
SURVEY OF FOREIGNERS' EVALUATION OF KOREAN INVESTMENT ENVIRONMENT

The Hyundai Research Institute and the Korea Economic Daily jointly conducted a survey among foreign businesses in Korea on how they feel about the overall business climate and the individual aspects of their investment activities in Korea. The results of the survey will appear in a feature article in the KED. The highlights of the survey results are briefly reviewed here.

Scope of the Survey

Despite the general acceptance of the notion among Korean business people that globalization is a valuable concept by which to expand Korean business abroad and to make strategic alliances with foreign firms, Korea is still in the early stages of deregulation regarding foreign businesses' entry into the Korean market. However, the Korean government claims that it has made significant efforts in recent years to remove unnecessary entry barriers and protective measures which are unfair to foreign businesses.

The policy issues may or may not be as important as other economic factors that attract foreign firms to invest in Korea such as the overall strength of the economy, factor prices, and the infrastructure, among other things. Therefore, the survey is primarily concerned foreigners' perception of the factors of production or aspects of the business environment in Korea which encouraged them to invest or discouraged them from further investment and what they feel should be done most urgently to help improve the business environment for foreign investors.

Overall Foreigners' Evaluation of the Investment Environment in Korea

The average degree of satisfaction concerning the current investment and the general investment environment in Korea was evaluated as 3.75 and 2.75 points, respectively, done on a five-point scale with one corresponding to "very bad," three being "Neither bad nor good or About average," and five being "very good." Since these questions were directed toward foreign firms currently engaging in business in Korea, i.e. who have survived the competitive environment in Korea, their average evaluation of 3.75 of their own satisfaction about the current investment cannot be viewed as a particularly encouraging score. The less-than-average score of 2.75, presumably being how they evaluate the general investment environment in Korea relative to other Asian countries, can be interpreted as mixed, depending on how excellent one thinks the evaluation should be relative to other Asian countries who have varying potentials for and degrees of economic development. Notwithstanding, it would seem that score is still lower than what we should be getting after all the government and non-government slogans of the globalization of the Korean economy.

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Policy Implications

Investment Promotion Measures and Intellectual Property Rights Protection:

Korea's investment promotion measures along with Korea's political stability appear to have played a sizeable role in attracting foreign businesses (see question a in appendix). However, foreign firms did not see much improvement in recent years in the government's investment promotion policies and in intellectual property rights (IPR) protection. Public debates over issues and policy measures concerning foreign investment promotion and intellectual property rights appear to have been high on impression and low on substance to foreign investors. Improvements in recent years on the investment promotion measures and intellectual property rights protection were rated at 3.05 and 2.75 points respectively out on the five-point scale, three being "neither good nor bad".

More specifically, unclear government regulations was the single biggest difficulty they faced during the initial investment process, and also was considered to be in the most urgent need to be improved upon to attract more foreign investors. Although these are findings about the foreigners' investment environment in Korea are not really surprising, policy makers could have hoped for better scores from the foreign investors on how well these policies have improved.

Government Bureaucracy:

A no-less important issue is the bureaucratic government practices, which was considered by foreign business leaders as the single biggest difficulty they faced currently in conducting business in Korea (see question c in appendix). Looking at the answers to a slightly different question (see question d) about the most difficult problems in investing in Korea, the problem of bureaucratic

practices would seem to have much to do with unclear or non-transparent government regulations, problems in the customs clearance procedure and in the unpredictable tax system. Statistically, though, complaints about the government bureaucracy are only modestly correlated with the complaints (in question d) about the individual aspects of government practices. Only 43.0% of the respondents complained about both the government bureaucracy and one or more of the individual aspects of the government practices regarding foreign businesses. Therefore, one might conclude that not just the specific aspects of the government policies but also the general atmosphere of the bureaucracy is the major obstacle to the foreign businesses.

Understandably, such authoritarian attitudes of the government officials would translate into higher transaction costs, which again is a problem well known to the business people of Korea. However, the Korean Government is indeed making a great deal of efforts to make itself more accessible to the business community and the public in general for years, which has been a major part of the democratization wave in Korea. However, it seems that much is still needed to change at least the appearance of bureaucratic attitudes toward foreign business people, which may estrange or frustrate them more than indigenous business people. Easing up on their bureaucratic dress code, something which the government is currently experimenting with, is a welcome start in diminishing the appearance of excessive formality

Customs Clearance:

Problems in the customs clearance procedures ranked only seventh among the thirteen categories of the present difficulties to choose from (see question d). However, it was most closely correlated with the overall ratings of the investment environment in Korea for foreign businesses. Quite possibly the respondents had in mind other

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Southeast or Southwest Asian countries as a reference standard, and it would seem that the Korean customs clearance procedures are especially costly to foreign businesses relative to the other Asian countries. On the other hand, while the Korean tax

system and administrative regulations are problematic enough in themselves, they do not appear to be any worse than those of the other Asian countries. **VIP**

(Sae-Jae Lee)

Appendix: Survey Results

Out of the some 500 firms that received our request to answer the questionnaire only 79 actually responded, 52 of which have conducted business in Korea for over 5 years. Respondents were allowed to choose more than one answer in multiple-choice-type questions if applicable.

Following are selected questions of and answers to the survey questionnaire.

a) Determinant factors of investment: When asked what factors influenced their decision most to invest in Korea, answers: Rapid growth rate of the Korean economy (and its markets) (43.2%), Possibility of expansion into neighboring markets (22.7%), Low cost/ high quality labor (12.9%), Korea's technological strength (8.3%), and Korea's investment promotion measures (4.6%). Others included Korea's political stability (2.3%) and Easy export turnaround (2.3%).

b) Difficulties in the Initial Investment Stage: Answers: Unclear or non-transparent investment regulations (43.1%), Choosing joint-venture partners (15.6%), Finding a suitable location (14.7%), and Securing white-collar workers (11.9%) among others.

c) Present difficulties in doing business (Among extended categories): Answers: Government bureaucracy (27.2%), Illogical financial systems and practices (24.1%), Labor

management (12.7%), Cultural differences (7.0%), Exclusionism by Korean business leaders (6.3%), Political corruption (5.1%), Biases against foreign products and services (5.1%), Discriminatory laws against foreigners (4.4%), Inadequate infrastructures (3.8%), Narrow-minded media (2.5%)

d) Present difficulties in doing business (Among individual aspects): Answers:

Non-transparent administrative regulations (17.4%), Wage levels and labor regulations (13.7%), Interest rates and financial systems (13.0%), Transportation and social overhead capital (11.1%), Cultural or language difficulties (7.9%), Foreign investment process (7.7%), Customs clearance procedure (7.0%), Real estate prices and restrictions on acquisition (6.8%), Unpredictable tax system and practices (4.9%), Joint-venture partners and cooperation (4.4%), Too few sectors open for investment (3.4%), Intellectual property rights protection (1.8%), Relations with consumers (0.8%)