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THE REPUBLIC OF KOREA

Report of the exploratory mission to identify possible needs
for assistance in attracting foreign investment

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INTRODUCTION AND MAIN CONCLUSIONS

1. At the request of the Government of the Republic of Korea, I visited Seoul from April 6 to 17, 1970 to consider what type of assistance UNIDO might provide to help attract foreign investment.

2. Mr. Moon, Director of the Technical Cooperation Bureau of the Ministry of Science and Technology, indicated that the Federation of Korean Industries would arrange my programme of appointments. It was the Federation which had suggested that the Government might seek the assistance of UNIDO in reviewing the investment climate when UNIDO's Senior Industrial Development Field Adviser, Mr. W.R. Jones, visited Seoul in September 1969.

3. Mr. Ip Sam Kim, Director-General of the Federation of Korean Industries, explained that the Government and the Federation of Korean Industries had been considering together how to improve the investment climate in Korea for a number of years. He suggested that the terms of reference for possible assistance from UNIDO should be to consider.

(a) whether there were any steps that could and should be taken by the Korean Government to improve further the nation's investment climate;

(b) whether the existing foreign investment application, approval, and operating procedures were the most appropriate for attracting potential foreign investors;

and (c) into how much detail should the Government go when identifying the fields and projects in which foreign investment is especially desired.

4. Mr. Yang, Director of the Office of Investment Promotion in the Economic Planning Board, agreed with these terms of reference but added a fourth:

(d) Could the Government use new methods to publicize and promote the investment climate in Korea and the investment opportunities which were available?

5. Mr. Yang pointed out that over 90% of the foreign investment induced up to the end of 1969 had come from Japan and the United States. His office was therefore particularly interested in new methods for bringing Korea's investment climate to the attention of potential investors in a wider range of countries.

6. My impression is that the investment climate in Korea is already an attractive one and that the procedures for approving foreign investment applications are reasonable and efficient, however minor improvements can be made. The areas and projects in which foreign investment is desired have recently been clearly defined. The greatest scope for attracting more foreign investment therefore appears to lie in more active promotion of the identified investment opportunities. Some evidence for this impression is contained in Chapters I and II of this report.

7. It therefore appears that UNIDO assistance to the Government in attracting foreign investment might take one or more of the following forms:

(a) a detailed examination of the Foreign Capital Inducement Law to see whether it would be worth enacting a revised and improved Law;

(b) a general review of the basic industrial policies which form an essential part of the investment climate with a view to clarifying certain policies and avoiding the development of projects whose high costs of production will endanger the country's export capability in the 1970s, and

(c) the arrangement of a visit of a group of potential foreign investors whose interest in investing in specific industrial projects in the Republic of Korea has been identified in advance with the assistance of UNIDO.

The nature and scope of this recommended assistance is outlined in Chapter III of this report.

8. There was also an opportunity to discuss a related subject on my visit - the development or improvement of manufacturing processes based on strengthened efforts in the area of research and development in the Republic of Korea. Terms of reference for a mission to investigate how UNIDO might assist in this field were discussed with Mr. Moon in Seoul and subsequently agreed when he visited Vienna in May 1970.

9. I would like to express my sincere appreciation to the many busy people who took time to discuss this important subject with me, in particular Assistant Minister Mr. O. Wonchol, Mr. Ip Sam Kim, Mr. Yoonsae Yang, and Director Young Chul Moon.

10. It would not have been possible to achieve so much on such a short visit without the guidance and help of my friends at the Federation of Korean Industries. Mr. Bong Shik-Shin, Secretary of the UNIDO-Korea Association, who arranged my programme of visits, was particularly helpful. Thank you all for your friendly welcome and generous hospitality.

CHAPTER I

SOME FIRST IMPRESSIONS OF THE INVESTMENT CLIMATE

11. My preliminary impression is that the investment climate in the Republic of Korea is attractive. The increasing volume of foreign equity investment which has been attracted in the last three years in a wide range of manufacturing projects (see Tables I and II overleaf) confirms this view.

12. The most important attractions are the permanent ones which cannot be changed by Government policy: the size of the Korean market (over 30 million people with a rapidly rising standard of living), the suitability of the country as a manufacturing base to export to the fast growing Japanese market where living standards are expected to reach European levels by 1980; and the demonstrated trainability of a hard working labour force.

13. The other basis for my assessment is a preliminary review of some of the more important factors which can be influenced by Government policy. There is no standardized check-list of the factors which foreign investors consider, but the following appear to be among the most important factors generally considered.

A. The Government's attitude to foreign investment;
B. The legal status of foreign investment;
C. Freedom to repatriate dividends and capital,
D. Taxation and tax incentives.
E. Tariff protection and import duty concessions;
F. Infrastructure facilities,
G. Labour and management training facilities;
H. Availability and cost of local financing.

