

The Activation Measures of Airport Free Trade Zone for the Building of a Hub of International Logistics

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- I. Introduction
 - II. Designation and Administration of Free Trade Zone
 - III. Development of Airport Free Trade Zone
 - IV. Competitiveness Analysis of Airport Free Trade Zone
 - V. Activation Measures of Airport Free Trade Zone
 - VI. Conclusion
-

I . Introduction

Northeast Asia is clearly a region of strategic importance, offering strong growth opportunities for transport and logistics providers. Also Northeast Asia accounts for 50% of international air transportation.

In Korea, logistics industry is one of the most significant fields for the development of our country. Therefore, Korean government is planning to develop the airport and its surrounding area into a Northeast Hub of Asia. In accordance with the Free Trade Zones Act amended by Korean Government on March 22, 2004, Incheon International Airport Corporation is

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in charge of developing the free trade zone which will be located adjacent to the airport cargo terminals, with a land span covering 198.4 hectares.

As a geographical advantage, Incheon International Airport is close in proximity to China, Japan and other major Asian countries. Within a 3.5 hour flying distance in any direction from the airport, there are 43 major Asian cities.

The free trade zone at Incheon International Airport is an economically specialized area designated in January 2002 by the Korean government to help build Korea into the distribution and business hub of Northeast Asia. The free trade zone is expected to be in full operation in 2006.

The free trade zone plays an important part for the promotion of international logistics. So the purpose of this paper is to make research on the activation measures of the airport free trade zone for the building of a hub of international logistics.

As for the research, this paper reviews the current regulations of the Free Trade Zones Act. Also this paper analyzes recent plans and reports on the free trade zone by Incheon International Airport Corporation and Korean government authorities. The author interviews officials of airport authorities and personnel of transport and logistics companies.

As the results of this paper, it will contribute to the activation of the airport free trade zone, and to building Incheon International Airport into the logistics hub of Northeast Asia, and to the inducement of foreigner' s investment in the free trade zone, and to the development of international transport and logistics industry.

The precedent research with respect to the free trade zone are the research by Korea Ministry of Maritime Affairs & Fisheries(2002)¹⁾ which is a report on the mid and long term development strategy of customs free zone, and the research by Incheon International Airport Corporation and Korea Customs Service(2003)²⁾ which is a report on the Administration and

1) Korea Ministry of Maritime Affairs & Fisheries(2002), A Study on the Mid and Long Term Development Strategy of Customs Free Zone, December, 2002.

operation plan of Incheon International Airport Free Trade Zone.

The contents of the former research are limited to the status and issues of system, administration and operation of customs free zone in Korea, and the mid and long term development strategy of customs free zone in ports such as Pusan Port, Kwangyang Port and Incheon Port. The contents of the latter research are limited to the summary of customs free zone, and the proceeding status, system development and project result of Incheon International Airport Customs Free Zone.

II. Designation and Administration of Free Trade Zone

1. Definition of Free Trade Zone

A free trade zone is an area designated by the government as being legally outside of the nation's customs territory. Where customs-related laws are not applied in principle.

Being outside the national customs territory, the free trade zone affords exemptions from customs clearance procedures, customs duties, taxes, public duties, etc.

It is geographically defined area that enjoys preferential legal status, where freight can be freely carried in and out, transited and proceeded. The concept diagram of the free trade zone is as shown in Figure 1.

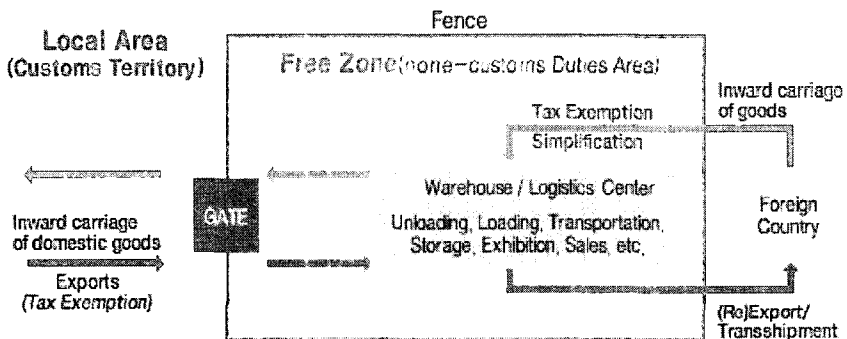
Under Article 2 of the "Act on Designation and Management of Free Trade Zones"³⁾, the term "free trade zone" means a zone in which free

2) Incheon International Airport Corporation and Korea Customs Service(2003), Administration and Operation Plan of Incheon International Airport Customs Free Zone, Materials of Incheon International Airport Customs Free Zone Public Hearing, 29 January, 2003.

