

**Study On the FDI Inflows
Into Korea Focused On Greenfield**

By

CHOI SEONG JU

THESIS

Submitted to
KDI School of Public Policy and Management
In partial fulfillment of the requirements
For the degree of

MASTER OF PUBLIC POLICY

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Abstract

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In the time of globalization, All countries go with foreign countries by trade and Foreign Direct Investment (FDI). Thereby Korea also has been role in the global activities. Among international business activities, The FDI slowly developed, compared to the Trade and international finance loan and technology induce contract etc. In the case of FDI in Korea, early 1960 ~1970, exclusively depend on inflow FDI, Japan ,USA, etc. But 1980 ~1997, like Daewoo Jabul enterprise start outflow FDI. Even though, it was still low level in the FDI of Korean Policy. But when it is happened Korea Economic crisis, FDI was only a key of solving urgent Korea economic crisis. Korea overcome Economic crisis fast by inflow Greenfield FDI; bankrupt small and middle companies resurrected by joint venture. Gyeonggi province industrial parks were ccupied by FDI Greenfield investors. Such as Euyun hansan Foreign Investment Park in the time of Korea economic crisis, after given industrial park Green field investment by joint venture or share of stocks. Gyeonggi provincial government has been effort for the Greenfield investment variable policy: tax incentives, leasing industrial park. But in The act of inflow FDI,

Many obstacles are getting delayed in inflow Greenfield FDI Only Reason on the equality development in territory Domestic, Metropolitan area development policy has been limited by variable domestic laws. But in the Global world, to win inflow FDI Many countries open to MNE by fitting to MNE's requirement, such as Hyundai motors investment in USA, USA supply all infrastructures and factory Building concerned all. Inducement Greenfield FDI in Each country is a kind of game so that just winner is only one. Therefore to win the game each country offers the best Condition of players. In Korea, to win in the game of Greenfield investment, which player is possible, here possible condition is variable but location is first, the second is Infrastructure, education, culture and international airports all, and population etc. Metropolitan area is fit to the MNE's requirement. To explain I got a supposition experiment, "Inflow of FDI in Two Villages". The pivotal point of study is that A village in good condition in FDI, B village poor condition of FDI, But actually A limited by law can't be a FDI player. In Conclusion, there is no Korean FDI player. It is required that Metropolitan area; Gyeonggi province, Seoul, Inchun, must be opened for the Greenfield inflow FDI. Because of the best player of Korea Greenfield FDI is the Metropolitan area.

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ACKNOWLEDGEMENT

I would like to express my sincere gratitude to my research advisor, Pr. **Ahn Byung joon**, for all his kind guidance and enormous help. I am highly indebted to my wife, Chung Chung Soon, and My children Choi Him Chan, Choi Hansel, because I didn't share my time with my family for this Thesis. I would like to thank for their moral support, patience and inspiration. And, thank you very much for **Professor Yu Hankoo's** current FDI successful cases and advises. All the errors remain the author's responsibility.

GLOSSARY

TNC. Transnational company is corporation enterprise that manages production establishments or delivers services in at least two countries.

FDI. Foreign Direct Investment is the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another country.

(IMF, [http:// www.imf.org/external/np/sta/di/index.htm](http://www.imf.org/external/np/sta/di/index.htm))

HDI. is a comparative measure of poverty, literacy, education, life expectancy, childbirth, and other factors for countries worldwide.

GDP. A region's **gross domestic product**, or GDP, The GDP of a country is defined as the market value of all final goods and services produced within a country in a given period of time.

LDC. the least developing countries (UNCTAD),

FEZ. FDI exclusive zone

MNE Multinational enterprises

INTRODUCTION

The trend of the global economy is gathering momentum and the interdependence among nations has increased considerably. Every nation of the world has a commitment to economic cooperation in order to achieve balance in the world economy expansion. In this regard, Foreign Direct Investment plays very important role in this process. Foreign Direct Investment does not only provide the host-country with integration of regional economy into the world economy but also offer the host-country technology transfers, employment opportunities, and economic development, as well. Each nation needs to take action to encourage FDI, promoting the development of the developing countries and enhancing cooperation between developed and developing countries. In the Global world, international activities are represented by FDI, especially developed countries out flow to developing host countries. Korea traditionally functioned as developing country, just undertake inflow FDI by difference of typical FDI theory but Korea enter the developed country group, generally agreed by Organizations such as the World Bank, The International Monetary Fund (IMF) and the Central Intelligence Agency (CIA)¹, GDP growth rate: 2003, 3.1%; 2004, 4.6%; 2005, 4.0%. Nominal GDP (2005 est.): \$811.1 billion. Korea also became outflow FDI investment country. In the point of view, Korea changed the global state from developing country to developed country. But Korea inflow green field FDI still lagged. Inflow FDI in Green field are limited in metropolitan area because of domestic equality in development. In the liberal foreign investment regime, Korea has institute "Korea Invest" an Invest Korea provides investors with customized information, substantial consultation, and investment

¹ http://en.wikipedia.org/wiki/Developed_country

opportunities on a completely gratis basis.² Korea Invest help to inflow FDI in Korea and local governments are try to undertake inflow FDI, even become hot among the provincial governments. Frequently, politician, manager and economists in their research papers postulate that there are four the most important location determinants of FDI inflow to the economy viz.: relative labor costs, domestic market characteristics and possibilities of access to the global and regional markets. geographic proximity and Economical Political Social Stability. This research will investigate the issues and problems associated with Korea current Foreign direct investment regime, and more importantly the associated factors that Responsible for Korea's unattractiveness problems, lack of understanding global FDI inflow and Domestic variable regional regulation for equitable development, Cause of that the strong competitive area is not used for the inflow FDI. For this Purpose my new study divided into five chapters. Chapter 1 A Theoretical Review: The FDI, Theoretical Background, Chapter 2 The background of FDI in Korea , Chapter 3 Circumstance and Decision making of the Greenfield FDI in Korea, Chapter 4, The Case of Greenfield FDI: Gyeonggi provincial Government , Chapter 5, Policy implication of the Greenfield FDI by Hypothesis Experiment, , Chapter 6, Conclusion.

Chapter 1

A THEORETICAL REVIEW

Foreign Investment involves the transfer of tangible or intangible assets from one country to other countries for the purpose of use in that country to generate wealth

² The system of the KOTRA for the FDI

under total or partial control of the owner of asset. It is different from portfolio investment where there is a movement of money for the purpose of buying shares in a company formed or functioning in the other country. However the formal literature has largely ignored these important trends. Most of the theoretical literature is still devoted to explain the drivers and effect of Greenfield FDI in the manufacturing sector. Greenfield FDI is considered, foreign entry via acquisition is not account for. Recently, however, the empirical literature on foreign firms' site selection has grown. Alongside with advances our understanding of domestic branch plant location (Fujita etc, 1999). In particular, many studies have emphasized determinants. Following a typical cumulative causation approach, it is often suggested that industrial firms tend to localize where other firms are present. The benefit of this form of externality, connected with the number of manufacturing plants clustered in a specific area (agglomeration economies), are well known, namely access to a more stable labor market, availability of intermediate goods, production services and skilled manpower and knowledge spillover between close firms. Now, the regional distribution of domestic manufacturing can affect the location of foreign investment in different way according to the foreign entry mode (acquisition and Greenfield). It is important to have some understanding of regional difference important on inflow FDI, by comparing between traditional FDI theory and current decision-making in Greenfield FDI as an important factor of regional site.

1-1 Traditional FDI theory

The impact of FDI on the economic development of less developed countries (LDCs) has been one of the most controversial issues in the study of economic development. Proponents of FDI, which generally include business and government

leaders of industrialized countries, as well as liberal economists, generally share the conventional view that FDI positively contributes to LDC economic development by providing host countries with missing factors of production such as capital, technology and management skills, as well as access to international export markets. These proponents contend that government “interference” with “market forces” should be minimized. Critics, on the other hand, question the extent to which LDCs actually receive the alleged benefits of FDI and emphasize negative results of FDI, which are detrimental to host country economic development. A primary source of this critical perspective has been the “dependency” school of theorists, whose work has been based primarily on the historical experiences of Latin America. Other critics of FDI have included both Marxist and non-Marxist scholars from Africa, Europe, North America, and the United Nations.

Host countries can adopt and integrate both traditional and innovative investment policy tools to fare better in the global competition for investment. For the enhancement urgency it brings to coordinating the broadest possible set of policies to attract foreign investors. “Traditional liberal FDI policies” i.e. National Treatment, Most Favored Nation, investment protection, and market access, are only the starting point. Although necessary they are not alone sufficient. Most countries are complimented by sound rules on corporate governance, effective public administration, shared responsibility in capacity building, fair and non-distortion tax policy. Effective competition policy, an efficient banking and financial sector, and linkages to trade policy are required. In addition most countries take account of growing social expectations in home and host countries in other areas such as environmental protection, improved working standards and respect for human rights. The more effective countries are in

integrating policies in all of these areas, the more success they are having in attracting significant flows of foreign investment. Traditional FDI concept include in Labor per unit of net products, Physical capital per unit of production, Depreciation, Capital per labor, Productivity of the labor, wage per labor, unit labor cost, Profit, total factory productivity, export for sale debt,

1-2 Current Decision-Making in Greenfield FDI Theory

Most countries the competition for the investment is being fought and won the basis of the well-integrated policy framework. But Economic determinants and location advantages will vital factor. Current Decision-Making in Greenfield FDI Theory³ is based on Strategic, Evasion of trade restriction, prior occupation of a market, MNE's restructuring, High-availability (HA) clusters⁴, MNE invest country and MNE host country's joint venture investment, Several MNE invest countries Big project joint venture. MNE strategic factors in FDI are in-the –field management, by Horizontal Foreign Direct Investment: is investment in the same industry abroad as a firm operates, Vertical Foreign Direct Investment: 1) backward vertical FDI: where an industry abroad provides inputs for a firm's domestic: production process, 2) forward verticle FDI: in which an industry abroad sells the outputs of a firm's domestic production processes Host countries of FDI are diligent to get win the competitive game of Inflow FDI by enact FDI promotion law, each country's local government wiliness inflow their regions. These days, FDI inflow game in the host country become the game therefore to bring MNE to

³ Direct investment in new facilities or the expansion of existing facilities. Greenfield investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace:

⁴ High-availability clusters are implemented primarily for the purpose of improving the availability of services which the cluster provides.

each local region, prepare the incentives, but that is not effect for the real successful FDI. In a host country, a region is only best place for the MNE, because the Decision making of MNE try to easy manage FDI company; airport, living condition, infrastructures etc. So most country's Inflow FDI best place is almost only one place. In Asian countries, Singapore is known for the best place on FDI, Singapore advantage of Inflow FDI⁵ Singapore is an urban country, so open economy and society possible, no xenophobia or resentment of foreign ownership, MNE FDI mainly export activities, more important thing is partnership with MNE in local industry Upgrading program, Singapore Inflow FDI for the MNE, there is no any obstacle, rather promotion policy in the real necessary for the MNE. So called all uncertain environments FDI is removed. Singapore is a metropolitan area in the general country level, so the best place inflow FDI is a kind of metropolitan region. Past traditional FDI is from Developed country to developing country's just difference of productivity cost but, Developed country also do inflow FDI activity other developed countries MNE, for the developed country also try to induce high-tech or competitive MNE for creating a jobs. But also developed countries are Greenfield investment now appeared by Host country's MNE Company and Investor Company's MNE successful joint venture. For this successful FDI, How to fit to the Multinational company's desire condition and the host of FDI country, How to decide fast and swift is the most important process is critical in wining the Greenfield Game in the global world.

