

**KOREA'S BUSINESS ENVIRONMENT AND ITS EFFECT  
ON FOREIGN INVESTOR'S PLANNING AND RE-  
INVESTMENT DECISIONS**

By

Luis Riestra

**THESIS**

Submitted to  
KDI School of Public Policy and Management  
in partial fulfillment of the requirements  
for the degree of

MASTER OF FOREIGN DIRECT INVESTMENT

2006

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Supervisor Dr. Anthony Michell \_\_\_\_\_

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## ABSTRACT

### A SURVEY ON FOREIGN INVESTORS' PERCEPTION OF KOREA'S BUSINESS ENVIRONMENT AND HOW THIS INFLUENCES THEIR COMPANIES' PLANNING AND RE-INVESTMENT DECISIONS

By

**Luis Riestra**

Although Korea seems to be making efforts to deregulate the FDI environment, many obstacles remain for investors. The current business environment as it applies to foreign companies creates frustrations and impediment to further expansion. In a quest for understanding how both the investment and continuous business environment affect the decision-making process of foreign entities established in Korea, the survey looks at several aspects of operating a business, also including a few parameters on lifestyle in general. It is hypothesized that these measures of business environment are determinant on organizational planning and whether more investment is to be dedicated to Korea. With strong emerging economies such as neighboring China and not so distant India, foreign investors' alternatives are increasingly better and hence Korea's environment if left unattended will become this economy's worst FDI inducement enemy.

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2006 (Year of publication)

Dedicated to the first set of mixed-race triplets in Korea, my three angels Linda, Lauren and Luis and they mother Kyungsun, without whose smiles every time I make it home from work and school, I wouldn't have motivation to live and excel.

## ACKNOWLEDGEMENTS

The openness and genuine help of several individuals and entities definitely contributed to the possibility of gathering all the information I needed for this study. In particular, my thesis supervisor Dr. Tony Michell, Tami Overby, president of the American Chamber of Commerce in Korea, current head of Invest Korea Tong Soo Chung and Director of Investment Planning Rah, Yoon Soo also of Invest Korea took their valuable time to evaluate, advise and provide resources for me to outreach the foreign investor's community.

Also of equal or perhaps greater value is the contribution of those investors and business people whose relationship to me was virtually none but who nevertheless gave up a good portion of their busy times in a gesture of helpfulness and care for Korea's business environment and my work to find explanations to its current situation. Their unconditional contribution has made this thesis possible, but moreover, it added weight to the international claim that Korea must change to survive the global millennium, that is capable of succeeding in attracting massive FDI only if its people and government adapt to the new era.

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## INTRODUCTION

Korea might be losing competitive edge in FDI inducement at a critical fast pace, risking being completely engulfed by giants such as China and India in a mere matter of years.

The Korean government is indeed making efforts and dedicating capital, human, material and land resources to the cause, nevertheless investment inducement and profitability are not just about what country offers more for less, competition in neighboring economies makes it clear that outsmarting other's strategies is a vital part of the process, and that attracting foreign capital and using it domestically are part of the skills the government must implement to play the game successfully.

Despite efforts and resources, Korea is remarkably under-invested with foreign capital, standing far below its current OECD-ranked potential. Being in the top 5% economies in the world, and embedded right within voracious FDI inducers, Korea's privileged position stands on shaky ground, and there is no question that its place in the global arena will be fiercely disputed by others.

The country seems to have adapted well to its domestic market trends for the past several decades, yet not so much at the global level. This claim makes the current situation more interesting, given that perhaps more than ever before strong economies around the world have set the new standards of globalization and economies that don't adapt and strive within the new parameters of unified regional or global economies will bare the consequences of incompetence.

It is worth then questioning why the Korean government makes such desperate attempts at inducing FDI. Such unfocused strategies as that of being the "Hub" of every industry, allocating massive budget to provincial and local investment offices, and other such expending sprees are all undermining essential conditions for prosperous global economies.

This thesis targets factors in Korea's business environment that are as important and play as heavy of a role in investment decisions as incentives and industry-specific benefits. Among these factors, how foreigners experience banking, the availability of leisure activities for expatriates and the corporate environment in general are all as important in deciding to invest more capital in Korea.

1. AN OBJECTIVE ANALYSIS ON THE INVESTMENT ENVIRONMENT

Korea's FDI strategy overuses statements of so-called "advantages" that don't seem meaningful, perhaps of concern to some investors but that indeed show a good degree of irrelevance to the cause, and some of it even appears to be self-defeating in purpose.

삭제됨: so called  
 삭제됨: more intrinsic than

I gathered some of these tag lines and put them together in the following table, detailing how they diverge from the core of meaningful investment inducement strategy:

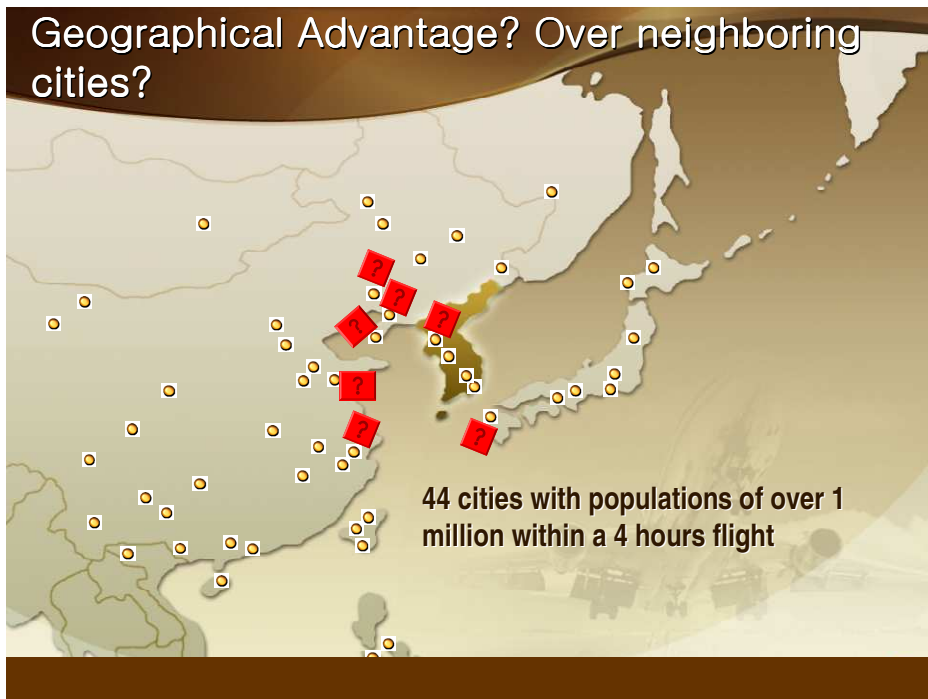


Graph 1: FDI promotion tag lines

Putting these into perspective, the following explanations offer more detail:

**1.1 44 cities of population 1 million within 4 hours flight**

I pointed out on this picture the cities that make the promotion tag line not meaningful as a differentiation strategy.



Graph 2: FDI promotion tag lines; large cities

By way of comparison, JETRO (Japan External Trade Organization) through its IPA "Invest Japan", promotes geographical location and flight time to nearby highly

populated cities in the same way Korea does. Incheon Free Economic Zone Cheongna area advertises the "geographical superiority" of Korea due to its air and sea access. A tag line that fails to recognize that any other major city of neighboring countries Japan and China would also be able to offer.

### **1.2 Located between strong economies China and Japan**

With China's FDI deregulation, abundant labor at low cost and Japan's both technological state and market size and purchasing power being superior to that of Korea, it is arguable that an investor looking for the best place to set up and operate a business and to position its output to a population with a high purchasing power might not see Korea as good of a site compared to China with Korea and Japan as target markets.

Moreover, isolated by land, Korea forces shipping of goods through high-risk and slow sea or expensive air cargo, eliminating the convenience and low cost land alternatives such as truck and train.

삭제됨:

삭제됨: fleeting

**1.3 More diligent work force than Japan, US, UK and Germany cited often as examples.**

The following table shows a comparison of the number of work hours advertised by Korea's FDI promotion force and other numbers not commonly shown, but that explain that this measure is not an advantage to Korea:

삭제됨: complete the story by telling

삭제됨: us

#### A COMPARISON OF DILIGENCE VS PRODUCTION BETWEEN KOREA AND SOME COMMONLY CITED COUNTRIES IN FDI PROMOTION

COUNTRY	TOTAL GDP <sup>1</sup> (in billions)	POPULATION (in millions)	GDP PER CAPITA <sup>2</sup>	Average number of Work hours (per year) <sup>3</sup>
Japan	US\$4,623	127	US\$30,700.00	1801
US	US\$11,667	298	US\$42,000.00	1792
UK	US\$2,140	60	US\$30,900.00	1673
Germany	US\$2,714	82	US\$29,800.00	1446
Korea	US\$679	48	US\$20,400.00	2390

