

FOREIGN COMPANIES' PERSPECTIVES ON INVESTMENT IN KOREA

by Choong-Geol Oh

The currency crisis which arose toward the end of last year has been quieting down somewhat thanks to the strong and swift actions of President Kim Dae-Jung. Even though it has a short while from the start of the crisis to the compromise of the labor-management-government committee, almost every Koreans has realized the importance of inducing more foreign currency and capital.

There are two possible ways for Korea to acquire more foreign exchange. One is through exports/business in foreign countries, and the other is to attract foreign investment in Korea. Until now, most attention has been focused on boosting the inflow of dollars through exports, and efforts to attract foreign direct investment in Korea have been neglected. In order to protect domestic industries, many restrictive regulations were placed on foreign investors.

According to the "World Investment Report" by the UN, foreign direct investment in Korea in 1996 remained at \$2.3 billion, while Korea's outbound investment stood at \$4.2 billion. Therefore, Korea's outbound investment exceeded foreign direct investment in Korea by \$1.9 billion. In Mexico, however, the inflow remained at \$7.5 billion, while the outflow stood at \$ 0.6 billion so the inflow exceeded outflow by \$7 billion. The percentage of foreign direct investment to gross domestic product (GDP) remained at 10% in Singapore, compared to the 0.5% in Korea. These countries except Korea enhanced by the adequate market opening.

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<Table 1> Foreign Direct Investment of the Developing Countries in 1996

	Gross Domestic Product	Inflow of FDI		Outflow of FDI		Difference (Inflow-Outflow)
		\$ billion	% of GDP	\$ billion	% of GDP	
Singapore	94.1	9.44	10.0	4.80	5.1	4.64
China	697.6	42.30	6.1	2.20	0.3	40.10
Indonesia	227.4	7.96	3.5	0.51	0.2	7.55
Mexico	334.8	7.54	2.3	0.55	0.2	6.99
Hong Kong	155.0	2.50	1.6	27.00	17.4	-24.50
Thailand	167.5	2.43	1.5	1.74	1.0	0.69
Brazil	749.1	9.50	1.3	0.97	0.1	8.53
Korea	484.6	2.31	0.5	4.19	0.9	-1.88
Taipei	272.0	1.40	0.5	3.10	1.1	-1.70

* Source: 1) GDP from International Statistics (1997.12), National Statistical Office
2) Inflow/Outflow of FDI from World Investment Report(1997), United Nations

"Korea's outbound investment exceeded foreign direct investment in Korea by \$1.9 billion."

〈Table 2〉 Survey Design and Procedure

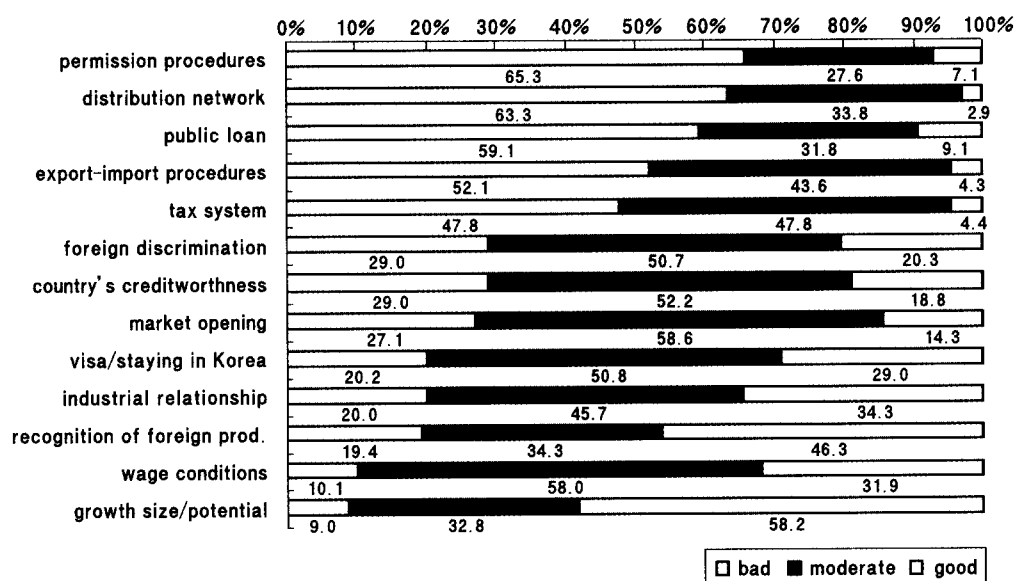
	Items	Contents
Methodology	target population	existing foreign companies in Korea
	sampling source	Directory of Foreign Companies in Korea 1998
	data-collection method	Fax-to-Fax Survey
Procedure	survey periods	Feb. 2nd~5th, 1998
	valid sample size	72 companies (total list: 500, # sent: 280)