⁵ Singapore model of Industrial policy, past and present. Chia Siow Yue, Singapore Institute of international affairs, 28-29 November 2001.

Chapter 2

FDI IN KOREA

2-1. Background

In the time of globalization, all countries are related with other countries by trade and Investment activities. Korea has been expanded globalization by the inflow, out flow Foreign direct investment. In the FDI, early 1960 ~1970, exclusively depend on inflow FDI by Japan, USA etc. And 1980 ~1997, appeared outflow FDI, during the time, Korea Policy on FDI is very low level. But After 1997 year, Korea FDI policy is very dynamically opened and promoted. ¹Transient from depend position of FDI to offend and defend position was not self Processed but economic crisis experiences out factor. So that benefits or losses were Occurred. Inflow FDI is not simple like a domestic affairs but global political Economy's the field of game. To win the game it must be out of domestic point of view. To understand the important of the FDI, it necessary to define the FDI,² 'origins direct investment (FDI) is as long term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based. The FDI relationships, consists of a parent enterprise and a foreign affiliate which together form a Transnational Corporation (TNC). In order to qualify as FDI the investment afford the parent enterprise control over its foreign affiliate. The UN defines control in this case as owning 10% or more of the ordinary shares or voting power of an incorporated firm or its equivalent for an unincorporated firm.

² wikipedia, the free encyclopedia

Actually FDI is an investment by Mergers and Acquisition (M&A) but this thesis is for focus for Green field,³ direct investment in new facilities or the expansion of existing facilities. Greenfield investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. Even though Korea Greenfield FDI has been role of Development of economy, in the point of independency theory, Korea FDI police restricted. But After Korea economic crisis, it appeared Greenfield FDI important in Korea. Therefore local governments are their best policy for inflow FDI. But Korea still the policy of FDI is limited by the domestic affair of act, the development of regional equity and the restraint development policy metropolitan area. By then, Greenfield FDI activities also limited. According to the Globalization, and the game of inflow FDI, advantage of Korea FDI region is blocked. Then in the international market of inflow Greenfield FDI must be hard. Without economic relationship with global countries, moreover MNE companies, How to make international country, real international country is inflow Greenfield FDI, Only this Greenfield FDI, economic investment or real business people come and go, it leads to international country and cities.

2.2 The History of Korea FDI

In the early 1960s, Korea strictly screened FDI, confining to selected industries and also restricted the repatriation of capital. However, as economic conditions and the environment of the global and domestic economy changed, the government enacted a liberalized foreign investment law in 1984. Under the new law, Foreign Direct Investment (FDI) f

³ wikipedia, the free encyclopedia

low int Korea increased steadily from 1984. In 1993, to make the nation more attractive to foreign investment, the government devised a five-year plan for opening up the domestic market. Entrance to OECD in 1996 stimulated a sharp rise in FDI a year later in 1997, as 57 industries, by far the largest number ever, were fully opened to foreign investors.

Figure1. Foreign Direct Investment (FDI)

| <i>Period/years</i> | <i>Total</i> | | <i>Source Country (Percentage of total amount)</i> | | | <i>Host Industry (Percentage of total amount)</i> | |
|---------------------|--|--------------|--|---------------------------|--------------|---|-----------------|
| | <i>Amount (in millions of United States dollars)</i> | <i>Cases</i> | <i>United States</i> | <i>European Union</i> | <i>Japan</i> | <i>Manu- fa- cturing</i> | <i>Services</i> |
| 1962-1990 | 7 874 | 5 337 | 28.5 | 12.5 | 48.2 | 65.4 | 34.1 |
| 1991-1995 | 6 598 | 2 929 | 29.9 | 32.5 | 23.0 | 53.7 | 46.4 |
| 1996 | 3 203 | 968 | 27.4 | 27.9 | 8.0 | 60.3 | 39.2 |
| 1997 | 6 971 | 1 055 | 45.8 | 33.1 | 3.8 | 33.7 | 65.8 |
| 1998 | 8 852 | 1 399 | 33.6 | 32.6 | 5.7 | 64.8 | 33.2 |
| 1999 | 15 541 | 2 173 | 24.1 | 40.3 | 11.3 | 45.9 | 53.8 |
| 2000 | 15 697 | 4 271 | 18.6 | 28.0 | 15.6 | 43.4 | 56.3 |
| 2001 | 11 291 | 3 418 | 34.4 | 27.1 | 6.8 | 27.4 | 72.6 |
| 2002 | 9 101 | 2 435 | 49.4 | 18.3 | 15.4 | 26.7 | 73.1 |
| 2003 | 6 468 | 2 564 | 19.2 | 47.3 | 8.3 | 26.2 | 63.9 |
| 2004 | 12 784 | 3 068 | 36.9 | 23.5 | 17.7 | 48.6 | 48.0 |

Sources: Ministry of Commerce, Information and Energy <www.mocie.go.kr/korean/pds/statistics/invest/>; *Overseas Direct Investment Statistics Yearbook 1998; Major Statistics of Korean Economy* (various years).

Invaded some 800 times in its history, Korea has not been a great fan of foreign influence.

The financial crisis in 1997~1998, however, opened Koreans' eyes to the necessity of

foreign funds: FDI between 1998 and 2002 shot up to \$85.8bn, compared with the \$24.6bn collected during the 35 years between 1962 and 1997.⁴

Korean government enacts The Act on Foreign Investment and Foreign Capital Promotion, revised in the first quarter of 1998, created an almost fully liberalized manufacture sector. Active foreign participation is of critical importance to the Korean economy, not only with respect to overcoming the Asian financial crisis in 1997 but more importantly for ensuring long-term, sustainable growth. The government is committed to creating a favorable environment for foreign investment. Its policy initiatives are focused on facilitating FDI through equity participation and mergers and acquisitions activities involving Korean companies. FDI totaled US\$15.2 billion in 2000 and US\$11.2 billion in 2001. In 2002, due to the global recession's devastating impact on the Information Technology (IT) sector, FDI into Korea slipped to US\$9.1 billion. The new Foreign Exchange Transaction Act replaced the Foreign Exchange Management Act in September 1998. The liberalization measures in the new law were put into effect in two stages by the end of the year 2000. The primary objectives of the new law included the liberalization of the capital account and the further development of the domestic foreign exchange market. Major items of the First Stage Liberalization included the introduction of a "Negative List System," which is more flexible than the former positive list system. It also liberalized capital account transactions related to business activities with financial institutions, including short-term borrowing from abroad. Authorization of foreign exchange transactions to allow financial institutions to meet certain requirements was another market liberalization effort by the government. Major items of the Second Stage Liberalization included capital account transactions that remained restricted in the first

⁴ FDI Magazine February 02, 2003/ open invitation South Korea

stage, except for those related to national security and prevention of criminal activities. It allows non-residents to invest in won-denominated domestic deposits with maturities of less than one year as well as allow resident individuals to invest in foreign-currency denominated overseas deposits and securities. These liberalization measures, however, are not without risks. Therefore, in tandem with their implementation, the government is strengthening oversight regulations and market monitoring, as well as building an early warning system

2.3 The Policy of Korea FDI

In the light of the discussion of saving and foreign borrowing, Korea's policy towards FDI closely followed that of Japan in that it used extensive restrictions on capital inflows, reserved sectors and ownership restrictions. It can therefore be seen that the Korean authorities preferred heavy foreign borrowing to substantial inflow of FDI, instead of promoting technology transfer through licensing and other technical agreements. Such arrangements rely on the repayment of technical fees, usually as a function of output, rather than the repatriation of profits and royalties on technology. The justification for this strategy was along the line of retaining domestic ownership of Korean industry, particularly during the command phase of industrialization, as well as enhancing domestic wealth by limiting the potential for sustained outflows of capital over long-term. Technical agreements and technology transfer provided a means, as in the case of Japan, for Korean to acquire important technology that could be modified and utilized to promote domestic economic growth. It also encouraged targeted R&D to modify and development new indigenous technologies and also increased the likelihood of positive domestic technological spillover effects. This inward-looking strategy towards FDI has

since modified as the mature Korean economy has open itself to both the emergences of new domestic firms and also the entry of foreign ⁵MNEs. Korean authorities are actively encouraging a broad range of foreign investment and technology transfer into Korea. The opening up of Korea to western practices is seen as a key factor in improving Korea's international competitiveness and "attract foreign investment" has become a de facto national motto (Far Eastern Economic Review). Ten year tax holidays in key sectors (e.g. advanced technology) and new Government measures to help SME start-ups have transformed Korea into a very attractive investment destination. FDI into Korea increased a staggering 117% in 1997, an additional 27% in 1998 and an additional 75% in 1999. FDI during the second quarter 2003 declined by 41.4% to US\$1.553 billion compared to US\$2.635 billion of first quarter 2003. The Government's restructuring of the economy has forced the sale of a range of assets, many going at a significant discount⁶

Korean government support for the FDI companies

Korean Government enacts Foreign Investment Promotion Act, according this act, managing the inflow FDI activities. The typical ways are tax incentives; The Act stipulates specific tax incentives that are available to foreign investors. Businesses eligible for tax incentives include services and businesses involved in high technology which are essential for the nation's global competitiveness, businesses operating in a foreign invested zone or a free economic zone, businesses of development project operators for a free economic zone or

⁵ Robert Read, *Foreign Direct Investment & the Growth of Taiwan & Korea*
Department of Economics, University of Lancaster, LA1 4YW

⁶ http://www.austrade.or.kr/services/i_policy.html

the Jeju Investment Promotion Zone, and other businesses for which tax incentives are necessary to attract foreign investment. In addition, such tax incentives are also provided for a technology that is essential for advancement of industrial structure and enhancement of industrial competitiveness, a technology that is less than 3 years old, and a technology that is processed domestically. Taxes are 100% exempted for the first 3~7 years and 50% exempted for the following 2~3 years, depending on the type of business and technology⁷

Another supports are Restriction of Preferential Taxation Act (RTBA), was previously known as Restriction of Tax Reduction & Exemption Act (RTREA), and renamed in 1999. According to the revision of the Annex of the Government Organization Act in May 1995, the section regarding tax reductions and exemptions, which were previously prescribed in the Foreign Investment Promotion Act, were transferred and incorporate into this Act. The Act stipulates specific tax incentives that are available to foreign investors And The Ombudsman Office, consisting of experts in various fields, was established to provide trouble-shooting service to foreign-invested companies. “Home doctors” who are experts in their respective areas visit foreign-invested companies and discuss their issues of concern, which again will be discussed with the government or relevant organizations to resolve the problems. The office provides aid for all matters relating to management difficulties facing foreign invested companies including finance, foreign exchange, tax, construction, law, tariff and customs clearance, labor, etc.