The order in which these factors are discussed does not necessarily reflect the relative importance attached to each factor by a typical foreign investor.

14. Wherever possible, the major difference between the policies of the Republic of Korea and the seven neighbouring countries in the East Asia region have been noted. The neighbouring countries considered are: The Republic of China (Taiwan), Hong Kong, Malaysia, The Philippines, Singapore, and Thailand.

TABLE I

Approvals of foreign equity investment, 1962-1969

	Approved Projects	Approved Investment $ million
1962	2	2.1
1963	3	5.4
1964	5	0.8
1965	11	22.3
1966	14	3.9
1967	25	29.3
1968	49	28.5
1969	50	46.9
	159	139.2

TABLE II

The main areas in which foreign investment was approved 1962-1969

	Projects	Investment approved $ million
Textiles	27	16.4
Fertilizers	5	22.6
Electronics	17	21.9
Chemicals	18	16.4
Pharmaceuticals	6	2.4
Food processing	14	1.9
Transport equipment	9	6.5
Steel-plate	2	9.0
Machinery	27	7.6
Miscellaneous	25	10.1
	150	114.8
Tourism	3	6.2
Electric Power	1	5.0
Oil Refining	5	13.2
	159	139.2

A. **The Government's attitude to foreign investment**

15. Foreign investors assess a country's attitude to foreign investment by examining (a) the Government's attitude to private investment, (b) the Government's attitude to foreign investment, and (c) the legal status of foreign investment.

16. Policy statements of the Government of the Republic of Korea place heavy reliance on private investment to develop manufacturing industry. These statements and the record to date contribute to the attractive investment climate. As regards the takeover of privately-owned enterprises by the Government, the record is also good; there have been no examples of expropriation so far.

17. The Government's attitude to foreign investment is clear and positive. The tax incentives incorporated in the Foreign Capital Inducement Law apply only to the foreign share of corporate profits. There are also special tax concessions for the purchase of foreign technical know-how.

18. Some foreign investors will find that the policy of permitting 100% ownership in selected industries is a further sign of the welcoming attitude to foreign investment. Certainly the lack of restrictions is indicative of a positive approach.

19. The Government's attitude to foreign investment is as welcoming and liberal as any of the neighbouring countries in the East Asia region. Some neighbouring countries adopt a more restrictive policy on foreign ownership. In the Philippines, for example, the Government has taken powers to regulate foreign investment; foreign ownership in excess of 40% is not normally permitted. when a 100% foreign ownership is accepted initially in selected priority projects, an assurance that Filipino ownership will rise to 60% within a specified period is required.

B. The legal status of foreign investment

20. The legal status of foreign investment may be an area in which improvements or some clarification could be made. Article 16 of the Foreign Capital Inducement Law (Law No. 1802, 1966) indicates that foreign investors and enterprises in which foreign investors have invested shall receive treatment equal to that received by nationals. Article 14 indicates that the property of foreign invested enterprises shall be "guaranteed in accordance with the laws and decrees". It is not clear to the reader what these laws and decrees are, or what exceptions are referred to in Article 16.

21. The Government has signed the International Convention on the Settlement of Investment Disputes. But the Foreign Capital Inducement Law makes no reference to arbitration procedures in the event of expropriation or nationalisation. If this is interpreted to mean that such action is not contemplated, the effect will be good. But it could be seen as an important omission by some foreign investors.

22. These existing legal protection provisions may not completely remove the fears which some foreign investors have about the security of their investments. American investors can insure their investments against the risks of "war, revolution and insurrection" as well as expropriation. The Republic of Korea also has an investment guarantee treaty with the Government of the Federal Republic of Germany. But foreign investors from other countries cannot insure their investments against these risks.

23. The lack of specific investment guarantees[1] has not deterred Japanese enterprises from investing in Korea, perhaps because other special treaty arrangements exist. But the opportunity to insure an investment would probably improve the investment climate for European investors.

24. In the absence of a multilateral investment scheme for insuring investments in developing countries (which has been under discussion for several years), the only way open to the Government is to negotiate bilateral agreements. Belgium, Denmark, France, the Netherlands and Sweden have negotiated investment treaties with other developing countries, but most of them have been with African countries so far. The nature of the guarantee agreement varies from country to country and does not always provide the opportunity for a foreign investor in these countries to insure his investment in the developing country.

1/ They may exist; they are not mentioned in the Investment Guide to Korea.

