HOW TO DESIGN INVEST KOREA’S EVALUATION SYSTEM TO MAXIMIZE THE POSITIVE IMPACTS OF FOREIGN DIRECT INVESMENT

By

Yoon Ye Chan

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
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Master’s in Foreign Direct Investment

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Committee in charge:

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Approval as of November , 2010

ABSTRACT

HOW TO DESIGN INVEST KOREA'S EVALUATION SYSTEM TO MAXIMIZE THE POSITIVE IMPACTS OF FOREIGN DIRECT INVESMENT

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This paper analyzes the evaluation system of Invest Korea (IK), to test if it is optimally designed to maximize the positive impact of foreign direct investment (FDI). Since the financial turmoil which swept Korea in late 90s, FDI has been one of driving forces in economic policy, leading to foundation of Invest Korea. In spite of largely impressive record so far, the jury is still out for its role in FDI attraction. Inconsistency and irrelevancy from external evaluation frame have clearly prevented Invest Korea from fulfilling its maximum potential, as is internal frame, which is marked with excessive emphasis on investment amount and heavy burden of project management. Case study of Netherlands Foreign Investment Agency (NFIA) reveals how unpractical and ineffective the evaluation frame is. The thesis will suggest number of recommendations to boost the efficiency of Invest Korea, including reducing the number of projects, more focus on strategic sectors, and setting a more reasonable target.

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LIST OF AVVREVIATIONS

COMSCO	Korea Minting and Security Printing Corporation
CRM	Customer Relationship Management
CSR	Comprehensive Spending Review
EHQ	European Headquarter
FDI	Foreign Direct Investment
FEZ	Free Economic Zone
FIAS	Foreign Investment Advisory Service
FIF	Foreign Investment Forum
FIPA	Foreign Investment Promotion Act
FIZ	Foreign Investment Zone
FTZ	Free Trade Zone
GDP	Gross Domestic Production
IK	Invest Korea
IMF	International Monetary Fund
INSC	Investment Notification Statistics Center
IPA	Investment Promotion Agency
KEPCO	Korea Electric Power Corporation
KISC	Korea Investment Service Center
KOGAS	Korea Gas Corporation
KOTRA	Korea Trade and Investment Promotion Agency
KRW	South Korean Won

KTO	Korea Tourism Organization
M&A	Merger and Acquisition
MKE	Ministry of Knowledge Economy
MNC	Multi-National Company
MOU	Memorandum of Understanding
NFIA	Netherlands Foreign Investment Agency
NSCI	National Customer Satisfaction Index
OECD	Organization for Economic Cooperation and Development
R&D	Research and Development
RDA	Regional Development Agency
SAP	Standard Assessment Procedure
SOE	State-Owned Enterprise
SSC	Shared Service Center
TFT	Task Force Team
TMS	Technology Matchmaking Service
UKTI	United Kingdom Trade & Investment
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
WAIPA	World Association of Investment Promotion Agencies

1. INTRODUCTION

Since financial crisis has stormed Korea in late 90s, Korean government has made significant efforts to attract foreign direct investment (FDI). Considered as an extremely closed economy prior to the crisis, complete ineptitude to react quickly to economic turmoil and unprecedented volatility in financial market, which eventually lead to emergency rescue package from International Monetary Fund (IMF), has persuaded Korean government to rethink its stance over FDI. Many post-crisis analyses pointing out that a lack of FDI was one of the main reasons Korea was hard hit, as portfolio investors are not as attached and long-term as direct investors, thus paving way for capital exodus to trigger as well as amplify the crisis also strengthened Korea government's conviction to open its economy to FDI.

The most notable move by Korean government to signal its intention to endorse FDI was foundation of Korea Investment Service Center (KISC), its national investment promotion agency (IPA). Since its foundation in 1998, later transformed to Invest Korea (IK) in 2003, it has represented Korean government's unparalleled dedication to establish Korea as a top investment destination. But it was not just Invest Korea, but newly formed Free Economic Zones (FEZ) and regional governments where FDI suddenly became of great importance.

After more than 10 years, it is widely regarded that not only the amount of investment has increased, but overall contribution of FDI to national economy have been invaluable. The investment amount reported to Korean government, for example, has risen significantly and has steadied at around 10 billion USD per year for the last 5 years, albeit notification terms. But there are still heated debates whether FDI is so important to the extent that it takes such a high place on government agenda. FDI skeptics argue that the overall economic impact of FDI is not as great as it is thought, while others claim that granting incentives to foreign companies only because they are foreign, while domestic companies are not applicable, is de-facto reverse discrimination, ironically, decreasing domestic companies' chance of survival. Alleged national sentiment against foreign investors, often described as conqueror, not savior, did not help the cause either. At the same time, a series of studies categorically insist that FDI can be beneficial to recipient country, provided well managed by its government.

FDI is believed to be able to lead to output growth as well as efficiency and productivity gains in the hosting country, though it could differ across individual industries (Carmen Fillat Castejón and Julia Wörz, 2006). This is particularly true to lagging economies such as Asia in second half of 20th century. In a more micro term, Jan Hagemejer and Joanna Tyrozicz (2009) argued that companies with foreign shareholding have a tendency to have higher profits, invest more, and are more efficient and more export-oriented, even if that may have been self-selection bias, where companies with established export markets attract FDI more easily than others.

Then, it is fairly reasonable to conclude that the real impact of FDI lies somewhere between, and good management from the government is vital to maximize the positive impacts of FDI. As a national investment promotion agency, Invest Korea has epitomized how Korean government has approached FDI. Thus, by reviewing Invest Korea's record, FDI management record in Korea can be analyzed.

One of the major obstacles to the study is a lack of precedent academic researches to review the performances of IPAs. It is truly remarkable since there are more than 240 investment promotion agencies all around world as registered members of World Association of Investment Promotion Agencies (WAIPA). Adding regional promotion agencies will make the number even higher. Yet, most of the studies on FDI focus on economic, social and political impacts on hosting or investing countries, while there are a few studies which focused on the influence of promotion activities over investment destination, such as tax holiday and business environment. Rare studies on IPAs are mostly done through World Bank's The Investment Climate Advisory Service (FIAS), or World Association of Investment Promotion Agencies (WAIPA). Global Investment Promotion Benchmarking 2009 (World Bank) points out that timely provision of information is of great importance to IPAs to stimulate market interest and attract investment. Thus, it is critical for any IPA to ensure that relevant, up-to-date, and good-quality information is available through its website to potential investors. Furthermore, a choice of target industries, preparation for materials that answer questions frequently asked by investors, identification of investors' key location drivers are also referred to assess the IPA's capacity. Marie Therese Gabriel (2004) argues that, while exogenous factors such as market size and factor endowments have larger impact in investment destination, endogenous factors like budget and staff can also influence the efficiency of IPA. Jacques Morisset and Kelly Andrews-Johnson (2004), while acknowledging the importance of investment climate and level of development, also put emphasis on financial commitment, calling for big enough budget. In terms of type of activities, investment generation and targeting, which have been prioritized by most of IPAs, are turned out to be least relevant functions, usurped by policy advocacy activities.

The thesis will look at how Invest Korea has operated for the last decade, especially focusing on the evaluation system. The focus is to test if current evaluation system of

Invest Korea is optimally designed so that it can maximize the positive impact of FDI. The following chapter will look through the general FDI situation in Korea, including historical trend, FDI promotion policies such as incentives and legal structure. That is followed by the review of how Invest Korea has evolved since its foundation in 1997. Structural frame and most importantly, its performance evaluation system, external and internal ones, will be visited. The thesis then tests if Invest Korea has successfully developed its evaluation system to maximize the potential to achieve its goal. And if not, a couple of recommendation will follow. A case study of Netherlands Foreign Investment Agency (NFIA) will complement the necessary suggestions to be made later.

2. FDI in Korea and Introduction of Invest Korea

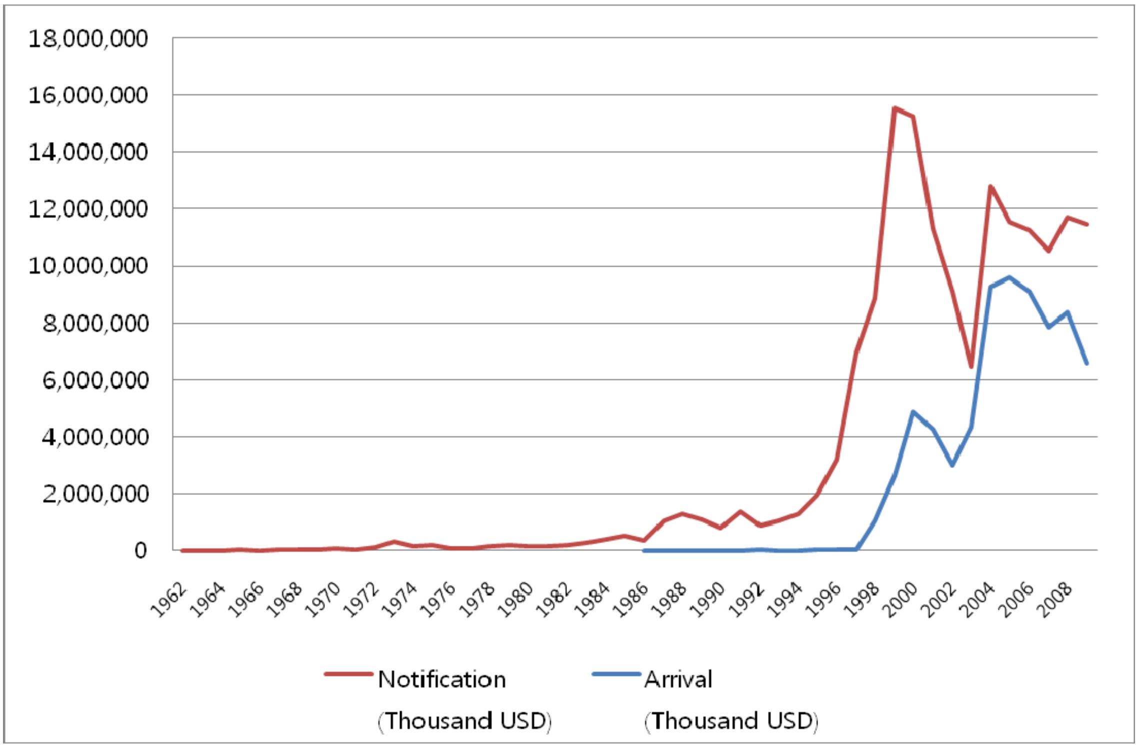
2.1. FDI Trend in Korea

Korea has never been famous for its openness. Having adopted firm state-controlled economic development policy since 1960s, foreign investment has been strictly limited to so-called 'strategic industries'. Tight control over foreign currency market as well as frequent intervention to financial system has also contributed to make Korea one of the most difficult places to do business for international companies.

The liberalization of financial market and emergence of multi-national companies (MNC) in 90s, which all resulted in increase of FDI, were irreversible and it had become more and more obvious that Korea had to open its economy sooner or later. But there is no doubt that financial crisis by which Korea was devastated was a sole catalyst to put the inevitable forward.

FDI was not very active until late 90s, when it soared dramatically, largely due to fire sale of former affiliates of conglomerate and financial institutions severely exposed to insolvency, all of which attributable to financial crisis. Since then, FDI amount has more or less steadied around 10 billion USD per year, still great leap from earlier days. Actual arrival figure reads somewhat less than notification, but it does not change the obvious fact FDI amount in Korea has significantly increased.

