KPMG Consulting

Foreign Direct Investment in Korea (Summary Report)

September 2001

Table of Contents

List of Tables

List of Figure

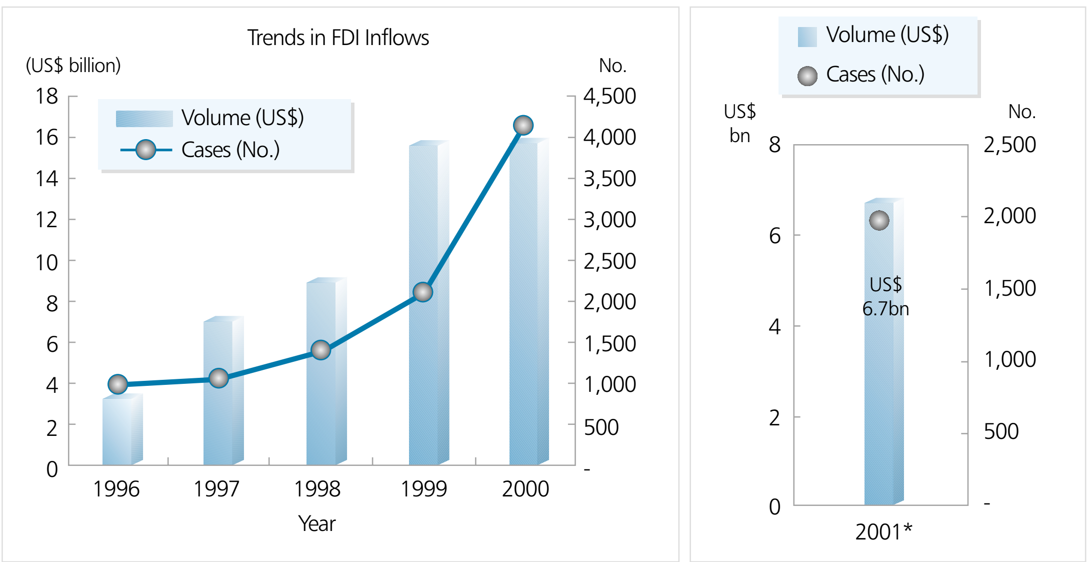
Foreign Direct Investment in Korea

1. Foreign Direct Investment in Korea (FDI)

Increase and Diversification in Foreign Direct Investment

FDI inflows into Korea began to rise steadily with the onset of the 1990s and increased sharply after the foreign exchange crisis of 1997.

[Figure 1-1 FDI Inflows]



Note: Based on notified figures 2001: January to June*

Source: Ministry of Commerce, Industry and Energy

The sharp increase in foreign direct investments since 1997 was due to the favorable investment environment, depreciation in the local currency and asset values, Korean government's promotion of investment through deregulation, increased number of company offerings as a result of corporate re-structuring and privatization of government owned companies.

The amount of investments increased from US$6.97 billion at the end of 1997 to US$8.85 billion in 1998, US$15.5 billion in 1999, US$15.69 billion in 2000, while the number of investments also rose sharply from 1,055 investments in 1997 to 1,399 in 1998, 2,102 in 1999 and 4,140 in 2000. This trend continued in 2001 with FDI inflow from January to June amounting to US$6.7 billion, a 16.7% increase compared to the same period the previous year, while the number of investments rose to 1,966 which is roughly the same level as the year before.

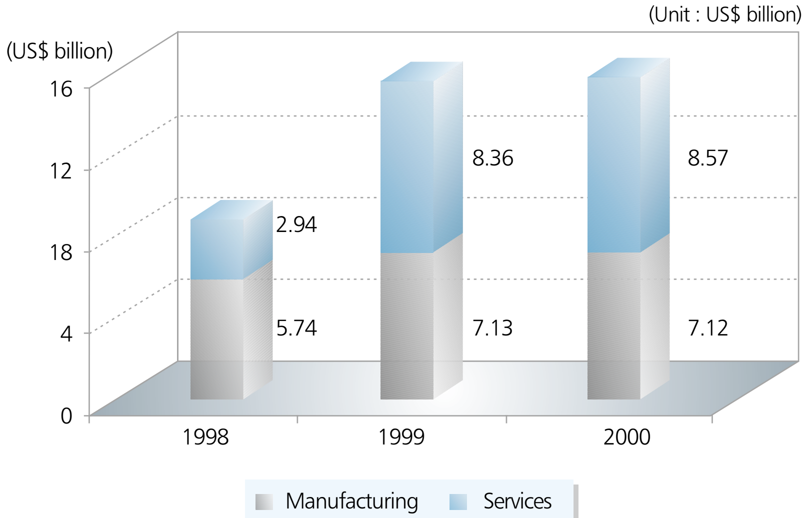
With regard to the trends in investment size the proportion of small investments of less than US$5 million has steadily increased. This may be the direct result of decreases in large-scale investments such as mergers and acquisitions following the reduction of such opportunities since Korea's recovery from the financial crisis.

Hence, the increase in small to medium sized investments is an indication of stability in investment growth.

Increased Foreign Direct Investment in the Service Industry

With regard to investment trends by industry, directly after the foreign exchange crisis in 1998, investment in the service industry slowed down as a result of a downturn in domestic consumption. However, with the recovery of the Korean economy and opening of the service industry to overseas competitors, investment in the service industry increased from 33% (US$2.94 billion) in 1998 to 53.8% (US$8.36 billion) in 1999 and 54.6% (US$8.57 billion) in 2000.

[Figure 1-2 Investment Volume Trends by Industry]



Note: Based on notified figures

Source: Ministry of Commerce, Industry and Energy

Following the sharp slow down in the domestic economy in the crisis year of 1998, foreign investment in market-sensitive industries such as construction, wholesale/retail and lodging decreased dramatically. On the other hand, financial services and insurance industry experienced a sharp increase in foreign investment due to the government's easing of foreign investment restrictions and restructuring activity that was then underway.

Investment in the finance and insurance industry continued to grow until 1999, but have slowed down since 2000, mainly due to the completion of the restructuring process. Increase in domestic demand, however, has brought about another increase of investment inflow to wholesale/retail, lodging and various other service industry segments.

From 1998 to 2000, investment in the manufacturing industry was largely focused on major domestic industries such as electrical/electronics, machinery and chemicals. One of the main reasons for this may be attributed to the fact that the Korean government had sought foreign investment to these industries as a means of restructuring in order to ensure their continued competitiveness. The 1999 LCD joint venture between Phillips and LG Electronics worth 1.6 billion won is a good example of such large scale investments.

In 2000, investment in the electrical/electronics industry became dominant, reflecting the attraction of IT businesses as investment targets. Investment in the machinery industry also increased greatly while investment in the petrochemical and food industry declined.

Diversification of Investor Base

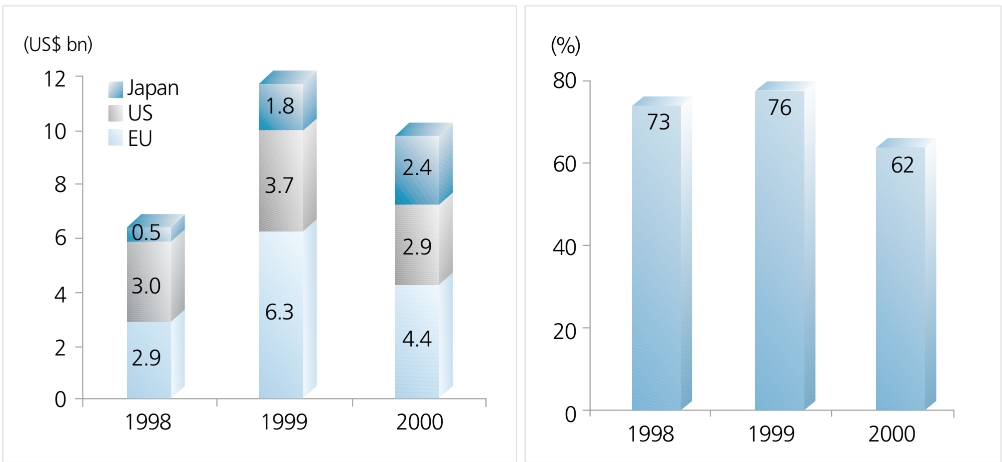
Out of total foreign investment, the proportion of US investment has decreased since 1997 while that of Japan has been rising significantly. Japanese investment increased three-fold in 1999 compared to the year before. This is viewed to be the result of "greenfield" investments and the forming of strategic alliances between Korean and Japanese companies during 1999.

The proportion of European investment in 2000 decreased somewhat compared to the previous year due to the relatively sharp increase in investment by Japanese companies. However, the actual amount of inflow from Europe has steadily been increasing.

Recent foreign direct investment trends have become more diversified. Once dominated by American companies, FDI is now more evenly distributed between the United States, Europe and Japan. In addition, their contribution to total investment has decreased, falling from 73% in 1998 to less than 62% in 2000.

[Figure 1-3 FDI by Region]

(Unit: US$ billion, %)



Note: Graph on the right shows percentage of total investment by the United States, Europe and Japan

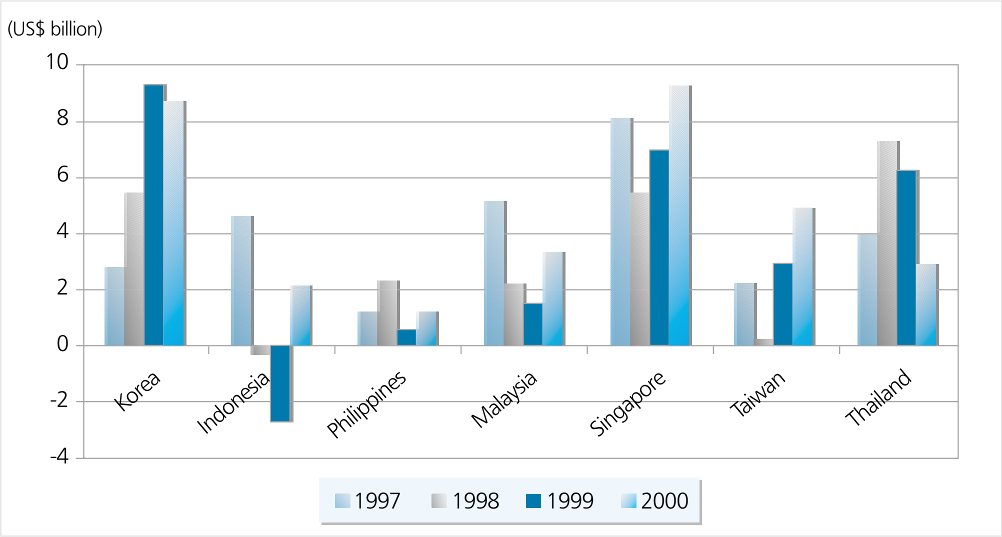
Source: Ministry of Commerce, Industry and Energy

Comparisons with Asian Countries

Indonesia and Malaysia that similarly went through foreign exchange crises similar to that of Korea have since experienced decreased foreign investment. Unlike these countries, foreign investment in Korea has been increasing.

Foreign investment decreased in these countries due to political instability in the case of Indonesia and restrictive policies such as capital controls in the case of Malaysia. On the other hand, Korea experienced a substantial increase in foreign investment as a result of its various open economic policies (M&A liberalization, investment deregulation), investment promotion policies (increased investment incentives, support for investment promotion activities) and the emergence of a positive attitude among the general public towards foreign direct investment.

[Figure 1-4 Asian FDI by Country]



Note: Amount based on BOP (Balance of Payment - total inflows less investment withdrawals)

Source: EIU, "Viewswire", 2001

2. Geographical Location & Market Opportunities

Market potential is an economic environmental factor that can exert a powerful influence on investment-making decisions. Korea's market potential can be measured using indicators such as geographical location and population, GDP and GDP growth rate, and the volume of trade.

Gateway to East Asian Markets

Korea is the gateway to the East Asian market, lying between the two giant markets of China and Japan. Korea is the center of a 2 billion strong Asian market including the 500 million consumers of ASEAN countries. Also, through the joint effort of North and South Korea to restore the Seoul-Euiju railroad, the Korean peninsula will play a critical role in connecting East Asia with Europe. If this line is connected to the Trans-Siberian railroad, it is expected to create substantial synergy through the connection between the Eurasian and Pacific economies.

In June 2001, China finalized bilateral negotiations with EU and the United States to gain accession to the World Trade Organization (WTO), increasing the likelihood that it will join the WTO within the year. It is anticipated that China will play an active role in the development of world trade. In consideration of the fact that Korea's trade with China is rising rapidly from year to year, increasing by 38.5% from US$ 22.55 billion in 1999 to US$ 31.25 billion in 2000, it is also expected that Korea will play an important role as a base for making inroads into the growing Chinese market.

Korea recorded US$ 241.9 billion in trade in 1999, comprised of US$133 billion in exports and US$108. 9 billion in imports. This is the 13th largest in the world and only after Japan and China within the region, thereby posing great market opportunities. The proportion of trade with the United States, Japan and China comprise over 60% of the country's total trade, while trade with Asian countries is at 57.5% (in 2000). Therefore, this suggests that Korea is an attractive strategic location for making inroad into the Asian market.

[Table 2-1 Korea's Major Trading Partners]

(Unit: US$ 100 million)

Ranking	Country	Export	Import	Trade Volume	Proportion of total trade(%)
1	USA	376.1	292.4	668.5	27.4
2	Japan	204.6	318.2	522.8	21.4
3	China	184.5	127.9	312.4	12.8
4	Taiwan	80.2	47	127.2	5.3
5	Hong Kong	107	12.6	119.6	4.9

Note: Figures for 2000

Source: Ministry of Foreign Affairs and Trade, "Statistics of Major Economic Indicators", 2001

Population and GDP, Market opportunities by GDP growth rate

As of 2000, Korea's total population stood at 47.3 million. GDP amounted to US$458.6 billion ranking fourth in Asia, after Japan, China and India.

Korean GDP underwent steady growth in 1996 (6.8%) and 1997 (5%). In 1998, though it took a downturn (-6%) as a result of the foreign exchange crisis. It rebounded in 1999, to grow by over 10% and close to 9% in 2000, so indicating the fast recovery of the Korean market.

Asian GDPs have been growing steadily since 1996, but in 1998 many countries experienced negative growth because of the foreign exchange crisis. However, these countries are showing signs of recovery. Of the five countries that suffered most severely because of the crisis (Korea, Indonesia, the Philippines, Malaysia, Thailand), Korea has undergone the fastest recovery, so representing superior market opportunity.

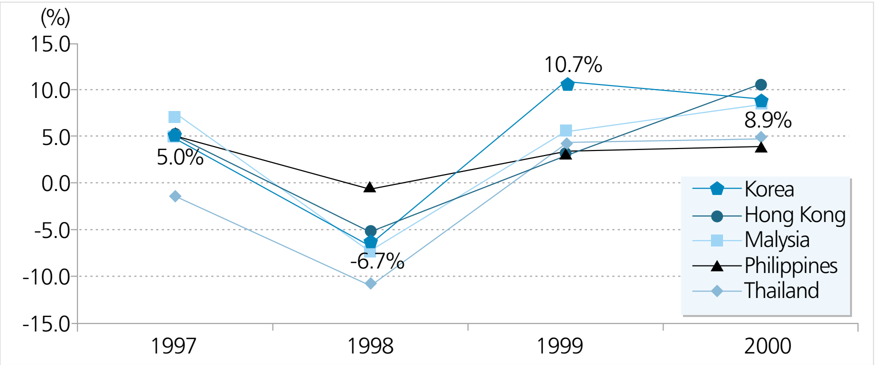
[Table 2-2 Top 5 Asian Economies by GDP]

(Unit: US$ billion)

	Japan	China	India	Korea	Taiwan
2000	4,782.5	1,097.7	483.7	458.6	321.8

Source: EIU, "World Investment prospects", 2001

[Figure 2-1 Asian GDP Performance by Country]



Source: EIU, "World Investment Prospects", 2001

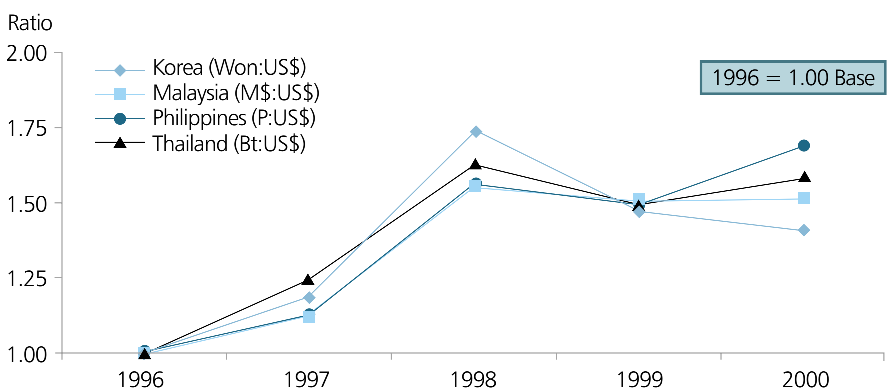
3. Economic Environment

On the basis of criteria such as exchange rate fluctuations, current account balance, foreign currency reserves, foreign debts and inflation, the country is undergoing a dramatic recovery from the financial crisis of 1997 compared to other Asian countries as a result of the Korean government's efforts to boost the economy.