25. This subject is considered in more detail in a paper prepared for the forthcoming Asian Conference on Industrialization by a Japanese consultant. He recommends that ECAFE and the Asian Development Bank consider establishing a regional investment guarantee scheme.[2/]

C. Freedom to repatriate dividends and capital

26. The Foreign Capital Inducement Law (1966) guarantees the freedom for unlimited remittance of profits and dividends earned by a foreign investment. To have faith in this guarantee, the foreign investor needs to be confident that the economy will be managed in the future in such a way that the Government continues to be in a position to service equity investments and the long-term debts of both public and private sectors as and when they become due. Therefore estimates of the country's debt-servicing payments in the 1970's are likely to be considered by potential foreign investors before making a large financial investment.

27. In the Republic of Korea, the principal of an approved investment can be remitted up to 20% per annum after two years from the date the enterprise began operation. In Taiwan, the proportion is 15% but in most of the other East Asian countries there is no restriction. Korea's restriction is hardly likely to be a major factor influencing the decision of a serious long-term investor; it can be interpreted positively as a rule which will help to keep withdrawals within reasonable proportions.

28. The exchange rate at which profits can be remitted in the future is another concern of foreign investors. For industries supplying the domestic market higher prices can often mean higher profits, but for export-oriented industries changes in the exchange rate can affect the foreign exchange proceeds of profit remittances. Changes in the exchange rate also affect the dollar value of foreign investments as viewed by the management of the foreign

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2/ See pages 59-62 and 70-73 of "Review of Laws and Practices governing foreign investment in developing countries of the region and measures to improve the investment climate in them" A paper prepared for the Asian Conference on Industrialization, Second Session, 8-21 Sept. 1970 by Mr. Masao Sakurai, E/CN.11/I and NR/Ind.Conf.2/L.18, dated 24 July 1970.

parent company. The pace of domestic price increases and changes in the exchange rate over the last 5-10 years are therefore important indicators considered by many potential foreign investors.

29. The investment climate of some neighbouring countries in the late 1960s may appear slightly more attractive than the Republic of Korea's when judged from these points of view. In Korea, the schedule of debt-servicing payments is quite substantial and prices have risen 50% over the last five years and the free exchange rate has dropped from 265 to 305 won to the US dollar.

D. Taxation and tax incentives

30. Tax incentives have come to be regarded by some foreign investors one form of confirmation of the Government's willingness to promote foreign private investment. The Foreign Capital Inducement Law appears to reflect this thinking. The legislative authority for tax incentives is included in the Law itself rather than in other legislation; the tax exemption is applicable to only that proportion of the profits attributable to foreign-owned equity shares. In other developing countries, both the domestic and foreign investor usually benefit from the tax incentives offered for new investment in manufacturing industry.

31. However, doubts have been raised about the effectiveness of tax incentives offered by developing countries.[3] Tax incentives are most valuable to an investor (a) when the enterprise is expected to make profits in the initial years covered by the tax holiday, (b) when the normal tax liability would

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3/ For example, Partners in Development (the Pearson Report) on page 108 talking about tax concessions says "only in a few cases do they seem to draw an investment opportunity to the attention of a foreign company, and they are generally reported to be of very modest importance in the final investment decision." Foreign Investment in Developing Countries, UN Sales No. E.68.IID.2, 1968, paragraph 82 reads as follows: "The precise effect of tax incentives in attracting investments which otherwise would not have been forthcoming - and, conversely, the revenue loss suffered where concessions were not needed - are as yet inadequately known. Such empirical enquiries as have been made to elucidate the actual inducement effect and over-all operation of various schemes confirm the expectation that, while prohibitive and discriminatory taxes may effectively impede otherwise worthwhile investments, temporary exemptions from normal tax burdens are unlikely by themselves to constitute a determining factor in many investment decisions.

absorb a substantial part of profits, and (c) when the system for taxing interest, dividends and foreign technical collaboration fees and royalties remitted from the Republic of Korea permits the foreign parent company to benefit from the tax concessions granted by the Korean Government.

32. In the absence of tax concessions, corporation tax would absorb quite a high proportion of profits in Korea: on income over 5 million won, 45% for a closed corporation and 35% for an open corporation. This compares with maximum rates of tax of 40% in Malaysia and Singapore, 25% in Thailand and the Republic of China (Taiwan), and 15% in Hong Kong (where there is no tax holiday).

33. However, Korea's tax incentives for foreign investors appear to be one of the more generous in East Asia: 100% exemption for 5 years and 50% for a further 3 years. The tax holiday period is basically 5 years in China (Taiwan), Malaysia, Singapore, and Thailand, but it can be extended for special reasons in Malaysia and Singapore; in the Philippines, the tax holiday period can extend to 1981 but on a proportion of profits which reduces from 100% up to 1972 to 10% after 1979.

34. In addition, a corporation doing export business is allowed a 50% reduction in corporation tax presumably indefinitely. Corporation tax reductions are also allowed "in the case of investment in strategic industries so designated by the Government and on income derived from foreign exchange earnings" (see Investment Guide, page 20).