1 = World Bank List, 2004

2 = World Fact Book, 2004

3 = OECD Fact book, 2005

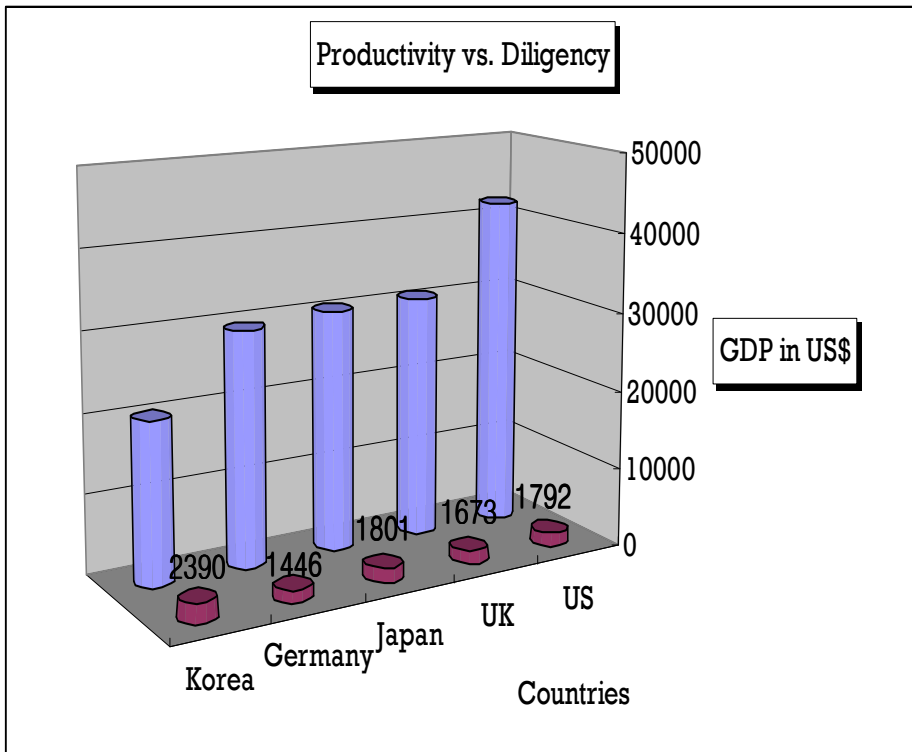
Table A: Diligence Vs. Productivity

This graph shows productivity as measured by GDP per capita and the average number of hours per year worked in these 5 strong economies. Note that the smaller the gap between the two "towers" of productivity and diligence indicate inefficiency to some extent (the case of Korea), and the taller the productivity tower and the shorter its associated diligence tower, the less people work to achieve the most (the case of USA).

삭제됨: In t

삭제됨: we

삭제됨: see comparison between



Graph 3: Diligence Vs. Productivity Gap

The numbers shown above express that the tag line of a "diligent work force" is either not a proper reflection of the truth or the fact is not being communicated properly.

서식 있음: 표준, 왼쪽, 줄  
간격: 1.5줄

This poor approach actually weakens Korea's quest for investment. Promotion organizations must search and find Korea's true strengths as they apply to potential foreign investors, and must be very careful in framing their claims more accurately than the above.

삭제됨:

## 2. WHERE ARE KOREA'S TRUE ADVANTAGES?

Investment promotion agencies of Korea have focused their country-branding efforts on outlining what they see as Korea's competitive strengths against other neighboring countries and potential alternatives for FDI, but not necessarily has the activity been centered on what makes Korea profitable and a good place for business, which is in principle what investors look for at first.

Examples on this point are as follows:

1. Korea uses FDI incentives (cash grants, low taxes, free land, etc) to lure MNEs. These incentives although cost reducing at first, in themselves do not guarantee a company profitability, nor do they ease market penetration and product/service receptiveness.
2. The government promotes the future existence of foreign schools and hospitals, yet there are still a good number of regulations, considerations on the profitability of these organizations and social rejection of such projects. Social beliefs about schools and hospitals being "for-the-people" type of organizations that should operate on a non-profit basis further aggravate the task.

**삭제됨:** Here I quote newly appointed head of Invest Korea, the nation's official IPA Dr. Tong Soo Chung, on the topic of human resources competency, in his speech delivered at the Korea Development Institute School on April 15<sup>th</sup>, 2006 as saying "...how do we assume we are smarter than say Indians or Chinese or Japanese, or more academically prepared? India has 300 million university grads, the great majority of whom speak much better English than many in Korea, as long as we keep assuming we are a better prepared force

(... [1])

**서식 있음:** 글꼴: 굵게 없음

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**서식 있음:** 글꼴: 굵게 없음

**삭제됨:** , both these

groups of

(... [2])

**삭제됨:** (international)

**삭제됨:** in certain zones

**삭제됨:** aggravate

**삭제됨:** FDI inducement



3. The "hub" of everything unfocused strategy increases the problem of domestic FDI inducement competition, which only exacerbates the lavish expenditure on promotion pushing local IPAs to give away benefits in excess of the calculable benefits the FDI enterprise provides to its host.

4. A good number of FDI inducement winning countries that have emerged in the 1990s shed light on what Korea could strategize to position itself as an FDI winner. India is an example where a culture-wide change in receptiveness is growing the country beyond expectations.

China a good example of consistent de-regulation efforts paying off with significant FDI attention.

Ireland's a stunning example on how to use private-sector marketing skills and using profitability schemes to attract investment that have turned one of Europe's farm land into a strong, fastest EU growing economy. Costa Rica follows closely with this model.

Korea's strengths lie not on what its authorities want to portray or become, these are aspirations and not properly used measures and tools of promotion for what Korea is today.

서식 있음: 글머리 기호 및 번호 매기기

삭제됨: furthers

삭제됨:

삭제됨:

삭제됨: <#>More on the hub idea, despite the budget dedicated to this and efforts targeting FDI inducement, the only hub that has emerged strong is the one of inconsistency. With an overwhelming plethora of laws, rules, regulations, and implicit barriers to FDI, Korea wastes tons of resources on promoting impossible to achieve endeavors.

Internal inconsistencies make

... [3]

서식 있음

... [4]

삭제됨: and early millennium s

삭제됨: n

삭제됨: magnet

삭제됨: excellent

삭제됨: mentality and

서식 있음: 들여쓰기: 왼쪽: 0.71 cm

삭제됨: .

삭제됨: s c

삭제됨: behind in this part-state part-private

... [5]

The realistic picture of Korea is one that shows its economic position in the world, its domestic market purchasing power, its strong industries such as car and ship making, semiconductors and internet.

삭제됨: Perhaps a more

An unmatched ability to recover from financial slow down (a great risk-management strength for potential investors), its consumer confidence and brand consciousness, its telecommunications leadership, modern infrastructure (transportation, communication, building), ability to host world class events successfully and safely, and an unparalleled ability to build any size of infrastructure project in seemingly impossible time frames.

서식 있음: 글꼴: 굵게

서식 있음: 글꼴: 굵게

삭제됨: its

삭제됨: its

삭제됨: (World Cup 2002, APEC, Asian Games, WCEC, Olympics, World Expos), its

The evidence is conclusive in that Korean authorities must take a more accurate approach at branding the country for foreign investment and need to search for and exploit the keys strengths that make Korea a profitable country to invest in.

### 3. CHRONOLOGY OF FDI PROMOTION EVENTS IN KOREA

Korea must implement a plan that envisions how much FDI it will need for FDI itself to contribute its rightful portion to the government's \$20,000 GDP goal, in a reasonable time, and break it down to its essential and indivisible components such as the tasks each individual involved in investment promotion must perform.

삭제됨: FDI

삭제됨: has

삭제됨: to

A major task remains, that of identifying dozens of companies that could benefit from setting up in Korea, identifying the best entry mode, then approaching these firms with a concrete and relevant description on how Korea is an attractive market for them, how much investment is needed to make the market entry the best, where in the country they would best fit to outsource their products and help Korea's regional development.

삭제됨: and profit

삭제됨: all

삭제됨: plan

삭제됨: as to

삭제됨: they need to

삭제됨: plans

Instead, government agencies that deal with FDI promotion will work backwards to this model and seek to understand Korea's development needs, assign a geographical location to these needs, dedicate significant capital and "create" a new zone, stuff offices with printed materials to lure investors by proposing many profit-irrelevant characteristics of their sites.

삭제됨: money

삭제됨: push its people there to conceive

삭제됨: aids

Where is the problem? A highly regulated environment that slows down the process, unclear "big-picture" goals, a very poor investor-targeting, a very low "land-the-deal" ratio and investors complains pouring from all corners.

Zones fiercely competing giving away limited resources, unbalanced regional development and job creation, and all of these with the un-coordinated contribution of other sectors of the government whose agendas are too busy to fit the "big-picture" goal.

Example of this is FSS and NTS and their ability to regulate the foreign financial sector investors, Ministry of Justice with remarkable visa benefits for investor and yet making it impossible to process visas to hire foreign employees, Ministry of Commerce giving away tax benefits and NTS (National Tax Service) chasing large MNEs in public for un-paid taxes.

삭제됨: tons of

삭제됨: for

Parallel to that, Free Economic Zones breaking ground to build foreign hospitals and schools and labor unions opposing the move, Ministry of Commerce pouring money into training people to understand the mechanisms of FDI inducement and handling but using its human resources according to the traditional hierarchical model that disregards academic background and relevant experience.

삭제됨: old

삭제됨: ,

삭제됨: , etc, etc, etc  
the list goes on long

The following list itemizes news, as these appeared in local and regional publications during the second half of 2005 and early 2006. The reader might identify progress as well as contradiction throughout the period indicated in this section.