In addition, The Korean government has designated major port cities such as Incheon, Busan and Jinhae as free economic zones, and permitted various exceptional benefits for these areas to promote regional and economic development. During the first phase of foreign investment and development between 2005 and 2008, the government plans to

⁷ <http://www.investkorea.org/templet/type0/1/read.jsp>

attract major multinational companies in IT, BI and logistics, and complete construction of international business zones, residential zones, tourist zones, international schools and hospitals. Added by, The Ministry of Justice decided to greatly ease the denizen ship regulations, which will reduce the investment amount necessary to obtain denizen ship from the current five million dollars or more to two million dollars or more. The period of stay will be extended from the current three years to five years for foreign investors investing more than 500,000 dollars as well as offering one-stop administrative services for foreign investors.

2.4 FDI Trends in Korea

This decline in FDI flowing into Korea has resulted from a relative weakening of the attractiveness of Korea's domestic market, deterioration of the business environment overall, and our weakened comparative advantage vis-à-vis the Chinese economy, all of which have contributed to a breakdown of Korea's ability to compete for foreign investment funds. The government has enacted Foreign Investment Promotion Act and established an "Invest Korea" taskforce to attract foreign investment into Korea. However, the government has not done enough in this regard. In particular, the administration needs to improve the business environment so that it is more conducive to FDI, through such efforts as the establishment of a sound institutional framework, reinforcement of labor market flexibility, abolition of outdated regulations, and rectification of anti-business sentiments among the Korean public. In addition, the government should learn from the policies and systems adopted in such countries as China, Ireland and the U.K., which have enjoyed notable success in attracting foreign direct investment.

Recently, several domestic financial institutions have been sold to foreign concerns. Foreign financial institutions operating in Korea have not always heeded the Korean government's "guidance," due to their insistence on reaching independent management decisions based on their own circumstances. In light of this, the government should take appropriate steps to ensure that its policies are applicable to foreign-owned financial institutions as well. With the liberalization of Korea's capital market, and the growth of M&A, Korean corporations and financial institutions have become increasingly involved with attempted hostile takeovers or mergers led by foreign investors. It should be noted here that advanced countries have long regulated foreign capital whenever they became concerned about their economic stability or competitiveness. Therefore, the Korean government should likewise have the right to regulate foreign capital whenever it is deemed necessary. The governments of most advanced countries still maintain a certain ownership stake of major industries, subsidize R&D for high-tech industries, and indirectly support selected industries through the provision of regional development funds. The Korean government should thus investigate how these countries have attained their objectives in regard to the implementation of support measures for selected industries and the regulation of foreign investment, as deemed necessary. Lastly, effective measures are called for to activate domestic consumption. The measures that the Korean government adopted to cope with the global economic slowdown in 2001 and 2002 have backfired, resulting in a snowballing of household debts to some 430 trillion won and 3.5 million people with bad credit, which were key factors behind the stagnation of consumption and financial instability last year, while also presenting a damper on future economic growth. Furthermore, due to deterioration of the employment

situation and the hangover of household debts, domestic consumption will not rebound as strongly or quickly as anticipated. Hasty government measures intended to reduce the number of people with bad credit are likely to create a vicious circle that will only result in further delinquency as well as moral hazard due to a failure to effectively reduce household debts. Therefore, it is clear that to resolve these problems, the government's mid- and long-term policies should, while avoiding makeshift measures aimed at simply stabilizing the financial market, include various institutional initiatives designed to induce individuals with bad credit to undergo self-help efforts and the implementation of needed restructuring on the basis of market principles, while adopting rational procedures in a responsible manner. The Korean government should realize that increased consumption could only be sustained through improvement of employment and income opportunities, resulting from an expansion of exports and corporate investment. Consequently, there is not much room for alternative measures. In conjunction with this, Korea should learn a lesson from Japan, which has experienced depressed consumption for the past 10 years due to a serious level of corporate and individual bad loans. To sustain consumer spending, well-thought-out mid- and long-term measures will need to be implemented.

The trend of Greenfield FDI in Korea

The point of industry, the manufacturing industry is 9.1% decreased compared by Last Year statistics, but service industry is big creased by 136.6%. The types of investments are big Differenced by M&A investment is 500.6% increased but Greenfield investment is Decrease by 29.6%. The fine parts contents, in the purpose of a place of

business, Greenfield type Investment increased 15.5%, but mainly focused in the finance

insurance business, a factory establishment part decreased by 16.9%, and the

| (The basis of a stateme nt: unit: million\$, %) | M&A type | | | | | | Greenfield type | | | | | |
|--|--------------|-------|-------|-------|-------|--------|-----------------|-------|---------------|--------|--------|--------|
| | an old stock | | M&A | | total | weight | a factory | | establishment | | total | weight |
| | items | sum | items | sum | | | items | sum | items | sum | | |
| 1998 | 238 | 1,245 | 25 | 3,832 | 5,077 | 57.4 | 194 | 459 | 944 | 3,316 | 3,775 | 42.6 |
| 1999 | 241 | 2,333 | 27 | 2,792 | 5,125 | 33.0 | 259 | 3,824 | 1,576 | 6,582 | 10,406 | 67.0 |
| 2000 | 313 | 1,277 | 13 | 1,588 | 2,865 | 18.8 | 309 | 1,667 | 3,508 | 10,717 | 12,384 | 81.2 |
| 2001 | 290 | 1,901 | 8 | 748 | 2,649 | 23.5 | 286 | 945 | 2,760 | 7,692 | 8,637 | 76.5 |
| 2002 | 260 | 714 | 25 | 1,370 | 2,084 | 22.9 | 275 | 840 | 1,850 | 6,168 | 7,009 | 77.1 |
| 2003 | 280 | 1,759 | 8 | 1,184 | 2,943 | 45.5 | 187 | 551 | 2,092 | 2,976 | 3,526 | 54.5 |
| 2004 | 321 | 4,636 | 19 | 1,533 | 6,169 | 48.2 | 253 | 2,933 | 2,483 | 3,688 | 6,621 | 51.8 |
| 2005 | 361 | 4,966 | 10 | 302 | 5,267 | 45.6 | 234 | 1,390 | 3,064 | 4,906 | 6,294 | 54.4 |

case of a place of business decreased 32.5%.⁸

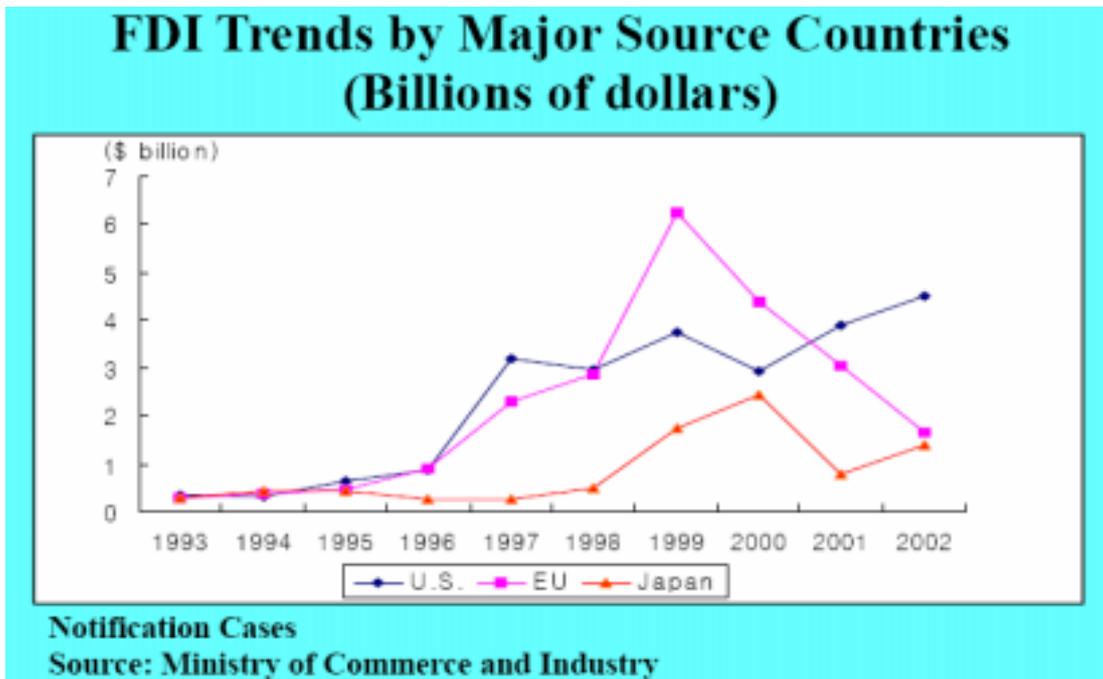
Figure2. Comparisons between M&A and Greenfield type

