



Doing Business In Korea

A Country Commercial Guide for U.S. Companies

Chapter 7: Trade and Project Financing

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How Do I Get Paid (Methods of Payment)

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The Korean financial system is frequently hard-pressed to meet the demand for financing and capital. Foreign companies in a start-up operation with a Korean partner often invest financial resources for the joint venture, while their Korean partner makes an investment in kind, i.e., land or facilities, as the Korean share of equity. Joint-venture companies and foreign firms often work with branches of foreign banks for local-currency financing, although the branches of foreign banks control a small portion of Korean Won availability. Other potential sources of Korean Won financing include domestic nationwide commercial banks, regional banks, and specialized banks, including the Korea Development Bank, the National Agricultural Cooperative Federation, the Industrial Bank of Korea and the Korea Housing Bank.

There are three documentary practices for settling import payments: (1) sight and usance Letters of Credit, (2) Documents against Acceptance (D/A) and Documents against Payment (D/P); and, (3) Open Account Transactions. D/A and usance L/Cs are forms of extended credit in which the importer makes no payment for the goods until the date called for in the credit; however, the importer may clear the goods from customs prior to payment. D/P is similar to D/A except that the importer cannot clear the goods from customs prior to making payment. In some cases an importer can clear goods prior to payment under a sight L/C. L/C transactions generally follow standard international Uniform Customs and Practice (UCP) codes. Limitations on the use of deferred payment terms for imports, D/A and usance L/Cs have been abolished.

CS Korea recommends that U.S. companies consider dealing on a confirmed L/C credit basis with new and even familiar customers. A confirmed L/C through a U.S. bank is recommended because it prevents unwanted changes to the original L/C, and it places responsibility for collection on the banks rather than on the seller. This may cost a bit more, but may be well worth it.

To reduce risk of nonpayment, U.S. companies may contact credit rating agencies, which can provide fee-based corporate information to evaluate financial credibility of Korean companies. [Dun & Bradstreet Korea](#), the [Korea Investors Service](#), and the [Korea Information Service](#) are known to provide fee-based credit rating services in Korea. Cs Korea can also provide valuable information, including a company's credit standing, through its [International Company Profile](#) service. [The Korean Commercial Arbitration Board \(KCAB\)](#) and private collection agencies can provide arbitration and collection services. The KCAB is staffed with counselors who advise U.S. companies on contract guidelines.

The Commodity Credit Corporation (CCC), U.S. Department of Agriculture, administers [export credit guarantee programs](#) for commercial financing of U.S. agricultural exports to Korea. Under the [GSM-102 Export Credit Guarantee Program for Korea](#), CCC underwrites credit extended by the private banking sector in the United States to approved Korean banks using dollar-denominated, irrevocable letters of credit to pay for food and agricultural products sold to Korean buyers.

How Does the Banking System Operate

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Korea's financial system consists of banking and non-bank financial institutions. The Financial Supervisory Commission ([FSC](#)) and the Financial Supervisory Service ([FSS](#)), its regulatory arm, are responsible for supervising and examining all banks, including specialized and government-owned banks, as well as securities and insurance companies. The FSC has played a key role in financial restructuring and has strengthened the regulatory and supervisory framework governing the entire financial sector. Oversight standards are improving but they will need more time to meet international standards. The Korean branches of international accounting firms generally perform audits. Although audit quality is improving, it is still far behind global standards. The government's unlimited guarantee for bank deposits is 50 million Korean Won (USD 55,000) per account.

Foreign-Exchange Controls

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Korea has liberalized foreign exchange controls in line with OECD benchmarks.

A foreign firm that invests under the terms of the Foreign Capital Promotion Act (FCPA) is permitted to remit a substantial portion of its profits, providing it submits an audited financial statement to its foreign exchange bank. To withdraw capital, a stock valuation report issued by a recognized securities company or the Korean Appraisal Board must also be presented. Foreign companies not investing under the FCPA must repatriate funds through authorized foreign exchange banks after obtaining government approval. Although Korea does not routinely limit the repatriation of funds, it reserves the right to do so in exceptional circumstances, such as in situations which may harm its international balance of payments, cause excessive fluctuations in interest or exchange rates, or threaten the stability of its domestic financial markets. To date, the Korean government has had no instances of limiting repatriation for these reasons, even during and after the 1997-98 financial crisis.

The [Bank of Korea](#) has detailed information about foreign-exchange control policies in Korea.

U.S. Banks and Local Correspondent Banks

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To view the list of major U.S. and Korean banks in Korea, go to the link below.

<http://www.buyusa.gov/korea/en/bankcontacts.html>

Project Financing

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Medium and short-term credit is available from Korean and foreign banks and through the issuance of debentures. Domestic companies generally have better access to local funding as well as informal and secondary financial markets charging higher interest rates. Debentures are a financing alternate, although slightly more expensive than bank financing. Long-term debt is available from the Korea Development Bank, but generally for high priority industries.

Several local financial service companies provide project financing for social infrastructure and private projects in Korea. Project financing was first introduced in Korea in 1995 for a highway construction project between Seoul and the Incheon International Airport. Currently, most of Korea's social overhead capital (SOC) projects are funded by project financing. Project financing has become a popular method of financing for private sector projects too, which include real estate development and buy-outs of financially troubled companies.

As a developed country, there are no multilateral development banks nor aid funded projects in Korea.

Web Resources

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Bank of Korea

<http://www.bok.or.kr/index.jsp>

Export Credit Guarantee Program

<http://www.fas.usda.gov/excredits/exp-cred-guar-new.asp>

Export- Import Bank of Korea

<http://www.koreaexim.go.kr/en/>

Export-Import Bank of the United States

<http://www.exim.gov>

- Country Limitation Schedule

http://www.exim.gov/tools/country/country_limits.html

Financial Supervisory Commission

www.fsc.go.kr/eng/index.asp

Financial Supervisory Service

<http://www.fss.or.kr/>

Korea Development Bank

<http://www.kdb.co.kr/>

List of major U.S. and Korean banks in Korea
<http://www.buyusa.gov/korea/en/bankcontacts.html>

OPIC
<http://www.opic.gov>

SBA's Office of International Trade
<http://www.sba.gov/oit/>

Export Credit Guarantee Program
<http://www.fas.usda.gov/excredits/ecgp.asp>

Trade and Development Agency
<http://www.ustda.gov/>

USDA Commodity Credit Corporation
<http://www.fsa.usda.gov/cc/default.htm>

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website:
<http://www.export.gov>

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