35. The legislative authority for these additional concessions needs to be explained and their permanence established if they are to become an attractive feature of the foreign investment climate. However, as they affect only the proportion of profits paid as tax from the ninth year onwards by the foreign investor, they are really of more interest to his domestic partner.

36. The ultimate value of tax incentives depends on how income derived from operations in the Republic of Korea which is remitted as interest, dividends, and royalty payments is taxed when it is received as income by

the foreign investor in his home country. The Government has negotiated a double-taxation agreement with Japan and is negotiating one with the United States

37. This is a very complex subject because the scope, nature and effectiveness of double taxation agreements negotiated with industrially-advanced countries varies both from case to case and from country to country. It is really a separate subject by itself and one on which the Government might wish to seek advice from the Economic and Social Affairs Branch of the United Nations Secretariat in New York which has been examining the subject in detail for a number of years.4/

38. The tax incentives offered by the Government to investors in the Republic of Korea have been introduced one by one over the last five to ten years. It might now be worth reviewing the present set of incentives to see that they are well designed to achieve the objectives of the next phase of industrialization in the 1970s, as recommended in Chapter III.

E. Tariff protection and import duty concessions

39. The level of tariff protection, physical import controls and the availability of import duty concessions are key factors in determining the level of profits which can be earned by a new industrial project. This is an area in which some clarification of Government policy would appear desirable. A careful review is recommended in Chapter III.

40. The Investment Guide to Korea describes the procedures used for import and export transactions (a decidedly negative aspect of the investment climate), but does not provide clear guidance on the policy adopted on (a) tariff protection, (b) protection through import controls and (c) import duty concessions.

41. From other sources, I gathered that Government policy aims at modest levels of tariff protection. However, examples of quite high levels of effective protection on the manufacturing process undertaken in Korea (well

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4/ See Foreign Investment in Developing Countries, 1968, pages 21-23.

over 50%) were quoted to me, suggesting that this policy is not rigidly applied. It would therefore appear worthwhile (a) explaining the main features of the tariff structure in the Investment Guide and (b) announcing the availability of copies of an English translation of the tariff schedule.

42. An undeclared policy of the Government appears to be the banning of imports of products, parts and raw materials once local production can meet local needs. This is a stronger form of protection than tariff protection. The Investment Guide should include a clear statement of Government policy, this should indicate whether the Government uses any forms of price control when the domestic market is completely protected from external competition or whether it relies on competition among local producers

43. Import duty concessions on raw materials etc. are granted at present, to new foreign-invested enterprises for a period of six months and for export production. They are also granted for machinery and equipment imported by a foreign-invested enterprise. These are valuable incentives and they deserve a more prominent place in the Investment Guide

F. Infrastructure facilities

44. Foreign investors look for a reliable source of power, some investors also look for a cheap source of power. Foreign investors also look for an adequate transportation system for internal distribution and, if an inland location is chosen, an efficient and reliable movement of raw materials and finished products to and from ports. Whilst much has been done to improve the cost position of exporting enterprises, this factor needs to receive continuing attention.

45. The free manufacturing zone at Masan should help to attract the specific types of export-oriented industry which can benefit from this type of facilities and the lack of "red tape" in relation to import and export transactions. But it should not divert attention from the urgent need to improve the power, transport and communications system on which most of industry in the country relies.

G. Labour and management training facilities

46. Korean labour will remain attractive so long labour disputes are minimized. The new Law to control strikes in foreign-invested enterprises will help improve the investment climate if effectively applied.

47. The Federation of Korean Industries was making a comparative study of labour costs including foreign benefits in neighbouring countries in East Asia. No attempt is made to supplement this study here. Quality is more difficult to judge. I was told that there is room (a) to strengthen and improve vocational and technical training in Korea, and (b) to make more use of management consultants and professional management training courses.

48. The Government adopts a liberal approach to the employment of foreign managers and technicians, whilst emphasizing the need to train local managerial and technical staff. Recent changes which exempted foreign personnel staying over six months from the liability to local income tax and streamlined procedures for obtaining and renewing immigration permits have helped to improve the investment climate.

H. Availability and cost of local financing

49. The Investment Guide (page 21) recognises that the cost of bank loans in Korea is high compared with other countries; it suggests that this can be partially offset by the availability of financing on more favourable terms for some borrowers. Reportedly, some foreign investors have found it difficult in the past to obtain local financing on a sufficient scale. Whether the availability or cost of local financing has been a deterring factor or not for foreign investors is more difficult to judge.

50. The Investment Guide might define more clearly the Government's policy on (a) the proportion of financing which the foreign investor is expected to contribute, and (b) the availability of local long-term financing on more favourable terms from Government-sponsored industrial financing institutions.