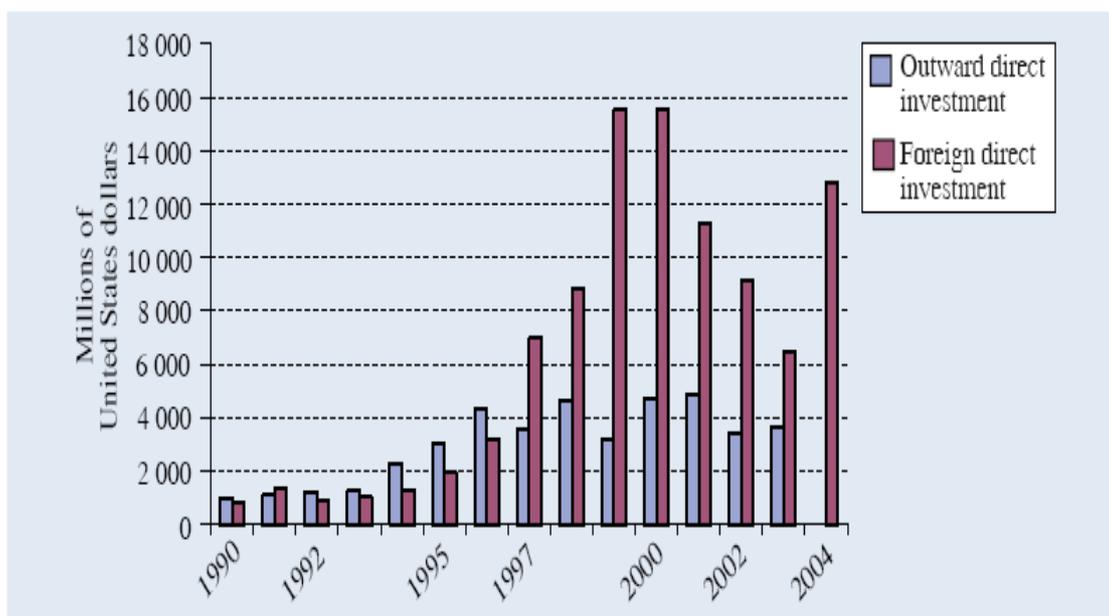
Unit: \$million ,

Source: Ministry of commerce, industry and Energy

⁸ Ministry of commerce, industry and Energy of Korea

Figure 3~4





Sources: Ministry of Commerce, Information and Energy <www.mocie.go.kr/korean/pds/statistics/invest>; Overseas Direct Investment Statistics Yearbook 1998; Major Statistics of Korean Economy (various years).

2.5 The Issue on FDI

FDI in Korea has been very important a criterion. Actually do not clearly as FDI but related to foreign country by trade or foreign communications to the neighbor countries such as China, Japan from old time. The sure true is a dynamic relationship with foreign countries, our history shown to wealth. But closed the relationship to other countries then poor and defeated in the war such as the late of Chosun dynasty. Recently Korea got a experience of difficult of economy, then FDI role almost strategy, after all get out of IMF control economy by the means of FDI. But passed the era of economic crisis, all economic sectors: public and private sector also the presses are inclined to nationalism just poisoning in a small world. The source of ruin of Korea, Historically break down with foreign countries, push down to just domestic idea. The big economic

affairs are all buried to the nationalism of the political issue, these days all press argue that foreign company and domestic company Tax incentive must be same. A series of tax probes of foreign companies and government taking measures to levy tax on foreign capital, some have related them with anti-foreign sentiment and showed concern that it may drive out foreign direct investment (FDI). But most experts agreed that these steps, if implemented in line with internationally acceptable standards, would not have any major negative impact on incoming foreign investment. Still, analysts said they would lead some hedge funds to cower down⁹

- Foreign investors and their companies investing in Korea shall be treated on equal terms with domestic investors and companies, except as otherwise provided in other laws (Article 3.2 of FIPA).
- Foreign investors may enjoy more favorable treatment than Koreans do in terms of tax reductions and the location of their company or factory sites¹⁰

If Korean economic sectors are lose sight of the fact that Korea Economy almost all connected to the foreign countries. Paradoxically speaking, Without FDI, inflow, out flow, Korean Economy must be faced to the rock.

More correctly, Foreigners are all focus for the margin, so they are investing to the foreign countries in an uncertain market; they are handicap in activity of economic in Korea. So each countries FDI policy; tax incentives and supply industrial estates. Etc.

Therefore Government enacts the compensation of FDI, but FDI promotion must be enhancements for the healthful economy. Global world economy is not domestic situation; the standard of global is required.

⁹ Free Economic Zone, Tax prove won't affect FDI, Yoon Ja-young

¹⁰ KOREA INVEST, FDI PROTECTION & LIBERALIZATION

Chapter 3

THE GREENFIELD FDI IN KOREA

3-1 Circumstance of Greenfield FDI

FDI is very sensitive global economic activities, FDI hosts are very care of making for the investors taste, such as tax incentives, supply for the industrial parks by a good condition. Multinational companies and another investors are seek a good opportunities.

General circumstance factors of FDI

The Extant theoretical literature on determinants of FDI yields the following broad proportions¹¹ Host countries with sizeable domestic markets, measured by GDP per capita and sustained growth of these markets, measured by growth rates of GDP attract relatively large volumes of FDI

1. Resource endowments including natural resources and human resources are a factor of importance in the investment decision process of foreign firms.
2. Infrastructure facilities including transportation and communication net works are important factors in attracting foreign investors.
3. Macro economic stability, signified by stable exchange rates and low rates of inflation is a significant factor in attracting foreign investors.
4. Political stability is conducive to inflow of FDI

¹¹ KOREA INVEST, FDI PROTECTION & LIBERALIZATION

5. A stable and transparent policy framework towards FDI is attractive to potential investors.
6. Foreign firms place a premium on a distortion free economic and business environment.
7. Fiscal and monetary incentives in the form of tax concessions do play a role in attracting FDI, but these are of little significance in the absence of a stable economic environment.
8. Regional groupings and preferential trading arrangement between prospective recipients of FDI may induce increased inflows.
9. Foreign direct investment that enables investor entities to exercise control over operations is the preferred method of foreign enterprise participation for most investors. Licensing agreements and joint ventures are usually exceptions dictated by exceptional circumstance.

The investment Circumstance in Korea

Despite the government-level efforts to improve the nation's business and living environments, a survey showed foreign employees think their living conditions have worsened this year compared to last year. The survey of 223 employees and officials working at the foreign-invested companies, which was jointly conducted by Invest Korea and Gallup Korea between Oct. 12 and Nov. 30, found that 27.4 percent are satisfied with the country's living conditions, lower than 52.4 percent reported in a similar survey last year. "The dissatisfaction level also has risen this year as 27.8 percent of respondents said they are unsatisfied with their living conditions, up from 9.4 percent last year," the

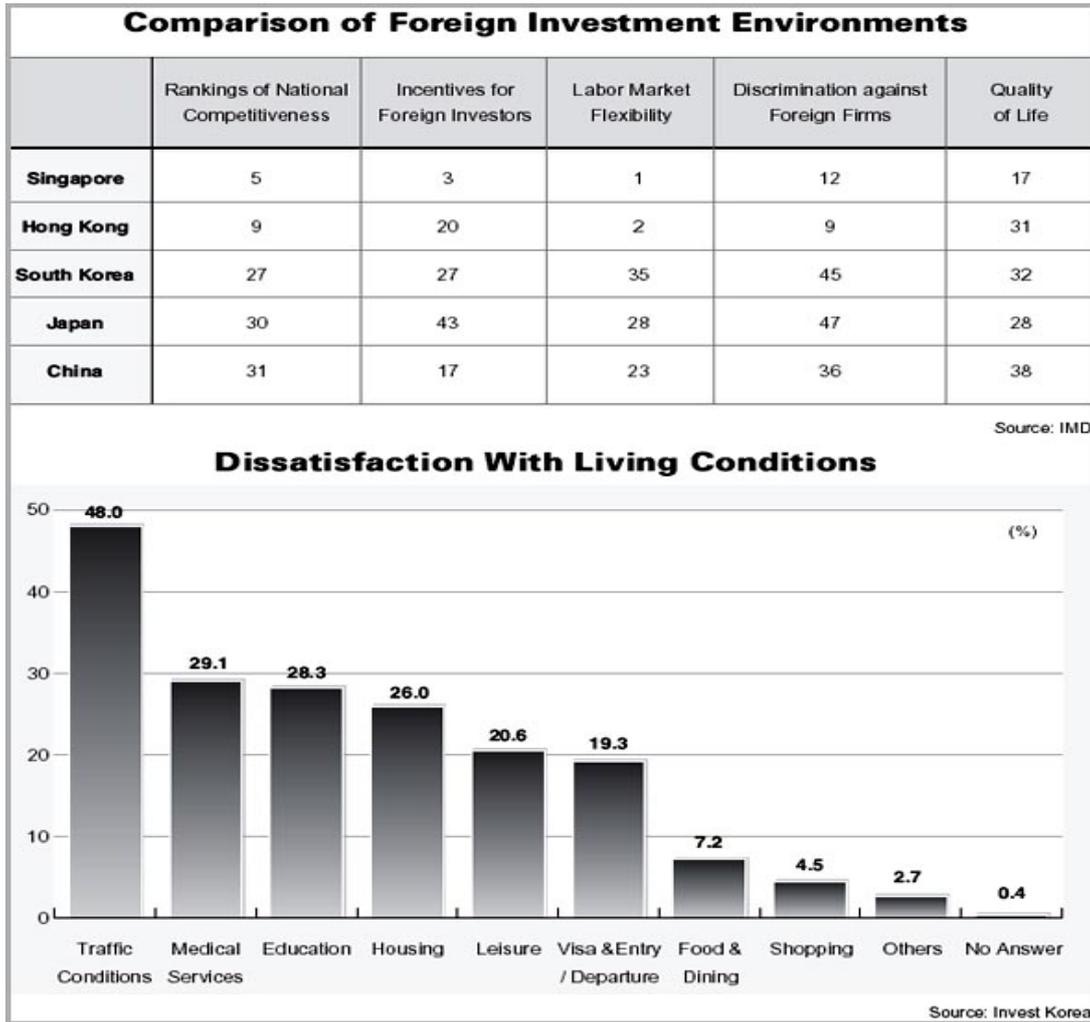
report said. By the origin of companies, the satisfaction level regarding their living conditions was the highest among employees at European companies with 40.7 percent, while it was the lowest among employees at Japanese companies with 10.5 percent, the survey said. When asked about which area in their living conditions needed to change the most, 48 percent of respondents pointed out an improvement in the transportation environment, following last year. Medical services (29.1 percent) and education conditions (28.3 percent) ranked second and third for the improvement, respectively, while 26 percent complained of housing conditions in Korea the most. Meanwhile, the survey found that 36.8 percent said they saw an improvement in visa and entry/departure services this year, followed by medical services with 29.1 percent. Dissatisfaction by sector was allowed two selections. In education, lack of international schools received the most response with 68.9 percent schools, followed by lack of facilities at international schools (31.1 percent) and high school expenses (26.2). In the medical service environment, 58.2 percent said they are dissatisfied with the language barrier the most, 32.7 percent complained of lack of explanation of their health conditions, while 29.1 percent pointed out a lack of hospitals for foreign residents. Respondents are dissatisfied with aggressive driving the most (66.7 percent) in transportation conditions, followed by lack of parking lots (33.3 percent) and lack of signs or traffic instructions in foreign languages (21.7 percent). In the housing environment, 76.4 percent of respondents are the most dissatisfied with the expansive rental costs, followed by lack of monthly rentals (48.1 percent). Meanwhile, a survey of the type of housing those surveyed reside in showed the total monthly rent paid in advance is topped with 33.6 percent. About 23.8 percent of people who live in a house combined key money deposit (“Chonse (lent house)”) in