3) The "Act on the Establishment of Export Free Zones" which was enacted in accordance with the Act No. 2180 on January 1, 1970 was wholly amended into the "Act on the Designation, etc. of Free Trade Zones" on January 12, 2000 and the name of the latter was changed into the "Act on the Designation and

activities of manufacture, logistics, distribution and trade are guaranteed with the legal assistance of special cases prescribed by relevant Acts, including the Customs Act and the Foreign Trade Act, after being designated under Article 4.

<Figure 1> Concept Diagram of Free Trade Zone



2. Designation of Free Trade Zone

(1) Designating Procedure

The head of a central administrative agency, the special Metropolitan City Mayor, the Metropolitan City Mayor or the Do(Province) governor may request the Minister of Commerce, Industry and Energy to designate any free trade zone under the conditions as prescribed by the Presidential Decree.

The head of a central administrative agency or the Mayor or/Do(Province)

Management of Free Trade Zones” on March 22, 2004 which is presently in force. Under the “Act on Designation and Management of Free Trade Zones”, the “Act on Designation and Management of Customs Free Zones for Building International Logistics Center” on December 28, 1999 was integrated.

governor shall, when he intends to request the designation of any free trade zone, develop a basic plan for such free trade zone which contains matters prescribed by the Presidential Decree and submit the basic plan to the Minister of Commerce, Industry and Energy.

The Minister of Commerce, Industry and Energy shall designate the free trade zone after examining the actual circumstances of the area which is requested to be designated as a free trade zone, necessity of such designation and designated as a free trade zone, necessity of such designation and designation requirements provided for in the Free Trade Zone Act, and after going through the deliberation thereon by the Free Trade Zone Committee. The Minister of Commerce, Industry and Energy shall, when he designates any free trade zone, publish the location, boundary and area of such free trade zone and other matters prescribed by the Presidential Decree, and then notify the head of central administrative agency concerned and the mayor or/Do(Province) governor concerned of details of such publication.⁴⁾

(2) Requirements for Designating Free Trade Zones

An area which meets the requirements falling under any of the followings : 1. An area which falls under any of the following items and is required to meet the standards, including cargo handling capacity, etc., which are prescribed by the Presidential Decree : (a) An industrial complex, (b) An airport and hinterland, (c) A distribution complex, (d) A cargo terminal, (e) A harbor and hinterland; 2. Infrastructure, including roads, etc., which is fully secured or is to be fully secured; and 3. An area in which facilities necessary to efficiently control the shipment of goods into or out of any free trade zone as prescribed by the Presidential Decree are already installed or with respect to which a plan for installing the control facilities is confirmed to be made definite.⁵⁾

4) Article 4 of the Act on Designation and Management of Free Trade Zones.

3. Administration of Free Trade Zone and Location Therein

(1) Administrative Authority

The administrative authority of free trade zones shall be as follows : 1. The industrial complex : the Minister of commerce, Industry and Energy ; 2. The airport and hinterland : the minister of Construction and Transportation ; 3. The distribution complex : the minister of Construction and Transportation ; 4. The cargo terminal : the Minister of Construction and Transportation ; and 5. The harbor and hinterland : the minister of maritime Affairs and Fisheries.⁶⁾

(2) Qualifications for Location

The person who is qualified to locate in any free trade zone shall be a person who falls under any of the followings : 1. A person who intends to conduct any business primarily for export purposes or a foreign-invested enterprise engaged in the type of manufacturing business ; 2. A person who intends to conduct any wholesale business primarily for export and import transactions ; 3. A person who intends to conduct any business of stevedoring, transporting, storing and exhibiting goods and any other business prescribed by the Presidential Decree ; 4. A person who intends to conduct the type of business of supporting the business of located enterprises, which is prescribed by the Presidential Decree ; 5. A public institution which is prescribed by the Presidential Decree ; and 6. A State organ.⁷⁾

5) Article 5 of the Act on Designation and Management of Free Trade Zones.