Conclusion

51. These preliminary impressions of the investment climate suggest that now, at the beginning of the 1970s, it might be useful to make an overall review of the Foreign Capital Inducement Law and related policies affecting industrial development.

52. The scope of such a review and the form which UNIDO's assistance might take are considered in Chapter III.

CHAPTER II

SOME PRELIMINARY IMPRESSIONS OF THE PROCEDURES USED FOR ATTRACTING FOREIGN INVESTMENT

53. As the investment climate in Korea is already an attractive one, it appears that success in attracting more foreign investment in the future is likely to depend as much on the procedures used to attract foreign investment as on further improvement of the investment climate.

54. My impression is that major steps have been taken to streamline the procedures used for the approval of applications for foreign investment, that some attention has been paid to the irritation which foreign investors experience with the procedures involved in operating a business enterprise in the Republic of Korea, but that so far too little attention has been paid to the procedures needed to bring a wider range of potential investors to the point where they first become interested in principle in investing in a specific industrial project in the Republic of Korea.

55. This chapter covers these subjects in this order. The possible need to identify in more detail the areas and projects in which foreign investment and technical collaboration is desired is considered as part of the last subject.

A. The approval of applications for foreign investment

56. The procedures for submitting an application are clearly outlined in the Investment Guide to Korea, Chapter V, (pages 17 and 18). This indicates that the details are stipulated in the Foreign Capital Inducement Law. When one turns to the law itself one finds 22 annexes which detail the kind of information required for various authorizations. The foreign investor may therefore be given the impression that the Government's approval is unduly bureaucratic. The Law threatens fines or imprisonment for non-compliance.

57. In practice, the obvious intention of the Office of Investment Promotion is quite the contrary. Everything possible has been done to streamline application procedures. A high proportion of the annexes are not related to approval of the initial application for foreign investment and technical

collaboration. It would therefore appear advisable to include a copy of the designated format for these two forms of application rather than 22 annexes in future issues of the Investment Guide.

58. The Government's procedures for approving an application are also described in the Investment Guide. I was told that an initial answer is usually given within a period of one month. This is reasonable and efficient. It might add to the attractiveness of the investment climate if this was stated in the Investment Guide.

59. The Government has recognized that foreign investors prefer to negotiate with one Government Office and reach quick decisions, rather than have to approach several different Ministries for different decisions and approvals. The "one-stop service office" where representatives of various Ministries are authorised to take routine decisions on behalf of their respective Ministry had just been established when I visited the Office of Investment Promotion. If it works as intended, it will mark a considerable step forward in streamlining procedures for foreign investors both before and after their project is established.

B. Procedures affecting the operation of a foreign-invested enterprise

60. There are many procedures affecting the operation of an enterprise once it is established. Perhaps the most burdensome at present are those governing export and import transactions and taxation. Immigration and tax procedures affecting the employment of foreign personnel had been modified shortly prior to my visit.

61. A general impression gained from talking to foreign businessmen was that certain procedures (particularly those involving less senior Government officials) continued to be an irritating factor for existing foreign-invested enterprises. A further review of these procedures may therefore be worthwhile. A survey of existing investors' reactions to current procedures was being made at the time of my visit. It will be worth doing everything possible to avoid a situation where existing foreign-invested enterprises inform potential investors who consult them that such difficulties are experienced by enterprises already operating in the Republic of Korea.

C. Techniques for attracting new potential investors

62. My impression is that the Government has not so far played as important a role in the promotion of investment in specific industrial projects as it has (with such success) in the field of export promotion. The Office of Investment Promotion appears to be devoting more attention to processing foreign investment applications than to the real promotion function — that is aggressively looking for and attracting foreign investors' interest in specific new projects.

63. This situation appears to reflect two very positive aspects of the Korean business scene: first, the extraordinary business acumen of the Korean industrialists who are capable of finding foreign partners for most projects on their own initiative, and second, the fact that the Republic of Korea has reached the stage where the investment climate is so attractive that certain types of potential foreign investor visit Korea on their own initiative.

64. These factors appear to account for the developments outlined in Tables III and IV where two countries have been the main source of foreign equity investment and technical collaboration so far. They may also help account for the very high reliance which the Republic of Korea placed in the 1960s on foreign commercial loans rather than foreign equity investment to finance new industrial plants.