Stabilization of Foreign Exchange Rate Fluctuations

The foreign exchange crisis of 1997 resulted in the devaluation of many Asian currencies, including Korea's, during 1997 and 1998. These currencies recovered and stabilized with each country's economic recovery. However, in 2000, the currencies of Indonesia, Philippines and Thailand underwent sharp devaluations. Korea's currency, on the other hand, has proven much more stable, undergoing fluctuations of less than 10%.

[Figure 3-1 Exchange Rate Fluctuations]



Note: With exchange rate of 1996 as base (=1)

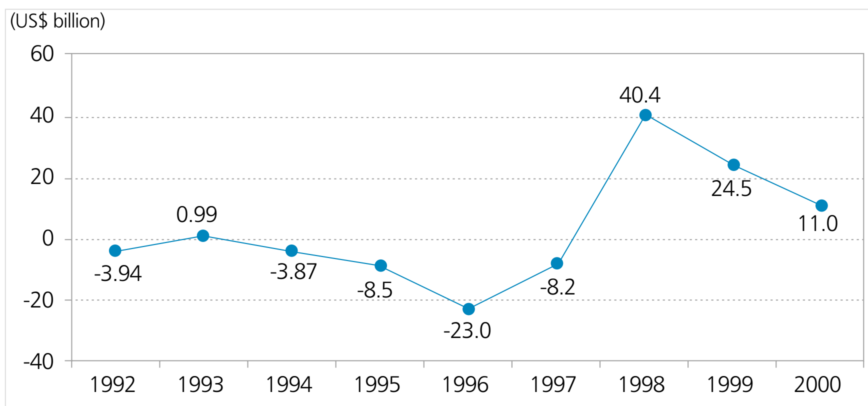
Source: EIU, "Viewswire", 2001

Current Account Balance Surplus and Increases in Foreign Currency Reserves

Through the early and mid-1990s, Korea's current account balance was in deficit. However, the situation turned around dramatically in 1998 when the current account balance recorded a surplus of US$ 40.4 billion. This was due to decrease in import demand and a sharp increase in exports after the foreign exchange crisis. In 1999 and 2000, Korea experienced yet another current account surplus due to a remarkable export performances in computers, semiconductors, communications equipment and IT products. Surpluses in 1999 and 2000 amounted to US$24.5 billion and US$11 billion, respectively.

[Figure 3-2 Current Account Balance]

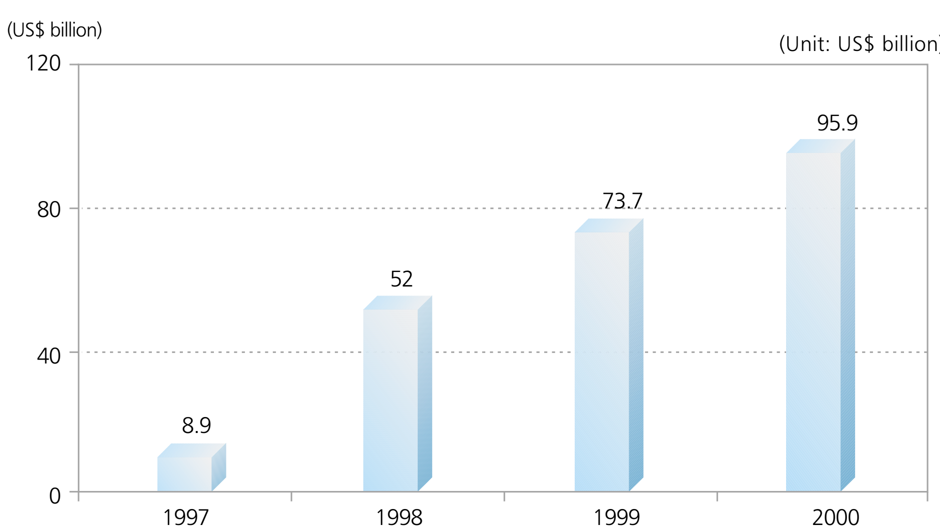
(Unit: US$ billion)



Source: Bank of Korea

Korea's foreign currency reserves dropped sharply to US$ 8.9 billion in late 1997 to trigger the country's foreign exchange crisis. They have since then improved significantly rising to US$95.9 billion in 2000 due to foreign investment capital inflows and government's effort to improve exports. In fact, reserves now stand ten times higher than they did during the crisis.

[Figure 3-3 Korean Foreign Currency Reserves]



Note: Gold excluded

Source: Bank of Korea

Decrease in Foreign Debts

Total foreign debt has been shrinking rapidly since the foreign exchange crisis. In particular, the short-term loan proportion of total foreign debt has decreased, indicating the overall improvement in debt management. The country's ability to raise overseas financing is more secure since Korea became a net foreign creditor.

[Table 3-1 Trends in Foreign Debt and Credit]

(Unit: US$100 million)

	End of Sept. 1997	End of 1999	End of 2000	End of Mar. 2001
Total foreign debt [1]	1,805	1,371	1,363	1,298
Short-term loans (%)	981(54.4)	392(28.6)	442(32.4)	424(32.7)
Total foreign credit	1,113	1,454	1,669	1,619
Net credit	⊿692	83	306	321

Note[1]: IMF standard total foreign debt

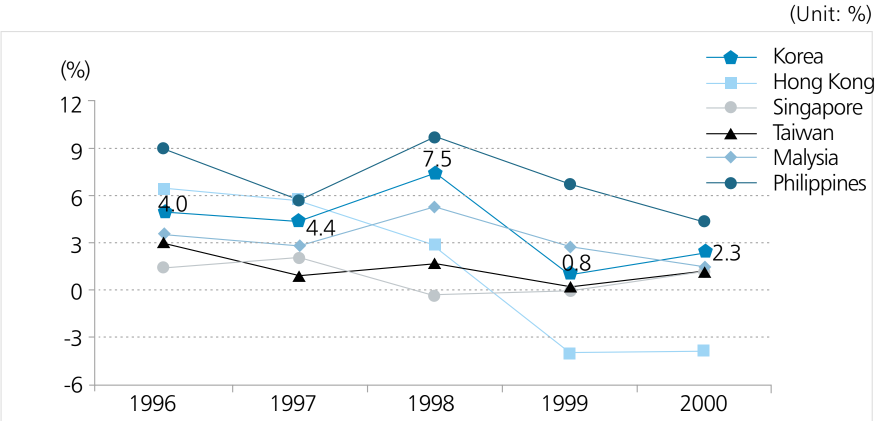
Source: Ministry of Finance and Economy

Stabilization of Inflation

Korean consumer price inflation in 1996 and 1997 stood at 4.9% and 4.4%, respectively. Korean prices were more stable than those of Hong Kong (6.4%, 5.7%) and the Philippines (9.0%, 9.7%), but higher than those of Taiwan (3.1%, 0.9%) and Singapore (1.4%, 2.0%). During the foreign exchange crisis in 1998, the figure for Korea was rather high at 7.5%, but in 1999 and 2000, it again stabilized at 0.8% and 2.3%, respectively.

[Figure 3-4 Consumer Price Inflation]

(Unit: %)



Source: EIU, "Viewswire - country report", 2001

4. Government Policies

4.1 Liberalization of Foreign Investment Policies

Changes in Investment Policies

Foreign direct investments in Korea were permitted since 1962, but until 1970s, actual investments were limited to commercial loans and loans from multilateral organizations such as the World Bank. This stemmed from the government's fear of foreign control of Korean industries and was viewed not appropriate for the economic development of a developing country, as it would result in heavy reliance on foreign capital. As developing countries defaulted on foreign debts in the 1980s, policies were amended to attract foreign direct investments rather than loans. Consequently, as of the mid 1980s, focus was placed on establishing an infrastructure to attract foreign direct investment.

In the 1990s a deregulatory policy was adopted to improve the industrial structure and to attract foreign investment in high-tech areas. With Korea's accession to the OECD in December 1996, and the partial liberalization of M&A type direct investments, the government began increase its effort to deregulate foreign investments to match the practices of other developed countries.

The crisis year of 1998 marked the transition to an active investment-promoting environment through such policies as full deregulation of foreign currency trading and hostile M&A of Korean companies by foreigners, and the enactment of the Foreign Investment Promotion Act and Free Trade Zone Designation Act.

Foreign Investors on Equal Footing with Local Investors

In Korea, foreign investors and foreign invested companies enjoy the same rights and privileges as local residents or locally owned companies, unless otherwise legally specified. In some cases they enjoy even greater privileges in areas such as in tax incentives and the selection of business sites. In addition, no specific restrictions apply to foreign investment in Korea as long as such investment does not violate national security, public health and conservation of the environment.

Pre-establishment - Liberalization of Restrictions

In accessing and having a presence in the local market on the same level as a local investor in pre-establishment, foreign investors may face some direct and indirect restrictions such as restrictions on investment in certain types of businesses, limits on the amount of shares held in a company or restrictions relating to land acquisitions.

Such restrictions were significantly eased through the enactment of the Foreign Investment Promotion Act in 1998, the liberalization of the capital market and the removal of restrictions on hostile takeovers of local companies by foreign companies.

Investment Deregulation

Currently, eight business areas are partially open to foreign investment. They are ①within primary industry, rice/barley and beef cattle farming and the fishery ②wholesaling of meat ③newspapers/periodical publication ④energy industry - nuclear fuel processing, electricity generation/distribution ⑤maritime transportation ⑥air transportation ⑦telecommunications (wired and wireless) ⑧specially chartered banks such as export-import banks. Only two areas, radio and television broadcasting, are entirely closed to foreign investment. The remaining business areas, some 1029, are entirely open to foreign investment. The country's foreign investment liberalization rate increased from 92.2% in 1997 to 99.8% as of March 2001 to exceed OECD standards.

All types of foreign direct investment are now permitted, be they establishing a new business, acquiring shares from capital increases from an existing business, acquiring existing shares in a business, mergers and acquisitions, or long-term loan investment, including investment in privately owned businesses.

In line with its stated policy, the Korean government successfully privatized six (Kookjung Printing & Publishing Co., Ltd., Korea Technology Banking Corporation, Daehan Oil Pipeline Corporation, POSCO, Korea Chemical Corporation, Korea Heavy Industries) of 11 public enterprises so designated. Privatization of the remaining five (Korea Telecom, Korea Tobacco & Ginseng Corporation, Korea Heavy Industries, Korea Electric Power Corporation and Korea Gas Corporation) is in progress. Restrictions on shareholdings by foreign investors in some public enterprises have been abolished altogether or significantly reduced.

[Table 4-1 Changes in Restrictions in Shareholdings of Public Enterprises]

	Before	Now
Korea Telecom	Total foreign ownership allowed only up to 20%	Allowed up to 49%
Korea Tobacco & Ginseng Corporation	Foreigners not allowed to own shares	Total foreign ownership allowed up to 35% (7% max per investor)
Korea Heavy Industries	Foreigners not allowed to own shares	No restrictions
Korea Electric Power Corporation	Total foreign ownership allowed only up to 30%	Allowed up to 40%
Korea Gas Corporation	-	Allowed up to 30%

Source: Ministry of Planning and Budget

Liberalization of M&A

The Korean government discontinued the requirement for foreign investors to obtain approval from the Minister of Finance and Economy when acquiring shares of a Korean company of asset size of more than 2 trillion won. The government also freed restrictions on hostile mergers and acquisition of Korean companies by foreign companies (in May 1998). The government also abolished the requirement that foreign purchasers wishing to buy more than 25% of the shares of a listed company had first to publicly acquire more than 50% of the company's shares.

Prior to buying shares publicly, investors had to file a report with the Financial Supervisory Board. This was a major drawback in the case of hostile M&As, because such transactions were usually conducted behind closed doors. This process has been changed so that investors can now report after the actual acquisition. The establishment of exclusive funds to finance merger and acquisitions was permitted in order to facilitate such activities in Korea.

Liberalization of the Capital Market

Previously there were limits on number of shares foreigners could own of Korean listed companies, but these were abolished in May 1998, putting foreigners on an equal footing with Koreans in terms of equity investments. The bond market was completely opened and foreigners can now freely trade government bonds, public bonds and corporate bonds. Foreign investment limits on all financial products including stock price index futures, option contracts and commercial paper were also deregulated. Also, for trading convenience, regulations on financial asset acquisition by foreigners were also abolished.

Liberalization of Land Acquisition by Foreigners

The Korean government fully opened its real estate market to foreigners in June 1998. Regardless of their intended use or size, foreigners can buy real estate on equal terms with Koreans nationals. The acquisition procedure was also changed from one based on permission to one simply based on post hoc declaration. In the case of Philippines or China, a foreigner is prohibited from owning land whereas Korea has almost no restrictions on the acquisition of land and other real estate property by foreigners.

Post-establishment - Liberalization of Fund Transfers

In post-establishment, one of the factors which may act as an obstacle in the operating environment for a foreign invested company is the restriction of fund transfers.

In China, overseas remittances are a permission item not only for tax purposes but also as a means for the country to manage its international balance of payments. In Thailand, remittances over a certain threshold are subject to remittance tax on top of the ordinary applicable tax. In the case of Korea, the Foreign Investment Promotion Act legally and unconditionally guarantees international remittances by foreign investors even under circumstances of natural disaster, war, and significant international economic changes.

4.2 Investment Incentives and Administrative Support

In order to promote foreign investment, the Korean government provides a wide variety of investment incentives such as tax and rent reduction or exemption. In addition, to facilitate and support foreign investment, the government offers various other benefits in specially defined areas such as Foreign Investment Zones and industrial complexes for the exclusive use of foreigners.

Investment Incentives

Tax Incentives and Rent reduction/exemption

Korean government investment incentives take the form of rent and tax reductions and exemptions. With respect to high-tech businesses, services supporting local industries and foreign companies located in Foreign Investment Zones, the Korean government offers a corporate/income tax reduction for the first 10 years from the first financial year in which the business began to generated income (100% reduction for seven years, 50% reduction for three years). Acquisition, registration, property and land tax on property acquired by a qualifying foreign invested company receive 100% exemption during five years and a 50% reduction or exemption during the following three years. Customs duty, special excise tax, VAT is also exempt on imports of capital goods for qualifying businesses.

Leasing period of national and public property has been extended from 10 years to 50 years and is further extendable for another 50 years when expired.

National property rent reduction or exemption applies to industrial complexes exclusive for foreign companies, national industrial complexes and government properties in Foreign Investment Zones. Rent reductions range from 50%, 75% to 100% depending on the investing company, investment amount and type of business. The eligibility of business for rent reduction or exemption on public property and the rate of reduction are determined by the local authorities based on local regulations and consideration of the foreign investment's economic impact in the region.

Support through Provision of Funds

The Korean government provides a variety of support through the provision of funds to small/medium venture businesses, which possess technological skills and creativity, in order to invigorate, enhance competitiveness and realize the growth potential of such businesses.
The Korean government is reviewing and finalizing its small/medium business support plan through the specially formed Presidential Commission on Small & Medium Enterprise. When businesses meet required conditions under the plan, they can benefit from loans, contributions, subsidies, etc., within specified limits.

