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Foreign Direct Investment in Korea

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for Increasing Investment and Financial Flows, UNCTAD

by

the Republic of Korea

I. General Consideration

A. Main factors and impediments

Politically, a new government elected through fair and democratically contested election was recently inaugurated. Socially, stability has been restored in our society. Culturally, encounters with different cultures have increased dramatically thanks to liberalization of travel overseas. With the convergence of the above factors, foreign investors in Korea are now able to operate in a business environment more conducive to local production and marketing of their products.

The Korean economy grew at an annual rate of 10% between 1980 ~ 1990. As a result, Korea has now one of the largest market in terms of the size of GNP amidst developing countries. Although domestic economy has recently recorded its lowest growth rate, thus seemingly discouraging the foreign investment susceptible to fluctuations of economic growth rate, the economy is expected to show some signs of recovery from recession and the savings rate which had exceeded investment rate since 1986 has been declining since 1990, increasing the need for inflow of foreign capital.

There are other factors encouraging the foreign investment : the expanding markets due to the national income growth, depreciation of won, relaxation of tariff and non-tariff barriers and continued implementation of import liberalization policy.

Korea prides itself in its well-educated labor force who have gained experience from the rapid economic development.

In addition, such infrastructure as railways, ports and telecommunications are well developed in Korea, relative to those in other developing countries, and the government has a comprehensive plan to further develop the social infra-structure in the coming years.

Also, in order to gain access to newly opened markets such as China, Vietnam and Siberia, where the transition to free market is rapidly taking place, the geographic location of Korea makes it an ideal base for an eventual entrance into those economies.

On the other hand, the Korean democratization process in the latter half of the 1980s was accompanied by a sharp rise in the number of labor disputes and the level of wages. In turn, the number of foreign investments that took advantage of Korea's cheap labor declined. Nevertheless, political and social stabilization are helping to ease labor unrest, creating a more stable labor market. All the more, as the growth rate in nominal wages has been decreasing since 1990 and the labor productivity is improving thanks to increased investment in facility automation, the business environment in Korea is gradually regaining its attractiveness for foreign investors.

Currently, Korea's interest rates are higher than those of many other countries. However, with the start of credit control and tight fiscal and monetary policy, there are signs of slowdown in inflation rate.

B. Economic policy Framework

The main objectives of the fiscal policy are :

o Continually stabilizing the national economy while restraining the increase of current spendings ;

o Reinforcing international competitiveness.

The major features of the budget for enhancing international competitiveness are as follows :

- Financing small and medium-sized enterprises facing difficulties.
- Supporting structural adjustment of agricultural and fishery industries.
- Expanding social overhead capitals such as roads, rail-ways, subways and potable water supplies.
- Developing advanced technologies and expanding the supply of industrial technicians.
- Improving education, public security and social welfare, and reducing environmental pollution.

The monetary policy is mainly aimed at attaining price stability and estiblishing an equilibrium on the current account of the balance of payments.

Greater efforts are exerted to supply money in optimal quantities so as to recover the basis for economic stability, and to channel the limited available funds into export and productive sectors.

In March 1990, Korea moved from a multi-currency basket peg to the Market Average Exchange Rate(MAR) system, to give market forces a greater role in exchange rate determination. The MAR system permits exchange rate flexibility over time, but limits daily fluctuations in the won/U.S. dollar rate to a band around the weighted average of the previous day's rate in the interbank market. Since the introduction of the MAR system, daily exchange rate fluctuations have generally been relatively small.

Tight labor market conditions and changing industrial relations in the wake of political liberalization in 1987 led to a sharp acceleration of wage increases which far outstripped productivity growth. After experiencing the large wage increases in the late 1980s, the Government has sought to limit wage growth through wage guide-lines.

Since the early 1980s, Korea has implemented a comprehensive program of trade liberalization, and has achieved a significant reduction of quantitative controls and tariffs. By 1992, the import liberalization ratio for manufactured products had risen to 99.9 percent, and that for agricultural products has increased to 87.1 percent. Korea has successively reduced import tariffs over the past decade. The weighted average tariff on nonagricultural imports declined from 22.6 percent in 1982 to 8.4 percent in 1992, while the average tariffs on agricultural imports declined from 31.4 percent to 18.5 percent.

