

Korea's Digital Transformation and the Remaking of Its FDI Strategy



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The acceleration of digital transformation worldwide—propelled by the COVID-19 pandemic—has fundamentally changed industrial structures, business models, and the global division of labor. Korea's response has been marked by aggressive digitization strategies: rapid 5G deployment, boosting platform business, and continuous investment in digital infrastructure. In this context, Foreign Direct Investment (FDI) is no longer merely a source of capital inflow; it has become a strategic vehicle for technological capability building, innovation spillovers, and deeper integration into global production networks.

Efforts to advance Korea's digital transformation have expanded significantly since past administrations, particularly after the pandemic. The Moon administration laid the foundations by building the "D.N.A." (Data, Network, AI) ecosystem and strengthening data-driven infrastructure across education and industry. The Yoon administration—and more recently, the Lee administration—has further accelerated these initiatives through an industrial-policy drive focused on national strategic technologies

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such as artificial intelligence, semiconductors, and quantum computing, thereby deepening Korea's digital and AI transformation. In particular, a broad set of measures aimed at enhancing regional innovation, talent development, and regulatory reform has been introduced to balance and effectively manage these policy priorities. Against this backdrop, Korea's FDI policy has been shifting away from broad-based quantitative expansion toward a more targeted approach that emphasizes qualitative upgrading and the advancement of national strategic interests.

Three Issues: Incentives, Sustainability, and Security

Korea's digital transition is unfolding against a complex backdrop of global investment rules. Three issues are particularly prominent: the design of investment incentives under the OECD's global minimum tax, the qualitative importance of FDI for sustainable development, and the strengthening of investment screening mechanisms with national security considerations.

Incentive Structure

With the introduction of a 15% global minimum tax under OECD BEPS Pillar Two, legacy profit-based tax incentives risk being phased out or restructured. As an early adopter, Korea will need to reorient its investment incentives toward performance-linked, transparent support—especially for R&D and skill-building—while phasing out non-refundable credits that could result in tax “top-ups” elsewhere. This regulatory shift aims to boost high-quality FDI that delivers innovation and knowledge spillovers, rather than competing solely on tax rates.

Sustainability

Policy frameworks around the world increasingly emphasize not just the volume of FDI but also its qualitative alignment with productivity, skills, gender equality, decarbonization, and inclusive growth. Korea's rapid digital transformation—and the scaling of AI in particular—raises new sustainability challenges: AI training is energy-intensive, exacerbates resource inequalities, and intensifies the need for regulatory alignment between climate goals and technology-driven innovation. As Korea moves to the technological frontier, ensuring that incoming FDI supports responsible AI development and reinforces national climate commitments is becoming more crucial than ever.

National Security

Amid deepening geopolitical fragmentation and tightening global controls on critical technologies, Korea has strengthened its FDI screening mechanisms in line with trends in major economies such as the United States, the European Union, and Japan. Korea's FDI Security Review System now operates with expanded ex-officio authority, broader sectoral coverage, and streamlined procedures—reflecting growing concerns over balancing technological

openness for capability acquisition with the achievement of national security objectives. Policymakers thus face the complex task of maintaining investment openness while ensuring robust oversight and providing clear, predictable review criteria that uphold investor confidence.

New Challenges and Policy Recommendations

Korea's investment climate is challenged by rising protectionism, onshoring pressure, and a weakening of multilateral frameworks. As global competition intensifies, Korea's policy must:

- Strengthen multilateral and regional engagement to buffer against protectionist trends and foster international collaboration;
- Upgrade investment incentives to support high-quality, sustainable FDI in strategic and digital sectors while staying Pillar Two-compliant;
- Deepen connections between FDI, education, and innovation ecosystems to ensure technology transfer and skill upgrading;
- Align FDI screening and sustainability strategies, ensuring consistent governance across ministries, especially for AI and decarbonization; and
- Foster a stable, transparent, and predictable business environment with strong rule of law to retain investor confidence.

The success of these policies will depend on Korea's ability to manage the tension between openness, security, and social goals, building resilience in an era of global uncertainty. [KIEP](#)