Figure 1: FDI Trend in Korea



Source: Ministry of Knowledge Economy

In terms of nationality, US have been inarguably the biggest investor, followed by Japan and Netherlands, though most investments from Netherlands are treaty-shopping, actively benefiting from favorable tax regime.

Table 1: FDI in Korea by Country

Country	No. of Notification	Amount (mil USD)	Country	No. of Notification	Amount (mil USD)
USA	8,861	41,807	Malaysia	728	7,045
Japan	10,793	23,890	Singapore	1,004	5,915
Netherlands	1,143	18,897	Hong Kong	1,175	4,035
Britain	1,081	10,001	Canada	591	3,934
Germany	1,475	8,973	Total	46,562	160,511

Source: Ministry of Knowledge Economy

In terms of industry, service is edging over manufacturing as a biggest industry, reflecting Korea's industrial structure. Service sector is expected to be more dominant as it has been outpacing other sectors as structural shift to service sector is due to continue for the foreseeable future.

Table 2: FDI in Korea by Industry

Industry	No. of Notification	Amount (mil USD)
Agriculture, Forestry, Livestock, Fisheries and Mining	278	441
Manufacturing	14,568	63,213
Service	30,973	90,282
Electricity, Gas, Water and Construction	743	6,575
Total	46,562	106,511

Source: Ministry of Knowledge Economy

One notable character is the dominance of green-field investment over merger and acquisition (M&A). While around 70% of world FDI is M&A transaction, Korea has shown exactly the opposite, with strong green-field investment. That is partly due to Korea's closeness to foreign ownership, delicately maneuvered by Korean government.

Table 3: FDI in Korea by Type

Type	**No. of Notification**	**Proportion (%)**	**Amount (mil USD)**	**Proportion (%)**
M&A	3,838	8.24	47,528,018	29.61
Greenfield	42,724	91.76	112,983,652	70.39
Total	46,562	100.00	160,511,670	100.00

Source: Ministry of Knowledge Economy

2.2. Investment Attraction Policies in Korea

Most of the organizations have clear goal or mission, in the form of investment return maximization in case of private sector, or less quantitatively measurable public utility in public sector. In Invest Korea's case, its mission states that its sole purpose is 'supporting the entry and successful establishment of foreign business into Korea'. But further up the organizational structure leads to Ministry of Knowledge Economy (MKE), which has final jurisdiction on FDI. MKE clearly states that its goals regarding FDI policy are investment attraction with high potential of spillover in job creation as well as technology, and foundation of steady and stable investment inflow. Those goals should be filtered through its investment attraction policy.

While it is not uncommon to offer incentives to foreign investment, more and more countries are implementing 'national treatment', applying equal and even playground and fair competition regardless of company's nationality. However, Korea is publicly boasting that it offers the most generous incentives schemes among countries in Organization for Economic Cooperation and Development (OECD). Potential disadvantages to domestic company and fear of abusing the scheme could not stop Korean government.

2.2.1. Tax Relief

Under the Tax Exemptions and Exceptions Act, foreign investor is eligible for tax exemption or reduction ranging from income tax to dividend income, acquisition tax, registration tax and property tax provided the investment meets a set of requirements.

Table 4: National and Local Tax Reduction to Foreign Investment Project

Category	Eligible Industries	Proportion
1. High Degree Technology Business & Industry Support Service	-	Reduction for 7 years (100% 5 years, 50% next 2 years)
2. Stand-alone Type Foreign Investment Area	Manufacturing: 30 million USD Tourism: 20 million USD Logistics: 10 million USD R&D: 2 million USD	
3. Complex Type Foreign Investment Zone 4. Free Economic Zone 5. Free Trade Zone	Manufacturing: 10 million USD Tourism: 10 million USD Logistics: 5 million USD	Reduction for 5 years (100% 3 years, 50% next 2 years)

Source: Invest Korea, Guide to Investing in Korea, 2009

2.2.2. Cash Grant

Inarguably the most favorable and powerful, but also controversial incentive scheme is cash grant. Cash grant will cover 5% or higher of total investment project, which supposedly has profound impact on domestic economy. Such powerful is the scheme that the evaluation requires highest standards, like high degree technology and technology transfer effect, redundancy with domestic investment, impact on regional / national economy, survivability of the project, numbers of jobs created, and location adequacy. Cash grant has not been awarded frequently since its introduction in 2004, and it was not until French chemical firm Rhodia became the first beneficiary of the scheme in 2006, after more than 2 years since its introduction. So far, 7 companies have been awarded, and one more case is under preliminary stage.

Table 5: Investment Project where Cash Grant were Awarded

Year	Investor (Country)	Industry	Investment Amount	Grant (bil KRW)	Stage
2006	R (France)	Fine Chemical	45 bil KRW (47.4 mil USD)	4.47 (10%)	Finished
2008	S (Belgium)	Fine Chemical	21.5 bil KRW (18 mil USD)	2.02 (9.4%)	Conclusion of Contract Payment in progress
2008	I (Netherlands)	Machinery (Cutting Tool)	100 bil KRW (83.3 mil USD)	7.3 (7.3%)	Conclusion of Contract Payment in progress
2009	A (Japan)	LCD Precision Glass	374.8 bil KRW (27.8 bil JPY)	10 (6%)	Conclusion of Contract Payment in progress
2009	B (Germany)	Automobile Parts	230 bil KRW (190 mil USD)	36.8 (15%)	Conclusion of Contract Payment in progress
2009	B (USA)	ICT Semiconductor R&D	56 bil KRW (49 mil USD)	7.2 (13%)	Notice of award

Source: Invest Korea

2.2.3. Site Location Support

There are three different locations, Foreign Investment Zone (FIZ), Free Trade Zone (FTZ), and Free Economic Zone (FEZ), where foreign investor is eligible for favorable treatments. While FTZ was first introduced in 1970 during the industrialization period, opening door even to domestic companies, the other two are designed mainly to attract foreign investors. Most location supports are directed to FIZ, though FEZ also offers comprehensive support for foreign investor.

Table 6: Location Support in Foreign Investment Zone

Category	Details
Lease Site Support (Site Purchase)	- Provide leases site through designation and purchase of foreign invested area - Share of purchase cost * Capital region: Country 40%, Local government 60% * Non-capital region: Country 75%, Local government 25%
Rent Reduction (National Property)	- Stand-alone foreign invested area 100% - Over 1 million USD in high degree technology business: Complex type foreign invested area 100%, industrial complex 50% - Over 5 million USD in general manufacturing business: Complex type foreign-invested area 75%, industrial complex 50% ※ Rent reduction of shared property shall be determined through regional laws
Subsidy for Difference in Sales Price	- Subsidies to be provided for the difference when selling industrial complexes to foreign invested companies for less than the development costs (share is the same as lease site support)

Source: Invest Korea, Guide to Investing in Korea, 2009

2.2.4. Other Incentives

Strict regulations applicable to domestic companies can be relaxed specifically to foreign companies, notably restriction on total investment amount. Under the Anti-Monopoly Act and the Fair Trade Act, domestic company groups with more than 10 trillion won in total assets of domestic companies in the same group (total investment amount restricted company group) are not allowed to acquire or hold shares of other domestic companies above the amount of 40% of its net asset (investment limit amount). However, there are no restrictions on the total investment amount in acquiring or holding shares of foreign invested companies with one foreigner holding more than 10% of issued shares.

Tight control over business activities in overcrowding control areas can be also eased. While domestic companies with factories of 500 and wider square meters are banned from expansions, transfer, or change to business type in that area, foreign companies are relieved.

2.3. Invest Korea as a National Investment Promotion Agency

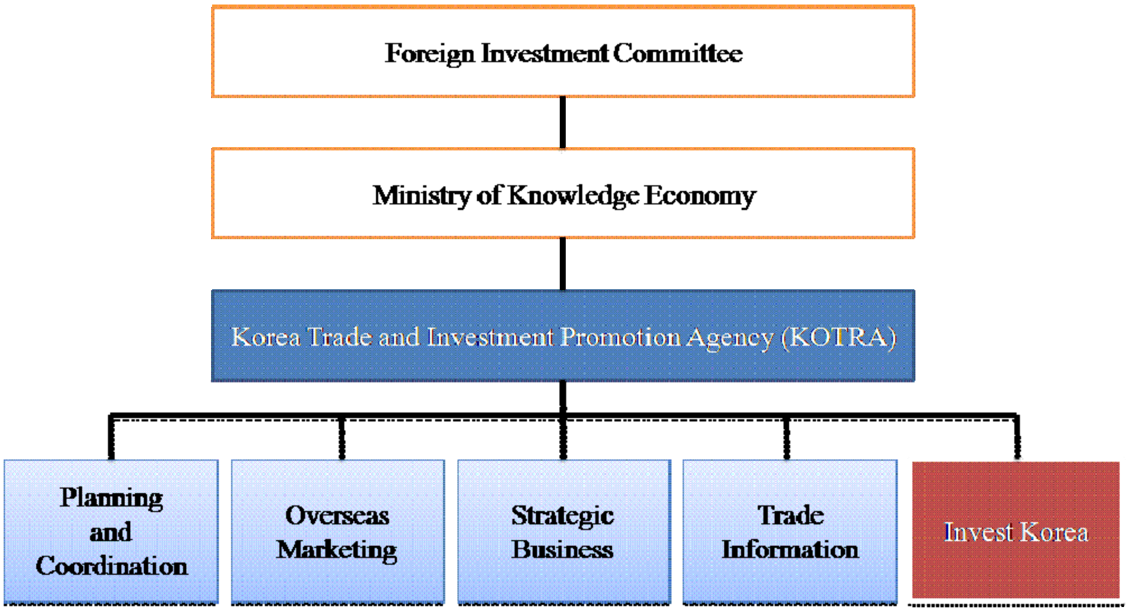
2.3.1. Organization and Operation

Invest Korea is Korea's national investment promotion agency. Its origin is Korea Investment Service Center (KISC), established in 1998 in the middle of financial crisis. It was a bold move by Korean government, signaling its commitment and determination to liberalize the Korean economy drastically. 5 years on, with a view to more comprehensive promotion, KISC was transformed into Invest Korea in 2003.

As a promotion agency, its primary job is to implement government policies on foreign investment that have been formulated by the Ministry of Knowledge Economy (MKE), formerly Ministry of Commerce, Industry, and Energy, and coordinated by the Foreign Investment Committee, which is chaired by the Minister of Strategy and Finance.