Korea's securities market has been experiencing a severe depression, forcing the Korean Government to restrict the supply of total stocks, which meant holding back privatization of public enterprises, and postponing 1990's privatization plans of public enterprises. When the Korean stock market is revitalized and investments become more stable, the privatization of public enterprises will be resumed.

Keeping pace with the nations level of progress and internationalization, the Ministry of Finance announced an important four-stage interest rate deregulation plan in August 1991. Implementation of the first stage plan, focusing on short-term loans and deposits, started in November 1991 and is currently being successfully carried out. The second stage plan, to be implemented during the first half of this year, will deregulate deposits of over two years and loans of banking and non-banking financial institutions. By the time the third stage plan is completed in 1996, about 90% of interest rates will have been completely liberalized.

Also particular significance is the Korean government's complete revision of the Foreign Exchange Management Act in December 1991, converting the previous positive system into a negative system. Good examples of the scope and extent of the ongoing financial liberalization are the 30 or more deregulations and market opening measures, including increases in CD issuance limits and suspension of swap reductions, that were implemented for foreign banks and securities firms.

The ROKG has also gradually expanded market access for foreigners making portfolio investments. During 1989 to 1990, the government has expanded indirect opening of the capital market, such as investment funds for foreigners and issuances of equity-related overseas securities. In 1991, foreign securities companies were allowed to set up branch offices and to establish joint-venture securities companies and in 1992, foreigners ware allowed to directly invest in the Korean stock market and as of March 1993, there was an inflow of about U$2.8 billion of foreign investment. As Korea continues with its reforms, the current 10% ceiling on foreign holdings of a domestic firm's stocks will be gradually raised.

For a more broad and systematic financial liberalization, the Korean government announced in March 1992 the three-stage blueprint for mid-to long-term financial deregulation and market opening. Already implemented under the first stage are measures to facilitate the Korean currency funding for foreign banks, to improve transparency in bank supervisory regulations, and to expand the range for exchange rate fluctuations among others. The second-stage, announced in June 1992, includes plans to open the investment trust industry, to relax restrictions on foreign exchange positions of banks, and to internationalize the Korean currency. The third-stage deals with the long-term and structural issues in Korea's financial industry development.

These include interest rate deregulation, relaxation of lending regulations, bond market opening, and liberalization of capital transactions, to name a few.

The manpower policy will emphasize the following to address labor shortages.

- o Improvement of the vocational education and job training system to better meet the demand of labor force
- o Utilization of untapped labor force
- o Establishment of an employment insurance system.

The Preservation of environment is one of the major problems facing the national government, which are to be settled urgently. The government has put a great emphasis on the supply of clean water, reduction in quantity of wastes, acceleration of reutilization, execution of various policy projects, etc.

Ⅱ. Foreign Direct Investment(FDI)

A. Developmental contribution

(a) Trends

Inducement of forign investment began in 1962 with the goal of supplementing investment resources and introducing new technologies. As of late 1992, 3,905 cases(amounting US$ 10,163 million) had been approved, among which US$ 7,845 million had arrived and contributed to our economic dvelopment. Recently, foreign investment is playing increasingly significant role in the Korean economy as can be seen in the current trend that, annually, the amount of foreign investment is exceeding 1.3% of the total fixed capital formation. Although the original goal of channeling foreign invested funds into building the natonal economy has lost its initial lustre, the importance and need for continuing to promote foreign investment is still great in light of introducing advanced technologies and management know-hows from dveloped countries.

A review of the trends in foreign investment since 1980 reveals that the foreign investment was on the constant increase until after mid 1980's but recently started to show a downward trend. As it entered 1990, the foreign investment in general began to decline with the total amount reaching US$ 900 million. Particularly in the manufacturing industry the foreign investment was recorded at US$ 600 million.

In 1960's when the foreign investment began to be introduced, investments were centered in labor-intensive industries such as fiber, garments, electricity and electronics. As the national economy began to make progress, the foreign investment was gradually shifted to technology-or capital-intensive industries such as chemicals and transportation means.

The foreign investment has been mainly coming from Japan and the United States. A look at the recent trends in foreign investment by countries, will show that investment from Japan is on the gradual decline, whereas investment from the U.S. is slightly increasing. The another trend which attracts the attention is that the source of foreign investment is being diversified as can be witnessed in the steady rise of investment from the european countries since the late 1980's.

(b) Review of Government Policy and Measures

Promotion of FDI in Korea dates back to the year 1960, when the Korean government enacted the Foreign Capital Inducement Act. (FCIA). The law and the related administrative decrees underwent several changes thereafter but the main contents remained the same until 1983.