삭제됨: .  
I have prepared t

삭제됨: of

삭제됨: y

Table B: FDI News

THE 2005-2006 FDI NEWS CALENDAR WHAT WAS SAID & WHO SAID IT		
DATE	WHAT	WHO
18-May	Overseas publicity tour by Kosdaq and KOSPI reaps FDI and prompts higher share prices	Korea Exchange
01-Jun	Korean Wave pulls in currency, but more out-bound FDI in same industry	Central bank
09-Jun	Foreign workers in local financial firms to be allowed to stay up to 3 years without visa	Ministry of Justice
13-Jun	Seoul invites Chinese top CEOs to conference to promote Chinese FDI into Korea and networks	Seoul City
16-Jun	Foreign Investors investing \$500,000 and over to get immigration benefits such as 3-5 years visas and resident status.	Ministry of Justice
17-Jun	FEZs to be eased to attract FDI, measures include allowing domestic conglomerates to set up high-tech factories to attract partnerships	Ministry of Finance
17-Jun	Aim at shifting from competition to cooperation with	Ministry of Maritime

	Japan and China proposed by Ministry of Maritime Affairs and Fisheries for logistics-hub idea	Affairs and Fisheries
20-Jun	Foreign Investors increase share holding to gain management powers at local firms, prompt local local shareholders to do same	Korea Exchange
29-Jun	Immigration to increase the number of years of visa for foreign investors, extend benefits for investors' spouses, allow them to work as professors	
20-Jul	Philadelphia International Medicine to build hospital in Incheon FEZ Songdo City by 2008, will bring advanced technology to treat Korean patients	Ministry of Finance
08-Jul	Busan-Jinhae FEZ attracts US \$70 million from US steel parts maker and aerospace industry firm	Busan City
20-Jul	Korea to form task force on investment promotion central and local governments to join hand in job	Ministry of Commerce Industry and Energy
04-Aug	Foreigner's land ownership continues to rise constituting nearly 0.2% of total national land.	Ministry of Construction
08-Aug	Foreign companies to be encouraged to join Korean bourse.	NTS
09-Aug	Foreign Financial Institutions allowed to set up financial holding firms by early 2006	FSS
15-Aug	Tax authorities to strengthen investigations on foreign firms as of next month	NTS
15-Aug	50% of foreign investors in Korea view FEZs as uninteresting and uncertain, 30% view them as unsuccessful and 10% as good. Survey.	Korea Herald
15-Aug	FEZs fail to outperform competitors	Foreign Investors

29-Aug	Actions taken by prosecution against Hermes Investment Management will trigger re-evaluation of its presence in Korea, will be closely watched by investors around the world.	Hermes Investment Management
30-Aug	FEZs expected to play an important role, supported by US Embassy	US Embassy
01-Sep	Adopting a more global view of innovation is necessary to attract FDI in pharmaceuticals	Schwarz Pharma
07-Sep	Foreign investors increase profits through stocks	Bank of Korea
15-Sep	Koreas outbound FDI outpaces inbound	Government
23-Sep	Foreign investment falls during first half of year	Ministry of Commerce
26-Sep	BJFEZ expending high on luring US Investors	BJFEZ
06-Oct	FDI declines 9.4% in 3rd quarter due to oil prices strong won. R & D FDI rose in same period	Government
14-Oct	FDI helps raise corporate competency, FDI has good impact on the domestic industry	Government Report
19-Oct	Foreign investors disturbed by inconsistent policies red tape, slow progress at FEZs.	Korea Herald
26-Oct	Seoul lags far behind international capitals in corporate competitiveness, commercial infrastructure and environmental attractiveness	Arthur D. Little
28-Oct	Korea lacks institutional efficiency hence it can't make it to top 10 world economies	World Economic Forum
02-Nov	new Songdo City appoints operator of international school under Harvard Advisory Group consulting	New Songdo City

07-Nov	Authorities have the notion that by making overseas remittance more inconvenient they can actually promote FDI	Park Law Offices
09-Nov	Foreign land ownership valued at W24.7 trillion	Ministry of Construction
11-Nov	Korea needs more realistic hub plans, these are more talk than action, inefficient operations and labor issues at heart of problem.	Korean Shippers Council
11-Nov	Jeju plans to build foreign hospitals put off indefinitely due to opposition from civil and medical opposition	Ministry of Home Affairs
14-Nov	Major FDI firms set up base in North Jeolla	North Jeolla Government
15-Nov	Korea determined to create NE Asia financial hub	Korea Center for International Finance
21-Nov	Prologis sees future in Korea's Free Economic Zones, invests \$200 M into IFEZ	Prologis
22-Nov	Foreign investors prefer shares of financial companies buy \$635b in 2005	Korea Exchange
24-Nov	Korea to allow overseas financial firms to merge units	Ministry of Finance
26-Nov	Low FDI and high salaries weight heavily on Korea's \$20,000 GDP per capita goal	Deputy Finance Minister
28-Nov	Listed companies with high foreign shareholdings show higher profits and less debt	Korea Herald
01-Dec	Foreign investors fee payments into the Korea's financial markets soars as more shares bought	Central Bank



05-Dec	Korean aiming at attracting 41 foreign R & D centers in 2006	Ministry of Science Technology
07-Dec	10 more regions selected as special zones to bring total to 41	Ministry of Finance
08-Dec	Seoul introduces panel of 30 private and public sector officials to make decisions on financial hub plans	Ministry of Finance
09-Dec	Foreign capital produces mixed impact on Korea, making even local banks risk-averse hence neglecting the corporate sector, but introduce sophisticated financial services.	Federation of Banks
24-Dec	Seoul to offer integrated administrative assistance online service to help foreign investors by Aug.2006	Ministry of Commerce
03-Jan	Tax investigations into foreign companies ought be conducted more carefully and with class	Finance Minister
05-Jan	FDI falls 9.6% in 2005	Ministry of Commerce Industry and Energy

삭제됨:

#### 4. A SURVEY ON KOREA'S BUSINESS ENVIRONMENT AND ITS EFFECT ON FOREIGN INVESTORS PLANNING AND REINVESTMENT DECISIONS

This survey was designed to contain 33 multiple-choice questions, including demographics. To this date, the survey remains open online at

**<http://www.hostedsurvey.com/takesurvey.asp?c=FDI>**

At the time I tallied responses, 31 entities had responded, including some of Fortune 500 MNE's, medium and small sized enterprises as well, all headed by foreigners and set up with foreign capital.

**My one-directional hypothesis was as follows:**

*"I hypothesize that if the business and social environment of Korea are perceived to be difficult to cope with, investors will be reluctant to reinvest and expand operations in Korea".*

My independent variable was set to be the positive or negative decision on reinvestment and expansion planning, for which I devised a section of the survey and placed it at the beginning together with demographic information questions. The purpose was to ask straightforward, clear and concise questions on the possibility of re-investment

and planning.

In this way, the respondent would have to answer with definite entries about his/her plans to reinvest and expand, thus making this whole section the independent variable. This section was placed first on the online survey and was blocked for participants not to be able to return to it to change any answers at a later stage after having responded to the dependent variables.

I had to utilize several concepts in order to ask investors on several aspects of investing and doing business in Korea, hence I devised a series of 4 measures to test my hypothesis; Banking, FDI incentives and regulations; business environment; and lifestyle for foreigners.

Each concept I am using, which becomes a measure in itself, is more concretely defined as:

1. **Banking:** How difficult it is to do personal banking, transfer personal funds abroad, transfer large corporate earnings, how competitive are banking systems compared to those of other countries, how well do banks in Korea cater to foreign customers and how difficult it's to obtain credit cards and

loans.

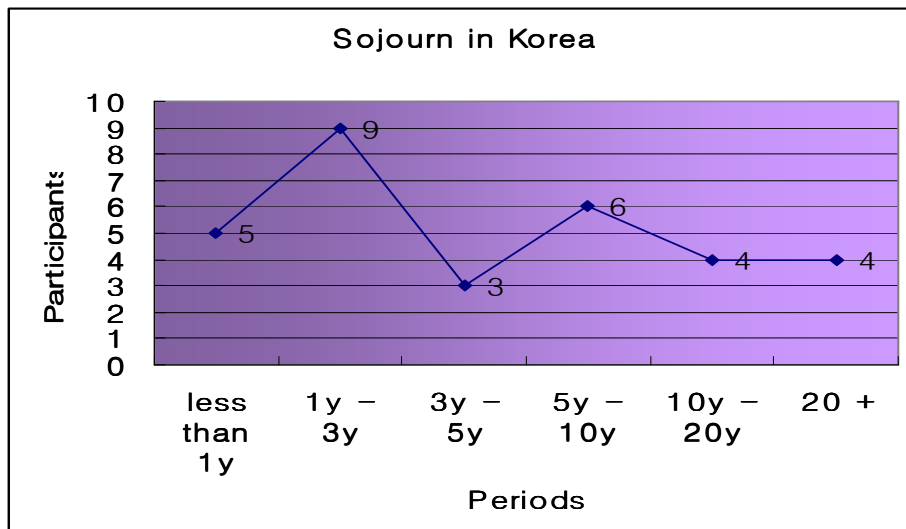
2. **FDI incentives and regulations:** FDI incentives collected by the company, regulations concerning type of investment, origin of funds and repatriation of earnings/goods, and a comparison of Korea's FDI environment to similar world economies.
3. **Business environment:** Cost of doing business, profitability in the domestic market and managing Korea staff.
4. **Lifestyle for foreigners:** communicating with Koreans, Korea's leisure industry as it caters to foreigners, and dealing with daily hazards such as pollution, transportation, work, cost of living and traffic.

## 5. SURVEY RESULTS

Not all questions and answers are exposed here since some of these were of sensitive nature, such as personal name and whether the company planned to hire more personnel as some respondents expressed their concerns over this information being public. However, all other questions on demographics and on Korea's business environment yielded the following results:

### 5.1 Demographics

1. 3 female respondents, 27 males and one nil answer
2. 9 respondents were between the ages of 31 and 40, 12 between 41 and 50, 7 between 51 and 60 and the remaining 3 were above 60.
3. 5 respondents have been in Korea less than a year, 9 have been in Korea between 1 and 3 years, 3 between 3 and 5 years, 6 between 5 and 10 years, 4 between 10 and 20 years and the remaining 4 more than 20 years.



Graph 4: Respondents' Sojourn in Korea

The reason for asking this question is to determine if the opinion makers have been in Korea long enough to formulate insights based on experiences more so than stereotypes.