6) Article 8 of the Act on Designation and Management of Free Trade Zones.

7) Article 10 of the Act on Designation and Management of Free Trade Zones.

4. Goods Shipped into or out of Free Trade Zones

(1) Goods shipped into Free Trade Zones or Import Thereof

Any person who intends to ship the goods falling under any of the followings into any free trade zone shall make a shipment report to the head of a custom house under the conditions as prescribed by the Commissioner of the Korea Customs Service : 1. Foreign goods : Provided, That the goods which fall under any of the following items and for which data prescribed by the Commissioner of the Korea Customs Service is submitted shall be excluded : (a) Foreign goods which are shipped into Korea from abroad and transshipped from a ship, aircraft or other transport means which are loaded with such goods to any other ship, aircraft or transport means ; and (b) goods on which an export declaration that is filed in accordance with the Customs Act is accepted ; and 2. The goods which fall under any of the following items and are intended to be subject to the application of the exemption and refund of custom duties from among domestic goods which are intended to be used or consumed by any located enterprise in any free trade zone : (a) Machinery, instruments, equipment and parts thereof ; (b) Raw materials, lubricants, office computers and construction materials ; and (c) Other goods which are recognized by the Commissioner of the Korea Customs Service as being necessary to achieve business objectives.

Notwithstanding the above provision, in any case falling under any of the followings, a person intends to ship goods into any free trade zone shall file an import declaration required under the Customs Act and pay customs duties, etc. thereof : 1. In case where any person other than located enterprises intends to ship foreign goods into any free zone ; 2. In case where any located enterprise qualified to locate in any free trade zone intends to ship foreign goods into any free trade zone in order to use or

consume such foreign goods in such free trade zone : Provided, That the following foreign goods shipped into any free trade zone shall be excluded : (a) Machinery, instruments, installations, equipment and parts thereof ; (b) Raw materials, lubricants, office computers and construction materials ; and (c) Other goods which are recognized by the Commissioner of the Korea Customs Service as being necessary to achieve business objectives ; 3. In case where any located enterprise qualified to locate in any free trade zone ships foreign goods(excluding goods necessary to achieve the relevant business objectives from among the goods falling under any item of above subparagraph 2) into such free trade zone.

In any case falling under any of the followings, a person who intends to ship goods out of any free trade zone shall file an import declaration and pay customs duties, etc. : 1. In case where it is intended that goods shall be shipped into the customs territory, which are produced after going through the course of manufacture, processing, assembly, repair, etc., using foreign goods, in whole or in part, in any free trade zone ; and 2. In case where it is intended that foreign goods, etc. shall be shipped out of any free trade zone into the customs territory in the original form thereof.⁸⁾

(2) Shipment and Export of Foreign Goods Out of Korea

Any person who intends to ship foreign goods, etc. out of Korea(including the supply of foreign goods, etc. to any foreign trade ship or any foreign trade aircraft)shall make report to the head of a custom house under the conditions as prescribed by the Presidential Decree.

Any person who intends to ship goods other than foreign goods out of any free trade zone into any foreign country shall file an export declaration.⁹⁾

8) Article 29 of the Act on Designation and Management of Free Trade Zones.

9) Article 30 of the Act on Designation and Management of Free Trade Zones.

5. Imposition and Reduction of Customs Duties and Exemption Therefrom

(1) Standards for Levying Customs Duties, etc. on Goods Produced in Free Trade Zones

In case where it is intended that goods shall be shipped into the customs territory, which are produced after going through the course of manufacture, processing, assembly, repair, etc., using foreign goods, in whole or in part, in any free trade zone, those goods which are shipped out of any free trade zone shall be deemed foreign goods which arrive in Korea and customs duties, etc. shall be levied thereon.¹⁰⁾

(2) Exemption and Refund of Customs Duties, etc.

Domestic goods the shipment into any free trade zone of which is reported by any located enterprise shall be deemed exported under the Liquor Tax Act, the Special Consumption Tax Act or the Traffic Tax Act, or exported or supplied under the Act on Special Cases concerning the Refundment of Customs Duties, etc. Levied on Raw Materials for Export, and customs duties thereof shall be exempted or refunded.