During this period, FDI in Korea was expected to supplement the domestic sources of investment, exploit export markets, and transfer advanced technologies. The Korean government(and firms under government incentive schemes), however, basically chose the "debundling" strategy : Korea imported technology and capital separately through licensing and loans rather than in packages through FDI. FDI was allowed, when this approach did not work, to play more or less a residual role in industrial development. As the government protected infant industries from imports, so it tried to preserve some prerogatives for local firms in relation to foreign investors. The policy stance of Korea on FDI was to promote FDI under the condition that this principle was met. The government also maintained control of the size and operational scheme of incoming foreign capital. But once approved, FDI was provided with various promotional measures.

The promotional aspect of FDI policy during this period was manifested in the following measures :

1) to allow investors to remit the principal and earnings to their home country,
2) to provide strict protection for intellectual property rights such as patents and trade marks belonging to investors,

3) to reduce uncertainties and risks facing investors by pursuing bilateral negotiations such as Investment Guarantee Agreement and Double Taxation Avoidance Agreement,
4) to give tax exemptions and deductions to investors, and
5) to ensure a favorable business environment for investors by constructing free export zones, facilitating the use of financial resources, and establishing a one-stop service center where government officials from relevant ministries worked together.

The restrictive aspect of FDI policy consisted of the following measures :

1) to prohibit FDI in general and designate industries where FDI was allowed, which was called positive list system : liberalized industries generally covered those with certain effects of export promotion, import substitution, development of domestic natural resources, and large-scale projects listed in the five-year economic development plans,
2) to limit remittances of principal and earnings within a certain portion of invested capital : in the early 1960s, the sum of the remitted principal and earnings could not exceed one fifth of the initial investment,

3) to restrict the equity share of foreign investors by putting a ceiling, which varied across industries depending upon export/production ratio, technology transfer clause as conditions incidental to investment approval.

In international standard, Korea's FDI policy during this period was characterized by the dominance of restrictive features, reflecting the strategy of industrial policy described above. As a result, total amount of FDI approvals during the period 1962-1983 amounted to only 375 projects or 1,179 million dollars. Compared with other developing countries, the size of FDI during this period was not impressive.

In the early 1980s FDI policy shifted towards liberalism. This was in line with the liberalization and deregulation of the Korean economy in general. The international environment was also changing : as the Korean economy grew rapidly, developed countries were increasingly unwilling to sell technology through licensing ; with the rapid development of information technology, developed countries' firms were inclined towards more proprietary forms of international business. To cope with the situation, Korea decided to enhance its R&D efforts drastically on the one hand and to liberalize FDI on the other.

The policy change was directed both to lifting restrictions and to reducing privileged incentives for foreign investors. These seemingly contradicting changes were aimed at giving national treatment to foreign investors.

In 1984, the listings of industries were changed from the positive list system to the negative list system. Under the new system, all industries not listed on the government's announcement were qualified for FDI approval. Also, the automatic approval system was introduced to exempt certain categories of FDI projects from government screening before approval.

The automatic approval system was replaced by the prior notification system in 1991. The new system allowed certain categories of FDI projects to be freely carried out as long as they meet pre-announced criteria.

Currently, changing the approval oriented foreign investment system to the notification oriented system, which covers 91% of the total businesses eligible for foreign investment, the notification system has been applied since March 1, of 1993 to the overall liberalized industries except for few industries such as retail business and hotels regardless of foreign equity ratio.

Restrictions of foreign equity holdings have been relaxed significantly. There is no limit to foreign equity participation in most industries. A few exceptions are observed in strategically important industries such as fishery, mining, marine transportation, and some infant manufacturing industries.

In the previous phase, the government was restrictive and selective about FDI, but once approved, all FDIs were provided with tax privileges. Along with liberalization, tax privileges were abolished with the exception of those for high technology industries. The Korean government now extends tax privileges only to industries such as precision testing machines, optical instruments, precision ejectors, industrial robots, electronic switching systems, computer program media, etc. This is because now the most important economic task in Korea is industrial restructuring and here FDI is expected to play an important role, while other roles of FDI such as capital import and export promotion have become less important.