Korean) with monthly rent. 19.3 percent chose monthly rent. "Foreign residents who are usually familiar with monthly rent often face difficulties due to the country's unique housing system," an official from Invest Korea said. In particular, respondents complain of total monthly rent paid in advance, which is a common issue for foreign residents in Korea. In the survey, 61.9 percent of those surveyed prefer monthly rent the most for their housing, followed by Chonse(lent house) with 13.5 percent. In the visa service sector, 52.5 percent are dissatisfied with the short period of the sojourn. Based on an annual survey of living conditions for foreign residents, the Ministry of Commerce, Industry and Energy (MOCIE) has pushed for a five-year project to build a foreigner-friendly living environment. The ministry identified 102 issues in six areas, including education, medical service, and transportation and housing last year and has sought for the improvement in those issues by 2008 from this year. The ministry resolved 16 items up to the third quarter of the year. In response to the call for more efficient immigration procedures, the first sojourn period of foreign visa holders is extended to three years from the current two years. Immigrant visas will grant permanent resident status for foreign residents investing \$5 million in Korea. The government also has firmed up efforts to build more foreign schools, one of the most pressing issues involved with the improvement in living conditions for foreign residents, the ministry said. Since quality foreign schools are vital in attracting foreign personnel with families, the government is currently working on the construction of a multinational school on the site of Sudo Girls' High School in Yongsan, Seoul. The Yongsan Foreign School, which will open in 2006, will introduce an International Baccalaureate program, which makes a full year of university credit possible, following Seoul Foreign School. A foreign school was open in

the Chinsa Industrial Park in South Kyongsang Province this year in order to provide education for the children of foreign workers in this part of the country. The Incheon Free Economic Zone (FEZ) is also striving to attract globally recognized universities to the zone. The ministry said it also plans to increase aid to existing foreign schools to enable them to provide a better range of services. To improve the medical service sector, the ministry has made conditions for allowing local hospitals to provide services to foreigners this year. Under the conditions, the Ministry of Health and Welfare has designated private and university hospitals to provide medical services for foreigners and is considering giving them financial support. Those hospitals have to be able to issue prescriptions in English and strengthen language education for the staff. In addition, the English hotline phone service is provided through 112 for medical emergency situations.

¹²The FEZs have also sought the attraction of foreign hospitals in the zone. One of the most visible aspects of the government's intensified drive to improve the country's living environment for foreign residents is the Invest Korea Plaza project, now under construction in southern Seoul, adjacent to the KOTRA building in southern Seoul. Under the Plaza's one-stop service, foreign executives will only need to contact a single project manager to access services ranging from investment counseling and applications for approval to help with educational and housing concerns. Also, the government will re-launch the Cyber KISC Internet portal site for foreign investors as Digital Invest Korea, through which Invest Korea will offer comprehensive investment information and issues for foreign residents online.

¹² *The KOREA TIMES/ Seo Jee-yeon, staff Reporter/ Korea to Improve Living conations for foreigners*



3-2 Decision making Greenfield FDI

The FDI activities, the most important thing is the decision making, Economic act decision is the key of success. Recently government sector is the very important to inflow Greenfield FDI decision. But in Korea is now losing the opportunity of inflow FDI, such as Samsung- German a company joint venture Company, and already decide in Singapore. If supreme decision maker has a willing to inflow investment in Korea, then even short-term sacrifice, succeed in investment to the Korea. But still ignorance of FDI,

so each division of government has different idea to decide FDI, losing the good chance FDI. This chapter is analysis for the decision making in Korea inflow FDI.

General Decision Making in Greenfield FDI

Most foreign direct investment (FDI) in the world today takes place among OECD countries. The 1980s were a decade where important structural adjustments took place - particularly the removal of restrictions on the authorization and financing of outward direct investment - encouraging an impressive increase of investment within the group. However, investment in developing countries is also increasing. Since 1977, newly industrialized countries - such as Malaysia, Singapore, Hong Kong and Taiwan - as well as oil-producing countries have received between 60 and 80 percent. Clearly, FDI flows where opportunities abound and where returns are safely realized. The leadership of a country must understand the relationship between FDI and its own goals before committing itself to structural changes aimed at encouraging FDI. This article summarizes the findings from research conducted on FDI in seven countries: Egypt, Indonesia, Malaysia, Morocco, Portugal, Tunisia and Turkey. In contrast with the usual emphasis on single, cross-section ally assessed determinants of Greenfield FDI, we argue that FDI is the open result of the dynamic interaction between the triangular logic of the firm and that of the state.

Decision Making Greenfield FDI in Korea

To inflow FDI which foreign investors intention to invest to Korea, sometimes our coming FDI lost such as REGO theme park; Gyeonggi province Yongin, But failed by the acts to regulate. Samsung and German company joint venture company

400millUS\$, losing to Singapore¹³ Singapore suggested “for 15years exemption of the corporation tax”. These failure cases are losing catching in the yard of FDI host. In the game of FDI, question “Singapore is stupid giving free of corporation tax for 15” the answer is no, Why Korean government can’t afford investor’s require. Korean government procedure is of a project, then co-work of related ministers. Then each minister evaluates by his or her law, for example national tax cases, The National Tax Service. There is no any negotiation but rejected. This is the cause of law, but more important thing is the knowledge about FDI Characteristics; all companies survey several countries. It is game; The FDI inflows are not simply a fix sum to be competed away among different countries. Instead, PRC’s experiences have shown that FDI inflows are probably endogenously determined by the capacity of the hosting countries to create new capital.¹⁴ FDI game is a basic of globalization, so Multi national company FDI activity is the flounce to their benefits. Then the hosts of FDI a country strategy absolution do not egoistic domestic rulers. In the game of Samsung’s investment, Korea’s a complete defeat. All is gone create job, and a ripple effect; domestic service such as the distribution industry etc. It may be the effect of a ripple would be complete the cooperation tax. In this point, Singapore cached even sacrifice of tax. Actually tax is invisible sacrifice by the government, but a ripple effect is seen to the nation. In the FDI game, the decision makers decide to FDI is very important. If already losing Samsung joint venture company cases, the decision maker strongly intention to build in Korea then it has a solution. But in the government no one represent to solve it a just a small problems. Extremely, as

¹³ don-a ilbo 2006,07,24 Samsung Electronic and German company invest in Singapore

¹⁴ ADB Institute sharing development knowledge about Asia and pacific

special law. Korean government and press are buried in oblivion, IMF economic experience, eminent time and usual time is same but it needed the idea.

These days Korean all covered by nationalism, so exclusive the FDI. No one care about the seriousness. The Decision maker; President, or provincial governors correct understanding the truth of FDI, FDI is the only way to leach at fast and perfect without failure political economy out-come. Even though the law limit make hard but for the real truth of of economic benefit, also in the globalization world, to win the FDI game, president and governors must know about FDI truth. In conclusion FDI game is systematically prepare correct strategy and fast decide by the leader of the Korea and provincial government. That is the only way to win the game. In the future, in the yard of Korea our government must not losing game.

Chapter 4

GYEONGGI-DO GREENFIELD FDI CASE STUDY

When October 1997 the Korean Economic crisis occurred, President KIM DAEJUNG declared the important FDI, The governor LIM CHANG YEUL take up

Gyeonggi province. In his inaugural address, to overcome the Korean Economic crisis is only Foreign Direct Investment; by his strong wiliness all staffs of Gyeonggi province exerted themselves. Foreign investment exclusive industrial park, EUYON-HANSAN, Have done successfully. In the regime of SOHN HAK GYEU, based on the before policy, a new inflow FDI is dome, even revision of a law, succeeded LG-Philips investment.

The important role of Gyeonggi province FDI policy, it ignites all other local government FDI activities, many out of metropolitan region's local government installed in the KOTRA, their branch office for the purpose of FDI. Actually effective FDI and successful FDI in Korea, most cases are inflow in Gyeonggi province. The most important meaning of FDI is the based on Greenfield invest in Gyeonggi. Already located small and middle companies kind of Automobiles part industry succeeded in Joint venture with foreign investors, Gyeonggi province made a directory for helping small and middle companies' inflow FDI. While big JAEBUL is possible by them but small and middle company was difficult FDI activities. At now, Gyeonggi province is looking forward to make a successful and prospect FDI for the High-tech industry such as LG-Philips.

4-1 Policy of inflow FDI in Gyeonggi province

New governor KIM MOONSOO declared that create 10,000 jobs by FDI inflow 4billion us \$. By this slogan, Gyeonggi provincial government focus on LCD, Semiconductor, Auto part, equipment enterprise, the distribution industry, digital cultural contents, service industry, a new generation industry(robot, home network etc,) And Gyeonggi provincial government focus for the multinational regional office and productivity facilities and R&D center of multinational companies. For these inflow FDI

activities, Gyeonggi provincial government estimate that it is necessary to expand leasing industrial park for the foreign invest companies and R&D center, and infrastructure also will be strongly promoted. Foreign investment activities will go by public sector and private sector, if possible gyeonggi province will co work with central government and each cities and related organizations.