The domestic goods referred to in the above paragraph shall be deemed the goods to be exported under the Value-Added Tax Act and the zero rate of the Value-Added Value Tax shall apply thereto.

The zero rate of the Value-Added Tax shall apply to foreign goods and services which are supplied or rendered between located enterprises in any free trade zone.¹¹⁾

10) Article 44 of the Act on Designation and Management of Free Trade Zones.

11) Article 45 of the Act on Designation and Management of Free Trade Zones.

(3) Reduction and Exemption of Taxes, including Corporate Tax, etc.

Any located enterprise which is a foreign-invested company may be exempted from taxes such as the corporate tax, the income tax, the acquisition tax, the registration tax, the property tax and the composite land tax, etc. under the conditions as prescribed by the Restriction of Special Taxation Act.¹²⁾

III. Development of Airport Free Trade Zone

1. Location

The Airport Free Trade Zone is located east of Incheon International Airport Cargo Terminal area where was additionally designated as a candidate area for the Free Trade zone in June, 2004.

The Free Trade Zone is located within the Incheon International Airport boundary to which the “Act on Aviation” is being applied ; therefore, the height of the buildings in the Zone will be limited in compliance with that Act.

Currently, the Airport Free Trade zone was publicly announced through the Notice Number 2002-5 of Ministry of Finance & Economy as a candidate area for the Free Trade zone, with the final designation as the Free Trade Zone due within the first half of 2005.

The Airport Free Trade Zone will be developed in phases. Out of the total area of 1,984,000m²(600,000 pyong), the phase1 development area for which the Companies are being invited through the Request for Proposal for the Airport Free Trade Zone is 992,000m²(300,000 pyong).¹³⁾

For the phase 1 area of the Airport Free Trade Zone, Incheon

12) Article 47 of the Act on Designation and Management of Free Trade Zones.

13) Incheon International Airport Corporation(2004), The 2nd Request for Proposal for Incheon International Airport Free Zone, April 2004, p.3.

International Airport corporation is currently preparing the site and constructing the infrastructure facilities, slated for completion by early 2005. The Airport Free Trade Zone will be opened in early 2006.

Table 1 shows the site preparation plan for the phase 1 development of the Airport Free Trade Zone.

<Table 1> Plan for Phase 1 Development of Airport Free Trade Zone

| Category | Area(m ²) | No. of plot |
|-----------------------------------|------------------------|-------------|
| Logistics & production facilities | 467,906 | 38 |
| Support facilities | 25,075 | 5 |
| Common use facilities | 8,645 | 1 |
| Greenery area | 104,808 | 1 |
| Road, retarding basin, etc. | 385,556 | 1 |
| Total | 992,000(300,000 pyong) | |

Source : Incheon International Airport Corporation, Request for Proposal for Incheon International Airport Free Zone, April 2004.

2. Qualifications of Business Applicants

Those who intends to be located in the Free Trade Zone must comply with the requirements in the following subparagraphs in accordance with Article 10 of the “Act on Designation and Management of Free Trade Zones” and “Ministry of Construction and Transportation Announcement No. 2004-186” . The applicant must : (1) intend to be engaged primarily in exporting or be a foreign-invested enterprise engaged in manufacturing(excluding grain products processing enterprise) ; (2) intend to be engaged in any wholesale business primarily for export and import transactions ; (3) intend to be engaged in stevedoring, transporting, storing and exhibiting goods and a business falling under each of the following subparagraphs : (a) The multipurpose logistics business, including the business of brokering international transportations and

packaging, repairing, processing or assembling goods, etc. ; (b) The international logistics business, including the business of repairing, upgrading and assembling of aircraft(including any equipment necessary to operate aircraft) ; and (c) The business of developing logistics facilities and the rental business.¹⁴⁾

IV. Competitiveness Analysis of Airport Free Trade Zone

1. Example Analysis of Free Trade Zone in Major Foreign Countries

There are two major free trade zones in Asian countries which are the Changi Foreign Trade Zones in Singapore and the Sanghai Waigaoqiao Foreign Trade Zones in China.

To analyze the example of free trade zone in major foreign countries, the development structure and method, development and operation organization, marketing system, function and inducement business, and incentives of the Changi Foreign Trade Zones and Sanghai Waigaoqiao Foreign Trade Zones are as shown in Table 2.