Since 1989 inflow of FDI has been stagnant. Moreover, stagnation of FDI is more salient in manufacturing. Except for the unusual surge in 1991 due to the joint venture investment of US$ 470.9 million by Ssang-yong and ARAMCO, the general trend of FDI manufacturing is stagnant. Still more worrisome is the decline of FDI in high technology industries.

The tax-exempted FDI projects in the high technology industries accounted for 19.6 percent of the total number of FDI projects in manufacturing sector in 1988, but the share fell to 5.7 percent in 1992.

The agenda for further liberalization currently consist of the following :

1) to shorten the remaining list of restrictions on FDI and to make prior notifiction rather than approval the major principle of FDI process,

2) to enhance transparency and consistency in the regulation of FDI, by clarifying the rules of regulation and thus reducing the room for the discretion of government officials,

3) to reduce red tapes in the investment process by reducing document requirements and by shortening the time of examining documents,

4) to ease the restrictions on the real estate ownership by foreign investors.

In addition, the following are to be implemented by the Korean government as promotional measures of FDI :

1) to allow high technology investors with difficulties obtaining domestic financing short-term overseas borrowing since the interest rate differential is large(this is not allowed to local firms),
2) to extend tax exemptions to high technology service industries,
3) to build high technology industrial complex solely for foreign investors,
4) to launch a public relations campaign to improve the image of FDI to the Korean people, who still have somewhat negative image of FDI, and
5) to strengthen efforts to disseminate information to foreign investors about improved FDI conditions in Korea.

All these liberalization and promotion measures will be implemented at least partially during 1993. As discussed above, however, much will depend on the turn-around of the economic situation in general. Lastly, much will also depend on the behavior of the private sector. For a smooth liberalization, private enterprises should devote more efforts to innovation and productivity increase. Most of all, they should not divert their resources to nonproductive purposes such as real estate speculation or other rent-seeking activities. Then they will be able to get a more efficient and effective technology transfer through FDI. This will also lead to the stimulation of competition rather than dominance by foreign firms through FDI.

B. Regulatory framework

In July 1984, Korea adopted the negative list system. Under the negative list system, all industries that are not on the list are open to foreign investments. Consequently, the foreign investment liberalization ratio rose to 66.1%, compared with 60.9% under the positive system. The FDI liberalization ratio continued to grow to 83% for all industries as of March 1993. Manufacturing sector has been opened to FDI more rapidly than other industries, as is indicated by the higher liberalization ratio, which stood at 97.8 percent in 1993. Though the liberalization ratio of service sector is far lower than that of manufacturing sector, those service industries which are of interest to foreigners such as finance, wholesale, and marine transportation are at least partially open to FDI.

Foreign investors should receive an approval from the MOF or notify the MOF(or the BOK) in advance, to do business in Korea pursuant to the FCIA. With regard to other legislations, there are no discriminatory procedures against foreign investors, except when permission for land acquisition is involved.

The FCIA guarantees full repatriation of principal and profits by a foreign invested firm. The properties of foreign-invested firms are guaranteed and protected from requisition or expropriation by relevant laws and decrees.

With the recognition that the adequate and effective protection of Intellectual Property Rights(IPR) contributes significantly to the expansion of internatonal trade and to the free flow of technology among nations, the Korean government is formulating and implementing positive and aggressive intellectual property policies. It has also actively participated in WIPO-organized international meeting for the harmonization of IPR systems and has presented Korea's position at UR/TRIPs negotiations. The result of these international discussions will be fully reflected in the amendments to Korea's relevant laws.

A foreign corporation is liable for corporation tax only on the income derived from sources within Korea. Corporation taxes on income is assessed and collected in the same manner as they are applied to a domestic corporation. Corporation taxes are assessed at graduated rates ranging from 20 percent to 34 percent. In addition, corporations are liable for inhabitant taxes which generally account for 7.5 percent of the corporation income tax amount. However, if the foreign invested firms are granted tax incentives (reduction or exemption) by the government, special treatment other than the above mentioned may be applied under the FCIA.

The Korean government abolished performance requirements such as export requirements, and local content obligations in 1989, not only for new ventures but also for existing FDI projects.

Thus far, Korea has signed agreements on the protection of investment with 30 countries. Korea has concluded conventions with 42 countries to avoid double taxation and to prevent fiscal evasion of income tax.

C. Other domestic measures to attract FDI

The basic policy direction of the government on foreign investment is to liberalize and simplify the investment procedures in accordance with the overall economic policy. This policy seeks to grant national treatment to foreign investors so that freer and fairer competition can exist between domestic and foreign companies, thereby promoting an efficient, free market economy.

