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GOVERNMENT REPORT IN 2024 ON SEMICONDUCTOR MEGA CLUSTER PLAN

On 15 January 2024, the government announced the “Semiconductor Mega Cluster Creation Plan” jointly with the Ministry of Trade, Industry and Energy and the Ministry of Science and ICT. We provide below the summaries of the announcement and implications for semiconductor-related companies and investors.

BKL’s Government Relations (GR) Solutions Group is comprised of lawyers with extensive dispute resolution experience and in-depth legal knowledge, as well as professionals with extensive practical experience in government and parliamentary affairs. Based on these capabilities, the GR Solutions Group provides proactive and comprehensive services tailored to the needs of our clients by helping them to participate in the policy-making and legislative process in relation to policies that have a significant impact on their business activities and decision-making, or by proposing legal and alternative dispute resolution solutions to improve existing unreasonable laws and systems.

I. HIGHLIGHTS OF THE SEMICONDUCTOR MEGA CLUSTER PLAN

The government’s plan to build a semiconductor mega cluster has four main pillars:

- A. Infrastructure and investment environment
- B. Ecosystem
- C. Super-gap technology
- D. Human resources

In particular, the government intends to create the world’s best mega cluster through a total of KRW 622 trillion in private investment by 2047 in the region of southern Gyeonggi (including Pyeongtaek, Hwaseong, Yongin, Icheon, Anseong, Seongnam, Pangyo, and Suwon). The government also plans to provide timely support to the participating companies.

Although the focal point of this announcement is the semiconductor industry, the government also intends to promote the display, secondary battery, and bio as national high-tech strategic industries through the Act on Special Measures for Strengthening the Competitiveness of, and Protecting National High-tech Strategic Industries. In fact, it has already designated or is planning to designate specialised clusters for each industry. The companies and investors in the display, secondary battery, and bio sectors are advised to closely review the plan as it is likely to be either directly applied to other national high-tech strategic industries, or be used as a benchmark.

II. DETAILED POLICIES OF “SEMICONDUCTOR MEGA CLUSTER CREATION PLAN”

The following are the main points that may affect the semiconductor-related companies and investors.

A. Creating Mega Cluster Infrastructure and Investment Environment

1. Timely supply of core infrastructure such as power and water
 - a. Quick permit process for infrastructure installation such as power facilities and water pipelines, the government plans to actively utilise the expedited processing system such as the permit time-out
 - * The permit time-out system is a system that deems a permit to be processed within 60 days of requesting.
 - b. Reduce the construction period of mega cluster transmission lines by more than 30% through the enactment of the National Power Grid Expansion Special Act.
2. Creating an attractive investment environment
 - a. Increase the semiconductor budget to KRW 1.3 trillion in 2024 (doubled from 2022)
 - b. Expand the number of technologies eligible (currently 22) for the semiconductor tax credit (up to 25% tax credit)
 - c. Eliminate killer regulations through the High-tech Industry Regulatory Index and the National High-Tech Strategic Industry Committee

B. Strong Semiconductor Ecosystem with the People

1. Complete the domestic semiconductor value chain by enhancing the competitiveness of small and fabless companies
 - a. Expand the budget for foreign investment incentives (i.e., cash support) to KRW 200 billion in 2024 (four times more than in 2023), with a particular focus on attracting R&D centres of the global TOP ten equipment companies.
 - b. Promote a testbed to support mass production verification of small-scale components (to be built in the Yongin cluster for completion in 2027)
 - c. Foster fabless companies based on domestic foundry strengths to complete the value chain of system semiconductor
 - Expand the market share of system semiconductors including fabless to 10% by 2030 (from the current 3%)
 - Foster ten fabless companies to be ranked in the top 50 global sales, by 1) strengthening networking, 2) expanding prototyping opportunities, and 3) funding support

- d. Greater support for loans and guarantees with a total of KRW 24 trillion over the next three years (compared to KRW 6.6 trillion in 2023) and provide preferential interest rates of up to 1.3%
- e. Investment management for fabless and small-scale companies through the Semiconductor Ecosystem Fund (approximately KRW 300 billion)
- 2. Strengthening supply chain based on global semiconductor alliance
 - a. Stabilise the supply network chain based on the 'Global Semiconductor Alliance' established among the key countries in the semiconductor value chain such as the U.S., Japan, EU, U.K., and the Netherlands
 - Support the prompt selection of a location for the joint R&D centre (worth KRW 1 trillion) between Samsung Electronics and ASML
 - b. Impose penalties and require better management for any technology leakage by amending the Industrial Technology Protection Act
- C. Securing semiconductor super-gap technologies to lead the AI era
 - 1. Secure super-gap technologies that can lead the next-generation semiconductor market by establishing R&D and education centres in Pangyo, Suwon, and Pyeongtaek within the semiconductor mega cluster, and establishing a cooperative system between domestic and international semiconductor research infrastructures
 - a. (Pangyo) Promote K-Cloud using low-power, high-performance AI semiconductors
 - b. (Suwon) Foster four strategic sectors by supporting the entire life cycle of compound semiconductors
 - c. (Pyeongtaek) Create a next-generation semiconductor R&D hub at KAIST

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We will keep you posted on important issues in the governments' new-year announcements for various business sectors in upcoming newsletters.

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