TABLE III

The main sources of foreign equity investment up to March 21, 1969

	Projects	Investment $ million
United States	59	65.5
Japan	41	19.1
Federal Republic of Germany	3	0.8
Other countries	12	7.0
Total	115	92.4

TABLE IV

The main sources of foreign technical collaboration agreements, 1962-69

Japan	107
United States	30
Federal Republic of Germany	6
Other countries	8
Total	151

65. Many of the new industrial projects established in the 1970s will be technologically more complex. To a greater extent than in the 1960s, therefore, foreign technical collaboration is likely to take the form of joint-ventures with foreign partners involving a substantial equity investment. If the Government is to ensure that the most suitable and advanced type of technical know-how is obtained on the most favourable terms, there will be many occasions on which the Government will wish to attract several alternative offers of foreign investment for the same project. For some projects, suitable alternative offers may be forthcoming as a result of the initiative of Korean and foreign investors, but for other projects, the Government may need to aggressively seek out potential foreign partners itself through the Office of Investment Promotion.

66. At the present time, the typical foreign investor living abroad who is interested in investing in the Republic of Korea can obtain a general idea of the investment climate from a number of useful publications. The Investment Guide to Korea published by the Economic Planning Board is comprehensive and attractive. The Businessman's Guide to Korea published by the Korea Exchange Bank is an extremely attractive and very useful supplement.

67. Background information on the development of the economy and industry is available in such forms as the Major Economic Indicators published by the Economic Planning Board and Industry in Korea, 1970 published by the Korean Development Bank.

68. The serious investor will also look for English translations of the mos important laws governing the establishment and operation of a foreign-invested enterprise. Here the situation is not so helpful. The *Foreign Capital Inducement Law* is published in English, but for English translations of the various tax laws, the investor needs to purchase a copy from the American Chamber of Commerce. At the time of my visit an English translation of important recent legislation concerning the personal taxation of foreign managers and technicians was not available.

69. The foreign investor also looks for more detailed information on the future direction of industrial development. Whilst the new Development Plan is being prepared, he can only obtain information on the general direction by personal discussions with Government officials.

70. The areas and projects in which the Government is interested in attracting foreign investment are clearly outlined in the *Investment Guide to Korea*, Chapter IV (pages 15 and 16). However, some of the categories are rather general ones. This is appropriate for export industries. But for import-substitute industries, the identification of specific products is desirable.

71. In April 1970, the Ministry of Commerce and Industry published a "List of Recommended Industry for Foreign Investment and Recommended Technology to be Induced into Korea". It lists 108 projects where foreign capital is desired, 116 export industry opportunities, and 247 opportunities for foreign technical collaboration. This is a most useful guide and should be kept up to date in the future.

72. Once their interest in a project is established, many potential foreign investors like to see a project data sheet which details the present and future size of the Korean market, the present suppliers, the availability and cost of raw materials and other information essential for taking a decision in principle as to whether or not to be interested in the project. Presumably this information is available in the Ministry and the Office of Investment Promotion.

73. These existing publications are most useful when the Government has active and aggressive representation abroad. The overseas office of KOTRA

and Diplomatic Missions provide such representation, but my understanding was that the major part of their assignment was to promote export sales rather than investment in new industries. If this is the case, then more attention need to be paid to the investment promotion function in the future.

74. The other technique used to promote foreign investment in the Republic of Korea at present is the organization of visits to Korea by representatives of potential investing firms. The recent bilateral mission of representatives of the Federal Republic of Germany is one example. The Federation of Korean Industries through the Korean American Business Committee in conjunction with the Stanford Research Institute has organized meetings to attract American investors, this year European investors will also be invited

75. Some of the Investment Promotion Offices in neighbouring countries have established overseas representation either as independent offices (e.g. Singapore) or as an investment promotion officer within their trade promotion office (e.g. Hong Kong). The Republic of Korea needs similar representation in order to contact potential investors at the top-policy making level where they are most accessible in the company's head office in the United States and major capital cities of Western Europe.

Conclusion

76. The Republic of Korea is well placed to attract potential investors from the United States and Western Europe who seek a favourable location and investment climate in which to manufacture their products for Asian markets, including Japan.

77. Existing investment promotion publications describe the investment climate in the Republic of Korea in an attractive and comprehensive way. The procedures for the approval of investment applications have been streamlined and are efficient. Some of the procedures with which established foreign-invested enterprises still have to contend are irritating and a further improvement is desirable.

78. Incoming missions of visiting businessmen have helped to bring the attractive investment climate to the attention of a wider range of potential

investors. But stronger overseas representation in Western Europe and the United States is needed if the wide range of investment opportunities are to be brought to the attention of a far greater number of potential investi firms in a much wider range of industrially-advanced countries.

79. Whilst stronger overseas representation is being established and in order to start building up contacts with potential investors in Western Eu the Government might consider requesting UNIDO's assistance in identifying the interest of potential investors from selected industrialized countries in a number of selected priority projects (perhaps 30) for which market and other essential information has been prepared by the Government. The Government and UNIDO would then arrange for the interested firms to visit Korea as a group for an Investment Promotion Week lasting 3-5 days to discu their interest in these projects. The scope and form of this assistance, which might be started in 1971 and repeated in subsequent years, is outline in Chapter III.