Nevertheless the Korean government is still providing tax incentives for the foreign investments which bring advanced technologies into Korea.

(a) Tax Incentives

(1) Businesses eligible for tax exemption or reduction

o Those businesses located in the Free Export Zones in Masan and Iri.

o Those businesses accompanied by advanced technology which are in the specified 83 projects listed in the Regulations after the consultation with the relevant ministries such as the Ministry of Science and Technology and the Ministry of Trade and Industry.

(2) Tax exemption or reduction

The following taxes are exempted or reduced in proportion to the foreign equity ratio.

- o The income tax and corporation tax of a foreign invested firm shall be wholly exempted during the year of business commencement and for the following three years. For the 2 years after the above mentioned period, the income tax and corporation tax of the foreign invested firm shall be reduced by 50%.
- o The income tax and corporation tax on stock or share dividends shall be reduced by 50% for the years mentioned above.
- o The acquisition tax, property tax and aggregate land tax shall be reduced by 50% for the years mentioned above.
- o The customs duty, special consumption tax and the value added tax shall be reduced by 50%.

(3) Tax exemption on royalties

The FCIA allows tax exemption on royalties accruing from technology licensing contracts as well as for foreign investment. 106 kinds of advanced technologies are eligible for the 5 year tax exemption from income taxes or corporation taxes on royalties.

(b) Financial Incentives

The allowance of off-shore financing, even with some restrictions, is an extraordinary measure designed to mitigate the financing difficulties of the foreign investment firms, especially since off-shore financing is presently not allowed to domestic firms because money supply from the foreign sector might have negative economic effects such as stimulating inflation.

In January of 1993, off-shore financing from parent companies or foreign banks for foreign invested firms in the high-tech manufacturing field, which were given tax benefits, was allowed with a ceiling of 50% of the total foreign investment amount and a time limit of no more than 3 years.

(c) Others

An information center for foreign investment was established within the MOF, and its task includes counselling foreign investors on the difficulties they face while doing business in Korea.

The Small and Medium Industry Promotion Corporation, a non-profit organization, provides a wide range of information to potential investors through its Center for Foreign Investment Services.

D. Export Processing Zones

To attract foreign investors willing to export total product with minimum integration with the local economy, the Free Export Zone Establishment Act(FEZEA) was enacted and became effective on January 1, 1970. As stipulated under the FEZEA, the EPZ was established to facilitate economic development by inducing foreign investment, technology transfer and know-how, promoting exports and increasing employment. In addition, the Korean government aimed for regionally balanced industrial development. EPZs were established in Masan, Kyongnam Province and in Iri, Chonbuk Province.

The EPZ is a specially designated industrial area where foreign invested enterprises may import raw materials or semi-finished goods, and manufacture, process, or assemble products for export, free of duty. It has the characteristics of a bonded area in which various laws and regulations may by waived or relaxed. Customs duty payments may be deferred until the goods made from imported raw materials are exported. Firms operating within the EPZ may import raw materials without obtaining government approval. The EPZ is an industrial estate on which the government constructs various facilities for lease, such as plants and standard-type factory buildings. Certain legal privileges and tax incentives are accorded to participating enterprises and all administrative services, including the authorization of foreign investments, are readily provided.

In the EPZ, the number of firms approved for occupancy increased from 4 in 1970, to 115 in 1973 and, thereafter, gradually decreased to 97 by the end of 1991. Diverse investments have been made for the production of export goods. Of total investments, 62.0% was in the electric and electronics sector. The share of exports of the two EPZs by the end of 1991 was in the vicinity of 2.2 percent of total exports. EPZ employment peaked in 1987, at 41,518. Thereafter, the figure has gradually decreased, owing to worldwide economic stagnation.

Enterprises in the EPZ are entitled to the exemption or reduction of Income tax, the corporation tax, the acquisition tax, the property tax and the aggregate land tax, in proportion to the share of foreign invested-ownership. While the FCIA stipulates that domestically available capital goods may not be imported with foreign capital, such provisions are waived in the EPZ.

Imported goods, products manufacutured or assembled in the zone, wastes and by-products generated in the production process should not be transported into a tariff area without the approval of Director of the Free Export Zone Administration Office and the permission of the customs director. Participating enterprises are required to manufacture, process and/or assemble imported materials in their entirety for export.