investment. In light of this, the Hyundai Research Institute and the *Korea Economic Daily* worked together to survey existing foreign companies in Korea on their perspectives on domestic investment. The survey focused on how the existing foreign companies feel about the business environment in Korea and what they expect for the future of the Korean economy.

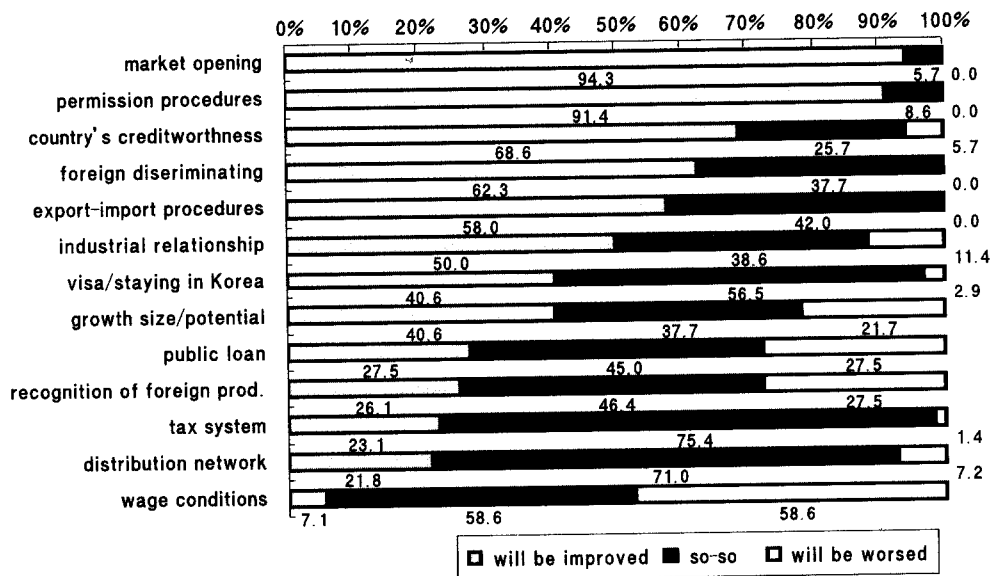
Several characteristics were noticeable in this survey study. First, the existing foreign companies pointed out "permission procedures for domestic investment", "export-import/tax procedures" and the "domestic tax system" as among the most difficult conditions for doing business under the previous government.

This suggests that the amount of foreign direct investment met its limits without under

〈Figure 1〉 Evaluation of Korea's Business Environment under the Previous Government



〈Figure 2〉 Evaluation of Korea's Business Environments under the New Government

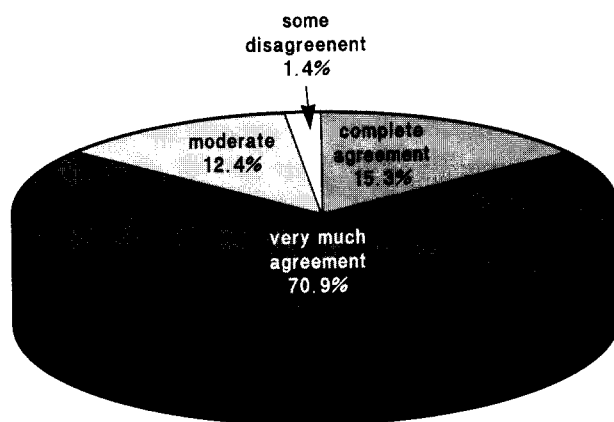


the current regulations which annoyed existing foreign investors. However, the situation will improve considerably because the new government plans to pursue widespread deregulation

