Korea's Institutional Reforms for Creating an FDI-friendly Environment

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APEC High-Level Conference on Structural Reform
September 8-9, 2004
Tokyo, Japan

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Summary

A. Five major institutional reform areas pertaining to FDI:

- Enhancement of investment incentives
- Liberalization of the capital and foreign exchange market
- Corporate governance system reforms
- Rectification of bad accounting practices
- Removal of barriers to mergers and acquisitions, or M&As

B. Pro-FDI Institutional Reforms: Office of the Investment Ombudsman

C. Benefits of FDI in Korea

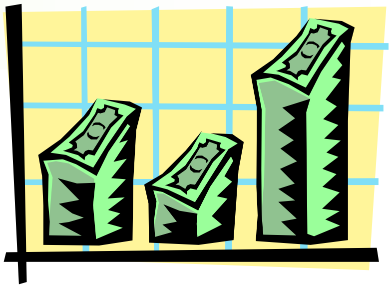
A. Major Institutional Reforms

Major Institutional Reforms

Legislation of the Foreign Investment Promotion Act(FIPA) of 1998

Enhancement of Investment Incentives

- Tax incentives granted to foreign direct investment under FIPA and the Special Tax Treatment Control Act (STTCA)
- Cash Grant system introduced earlier this year



Major Institutional Reforms

Liberalization of Capital and FOREX Markets

- After 1997, government opened Korea's capital markets to attract foreign funds
- Abolished ceilings on aggregate foreign ownership of listed Korean shares and short-term money market instruments
- Restrictions preventing hostile M&As also eased

Major Institutional Reforms

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Corporate Governance System Reforms

- Korea's corporate restructuring since 1998 focused on improving management transparency and governance practices as well as attracting foreign investors

- The main goals of this strategy were:
  - Reducing corporate indebtedness
  - Boosting transparency of corporate governance
  - Improving responsibility of corporate managers and controlling shareholders (mainly *chaebol* owners)
  - Guaranteeing rights of minority shareholders as well as institutional investors
  - Strengthening capacity and function of boards of directors for listed companies
  - Improving intra-group relationships
  - Introducing outside directors and audit committees

Major Institutional Reforms

Rectifying Bad Accounting Practices

- IMF/ World Bank insisted that Korea upgrade accounting standards and disclosure rules to match international best practices after the financial crisis of 1997
- In March 1998 the Financial Supervisory Commission (FSC) organized the Special Committee to review existing accounting systems
- FSC's primary goal was to achieve transparency, credibility, and international comparability of Korean accounting standards
- In December 2003, the National Assembly ratified amendments to the Securities and Exchange Act, Act on External Audit of Stock Companies, and Certified Public Accountants Act

Major Institutional Reforms

Mergers & Acquisitions

- By May 2004, foreigners owned about 44 percent of the shares of the companies listed on Korea's stock exchanges

- Role of foreign capital was significant in Korea's privatization process through the issuance of depository receipts (DRs) by the New York and London Stock Exchanges

B. Pro-FDI institutional Reforms

Pro-FDI Institutional Reforms

The Ombudsman System

- Korea Investment Service Center (KISC) was founded in April 1998 within the Korea Trade-Investment Promotion Agency (KOTRA) to provide foreign investors with one-stop administrative services

- In December 2003, KISC was reorganized and rebranded as Invest KOREA in order to provide foreign investors with more efficient and integrated services

- The Office of the Investment Ombudsman was created in October 1999 to address and resolve any difficulties pertaining to business and daily living conditions experienced by foreign-invested companies in Korea through prompt aftercare services

C. Benefits of FDI

Benefits of FDI

In the case of KOREA,

FDI has enriched the economy in a number of crucial ways:

- A stable source of foreign exchange
- Creating jobs, stimulating rising consumption and investment
- Increasing sales performance
- FDI in the form of M&As has facilitated not only corporate restructuring, but also introduced global accounting standards, auditing, and information disclosure systems

Thank-you.

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