The small/medium business support plan involves the arrangement to provide a total of 5 trillion won in support funds to small/medium businesses by 12 government ministries in 2001. Looking at the breakdown by ministry, Small/Medium Business Administration (2.5 trillion won), Ministry Commerce, Industry and Energy (1.0 trillion won), Ministry of Information and Communication (385.2 billion won) and Ministry of Science and Technology (100.8 billion won) are providing a total of 4.0 trillion won in support funds or 79.7% of total fund provisions.

Such fund provisions are made through institutions such as Korea Technology Credit Guarantee Fund, Small Business Corporation and also venture capital and specially chartered financial institutions in the form of investments, loans, funds and factoring. Both local and foreign invested companies are equally eligible for such benefits once the company's technological capabilities and business potential are assessed and satisfy basic requirements.

Foreign Investment Zones (FIZs) and Industrial Complexes for Foreign Invested Companies

The objective of the Foreign Investment Zone (FIZ) is to allow large-scale foreign investments in the location of choice of a foreign investor. Investment in a preferred location is first assessed by the Foreign Investment Committee and then on approval is defined designated as a Foreign Investment Zone by the city mayor and provincial governor.

Once a location is designated as a Foreign Investment Zone, eligible companies can then begin their process of investment. Companies can benefit from government support for development and construction costs for basic infrastructure, at the same level as for a National Industrial Complexes. In addition, companies can also benefit from tax incentives, exemption on rent and traffic generation fees, as well as support for residential facilities such as medical, education and housing support.

In an attempt to attract foreign companies from high-tech industries, the government established industrial complexes solely for foreign invested companies located in Chungcheong province (Cheonan Complex), Kwangju (Pyungdong Complex) and Kwangyang (Daebul Complex).

In these industrial complexes, depending on the size of investment, companies can benefit from 75%-100% reduction/exemption on rental expense, industrial technology development support grants for up to 80% of the cost incurred in developing new products/materials, and Industrial Foundation Fund Grants of up to 100% of the cost incurred in the building or expanding of factories, purchasing of facility equipment and upgrading of facilities.

The industrial complexes for the exclusive use of foreign invested companies are equipped with outstanding infrastructure such as roads, railways, airports, seaports, utilities, telecommunication facilities, etc. They are gradually gaining prominence as a high-tech (semiconductor, IT, computer, etc.) industrial complex.

Simplification of Investment Procedures and One-Stop Service

To simplify the investment procedure, the Korean government has changed the process from a report and approval process to one requiring a notification only. It has also abolished the system whereby a non-resident investor was required to designate a resident as his/her proxy in notifying investment decisions. In order to minimize the number of institutions a foreign investor needs to contact and to increase processing speed, KOTRA (Korea Trade - Investment Promotion Agency) established KISC (Korea Investment Service Center) in July 1998 as a one-stop service center for foreign investors.

The one-stop service not only provides administrative support for investment but also extends to comprehensive investment counseling services and post investment services. Its wide range of services includes investment plan consultation and procedural assistance for tax and customs duty reduction/exemptions, consultations in specialized fields such as establishment of new businesses, assistance in selecting factory sites and acquiring local support for their purchase, acting on behalf of the investor in government approval procedures and counseling services to help foreign investors settle in Korea.

The Ombudsman System and Post-investment Service

The Office of the Investment Ombudsman (OIO) was established in November 1999 to address difficulties experienced by foreign companies in conducting business in Korea and to provide support in conjunction with related government institutions.

Currently, the work of the OIO consists of resolving difficulties through its team of "home doctors" in the areas of construction, tax, finance, labor and customs. In year 2000, the OIO satisfactorily resolved 418 grievances out of a total of 454.

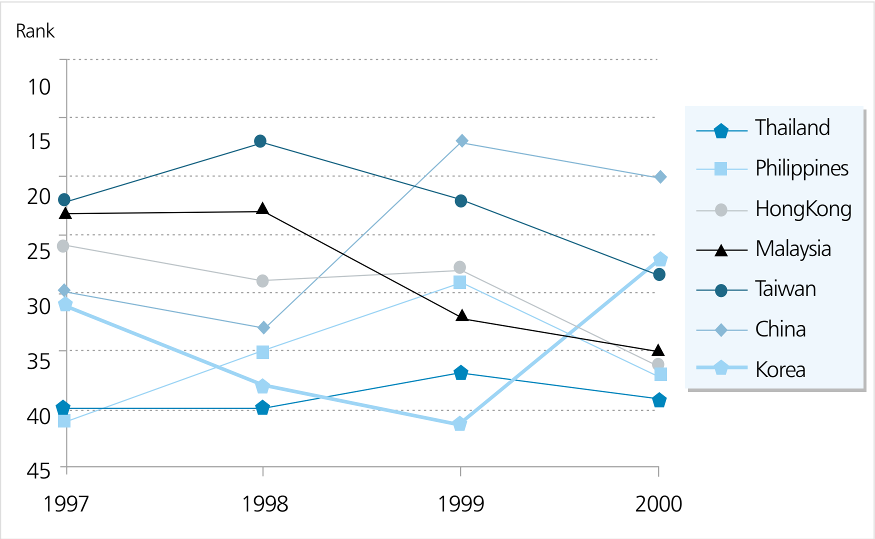
To promote the Ombudsman system, the OIO allows foreign investors to personally choose their own home doctor to maximize their satisfaction with the problem-resolution process. The Ombudsman has formed teams, grouped by region and by language, to provide a one on one service to foreign investors. In addition, the Ombudsman works jointly with foreign associations located in Korea and local governments for effective and efficient problem solving.

In an effort to improve the quality of post investment services for foreign companies, the Ombudsman along with government officials and local authorities endeavor to identify their difficulties and ways to resolve them, by maintaining regular communication with foreign business organizations such as the Seoul Japan Club, EuroCham, AmCham, Korea Foreign Company Association, etc.

Intellectual Property Rights

Although intellectual property rights are protected by law in most Asian countries, it is not strictly practiced due to the lack of recognition of such rights in these countries. It has been indicated that governments lack resolve in addressing intellectual property right violations and in protecting such rights as well as a lack of realistic, effective countermeasures. However, Korea has joined international organizations such as the World Intellectual Property Organization (WIPO) and the Patent Cooperation Treaty (PCT) and revised all related domestic laws to strengthen intellectual property rights protection. According to the research paper titled "The level of patents and copyrights protection through regulation", conducted by IMD (Institution of Management Development, Switzerland), Korea advanced 14 rankings internationally in 2000 compared to 1999 in terms of the quality of its protection of intellectual property rights. Such a remarkable improvement reflects the Korean government's commitment to protecting patents and copyrights.

[Figure 4-1 Level of Legal Protection in Copyrights and Patents]



Source: IMD, "World Competitiveness Yearbook", each year

5. Business Environment

5.1 Highly Educated & Skilled Labor Force/Improving Labor Climate

Highly Educated and Skilled Labor Force

Korea has advocated the importance of education for the development of the national economy and technological skills, producing a highly educated labor force. Over 97 % of the labor force holds an educational background in vocational training or college education. The drive for higher learning is comparatively high. More than 68% of the labor force has received higher education. Also, the percentage of university-educated adults is as high as that of advanced countries as the U.K., France and Japan, which plays a significant role in producing a high quality labor force.

Korea's labor force is well known for its skill and diligence. In 1999, the average number of hours worked per employee in the manufacturing sector was 50.0, far higher than that of advanced countries such as Japan (42.7 hours), the United States (41.7 hours), Canada (38.7 hours) and Australia (39.0). The manufacturing unit labor cost in US dollars was US$71.7, which is lower than that of Japan (US$105.7) and Taiwan (US$77.2). Korean employees work longer hours at a lower labor cost than most developed countries. Labor productivity, increased at an average of 5.8% during the period 1980 to 1998, is significantly higher than that of other developed countries such as the United States, the U.K. and Japan. The "World Competitiveness Yearbook", published by IMD, has ranked Korea 24th out of 49 countries on GDP created per employed person (US$33,480). Korea was rated 10 times higher than China and higher than most other Asian nations including Taiwan and Malaysia. This clearly shows that Korea is a country of high labor productivity among the Asian countries.

[Table 5-1 Average Weekly Labor Hours in the Manufacturing Industry]

Country	Working hours			
	1996	1997	1998	1999
Korea	48.4	47.8	46.1	50.0
Japan	43.3	42.7	42.5	42.7
Taiwan	46.3	46.5	45.6	45.9
U.K.	41.9	42.0	41.8	-
U.S.A	41.6	42.0	41.7	41.7
Canada	38.4	39.3	38.6	38.7
Australia	38.7	38.5	38.6	39.0

Source : Ministry of Labor, Department of Labor Economy, ILO, "Yearbook of Labor Statistics" 1999
Japan, "Annual Report of Research on Labor" 1999, OECD, "Main Economic Indicators" 2000.6

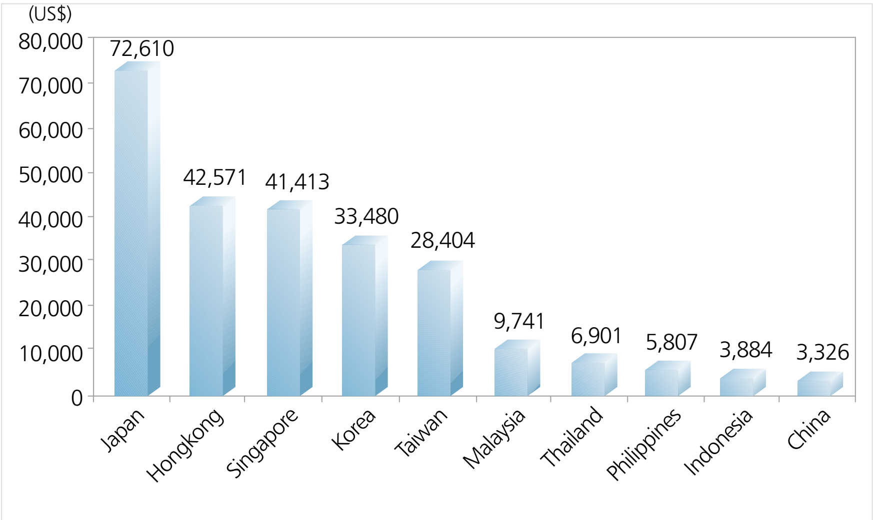
[Table 5-2 Rate of GDP Growth per Employed Person]

	Korea	Japan	U.K.	U.S.A
1996	6.9	5.4	4.8	2.3
1997	3.6	0.3	1.8	2.3
1998	-0.6	-2.2	0.9	2.8
Average growth rate 1998-98	5.9	2.2	1.9	1.6

Source: BLS, "Comparative Real Gross Domestic Product Per Capita and per Employed Person in Fourteen Countries (1996 - 1998)", 2000

[Figure 5-1 GDP per Employed Person]

(Unit: US$)

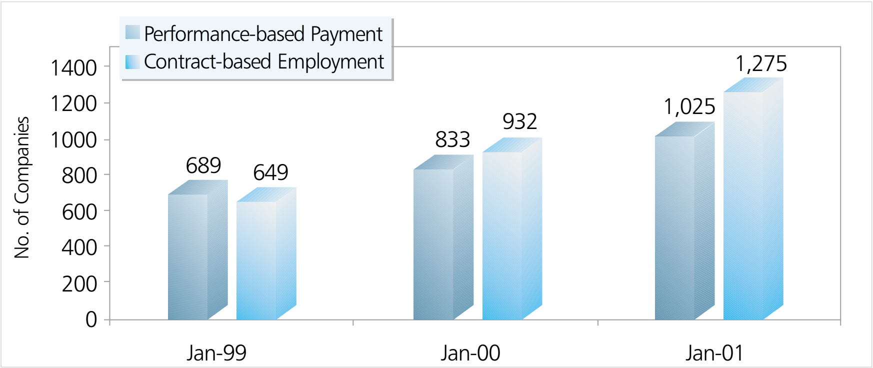


Note: Data as of 2000 Source: IMD, "The World Competitiveness Yearbook", 2001

Improving Labor Climate

Companies operating in Korea have access to a pool of highly educated, diligent, highly adaptable, quality labor. Despite the aforementioned attributes, labor market rigidity was identified as the Achilles' heel of the Korean labor market. To reduce rigidity and to enable management to best manage its labor force, in February 1998 the government permitted layoffs for management restructuring purposes. In July of 1998 the government implemented an employment of placement agency worker program in 26 job categories, ranging from professional, skilled to manual labor. In addition, the government was able to increase flexibility in the labor market through the implementation of a flexible system of working hours. This was aimed at adapting to a changing economic structure and production processes as well as allowing for the labor supply to accommodate to changes in company production capabilities and market conditions. Together with such policies of the government to increase labor market flexibilities, there have also been changes in terms of wage and personnel policies within Korean companies, which have also contributed towards the development of the Korean labor market. According to the Ministry of Labor, the percentage of companies adopting a system of contract-based employment and performance-based payment increased significantly from 1.6% and 5.7% in 1996 to 27.1% and 21.8% as of January 2001. This indicates that Korea's seniority based wage and personnel policy of the past is changing to one based on competence and efficiency.

[Figure 5-2 Trends in Contract-based Employment and Performance-based Payment]

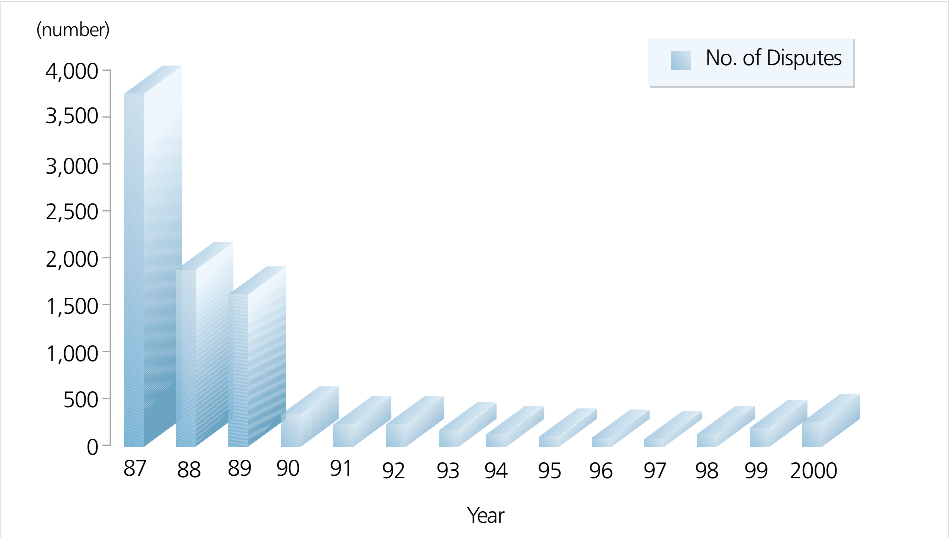


Note: In the case of Jan. 2001, figures are based on 4,698 companies that have more than 100 employees

Source: Ministry of Labor

Total number of labor disputes was less than 300 before 1987, but this number increased drastically to 3, 700 in 1987 as the country's political democratization movement evolved. Since then, management-labor relations that were once characterized as being confrontational and hostile stabilized with the transition to one based on cooperation and participation, and finding solutions through discussions. As a result, the number of disputes sharply declined to 78 in 1997. However, the number of labor disputes started to rise again due to widespread corporate restructuring and associated layoffs after the foreign exchange crisis. Consequently, the number of labor disputes climbed up from 129 in 1998 to 198 in 1999 and to 250 by 2000. Wages and collective agreement issues accounted for the majority of the causes for disputes at 49. 6%, and corporate restructuring, 48.7%.

[Figure 5-3 Trends in Labor Disputes]



Source: Ministry of Labor

In general, labor relations in foreign invested companies in Korea have been stable, but their number increased in 2000. This is seen as due to several factors such as increase in the number of foreign companies, the rise in the demands for wage increases as the economy recovers after the foreign exchange crisis, and the lack of understanding of local labor/ management practices and culture by foreign management.