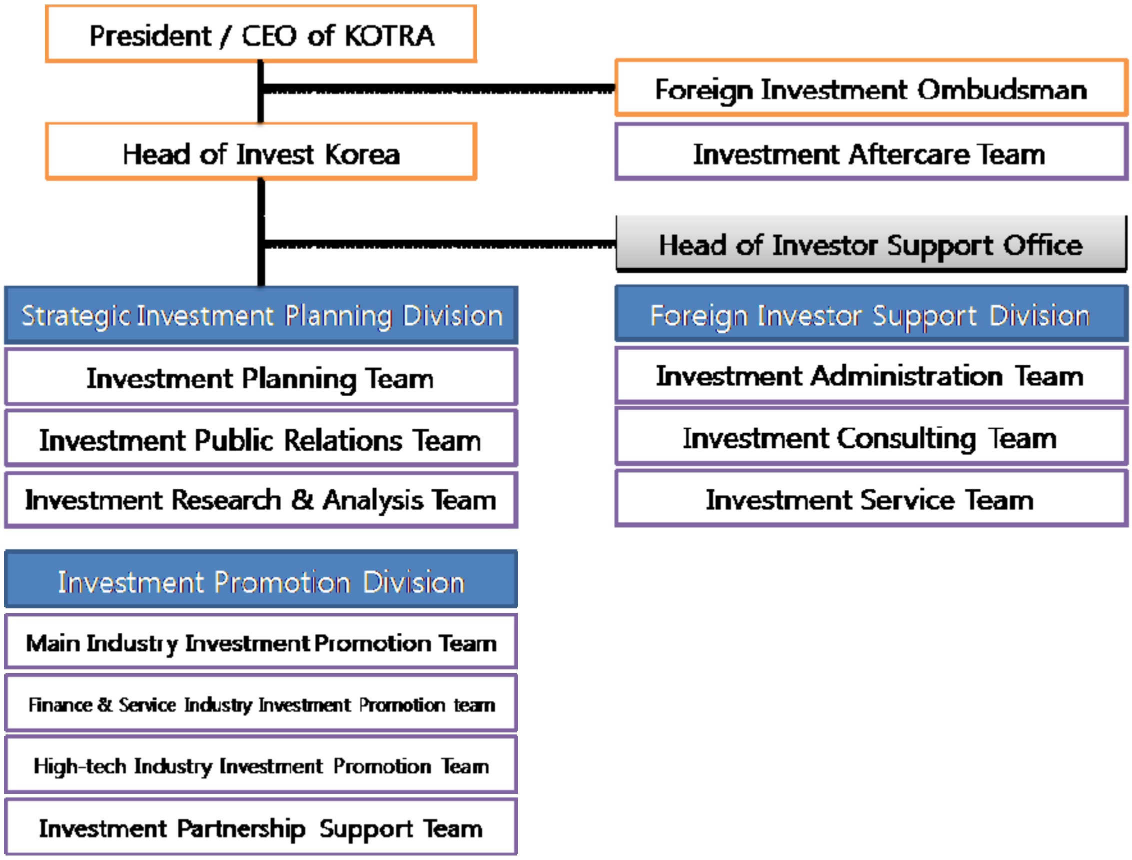
Invest Korea is not an organization on its own, but a division of Korea Trade and Investment Promotion Agency (KOTRA), a government affiliated organization.

Figure 2: Korea's Investment Promotion System



Invest Korea has 3 sub-divisions and 11 teams in the headquarters. Foreign Investment Ombudsman, though legally independent, also works in Invest Korea, leading investment aftercare team on permanent basis. This particular ombudsman system, exclusively dedicated to foreign investor, is widely hailed as a success, landing "Best Practices in Aftercare Services Award" presented by WAIPA in 2007.

Figure 3: Invest Korea's Organization



Meanwhile, Invest Korea has 39 overseas offices, where actual promotions are taking place. Most of the offices are located in developed countries, identified as "core". But Invest Korea has been trying to explore untapped market of late, such as India, Malaysia, Russia, China, and Middle East classifying as "supporting". Those 39 offices are not exclusively dedicated to Invest Korea, however, as they are officially KOTRA's branch. Thus, not all the personnel are working on investment promotion, though most branches have at least one dedicated investment manager. Even then, not every investment manager has investment promotion on his/her only agenda, as other KOTRA activities are likely involved. It is more so in a small branches like Helsinki and Melbourne, where only one person is in charge of every operation.

Table 7: Oversea Offices in Invest Korea and Number of Investment Managers

Region	Core Function	Support Function
North America (18)	Regional Headquarter(2), New York(1), LA(2), Detroit(2), Toronto(2), Dallas(1), Vancouver(2), San Francisco(2), Chicago(2), Washington(2)	
Europe (22)	Regional Headquarter(2), London(2), Paris(2), Frankfurt(1), Munich(1), Brussels(1), Milano(2), Helsinki(1), Wien(1), Madrid(2), Stockholm(1), Amsterdam(2), Copenhagen(1), Hamburg(1), Zurich(1)	
Japan (8)	Tokyo(3), Osaka(2), Fukuoka(1), Nagoya(2)	
China (8)	Regional Headquarter(1), Hong Kong(2), Taipei(2), Shanghai(1), Beijing(2)	Guangzhou(1), Qingdao(1)
Asia Pacific (5)	Singapore(2), Sydney(2), Melbourne(1)	Kuala Lumpur(1)
MENA (1)	Dubai(1)	
CIS (0)		Moscow(1)

Source: Invest Korea

2.3.2. Performance and Contribution

Invest Korea's achievements so far has mixed bags of success stories and mishaps. While Invest Korea are doing their utmost best to promote success cases, which is by no means bad considering current government's hard-line to public sector, there are murmurs that Invest Korea's contribution to FDI is overstated, or limited.

Official result shows that, in notification terms, Invest Korea has succeeded in attracting more than 4 billion USD for the past 4 years, contributing more than 40% of national FDI. Given its size and budget, this is extremely impressive performance. What is more impressive is that its investment amount and contribution to national FDI are continuously rising, reaching 7.46 billion USD and 65%, respectively in 2009. Considering the investment climate around the world in 2009 was at its lowest, this is truly remarkable achievement.

Table 8: Invest Korea's Contribution to National FDI

(Unit: million USD)

	2006	2007	2008	2009
National Investment Notification	11,242	10,514	11,710	11,484
National Investment Fund Arrival	9,105	7,770	8,356	-
Invest Korea's Contribution to National FDI	4,129 (43.3%)	5,036 (47.9%)	5,623 (48.0%)	7,461 (65.0%)

Source: Invest Korea, KOTRA Company Management Report 2009

It must be pointed out that there are potential loopholes in Invest Korea's performance, repeatedly failing to silence the critics. With all respect to importance of investment amount, it is not the most important aspect of FDI, at least for now. The importance of acquiring as much foreign reserves as possible could not be overstated when it was established in 1998, as Korea was on the verge of moratorium. Since then, Korea has piled on the fourth largest foreign exchange reserves in the world, largely thanks to constant trade surplus, and unless there is intense speculation on Korean currency which is highly unlikely given circumstances, the immediate need for foreign reserve is presumably not as high as it used to be.

Rather, other impacts of FDI such as a technological transfer and an access to global market are getting more and more important. Countries keen on attracting FDI are putting much emphasis on innovation, R&D, technology, taking investment amount down the pecking order quite far, at best. In Invest Korea's case, it comes as a big surprise that there have been very few attempts to reform Invest Korea to facilitate those structural changes for more than 10 years. Of course there were talks of strategic approach, targeting and selective promotion, all intended to boost Invest Korea's overall contribution to national economy, not just FDI number. In the end, however, it turned out to be investment amount that determined the overall performance of Invest Korea.

Admittedly, performance evaluation in public sector is far more difficult than private sector, where financial figures are predominantly acknowledged to judge its operation. It is true that there are no clear indicators how to quantitatively define and measure the public good, such as common-wellbeing or general welfare. Back to Invest Korea' case, it is difficult to measure how Invest Korea's activities boost innovation and enhanced technology, a point which advocates for investment amount claim that it can at least give objective and quantitative result. To make matters worse, there is no benchmark, as every country has different economic structure so that each IPA has its very own way of operation. They are not comparable to each other.

Nevertheless, it is paramount to define how to evaluate Invest Korea's performance, especially considering enormous budget and personnel dedicated to investment promotion. After reviewing theoretical background of FDI, which cite job creation and other spillover effects as main benefit, the thesis will test if Invest Korea manages to maximize those effects, largely through its internal evaluation system. The rationale behind it is that Invest Korea's target, mandated from Ministry of Knowledge Economy, will be reflected on its own evaluation system, so it would distribute resources optimally and give its personnel extra incentives to achieve it.

3. Performance Evaluation System in Invest Korea

3.1. Theoretical Background of FDI

The backbone of investment promotion is that FDI has positive influence to national economy, by encouraging innovation, enhancing competitiveness, broadening market access and so on. Though there is a school of academics arguing FDI can be a poisoned chalice, or even a newly-evolved apostolic of relentless capitalism in neo-liberalism era, there is no doubt FDI can contribute significantly to national competitiveness, if managed properly. As most of academic studies on FDI so far were focused on the issue, to examine each factor in detail would be redundant, but brief listing will be enough to go further to see if those are well pursued by Invest Korea.

One of the most commonly used methods to identify the impact of FDI is Porter's diamond of national advantage. 4 factors, factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry, are suggested as a determining national competitiveness.

Most of academic studies on FDI so far have highlighted the impact on factor conditions, as it covers most extensively. Mun (2006) has specifically pointed out that technological progress and productivity gain can be achieved by increase of capital investment. As to productivity gain, FDI, as a long-term capital, can lead investment flow into more productive sector, in order to maximize its long-term return on investment. But it is technological progress and development of a higher value-added industry which FDI contributes most. Not only it enhances factors condition through technology transfer and innovations, it creates synergy effect with "related and supporting industries", so called spillover. It can be a linkage to global network which might open a new market for the invested domestic company, or developing regional cluster. That is precisely why most countries target specific industries or activities which supposedly contribute more than the others. Usually, those are high-tech industries like IT and BT, or functions such as R&D or regional headquarters.

It goes without saying that Invest Korea should reflect those findings on its target and evaluation system. The thesis will investigate if it is well designed to maximize the positive impact of FDI.

3.2. External Evaluation System

Invest Korea does not set its own target. Instead, annual evaluation of public company management conducted by the Ministry of Planning and Strategy covers investment promotion activities of Invest Korea as a part of KOTRA evaluation. Furthermore, individual contract between Korean government and president of KOTRA, and between KOTRA and head of Invest Korea also define what the targets are. Thus, it can be said that Invest Korea has 3 different set of targets, to which those must be related closely.

3.2.1. Annual Evaluation of Public Company Management

As a public company, KOTRA is obliged to be annually evaluated by Ministry of Planning and Strategy. This evaluation is of great importance to any public company in Korea, significantly affecting its budget as well as its existence even, that enormous amount of time and efforts are instilled. For Invest Korea, its evaluation on investment promotion is illustrated in Table 9

Table 9: Year-by-Year Performance Target for Invest Korea

KPI	2008	2009	2010
IK's Contribution to National FDI	51.2%	54%	55%
Number of Major Projects	100	125	150
Number of Grievance Resolutions	350	380	400

Source: Invest Korea

3.2.2. Other Targets for Invest Korea

Apart from the targets set via KOTRA, the employment contract between the president of KOTRA and Korean government contains another set of investment promotion related targets. Ideally, those would be a subset of institutional target, or overlapping considerably at least. But neither is the case, so that extra targets are added on Invest Korea, even though Invest Korea in itself does not have any mandate to fulfill those targets.

Table 10: Year-by-Year Performance Target for the President of KOTRA

Objective	2008	2009	2010
Investment Notification per Person (Thousand USD)	9,000	11,000	13,000
Drawing up Investment Proposal for Potential Korean Companies	50	100	150

Source: KOTRA

The amount target requires Invest Korea to obtain 9,000,000 USD investment notification amount per staff, not of Invest Korea, but of whole KOTRA, in 2008, whereas discovering potential investment target companies and making 50 proposals for them are also required. But what is more demanding is the annual growth rate, which reads average 20.19% and 73.21% respectively.

If that is not complicated enough, another set of targets are added in the form of employment contract between KOTRA and head of Invest Korea. While the contract is extendable every 2 year subject to review, the targets are constantly changing.