CHAPTER III

THE SCOPE AND FORM OF POSSIBLE UNIDO ASSISTANCE

80. Two interrelated forms of assistance are recommended:

(A) a review of the policies, measures and legislation which will determine the climate for new industrial investment in the early 1970s; and

(B) assistance in promoting selected industrial projects in which the Government wishes to attract foreign investment and/or technical collaboration.

A. Review of policies affecting the investment climate

81. My impression is that it would be useful to review the Foreign Capital Inducement Law and some of the incentives associated with it which were formulated in their original form at the beginning of the 1960s and reenacted in their present form in 1966. Now, at the beginning of the 1970s, it is worthwhile ensuring that they are well adapted to the different circumstances which the country faces to-day and the new set of objectives which have been established for the planned programme of industrialization in the early 1970s.

82. The review should recognize that there are certain advantages in establishing the permanence of a foreign investment law — that is leaving it unchanged.5/ It should also recognize the related difficulty of leaving the present law unchanged which may arise if a need arises to change the tax incentive provisions for foreign investment.

83. When reviewing the Foreign Capital Inducement Law, it would be worthwhile reviewing at the same time the present system of taxation and tax incentives to consider

(a) the cost to the budget in terms of revenue forgone;

5/ Partners in Development (the Pearson Report) on page 106 states "As an absolute minimum we recommend that developing countries preserve the greatest possible stability in their laws and regulations affecting foreign investment."

(b) their effectiveness compared with cost-reducing incentives such as subsidized loans for financing;

(c) the advantages and disadvantages of confining the incentives offered in the future to priority projects selected by the Government;

(d) the need to vary the generosity of incentives offered in order to enhance the profitability of establishing industries to produce intermediate and capital goods,

(e) whether further measures are needed to promote the reinvestment of profits in Korea by foreign investors (the Law permits this; the lack of double taxation agreements may indirectly encourage it);

(f) the possibility of introducing more stringent conditions for granting incentives on such matters of national interest as training labour, assisting local suppliers to produce parts and components etc.;

(g) the possible advantages of negotiating treaties with other industrialized countries to make tax incentives more effective;

(h) the unequal tax treatment of domestic and foreign investors who have invested in the same foreign-invested enterprise.[6]

84. As part of the review of incentives and other policies affecting industrial development, it would also be worthwhile examining the affect which the tariff structure, import controls and import duty concessions are having on the size, efficiency, and cost competitiveness of new manufacturing units established in the country and their use of locally produced raw materials, parts and components, machinery and equipment.

85. Industries producing intermediate goods, parts and components must be able to produce quality goods at internationally competitive prices if the industries which they serve are to be competitive in world export markets. There will be no room for high cost producers in the 1970s. If this goal is not achieved, some foreign investors will have an unpleasant surprise when they are forced to use local sources of supply for the first time.

6/ Many of these points were first raised in "Incentives for Industrial Development in the Republic of Korea", a paper prepared by Mr.Choi, Dong Kyu of the Economic Planning Board for the Inter-regional Seminar on this subject organised by UNIDO in March 1969.

This would be detrimental to an investment climate which seeks to attract export-oriented industries.

86. The review might also consider the conflict which arises between the granting of import duty concessions and the objective of greater reliance in the future on domestic raw materials, parts, components, machinery and equipment. As the industrial structure broadens in the 1970s, this conflict will become more apparent more frequently. New policies will therefore be required.

87. It is therefore suggested that UNIDO's assistance might be requested in the following forms:

(a) an adviser for one month to consider the advantages and disadvantages of modifying the Foreign Capital Inducement Law (1966);

(b) an adviser on industrial policies for six months to assist the Government to make a review of tax incentives and protection policies which affect the climate for new industrial investment.

Job descriptions for these two posts are attached as Annexes A and B.

B. Assistance in promoting selected industrial projects

88. My impression is that it would be useful for the Government to consider using the assistance of UNIDO to promote the interest of foreign investors in selected specific industrial projects. If one of the Government's objectives is to bring investment opportunities to the attention of potential investors in a wide range of industrially advanced countries, the network of contacts which UNIDO has developed may be useful. In particular, UNIDO's assistance might be helpful in initiating contacts with potential investors in some of the smaller industrially-advanced countries which have so far not invested in the Republic of Korea.

89. It is therefore suggested that the Government selects 30 specific projects from the list prepared by the Ministry of Commerce and Industry in April 1970 for which they would like UNIDO to assist in identifying potential suppliers of foreign investment and/or technical collaboration. Brief Information Sheets should be prepared for each project which would give sufficient

information for the potential investor to take a decision in principle on whether he was interested in investing in the project prior to visiting the Republic of Korea.