4. 4 respondents asserted that they would leave Korea within this year 2006, 13 that they would live within 3 years, 2 would leave Korea within 5 years, 8 don't have a date for leaving planned as of yet, 3 might never leave Korea according to their answers and 1 abstained from answering this question.

5. Respondents that participated were from the following countries (note that more than one respondent can be from a country already mentioned):

<b>Australia</b>	<b>Denmark</b>	<b>Belgium</b>	<b>Switzerland</b>
<b>China</b>	<b>Norway</b>	<b>Philippines</b>	<b>Venezuela</b>
<b>UK</b>	<b>USA</b>	<b>France</b>	

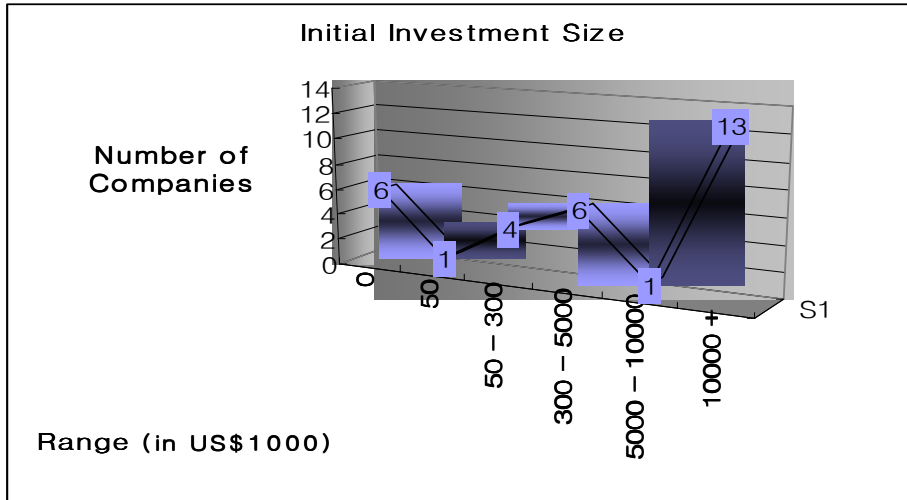
Table c: Respondents Countries

6. A total of 6 companies declined to identify themselves, the remaining contributors are listed below:

<b>Look Media</b>	<b>Coca-Cola Bottling</b>	<b>Autoliv Mando</b>	<b>Agfa</b>	<b>Sandvik</b>
<b>Norske Skog</b>	<b>Zuellig Pharma</b>	<b>Local Bank</b>	<b>Regus</b>	<b>Fulbright</b>
<b>HSBC</b>	<b>KABC</b>	<b>Dole</b>	<b>Salvation Army</b>	<b>Miya Power Company</b>
<b>ASCOTT</b>	<b>Writer's Ink</b>	<b>BMW</b>	<b>Magnachip Semiconductor</b>	<b>Modine</b>
<b>3M</b>	<b>Coresight</b>	<b>JTI</b>	<b>British American Tobacco</b>	<b>Foreign University</b>

Table D: Respondents' Companies

7. Initial investment was categorized as shown in the graph below:



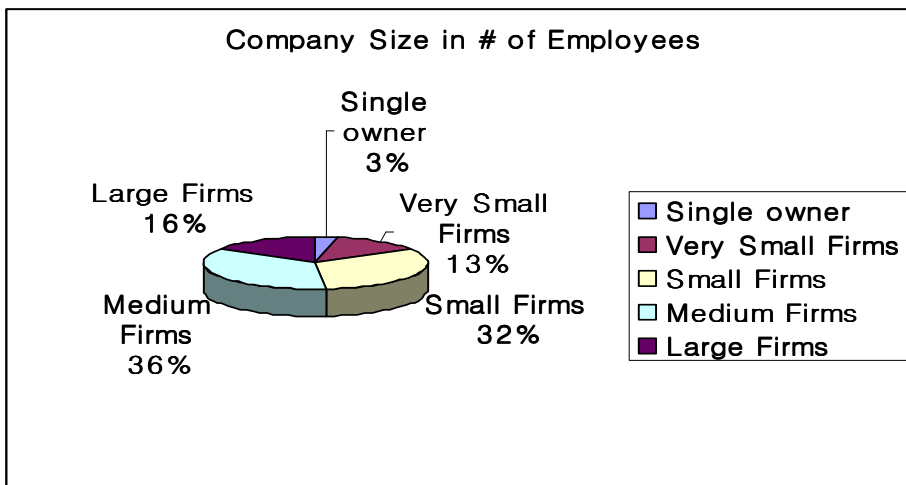
Graph 5: Initial Investment

8. When asked on the size of their company, 4 respondents indicated that their company remains at about \$50,000 of paid-in capital and/or assets, 3 between \$50,000 and \$300,000, 7 between \$300,000 and \$5 million, the remaining 17 answered that their firms were valued at more than \$10 million. It is worth noting that the initial investment and company size categories were designed to be the same, and the amounts are in accordance to what the Korean government considers to be the minimum investment to form an FDI company (\$50,000), the minimum investment to obtain a 2 years + visa (\$300,000), the minimum investment required to be eligible for cash grants as FDI incentives for certain types of industries (\$5 million), and the



minimum required for a company to have access to free land and tax cuts (\$10 million).

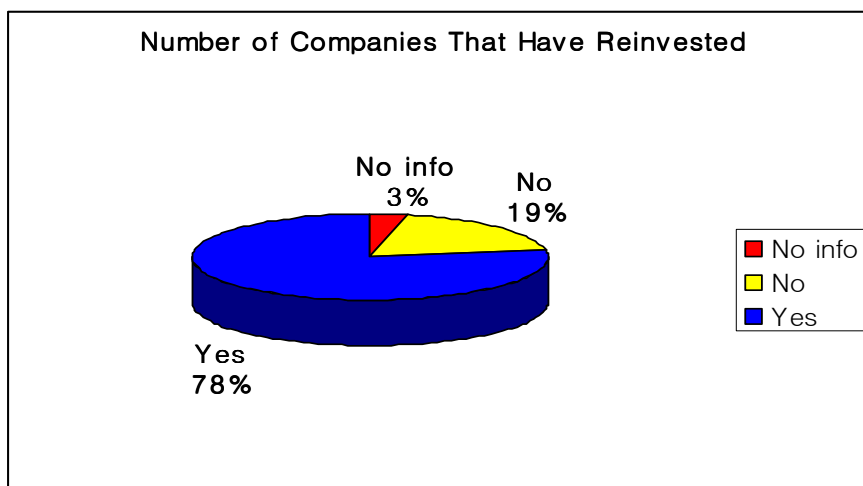
9. Also questioned on their size of operations, 1 person answer to be his/her own and only employee, 4 answered they had less than 10 people in their team, 10 between 10 and 100 employees, 11 between 100 and 999 employees, and the remaining 5 employ more than 1000 people. In here the size has been categorized to reflect the internationally agree standard of a small company (less than 100 employees), medium sized (between 100 and 999) and large size (above 1000), with less than 10 being a very small operation.



Graph 6: Company Size in # of Employees

10. When asked on whether their firms had ever

invested again into Korea, 1 participant decided to leave this as confidential information, 6 indicated that it hadn't been done, and the remaining 24 said that it had been done.

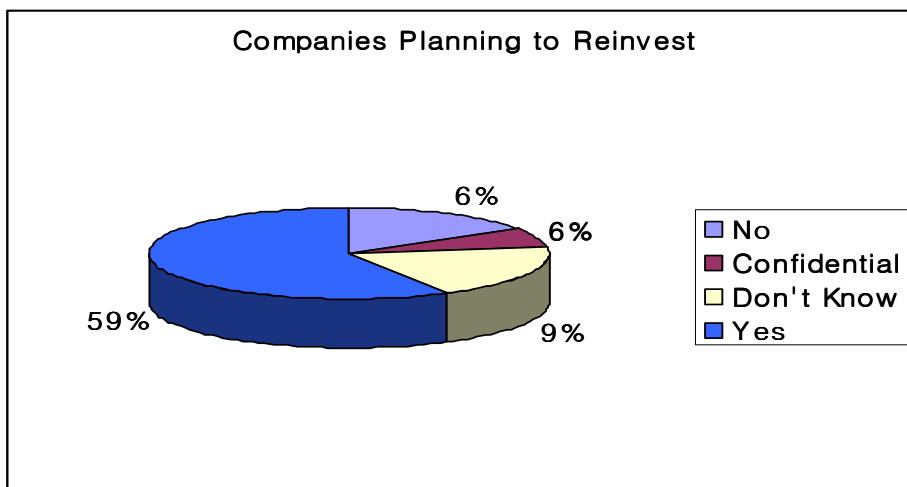


Graph 7: Reinvesting Companies

11. Reinvestment was done in different sizes, with 1 respondent indicating this reinvestment was sized less than \$50,000, 2 indicating between \$50,000 and \$300,000, 4 indicating between \$300,000 and \$5million, 3 indicating between \$5 million and \$10 million, 10 asserted that the size of investment was \$10 million or above, and the remaining 10 indicated that either they didn't know or the amount was confidential. This category also comprises those who answered "no" to the previous question on whether their firms had reinvested

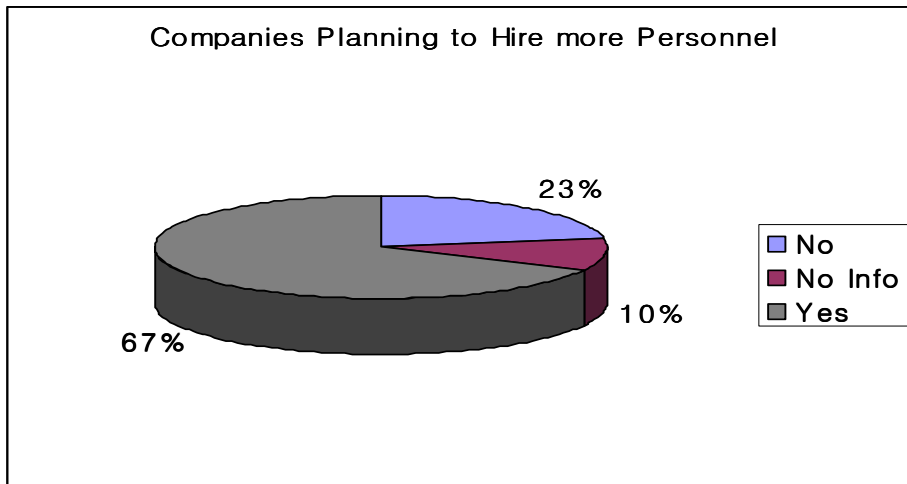
again.