The Changi Foreign Trade Zones have the functions of which are the assembly, mixture and other manufacturing of the goods in the foreign trade zone under the Foreign Trade Zone Act.

The Sanghai Waigaogiao Foreign Trade Zone have the functions of which are the export and import trade, consolidation of the goods, processing, warehousing and transportation of the goods, display and transportation of the goods, and financing service in the foreign trade zone under the Sanghai Waigaogiao Freign Trade Zones Act.

14) Incheon International Airport Corporation(2004), The Third Invitation for Companies to Bid in the International Airport Free Trade Zone, December 7, 2004, pp.1-2.

< Table 2 > Example Analysis of Free Trade Zone in Asian Countries

| | Singapore Changi Foreign Trade Zones | Sanghai Waigaoqiao Foreign Trade Zones |
|--|---|--|
| Development Structure | <ul style="list-style-type: none"> • Land : Ownership of JTC (Industrial Developer) • Building : Construction & ownership of a part of building by development body | <ul style="list-style-type: none"> • Land : Administrative Committee & Some Multi-national Corporations • Building : Construction Of part of buildings by development body • Land rent + Building Construction • Land purchasing + Building construction |
| Development Method | <ul style="list-style-type: none"> • Land rent + Building construction • Land rent + Building rent | <ul style="list-style-type: none"> • Land rent + Building rent |
| Development and Operation Organization | <ul style="list-style-type: none"> • Operation : CASS • Development : JPC | <ul style="list-style-type: none"> • Operation : evelopment company(affiliated company) • Development : Development company (affiliated company) |
| Marketing System | <ul style="list-style-type: none"> • Strategy Planning : EDB • Marketing Practice : CASS, JTC | <ul style="list-style-type: none"> • Strategy Planning : Sanghai City • Marketing Practice : Administrative group company |
| Function and Inducement Business | <ul style="list-style-type: none"> • Air Logistics / Transportation | <ul style="list-style-type: none"> • Trade, Logistics, Information & Communication, Warehouse |
| Incentives | <ul style="list-style-type: none"> • overnment grant of a fixed rate of agent building rent • Corporation tax benefit for major corporations | <ul style="list-style-type: none"> • Low corporation tax at the early time of location(15%) |

Source : Deloitt & Touche The Final Report on Location Terms of Incheon International Airport Customs-Free Zone, January 29, 2003.

2. Incheon International Airport' s Competitiveness

Incheon International Airport transported 2.1 million tones of cargo as world cargo handling rank#3 and handled 47% transshipment cargoes in 2004. In 2004, Incheon International Airport handled 33% of total export and import cargoes, equivalent to the amount of 129 billion dollars, and transported 98% of semiconductor trade, 85% of mobile phone trade, and 68% of computer trade.¹⁵⁾

Incheon International Airport is located at the geographical limits of long-range transport aircraft such as a fully loaded B747-400 servicing the East coast of the US. With 51 cities with over 1 million population located within 3.5 flying hours, Incheon International Airport has a big potential market to serve these cities. Incheon International Airport' s airport user charge is lower than those in neighboring countries as shown in Table 3. With ample spare sites surrounding it, Incheon International Airport is easy to expand.¹⁶⁾

<Table 3> Airport User Charge (unit : US\$)

| Airport | Changi | Incheon | Hong Kong | Pudong | Kansai | Narita |
|---------|--------|---------|-----------|--------|--------|--------|
| Charge | 2,174 | 3,079 | 3,714 | 4,499 | 8,774 | 9,315 |

Note : B747-400 turnaround(395tons, 279passengers, 2-hour stay)

Source : Incheon International Airport Corporation, Incheon Airport Free Trade Zone, May 2005.

15) Incheon International Airport Corporation(2005), Incheon Airport Free Trade Zone, May 2005, p.6.

16) Incheon International Airport Corporation(2004), The 2nd Request for Proposal for Incheon International Airport Free Zone, April 2004, p.5.

Strategically located at the entry point for cross routes of North Pacific air traffic between Northeast Asia and North America and Siberia and for air traffic routes between Europe and Northeast Asia, Incheon International Airport is optimally located to become a major logistical center in the Asia-Pacific region. Incheon International Airport is making efforts to be a leading hub airport for Northeast Asia in the 21st century.