Table 11: Year-by-Year Performance Target for Head of Invest Korea

Category		Weight (%)				Description
		06	07	08	09	
Quantitative	National FDI Amount	30	20	10	5	
	Investment Notification	10	10	5		- National FDI amount set by ministry of knowledge economy
	Investment Fund Arrival	10				- 60% of notification target
	IK's Contribution to National FDI	10	10	5	5	- Set by ministry of knowledge economy, around 50~60%
	Discovering Major Projects	20	10	10	5	- Major investment projects discovered by head of IK - More than 10 mil USD of investment amount or S-graded project
	Investment Project Management			5	5	- Number of investment projects reported by IK
	Customer Satisfaction Survey		15	5	10	- NCSI(National Customer Satisfaction Index) for KOTRA, conducted by ministry of strategy and finance
	Income Generation		5	5	5	- Revenue from organizing delegation, IK Journal
	Number of Customers				5	- Number of Customers for KOTRA
Qual	Contribution to Investment Attraction	20	10			- Discovering potential target investor - Discovering major investment projects and management - Contribution to realization of investment

i t a t i v e	Expansion and Invigoration of Overseas Network	15	20			- PR activities - Networking activities with investment-related organizations
	IK Management	15	15	20	20	- Establishing one-stop support system - IKP management - Human resource development - Cooperation with regional governments - After-care service
	Innovation and Corporate Social Responsibility		5	3	3	- Contribution to community service
	Participation on Business Ethics Training Course			2	2	- More than 10 hours per year
	Leadership			10	10	- Sharing and delivering mission of the organization
	Vision and Strategy Development			10	10	- Developing KPI, strategy and process to enhance the competitiveness of the organization
	Execution Strategy			20	20	- Efficiency and feasibility of management
Total		100	100	100	100	

Source: KOTRA, Invest Korea

3.2.3. Impotency of Evaluation System

Overall, the external evaluation frame for Invest Korea is very complicated. The targets are identified by 3 different channels, and those are not coherently related. Thus, it is inevitable that both inconsistency and irrelevancy have been causing negative effects on the efficiency of institution.

Constantly changing targets are prime example of inconsistency. Compared to 2006, 4 targets for head of Invest Korea are already dropped, while 9 new indicators have been introduced. Even core indicators like investment amount are not as clearly defined as it should be, so that various indicators from notification to arrival, contribution and notification per person are used as ‘investment amounts’, all of those, barring contribution, are not true barometer of Invest Korea’s performance. Though IK’s contribution is exceptionally high, however controversial in itself it may be, using national FDI amount, of which nearly half is not attributed to Invest Korea, is ill-suited. Even notification per person, which ought to be good measure for investment amounts, defies the logic, counting the number of whole personnel in KOTRA, instead of Invest Korea as a denominator. Though some of administrative personnel can be notionally attributed to Invest Korea, as Invest Korea is apparently part of KOTRA, taking all the staff is clearly misreading the overall contribution of Invest Korea, especially when IK is no more than a quarter of KOTRA. This distinctive inconsistency left Invest Korea bewildered, resulting in a lack of clear vision and direction.

With no disrespect to public companies’ much applauded principle of ‘serving common-wellbeing or general welfare’, it must be said that Invest Korea’s first and foremost goal, which by nature is to serve common-wellbeing and general welfare by enhancing Korean economy’s competitiveness, should not be distracted by issues of minor importance, not to mention of irrelevance. Unfortunately, a quick glance of evaluation frame reveals that a good number of indicators are completely, or partly irrelevant to the core operation of Invest Korea.

Typical example is ‘income generation’. KOTRA is so-called a quasi-governmental body under the law on management of public bodies. It differs from a government-owned corporation or, as OECD, World Bank and IMF calls, state-owned enterprise (SOE) like Korea Gas Corporation (KOGAS), Korea Electric Power Corporation (KEPCO), both of which are classified as market-oriented, or Korea Tourism

Organization (KTO), Korea Minting and Security Printing Corporation (COMSCO), classified as semi market-oriented. The critical character which separates a quasi-governmental body from government-owned corporation is whether the company is operating in competitive market, and eventually generating revenue, though it does not necessarily mean the company has to be profitable to maintain. KOTRA, including Invest Korea, is exempted from those competitive natures, and, to a certain extent, revenue generating, since it is recognized that its main goal will be best served without it. Hence, having income generation as one of the determinants of performance evaluation is contradictory. Moreover, the main source of income does not bear any relation to its performance, as more than 95% are generated from local governments and FEZs, by providing matchmaking and other on-site services to their investment promotion delegation. Combined with local government's rather imprudent pursuit of delegation, around 60 delegations dispatched each year have been major source of disappointment due to continuous failure of proper preparation and identifying unique attraction point.

Another irrelevancy can be found in the form of 'number of customers' as well as customer satisfaction survey, National Customer Satisfaction Index (NCSI). By defining its customer as local governments, FEZs and some accounting or legal companies working together in FDI promotion, it completely fails to evaluate how Invest Korea have served its true customer, foreign investors. Though there are several events to collect foreign investors' opinion, notably Foreign Investment Forum (FIF) or frequent meetings where CEOs of foreign companies are invited, hosted by central government, there is no systematic route to evaluate Invest Korea's performance by foreign investors. Rather, parties who can billed as partners are regularly grading Invest Korea's performance.

3.2.4. Weak Linkage to the Core Value of FDI

Already covered in the theoretical background of FDI, it is widely accepted that FDI can have positive influence to hosting country's economy, by encouraging innovation, enhancing competitiveness, broadening market access, as long as it is properly managed. Among those, innovation and technological advance have established the most important driving forces in FDI promotion, at least in the developed countries, to which Korea believe itself to belong. That is why more and more countries are becoming selective in FDI, favoring cutting edge technology, high-value industry such as biotechnology and material, or specific activities which boost innovation most, like R&D and regional headquarter. Korea is no exception, often publicly declaring its intention to be a hub of northeast Asia, in which successful FDI attraction is expected to play significant role.

When it comes to the implementation of this great ambition, it has not been as successful as hoped, much to Korean government's dismay. It is not that Korea has not tried to attract high value, innovative industry. Rather, countless measures have been taken to signal its dedication to the cause such as reforming ministry in charge of FDI from 'Ministry of Commerce, Industry and Energy' to 'Ministry of Knowledge Economy'. As far as Invest Korea is concerned, the execution has been wrong in spite of the right idea.

Bound to a system in which it will be evaluated by the amount of notification amount, no matters what the industry is or how innovative the activity is, Invest Korea does not have any incentive to try to attract so-called target industries or R&D center, when precious recourses can be reserved to support other project which would invest bigger amount, even though it is less innovative. This failure to encourage strategic investment promotion, caused by misdirected evaluation frame, has been Korea's main undoing.

3.3. Internal Evaluation System

If external evaluation system for Invest Korea does not click all the boxes for successful FDI promotion, internal evaluation system should provide ample cover, though, as an institution itself, Invest Korea does not have any incentive to do so, except ethical responsibility to serve common wellbeing. Not only offering suitable incentives for strategic promotion, it also needs to balance its institutional target above mentioned.

3.3.1. Evaluation for Overseas Branches

It is KOTRA's overseas branches, Korea Business Center, where actual promotion is taking place. So the internal evaluation system should have clear indication how the FDI promotion is managed. It consists of mainly two categories, project management and investment amount. While amount category literally represents investment amount itself, mostly notification from the corresponding countries for each KBC, project management represent qualitative aspect of investment project, supplementing the strategic dimension of evaluation frame.

Table 12 shows the internal evaluation frame for the latest 3 years. Though there were categories like number of potential investors and 3-year trend amount, all of those are quickly scrapped after just one or two years after wide criticism from KBCs due to either heavy administrative burden or irrelevancy from day-to-day operation.

Table 12: Internal Evaluation Frame of Invest Korea

Category	Weight (%)			Description
	2008	2009	2010	
Project Management	57.14~ 60.00	75.00	50.00	
Total Project	35.00~ 37.33	45.00	40.00	- Aggregate points from all investment projects - To be confirmed at the end of business year
New Project	15.00~ 16.00	22.50		- Aggregate points from projects which started to be involved in corresponding year (subject to CRM registration) - To be confirmed at the end of business year
Progress Rate	6.66~ 10.00	7.50	10.00	- Quarterly project management points - 1st quarter (15%) / 2nd quarter (40%) / 3rd quarter (70%) / 4th quarter (100%)
Investment Amount (Corresponding Year)	25.00~ 28.57	17.50	50.00	
Notification	12.50~ 14.29	8.75	25.00	- Investment amount noticed to INSC
Arrival	12.50~ 14.29	8.75	25.00	- 60% of notification target
Number of Potential Investors	13.33~ 15.00			
Number of Potential Investors	13.33~ 15.00			- Number of investors registered and reported to be involved
Investment Amount (3-year trend)		7.50		
Notification		3.75		- Target : Average notification amount of 3 previous years multiplied by growth rate of national FDI target - Performance : Average notification amount of corresponding year and 2 previous year
Arrival		3.75%		- Target : 60% of notification target - Performance : Average arrival amount of corresponding year and 2 previous year

Source: Invest Korea, Annual Evaluation Guideline 2010

3.3.2. Determinant of Investment Amount Target

Each KBC will be assigned certain amount of investment amount target to contribute to the institutional target. Several variables are considered in calculating the target number, including investment amount of last 3 years to see the general trend, exceptionally high single investment project which will severely distort the average value, the specific location such as tax heaven, and overall increase in institutional target. While it is nearly impossible to determine the target fairly to every each KBC, there has been ongoing discontent among KBCs that the target is unrealistic, if not unachievable, for many years. Negotiation over the institutional target is absolutely out of question, as it is a strongly top-down mandate from Foreign Investment Committee. What is more damaging than excessively high aggregate target is a 'winner's curse' situation which discourages any KBC from over-performing. Every year, once the target is met, each KBC has a good incentive not to claim any further investment amount, though it will eventually harm the overall performance of Invest Korea as a whole, which leads to a typical example of fallacy of composition. To understand why it happens, it is necessary to have a close look at the determinants of investment amount target, shown in Table 13.

Table 13: Determinants of Investment Amount Target

Category	2007/2008	2009/2010
Performance in Last 5 Years	85%	80%
Number of Staff	5%	3%
National Investment Amount in Last 5 Years	5%	7%
Investment Amount from S and A Projects	5%	10%

Source: Invest Korea

Other than 4 major categories, there are several fine tunings to avoid any distortion, so that any one-off investment with massive amount would not affect the next year's target, though this exemption is given either to extremely big amount which is rarely happening, or as a carrot at the end of year when KBCs which have already hit the target are reluctant to claim the investment amount as their credit, which will be explained later on.

The potential problem with this frame is that a KBC which had stellar performance one year will not be rewarded however remarkable its performance is, but will be punished, in a way, by much higher target next year. When every KBC will get the same recognition, or grade, as long as it achieves the target, and every extra cent over the target will be reflected to next year's target, so that it will come back to haunt them later on, it is rational for any KBC not to claim its credit once the target is achieved. With more than 80% of target amount depends on previous performance, the evaluation frame systemically discourages KBCs to drop its performance level. It is why, every end of year, KOTRA head quarter and KBCs have a quarrel as to claiming credit for the notified investment amount. Even if KBC's 'No, thank you' approach is destined to face cynical reproach from head quarter, desperate to meet the institutional target, this tug of war goes on every year.

3.3.3. Project Management

This category is inarguably the only one in which the qualitative aspect of investment project is evaluated. Like investment amount target, project management target is assigned by head quarter every year.

Each project will be graded by grading committee in accordance with pre-determined conditions such as investment size, significance of KBC's involvement, and contribution to investment decision. The best grade is S, and A, B, and H in descending order will be graded, with different point. And each grade is again divided to normal and new, where 'new' refers to the project registered in the corresponding year, and produces higher point. This is designed to encourage continuous development of new investment project.

