupant enterprises shall obtain a permit to do so from the Administrator in such manner as may be prescribed by Presidential Decree.

Paragraph 4: An occupant enterprise shall be deemed to hold a permit to conduct export and import business under the provisions of the Trade Transactions Law in respect to the exportation of its own products and to the importation of necessary raw materials and equipment.

Paragraph 5: Such business conducted by occupant enterprises shall not be subject to the requirement of permission, licencing, registration, etc. prescribed by laws and regulations pertaining to such types of business; the same applies to the export and import activities of occupant enterprises.

Article 9 (Qualifications of Occupant Enterprises)

Only those meeting the following conditions are qualified to conduct business in a Free Zone in accordance with paragraph 1 of the preceding article:

1. Enterprises manufacturing, processing or assembling commodities for export.
2. Enterprises wholly invested by foreigners or joint ventures with Korean nationals in accordance with the investment ratio to be laid down by Presidential Decree.

Article 10 (Construction of Plants, etc.)

In the application of the Building Law within a Free Zone, the terms "mayor" and "county chief" shall read "the Administrator".

Article 11 (Delegation of Authority in regard to Foreign Capital Inducement)

Paragraph 1: The authority vested in the Minister of the Economic Planning Board under the Foreign Capital Inducement Law may be delegated in whole or in part to the Minister of Commerce and Industry with respect to capital to be induced by occupant-enterprises or supporting-enterprises in such manner as may be prescribed by Presidential Decree.

Paragraph 2: Article 34 through 39 and article 44 of the Foreign Capital Inducement Law shall not apply to the inducement of foreign capital prescribed in the preceding paragraph.

Article 12: (Application of Trade Transactions Law, etc.)

Paragraph 1: The phrase "the Minister of Commerce and Industry" in the Trade Transactions Law, when applied to exports and imports in a Free Zone, shall read "the Administrator". However, this shall not apply in the case of article 9 of the same Law.

Paragraph 2: Commodities exported or imported with the licence of the Administrator shall be subject to confirmation by the Chief of Customs.

Paragraph 3: The Administrator of a Free Zone may grant exemption from the requirement of export inspection of commodities in such manner as may be prescribed by an Ordinance of the Ministry of Commerce and Industry if it is considered such exemption will not have adverse effects on the reputation of export commodities, notwithstanding the provisions of the Export Inspection Law as well as other laws and regulations.

Article 13. (Use and Management of Imported Commodities)

Paragraph 1: Commodities induced or imported into a Free Zone shall be kept or used in bond only within a Free Zone. However, such commodities may be taken outside Zone temporarily for purposes of repair or processing with the permission of the Administrator and the approval of the Customs Officer in accordance with the provisions of article 100 of the Customs Law.

Paragraph 2: Matters pertaining to the custody and use of commodities induced or imported into a Free Zone shall be prescribed by the Minister of Commerce and Industry in consultation with the Minister of Finance, notwithstanding the provisions of other laws and regulations.

Article 14 (Restriction on Disposal of Products etc. in Tariff Area)

Paragraph 1: Commodities induced or imported into a Free Zone and commodities manufactured, processed and assembled within a Free Zone as well as the waste and by-products thereof shall not be allowed entry into the tariff area. However, when it is deemed the disposal of commodities would not impair domestic industries and the commodities are considered indispensable, such commodities may be allowed entry with the permission of the Minister of Commerce and Industry, in such manner as may be prescribed by Presidential Decree.

Paragraph 2: The Customs Law shall apply to the commodities so disposed in the tariff area pursuant to the preceding paragraph.

Article 15 (Restriction on Transfer of Land, etc.)

An occupant enterprise or a support enterprise may have its land or plants, etc. transferred, leased (including sub-lease), or utilized by others, or provide such as collateral, when approved by the Administrator. Such transfer, lease or lending shall be limited to occupant enterprises or supporting-enterprises.

Article 16 (Permission of Entry and Exit, etc.)

Persons and vehicles to be admitted to a Free Zone shall be required to obtain the approval of the Administrator in accordance with such procedures as may be prescribed by the Minister of Commerce and Industry; and commodities and effects to be carried or transported out of or into a Free Zone shall be inspected by the Chief of Customs.

Article 17 (Cancellation of Permission to Take up Occupancy and Transfer of Land, etc.)

Paragraph 1: Where an occupant enterprise or a supporting enterprise comes under any one of the following categories, the Minister of Commerce and Industry may cancel, upon the request of the Administrator, the permits based on paragraph 1 or 3 of article 8.