The SWOT analysis of Incheon International Airport is as shown in Table 4. Incheon International Airport has the strength factors which are the geographic location, the modern airport facilities and closer to Incheon Port, and the competitive airport user's charges. Incheon International Airport has the opportunity factors which are the high priority given by the government for building logistics and business hub, the strong economic growth of China, and few single catchment of logistics providers in Northeast Asian region. Incheon International Airport has the weakness factors which are the inferior in O-D demand to Japan and China, the conservative open sky policies of neighboring countries, and the single access by express high way to/from the airport. Incheon International Airport has the threat factors which are the keen competition between neighboring airports, the China's push for infrastructure development, and the foreign direct investments of multi-national forms moving into China.

<Table 4> Incheon International Airport' s SWOT

| | |
|--------------------------------|--|
| Strength & Opportunities | <ul style="list-style-type: none"> · Geographic location · modern airport facilities and closer to Incheon Port · modern airport facilities and closer to Incheon Port · Great expandability · Competitive Airport user' s Charges · The high priority given by the Government for building logistics & business hub · Strong economic growth of China · Few single catchment of logistics providers in Northeast Asian region |
| Weaknesses & Threats | <ul style="list-style-type: none"> · Inferior in O-D demand to Japan and China · Conservative open sky policies of neighboring countries · Single access by express highway to/from the airport · Keen competition between neighboring Airports · China' s push for infrastructure development · FDIs of Multi-national firms moving into China |

Source : Incheon International Airport Corporation, Incheon Airport Free Trade Zone, 2004

3. Airport Free Trade Zone' s Incentives

(1) Incentives based on the “Act on Free Trade Zones”

In accordance with Article 28 of the “Act on Designation and Management of Free Trade Zones” , the tenants may use and consume foreign goods carried into the Free Trade Zone from abroad within the Free Trade Zone without import declaration and paying customs duties on them.

In accordance with Article 30 and 31 of the “Act on Designation and Management of Free Trade Zones” , any domestic goods for which an inward carriage report has been filed are deemed export-oriented goods or supplied and therefore customs duties, special consumption tax, liquor tax,

etc. will be exempted or refunded with the zero tax rate of the value-added tax applied thereto.

In accordance with Paragraph 2, Article 116 of the enforcement decree of the “Act on Special Cases in Taxation,” income tax, corporation tax, acquisition tax, registration tax and property tax can be exempted or reduced (for the first 3 years : 100% exempted, for the next 2 years : reduced to 50%) for foreign-invested companies (manufacturing business : over 10 million USD in foreign investment amount, logistics business : over 5 million USD in the foreign investment amount).¹⁷⁾

(2) Incentives based on the “Act on Free Economic Zone”

As Incheon International Airport and its surrounding are designated as the Free Economic Zone, their business environment and everyday living conditions are expected to be greatly improved.

In this Free Economic Zone, foreign currencies can be used freely within the range of USD 10,000. Foreign language services will be strengthened. Hospitals exclusively for foreigners and foreign-based educational institutions will be located. With 10% of the newly built houses allocated to foreigners, their everyday living conditions will also improve.¹⁸⁾

(3) Exemption or Reduction of Land Rent Fee for Foreign-Invested Companies

Incheon International Airport Corporation will reduce the land rent fee 50% for 3 years if a foreign-invested company in the manufacturing industry invested over 10 million USD into the Free Trade Zone and in logistics industry, over 5 million USD, each. During proposal evaluation and negotiations, Incheon International Airport Corporation will determine if a business applicant meets the conditions to receive this incentive.¹⁹⁾

17) Incheon International Airport Corporation(2004), The 2nd Request for Proposa 1 for Incheon International Airport Free Zone, April 2004, p.6.

18) Ibid.

4. The Comparison of the Competitiveness between Incheon International Airport Free Trade Zone and Major Free Trade Zones in Asian Countries

After only four years in business, Incheon International Airport has proven its value to the nation as a logistics center that is the rank #3 in the world in total cargo tonnage handled behind Hongkong Airport and Narita Airport.