12. When asked whether their organization had plans to invest in Korea, 5 respondents indicate that it was not the case, 2 kept the information as confidential, 6 were not sure of their companies intentions in this respect and the remaining 18 answered positively.



Graph 8: Planning to Reinvest

13. 7 of the firms surveyed were not planning to hire any more personnel to expand operations, 3 wouldn't share this information and the remaining 21 said they planned hire more people.

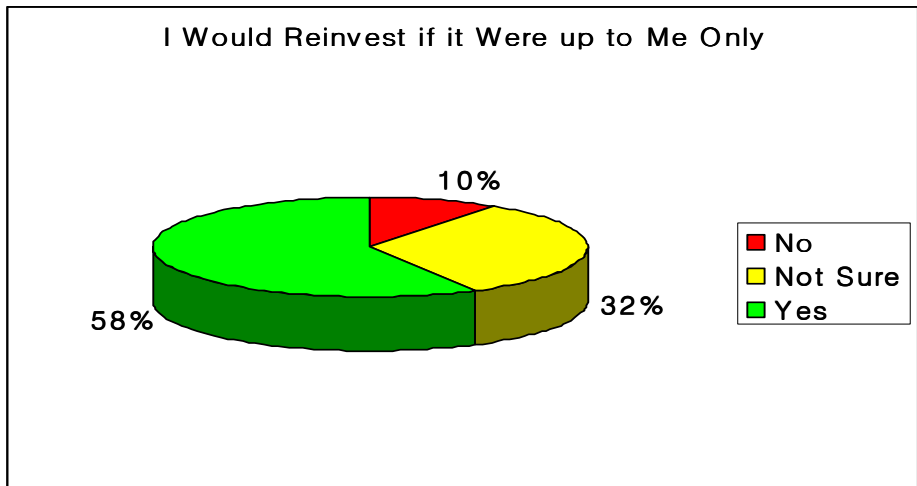


Graph 9: Planning to Hire

13. Among those who answered the survey on behalf of their firms, 6 asserted to have little or no influence on a possible reinvestment decision, 1 mentioned being the only one to decide and all other 24 admitted to be one of the decision makers in the process.

14. Nevertheless, the following question was designed to understand the point of view of the respondent him/herself and how they would act if given the opportunities to be the sole decision makers on reinvesting in Korea. The purpose of this question was to understand more in-depth what was the variation on personal experience vs. corporate approach to this aspect. 10 respondents were not sure whether they would make such move, 3 were

definitely sure they wouldn't invest while the remaining 18 were positive about wanting to reinvest in Korea.

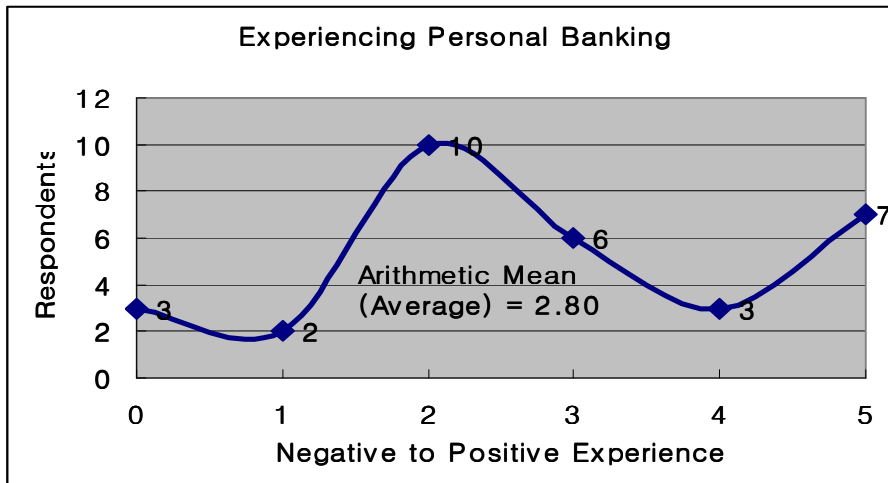


Graph 10: Willingness to Reinvest

## 5.2 Banking in Korea

15. When asked how do they rate their experience in the aspect of personal banking, including withdrawals/ deposits through ATMs and tellers, paying bills or making inquiries, a rating scale was made with the highest score of 5 indicating a very positive experience and a lowest score of 1 to indicate a very negative experience, leaving 3 as a neutral answer meaning that little or no direct involvement was found in such activity by the respondent. Following questions use the same rating scale in

order to tally high scores as positive views and low scores as negatives views. Entries of "0" indicate a respondent left this question unanswered. The results for this question are shown below:

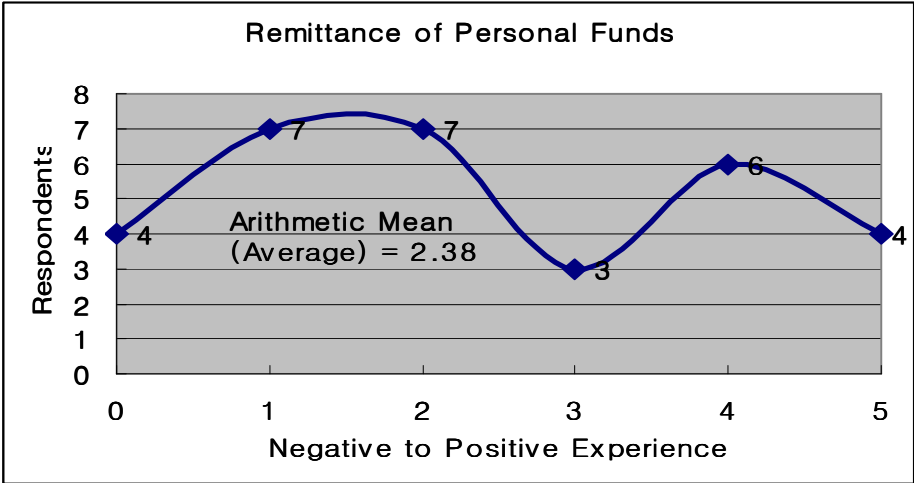


Graph 11: Personal Banking

There was a tendency of respondents to answer low to medium in this question. This might suggest that perhaps use of ATMs and communication barriers with tellers make the banking experience slower and more inefficient than at other countries. Also, this points at some percentage of the population not using the ATMs and tellers very often or making basic transactions thus rendering the service somewhat irrelevant.

16. The following question inquired on the ease at

which individuals could repatriate funds for personal reasons. It asked to consider the process taking into consideration time to make transaction, document requirements, regulations, cost, etc. The graph below explains the results:

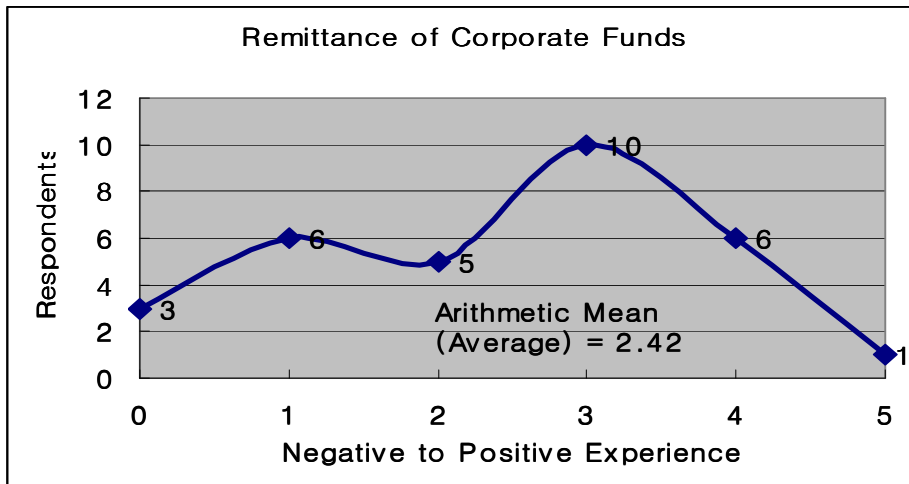


Graph 12: Remittance of Personal Funds

Again, the tendency seems to point at discontent with this aspect of banking, with an average response lower than the neutral 3. This low ranking might be due to regulations limiting the amount a foreigner can remit per year as an individual without requiring complicated procedures and documents. Perhaps communication barriers play a role in here as well.