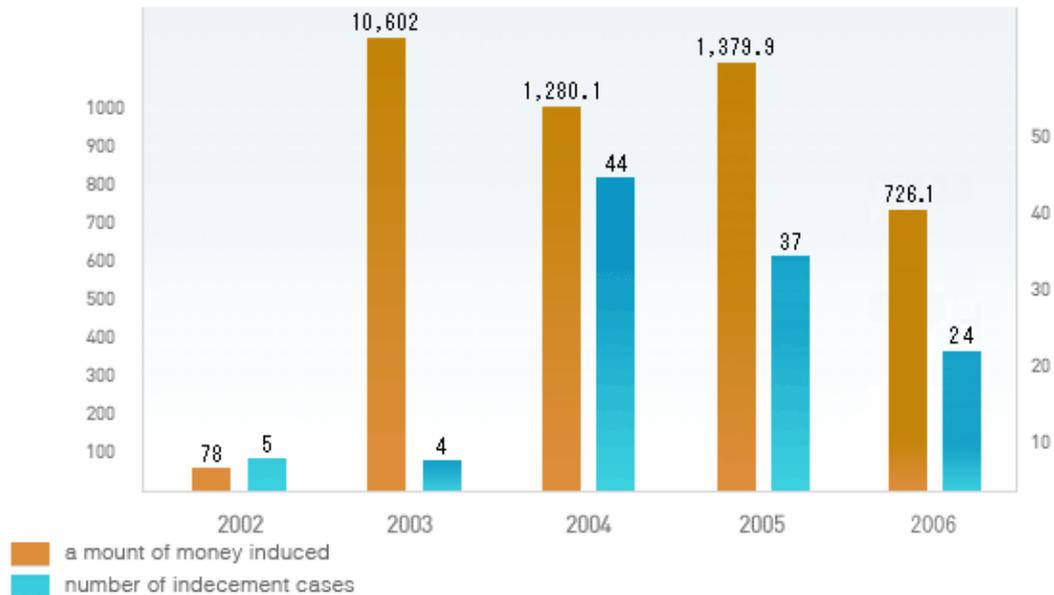
4-2 Circumstance of the FDI in GYEONNGI Province

Gyeonggi province located at the center of HAN peninsula, metropolitan region; Seoul, Gyeonggi province, Inchun, more macro shape is seen by the middle of the North east Asia. Population of this area is 23 miilion, Economic workers are 4.5million, GDP growth in 10.2% (2003), near to the International airport and Pyongtaek Seaport, furthermore 31,000 manufacturing corps, high skilled workers by many good university in this area. In terms of labor, there is a more than adequate supply of well-educated and qualified skilled Personnel such as engineers, accountants and technicians across a wide range of industries and Korean workers have a proven high level of diligent and dedication. Korea, especially Gyeonggi province has a well-balanced industrial structute, which makes it relatively easy to acquire basic raw materials for production, and a well-developed basic infrastructure in fields such as telecommunications, electricity, gas and transportation. In addition, Korean workers and employers have a firm understanding of the demand of global economy. For foreign companies, these attributes make Korean easy to work with¹⁵

GYEONGGI province FDI actual results

¹⁵ KPMG consulting, foreign Direct Investment in Korea

(unit : 1 million USD)



Source: Gyeonggi province

4-3 The successful case of Inflow Greenfield FDI

LG. PHILIPS LCD

LG. PHILIPS LCD is a 50-50 joint venture company established in 1999. LG. PHILIPS, world leader in mid and large size TFT-LCD, occupying a 21.8% share of the global markets. But in the time of first to plan, PHILIPS, Netherlands-based electronic got a negotiation Gumi, Korea Gyungsang province LCD Company's Union official about a new project. Further more. PHILIPS still searched the site for the new factory among China and other countries. The Union official strongly promised to helping. PHILIPS's a new project in Korea. In February 2003, Philips and LG reached a joint agreement to build a 1,650,000square meter plant in PAJU and signed an LOI with

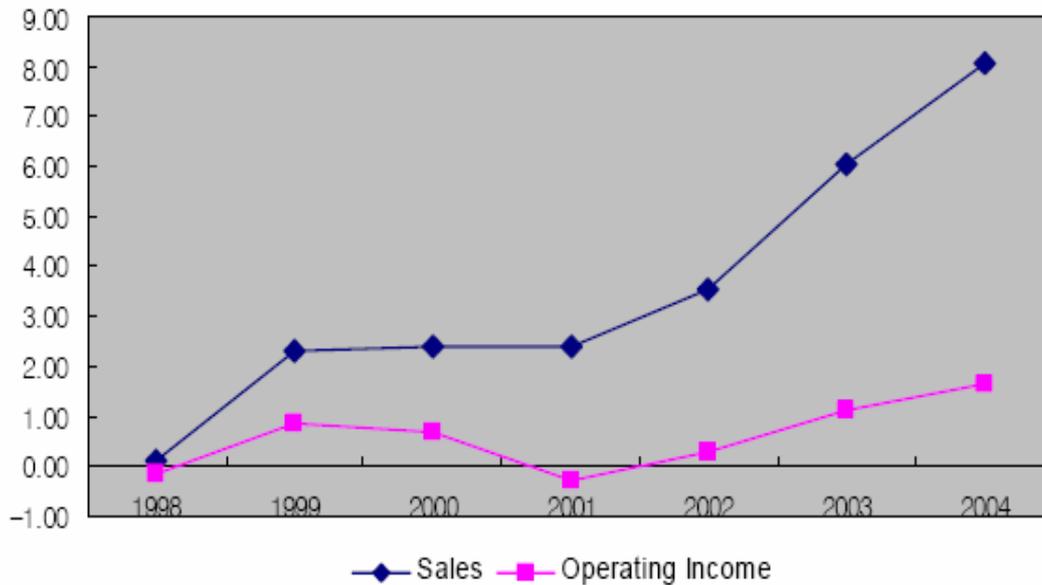
Gyeonggi Provincial government.¹⁶ Gyeonggi province helped all executive Process such as a building planning permission and factory construction permission etc. Actually governor of Gyeonggi province role was an important factor to build on Gyeonggi Region. That location is much better than Gyeongsang province So to the LG.PHILIPS' more benefit. A good infrastructure and In Air port, this is the very advantaged to export. LG Philips LCD Company completed its 7th generation production line of liquid crystal display panels on Thursday in Paju, northwest of Seoul, further cementing the Nation's dominant position in the world LCD market. The seven-story factory is 205 meters wide and 213 meters long, covering a total floor space of over 300 thousand square meters. The floor space of its one single story is equivalent to that of six soccer fields. LG Philips LCD spent 5.6 billion dollars to build the world's largest LCD panel plant. The plant is optimized to produce 42-inch and 47-inch LCD TV panels, using the world's largest 1.9 by 2.2 meter layered glass plates. LG Philips LCD had been operating its main production lines in Gumi, North Gyongsang Province. Beginning in 2004, it has promoted a project of setting up a world-class LCD panel cluster in Paju in cooperation with Gyeonggi Province. The world's top flat panel maker plans to invest a total of 26 billion dollars by 2015 to develop the Paju Cluster¹⁷

¹⁶ Open heart and Good Partners, NVEST KOREA, 6~7 Pages

¹⁷ KBS Global, KBS news, The implication of the complication of a huge LCD panel in PAJU

Sales & Operating Income of LG Philips LCD

(Trillions Korean Won)



Source: KIEP

4-4 Obstacles in Inflow Greenfield FDI

With solving the problem of difference of regional development, promote by local innovation and development fit to the characteristic of regional advantages. Promoting Self support localization, all of the nations live well in equality.(development equality related law)

Arrange of the metropolitan master plan and executive categories, limit developing in the metropolitan area (The law of arrangement of metropolitan area) Factory building quarter system in metropolitan area for the purpose of limit in build in product facilities, every year set up quota of building factory. (The system of the quota on building factory) Even

though these limitation on developing in metropolitan region, but also effect to the foreign direct investment. So inflow metropolitan just characteristic investment, only possible in metropolitan FDI also becomes difficult. Such as High-tech industry LCD or semiconductor are already formed cluster in Gyeonggi province but difficult to inflow these industry also by the law of variable limitation laws. Only to inflow FDI, all is the conflict in the law and central government political issue and local government point of economical theory, FDI is not domestic concern but global affairs. Sometimes, after really difficult process just only one case of opportunity success, LG-Philips. When asked to the foreign investor in Korea, they said that the difficulties, some Greenfield FDI companies in Korea said that it is difficult to find a good joint venture company and uncertainties the Korean economy in the time of Asian financial crisis. The case of Labor in the negotiation time often strike, and demands for pay raises even though relatively high wage level. Law and regulation to the restriction of certain business activities, central government and local government different interpretations are present FDI limitation. Foreign school is mostly based on American standard, which may not always be appropriate for foreign children from many different nationalities¹⁸

Finally the obstacle of the inflow Greenfield FDI is that advantage area for the FDI is block. Economist and related to the metropolitan developer's approach is seen the pint of domestic affairs, coldly saying that is not a point of international affairs.

¹⁸ KPMG consulting foreign Direct Investment in Korea

Chapter5

POLICY IMPLICATION OF THE GREENFIELD FDI

The circumstance and decision making of the FDI is the very sensitive to get a FDI in Green field in Korea. Actually FDI is the game of the Global economic activities. Several games of FDI activities, some game won but big game we lost such as Samsung and German a company for the Semi-conduct related company. Korea lost in our country yard, this is a result of real ignorance of FDI, if a governmental decision maker willingly make It fit for the Korea, then surly ours but present is not good at policy in inflow game international economic field. To win the global game of the best condition must be supply for it, that condition is the regional condition is very important, so A village: good at FDI and B village: bad at FDI, the best condition FDI village naturally player of FDI but in Korea it is not, such as metropolitan area is the best place for the FDI, but by domestic point of view, metropolitan area limited in FDI, never interested Invest in by a FDI investors, B village is considered as same opportunity. Present Korea FDI policy has a weak point, so I try to explain to give Policy Implication by Hypothesis Experiment.

5.1 hypothesis experiment

Korea inflow FDI has been Changed the method, in the period of 1960 ~80, FDI policies depend on of wage gap among countries. 1980~1997, Multinational companies geographical strategy, these companies invest and just products function in Korea to export the other countries. But from 1997years, Korean government intentional invitation has been done into FDI in Korea. Variable incentives and assist executive process. Based on this real experience, I will build a model for the Theory Two villages FDI model, the

new theory is based on the follow two assumptions. assumption1. A Village is good condition in FDI. 2. B village is not good for FDI.