Table 14: Investment Project Grading Guideline

Grade	Point	Indispensible Condition	Necessary Condition
S+/S	6/4	The concreteness, size and type of investment project should be verified by project manager, - visiting Korea and consultation to project manager (within 6 months)	**1. Determinant** A. Qualitative Condition - Significance of KBC's involvement - Contribution to investment decision B. Quantitative Condition - SOC, Retail, Leisure : at least 20 mil USD - Manufacturing, Logistics : at least 10 mil USD - R&D Center, High-tech, Regional HQ : at least 2mil USD *High-tech industry is subject to definition from ministry of knowledge economy C. More than 5 support activities within a year including visiting Korea **2. Project which fails to meet the requirements** A. Positive influence on national economy should be approved by grading committee, despite failing to meet qualitative or quantitative requirements **3. A project can be downgraded to A by grading committee, though it satisfied all the requirements**

A+/A	3/1.5	The concreteness, size and type of investment project should be verified by project manager, - investor to visit Korea and consultation with project manager (within 6 months) - visiting investor by project manager - visiting investor by delegation from Invest Korea, regional government, ministry of knowledge economy and other relevant organizations - attracting investment delegation including corresponding investor to Korea	**1. Determinant** A. Qualitative Condition - Significance of KBC's involvement - Contribution to investment decision B. Quantitative Condition - SOC, Retail, Leisure : at least 10 mil USD - Manufacturing, Logistics : at least 5 mil USD - R&D Center, High-tech, Regional HQ : at least 1mil USD *High-tech industry is subject to definition from ministry of knowledge economy C. More than 5 support activities within a year including visiting Korea **2. Project which fails to meet the requirements** A. Positive influence on national economy should be approved by grading committee, despite failing to meet qualitative or quantitative requirements **3. A project can be downgraded to B by grading committee, though it satisfied all the requirements**
B+/B	0.3/ 0.1	None	A project which does not meet the requirements of S or A grade
H	0	Non-gradable	Cancellation or falling through of investment project Significant lack of contribution or involvement to the project

Source: Invest Korea, Annual Evaluation Guideline 2010

Each KBC's involvement to the project is reported to head quarter by internal management system, world-widely used Standard Assessment Procedure (SAP), though not necessarily most efficient. The promotion activities are divided into 8 categories, including project registration, notification, and arrival.

Table 15: Main Investment Promotion Activities in Invest Korea

<Investment Promotion Steps>
1. Step 1 (Promotion) - Providing information such as investment climate, on-line consultation, Arranging seminar or event - Monitoring fund arrival is also included 2. Step 2 (Inquiry) - Providing investment information by request of investor 3. Step 3 (Visiting Investor) - Visiting investor to discuss potential investment project 4. Step 4 (Delegation) - Visiting investor with delegation from either one of Invest Korea, Central government, Regional government, or TFT - MOU signing ceremony is also included 5. Step 5 (Investment Project) - Investment project management - Details of project such as industry, background and expected investment amount and time should be reported 6. Step 6 (Visit to Korea) - Visiting Korea by investor - Visiting period, accommodation, schedule including meeting counterpart should be reported unless investor directly visit Invest Korea 7. Step 7 (Investment Notification) - Investment notification on INSC - Higher than 3 step promotion activities should have been reported unless project has been managed 8. Step 8 (Fund Arrival) - Investment fund arrival on INSC - Only applied to the reported notification on step 7

Source: Invest Korea, Annual Evaluation Guideline 2010

Investment project grading system like the one in Invest Korea can be found in other IPAs, as it was initially introduced after series of benchmarking. The two notable features in Invest Korea are again, emphasis on investment amount, and new project.

There is no doubt that big investment project is more likely to have greater economic impact than small one. But by defining a good project equivalent to a big project with extra conditions, it effectively rules out a small but innovative project which might have big spillover. Furthermore, as the project subject to grading is ante-investment, rather than post-investment, KBCs tend to exaggerate the project size since there is not a proper tool to verify it. Since INSC data only count investment amount per notification, not per project, additional investment step transaction under single project can be recognized as multiple investment projects, which eventually decrease the average amount of investment per project. That makes it very difficult to compare the average projected amount of registered project with the actual investment notification amount. Still, the average projected amount of registered investment project is significantly higher than actual notification amount, even more than 12 times in 2007.

Table 16: Comparison between Average Amount in Registered Project and Actual Investment

Year	Registered Amount (Thousand USD)	Actual Notification Amount (Thousand USD)	Disparity
2006	72,286	13,746	526%
2007	133,916	11,079	1,209%
2008	42,255	11,489	368%
2009	17,252	13,202	131%

Source: Invest Korea, INSC

Another noticeable trend which hampers the efficiency of project management is the increasing number of projects. Faced with ever-increasing annual project points target, each KBC is forced to discover or develop more and more project every year to meet the target. And introduction of ‘Number of potential investors’ category, which effectively requires each KBC maintain certain number of investors, accelerated this trend, so that the number of projects has dramatically increased from 948 in 2006 to 1,511 in 2007, nearly 60% of increase in a year. Though it has been steadied around 1,500 per year, even decreasing a bit in 2009 largely due to removal of ‘Number of potential investors’ category, it remains that too many project are registered and managed. That has lead to the most significant problem Invest Korea is facing, the deterioration of project management standard.

Table 17 shows that, while number of S and A projects, which are supposed to be good and tangible, have grown 36.54% and 14.40% respectively from 2006 to 2009, B projects have increased 43.42%, and 200 more H project, virtually non-existing in 2006, have been registered. Though the grading procedure have toughen up, it can be argued that substantial portion of increased number of investment projects fell on B graded project, which is deemed not as promising as S or A, or even on H graded project, deemed non-gradable.

Table 17: Year-by-Year Investment Project Grading Result by Invest Korea

Grade \ Year	2006	2007		2008		2009	
		Number of Projects	Growth Rate	Number of Projects	Growth Rate	Number of Projects	Growth Rate
Total	948	1,511	59.4%	1,679	11.1%	1,479	-11.9%
S	52	80	53.8%	82	2.5%	71	-13.4%
A	257	227	-11.7%	297	30.8%	294	-1.0%
B	638	842	32.0%	1,087	29.1%	913	-16.0%
H	1	362	36,100%	213	-41.2%	201	-5.6%

Source: Invest Korea

This has affected KBCs in two ways. First, by having to register more projects, it puts extra administrative burden to KBC. Though it pushes KBCs to be more active, thus giving higher probability to develop a project, which is vilified by the increased number of S and A projects, the net value of trade-off is clearly negative. Considering the time and efforts placed on even non-gradable projects as well as highly inefficient SAP‘s CRM program used by Invest Korea, the resulting inefficiency cannot be overlooked. Secondly, given certain capacity, KBC's involvement in each project is bound to decrease. Table 18 shows that, for each project, only 'Promotion' activity, among 5 different investment promotion activities Invest Korea does, has increased, while all the other activities have decreased. Given that promotion activity is by far the easiest like event promotion and providing information, thus less time-consuming and interactive, it clearly indicates that KBCs are less inclined to do more interactive, thus more efficient project management.

Table 18: Invest Korea's Major Activities and Average Number of Activities per Project

Year		2006	2007	2008	2009
Number of Projects		948	1,511	1,679	1,479
Promotion	Total	3,706	4,592	5,990	7,119
	Per Project	3.91	3.04	3.57	4.81
Inquiry	Total	1,224	1,394	1,713	1,724
	Per Project	1.29	0.92	1.02	1.17
Visiting Investor	Total	1,245	1,147	1,414	1,504
	Per Project	1.31	0.76	0.84	1.02
Delegation	Total	1,403	1,263	1,353	1,004
	Per Project	1.48	0.84	0.81	0.68
Visit Korea	Total	507	477	499	620
	Per Project	0.53	0.32	0.30	0.42
Total		8,085	8,873	10,969	11,971
Per Project		8.53	5.87	6.53	8.09

Source: Invest Korea

3.4. Conclusion on Evaluation Frame of Invest Korea

Overall, Invest Korea's evaluation frame has several deficiencies, in spite of continuous benchmarking and internal efforts. In fact, Invest Korea has strived to improve its efficiency, including evaluation frame, not least joint research conducted by Mun (2008) to identify its "Mid-long term development strategy". Numerous more recommendations and suggestions have been put forward, but were perceived to fall on deaf ears, to people's dismay. But it is open secret that, as long as Invest Korea's goal is solely focused on the amount of investment, not bad in itself, but has nothing to do with enhancing competitiveness of Korean economy, any attempt to improve Invest Korea is destined to fail. It needs a structural overhaul, more focusing on innovation and technology.

As each country, economy, and IPA has its own circumstances, any 'cure-all' solution can be effectively ruled out, amply testified by numerous benchmarking so far. The thesis, however, turn to case study of Netherlands' IPA, Netherlands Foreign Investment Agency (NFIA), supposedly one of the leading IPAs in the world, to see how it has developed evaluation system. It is largely because the implementation of benchmarking is to blame, not the principle itself induced from benchmarking.

4. Case Study: Netherlands Foreign Investment Agency (NFIA)

Over the years, Netherlands has firmly established herself as one of the main investment destinations. It was largely due to the fact that Netherlands is one of the tax heaven countries along with Bahamas and Bermuda. Most of FDI inflows to Netherlands are simply bypassing or circumventing to receive favorable tax treatment, so it is no coincidence that Netherlands is one of the biggest outbound investors as well. In terms of investment amount, Netherlands is the third largest investor to Korea, outnumbered only by USA and Japan. Nevertheless, it must not be forgotten that Netherlands is attractive investments destination on its own, on the ground of its strategic location in Europe. Numerous multi-national companies (MNCs) operating in Europe has set up their logistics facilities in much publicized 'Gateway to Europe'.

More often than not, Netherlands has been referred as a sound benchmarking model, resulting from supposed similarities in social and economic structures to Korea. Both countries are small countries caught in a nut-cracker between regional heavyweights, not blessed with natural resources, though oil production in North Sea has played significant role in Dutch Economy, and most importantly, have opened their economy extensively to the rest of the world.