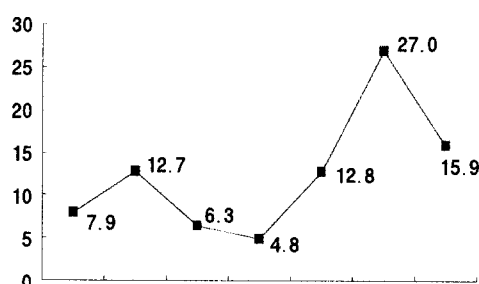
swiftly and boldly. Such a rapid and clear policy for market opening has been evaluated positively by the existing foreign investors in Korea.

Second, it is expected that most people will

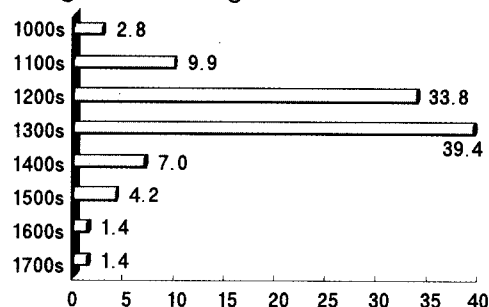
〈Figure 3〉 Evaluation on the Korean's Support of President Kim's Policy



<Fig 4> GDP Growth Rates Forecasts

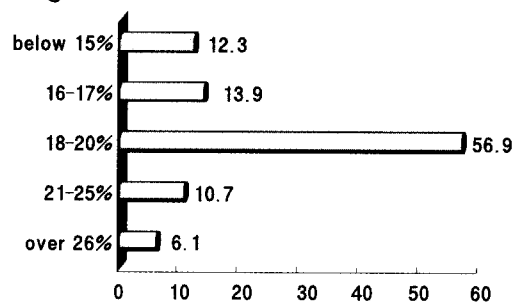


<Fig 5> Exchange Rate Forecasts

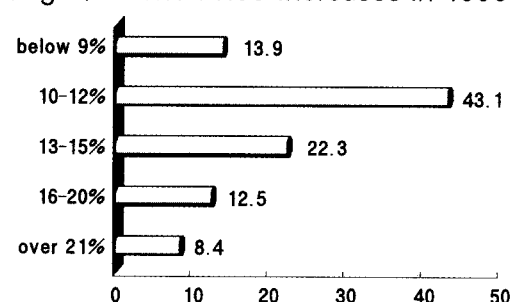


"These results are based on the existing foreign companies' belief that Korea has the capability to overcome the current currency crisis and that it is a good time for foreign companies to invest in Korea."

<Fig 6> Domestic Int. Rates in 1998



<Fig 7> Cons. Price Increases in 1998



cooperate and support President Kim's policies. Nearly 86% of the respondents feel that President Kim's efforts are under a nationwide consensus. This is an important clue that Korea has good conditions for foreign investors to invest in.

Third, they expect that the sky-high interest rates will lower in the second half of 1998 and Korea will once again reach the \$10,000 per capita GNP after 2 years. These results are based on the existing foreign companies' belief that Korea has the capability to overcome the current currency crisis and that it is a good time for foreign companies to invest in Korea.

Fourth, the foreign investors in Korea do not necessarily consider the government as the source of movement for purchasing Korean products and avoiding foreign products. The

recent movement is not an anti-foreign product campaign, but a frugal consumption movement led by consumer groups to adjust for the hard times.

From this survey, one thing which is clear is that foreign companies are feeling the changes occurring in Korea in terms of abolishing all discriminatory regulations and restrictions imposed on capital from overseas. Even though Korea is now suffering from a currency crisis, Korea is considered to have high potential to become a truly advanced economy. Korea stands on the verge of a second economic takeoff by fully adopting the free-market mechanism. Korea is about to change, and it is hoped that foreign companies actively take part in equitable competition within Korean market. **VIP**