[Table 5-3 Foreign Invested Companies and Current Status of Labor Disputes]

Category	1998	1999	2000	As of 2001. 3
Number of foreign invested companies	1,016	1,241	1,517	N/A
Total number of labor disputes	129	198	250	13
Number of labor disputes in foreign invested companies	2	9	31	-

Source: Ministry of Labor

Labor and management relations in Korea should be understood within the context of Korea's past democratization movement and the domestic culture. When viewed in such a context, Korea's labor and management relations, past and present, may not be as fraught as perceived from the outside. Hence, such relations may be said to be in the process of transition from being politically driven to being based on more ordinary concerns, and concomitantly becoming more mature.

Labor and management relations in Korea are moving from a model characterized by confrontation and dispute to one oriented toward corporate competitiveness and characterized by co-operation and co-dependence. Such changes are expected to continue in the future and better position Korea competitively in international markets.

5.2 Excellent Social Infrastructure

Korea is equipped with extensive road, seaport and airport facilities to facilitate the transportation of goods to East Asian markets. Korea's road and railroad density as well as electricity and telecommunication costs are rated above most Asian countries. In particular, the country's IT infrastructure is at global standards.

Roads

When comparing the road density index (total road length/total geographical area) with other Asian countries, Korea (0.88) ranked lower than Japan (3.05), Hong Kong (1.61) and Singapore but higher than Taiwan (0.54), Malaysia (0.29) and China (0.77). Given the small geographical area of city-states such as Singapore and Hong Kong, it is only natural that they should have highly dense road networks. Therefore, excluding these two countries, Korea ranked second only to Japan among Asian countries.

[Table 5-4 Road-related Indexes]

Category	Year	Total Road Length (Km)	Paved Roads (%)	Road Density (Km/Km^2)
Korea	**1999**	**87,534**	**74.7**	**0.88**
China	1996	1,526,389	75.0	0.77
Japan	1997	1,152,207	74.9	3.05
Hong Kong	1996	1,760	100.0	1.61
Singapore	1996	3,308	97.3	N/A
Taiwan	1998	34,901	89.6	0.54
Malaysia	1996	94,500	75.1	0.29

Source: Ministry of Transportation and Construction, "Report on the Status of Roads", 2000
National Statistical Office, "Major Statistical Index of APEC Countries", 2000
IRF, "World Road Statistics", 2000

Railways

According to the 2001 World Competitive Report released by International Management Development (IMD) of Switzerland, Korea's railway infrastructure ranked 18th after Japan (16th) among 49 Asian countries. This compares with other Asian countries such as Taiwan (19th), China (36th) and Malaysia (37th). In addition, under the mutual agreement between North and South Korea, construction is underway to restore the railway line linking Seoul and Euiju. If this line is linked to the Trans-Siberian Railway, it is expected to significantly reduce transportation costs between East Asia and Europe.

[Table 5-5 Competitive Infrastructure Country Rankings: Railways]

Country	1997	1998	1999	2000	2001
Korea	18	16	18	18	18
Japan	13	13	13	13	16
Taiwan	15	17	20	20	19
Singapore	-	-	-	-	47
China	33	34	34	34	36
Hong Kong	17	15	17	17	31
Malaysia	34	33	36	36	37

Source: IMD, "The World Competitive Report", 1997-2001

Air Transportation

The newly opened Incheon International Airport is expected to handle 100 million passengers and 7.5 million tons of cargo annually by 2020. It is expected that the airport will emerge as a major air transportation hub in the northeast Asian region. According to IMD's Competitive Infrastructure Country Rankings on air transportation, which is based on the number of passengers by airlines, Korea's ranking rose from 12th place in 2000 to 8th in 2001, and ranked third after Japan and China among Asian countries.

[Table 5-6 Competitive Infrastructure Country Rankings: Air Transportation]

Country	1997	1998	1999	2000	2001
Korea	7	7	7	12	8
Japan	2	2	2	2	2
Taiwan	12	10	10	11	11
Singapore	23	22	22	22	20
China	3	4	4	4	4
Hong Kong	21	23	23	24	24
Malaysia	16	17	17	21	22

Source: IMD, "The World Competitive Report", 1997-2001

Maritime Transportation & Seaports

Korea is surrounded by sea on all three sides and such geographical conditions provide short links to ports in China, Japan and Russia. Therefore, Korea acts as a maritime base in the northeast Asian market. Pusan port, which is the gateway linking the Asia and Pacific regions, is not only the country's largest seaport but also the world's third largest seaport handling 95% of all container transportation in Korea. In particular, as the northeast Asian market emerges as one of the three major economic areas along with the EU and NAFTA, total container transportation volume is expected to increase to 100 million TEU or 30% of the world's volume by 2006. China is experiencing an annual increase of 40% in container shipping volume due to its rapid economic and market growth. In consideration of such factors, Korea plans to expand and develop its Pusan and Kwangyang port into major hubs in northeast Asia. The smaller port facilities on the west coast of Korea that are within close proximity to China will also be further developed and expanded to capture the opportunities offered by the growing northeast Asian market and eventually to become key players in Pacific rim transportation.

[Table 5-7 Comparison of Competitiveness in Transshipment of Freight Bound for China]

Category		HK	Kobe	Kaoshung	Pusan
Transshipment facility		1	2	3	4
Transshipment expense		3	4	2	1
Transshipment Competi-tiveness	N.China - N.America	4	2	3	1
	N.China - Europe	2	4	3	1
	S.China - N.America	1	4	2	3
	S.China - Europe	1	4	2	3
	Average	1	4	3	1

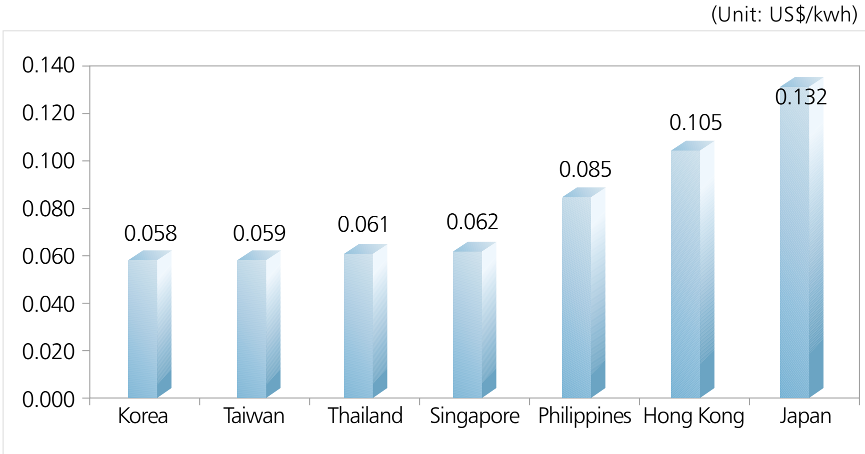
Source: Korean Container Terminal Authority, "Research on measures to attract transshipment freight", September 2000

Electricity and Telecommunications

In a comparison of industrial electricity prices in the "World Competitiveness Yearbook" by IMD, Korea's industrial electricity price was the lowest among Asian countries at US$ 0.058/kwh. Korea's telephone charge is also the lowest in Asia.

[Figure 5-4 Price of Industrial Electricity by Country]

(Unit: US$/kwh)



Source: IMD, "The World Competitiveness Yearbook", 2001

"World Investment Prospects", released by EIU (Economic Intelligence Unit) in 2001, estimates that during the period 2001-2005, Korea will rank first in telecommunications infrastructure among the 60 countries so researched. Korea also has the highest percentage of broadband users in the world and ranks first in Asia in terms of broadband usage and availability, indicating the global level of Korea's telecommunications infrastructure.

[Table 5-8 Telecommunications Infrastructure Rankings]

Country	Score (Out of 10)		Ranking (Out of 60 countries)	
	1996-2000	2001 - 2005	1996-2000	2001 - 2005
Korea	8.3	10.0	16	1
USA	10.0	10.0	1	1
Japan	9.4	10.0	7	1
Taiwan	8.3	10.0	16	1
Singapore	9.4	9.4	1	4
Hong Kong	8.3	8.9	16	18
China	2.7	4.4	51	44

Source: EIU, "World Investment Prospects", 2001

[Table 5-9 Broadband Usage by Country (Household Internet Users)]

(Unit : %)

Country	Cable	Satellite	ADSL	Total Usage
Korea	18.6	0.1	38.6	57.3
USA	7.6	0.5	2.8	11.1
Hong Kong	6.0	0.9	1.2	8.13
Singapore	6.6	N/A	0.5	7.1
Taiwan	3.5	0.1	2.6	6.2
France	4.0	0.3	1.7	6.0
Denmark	3.4	0.0	2.4	5.8
Germany	2.7	0.1	2.2	5.0
Spain	1.8	0.2	1.1	3.1
U.K.	2.3	0.3	0.5	3.1
China	0.2	N/A	0.2	0.4

Source: Net Value, 2001

[Table 5-10 Broadband Usage and Availability within Asia]

Ranking	Country	Ranking	Country
1	Korea	5	Taiwan
2	Japan	6	Australia
3	Hong Kong	7	India
4	Singapore	8	China

Source: eMarketer, 2001

According to research published by KPMG in 1998 on infrastructure cost comparison of major cities, Seoul had the lowest electricity and maritime transportation cost and the lowest air transportation, industrial gas and water cost, except Shanghai. In particular, rental expenses in industrial complexes for foreign invested companies are very reasonable when compared to other countries, and in consideration of the facilities and benefits offered, it represents unsurpassed locations in which to invest.

[Table 5-11 Comparison of Infrastructure Costs]

(Relative Index Seoul = 100)

Category	Seoul	HK	LA	Osaka	Shanghai	Singapore
Electricity	100	124	128	262	123	110
Maritime Transportation	100	106	210	123	110	107
Air Transportation	100	91	116	210	81	140
Industrial Gas	100	396	112	157	67	345
Water	100	189	182	1459	39	264

Source: KPMG, 1998

5.3 Technology and Major Industries

Technology

There has been a tremendous increase in research and development (R&D) as the country has undergone economic growth and greater importance is attached to developing domestic technology. In 1999, Korea's total expenditure on R&D was US$10 billion, representing 2.46% of GDP. This is higher than in certain developed countries such as Germany, France and the U.K.

[Table 5-12 R&D Expenditure by Country]

(Unit : US$ million)

Category	Korea (1999)	USA (1999)	Japan (1998)	Germany (1998)	France (1998)	U.K. (1998)
R&D Expenditure	10,023	247,227	133,168	49,316	31,681	25,755
As % of GDP	2.46	2.84	3.06	2.29	2.18	1.83

Source: Ministry of Science and Technology

According to IMD's 2001 World Competitive Report, Korean companies ranked tenth in the world in terms of R&D investment, and in Asia, was only second after Japan. Ranking above other Asian countries such as China, Taiwan, Singapore and Hong Kong, clearly reflects Korea's high level of commitment to R&D.

[5-13 Corporate R&D Expenditure by Country]

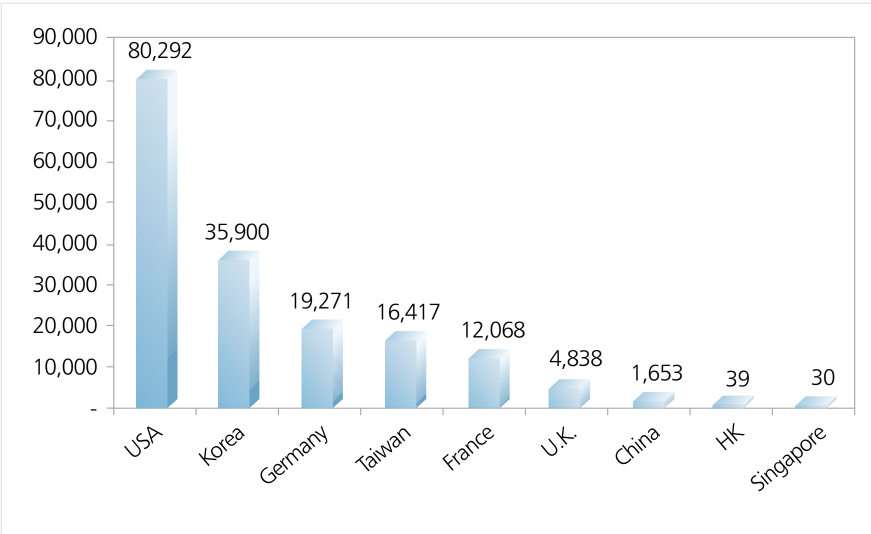
Country	USA	Japan	Korea	China	Taiwan	Singapore	HK
Amount (US$ million)	184,379	94,815	**5,699**	4,067	3,737	986	207
Ranking	1	2	**10**	12	13	22	33

Note: Number of countries researched - 49

Source: IMD, "The World Competitiveness Yearbook", 2001

In addition, the number of patents filed is among the highest level in the world. The number is significantly greater than that of China, Hong Kong and Singapore in Asia, and also surpasses that of Germany, France and the U.K. This is a direct reflection of Korea's strong technological base.

[Figure 5-5 Number of Patents Filed]



Note: Based on 1998 data

Source: IMD, "The World Competitiveness Yearbook", 2001

Major Industries

Industrial growth based on international markets has been the driving force behind Korea's economic growth. From producing high technology products to consumer goods, Korea has been able to develop international competitiveness and a well-balanced industrial structure. Such an industrial structure provides better value-creating opportunities for foreign companies through forward and backward linkages with Korean industries, which have large international market shares.

Semiconductor Industry

Korea is ranked third in the world in terms of total semiconductor production. In particular, Korea is highly competitive in DRAM production, holding 40% of global market share. In 2001, Korea developed the world's first 4G DRAM, so demonstrating technological capabilities that surpass even those of the United States and Japan. The semiconductor industry has grown to become the largest in Korea. Korea's DRAM semiconductor industry possesses superior technology, experience plus a high quality workforce and advanced mass production capabilities. Based on such strengths, Samsung and Hyundai Electronics (Hynix Semiconductors), two major Korean semiconductor producers, ranked fourth and ninth respectively among the top 10 global semiconductor producers. In 1999, Samsung and Hyundai ranked first and second among the top 10 global DRAM producers.

The Korean semiconductor industry intends to solidify its already proven international competitiveness in memory products, as well as, develop its capabilities in the non-memory products area, which holds a greater market.

[Table 5-14 Top 10 Semiconductor Companies in 2000]

(Unit: US$ million)

1999 Ranking	2000 Ranking	Company	1999 Revenue	2000		
				Revenue	Growth (%)	M/S
1	1	Intel	26,806	29,750	11.0	13.4
3	2	Toshiba	7,618	11,214	47.2	5.0
2	3	NEC	9,210	11,081	20.3	5.0
4	**4**	**Samsung**	**7,125**	**10,800**	**51.6**	**4.9**
5	5	TI	7,120	9,100	27.8	4.1
6	6	Motorola	6,394	8,000	25.1	3.6
9	7	STM	5,077	7,948	56.5	3.6
7	8	Hitachi	4,830	7,282	50.8	3.3
11	**9**	**Hyundai**	**5,554**	**6,887**	**24.0**	**3.1**
8	10	Infineon	5,223	6,715	28.6	3.0
Total			169,136	222,082	31.3	100.0

Source: Dataquest, 2001. 1

[Table 5-15 Global Top 10 DRAM Companies]

(Unit: US$ million, %)

1998 Ranking	1999 Ranking	Company	1998 Revenue	1999	
				Revenue	M/S
1	1	Samsung	2,854	4,774	20.7
3	2	Hyundai	1,752	4,464	19.3
2	3	Micron	1,791	3,330	14.4
4	4	NEC	1,624	2,045	8.8
6	5	Infineon	1,010	1,680	7.3
9	6	Toshiba	763	1,505	6.5
8	7	Hitachi	957	1,114	4.8
7	8	Mitsubishi	1,003	875	3.8
12	9	Mosel-Vitelic	383	600	2.6
10	10	Infineon	701	521	2.3
5	N/A	LG Semi-Con.	1,210	N/A	N/A

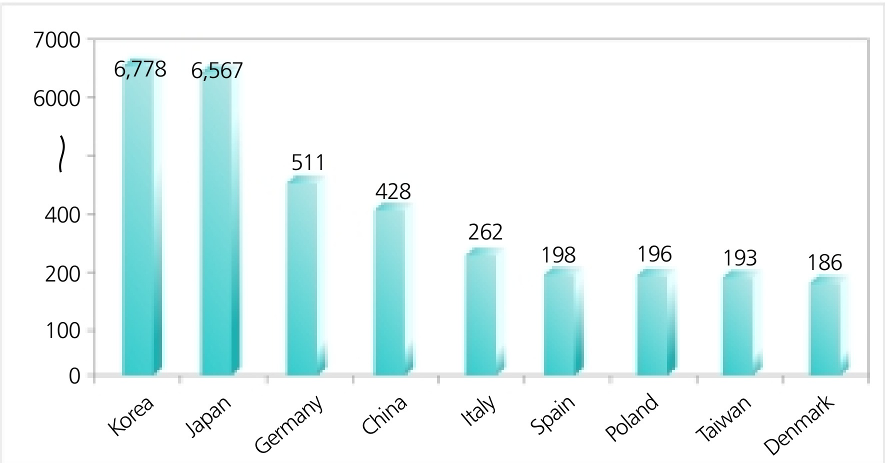
Source: Dataquest, 2000.3

Shipbuilding Industry

Korea has the largest dockyards in the world and ranks first in shipbuilding. In the first half of 2000, Korea's shipbuilding totaled 6,778,000 G/Ts, which was 41.5% of the world's total production and first in the world. Korea's shipbuilding industry has achieved remarkable progress in technology. Korean yards are world-renowned for building highly sophisticated LNG carriers, so demonstrating Korea's advanced construction and shipbuilding capabilities.