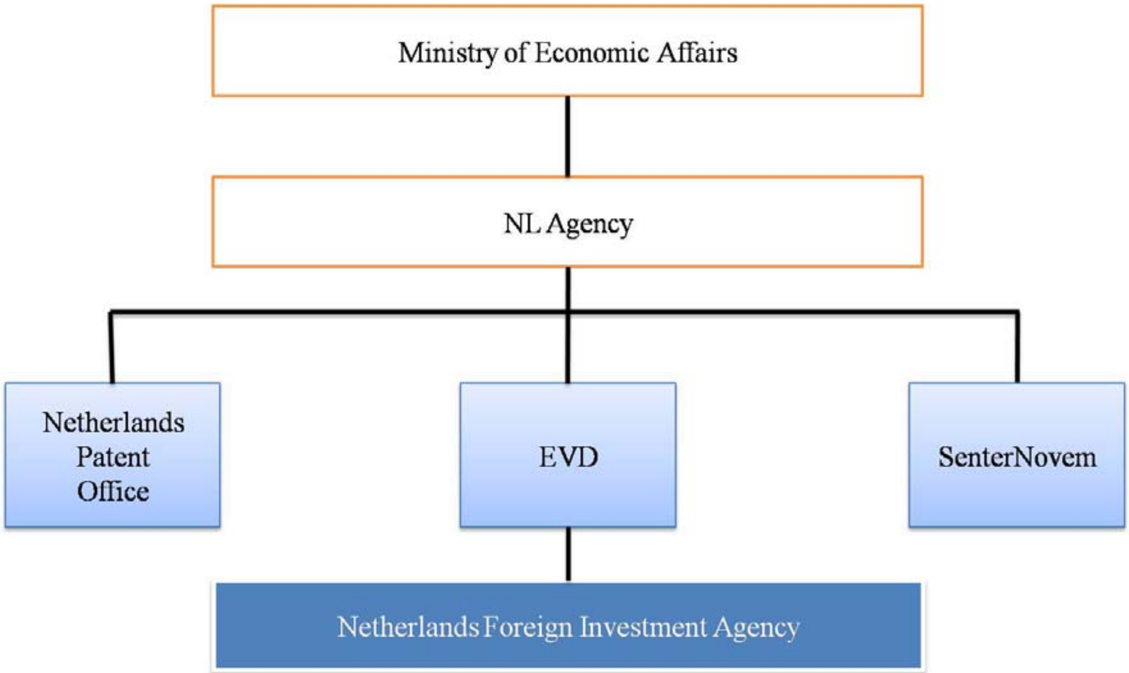
NFIA is Netherlands' national investment promotion agency, equivalent to Invest Korea in Korea. Founded in 1978 as an operational arm of the Dutch Ministry of Economic Affairs, it claims to have supported more than 2,500 organizations from 40 countries in setting up and/or expansion of MNCs. With all similarities between two countries and solid reputation NFIA has earned so far, a closer look at how NFIA operates would give Invest Korea meaningful insight how it can improve its own.

4.1. General Overview of NFIA

As a national investment promotion agency, NFIA is the only organization which runs oversea offices, representing Netherlands. As of March 2010, it runs 18 oversea offices, where around 60 staffs including locally hired personnel are working. Headquarter in Hague has six different divisions, management team, information management, project management which is divided into North American projects team and Asian & European projects team, marketing support, investment climate, and reception desk. It hires around 30 staffs.

Annual budget is around 10 million Euro in 2009, but it would have been significantly higher had those 18 overseas offices paid the office rent charges. In fact, most NFIA overseas offices are under the same roof with Dutch embassies or consulates in the region and rent charges are paid by them.

Figure 4: Netherlands' Investment Promotion System



4.2. Comparison to Invest Korea

NFIA's annual report discloses its result in 3 categories; number of projects, investment amount, and number of direct jobs. Those numbers should be taken carefully, as technical definitions are quite different from those of Invest Korea.

Table 19: Comparison between NFIA and Invest Korea

Confirmation of Result	
NFIA	Confirmation letter from foreign investor indicating that NFIA involvement has led to the company's decision to implement an investment project in the Netherlands Or In case the company is not willing to sign confirmation letter due to confidentiality or so, - intake form submission, - confirmation of investment amount and the number of jobs by email or via press release, and - confirmation of establishment by registration to Chambers of commerce or by press release, or post on its corporate website.

Invest Korea	Official registration to Investment Notification Statistics Center (INSC) - registration of project to CRM before the notification date and managed since; or, - report of investor relations higher than 3rd step (visiting investor) in the investment promotion steps to CRM
Definition of Project	
NFIA	a. Establishing a physical presence or expand/retain existing activities in the Netherlands b. by a foreign company, not being a venture capitalist, of which the ownership is for at least 50% foreign c. by incorporation of a new company or expansion thru (or by the acquisition of) an existing company in the Netherlands Or a. Outsourcing of activities such as logistics or technological cooperation (TMS) b. by a foreign company, not being a venture capitalist, of which the ownership is for at least 50% foreign c. to a provider or institute located in the Netherlands d. whereby the Netherlands is in competition with one or more European countries
Invest Korea	Any project under Foreign Investment Promotion Act (FIPA) including acquisition of shares or equity of a domestic corporation or business, provision of long-term loans to invested domestic corporations, a contribution to a non-profit organization a. Minimum investment amount of 50 million KRW b. 10% or more of the voting stocks or total invested capital owned by foreign Or In case foreign investment ratio is less than 10%, - a contract that allows dispatch or assignment of executives; - a contract for the delivery or purchase of raw materials or products for a minimum of 1 year; or, - a contract for provision or import of technologies, or joint R&D.
Number of Projects	
NFIA	Confirmed projects, which acquired 'confirmation letter' from foreign investor Complete project are not counted as an official result - investment of less than 500,000 Euro or less than 5 new jobs - insufficient involvement from NFIA - confidentiality
Invest Korea	Number of projects registered to CRM - graded S, A, and B, excluding H
Investment Amount	
NFIA	a. Confirmation letter from foreign investor, indicating therein what investment amount the company expects to realize within 3 years b. Per project, 3 year projection by investor

Invest Korea	a. Official registration to Investment Notification Statistics Center (INSC) b. Year-by-year count
Number of Direct Jobs	
NFIA	a. Confirmation letter from foreign investor, indicating therein how many direct jobs the company expects to realize within 3 years b. Per project, 3 year projection by investor
Invest Korea	a. No specific rule for job creation / retention

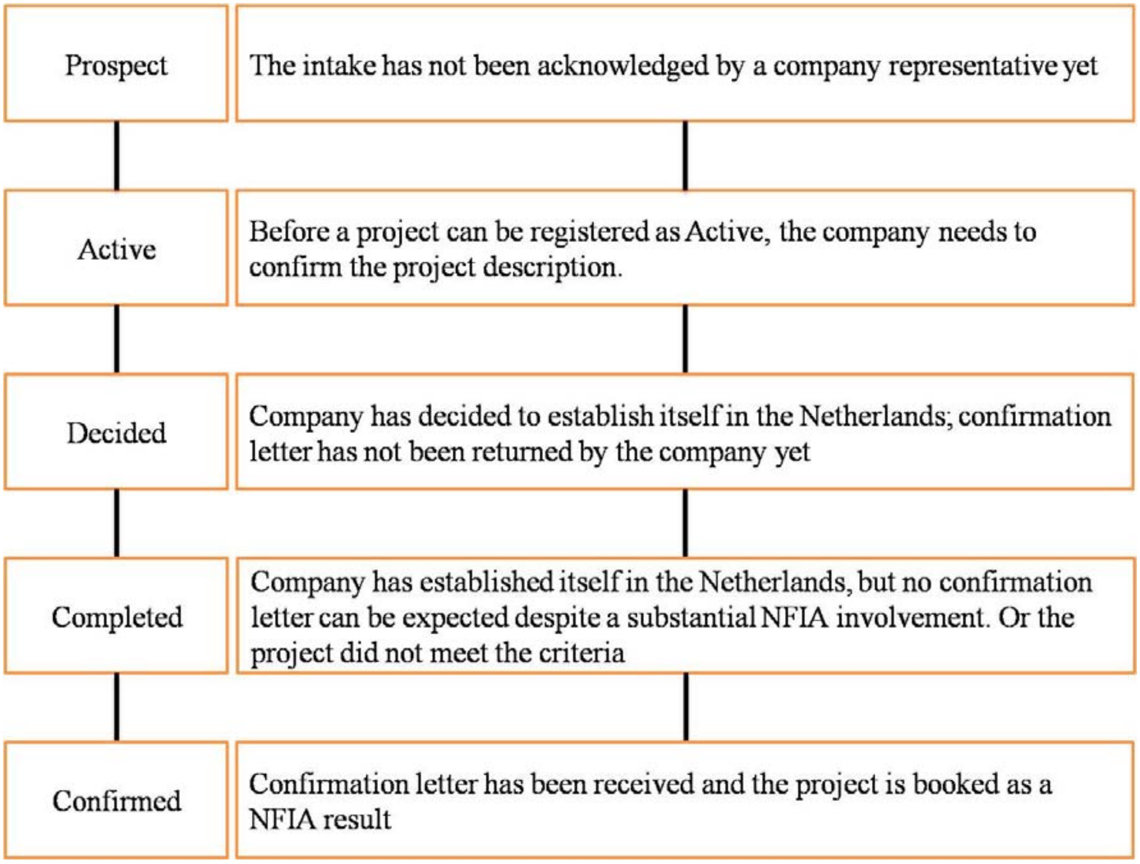
Source: NFIA, NFIA Annual Report 2010, Invest Korea

To claim credit, NFIA is obliged to acquire a confirmation letter from foreign investor, indicating that NFIA involvement has led to the company's decision to implement an investment project in the Netherlands. This is by far stricter than Invest Korea, where any investment can be claimed as long as they were registered and managed by its own CRM system, regardless of IK's role in investment decision. This disparity partly accounts for the massive difference in investment amount result, which will be shown later on.

Another contributing factor in smaller investment amount is a scope of investment project. While IK abide by generally accepted definition of FDI, set by United Nations Conference on Trade and Development (UNCTAD), NFIA uses narrower definition, which excludes large number of projects that otherwise would have been credited. The most important character of project is competition with one or more European countries. This clause effectively rules out considerable number of projects in retail or most of service industries such as real estate development where domestic consumption is main target. The rationale is that it would come anyway, with or without support of NFIA, so it will not be counted as a proper project. The other important character is minimum requirement of 50% share. This clause deviates from usual FDI definition of 10% shareholding, but NFIA insists to have majority share in order to guarantee long-term economic relationship. Acknowledging outsourcing of activities is also noticeable, since it sometimes does not generate any monetary transfer, but is still deemed to be as important to economy as normal FDI.

Quantitative evaluation of project is done in both organizations. NFIA counts confirmed projects, which successfully acquired confirmation letter from investor. Meanwhile, Invest Korea does not count just the number of projects, but grade each project in accordance with its own system. Thus, IK evaluates not only the number, but also quality of project at once. More importantly, however, the status in which the project is counted differs. It is only when the project has been realized, and established that NFIA can claim its credit, whereas Invest Korea looks potential project, equivalent to 'Active' status in NFIA. This has led to criticism to Invest Korea regarding the integrity of a project, on the ground of a lack of significant involvement to the realized project, not more so than projects from financial institutions.