17. In this question, respondents were being asked to rate their opinion on the process of repatriating

large funds as corporate earnings. They were more specifically asked to consider taxation issues, document requirements and regulations imposed. Results are as follows:



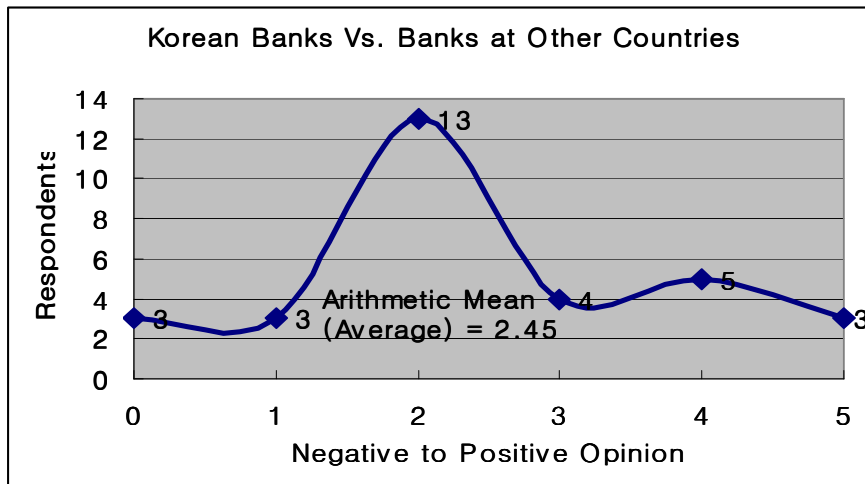
Graph 13: Remittance of Corporate Funds

With a low mean of 2.42, we are again faced with the idea that respondents either do not see this process as a reasonable and some are actually not involved much with it. It seems though that there are enough respondents towards the positive side to more or less balance the answers, suggesting perhaps that respondents are not necessarily involved in the process and are not fully aware whether it is difficult or not.

18. This question shows a stronger negative tendency than the previous ones. In here I asked respondents



to rate Korea's bank systems and overall perception of banks here to that of banks in other countries, by means of using regulations, quality of service, expertise of personnel, variety of services and the likes. Results shown below;

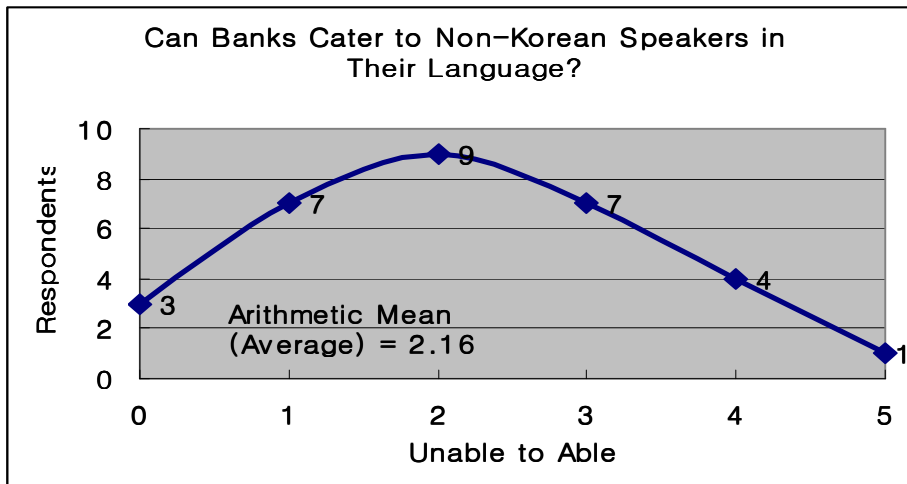


Graph 14: Domestic Vs. Overseas Banks

The much more clear tendency here suggests that according to our foreign investor respondents, banks in Korea do not seem as competitive as those of other countries, although a few people seem to be pleased with them. There could be a country-specific variance here, which we are not able to determine just by looking at the results.

19. In this question, I asked respondents to rate Korea's banks services in what concerns the ability

to cater to the foreign community in a language other than Korean.



Graph 15: Domestic Banks, Foreign Languages

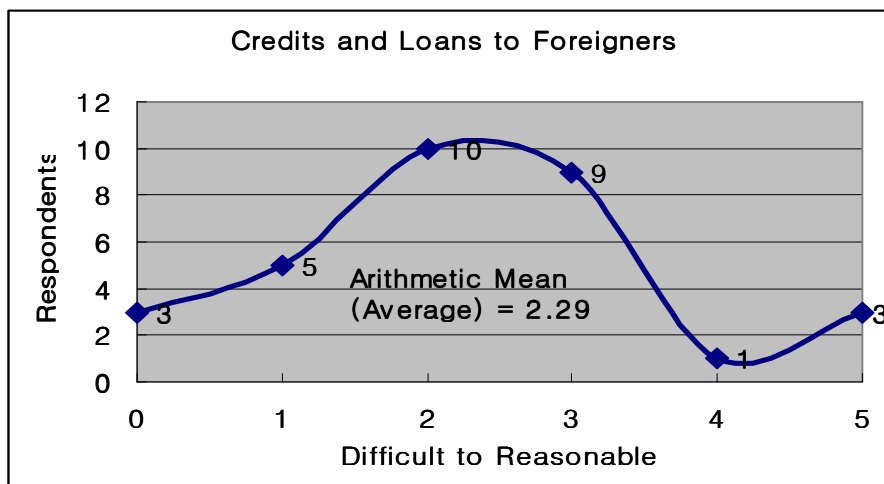
We can clearly see again a tendency to answer negative, with fewer respondents considering the issue not important or positively.

This might point at the fact that historically local banks have not made spoken English or other foreign languages oral proficiency a pre-requisite for employment at the interface with customers.

Although it is becoming apparent that banks are hiring personnel who can cater to foreigners in international languages (Korea Exchange Bank credit card center, Chohung-Shinghan credit card center, departments such as

commercial banking staffed with foreigners at HSBC, Standard Chartered and Citigroup), there is still a gap between what local banks can offer and perhaps what our respondents would see as a service catering to the foreign community.

20. In the last question concerning banking, we ask respondents to rate their experience in terms of getting credit cards and loan approval, including business loans and mortgages. This question aims at understanding how difficult it is for non-citizens of Korea to process such credits.



Graph 16: Credits and Loans

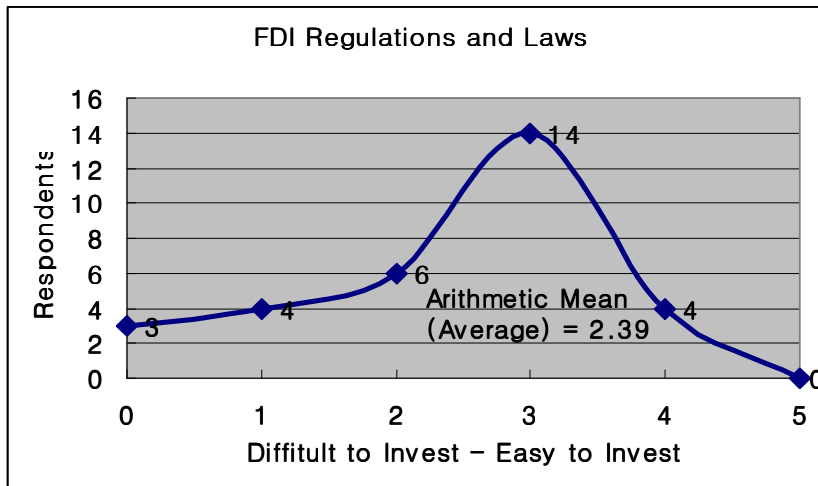
In here we see that answers are a somewhat gathered again on the lower part of the spectrum, suggesting that it might be difficult or nearly impossible to

process credits for foreigners or that it may be the case many do not try either.

### **5.3 Foreign Investment Incentives and Regulations**

21. In This section, we start by asking respondents to detail what kind of benefits they might have received when investing in Korea. 8 respondents were not sure if any such incentives had been granted to their firm upon entry to Korea, 16 respondents did not get any incentives, 3 did not share this information and the remaining 4 were given tax exemptions and reductions.

22. Now I turned to FDI regulations to ask respondents what they think of FDI requirements, sectors allowed and not allowed for FDI, disclosure of information rules and capital repatriation regulations. Responses were as follows:



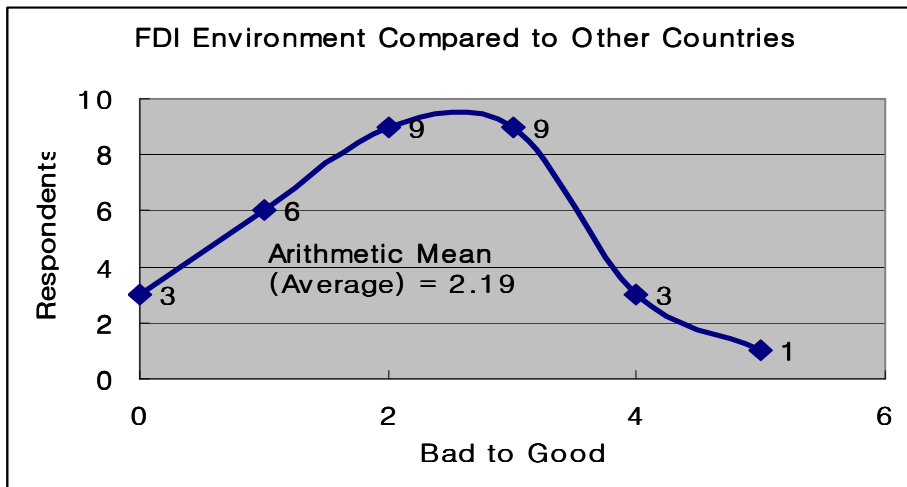
Graph 17: FDI Regulations

Answers suggest a strong tendency to disregard this subject as not relevant. It may be that, comparing this answer to that of question numbered 13 above, the respondents do not view this aspect as important as they are not the sole decision makers in the investment process.

Perhaps added to this is the fact that such regulations are usually detrimental to the FDI process. Moreover, by definition all respondents are successful FDI investors into Korea, since they are responding to this survey as companies already established here.