Incheon International Airport Free Trade Zone has higher competitiveness than the major free trade zones in Asian countries such as Singapore Changi Foreign Trade Zones and Sanghai Waigaoqiao Foreign Trade Zones as follows: 1) ideal location, 2) best in class connectivity, 3) significant and concentrated demand, 4) freight friendly operating environment for swift cargo processing with concrete initiatives for step change improvement, and 5) highly competitive operating costs for freight airlines.

V. Activation Measures of Airport Free Trade Zone

1. Improvement of Administrative Support System for Investment and Location

It needs to establish the exclusive use window for foreigners to provide the one-stop services including administrative procedure consultation, business management, financing, accounting and legal services.

It should be built the administration system to reflect duly their demands after the investment by companies.

19) Ibid.

In order to activate the investment into the free trade zone, it needs to establish the “Free Trade Zone Investment Support Center” and provide the comprehensive administration support and information service.

2. Efficiency Raising of Logistics and Information System

In order to make the non-stop connection for the export and import cargo in the free trade zone, it should be connected organically not only administration procedure but also logistics information.

The unnecessary logistics tie-up should be minimized through the smooth transfer of the cargo information.

Also it should be built the unified cargo information system through EDI.

3. Selection of Strategic Industry and Grant of Epoch-making Incentives

The administrative authority of free trade zone should select the industry which is able to maintain the competitive power such as IT and BT, etc. and grant the incentives such as the lower land rent fee and tax support etc.

It needs to consider the cut down measures of labor cost by use of the foreign workers. This is why it needs skilled and low wage manpower to carry out the processing and assembling function.

4. Tax Support for Facilities Investment and Improvement of Customs Administration

If the company applying for the location in the free trade zone wants to invest before the main designation of the free trade zone, it should be granted the various tax reduction and exemption incentives in the candidate area for the free trade zone.

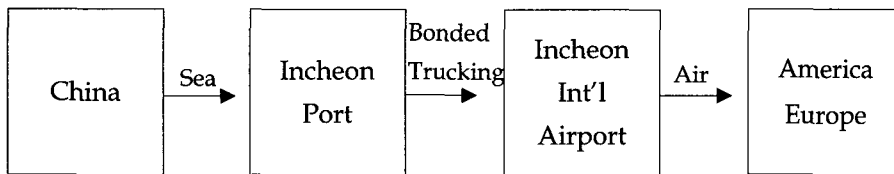
Due to the customs authority's efforts for many years, the time and expense for customs clearance have been reduced much, but it needs the effort to improve the customs administration to the level of the logistics developed country.

As the customs administration's efficiency is the biggest incentive, it needs to build the customs administration service which is able to meet the demander's request.

5. Building of Sea/Air Cargo System

Incheon International Airport is closer to reach the China's Northern provinces than Shanghai. Sea & Air transports is in rapid growth between the two countries. Sea & Air transport mode between China and Korea is as shown in Figure 2.

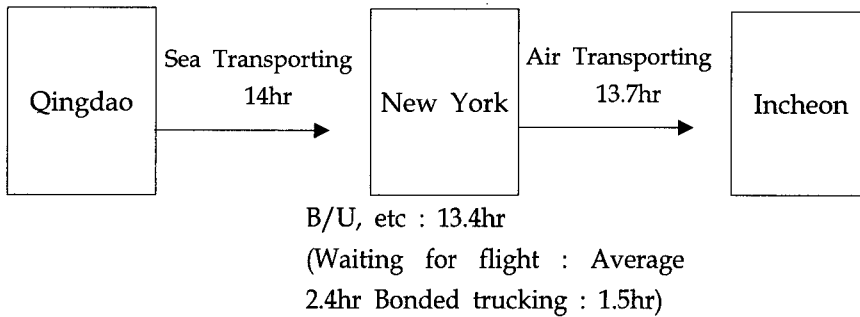
<Figure 2> Sea / Air Transport Mode



Sea / Air transport time of Qingdao-Incheon-New York route takes about 41.1 hours as shown in Figure 3.²⁰⁾

20) Incheon International Airport Corporation(2004), Transport and Logistics Opportunities at Incheon International Airport, October 2004, p.81.

<Figure 3.> Sea / Air Transport Time(toward America)



When Sea & Air cargoes are carried into Incheon International Airport from Incheon Port or Pyungtac Port, they can be cleared without bonded transit.

As it needs to build the SEA/AIR cargo system in order to absorb actively the China' s logistics demand, it should be proceeded to construct the cargo seaport adjunct to Incheon International Airport.