The EPZs' significance have diminished over time, but, nevertheless, have played an important role in industrial development. During the formative years, EPZs had a substantial impact on regional development as a result of expanded employment opportunities, increases in wages and social overhead expenditures. The importance of EPZs in the development of the Masan and Iri areas has relatively decreased in recent years due to the new and substantially larger adjacent industrial areas under development.

Due to their essentially self-contained nature, the contribution of the Masan EPZ to the regional economy has been enormous, since $ 80 million in wages and $ 183 million in supply purchases is channelled into the region monthly. In addition, many participating enterprises obtain parts and components from outside subcontractors, though its effect on regional economic development is difficult to assess. Presently about 45% of production materials used in the Masan EPZ are supplied by local firms in the Korean customs territory, or some 44 Masan EPZ firms are obtaining production materials, such as parts, components and other materials, from about 330 locally sub-contracted firms.

E. Home country, regional, and Multilateral measures

(a) Overseas Investment and Promotional Policies

In the mid-1980s, Korean industries faced a mounting need to invest overseas. The erosion of competitiveness in some labor intensive industries, growing regional integration in Europe and North America, and rising protectionism in the world economy created new challenges for Korean industries. One of the solutions was Korea's overseas investment. Meanwhile, ending of the status of Korea as a chronic debtor country through the large balance of payment surplus during 1986-88 period enabled the Korean government to liberalize overseas investment.

The liberalization of overseas investment has been executed through various promotional measures. In the past, Korean investors had to obtain permission from the government for overseas investment. Now investment not exceeding 5 million dollars is allowed by only notifying the authorities concerned(Bank of Korea) instead of prior permission. The government plans to raise the minimum investment amount eligible for the prior notification system and to gradually abolish the other restrictions in overseas investment.

For the purpose of enhancing financial availability, the Overseas Investment Credit was established by the Korea Eximbank in 1987 and its volume has been increasing rapidly, from 40 billion won in 1988 to 100 billion won in 1989, and again to 140 billion won in 1990.

Financially, small and medium sized enterprises benefit more than large enterprises : especially, they benefit from the favorable interest rates and priority allocation of the Overseas Investment Credit. In 1990, 70 percent of the total projects supported by the Overseas Investment Credit were small and medium sized enterprises.

In addition to the Overseas Investment Credit, the Korea Eximbank is providing another loan program using the budget-financed Economic Development Cooperation Fund. This loan program is provided to Korean investors who are seeking foreign investment in developing countries with more favorable terms. It was introduced with the goal of supporting international cooperation in the industrial development of developing countries. The projects eligible for loans are overseas investment projects which promote economic cooperation but are so risky, or the expected return so low, that it cannot be financed by commercial loans.

The government also provides some tax incentive programs designed to support Korean investors abroad. One of them is the allowance of a reserve for overseas investment losses up to 20 percent of the investment amount, which is tax deductible as operating losses, and another is anti-double taxation on income earned from foreign investments.

The Korea Export Insurance Corporation provides overseas in investment with insurance on behalf of the government to protect Korean investors from political risks such as war, expropriation or inconvertibility. Presently, 90 percent of the losses caused by such incidents are covered. The Eximbank will improve overseas investment insurance as part of its on-going plan to enhance the program.

Korea's overseas investment began an upward trend in 1986. The increase is particularly visible in 1989, when the approved investment soared to 943 million dollars, from 479 million dollars in the previous year. The amount of overseas investment stayed high thereafter, surpassing that of FDI in 1990, 1991 and 1992.

(b) Mutilateral measures

The Korean Government ratified the joining of MIGA in November of 1987 in order to provide guarantees for non-commercial risks which might occur in transnational investments by private firms. Korea's participation in MIGA reflects one aspect of the Government's determination on to promote inward and outward investments.

Korea is not a member country of OECD yet, but is planning to accede to the OECD in the latter half of the 90's. Korea also takes much interest in the Codes of the OECD and has decided recently to apply for admission as an observer in the Trade Commission and as a regular member in the Atomic Energy Commission.

The Korean Government is actively participating in the Uruguay Round Negotiations(TRIMs) for the purpose of reducing the trade-distorting measures such as export performance requirements and local contents requirements.