23. In this question, I asked respondents to rate their overall perception of the FDI environment of Korea as compared to that of other similar economies. The

following came up:



Graph 18: Domestic Vs. Foreign FDI Environment

Many responses here allocated to between poor and neutral may suggest that Korea's FDI environment is slightly lagging behind similar economies thriving for FDI. It may also reflect lack of FDI experience in other countries by the respondent.

#### 5.4 Business Environment

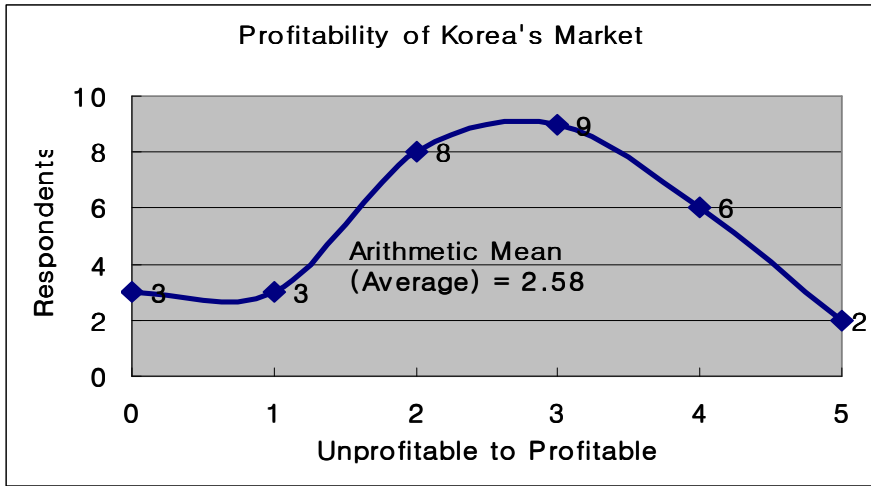
24. To begin this new section, I ask participants to rate their perception of the cost of doing business in Korea as compared to other countries they might have experienced. Responses are shown below:



Graph 19: Cost of Business in Korea

Here is one of the most polarized of all answers sets. The clear tendency points at a foreign investor's community that finds Korea expensive to do business with, compared to other places where their companies keep operations. Note that respondents who asserted the environment is not expensive represent only 16% of the pool.

25. A more interesting point, this question addresses the issue of profitability in Korea. Respondents were asked to rate either their perception based on facts or pure observation of the Korean domestic market profitability as it applies to their companies. Results are depicted as follows:

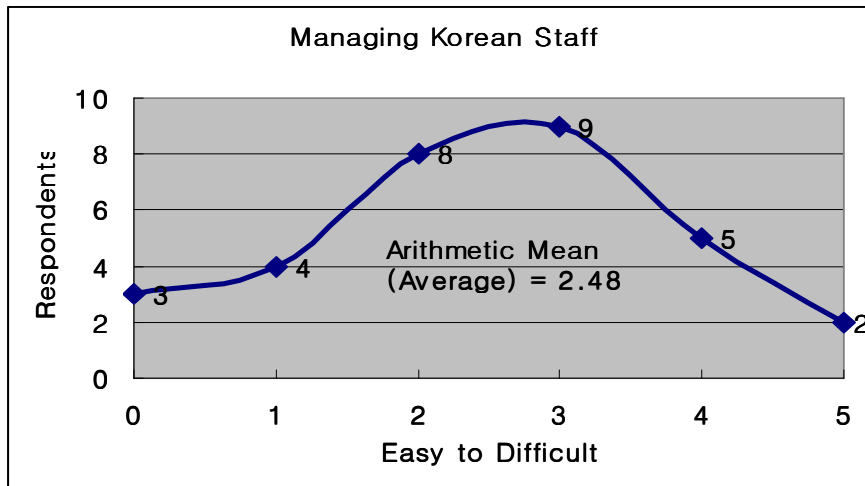


Graph 20: Korea's Domestic Market Profitability

The graph portrays a shape that gets closer to a bell, indicating that, ruling out those who omitted answering, most respondents tend to regard Korea as between average and profitable, pointing here at strength of Korea for FDI promotion, supporting my claim as mentioned before.

26. In this question, I asked respondents to rate their experience on managing Korean staff in what concerns cultural and communication barriers, business practices and corporate culture and the likes. Results are shown in the graph below:





Graph 21: Managing Korean Staff

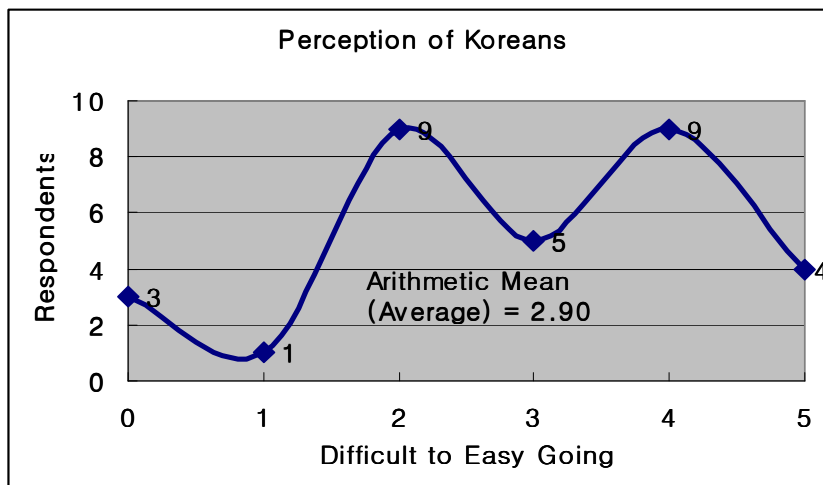
The graph slightly different from the previous one points at a pool with mixed answers over the issue. While 30% of respondents don't find the issue relevant to them (perhaps they are not in direct command of Korean staff in significant numbers), the rest remains divided over the issue, with slightly more pointing at difficulties.

Among those who answered positively, I would hypothesize that managers that have lived in Korea over 5 or 10 years (representing 45% of our pool) have to a good extent mastered the ability to co work and lead their Korean colleagues and direct reports. At this stage of sojourn, you also find a good number of foreigners with a command of the Korean language allowing them to communicate daily issues, and usually

co-working with people whose level of English is better than average.

### 5.5 Lifestyle for Foreigners Living in Korea

27. In the first question of this last section, I aimed at understanding how important was to the respondent to be able to communicate and socialize with strangers in Korea. I asked to consider cultural issues, language and overall perception of the society. Results are shown below:

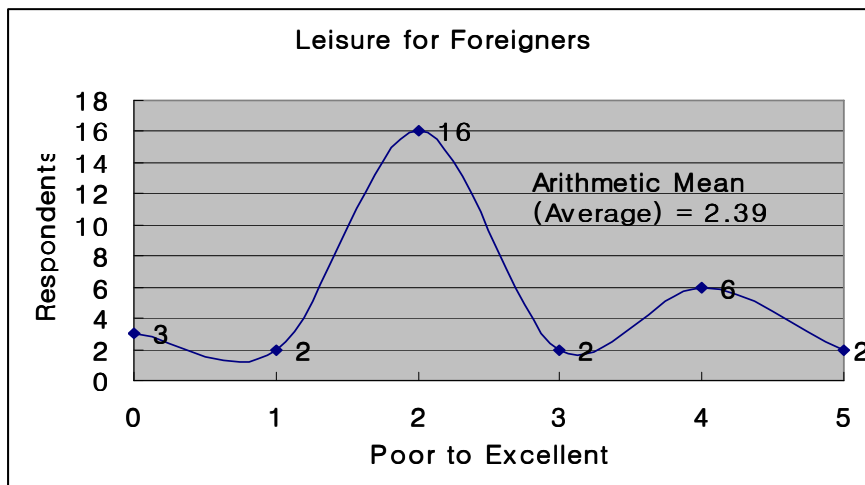


Graph 22: How Koreans are Perceived

Results were interesting, with an entire 30% of the pool indicating they were not particularly pleased with socio-cultural life and communication with strangers, while another 30% indicated to feel

comfortable and at ease. It seems the impression of dealing with Koreans on the social aspect is a generally a positive one. I would add to this that the younger Korean generation being more "English-able" and more traveled than their predecessors might have contributed to a more friendly and welcoming Korea for expats, results indicate.

28. What do you think of the leisure industry as it caters to foreigners? Is how I framed my next question aimed at understanding if respondents spend their free time at ease and in a similar way as they do so back in their home countries. Responses are shown below:



Graph 23: Leisure for Foreigners

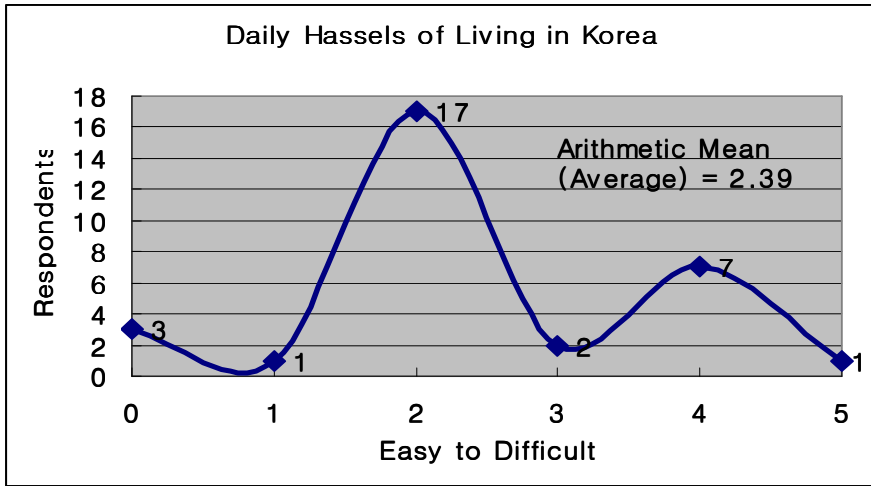
The results represent yet another polarized answer,

with few respondents challenging the mean at high scores. A good 60% of our respondents believe that Korea lacks facilities and amenities that cater to the non-Korean customer.