1. In a case where there is failure to initiate the approved business after acquiring a permit based on paragraph 1 or 3 of article 8, or suspension of operation during the period as may be prescribed by an Ordinance of the Ministry of Commerce and Industry.
2. In a case where the term(s) and condition(s) in the permit issued pursuant to article 8 is (are) violated.
3. In a case where penalties have been imposed due to violation of the Customs Law.

Paragraph 2: When permission is cancelled in accordance with the preceding paragraph, an occupant enterprise or a supporting enterprise shall immediately discontinue its business except for export or import activities already approved at that time or the settlement of remaining activities as may be prescribed by Presidential Decree.

Paragraph 3: Those whose permit to operate a business has been cancelled pursuant to paragraph 1 shall transfer their land or plants, etc. to another occupant enterprise or supporting enterprise within the period as may be prescribed by Presidential Decree. The same applies to those whose business has been closed.

Paragraph 4: The land or plants, etc. not transferred during the period prescribed in accordance with the preceding paragraph may be purchased by the Government at prices announced in accordance with paragraph 2, article 7 for the year in which transfer is made.

Article 18 (Labour Disputes)

The regulations governing "public utilities" in the Labour Disputes Mediation Law shall apply to the disputes of, and the mediation of disputes for, workers employed by occupant enterprises of Free Zones.

Article 19-I (Expropriation of Land, etc.)

The Government may expropriate necessary land, buildings and immovable goods, as well as the rights thereto, within the area, selected in order to establish a Free Zone, in which case the Land Expropriation Law shall apply.

Article 19-II (Public Notification of Construction Plan)

Paragraph 1: When preparing to set up a Free Zone pursuant to the regulations of paragraph 1, article 4, the Minister of Construction shall, in consultation with the Minister of Commerce and Industry and in accordance with Presidential Decree, establish a preparatory plan and give public notice thereof without delay.

Paragraph 2: In applying the Land Expropriation Law in accordance with the provisions of the preceding article, the public notification of the preparatory plan shall be regarded as approved notification of works pursuant to the regulations of the Land Expropriation Law.

Article 20 (Exemption from Law for Preferential Employment of Veterans and Bereaved)

The Law for Preferential Employment of Veterans and Bereaved shall not apply to occupant enterprises.

Article 21 (Delegation of Authority)

The authorities held by the Government ministers concerned may be delegated to the Administrator in such manner as may be prescribed by Presidential Decree in order to ensure the efficient administration and operation of a Free Zone.

Article 22 (Reporting)

The Administrator of a Free Zone may, when it is deemed necessary for the effective administration and operation of a Free Zone, require occupant enterprises or supporting enterprises to report on their business activities, in such manner as may be prescribed by Presidential Decree.

Article 23 (Punitive Regulations)

Paragraph 1: Those who change the items they manufacture, process or assemble without obtaining approval in accordance with paragraph 2, article 8 shall be subject to imprisonment for not longer than five (5) years or to a fine equivalent to two to five times the value of the commodities so manufactured, processed or assembled.



Paragraph 2: In the event of an infringement under the preceding paragraph, the illegal goods possessed by the guilty person shall be confiscated or, if confiscation is impossible, the value of such illegal goods shall be levied as a fine.

Article 24 (Punitive Regulations)

Those who transfer, lease or lend their land or plants, etc. or provide such as collateral without obtaining the approval prescribed in article 15 shall be subject to imprisonment for not longer than five (5) years or to a fine equivalent to not more than five million (5,000,000) won.

Article 25 (Punitive Regulations)

Those who conduct business in violation of the provision of paragraph 2, article 17 shall be subject to imprisonment for not longer than five (5) years or a fine equivalent to not more than ten million (10,000,000) won.

Article 26 (Punitive Regulations)

Those who dispose commodities to the tariff area without fulfilling due procedures in accordance with the provisions of this Law shall be subject to punishment in accordance with the Customs Law and the Special Law for the Punishment of Specific Crimes.

Article 27 (Punitive Regulations)

Those who enter a Free Zone without obtaining the approval of the Administrator, in violation of article 16, shall be subject to imprisonment for not longer than one (1) year or to a fine equivalent to not more than fifty thousand (50,000) won.

Article 28 (Fine for Default)

Those who fail to make a report, or submit a false report, in violation of article 22 shall be subject to a fine equivalent to not more than ten thousand (10,000) won.

Article 29 (Concurrent Punishment)

In case the representative of a juridical person, the proxy, or employee of a juridical person or a natural person violates the provisions of articles 23 through 26 and 28 in the conduct of the business of the relevant juridical person or natural person, such a juridical person or a natural person concerned shall also be subject to the imposition of the stipulated fine.

Article 30 (Enforcement Decree)

Necessary matters pertaining to the enforcement of this Law shall be prescribed by Presidential Decree.

Addendum

This Law shall become effective on the date of its promulgation.