<Principal economic indicators>

	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91
o GNP per Capita (US$)	1,584	1,711	1,765	1,904	2,034	2,199	2,496	3,100	4,112	4,983	5,652	6,492
o GDP growth rates (Constant terms, %)	-	7.4	5.7	10.9	8.6	5.4	12.4	12.0	11.5	6.2	9.2	8.4
o Gross Domestic Savings as % of GDP	20.1	19.7	20.1	27.2	28.9	28.5	32.2	36.0	38.0	35.1	35.8	35.9
o Gross Domestic Investment as % of GDP	31.1	29.1	27.4	28.8	29.8	29.3	28.3	29.5	30.6	33.4	36.9	39.1
o Prices (Consumer price index, %)		21.3	7.2	3.5	2.3	2.5	2.8	3.0	7.2	5.6	8.6	9.7
o Domestic interest rates												
- Discount rate offered by Central bank (end of period, %)	16.0	11.0	5.0	5.0	5.0	5.0	7.0	7.0	8.0	7.0	7.0	7.0
- Bank deposit rate (annual averages, %)	19.5	16.2	8.0	8.0	9.2	10.0	10.0	10.0	10.0	10.0	10.0	10.0
- Bank lending rate (annual averages, %)	18.0	17.4	11.8	10.0	10.0	10.0	10.0	10.0	10.1	11.3	10.0	10.0

	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91
o Wages in Manufacturing												
- Monthly Earnings (*1) (thousand Won)	147	176	202	227	245	270	294	329	393	492	591	690
- Man-days(a Month)	24.8	24.8	24.9	25.0	25.0	24.9	25.0	25.0	25.1	24.8	24.8	24.7
o Exchange rate (domestic Currency per US$)	607.43	681.03	731.08	775.75	805.98	870.02	881.45	822.57	731.47	671.46	707.76	733.35
o Balance of payments												
- Current account (US$ million)	△5,321	△4,646	△2,650	△1,606	△1,372	△ 887	4,617	9,854	14,161	5,056	△2,172	△8,726
- Trade balance (US$ million)	△4,384	△3,628	△2,594	△1,763	△1,036	△ 19	4,206	7,659	11,445	4,597	△2,004	△6,980
- Non-factor services (US$ million)	△1,386	△1,518	△ 554	△ 435	△ 878	△1,446	△ 628	△ 977	1,267	210	△ 451	△1,596

※ Sources : International Financial Statistics, IMF, Feb. '93 & '89
Korea Statistical Yearbook, National Statistical Office, 1992
Economic Statistics Yearbook, The Bank of Korea, 1992

Note : *1) include overtime pay and bonus as well as base pay

<Foreign Direct Investment(FDI)>

1. FDI Flow

(Unit : US$ Million)

Inward Investment	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92
Total (* 1)	135	89	89	133	219	436	602	848	737	759	1,145	563
Equity (* 2)	118	13	226	391	482	195	1,000	1,059	862	789	1,262	541
Reinvested earnings (* 3)	41	66	19	17	15	14	29	36	34	23	44	79
Intercompany loans	-	-	-	-	-	-	-	-	-	-	-	-

(Unit : US$ Million)

Outward Investment	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92
Total (* 4)	29	98	103	48	67	161	321	164	392	813	1,037	1,097

2. Sectoral Distribution of Total FDI flows

(Unit : US$ Million)

Inward Investment	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92
Primary Sector	-	1	-	1	1	4	2	12	2	4	-	1
Secondary Sector	100	73	48	70	151	205	352	532	434	462	913	407
Tertiary Sector	35	15	41	62	67	226	248	304	301	293	232	155
T o t a l	135	89	89	133	219	436	602	848	737	759	1,145	563

(Unit : US$ Million)

Outward Investment(*4)	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92
Primary Sector	10	76	61	20	40	70	155	26	56	66	74	94
Secondary Sector	5	6	25	12	20	71	152	79	200	467	587	625
Tertiary Sector	14	16	17	16	7	20	14	59	136	280	376	378
T o t a l	29	98	103	48	67	161	321	164	392	813	1,037	1,097

※ Notes : * 1) Based on arrivals less capital withdrawn
* 2) Based on approved equity less capital withdrawn
* 3) Reinvested dividends and capitalized reserves
* 4) Based on realized investment, which consist of authorized investment less capital withdrawn

3. Geographical Distribution of FDI flows

(Unit : US$ Million)