A village and B village's conditions

| Categories | A village | B village |
|----------------------|------------------|-----------------|
| From Int. Airport | A short distance | A long distance |
| From Int. sea port | “ | “ |
| From metro city | “ | “ |
| From Industrial belt | “ | “ |

◆ Foreign Investor's interesting in Investment

A village has a good function and merit point, so FDI function, F(a) (Air port, Sea port, metropolitan, Industrial belt.....)

But **B village** hasn't a common factor of investment, Therefore FDI function. F(b) (a a poor social infrastructure, manpower also poor.)

Surly and clearly A is good for FDI, B is bad for FDI. Then naturally **A** is good, so easily come to FDI in **A**, but it is not in the real situation, the limited function

F(-a) (Equality developing theory, metropolitan region limiting in development,)

< The limitation in **A village** (

1. FDI Affected by Domestic policy, A regional Balance developing, the national capital region planning etc.

2. In the real Domestic political field, National Congressmen's Ignorance the conception Global political economy
3. Evaluated the FDI investors as domestic investor, explain by domestic standard.
4. All region try to Inflow FDI Without any Knowledge

Actually Global standard FDI region A Village, is not for use inbound Foreign investment. in the theory of A regional Balance developing. FDI is the international investment economic principal act, But Korea FDI policy stop because a variable limitation in induce foreign Greenfield investments, but Korea Greenfield FDI result is very small compared to China and Taiwan. Cause of dead role of A village.

These days, Actual FDI companies' investment area is Gyeonggi province, but a variable limitations in Gyeonggi province's, the national capital region planning etc. out region of Gyeonggi, Chunan Industrial park, # 1Foreign Investment Zone in Chunan city 150,000Pyong.¹⁹ After all **A village** in Metropolitan area which most FDI corps prefer,

¹⁹ Magazine, Korea Economy / 1999-09-08 00:00

but can't invested in Economically interested region. So near metropolitan area, in Chunan is a counterproposal. Actually Our Company Economical limitation has been distortion, so that a positive foreign headquarter of Asian is located in Japan and Singapore. Korean Government just focuses a regional Balance developing policy, so that more delicate FDI merit point lost. Korea depends on foreign trade and FDI, especially in the trade volume shows how much the economy depends on foreign trade. A nation turns abroad for anything it needs that it cannot generate domestically. Exports reflect dependence on foreign markets, while imports reflect dependence on foreign-made goods and services. High levels of trade volume reflect vigorous engagement with the global economy²⁰ But, In Seoul there is no many Foreign Multinational head office in Asian Division. ²¹To blend the technology, know-how, and sales and global marketing power of the multinational companies with the manpower, entrepreneurial energy and local market knowledge of the homegrown enterprises. Since ILIUP started in 1995, roughly 160 Singaporean companies have been assisted by 20 multinational mentors (17 of them from the United States) including Apple, Compaq, IBM and Oracle, For example of a slogan by A Singapore FDI relaters. Suresh Prabhu, chairman of Apex Systems, an insurance industry software vendor with offices in India and Singapore, strongly encourages global leaders eyeing his marketplace. "Don't look at coming to Asia as a pain in the butt," he says. "Look at it as a way to expand your business." Korean government foreign related policy has been for the political point of view, Economic foreign policy, so called FDI is appeared after 1997 Korea Economic crisis. ²²On October 1997, the Korean Stock

²⁰ <http://www.pbs.org/wgbh/commandingheights/lo/countries/kr/>

²¹ Magazine CIO, July, 2002. issue of CIO, Global business in Singapore, First stop, Singapore

²² Asian infor. Org

Exchange began to plunge followed by a sharp fall of the Korean Won against dollar. Economies in Southeast Asia such as Thailand and Indonesia have already developed instabilities in their markets, to termed “crises”, and the changes occurring in Korea was seen as a part of a regional contagion effect deriving from the Southeast Asian crisis

After Korea economic crisis, arise FDI important, Korea experience FDI inflow by the Exchange bank but gradually get in a normal trek. Above what I say, FDI affair is not any more domestic standard, it is understood by globalization standard. So **A village:** A village is good condition in FDI, Must make open FDI , Seoul, Inchun, Gyeonggi province these **A Village** best FDI policy. **B Village:** Another village is not good for FDI. Invest by Domestic investment policy, such as public company transfer to local government²³, Seoul and metropolitan area public company transfer to local region plan is settled. Domestic project, Kangwon land Casino, Jung sun county²⁴ etc.

In Conclusion, **A village:** A village is good condition in FDI, open to the FDI investors, by the following the Globalization FDI standard. And **B Village:** Another village is not good for FDI, Consider the political incentive in domestic investment. But FDI and domestic investment are all followed by the benefit,, so even though by political limitation try to make equal, it is not success way only losing opportunity in **A Village’s** FDI, Korean government must open to the **A Village to be invested by FDI.**

5.2 Greenfield FDI Police Implication

From 5.1 hypotheses experiment fully under stood, in the game of Global inflow Greenfield, the best condition is the metropolitan area; limit some factors, just only FDI

²³<http://www.hani.co.kr/section>

²⁴ <http://www.kangwonland.com/>

case. If Korea government, especially decision makers see the global game correctly then how serious, and how important in development for the wealth of nation.

Korea's Greenfield FDI stage already become high level cases, developed country to developed countries, even multinational companies are losing the taste of easy making money in the FDI in Korea, but they feel strategic investment in Korea.

In the case, all investors preference place in Korea is metropolitan area especially in Gyeonggi province. This natural phenomenon actually occur most Greenfield FDI concentrated in this area. Supporters of FDI contend that foreign investors introduce a package of highly productive resources into the host economy, including production and process technology, managerial expertise, accounting and auditing standards, and knowledge of international markets. The challenge for the host economy is to benefit from the MNE presence, and to appropriate some of the increased income accruing from the resultant productivity growth. The large literature on FDI impacts concludes that the host economy benefits are quite uneven, both across and within countries. This suggests that host country policies are an important factor in the distribution of these benefits. Of particular relevance here, as postulated in this literature, are the commercial environment, institutional quality, and supply-side capacities²⁵

Korea policy in FDI is good for the investor, but very important thing is domestic affair and global affair conflict, so that a good chance Greenfield FDI lost in the yard of Korea. The typical case is Samsung electronic and German Getronics joint venture companies move from Korea to Singapore in FDI, in this cause of “ Korea is not easy educate in to the FDI investors children's” and “the feeling of against to the

²⁵ ADB, Asian Development Bank, Asian Development out look 2004, Foreign Direct investment in Developing Asia.

company” Even though Korea is best place to managing company but multinational companies’ refuse to Greenfield FDI, that is nothing. For this success Singapore economic the chief development offices try to meet to inflow Singapore. Samsung electronic manager said “ just Korean work by the a official but Singapore high level official wiliness “ just executive process is very fast just several hours, Singapore official has a business mind, by this Singapore diligent work for the inflow FDI, Singapore success France, a farmhouse semiconductor.²⁶ Korea Greenfield FDI is poor at economic mind, Greenfield FDI is supply a new jobs, so in the game of the inflow FDI, even some losing in a second but in the long term base, good for Korea, How many times compared to Singapore cases, officials mind is perfectly poor at FDI important degree, FDI is a work of the national development, not just small affairs, Just a each laws are limited in Korea, so that in the FDI department try is nothing for the inflow game, another law executive official is not negotiates dare strongly. Just like tax division officials. Then the success of FDI is long in the forever, actually these days Greenfield FDI is decreased about 30%, even some FDI focused on service industry is not producing industry. How serious it is.

In Conclusion, If understand the important of the FDI, then domestic affairs law and FDI laws conflict solving is most important, even business mind of officials also considered.

But also Korea’s only interested Greenfield area; metropolitan area must open for the Greenfield FDI. Then Korea will get usual inflow Greenfield FDI. The sure work is that Greenfield FDI is eminent work for the Korea future.

²⁶ <http://cafe.naver.com/hamsatam/328>

Chapter 6

CONCLUSION

In the Global era, All countries go with world trend, If some country are argue in closed system, the countries are pulled along by force with losing chance to lead the world. Actually global economic activity is represented by FDI. So freely come to investment and without any barrier to go out, the global standard.

Korea also in the main stream of the globalization got a advantage of global connections such as FDI and Trade. Especially Inflow Greenfield FDI is very required process for the positive role of global leader. Traditionally, FDI country classified by developed countries and developing countries, in really, all activity in FDI in the market leaded by developing countries. Actually developing countries have invested in the system of FDI, but developing country just accepts FDI from Developing country. However, That is the old types FDI in the globalization, that cases are invested rely on wage gap between investor and host countries, this types also processing but a new type of strategic and high tech industry's joint venture or just for the market, Investment activities are prevailed in the world. So developed countries are still host country and the magnitude of FDI is bigger than developing countries FDI. Even though developed countries such as USA, England Japan, German etc. these countries are more dynamic to inflow FDI, these countries are more good circumstance in the FDI, because they have a modern FDI; High tech industry and automobile industries etc. Enough market and strategic to over come the regional block, All developed countries are Inflow FDI and outflow FDI dual investment in the global era. Any developed country is not enough accept FDI, they are very systematic in FDI policies: each incentives and assistance. In Korea FDI, Korea FDI

is classified by before 1997 year after 1997. The epoch is Korean Economic crisis year is 1997. Before 1997, Korea wholly role of host of FDI without knowledge FDI, closed FDI, rather than loan form foreign money. That is a very poor at the strategy in the FDI.

But After Korean Economic crisis, Korean government FDI is very dynamic, just all depend on FDI for the rescue of Korean company's deficit, Very luckily, by the FDI Korean Economic crisis overcomes. During Korean economic crisis, Korea paid FDI learning money, like a Korean Exchange bank FDI, but without FDI, further more IMF's rescue loan to Korean, that is bad result of Korea economy.

Passed the difficult and eminent Korean Economy, Even learning for it, just defends and managed to safe Korean economy. Just collect Dollar and feel confidence without detail investment about Inflow and out flow FDI. This is the endless phenomenon such as wave of the sea, some times calm and peace but come typhoon. In the global currency and financial policy and Green field investment is much needed high tech strategy. That is the investment activity. Korea has a good experiment Greenfield FDI, such as LG.-PHILIPS, This company will give us good job and many benefits to the regional residence.

Korea Government has been emphasis of the equality of the each regional development, to do that many opportunity in FDI is lost, just domestic conception is still limit the foreign investor's intentional area.