[Figure 5-6 Shipbuilding Volume]

(Unit: Thousand G/T)



Note: Based on the first half of 2000 data

Source: Lloyd's Register, "World Shipbuilding Statistics", 2001

Steel Industry

In 1999, Korea produced 41,042,000 tons of steel or 5.2% of the world's total supply to rank sixth in terms of steel production worldwide. Korea is one of the world's leading steel producers, maintaining global cost competitiveness and a high operational capacity level.

[Table 5-16 Steel Production Volumes]

(Unit: Thousand Tons)

Country	Volume	%	Rank	Country	Volume	%	Rank
World	787,733	100.0	-	Germany	42,062	5.3	5
China	123,709	15.7	1	Korea	41,042	5.2	6
USA	97,284	12.3	2	Ukraine	27,453	3.5	7
Japan	94,195	12.0	3	Brazil	24,996	3.2	8
Russia	51,510	6.5	4	Italy	24,878	3.2	9

Note: Based on 1999 data

Source: IISI, "Steel Statistical Yearbook", 2000

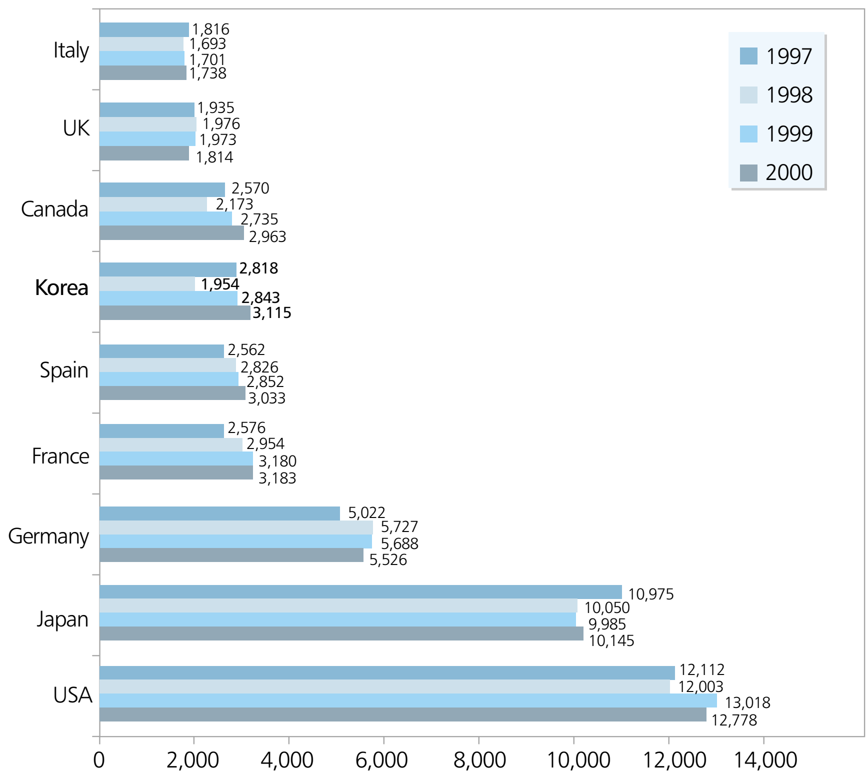
Automobile Industry

Korea's automobile production ranks fifth largest in the world based on 2000 total production levels. The

Korean automobile industry is aiming to obtain 6% of the global market to become within the world's fifth largest in terms of export volume, market share as well as production volume. With the early completion of the restructuring process currently underway in the Korean automobiles industry, the industry plans to raise its competitiveness in the production of small medium cars to international levels as well as expand and specialize in car parts to seize opportunities in the international trend towards global sourcing.

[Figure 5-7 Automobile Production Volume Trends by Country]

(Unit: Thousand)

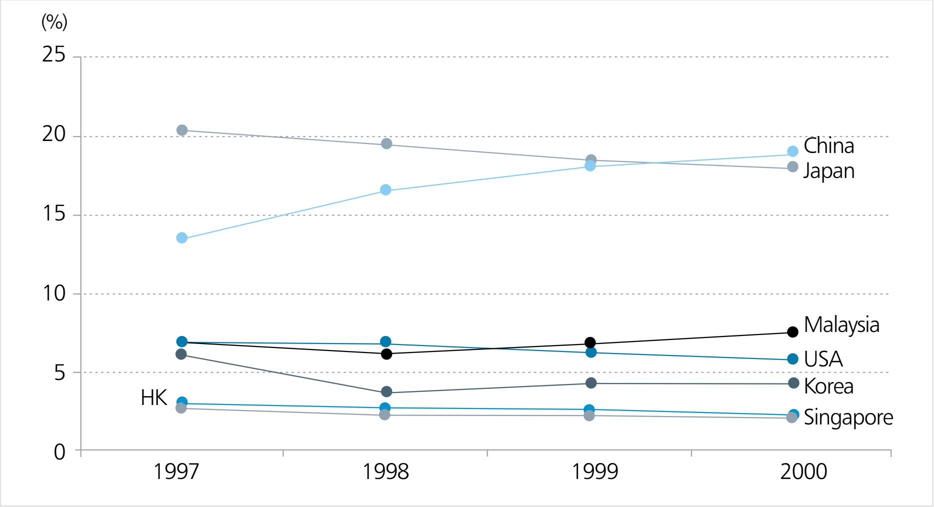


Source: World Automobile Manufacturing Association

Household Electrical Goods Industry

In 1988, Korea ranked second in the world after Japan in production of household electrical goods, but slid to fifth place in 2000 when China, Malaysia and the United States began to establish strong market presences in the mid-1990s. Korean companies have the core technologies necessary for HDTV and PDP (Plasma Display Panel), which is currently the key field of development in electrical goods. It is therefore anticipated that Korean companies will take the future lead in the world market.

[Figure 5-8 Global Market Share Trends in Household Electrical Goods Industry]



Source: Yearbook of World Electronic Data 2000 (UK)

Petrochemical Industry

Due to a program of vast facility expansion in the 1990s, the Korean Petrochemical industry ranked third in the world after that of the United States and Japan (based on ethylene production). In addition, due to recent major upgrades in production facilities, product quality and worker skills, and industry efficiency has soared. This, plus its vast capacity and competitive cost has enabled the industry to take a leading position in the Asian market, which is expanding as a result of growing demand from China.

[Table 5-17 Petrochemical Industry World Rankings (based on ethylene production capacity)]

(Unit: Thousand Tons)

Country	1990			1995			2000		
	Ranking	Capacity	%	Ranking	Capacity	%	Ranking	Capacity	%
USA	1	18,650	30.0	1	23,134	29.1	1	26,983	26.9
Japan	2	5,622	9.0	2	6,464	8.1	2	7,406	7.4
Korea	**9**	**1,155**	**1.8**	**5**	**3,950**	**5.0**	**3**	**5,230**	**5.2**
Germany	4	3,610	5.8	3	4,282	5.4	4	5,220	5.2
Saudi Arabia	7	2,110	3.4	7	2,925	3.7	5	4,565	4.5
China	8	1,817	2.9	8	2,643	3.3	6	4,515	4.5
Canada	6	2,465	3.9	6	3,315	4.2	7	4,355	4.3
Russia	3	3,967	6.3	4	3,975	5.0	8	4,270	4.3
France	5	2,700	4.3	9	2,571	3.2	9	3,170	3.2
Total		62,504	100		79,570	100		100,395	100

Source: TECNON, "World Petrochemical Industry", 2000

Telecommunications Industry

Korea's telecommunications industry is undergoing rapid development through the expansion of telecommunication networks, increase in Internet usage and increased information awareness. In the 1990s, the government made various attempts to develop the telecommunications industry as a national strategic industry. Telecommunications industry production increased sharply by 5.9-fold from 18 trillion won in 1991 to 107 trillion won in 1999, and as a percentage of GDP, it rose from 7.2% to 22.2% during the same period. The telecommunications industry is growing rapidly in both the domestic as well as the international market, especially the telecommunications equipment industry, which claimed a global market share of 2.6% in 2000. In order to develop the core business of the telecommunications industry, the government will continuously pursue its implementation program to support the concentrated development of telecommunications technology. Korea's well-developed telecommunications infrastructure coupled with the government's active telecommunications industry development policies have led to rapid growth, so producing numerous business opportunities for foreign investors.

[Table 5-18 Global Market Share of Telecommunications Equipment Industry]

(Unit: US$ million)

	1997		1998		1999		2000	
	Amount	%	Amount	%	Amount	%	Amount	%
USA	80,195	28.7	82,607	28.7	85,085	29.7	88,489	29.4
Japan	67,702	23.6	55,966	19.4	53,728	18.8	55,340	18.4
EU	54,854	19.0	57,799	20.1	58,952	20.6	61,509	20.4
Singapore	24,999	8.7	22,335	7.8	24,569	8.6	25,797	8.6
Taiwan	20,243	6.2	19,335	6.7	20,903	7.3	22,157	7.4
Korea	7,915	2.8	5,586	2.0	6,983	2.4	7,681	2.6
Other	31,668	11.0	30,648	10.6	36,273	12.7	40,151	13.3
World Mkt.	286,973	100	288,141	100	286,493	100	301,124	100

Source : Yearbook of World Electronic Data 2000 (UK)

5.4 Finance, Tax & Accounting

Improved Financial Environment

After the foreign exchange crisis in 1997, the Korean economy underwent a program of major financial restructuring and elimination of inefficiencies. This was achieved through various measures such as cancelling the business licences of 385 financial institutions, restructuring through M&A and dissolutions, and the major injection of public funds to purchase non-performing assets.

The first stage of financial restructuring focused on improving corporate liquidity and the recovery of the financial system. The government focused on building a system which prevents further insolvencies by dissolving insolvent financial institutions, normalizing of management through public funds injection, and reducing the number of financial institutions, offices, subsidiaries, etc. In September of 2000, the Korean government implemented the second phase of its financial and corporate restructuring plan that focused its efforts to invigorate the financial market and to create conditions necessary for market-led restructuring.

Pursuant to the Foreign Investment Promotion Act, the Korean government does not distinguish between foreign invested companies and local companies in terms of funding activity, and foreign invested companies can borrow on the same basis as Korean companies. Therefore, no restrictions exist in terms of local financing by foreign invested companies. To borrow from their overseas head office, foreign invested companies can make transactions through an authorized foreign exchange bank. Since local companies face numerous restrictions in acquiring overseas funding, this is a decided advantage.

Low Tax Burdens

Researched by KPMG in 2000 on corporate and income tax rates across Asia excluding Japan, revealed that Korea's tax rate was higher than that of Hong Kong, Taiwan and Singapore, but lower than that of Indonesia, Philippines, Thailand and Malaysia. In an OECD report on the level of tax as a percentage of GDP, Korea had the lowest level of tax after Mexico when compared to other OECD countries. IMD's "World Competitive Report" also indicates that Korea's average corporate tax rate is the lowest among OECD countries. This reflects the reasonable level of Korea's tax rate.

[Table 5-19 Comparison of Tax Rates as Percentage of GDP by OECD Countries]

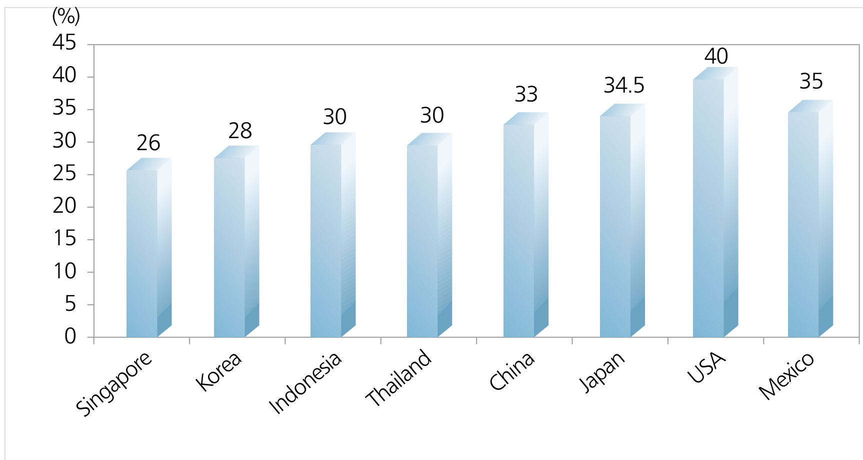
(Unit: %)

	Canada	Mexico	Korea	USA	Japan	France	Germany	U.K.
1994	35.90	17.20	**21.50**	27.50	27.80	44.10	39.20	34.50
1995	36.00	16.60	**22.30**	27.90	28.50	44.50	39.20	35.60
1996	36.80	16.30	**23.20**	28.50	28.40	45.70	38.10	36.00

Source: OECD, "Revenue Statistics", 1998

[Figure 5-9 Comparison of Average Corporate Tax Rates]

(Unit : %)



Note : Based on 1999 data

Source: IMD, "The World Competitiveness Yearbook", 2001

Korean Accounting conforming towards International Standards

In understanding that the elimination of window-dressed accounting is pivotal to increasing corporate transparency, the Korean government is planning to increase the transparency of auditor appointments, increase the independence of auditors, improve supervision of audits, increase accountability for fraudulent accounting practices and make amendments to laws and regulations governing accounting practices, in order to increase accounting transparency and objectivity, as well as to continue improving accounting practices and the auditing system.

In parallel with measures to completely eliminate window-dressed accounting practices, the government is also taking measures to transform Korean corporate accounting to conform to international standards. In 1998, as a condition of receiving standby assistance from the IMF and other multilateral organizations, the Korean government agreed to increase the credibility of accounting statement and information as well as increase the management transparency of companies through the establishment of an independent accounting standard setting organization by June 1999. On 1 September 1999, the Korea Accounting Institute (KAI) was inaugurated and in December of the same year, with the amendment of the External Audit of Limited Companies Act, the KAI was conferred with accounting law enactment powers. Therefore, Korea became one of the few countries, whose accounting standards are determined by a non-governmental organization. Unlike the United States, where the standards set by the Financial Accounting Standards Board gain validity once they are approved by the Securities Exchange Commission, accounting standards enacted by the Korea Accounting Institute are legally binding with their enactment reflecting the full legal independence of the organization. In line with its original objectives, the Korea Accounting Institute is currently in the process of implementing measures to increase accounting transparency by selecting and reviewing 25 standards for research and to increase conformity to international standards through the adoption of a "statement" form of accounting for ease of reading. Therefore, it is expected that corporate accounting standards will initially become fully conformed to international standards by 2001 through the broad changes in accounting standards.

However, despite these gains, there remains considerable room for improvement in Korean accounting practices.