Figure 5: Project Management Process in NFIA



Source: NFIA

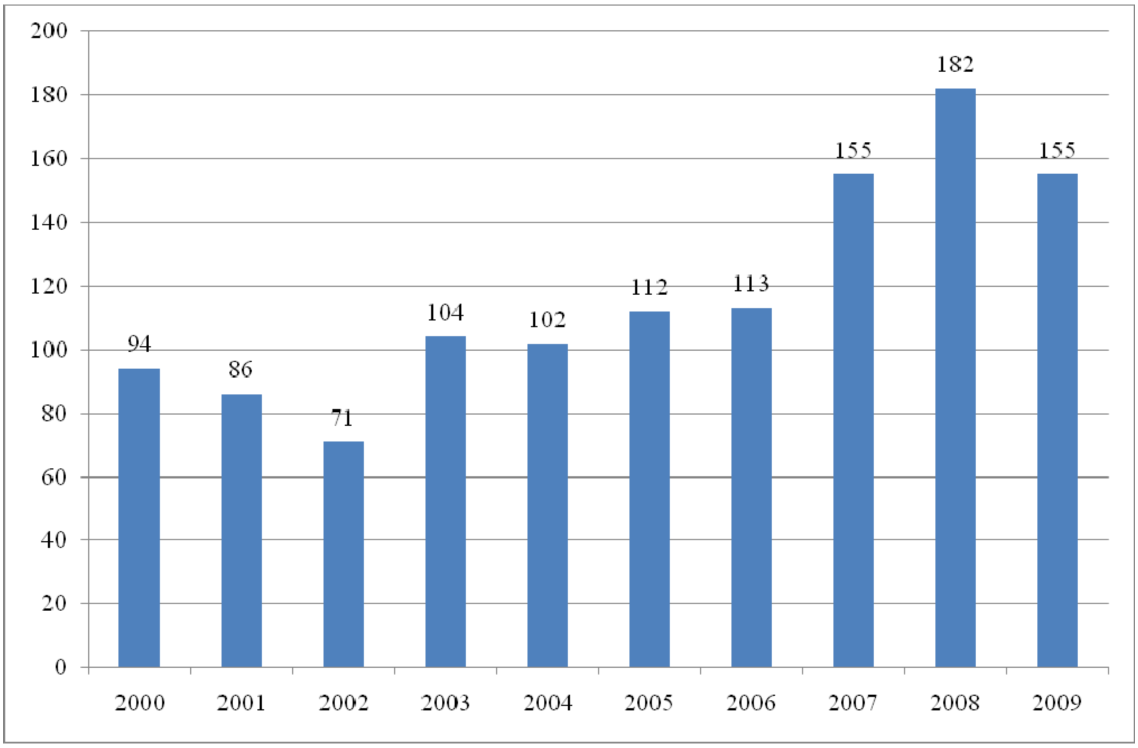
Investment amount is relatively straight forward criteria. While NFIA looks at projected amount for the next 3 years, Invest Korea strictly recognizes the notified amount to Investment Notification Statistics Center (INSC), Korea’s official FDI statistics desk, on year-by-year basis. Though projected amount does not guarantee the actual investment amount, especially when the economic climate is rapidly changing, as is last couple of years, it is plausible for NFIA to assume that the confirmation letter is to be written with good faith at the time of writing. So long as the actual investment amount does not deviate greatly from its projection, in fact, it should converge in the long-run, the difference is negligible.

It is an anomaly to a certain extent that Invest Korea does not count the number of direct jobs, as it is regarded one of the core added-values to IPAs, let alone NFIA. Though fully aware of the importance of job creation, intensified by ever-increasing unemployment rate and instability in the job market, Korean government has failed to set a concrete target. While technically tricky to measure the full extent of direct jobs created or retained by FDI - for example, if an investment project with 10% of foreign shareholding creates 100 direct jobs, it is debatable to determine the impact of FDI at either 100, full number of job creation, or 10, in proportion to foreign shareholding. But it is not impossible, and NFIA and other IPA's cases prove that it is not as controversial as it seems. NFIA's stricter definition of FDI can be handy, for example, as full number can be credited on the basis of the majority shareholding requirement.

4.3. Recent Result of NFIA

Bearing those differences in mind, NFIA's recent results are rather modest. The number of project is not comparable, as NFIA does not reveal the number of projects under their management. But the number of confirmed projects is significantly lower, averaging 117.4 projects per year for the last decade. It is in gradual upturn, though unprecedented economic turmoil has dented the trend in 2009.

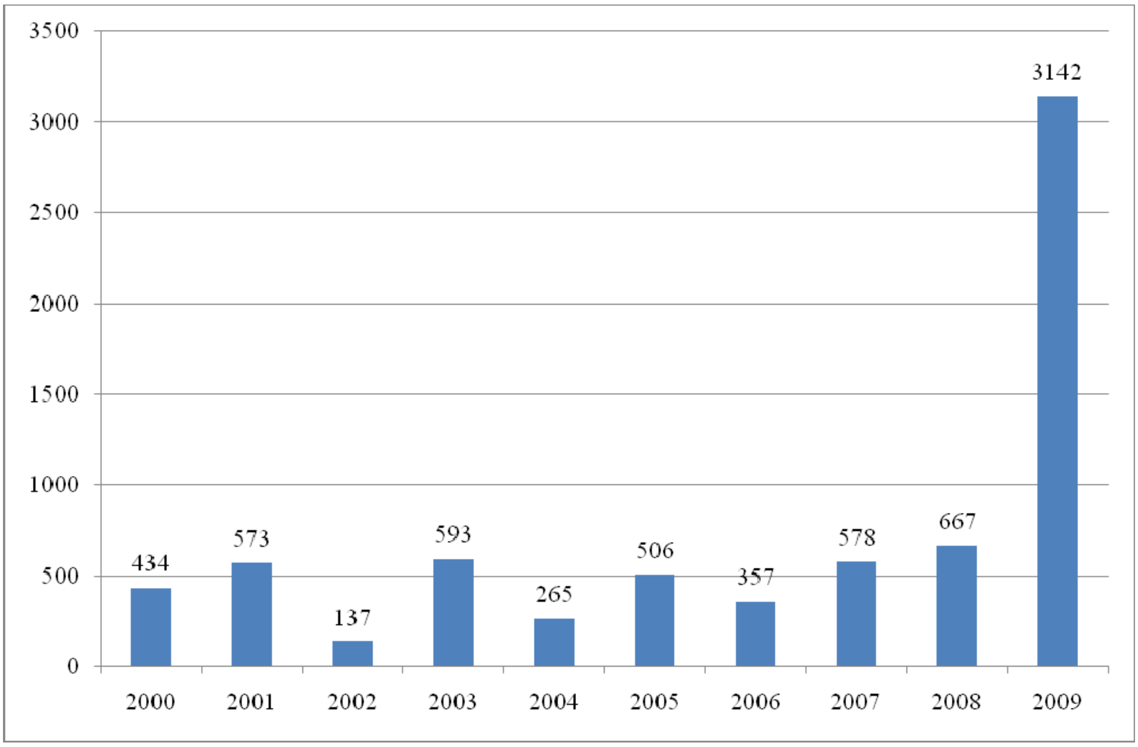
Figure 6: Number of Confirmed Projects Supported by the NFIA on a Yearly Basis over the Period 2000-2009



Source: NFIA Annual Report 2010

The average investment amount is 725.2 million Euro per year. But if the exceptionally high figure of 2009, accounted for by the realization of two very capital intensive investment projects, are to be excluded, then the average investment amount goes down to 456.7 million Euro per year. This is where the most striking difference between Invest Korea and NFIA lies, as Invest Korea claims ten fold as much as NFIA. It is mainly down to by far stricter rule of acknowledging the credit rather than Invest Korea's superior efficiency.

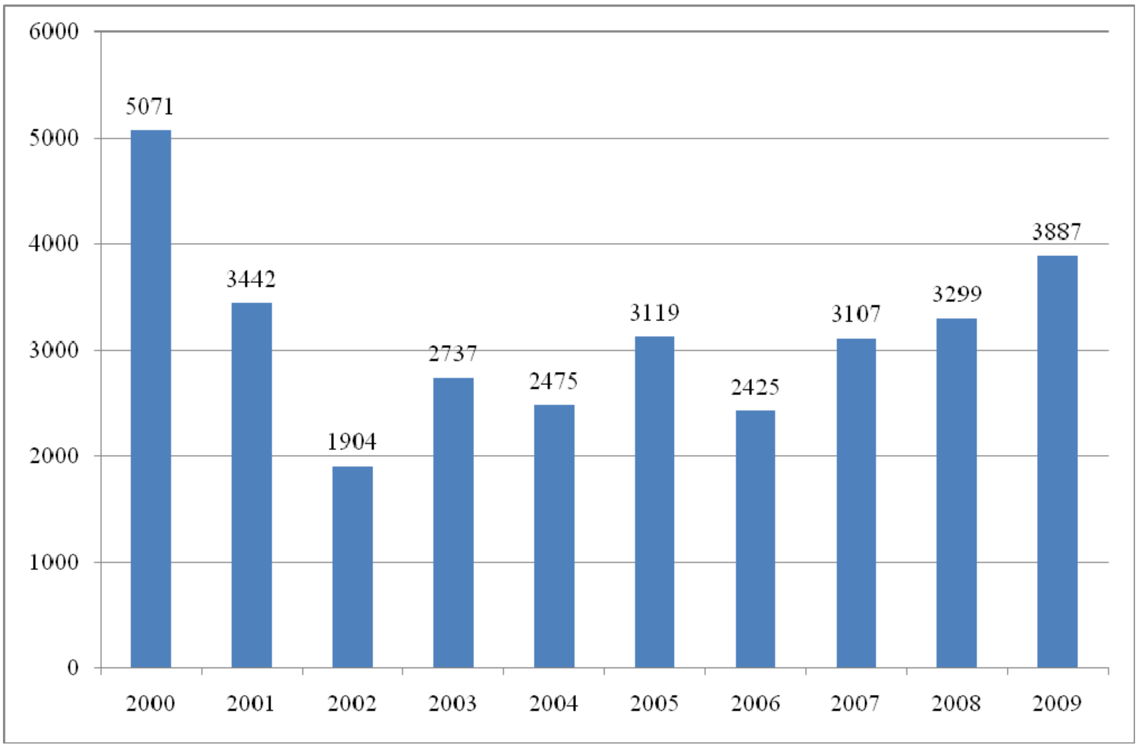
Figure 7: Investment Amount in Million Euros on a Yearly Basis over the Period 2000-2009



Source: NFIA Annual Report 2010

The number of direct jobs is only applicable to NFIA, as Invest Korea does not count job creation or retention. Those numbers include not only direct job creation by initial investment, so-called 'Greenfield investment', but also additional job by 'Brownfield investment', such as expansion of an existing activity, addition of a new activity to an existing company, and even retention from potential closure or downsizing due to restructuring processes. It is hardly surprising that job creation is one of main pillars of NFIA, given the dire strait of general employment situation in Western Europe, where unemployment rate has been chronically high.

Figure 8: Number of Direct Jobs on a Yearly Basis over the Period 2000-2009



Source: NFIA Annual Report 2010

4.4. Evaluation System in NFIA

4.4.1. External Evaluation

NFIA's target is mandated from the Ministry of Economic Affairs, where overall FDI policy is designed. 3 main targets are set in the form of number of confirmed projects, investment amount, and number of direct jobs. These categories are consistently quoted in its annual report as well. As of 2010, 130 confirmed projects, 400 million Euro of investment amount, and 2,500 direct jobs are identified as an annual target. Usually, those targets are set by Ministry of Economic Affairs, later reviewed by NFIA, and finally negotiated. With no explicit target for national FDI, unlike Korea, it is always subject to negotiation depending on its annual budget, economic climate and so on. It is quite a contrast to Invest Korea, which has very strict top-down approach, with Foreign Investment Committee being driving force to determine the target.

Consistency, simplicity, clarity of the targets must be applauded, as those provide any organization with much needed stability and focus. The three targets have been used for some years without major overhaul, and easy to be delivered and shared within organization. Invest Korea's targets are, however, frequently changing, too diverse and somewhat ambiguous, as is shown in Table 11 and 12. But the most damaging are irrelevant targets such as customer satisfactory survey. With its budget and personnel at stake, Invest Korea cannot be blamed for using enormous resources on irrelevant targets, though those resources can easily be re-directed to enhance its efficiency.