In my study, **A village**, A village is good condition in FDI. In the real FDI activities are dynamically process area, metropolitan area, but it is not easy to inflow FDI in the real world. For the Global standard of FDI, **A village** is a kind of goods for the FDI investors. So open to the FDI, further more Korea Only success are in the game of FDI is metropolitan area; good infra structure and transportation and education for the foreigners

and culture all is equipped etc. this is the perfect product for the FDI.

B village: Another village is not good for FDI, Even B village try to inflow FDI but real purchasers are not interesting, then point of FDI, there is no competitive power.

However Korean Government, just focus on political conception, equality in development so metropolitan developing is limited. If think that FDI point of view, then investor of foreign company invest in **B Village**, May be not then Korea's FDI Game must be not win, After many press criticize, so In Korea, the only Successful Game ground in FDI must open **A village** to the Foreign investors.

B Village must consider in the domestic investment, Domestic public companies head office transfer and political considerable in investment project, such as infrastructure and Development project such as Chungsun Casino project and Chunam Henam's Golf course development etc.

In conclusion, inflow Greenfield FDI is a kind of game in the global world. Another word, economic war, in this war, for the wealth nation Korea has to win. How to do win, the best condition of Greenfield FDI player runs for the game then the possibility of winning is high. But actually Korea inflow Greenfield FDI best players are not joined to play the game of the Greenfield FDI in the global world. The limit in inflow Greenfield FDI in the good condition of FDI village, such as metropolitan region is Korean current problems. But out of Korea, winner country Singapore is the urban country, so Singapore itself is the metropolitan area. A number of successful FDI is caused of metropolitan benefit which good infrastructure, easy to manage the company etc, to the Multinational companies. A Greenfield FDI bring a many good jobs, conforming high-tech industry cluster which Such as in Korea semiconductor and LCD industry especially in Gyeonggi

region, but Korea lost Samsung joint venture LCD company to Singapore. Korea try to inflow foreign direct investment but actually is not fit, trade is co benefit but inflow Greenfield FDI is win or losing game, if win is win, losing is losing, The feeling of Korean people's mind mixed nationality and economic mind, and "the feeling of against to the foreign company" nationality and FDI is not relate, nothing help the wealth of nation. At least to win in the game of FDI, the nation become supporter domestic ground game also foreign country ground game. The best player in Greenfield FDI international Game is needed quality, metropolitan area, a good infrastructure such as international air port and multinational company's easy managing condition of region. From these suppositions, Korean the best player for the Greenfield FDI is metropolitan Area.

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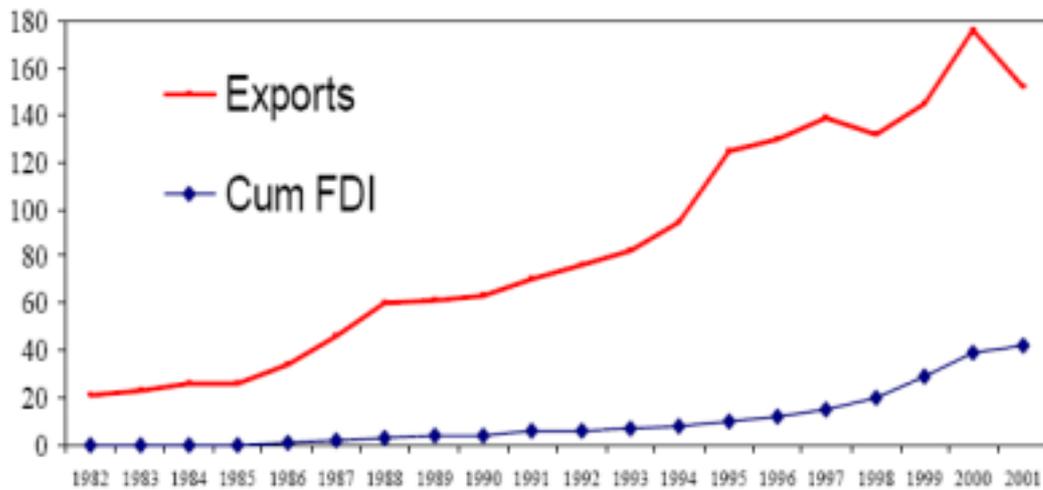
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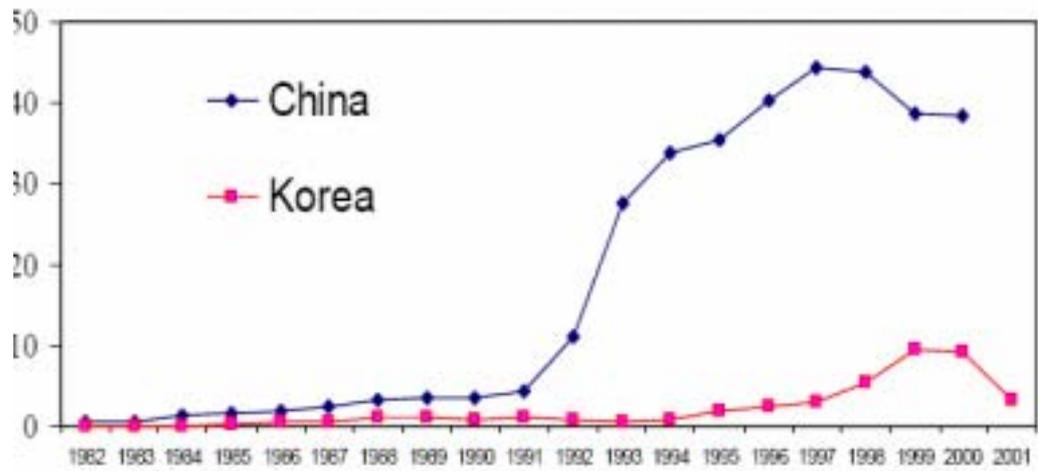
LG PHILIPS, Invest Korean, Open Heart and Good Partnership/.

Appendix 1

Korea. Foreign Direct Investment and Exports, 1982-2001 (In billions of US\$)



China and Korea. Foreign Direct Investment Inflows, 1982-2001 (In billions of US\$)

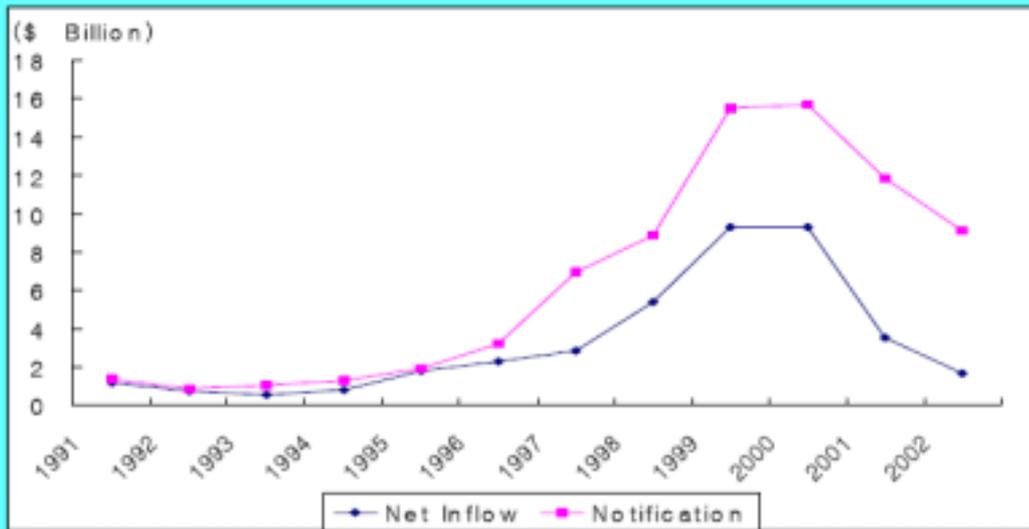


Source : IMF, Foreign Investment and Exports, James gorden

| <p>〈Procedures for Establishment of a Liaison/Branch Office〉</p> | | | |
|--|-----------------------------------|---|---|
| | Counter Institutions | Required documents | Remarks |
| <p>Step 1</p> <p>Notification of office establishment</p> | <p>Any foreign exchange banks</p> | <ul style="list-style-type: none"> ✓ Notification form: Notarized certificate of incorporation of head office in country of head office location (item a) ✓ Notarized letter of appointment to the head of the domestic branch (item b) ✓ Notarized power-of-attorney, if a proxy takes care of the procedures (item c) | <p>In the following cases, however, the notification should be made to the Ministry of Finance and Economy</p> <ul style="list-style-type: none"> ✓ Finance-related business activities other than banking business activities (i.e. lending of funds, arrangement or intermediate of foreign finance, credit card business, installment financing, etc.) ✓ Securities and insurance related business activities ✓ Business activities not permitted under laws and regulations of Korea, including the Foreign Investment Promotion Act ✓ Business activities regarded to harm public morals and order |
| <p>Step 2</p> <p>Application for taxpayer's identification number</p> | <p>District tax offices</p> | <ul style="list-style-type: none"> ✓ Items a, b & c ✓ Notification of branch establishment (copy from step 1) (item d) ✓ Copy of lease agreement for office signed by owner and the head of the domestic branch (item e) ✓ Passport copy of the head of the domestic branch (item f) | <p>Although there is no upper/lower limit on the amount of operating funds, the more the amount, the easier to obtain the visa</p> |
| <p>Step 3</p> <p>Carrying-in of operating funds</p> | <p>Foreign exchange bank</p> | <p>Where a branch intends to bring in the operating funds, they need to designate a foreign exchange bank</p> | <p>-</p> |
| <p>Step 4</p> <p>Application for visa (In case representative of the Korean office is a foreigner)</p> | <p>Immigration office</p> | <ul style="list-style-type: none"> ✓ Visa application form ✓ Items d & f ✓ The letter of appointment to the head of the domestic branch (to be notarized) ✓ Copy of taxpayer's identification number ✓ Business plan and/or certificate of operating money deposit ✓ Copy of lease agreement for office and residence (no notarization) ✓ On-site inspection of office and office fixtures (desks and chairs, fax machine, phones, etc.) | <p>Visa type: D-7</p> |

Source: Jungyung ryun: The federation of Korean industries..

Recent FDI Trends in Korea (II) (Billions of dollars)



Source: Ministry of Commerce and Industry and Bank of Korea.
Net Inflow equals total amount of FDI invested minus the amount withdrawn in that year

