DEVELOPMENTS IN KOREA'S OVERSEAS FOREIGN DIRECT INVESTMENTS

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Introduction

While foreign direct investment (FDI) into South Korea has been waning, outward Korean investment has been robust over the past year. According to *The Korea Times*, foreign investment in Korea through September of this year totaled $7.5 billion, decreasing two percent from the same period last year. The cumulative outward foreign direct investment by Korea stood at $100.7 billion at the end of the third quarter of 2006, up $12.5 billion from the end of last year.

Lagging FDI

FDI into Korea has fallen since reaching its peak of $12.8 billion in 2004, registering at $11.5 billion in 2005, and $7.5 billion in the first 3 quarters of 2006. Although South Korea is the world's 11th largest economy, and accounts for 1.8% of global GDP, it attracted only 0.8 percent of global FDI last year. Compared to its Asian competitors, FDI in Korea has been small.While Hong Kong's economy is about one fifth that of Korea's, it attracted five times as much FDI in 2005. Singapore, which measures in with an economy one seventh that of the ROK attracted 22% more FDI investment than Korea last year. A report by the Korean Chamber of Commerce and Industry attributed Korea's sluggish FDI to the fact that fewer multinational companies maintain their regional headquarters in Korea than in competing countries. As of last year, 21 multinational companies were reported as having regional headquarters in Korea, compared to 350 in Singapore, 120 in China, and 1,167 in Hong Kong.

A recent report by *KOTRA-Invest Korea* asserted that in order to develop Korea as an attractive investment destination in the region, "the government must be able to offer investors a proposition that sets it apart from the others. The key to edging out countries like China and India which offer large markets and cheap labor is to attract high-tech companies and R&D centers by adopting a transparent and impartial regulatory system, and by offering strong protection of intellectual property rights."

Indeed, the U.S. personal products manufacturer Kimberly-Clark recently announced that its first overseas research and development center would be established in Korea. Cheryl Perkins, the Senior Vice President and Chief Innovation Officer of Kimberly Clark reported to the *Korean Herald* that the "rapidly developing science, technology and design infrastructure in Korea creates a highly favorable climate for innovation," and that Korea's "technical talent pool and strategic location" makes Korea an attractive destination for R&D operations.

Growing Outward Investment

Korean firms are increasingly investing in overseas production plants. According to *The Korean Times*, South Korean government officials expect Korean firms to increase their overseas investments in the first half of 2007 by $6 billion. *The Financial Times* reports that Hyundai and Kia are planning to double overseas capacity from the current 1.39 million units to 2.89 million in 2011. In 2003, direct overseas investments by Korean firms totaled $5.9 billion, increasing to $8.1 billion in 2004, $9.2 billion in 2005, and $12.5 billion in the first three quarters of 2006. South Korean conglomerates are expected to increase overseas investments in the first half of 2007 by $6 billion.

The destinations of the investments are increasingly globalized, with Samsung and Hyundai Motors both setting up production plants in the United States, India, and Central Europe (Samsung in Russia and Slovakia, Hyundai in Czech Republic and Slovakia). The SK Group is also planning vast overseas expansions with oil refineries in Vietnam, the Middle East and South America. Posco, Korea's largest steelmaker is planning to invest $12 billion in a steel mill in India. LG Electronics has also experienced a surge in overseas investments, having expanded in Russia, Poland and Mexico.

China**:** The Samsung Economic Research Institute reports that Korean manufacturers began entering China in the mid to late 1990's. In 1992, China accounted for less than 12 percent of Korea's total foreign investment outflows. This share jumped to over 38 percent in 2004, and 41 percent in 2005. China became Korea's largest foreign investment destination in 2002. Korea is currently the second largest foreign direct investor in China, having accounted for 6 percent of China's cumulative FDI through 2005, just behind Japan. Kia anticipates manufacturing more than 1 million units overseas in 2009, with over 430,000 being produced at its two plants in China.

United States: Hyundai currently operates a plant in Alabama, and Kia recently celebrated the groundbreaking ceremony for a plant in Georgia. The factory is expected to produce 300,000 units annually, providing Kia with greater access to the U.S. market. With this leverage, Kia anticipates selling 350,000 units in 2006, and 800,000 units annually by 2010. One consequence attributed to this development is the emergence of the Korean community in the Atlanta, Georgia area. *The Chosun Ilbo* recently reported that the Atlanta area is now home to more than 50 Korean restaurants, and that Korean stores, and signs in Korean have been sprouting rapidly. The Korean Consul General in Atlanta believes that the Korean population has grown by ten percent in the past year.

***Central Europe*:** Korean electronics and automobile manufacturers have been flocking to Central Europe to take advantage of the region's well-educated, inexpensive work force, and its proximity to European markets. *The Chosun Ilbo* reported that Samsung Electronics will invest $500 million in a digital TV plant in Slovakia, with LG investing an additional $100 million in digital TV manufacturing facilities in Poland by 2010. The European market currently accounts for 40 percent of global digital TV sales. With demand for digital TVs expected to grow 50 percent annually for the next several years, the Korean firms are well positioned to export the large digital TV sets throughout Europe, and thus avoid the shipping time and costs that would otherwise be associated with manufacturing the sets in Korea or China. Simultaneously, they are able to take advantage of Central Europe's low labor cost, which is about 50% below those of Western Europe.

India: In a recent article of *The Korea Times*, Hyundai Motor Chairman Chung Mong-koo declared that India will serve as one of the company's main overseas bridgeheads. Hyundai officials predict that India's auto market will quadruple over the next ten years, fueled largely by strong sales of compact cars. The Indian market is expected to total 1 million units for 2006, up from 850,000 units in 2005, and reach 1.6 million units by 2010. Accordingly, Hyundai is anticipating a market share of up to 20 percent, and hopes to bring annual production in India to 600,000 units with two factories.