6. Training of Logistics Expert Manpower

The 3PL service provider should secure the expert manpower who are fluent in foreign languages and experienced in logistics field to carry out the international logistics business. Also the logistics manpower working in the free trade zone should be endowed with the good command ability of foreign languages.

Therefore, it should be trained the logistics manpower with the good command ability of English, Chinese and Japanese, etc. It should be trained and secured the logistics manpower who are well informed in logistics technology and information. It should be expanded the educational institution of logistics expert manpower in the area where Incheon International Airport is located.

7. Improvement of the Law Relating to the Free Trade Zone

The current Act on Designation and Management of Free Trade Zones mainly aims at the designation and management of the free trade zone. However, it needs to improve the law relating to the free trade zone for the inducement promotion of foreigner' s investments into the free trade zone. For this purpose, it needs to prescribe the provisions that the management authority of the free trade zone grants the incentives to the foreign-invested enterprises.

VI. Conclusion

Korea' s strategy for becoming a Northeast Asian logistics hub stems from the idea that Korea should take advantage of its geographic location between two economic giants, China and Japan.

As the global economy becomes more open, Northeast Asian economies such as China, Japan and Korea have been newly emerging as a dynamic center of growth. In fact, the Northeast Asia region is expected to form the third largest economic block in the world, accounting for 26% of total global productions.

The Korean government, with commitment to rebuilding economic prosperity, has designated four areas, i.e., Incheon, Busan and Gwangyang port and Incheon airport as Free Trade Zones. Under the plan, the government aims to foster four Free Trade Zones and their surrounding areas into the gateway of Northeast Asia for global container volumes, information and people.

The government aims to transform the Free Trade Zones into specialized logistics hubs of Northeast Asia. As part of its dedication to the expansion

of the Incheon Free Trade Zone into a sea/air multi-modal logistics base, it plans to nurture the Incheon International Airport into the central airport of Northeast Asia. In addition, it will develop 300,000 pyong of the surrounding areas, 100,000 pyong of the Second Cargo Terminal area, and 150,000 pyong of the international business complex into the central location for handling air cargoes.

If Korea is truly committed to emerging as a logistics hub, it must first smoothly implement the constructions of basic logistics facilities, e.g., airports and seaports, and secure sufficient space to ensure value-added activities in the surrounding areas of the airports and seaports.

By doing so, Korea will be perceived as an optimal location for global businesses to set up their Northeast Asian logistics centers. Furthermore, to attract world-class logistics companies, Korea plans to pursue institutional and systematic excellence in logistics, develop quality human capital and grow globally competitive specialized logistics businesses.

Also, we should build the airport free trade zone to make it an attractive place for doing business so that we can bring in increased foreign investments in the future.

As prerequisites for the competitiveness of the airport free trade zone, it is recommended to attract multinational companies, to develop hinterland logistics parks, to construct additional airport access facilities, to carry forward plans such as expansion of air cargo terminal, to carry out active marketing strategies.

In conclusion, the activation of the airport free trade zone will contribute to accelerating the attraction of foreign investment, the promotion of trade, the smoothness of international logistics, the development of regions, and the building of logistics hub of Northeast Asia.

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ABSTRACT

The Activation Measures of Airport Free Trade Zone for the Building of a Hub of International Logistics

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Korean government is planning to develop the airport and its surrounding area into a Northeast Hub of Asia. In accordance with the Free Trade Zones Act, Incheon International Airport Corporation is in charge of developing the free trade zone which will be located adjacent to the airport cargo terminals.

The free trade zone plays an important part for the promotion of international logistics. So the purpose of this paper is to make research on the activation measures of the airport free trade zone for the building of a hub of international logistics.

As for the research, this paper reviews the current regulations of the Free Trade Zones Act. Also this paper analyzes recent plans and reports on the free trade zone by Incheon International Airport Corporation and Korean government authorities.

As the results of this paper, it will contribute to the activation of the airport free trade zone, and to building Incheon International Airport into the logistics hub of Northeast Asia, and to the inducement of foreigner' s investment in the free trade zone.

Key Words : Airport Free Trade Zone; Logistics Hub; Customs Duties,
Airport Competitiveness; Sea/Air Cargo