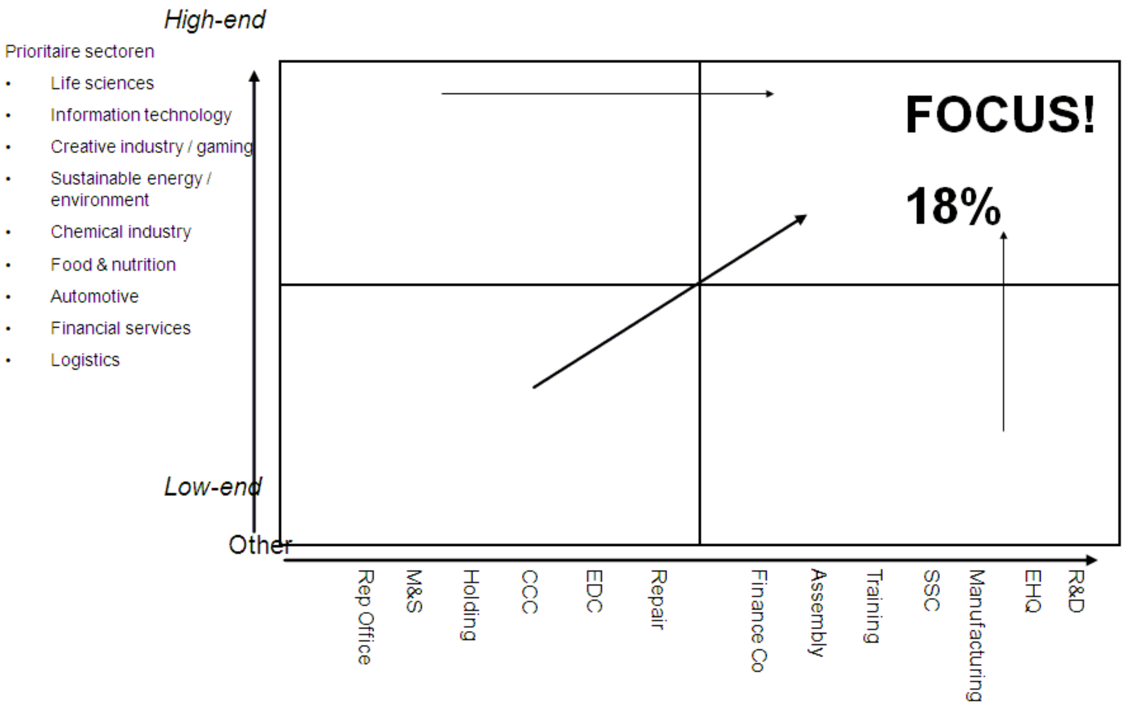
4.4.2. Internal Evaluation

It is this area where the biggest difference between NFIA and Invest Korea lies. As shown in Table 19, NFIA is adopting by far stricter rule for claiming credit, as well as endorsing longer term project management by recognizing projected estimation for investment amount and job creation up to 3 years.

5 main categories, with equal weight, are used to evaluate each NFIA overseas office's performance. Obviously, 3 main institutional targets, number of confirmed projects, investment amount, and number of direct jobs, are included and supplemented by number of new intakes as well as proportion of number of projects in targeting area. Targeting area can be defined as a certain types of function, like R&D, European headquarter (EHQ), manufacturing, shared service center (SSC), training, assembly, and financial corporation in prioritized sectors such as life sciences, information technology, creative industry, and logistics, etc. Those focus areas have been identified as having the

most positive impact on Dutch economy, so that special attention should be paid. As of 2010, at least 18% of all projects should fall on the targeting area.

Figure 9: Prioritized Sectors in NFIA



Source: NFIA

5. Summary and Conclusions

Initially regarded as a reliable source of foreign reserve, while understandable considering how desperate Korean economy was in the middle of crisis, the attention on FDI has been somewhat re-directed to more strategic aspects such as technological transfer. And there are broadening views that those impacts can trigger another step up for the Korean economy, which is somewhat stagnated for the last decade. That is precisely why, despite wide criticism on globalization which MNCs are more than happy to exploit and financial instability it may bring, there is no doubt that the current trend that puts FDI in the center of economic development policy will go on at least for the foreseeable future. Invest Korea, as a national investment promotion agency, will inevitably be asked to lead the front line. So far, compared to NFIA, Invest Korea's performance seems to be either immeasurably good, or severely distorted. And the thesis argued that the latter is more likely. The distortion, largely due to its flawed evaluation frame, have damaged Invest Korea's efficiency substantially lot and need to be rectified sooner than later. Several suggestions can be made with regard to it.

5.1. Reducing the Number of Projects

As already discussed, the average number of projects per staff in Invest Korea is much higher than that of NFIA, resulting in insufficient support to each project. First and foremost blame should be on external evaluation frame which requires around 1,000 projects per year. But equally, the ever-increasing internal target should share the blame, as it forces KBCs to manage more than their fair capability.

Substantial reinforcement in budget and personnel is highly unlikely when downsizing is the order of the day in public sector. Thus, it is necessary to reduce the total number of projects significantly. Unofficial poll by Invest Korea in early 2009 revealed that less than half of investment managers allocate more than 50% of their working time in investment promotion, whereas around quarter replied less than 30% or so because of extra duties like marketing, market scan. Conservative estimation can lead to the conclusion that around 60 investment managers, 30 full time investment managers from headquarters, which is half of total number, and 30 full time local staff, are working on about 1,500 investment projects. Compared to NFIA, where 1,000 investment projects are managed with more or less same number of personnel, it is 50% higher. It is no wonder then the quality of investment promotion activities differ as such. There is no way for Invest Korea to maintain the status quo without sacrificing the efficiency. If not one third, matching NFIA level, at least 20% of decrease is inevitable to boost the overall efficiency.

5.2. More Focus on Strategic Sectors

It is no surprise that every KBC is frustrated by continuous dissonance between R&D, innovation rhetoric and evaluation frame focusing on investment amount. Then it is of absolute importance to have affordable and consistent system to accommodate bigger dedication to R&D and innovation.

UK Trade & Investment, United Kingdom's trade and investment promotion agency, offers a good benchmark. It has been running a Comprehensive Spending Review (CSR) settlement, which requires UKTI to prioritize and deliver the targets. According to the latest one, CSR 2007 which covers the period of 2008-09 to 2010-11, it sets 5 targets, 4 in delivery targets and the other in operational performance target.

There are 2 FDI related targets, all of which focus on innovation. Target 1, which stipulates UKTI to attract high value foreign direct investment to the UK, requires UKTI to achieve at least 525 involved inward investment project successes annually, of which: (a) at least 125 should be high value; (b) at least 285 should be good quality; and (c) at least 70% should agree that UKTI or its regional development agency (RDA) partner had significant favorable influence on the decision to locate or expand in the UK, or on the scale or scope of the project. And last but not least, minimum 30 of the good quality or high value projects should involve additional R&D activity in the UK. 'High value' and 'good quality' projects refers what have been identified by academic research as likely to be associated with a positive impact on UK productivity, in particular through knowledge spillovers and increases in knowledge intensive economic activity in the UK. Usually, if the project has R&D as the main focus, or offer something new to the world, to the sector, or to UK business models or technical processes at the site, it is generally accepted as 'high value' or 'good quality'. Meanwhile, Target 3, which stipulates UKTI to increase the quantity of R&D activity in the UK through business internationalization, requires at least 1,000 businesses increase their R&D activity in the UK as a result of UKTI support, including at least 70 FDI R&D projects.

Like NFIA, these targets are supposedly implemented to boost promotion activities in strategic sectors. Without it, there is no guarantee the actual benefit of FDI can be fully materialized, especially given amount-oriented evaluation frame.

It is not that Korea is indifferent to innovation and R&D aspect of FDI, but rather, improperly implemented evaluation frame has continuously failed to provide enough incentive or mandate to pursue it. Invest Korea has long been arguing that those factors should be included in its evaluation frame, most recently in its 'Mid-long term investment promotion improvement plan' at the end of 2009. There, it suggested two models, albeit vaguely.

Performance Evaluation = β + β_1 (Investment Amount) + β_2 (Job Creation) + β_3 (Number of Projects in Strategic Industries) + β_4 (Service)

Performance Evaluation = β + β_1 (Investment Amount + Number of Projects) + β_2 (Job Creation + Increase in Consumption) + β_3 (Number of Projects in Strategic Industries +

R&D Activities) + β_4 (Service + Ombudsman)

Technical issues including accuracy of estimation and difficulty in quantification of qualitative indicators remains unsolved. More importantly, no model is proved to be dominant over the other yet, but at least any attempt to deviate from current amount obsessed frame will not only be whole-heartedly welcome by Invest Korea but enable Korea economy to get the best out of FDI.

5.3. Practicality of Target

Korean government's ambitious plan in 2007 to double the FDI amount was painfully ill-timed, as it was announced just before the worst economic crisis since the Great depression. Equally baffling was its deliberate ignorance of changing economic climate and consequent inflexibility, in spite of the clear indications from everywhere that it is not possible to achieve the target. That persistence has mirrored to Invest Korea, so that the national investment amount target, which in turn determines Invest Korea's target, increases every year in double digit, regardless of economic climate. Even project management target, counted by points, increases every year, as if it does rather naturally like inflation.

It is obvious that the investment cannot increase for good and even more so in economic turmoil in last 2 years. Furthermore, project management cannot be expanded, not to mention without reinforcement.

There is some part of truth that the more ambitious target will lead to better performance, as it will definitely push the organization harder. But there is also a critical point where the ambition and hardship take its toll, and rational planning and practicality prevails. It is the latter that Korea needs more, so does Invest Korea.

$$\text{FDI Performance Index} = \frac{[(\text{National FDI Inflow}) + (\text{Worldwide FDI Inflow})]}{[(\text{National GDP}) + (\text{Worldwide GDP})]}$$

The most commonly used cliché to justify more FDI in Korea is the FDI performance index, the relative ratio of FDI inflow to gross domestic production (GDP), in which Korea ranks 130th. Despite the general tendency that FDI performance ratio is lower in a developed country, particularly for big economy such as Japan(135$^{th)}$, Germany(108$^{th)}$, and USA (115th), it does not bode well with Korean government, as other Asian economic powerhouses like Hong Kong, ranked no lower than 1st, and Singapore (7th) are doing well. Rather more powerful argument is the proportion of FDI stock to GDP, where Korea is significantly lower than worldwide average. But again, this figure must be read with caution, since different conditions like as economic policy, development stage, and economic structure are all decisive factors in FDI, so that there is no golden rule for FDI. Thus, it is imperative to realize that absolute number term is not as important as it is perceived, but having a right policy and implementation plan is.

Table 20: FDI Proportion to GDP

Country	Proportion (%)	Country	Proportion (%)
USA	15.1	China	10.1
Britain	48.6	Hong Kong	573.0
Germany	19.0	Japan	3.0
EU	40.9	**Korea**	**12.3**
Developed Countries Average	**27.2**	**Worldwide Average**	**27.9**

Source: Ministry of Knowledge Economy

5.4. Conclusions

The thesis has maintained that, in spite of impressive performance record so far, the evaluation system in Invest Korea is flawed, externally and internally. Inconsistency and irrelevancy have played big role, failing to provide Invest Korea with solid platform to maximize the positive impact of FDI. It turned out that the evaluation system is quite impotent that it fails to lead KBCs to right direction, and its weak linkage to the core value of FDI exposed serious lack of proper strategies.

Several recommendations have been put forward to improve the efficiency of Invest Korea. Reducing the number of projects will enhance the quality of investment promotion activities, while more focus on strategic sectors would lead to the development of ‘high value’ and ‘good quality’ project. Finally, rational and practical targeting can pave a way for right policy and implementation plan.

Finally, it should be stressed that, in spite of numerous academic researches, the causality between FDI and national competitiveness, which this thesis assumed, is not as robust as it is generally perceived. Thus, any attempt to reform Invest Korea should be preceded more rigorous studies on the real impact of FDI. And further research focusing on more technical side of accommodating multiple variables into evaluation frame will complement the thesis well.

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