6. Interviews with Foreign Invested Companies in Korea

6.1 Status of Foreign Invested Companies in Korea

According to a study by the Bank of Korea, Korean companies over 50% foreign owned (i.e. 149 out of a total of 2,046 manufacturing companies) demonstrated marked superiority in terms of profitability and financial structure compared to their majority domestically owned counterparts.

Ordinary profits/net sales of companies over 50% foreign owned stood at 8.1% of revenues in 1999. This is a rise of 2.9% from the 5.2% of the previous year. In addition, the operating profit and ordinary profit to net sales for 100% foreign invested companies rose by 0.5% and 1.6% to 7% and 6.7%, respectively, compared to 1998 and maintained high profit levels. Their debt/equity ratio declined from 194.4% in 1998 to 110.4%, reflecting an improvement in financial structure. It is also worthy to note that this ratio is lower compared with manufacturing companies in developed countries (United States 158.9% and Japan 173.6% as of end of 1998).

Foreign invested companies over 50% foreign owned play an important role in the Korean economy. They contribute to 18.5% of total revenues, 21.2% of total value added and 9.7% of total employment. By making use of market opportunities offered together with excellent management, foreign invested companies in Korea have been able to produce significant growth in areas such as production, exports and creation of employment.

Global giants such as Nokia, Motorola, Hewlett Packard (HP), IBM and BASF have all succeeded in exceeding sales of 1 trillion won in Korea.

These companies also performed well in exports. HP Korea's exports have remained at a steady level compared to previous year of around US$1.5 billion in 2000. IBM, which recorded an average of US$1 billion in exports in the past, sold US$2.5 billion worth of locally produced exports in 2000.

Nokia TMC, located in Masan, produced and exported US$2.4 billion worth of mobile phones in 2000. In the production of mobile phones, the company imports 80% of parts while 20% is acquired locally in the Korean market. In 1999, Fujitsu Korea's exports reached US$17 billion while recording a sharp increase in 2000 to US$30 billion.

There are also many other foreign invested companies in Korea, which are major exporters. It is expected that foreign invested companies will become leading market forces in Korea through the synergistic combination of the high quality Korean workforce with the foreign companies' advanced management skills.

[Table 6-1 Foreign Invested Manufacturing Companies with Annual Sales of over 1 Trillion Won]

(Unit: billion won)

Company	Business	Country	1999 Sales	2000 Sales (Estimated)
Nokia TMC	Electrical/Electronic	Finland	1,600	2,700
Motorola Korea	Electrical/Electronic	Hong Kong	1,150	1,000
HP Korea	Electrical/Electronic	Netherlands	897	1,200
IBM	Other Services	USA	930	1,200
BASF Korea	Chemicals	Germany	1,017	1,280

Source: KOFA (Korea Foreign Company Association)

6.2 Interviews with Foreign Invested Companies in Korea

6.2.1 Overview

Senior corporate executives or representatives of existing foreign invested companies in Korea were interviewed and asked to provide their views on various topics such as reasons for investing in Korea, positive and negative aspects of operating a business in Korea, business outlook and future strategies, ways to promote foreign direct investment into Korea and advice/recommendation to potential investors considering investing in Korea.

Interviews were conducted in 10 different companies. Contents of these interviews and the interviews with six 100% foreign owned companies such as Rhodia Polyamide Co.,Ltd. (France), Air Liquide (France), Atofina Korea Ltd. (France), Fuji Xerox Korea Co., Ltd. (Japan) and joint venture companies such as Siemens VDO Automotive-SASCO (Germany 65%) and Toray Saehan Inc. (Japan) are summarized below.

6.2.2 Interview Summary

Reasons for investing in Korea

Through the interviews, it was found that economic factors such as market-seeking, where companies establish production facilities locally to avoid trade barriers such as tariffs and quotas, as well as efficiency-seeking, where companies seek to gain competitiveness by utilizing low-cost production inputs from the local market, were the main determinants affecting investment decisions.

In the case of foreign companies that had already been exporting to the Korean market through local agencies, the decision to invest in Korea was to benefit from market opportunities offered by increasing domestic consumption and to boost market share. In addition, Korea's convenient exporting location due to its proximity to other Asian countries (Japan, China, Hong Kong, Taiwan, etc.) and well-established infrastructure were also seen as positive factors in encouraging investment.

Foreign companies, which initially exported to Korea through local agents or engaged in joint venture with local companies, were found to have expanded their direct investment during the 1997 Asian financial crisis. In such cases, their Korean partners requested that the foreign parent buy them out as a means of boosting their (the Korean partners') liquidity.

Furthermore, foreign companies chose to invest in Korea as a production base in the Asian region due to Korea's cost competitiveness in production as compared with other Asian countries. Consequently, they were able to benefit from economies of scale by concentrating on the production of only a few products.

Difficulties encountered in the decision making process

In the case of multinational companies, no major difficulties were encountered in the decision-making process as they already had extensive experience in foreign direct investment. Foreign companies, which were already engaged in joint ventures with Korean companies prior to acquiring the operations entirely also reported no major difficulties before deciding to increase their level of investment as they were already familiar with their Korean counterpart and the local market. In some cases, reluctance by Korean companies to sell their joint venture stake was mentioned as difficulties encountered prior to investment.

In those cases where a foreign company was seeking to invest in Korea through a joint venture with a Korean company, finding a good Korean partner was mentioned as a major difficulty in the decision-making process. Some companies which chose to invest in Korea during 1998 pointed to the fact that Korea was not well known to foreign investors at the time as a country for foreign direct investment. Furthermore, uncertainties about the Korean economy during the Asian financial crisis led to hesitation in deciding to invest in Korea.

Consultation on direct investment in Korea

Most companies interviewed had already made inroads into the Korean market prior to directly investing or increasing their level of investment in Korea by way of exports through agencies or joint ventures with

Korean companies. As they were already quite familiar with the Korean market, companies did not seek external consultation on direct investment in Korea such as market analysis but in most cases only sought legal guidance through a Korean legal counsel.

Assistance or incentives offered by the Korean government

A small number of companies interviewed were benefiting from government investment incentive programs such as 10-year corporate tax exemptions/deductions, custom-duty exemption on the import of capital goods, tax benefits on capital increases, etc. However, companies do not view that government incentive programs play an important role in the investment decision-making process.

Companies also sought help from the Korea Investment Service Center and the Office of the Investment Ombudsman in seeking business-related information and in obtaining approvals from the government on such matters as factory extensions.

Positive factors associated with doing business in Korea

In terms of labor, there is a more than adequate supply of well-educated and qualified skilled personnel such as engineers, accountants and technicians across a wide range of industries and Korean workers have a proven high level of diligence and dedication.

Korea also has a well-balanced industrial structure, which makes it relatively easy to acquire basic raw materials for production, and a well-developed basic infrastructure in fields such as telecommunications, electricity, gas and transportation.

In addition, Korean workers and employers have a firm understanding of the demands of the global economy. For foreign companies, these attributes make Koreans easy to work with.

Negative factors associated with doing business in Korea

Although Korea has a highly competent labor force, its relationship with management and tendency to demand excessive pay raises is pointed out as one of the negative aspects of operating a business in Korea. Negotiations between labor and management often take the form of demonstrations and strikes rather than an ongoing discussion process. Labor's persistent demands for pay raises, despite their relatively high wage levels, also weaken companies' competitiveness in exports.

In addition, consumers have tendencies to purchase products based on relations with counterparts rather than assessing the quality of the products themselves.

In the case of laws and regulations pertaining to the restriction of certain business activities, the central and local governments sometimes have different interpretations of how they should be applied and this often causes confusion for businesses. Laws and regulations must thus be standardized, simplified and in line with global standards.

In terms of daily living factors such as traffic, pollution, inadequate education facilities for foreign children, language barriers, etc., were indicated as negative factors. Foreign schools in Korea are mostly based on American standards, which may not always be appropriate for foreign children from many different nationalities.

Outlook and strategy in the Korean market

The Korean market is growing more rapidly than the Korean economy and there will be increased market opportunities in the future. Companies are seeking to increase market share and expand their customer base through such opportunities.

Furthermore, companies felt they were able to produce good quality products at competitive prices in Korea and therefore, sought to increase future production and utilize Korean production facilities as a base for increasing exports to Asian markets such as Japan, Malaysia, India, and China.

Things to consider in promoting foreign direct investment

Companies viewed government policies and incentives on foreign direct investment to be relatively transparent. However, they felt that the government should take a more active role in easing management/labor relations and engage more actively in public relations activities in promoting foreign direct investment. As the image of Korean labor unions conveyed through the global media has a negative impact on attracting potential foreign investors, companies felt that the Korean government should become more active in labor issues such as maintaining or enhancing labor wage competitiveness and demands for wage increases, thereby helping to increase flexibility and predictability in the labor market. It was also indicated that the government should also provide incentives for existing foreign investors to increase their level of investment in Korea rather than solely focusing on attracting entirely new investors.

Korean companies should also increase their level of transparency to foreign investors, work to establish a relationship between management and labor based on trust and should seek to eliminate waste and loss in productivity brought about by corruption.

Advice or recommendation for potential investors

In the case of joint ventures, finding a good Korean partner was seen to be an important factor and having a majority share in the company and management control was viewed as desirable. Companies also should not only consider the positive aspects in establishing a business in Korea but also consider the disadvantages they will face in competing against local Korean companies. Companies should seek to prevent management and labor tensions by educating their staffs in the new corporate culture, respecting the employees and investing in them to help develop a sense of pride and loyalty in the company.

It is also desirable to seek the advice of foreign invested companies that have had extensive business experience in Korea.

Korea is a relatively safe place to live and although, political stability has been an issue in the past, it is no longer the case and companies felt that the possibility of an outbreak of war on the peninsula is very low.

Every country has its advantages and disadvantages and Korea is no exception. However, Korea is a market that yields relatively high returns on equity investment and a country that possesses many positive ingredients for the pursuit of successful business.

6.2.3 Interviews with Foreign Invested Companies

Siemens VDO Automotive (SASCO)

Company	Siemens VDO Automotive (SASCO)
Established	1988
Product	Electronic parts for automobiles
	Power Train - gasoline EMS, LPG EMS, sensors, TMS, PCU
	Safety and Chassis - airbag ECU, ABS ECU
	Body Electronics - ISU, BCM, smart card, immobilizer
Location	Head Office and Main Factory: 403-2 Saeum-dong, Icheon, Kyungki-do, Korea
	Seoul Office: #302 Union Centre, 837-11 Yuksam-dong, Kangnam-ku, Seoul, Korea
President	Yoon Keun Lee
Employees	381
Total Paid-in	12.6 billion won
Capital	- Siemens Automotive Group (65%)
	- Daesung Group (35%)
Annual Revenue	106.4 billion won ('00-'01) (assuming euro1 =1,120won)

Company Overview

With over 150 years history in the field of electronic engineering and a leader in innovation, Siemens is a global German company with an international presence in 190 countries and 460,000 employees worldwide. Its commitment to research and development has made the company a market leader in innovation of new technologies and products. Its annual budget for R&D is about 672 billion won while 57,000 employees worldwide are engaged in research and development. Siemens supplies a variety of products across a wide range of industries such as telecommunications, medical, electricity and transportation. In transportations, Siemens Automotive is one of the world's largest suppliers of electronic parts for automotives.

Siemens Automotive made its first direct investment in Korea in 1988 through the acquisition of a Korean electronic company. Having a 65% equity stake, Siemens Automotive has management control of the joint venture company, which has total capital of 12.6 billion won. In 2000-2001, annual sales reached 106.4 billion won while projected sales for 2002 are 131 billion won. Sales are expected to rise to 225.4 billion won by 2005. Total number of employees is 381 of which 191 are engineers and 121 are in R&D.

The basic generic engineering of products is developed in Europe while modification is made locally in Korea to accommodate market requirements. Some 90% of the company's output is supplied to domestically based Korean car manufacturers while only 10% is exported. However, as a large percentage of cars manufactured in Korea are exported overseas, Siemens' products are in fact being exported through the export of Korean manufactured cars.

As a result of the recent merger of Siemens Automotive and VDO in May of 2001, Siemens Automotive is now called Siemens VDO Automotive.

Reasons for investing in Korea

The reason for investing in Korea was to follow the market opportunities offered by some of the world's largest car manufacturers such as Hyundai, Kia and Daewoo Motors. In the late 1980s, the Korean economy was still relatively closed with trade barriers to protect its industries. In 1988, Siemens made the decision to directly invest in Korea to overcome these barriers to market opportunities in Korea.

Difficulties encountered in the decision-making process

The major difficulty in the process was finding a good Korean business partner with which to form a joint venture.

Assistance or incentives offered by the Korean government

In getting government approval for a factory extension, the company recently received assistance from the Office of the Investment Ombudsman, which was most responsive in assisting with the company's problems.

Positive factors associated with doing business in Korea

With the exception of Japan, Korea has the highest number of skilled workers compared to any other Asian country. Siemens Automotive requires skilled employees in a variety of fields such as engineering, accounting and sales and Korea has an adequate supply of such workers. In addition, Korean workers are diligent and dedicated.

Negative factors associated with doing business in Korea

Hyundai and Kia, which are the main customers of the company, have a near-monopoly in the domestic car market. This is not only bad for the consumer but it also creates a great deal of risk for suppliers of car parts, such as Siemens, as it is forced to rely heavily on only a few car manufacturers. The situation was made worse when Daewoo, which was previously one of the major carmakers in Korea, seized its productions and Siemens had to rely on even fewer number of carmakers.

In terms of living environment, traffic and education facilities for foreign children are some of the difficulties associated with living in Korea. Foreign schools in Korea tend to have education based on American standards, which may not always be appropriate for foreign children from many different nationalities.

Outlook and strategy in the Korean market

The company, which currently supplies mostly to the Korean market, plans to diversify and increase its customer base through exports overseas to Japan, Malaysia, India and China. In Korea, it is possible to produce the best product at the best price.

In addition, there still is room for market growth and potential market opportunities in Korea as the company seeks to meet new product requirements demanded by its customers.

Things to consider in promoting foreign direct investment

Conflicts between management and labor in Korea are often widely televised around the world through the global media. This produces a very negative image of Korea to potential foreign investors and also has a deleterious effect on the country's efforts to attract foreign direct investment.

Advice or recommendation for potential investors

Companies should seek to prevent management and labor tensions from the start. Siemens has been in Korea for over 10 years and so far it has had no problems with its employees and furthermore, no labor unions exist in the company. The reason for this lies in the fact that the company respects its employees.

Siemens actively sponsors its employees for long-term training programs offered at the head office in Germany or France, and employees not only get to learn and improve their skills but also have the opportunity to live overseas. Such investment in the staff has resulted in their developing a sense of loyalty and pride in the company. Despite the fact that there is a tendency in Korea for workers to be more loyal to their boss rather than to the company itself, Siemens believes that loyalty to the company is more important and in this respect, Siemens is very proud of its employees.

When building a factory, site selection is important. Some time ago, the surrounding areas of the company's head office and main factory were declared a greenbelt zone and this will make it difficult to expand the factory in the long run.

Rhodia Polyamide Co., Ltd.

Company	Rhodia Polyamide Co., Ltd.
Established	1999
Product	Engineering Plastics, Adipic Acid
Location	Seoul Office: 3/F Kangnam Bldg. 1321-1 Seocho-dong, Seocho-ku, Seoul, Korea Factory: Onsan (Adipic Acid), Anyang (Engineering Plastics) R&D Center: Anyang
President	Pol Le Roux
Employees	170
Total Paid-in	14.8 billion won
Capital	100% Rhodia owned
Annual Revenue	170 billion won

Company Overview

With representation in 151 countries, 147 factories and 30,000 employees worldwide, and over 8.2 trillion won in annual turnover, Rhodia of France is one of the world's largest companies in the fine chemicals industry.

Rhodia's products are used in a wide range of areas such as cosmetics, clothing, food, household goods, environmental protection, automobiles, intermediate goods and electronic products.

Rhodia has been investing in technology, labor and capital in Korea for over 25 years. In Korea, it has three fully owned companies and one joint venture investment, a total of 500 employees and total sales of 229.3 billion won in 2000.