90. The suggested approach is that UNIDO Headquarters would publicise the 30 selected investment opportunities in the following way. First, UNIDO would circulate the complete list of investment opportunities to a wide range of business and banking contacts in industrialized countries. Second, on the basis of interest deriving from this initial circulation and UNIDO's knowledge of the interest of certain firms in investing in developing countries, UNIDO would contact individual firms on behalf of the Government and provide them wi[th] Information Sheets for the projects in which they are likely to be interested.

91. When making these preliminary contacts, UNIDO would indicate that there would be an opportunity for a group of interested parties to visit the Republic of Korea at a specific time convenient for the Government. This time should be identified in advance so that it is known when these contacts are made. The week might be referred to as an Investment Promotion Week. UNIDO and the Government would arrange for potential investors to visit the Republic of Korea as a group to discuss their interest in the specific projects in which they have expressed interest on those dates. It is assumed that the potential investors would bear the cost of their travel and other expenses.

92. The advantages for the Government of this approach are (a) it would provide an opportunity to bring specific projects to the attention of potentia[l] investors in a wide range of countries, and (b) the potential interest of several investors in the same project would help both to encourage the project's early implementation and ensure that the best terms and conditions were negotiated.

93. UNIDO's assistance would take the following form:-

(a) the visit of a staff member to assist in the selection of 30 projects suitable for promotion, the preparation of the information sheets on those projects and discussion of administrative arrangements for the Investment Promotion Week when potential investors would visit Korea.

(b) The promotion of the interest of potential investors in supplying foreign investment and/or technical collaboration for these 30 specific projects by a direct approach from UNIDO followed up if necessary by direct consultations.

(c) The assistance of two staff members during the Investment Promotion Week and subsequent follow-up work.

94. If the Government wishes to use UNIDO's assistance in this form, an official request should be made describing the assistance requested along roughly the above lines.

95. The Investment Promotion Week might be repeated in later years as part of the expanded programme of activities to attract foreign investment recommended in this report.

Request from the Government of the Republic of Korea
for Special Industrial Services

JOB DESCRIPTION

KOR-131-A

POST TITLE	Adviser on Industrial Policies (Foreign Investment Law)
DURATION	One month
DATE REQUIRED	As soon as possible
DUTY STATION	Seoul

DUTIES

The expert will assist the Economic Planning Board and in particular the Office of Investment Promotion;

(a) to consider the advantages and disadvantages of modifying the Foreign Capital Inducement Law (1966);

(b) to outline any changes in the Law which would help improve the climate for foreign investment;

(c) suggest detailed drafts of modifications to the articles of the Law necessary to implement the recommended changes.

QUALIFICATIONS Businessman with experience of advising an international corporation on the investment climate in developing countries. Candidates with legal training and experience will be preferred; but the main qualification is relevant practical experience.

LANGUAGE English

BACKGROUND INFORMATION

The Government wishes to review the policies, measures and legislation which determine the climate for foreign investment in the Republic of Korea with a view to considering whether there are ways to make it more attractive. The task of the Adviser is to help the Government carry out this part of this review.

Request from the Government of the Republic of Korea
for Special Industrial Services

JOB DESCRIPTION

KOR-131-B

POST TITLE	**Adviser on Industrial Policies**
DURATION	**Six months**
DATE REQUIRED	**As soon as possible**
DUTY STATION	**Seoul**

DUTIES

The expert will assist the Ministry of Commerce and Industry and Ministry of Finance to review the suitability of selected policy measures to achieve the targets and objectives established for the next phase of the industrial development programme. In particular he will:

(a) examine on a project-by-project basis the affect which the tariff structure, other protection policies, and import duty concessions have had on the cost structure of selected branches of industry and the extent to which they use imported rather than domestic resources;

(b) examine the level of effective protection created by the present tariff structure,

(c) suggest guidelines for future policy on tariff and other forms of protection and describe the machinery needed to implement it;

(d) examine the present system of taxation, tax incentives and bilateral tax treaties;

(e) recommend guidelines for future policy on tax and other forms of incentives which affect both foreign and domestic investors, and describe the machinery needed to implement it;

QUALIFICATIONS Senior official with experience of advising on the formulation of tariff protection policy.

LANGUAGE English

BACKGROUND INFORMATION The Government wishes to review the policies and measures which promote, guide and control the type of new industrial projects which will be established in the early 1970s. It is recognized that existing policy on protection may result in some branches of industry developing a cost structure which will be detrimental to a further rapid expansion of exports of manufactured goods produced with maximum reliance on domestic resources. It also is recognized that the non-selective programme of tax incentives introduced in the mid-1960s might need to be modified to achieve the more specific investment objectives established for the early 1970s.

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