Australian Direct Investment in Korea: Issues and Strategy

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Abstract

Since 1997 Korea has liberalised the FDI regime up to the level of other OECD countries and undertaken all-out efforts to attract FDI. Nevertheless, the magnitude of FDI in Korea is smaller than a level comparable internationally. In particular, Australian direct investment in Korea is dismally low. This paper attempts to address the issue of flagging FDI in Korea by means of a comprehensive survey of Australian companies in Korea.

According to the survey results, Australian firms undertook investment in Korea in order to capitalise on the emerging business opportunities by means of their firm-specific advantages. Notwithstanding the liberalisation of the FDI

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regime and the structural reforms of the Korean economy since 1997, Australian business expatriates indicate that there is substantial room for improvement in the areas of government regulations and the business environment. To further attract FDI, Korea should undertake an across-the-board liberalisation and concerted efforts.

**Key Words:** Foreign Direct Investment, Australian Investment in Korea, Government Regulations, Business Environment

### I. Introduction

Until the 1997 financial crisis, South Korea (Korea hereafter) was regarded as the worst place to invest among Asian countries. Korea restricted incoming foreign direct investment (FDI) in order to protect domestic industries. Neither the Korean economic structure, nor society and culture were conducive to incoming FDI. All this resulted in a low level of FDI in Korea. Since 1997, however, Korea has liberalised the FDI regime up to the level of other OECD countries and switched its policy emphasis on FDI from “restriction and control” to “promotion and assistance.” Korean society and the business community as well as the government have undertaken all-out efforts to attract FDI. As a result, FDI in Korea increased substantially over the three-year period (1998-2000).

Notwithstanding the rapid increases in FDI over the three-year period (1998-2000), the magnitude of FDI in Korea is still small by international comparison. Furthermore, as shown shortly, FDI in Korea fell sharply for the three consecutive years from 2001 to 2003. In particular, Australian direct investment in Korea is dismally low as compared to the world trends of FDI and its dynamic trade relations with Korea. How, then, should this rela-