Rhodia Polyamide Co., Ltd. was established in 1999 when Rhodia acquired 100% of Hyosung Engineering Plastics. Rhodia Polyamide produces engineering plastics and adipic acid with production facilities in Anyang and Onsan, R&D Centre in Anyang and head office in Seoul.

In Korea, the company is a market leader in engineering plastics and adipic acid while also a key market player in polyamides.

Reasons for investing in Korea

Not only are there market opportunities in Korea but it is also situated in a good position for exporting to the Japanese market. Currently, the company has technical development facilities in Korea and 100% of its products are sold to the domestic market. However, in the future, it plans to export up to 50% of its total production to the Japanese and greater Asian market.

Difficulties encountered in the decision-making process

Because Rhodia had previously known the Hyosung group at a working level, there was no major difficulty associated with the takeover of Hyosung Engineering Plastics and the decision was made rather quickly.

Consultation on direct investment in Korea

The company sought legal consultation through a Korean legal counsel.

Assistance or incentives offered by the Korean government

The company has not benefited from any government incentives. Although incentives play a role, it was not a decisive factor in the company's investment decision-making.

In comparing China and Korea, China offers much more in the way of incentives. However, it is paramount for a company to be able to deliver products of consistent quality through well-trained people. Korea has the skilled and experienced labor that makes this possible and in the long run, this is more beneficial to the company.

Positive factors associated with doing business in Korea

Koreans are good at same-process implementation. This makes for an early payback from achieving results from investment projects.

Negative factors associated with doing business in Korea

Korean businesses tend to lack real interest in quality issues and in working with suppliers to improve product quality. Sometimes, corruption exists in the quality control departments of businesses.

In many cases, business is relationship-driven rather than product-driven in Korea.

Outlook and strategy in the Korean market

The company plans to increase future production levels and export 50% to neighboring countries in Asia. Korea will also be utilized as a base for technological development and R&D in the region.

Recently, Rhodia signed a joint venture contract with a Japanese firm to increase the level of Adipic Acid production in its Onsan factory. The objective of this undertaking is to create the largest and most competitive Adipic Acid production facility in Korea through economies of scale, superior technology and upstream integration.

Things to consider in promoting foreign direct investment

China is currently offering far more extensive range of investment incentives than Korea. However, it is uncertain as to how long this will last. If the gap between China and Korea grows too wide, then Korea may become disadvantaged.

During 1995-2000, Korean labor wages have increased substantially and this has had a negative effect on the company's ability to be competitive. The Korean government should play a more active role on the country's wage increase issue.

Advice or recommendation for potential investors

Companies should not only look at the positive aspects of investment in Korea but should also consider potential handicaps it may face in competing with local Korean companies.

Toray Saehan Inc.

Company	Toray Saehan Inc.
Established	1999
Product	Chemical fibers - polyester film, spunbond (nonwoven), polyester filament, polyester chips
Location	Head office: 16/F LG Mapo Bldg. 275 Kongduk-dong, Mapo-ku, Seoul, Korea Kumi Factory1: 93-1 Imsu-dong, Kumi, Kyunsangbuk-do, Korea Kumi Factory2: 287 Kongdan-dong, Kumi, Kyungsanbuk-do

President	Young Kwan Lee
Employees	820
Total Paid-in	300 billion won
Capital	- 70% Toray (Japan),
	- 30% Saehan (Korea)
Annual Revenue	485 billion won

Company Overview

Toray, the chemicals giant of Japan, has a global presence in 17 countries through its 77 branches and subsidiaries and 35,500 employees worldwide. Total turnover of the company is roughly 520 billion yen a year.

Toray Saehan was established in 1999 as a joint venture between Korea's textile company, Saehan and Japan's chemicals group, Toray. The company was formed when Saehan was willing to sell part of its assets and Toray agreed to acquire it.

Toray Saehan's annual sales reach approximately 485 billion won. It has a total of 820 employees and two factories in Kumi. Its three main products are polyester film, spun bonds (nonwoven) and polyester filaments. Its domestic market share in polyester film and spun bonds is around 36% and 70-80% respectively. Some 85% of products are sold overseas while only 15% is supplied to the local market.

Reasons for investing in Korea

In terms of polyester film, Toray is the world's number one producer supplying 30% of the world's total output. In order to keep its leading position in the market, the company saw Korea as an attractive investment as part of its global operation network.

In addition, Korea was seen to have cost competitiveness in production. The strategic joint venture was an effort to maintain leadership in the international markets by combining the excellent workforce and cost competitiveness of Saehan with the capital, technology and global marketing capabilities of Toray.

Difficulties encountered in the decision-making process

There were no major difficulties in the investment decision-making. Toray had a 20% ownership in Saehan since 1974 and therefore, the two companies had already developed a strong business relationship prior to forming the joint venture. Toray was also familiar with the Korean market.

Assistance or incentives offered by the Korean government

The company does not benefit from any government incentives but feels that government policies can sometimes play an important role in a company's investment decisions. Before Toray Saehan was established, a Korea investment fund was set up as part of a national economic co-operation effort between Korea and Japan. Toray and Saehan took the opportunity to borrow the capital to invest in Korea through this special fund. Therefore, this can be seen as case of capital investment inflow based on government support.

Positive factors associated with doing business in Korea

Ever since it was formed, the joint venture company has continued to be in the black. This is because of the cost competitiveness of Korea when compared to Japan, and the fact that the employees were accommodating to the management plans in the new company.

Negative factors associated with doing business in Korea

There are no major negative factors other than Korea's rising labor cost, which may weaken the country's cost competitiveness in production. Also, strong and demanding labor unions tend to make negotiations between employer and employee difficult and this in turn weakens the flexibility of the Korean labor market.

Another factor is the lack of transparency that foreign investors face in the management of Korean companies.

Outlook and strategy in the Korean market

The outlook for the base film market is positive as the demand for base film is rising by 5%-6% every year and it seems that there is yet potential for greater market growth in the future. The market for spun bonds is also expected to grow as the use of nonwovens is increasing in everyday life and as the demand for spun bonds are rising by 10% every year. However, the outlook for polyester filaments, which is the raw material used for fabrics, is not so bright as there is already an oversupply in the market and is at the point of market saturation.

Things to consider in promoting foreign direct investment

In order to promote direct investment, difficulties associated with doing business in Korea must be mitigated for the foreign investors. In this respect, Korean companies need to be more transparent in their dealings with foreign investors and Korea needs to have greater flexibility in the labor market for the purposes of a better business environment.

In addition, the government should also look to provide incentives to already existing foreign invested companies for further investment in Korea. This is because it is easier to attract existing foreign investors, who are already familiar with the Korean market and environment, to increase their level of investment in Korea rather than trying to attract entirely new investors.

Advice or recommendation for potential investors

Cost competitiveness in production is a positive aspect of investment in Korea. In the case of Toray Saehan, there are still some areas of the Toray's business in Japan that will be transferred to Korea for this reason.

Air Liquide

Company	Air Liquide
Established	1995
Product	Industrial gases: O_2, N_2 etc.
Location	Seoul Office: 5/F Shindong Bldg. 726-164 Hannam-dong, Yongsan-ku, Seoul, Korea
	Factories: Yeochun Industrial Complex, Cheonahn Industrial Complex, Kumi
President	Bernard Dhainaut
Employees	40
Total Paid-in	US$80 million
Capital	100% Air Liquide owned
Annual Revenue	15 billion won (2000)

Company Overview

Air Liquide is a global French company and major producer of industrial gases used in a wide range of industries such as chemicals, steel, glass, beverages, and pharmaceuticals.

After 100 years in the business, Air Liquide has established a global business network in each of the continents and in 70 countries worldwide, and holds a strong position in Europe and the United States. It made its first inroad into the Asian market in 1907 when it began operations in Japan. With total annual revenues reaching US$7 billion and global market share of 20%, it holds the number one position world-wide in industrial gas production.

In 1979, the company made its first investment in Korea in a joint venture with the Daesung Group called "Daesung Sunso" in which Air Liquide had a 40% stake. At the time, the Korean government did not allow corporate foreign ownership to exceed 50%. However, by 1995, Air Liquide was able to establish a separate 100% wholly owned company. In 2000, the company's wholly owned Korean operation recorded revenues of 15 billion won and projects revenues to reach 30 billion won in 2001 and 70 billion won by 2003. Its main customer base consists of Korean and foreign businesses operating in Korea.

Reasons for investing in Korea

The 1970s was a period when Korean industries were developing, especially the steel and petrochemical industries, which were then at their early stage of development. This was thought of as an opportune time to invest in Korea. However, industrial gas production requires huge amounts of capital investment at the initial stage while returns on investment are not usually realized until 10 to 15 years later. Therefore, Air Liquide's investment in Korea was made from a long-term perspective.

Today, Korean companies are focusing on their core business and are relying increasingly on outsourcing their non-core business activities. This trend towards outsourcing is also seen as creating excellent business opportunity for foreign-invested companies.

Difficulties encountered in the decision-making process

Having extensive experience in foreign direct investment, Air Liquide had no major difficulties in establishing its investment in Korea. The only difficulty was that the company was not permitted to have 100% ownership in the 1970s.

Consultation on direct investment in Korea

Because of the company's extensive experience it did not seek external consultation on direct investment in Korea such as market analysis, but only sought legal consultation through a Korean legal counsel.

Assistance or incentives offered by the Korean government

When Air Liquide set up a fully-owned Korean operation in 1995, the company benefited from a seven-year corporate tax incentive program (100% tax exemption for the first five years and 50% exemption for the remaining two years). Due to subsequent changes in investment laws, the company was eligible for a 10-year tax incentive program (100% tax exemption for the first seven years of investment and 50% exemption for the remaining three years) in 1997. The company also benefited from other tax exemptions such as custom duties on imports, acquisition tax, registration tax, etc. However, these did not play a major role in the company's decision to invest in Korea.

Positive factors associated with doing business in Korea

Legal aspects of foreign direct investment in Korea such as investment incentives are transparent. There is an abundance of well-educated and qualified technicians and engineers in Korea. Furthermore, Korea is a relatively safe place to live.

Negative factors associated with doing business in Korea

Management and labor relations in Korea are seen as one of the problem areas. Korea labor unions tend to be very strong and violent at times. Negotiations between management and labor commonly take the form of demonstrations and strikes, and there is an absence of a long-term discussion process. In addition, labor unions continuously demand wage increases despite the fact that Korean labor wages are already comparable to those of developed countries.

Outlook and strategy in the Korean market

Market opportunities abound in a growing economy such as Korea, where a 1% increase in GDP results in a 1.5-2.0% increase in market size. Hence, market size tends to grow faster than the economy in general. Also, as Korean businesses are increasingly focusing on their core business areas while relying more on outsourcing for their non-core activities, Air Liquide sees future growth in the market and additional potential market opportunities.

As investment of large amounts of capital for an extended period of time is required due to the nature of the business, Air Liquide's investment in Korea is viewed as a long-term investment. As the company supplies to a wide range of industries, its future strategy will be to continue expanding and diversifying its customer base in various industries.

Things to consider in promoting foreign direct investment

The Korean government has done what it can in this regard and government policies and incentives on foreign direct investment are transparent. The government should now turn its attention to improving the image of Korea internationally.

Advice or recommendation for potential investors

Air Liquide has had a long history and experience in foreign direct investment. In the process, it has come to realize that there is no country is perfect. Each country has its strengths and weaknesses and Air Liquide had to operate under a variety of circumstances. However, Korea has most of the positive ingredients on which a successful business can be based.

Atofina Korea Ltd.

Company	Atofina Korea Ltd.
Established	1993
Product	Industrial chemicals (basic chemicals, fine and intermediate chemicals, performance products)
Location	Seoul Office: 14/F Leema Bldg, 146-1 Susong-dong, Chongro-ku, Seoul, Korea Chinhae Factory: 1-530 Changchun-dong, Chinhae, Kyungsannam-do, Korea Chilseo Facotry (Seki Atofina): 16L 8B Chilseo Industrial Complex, Haman-kun, Kyungsannam-do, Korea

President	Eric Quenet
Employees	70
Total Paid-in	14.7 billion won
Capital	100% Atofina owned
Annual Revenue	41.0 billion won (2000)

Company Overview

Atofina is the chemicals business arm of the Total Fina Elf Group, France's largest industrial company. Total Fina Elf is involved in three main business activities - oil, refining and chemicals - and is number 5 in the world in terms of oil and chemical production.

Atofina maintains a global business network and have made inroads into markets in the United States, Europe and Asia. In the Asian region, it is expanding and strengthening its operations through joint ventures with local companies. Atofina has 33,000 employees' worldwide and annual sales of up to US$10 billion.

Atofina had long been selling its industrial chemical products to the Korean market through its local agencies. However, to achieve a more unified management approach, it decided to set up a wholly owned company in Korea in 1993 - Atofina Korea Ltd.

Thereafter in 1998, it acquired the acrylic sheet and resin business of Hanhwa Chemicals in Chinhae and made its first industrial acquisition in Korea. In 1999, Atofina entered into a joint venture with Seki Catalyst Company, which has an office and factory in Chilseo, to form Seki Atofina.

Products can be categorized into three main groups - basic chemicals, fine and intermediate chemicals and performance products. Some 30%-40% of chemicals produced are exported to China, Hong Kong, Taiwan and other markets within the Asian region, while the remainder are supplied to the domestic Korean market.

Reasons for investing in Korea

When the company acquired the acrylic sheet and resin business of Hanhwa Chemical and entered into a joint venture with Seki Catalyst Company, it was against the backdrop of the Asian financial crisis. Many Korean companies were more willing than before to sell off their companies and this made negotiations easier as a foreign investor.

The company saw it as a good opportunity to further invest in Korea because Korean companies possessed many good, new assets and also because Koreans knew how to run plants and were "industry-minded". In addition, the fact that Korea is well situated to export to other Asian markets also played a role in the decision-making process.

Difficulties encountered in the decision-making process

In the past, Korea's political stability was a major issue. However, this is not the case today. Furthermore, the possibility of an outbreak of war on the Korean peninsular is very low.

The difficulty in the company's decision-making process to invest in Korea was rather the attitudes of Korean companies. Before the onset of the Asian financial crisis in the region, many Korean companies were reluctant to sell all or part of their companies to foreign investors and this made it very difficult to acquire Korean productive assets in the past.

Consultation on direct investment in Korea

At the time, the company sought legal consultation through a Korean legal counsel.

Assistance or incentives offered by the Korean government

The company benefited from tax incentives on capital increases. Investment incentives offered by the Korean government are helpful to the business. However, they do not play a major role in the company's investment decision-making. It is rather the social environment, more specifically, the level of wages that the company is more sensitive towards as this has a direct impact on the competitiveness of the company's exports.

Positive factors associated with doing business in Korea

Koreans are "industry-minded" and have an understanding and awareness of the global economy. Therefore, they share the same understanding as the company management.

Korean workers have good educational backgrounds and there are many good quality engineers.

Also, Korea possesses good basic infrastructure. However, the roads still need improvement and, with the exception of Pusan and Incheon, smaller ports on the west coast are less well equipped.

Negative factors associated with doing business in Korea

Employee demands for wage increase, language barrier with employees, stability of the Korean won and the collection of account receivables (A/R) are some of the negative aspects of operating a business in Korea.

When raw materials are imported and products exported, the company is exposed to foreign exchange risk and the stability of the Korean won becomes an important issue for the company.

The collection of account receivables is very difficult in Korea as there is no system of credit insurance for them. In many cases, the company has no choice other than to write them off. Furthermore, when compared to Europe, the maturity of A/R in Korea is too long and promissory notes are commonly accepted as the method of payment and thereby making collection even more difficult.

In terms of living environment, traffic, pollution and the lack of green space are some of the negative aspects.

Outlook and strategy in the Korean market

The investment in Korea is seen as part of the global network development of Atofina. The business strategy in Korea involves not only supplying to the domestic market but also to use Korea as a base for exporting to neighboring Asian markets.

Things to consider in promoting foreign direct investment

There is a need to establish a credit insurance system for account receivables as a measure to mitigate the difficulties associated with their collection.

Government incentives should not only aim to attract new investment inflows but should also be provided to existing foreign companies in Korea to increase their level of investment.

The competitiveness of Korean labor wages is also an important issue.