Countries	'81		'82		'83		'84		'85		'86		'87		'88		'89		'90		'91		'92	
	In (*1)	Out (*2)	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out
U S A	70	7	42	7	36	15	63	25	116	8	151	52	93	149	224	103	208	87	239	321	252	379	239	328
Japan	36	7	10	-	20	1	79	1	58	-	254	1	361	1	419	8	384	10	354	11	193	14	97	27
United Kingdom	1	-	6	1	-	1	3	-	12	1	10	-	5	4	10	11	13	8	31	15	55	33	14	49
France	2	-	2	-	2	1	-	-	3	-	1	-	5	-	28	2	11	1	18	3	41	8	18	30
Hong Kong	5	-	15	-	3	-	10	-	7	1	4	3	41	2	17	5	7	13	8	4	6	13	6	43
Switzerland	8	-	4	-	6	-	8	-	7	-	6	-	30	-	31	-	32	-	29	-	20	-	23	-
Netherland	1	-	3	-	2	-	2	-	-	-	3	-	28	-	36	-	8	-	18	-	426	1	-	8
Sweden	-	-	-	-	1	-	2	-	1	-	1	-	2	-	3	-	3	-	4	-	13	-	6	-
Germany	6	-	6	1	2	1	1	1	6	-	4	3	6	2	28	2	43	1	80	4	100	14	76	32
Singapore	-	1	-	-	-	1	-	-	-	-	-	-	6	-	4	2	5	-	13	3	3	6	2	13
Others	6	14	1	89	18	89	△35	21	9	57	2	102	25	163	48	31	23	272	△35	452	36	569	82	567
Total	135	29	89	98	90	103	133	48	219	67	436	161	602	321	848	164	737	392	759	813	1145	1037	563	1097

※ Notes : * 1) Inflow data are based on arrivals less capital withdrawn
* 2) Outflow data are based on authorized investment less capital withdrawn

4. Geographical Distribution of FDI stock

(Unit : US$ Million)

Countries	'81		'82		'83		'84		'85		'86		'87		'88		'89		'90		'91		'92	
	In (*1)	Out (*2)	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out
U S A	313	39	355	46	391	61	454	86	570	94	721	146	814	295	1038	398	1246	485	1485	806	1737	1185	1976	1513
Japan	785	18	795	18	815	19	894	20	952	20	1206	21	1567	22	1986	30	2370	40	2724	51	2917	65	3014	92
United Kingdom	32	1	38	2	38	3	41	3	53	4	63	4	68	8	78	19	91	27	122	42	177	75	191	124
France	18	1	20	1	22	2	22	2	25	2	26	2	31	2	59	4	70	5	88	8	129	16	143	46
Hong Kong	27	4	42	4	45	4	55	4	62	5	66	8	107	10	124	15	131	28	139	32	145	45	151	88
Switzerland	18	-	22	-	28	-	36	-	43	-	49	-	79	-	110	-	142	-	171	-	191	-	214	-
Netherland	31	1	34	1	36	1	38	1	38	1	41	1	69	1	105	1	113	1	131	1	557	2	557	10
Sweden	-	-	-	-	1	-	3	-	4	-	5	-	7	-	10	-	13	-	17	-	30	-	36	-
Germany	31	2	37	3	39	4	40	5	46	5	50	8	56	10	84	12	127	13	207	17	307	31	383	63
Singapore	-	3	-	3	-	4	-	4	-	4	-	4	6	4	10	6	15	6	28	9	31	15	33	28
Others	119	117	120	224	138	308	103	342	112	363	114	461	139	636	187	656	210	928	175	1380	211	1949	297	2516
Total	1374	186	1463	302	1553	406	1686	467	1905	498	2341	655	2943	988	3791	1141	4528	1533	5287	2346	6432	3383	6995	4480

※ Note : * 1) Inward stock is estimated as cumulative inflows based on arrivals less capital withdrawn
* 2) Outward stock is estimated as cumulative outflows based on authorized less capital withdrawn

5. Share of FDI inflows in Gross domestic capital formation

(Unit : US$ Million, %)

	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91
Gross Domestic Capital Formation	20,086	19,847	22,715	26,312	25,907	30,018	38,834	53,606	71,029	90,168	110,569
Share of FDI inflows	0.67	0.45	0.39	0.51	0.85	1.45	1.55	1.58	1.04	0.84	1.04

※ Sources : Korea Statistical Yearbook,. National Statistical Office, 1992
Economic Statistics Yearbook, The Bank of Korea, 1992.
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