Slightly over 20% challenge that view, yet only 2 respondents believe facilities are excellent. This answer might point at an FDI inducement structure the government might need to address more proactively, that is, the leisure industry and facilities that cater to foreigners.

Also worth mentioning is that only 2 respondents found the question irrelevant, meaning that most foreigners might place a high level of importance on how they spend their free time in Korea.

29. The last question of my survey asked respondents to rate Korea in terms of living conditions, and indicate whether pollution, daily hassles, transportation, cost of living and those aspects that affect our personal life are of importance to them. They answered as follows:



Graph 24: Hassles of Korean Life

A sharp bell rising at the score of 2 and lower value responses indicate that at least a good 60% of respondents find Korea a difficult place to live in.

Again only 2 respondents find the issue irrelevant pointing to yet another factor that might help FDI promotion in Korea, that is, to understand how important such daily living conditions affect foreigners' perception of Korea and their ability to live and carry out business.

## 6. DISCUSSION

The 31 companies that participated in this study represent the opinions of a larger crowd of foreign investors and business people in Korea to some extent.

Among the participants there were Fortune 500 companies representing the very large kind, middle sized and small corporations with few individuals in them. Although in Korea there are officially about 15,000 registered companies that have been incorporated with foreign capital, only a small percentage of them are headed by foreigners.

Answers to the demographic and reinvestment intention sections reveal that although nearly 80% of companies responding to the survey have reinvested into Korea at least once in the past, some 60% of them are willing to invest again.

This is corroborated by the fact that when the respondent is free to be the sole decision maker for the purpose of this survey, they do not differ much in their answers, still some 58% would reinvest.

In order to put a numeric value to these variables and

understand the relationship, numbers were assigned according to the scale implemented across the whole survey in a consistent manner.

For both questions numbered 12 and 14 in the previous section, which refer to whether a company had plans to reinvest and whether the individual responding would reinvest in Korea if it were entirely up to him/her to decide so, respectively, numbers "5" were assigned to positive answers, which correlates to all other numeric answers as positive impressions of Korea.

Number "3" was assigned to all confidential or "I am not sure" answers, since these provide no value and assigned "1" to all negatives, for those answering they were sure wouldn't invest.

The covariance between the two data sets of Company Vs. Individual opinion was calculated, in order to identify how much each respondent differed in his personal opinion and that (s)he expressed for his/her company. The covariance was found at 0.73, meaning that to that extent most people and their firms headed in the same opinion of whether to reinvest or not (in this case to reinvest, as most answers were positive about reinvesting).

Note this doesn't mean 73% of respondents had identical answers for both questions, it refers to what degree their two answers agreed (how close these were and if in the same direction, which is proven by a positive covariance), then average such answers with the rest of the pool.

With a covariance so near a value of 1, it is concluded that most people did not answer significantly differently to both these questions.

All numeric answers in the whole pool of respondents were gathered to calculate a mean of 2.41, which in a way is a very general picture of the overall impression of Korea these 31 individuals had. This value, slightly lower from indifference-"3" points at an overall negative yet no so strongly detrimental image of the environment that affects foreigner's lives and businesses.

The standard deviation found for the whole pool from this arithmetic average just mentioned was of 1.36, which means most answers across most respondents varied from the mean to a very small extent, indicating lots of consistency among and across individuals.

In order to get closer to making a conclusion on whether



my hypothesis holds true to what extent is accurate, two more calculations were computed.

A correlation between all answers of whether the individual would invest if given the absolute option of doing so and the arithmetic average of all his/her numeric answers as a data set yielded a value of 0.35, which in statistical significance carries a medium strength, and since it is positive, it indicates that to that extent individual answers on whether to invest or not are backed up by all other individual answers on the concepts measured, as a pool.

A covariance of 0.28 indicated that among individuals, each positive answer to invest deviated from all other answers to all measures for the same individual, but not to a very strong extent.

#### Summary of Values

<i>Measure</i>	<i>Value</i>	<i>Strength</i>
Percentage of individuals willing To reinvest if given the choice	58%	Medium
Covariance between Individual & Company willingness to reinvest. Value represents Strong tendency for answers to head in same way	0.73	High

Mean of all answers by all respondents. "Big picture" Of Korea's business environment based on 1 (bad) to 5 (excellent)	2.41	Medium-Low
Standard deviation of all entries from above mean. Indicates consistency across and among individual answers.	1.36	Low
Correlation between individual willingness to reinvest and all other answers by same individual	0.35	Medium
Covariance for individual willingness to reinvest and to what extent and in what direction (s)he differs from his/her own mean for all other answers	0.28	Medium

## 7. CONCLUSIONS AND RECOMMENDATIONS

The study has not necessarily failed to prove the hypothesis, but rather found a trend with a medium strength (statistically speaking) showing that Korea's business environment does affect intentions to reinvest, but that even when rating Korea lower than average on all measures exposed, there is still a general positive attitude to reinvestment, although not significantly high.

This claim is corroborated by a near 60% of individual respondents willing to reinvest, and the standard deviation from the mean of scores on this measure a low one (indicating consistency among surveyed volunteers).

There is no question that many foreign business people find Korea a difficult place to live, let alone to enjoy leisure in a westernized way. Graphs 23 and 24 show strong evidence of this claim. It would definitely be interesting to have accumulated a much larger sample to look at this particular score again in more detail, as it may indicate an area where the government can attempt to make improvements.

Similarly, graphs 14 on a comparison of Korean and banks in other countries and 19 on the cost of doing business

in Korea also point at areas of needed improvement.

The former indicates that Korean banks might indeed benefit from foreign expertise on management, a claim that is supported by numerous takeovers by foreign banks of Korean financial institutions on an ailing status, from as far back as 1997's crisis to nowadays most recent purchased of Korea First Bank by Standard Chartered.

The remaining questions showed tendencies on both the positive and negative sides of the scale. Perhaps the best approach at understanding where the trends lie would be to continue the study and gather a much more representative sample of foreign investors.

Summarizing the most salient characteristics of Korea's current FDI promotion strategy, the following SWOT analysis suggests the Korean government areas of potential improvement that go inline with the findings of my study.

SWOT OF KOREA AND IT'S FDI PROMOTION STRATEGY	
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Unparalleled economic recovery capability</li> <li>Fast and reliable construction/development capability</li> <li>Energetic society, strong and capable of great feats, entrepreneurial</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Neighboring successful FDI-inducing cities might provide synergy</li> <li>Economic ability of government allows to cooperate with private sector for promoting</li> <li>Right leadership can align all IPA's united in purpose with targets and attainable goals</li> </ul>
<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>Exceptionally inconsistent government agencies</li> <li>Intrinsic/unnecessary regulations, Weak promotion tag lines</li> <li>Inward oriented, aspiration-based promotion strategy</li> <li>Lack of facilities for foreigners</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>Neighboring FDI-inducement giants are far ahead</li> <li>Labor and organized activism can damage country's image</li> <li>Disorganized/unfocused incentives regalla to put FDI promotion account in red</li> </ul>

The reader will notice that in the section on "weaknesses" the information displayed is backed by the results of the survey, graphs 23 and 24 are the basis of this claim. Moreover, reading back to the FDI calendar of events found on chapter 3, one can find more evidence of government inconsistency and its inability to rally the Korean society to understand the benefits of FDI.

One of the strongest conclusions to make is that leadership is needed to align all IPAs of Korea united in one purpose to increase efficiency and maximize consistency for investors across the country.

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Website of Hosted Survey at [www.hostedsurvey.com](http://www.hostedsurvey.com)

On Statistical Manipulations <http://en.wikipedia.org/wiki/Correlation>

On Statistical Manipulations <http://en.wikipedia.org/wiki/Covariance>

Over 250 publications combined of the Korea Herald, The Asian Wall Street Journal, Business Week Asian Edition and printed promotional material of Korea's Free Economic Zones and Industrial Clusters.

Here I quote newly appointed head of Invest Korea, the nation's official IPA Dr. Tong Soo Chung, on the topic of human resources competency, in his speech delivered at the Korea Development Institute School on April 15<sup>th</sup>, 2006 as saying "...how do we assume we are smarter than say Indians or Chinese or Japanese, or more academically prepared? India has 300 million university grads, the great majority of whom speak much better English than many in Korea, as long as we keep assuming we are a better prepared force than any of our neighbors we keep loosing competitive ground to a highly prepared work force that is ready to hit the international markets at much lower wages than Koreans..."

페이지 16: [2] 삭제됨

관리자

2006-07-02 AM 12:40:00

, both these groups of characteristics do not need to match

페이지 17: [3] 삭제됨

관리자

2006-07-02 AM 12:43:00

More on the hub idea, despite the budget dedicated to this and efforts targeting FDI inducement, the only hub that has emerged strong is the one of inconsistency. With an overwhelming plethora of laws, rules, regulations, and implicit barriers to FDI, Korea wastes tons of resources on promoting impossible to achieve endeavors. Internal inconsistencies make this hub plan unattainable.

I would also argue that a



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맞춤: 왼쪽 + 맞춤 위치: 0.71 cm + 탭 간격: 1.63 cm + 들여쓰기 위  
치: 1.63 cm

behind in this part-state part-private model for  
investment promotion resulting in FDI confidence.