Advice or recommendation for potential investors

Return on investment is relatively high in Korea and therefore, a good place to invest.

When entering into a joint venture, it is important to have management control of the company and to educate the staff in the new corporate culture.

Fuji Xerox Korea Co., Ltd.

Company	Fuji Xerox Korea Co., Ltd.
Established	1974
Product	Office equipment - copiers, laser printers, computers, facsimiles
Location	Head office: 58-7 Seosomun-dong, Chung-ku, Seoul, Korea
	Incheon factory: 540-2 Kajwa-dong, Seo-ku, Incheon, Korea
	Pupyung factory: 423-4 Chungchun-dong, Pupyung-ku, Incheon, Korea
	Taejun factory: 48-6 Munpyung-dong, Taeduk-ku, Taejun, Korea
President	Nobuya Takasugi
Employees	1,051
Total Paid-in	14 billion won
Capital	100% Fuji Xerox owned
Annual Revenue	183 billion won (1999)

Company Overview

Japan's Fuji Xerox is one of the world's largest suppliers of office equipment with a business network in nine countries in Asia and Oceania region, including Korea.

Fuji Xerox made its first direct investment in Korea through a 50:50 joint venture with the local DongHwa group and established Korea Xerox in 1974. In 1998, at the request of its joint venture partner, Fuji Xerox acquired all of DongHwa group's shareholdings in the company and became the sole owner of its Korean operation. Thereafter in 1999, it changed its name to Fuji Xerox Korea and image from simply a supplier of office equipment to a supplier of solutions.

Fuji Xerox Korea aims to enhance the productivity of its customers by providing total solutions for document creation, delivery, storage and expansion.

In 1975, Fuji Xerox produced the first copiers in Korea and in 1996, was the first to successfully produce digital office equipment in Korea. Fuji Xerox is committed to enhancing the productivity of its customers through digital technology and providing total solutions to customers' needs.

Reasons for investing in Korea

Fuji Xerox decided to invest in Korea as it saw potential market opportunities.

Positive factors associated with doing business in Korea

From the perspective of Korea as a production site, Korea possesses highly qualified labor in all industrial sectors and is also well equipped with basic infrastructure in areas such as telecommunications, electricity, gas, transportation, etc.

From the perspective of Korea as a market, there is great potential for market growth. Due to the fact that Korea is densely populated, there is tendency for uniformity in consumer taste and it is easier to target different market segments. There is also a preference for foreign brands.

Negative factors associated with doing business in Korea

In 2001, Fuji Xerox was able to agree on the level of wage increase with its employees without negotiations through a frictionless process. However, for many Japanese investors the issue of management and labor relations poses one of the major obstacles to direct investment in Korea.

The relation between management and labor in Korea is comparable to a master and servant relationship. Such a closed style of management exacerbates the mistrust between employer and employee. For example, in 1998, when current president Mr. Nobuya Takasugi first came to Fuji Xerox Korea as CEO, the company was in financial difficulty and a suggestion was made that the company should postpone the payout of bonuses. However, the employees rejected this and did not trust the company. To rid of such mistrust between employer and employee, the company has made every effort to make management more transparent, such as through quarterly presentations to employees on the company's performance and business results, periodical discussion forums and in general, by creating a two-way communication channel between employer and employee.

Surprisingly, the usage of digital office equipment in Korea is much lower than that of other less developed countries in Asia and reliance is still mainly on analogue equipment. The reason for this can be traced to consumer behavior. Koreans have a tendency to focus on price rather than the quality of goods and therefore, expensive digital equipment has less appeal to the consumer than cheaper analogue equipment. Also, Koreans have a tendency to purchase goods based on relationship with distributors who share a common background rather than on the quality of products.

Koreans are also not accustomed to paying for services such as after service (A/S), which is often required after the purchase of office equipment. Also the use of pirated products for part replacements is common thereby damaging original office equipment.

Outlook and strategy in the Korean market

In Korea, the level of usage of digital office equipment is only 5% and the majority of offices are still reliant on analogue models. Digital office equipment usage in other less developed Asian countries is

20%-30% and therefore, the potential for market growth for digital equipment and market opportunities offered in Korea is substantial.

Things to consider in promoting foreign direct investment

There should be a separation between ownership and management in Korea to increase transparency in management. In addition, there is a need to establish a more trusting relationship between employer and employee to enhance the quality of management. In other words, Korea needs to develop its image as the "quality country".

7. Conclusion

7.1 Investment Environment in Korea

Korea is situated in a favorable geographical location, which can be utilized as an export base for the Northeast Asian region. As of end of 2000, Korea's population reached 47.3 million and GDP, US$458.6 billion.

Assessed in terms of major economic indicators such as exchange rate fluctuations, current account balance, level of foreign currency reserves, level of foreign debt and consumer price inflation, the Korean economy is quickly stabilizing following the Asian financial crisis of 1997 as a result of intense efforts to achieve a quick economic recovery and strengthen economic fundamentals.

In terms of investment policy, the Korean government has been taking active measures to promote foreign direct investment since 1998 through the liberalization of all foreign exchange transactions, removing of restrictions on the hostile takeover of Korean companies by foreign companies, and enactment of the Foreign Investment Promotion Act and Free Trade Zone Designation Act.

With regard to the liberalization of pre-establishment restrictions, the foreign investment liberalization rate increased to 99.8% and measures were taken to privatize public enterprises. Furthermore, the property and capital markets were completely deregulated and opened to foreign investors.

Post-establishment, restrictions on fund transfers, which can pose an impediment in the operating environment for a foreign invested company, have been significantly eased and all international remittances are legally guaranteed. When comparing the level of corporate and income tax rates across non-Japan Asia, Korea's tax rate is slightly higher than that of Hong Kong, Taiwan, Singapore but lower than that of Indonesia, Philippines, Thailand and Malaysia. In terms of level of tax as a percentage of GDP, Korea has the lowest level of tax after Mexico when compared to other OECD countries.

Korean government incentives take the form of tax and rent reductions and exemptions. The Korean government also provides a variety of support through the provision of funds to those small/medium venture businesses that have demonstrated superior technological skills and creativity. In addition, to promote foreign direct investment, the Korean government provides a range of investment incentives such as reductions/exemptions on tax and rent, technology development grants and specially defined areas such as Foreign Investment Zones and industrial complexes for foreign invested companies.

In the area of administrative support for foreign direct investment, KOTRA (Korea Trade - Investment Promotion Agency) established KISC (Korea Investment Service Center) to provide a comprehensive range of investment support services including investment plan consultation and procedural assistance, consultations in specialized fields such as establishment of new businesses, and acting on behalf of the investor in government approval procedures. The government has established the Office of the Investment Ombudsman, which works to resolve difficulties experienced by foreign companies and foreign investors in conducting business and settling in Korea through its team of "home doctors".

In an effort to strengthen intellectual property rights, Korea has joined intellectual property and patent rights organizations such as World Intellectual Property Organization (WIPO) and Patent Cooperation Treaty (PCT) as well as amending local laws to enhance the protection of such rights. According to the research paper titled "The level of patents and copyrights protected through regulation", conducted by IMD (Institution of Management Development, Switzerland), Korea advanced 14 rankings internationally in 2000 compared to 1999 in terms of the quality of its protection of intellectual property rights. Such a remarkable improvement reflects the Korean government's commitment to protecting patents and copyrights.

The major advantage of the Korean business environment is its abundant, highly educated work force. The percentage of university-educated adults is as high as advanced countries such as the U.K., France and Japan. Meanwhile, GDP growth for the period 1980 to 1998 increased by 5.9% annually, for higher than that of the U.K., Japan and the United States.

The fact that Korea has an excellent workforce was also confirmed in the interview with foreign invested companies in Korea. In many cases, it was mentioned that in Korea, there is an abundant supply of well educated and qualified skilled labor such as engineers, accountants and technicians etc. across a wide range of industries and that Korean workers demonstrate high level of diligence and dedication. Overall, companies were extremely satisfied with the quality of labor in Korea. However, labor's demands for excessive pay raises was cited as one of the negative aspects in operating a business in Korea. Negotiations between labor and management take the form of demonstrations and strikes rather than an ongoing discussion process. Labor's persistent demands for pay raises, despite their relatively high wage levels, also weaken companies' competitiveness in exports.

Korea is equipped with extensive road, seaport, and airport facilities and facilitates the transportation of goods through East Asian markets. Korea's road and railroad density as well as electricity and telecommunication costs are rated above most Asian countries. In particular, the country's IT infrastructure is at global standards.

In 1999, Korea's total expenditure on R&D was US$10 billion, representing 2.46% of GDP. This is higher than in certain developed countries such as Germany, France and the U.K. According to IMD's 2001 World Competitive Report, Korean companies ranked no.10 in the world in terms of R&D investment, and only second after Japan in Asia, clearly reflecting Korea's high level of commitment to R&D.

Industrial growth based on international markets has been the driving force behind Korea's economic growth. From producing high technology products to consumer goods, Korea has been able to develop international competitiveness and a well-balanced industrial structure. Such an industrial structure provides better value-creating opportunities for foreign companies through forward and backward linkages with Korean industries, which have large international market shares.

Korea is ranked third in the world in terms of total semiconductor production. In particular, the country is highly competitive in DRAM production, holding 40% of global market share. Korea has the largest dockyards in the world and ranks first in shipbuilding. In the first half of 2000, its shipbuilding totaled 6, 778,000 G/Ts, which was 41.5% of the world's total production. In terms of production volume of the countrys steel and automobil industry, Korea ranks sixth and fifth respectively in the world. In the 1990s, the government made various attempts to develop the telecommunications industry as a national strategic industry. As a result, the telecommunications industry production increased sharply by 5.9-fold from 18 trillion won in 1991 to 107 trillion won in 1999, and as a percentage of GDP, it rose from 7.2% to 22. 2% during the same period. The telecommunications industry is growing rapidly in both the domestic as well as the international market, especially the telecommunications equipment industry, which claimed a global market share of 2.6% in 2000. In order to develop the core business of the telecommunications industry, the government will continuously pursue its implementation program to support the concentrated development of telecommunications technology. Korea's well-developed telecommunications infrastructure coupled with the government's active telecommunications industry development policies have led to rapid growth, so producing numerous business opportunities for foreign investors.

7.2 Investment Environment Outlook

Economic and political factors such as market size, potential market growth, existence of consumers with purchasing power, political stability, economic circumstances, are all important factors in deciding where to invest. However, these factors cannot be controlled in the short term. On the other hand, investment incentives, simplification of investment procedures, image improvement, public relations, etc., are all factors, which can be enhanced in the short term to positively influence investors decision-making in where to invest.

With the recent return to stability in the capital market, Korea's industrial production and consumption levels have shown signs of recovery. However, economic recovery in the United States and Japan is progressing slower than anticipated. The EU is also experiencing slow economic growth. Therefore, the external conditions surrounding the Korean economy are unfavorable and an optimistic outlook of an economic recovery may be unrealistic at this point in time.

However, most of the foreign invested companies that were interviewed held optimistic views on Korea's market growth potential and indicated that company production and exports will gradually be increased. In addition, despite the recent slowdown in the economy, all companies have performed superbly.

The variables that are difficult to control in the short term and negatively influence Korea's investment environment are political instability and labor-management relations.

Since the 1980s, Korea's political environment has found stability through the democratization of the country's political system and the subsequent emergence of a civilian government. In addition, there is an active movement to improve the political environment. To continually keep the government in check, grass-root organizations voice their opinions on social issues and anti-corruption legislation to improve the transparency and impartiality of government in the execution of its duties. As a result, transparency in policymaking and implementation is on the rise.

On the issue of political tensions on the Korean Peninsula, the current Kim Dae Jung administration is pursuing its "sunshine policy", a policy based on toleration aimed at improving relations with the North. In June of 2000, the president visited the North where the leaders of both countries made a joint statement. The governments of the North and South facilitated the reunion of separated families, thereby contributed significantly to the easing of political tensions. The current administration is continuously working towards improving relations with North Korea.

In labor and management relations, foreign invested companies are mainly concerned about whether their rights to carry out normal business activity under the law will be protected when labor unions take illegal action, and the declining competitiveness of the company due to slightly excessive demands for wage increases by labor.

To address these concerns and to mitigate the negative impact of labor disputes on the business activities of foreign invested companies, the government is taking strict measures to deal with illegal labor union activities and is also making efforts to ensure that wage increase demands are within the limits of achieved productivity improvements.

Labor and management relations in Korea are undergoing a change from a relationship based on revenue sharing and characterized by confrontation and dispute, to a corporate competitiveness-oriented relationship characterized by co-operation and co-dependence. Such changes in labor and management relations are anticipated to continue in the future and better position Korea in an age of globalization, liberalization and competition.

Investment incentives, simplification of investment procedures, image improvement, increased public relations and investment support services are all factors which can be enhanced in the short term to positively influence investors decision-making in where to invest.

In order to lay the groundwork for sustained future economic growth in the Korean economy, Korea is working to improve its incentive system to attract foreign direct investment into high-tech industries to facilitate the development of an advanced industrial structure and the import of the latest technology for increased corporate competitiveness. In particular, the government is working to improve its tax incentive policies such as corporate tax incentives, which are proven to be effective in promoting foreign direct investment. In addition, it also offers other benefits such as rent reductions/exemptions and financial support for companies locating in Foreign Investment Zones.

Foreign invested companies that have been long established in Korea indicated that Korea is a far safer place than what it may appear to be from the outside and in reality, offers excellent conditions for the pursuit of successful business activities.

In terms of attitude towards foreign capital, negative attitudes towards local M&A activities of foreign companies have disappeared since the financial crisis of 1997, and the dismissal of management due to incompetence is now commonly accepted. Therefore, closed perceptions about the economy have significantly declined. At the same time, Korean government and the Korean people also need to actively promote the improved image of Korea through public relations.

Since the enactment of the Foreign Investment Promotion Act in November of 1998, there has been a significant improvement in Korea's investment environment in terms of policies and systems. It is expected that the foreign direct investment environment in Korea will continue to improve through the improvement in political stability, labor-management relations and easing of political tensions between the North and the South, in the long term, as well as through improvements in investment incentives, investment procedures and public relations activities, in the short term.

[References]

Ministry of Construction and Transportation, "Report on the Status of Roads", 2000

Korea Customs Service, "Yearbook of Tariff", 2000

Ministry of Labor, "Status of Vocational Training", 2000.5

Ministry of Commerce, Industry and Energy, "National Industry Almanac", 2000

Korea Investment Service Center (KISC), "Guide to Foreign Direct Investment", 2001

Ministry of Information and Communication, "Annual Report on Telecommunication", 2000

National Statistical Office, "Major Statistical Index of APEC countries", 2000

National Statistical Office, "Yearbook of International Statistics", 2000

Korea Labor Institute, Statistics of Labor

Bank of Korea, "Monthly Statistics Review", 2001

National Computerization Agency, "National IT Almanac", 2000

BLS, Comparative Real Gross Domestic Product Per Capita and Per Employed Person in Fourteen Countries (1996 - 1998), 2000

BLS, "Hourly Compensation Cost for Production Workers in Manufacturing", 2000

BLS, Monthly Labor Review

Dataquest

EIU, "Viewswire Country Report", 2001

EIU, "World Investment Prospects", 2001

Euromoney publication, "Corporation Location", 2000.6

eMarketer

IISI, "Steel Statistical Yearbook", 2000

ILO, "Yearbook of Labor Statistics", 1999

IRF, "World Road Statistics", 2000

IMD, "The World Competitiveness Yearbook", 1996 - 2001

KPMG, "Investment in Korea", 1998

KPMG Tax services, " Singapore 2001 Budget Special", 2000

Lecraw, "Companies' rating of factors influencing FDI flow", 1997

Lloyd's Register, "World Shipbuilding Statistics", 2000

Netvalue

OECD, "Education at a glance", 2000

OECD, "Main Economic Indicators", 2000.6

OECD, "Revenue Statistics", 1998

TECNON, "World Petrochemical Industry", 2000

UNCTAD, "World Investment Report", 2000

UNDP, "Human Development Report", 1999

UNESCO, "Statistical Yearbook", 1999

World Automobile Manufacturing Association

World Bank

Yearbook of World Electronics Data 2000 (UK)