

## PROPERTIES AND MOTIVES OF KOREAN FDI INTO ASEAN

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### SUMMARY

Since 1980s, South Korea has become one of the greatest capital exporting countries in the world market, especially to countries belonging to Association of Southeast Asia Nations (ASEAN). This paper aims to reveal what are the properties and the motives of Korean FDI in ASEAN. Korean FDI into ASEAN started growing very fast by the end of the 1980s. It was affected by the Asian Financial Crisis, then the recovery and the take-off of the Korean economy, the emergence of China, the attraction of Vietnam, Indonesia, and other ASEAN countries. Korean FDI focuses on manufacture, ore exploitation, metallurgy, telecommunication, and infrastructure construction. Market expansion, cost reduction, risk mitigation, and profit assurance are the key motives of Korean FDI. Political stabilization, labor quality enhancement, investment environment improvement are, therefore, the key solutions to attract more Korean FDI to ASEAN.

**Key words:** *Korean FDI, ASEAN, properties, motives, solutions.*

### \*INTRODUCTION

Foreign Direct Investment (FDI) has become a major property of globalization and the world economy during the last two decades. After 54 years of development, Korea has obtained miracle economic achievements and has become the tenth largest economy in over the world. Since 1980s, Korea has become the largest foreign investor in ASEAN countries in general and in Vietnam in particular, and the fourth leading foreign investor in Indonesia. By June 2007, Korea owned 40.137 registered FDI projects with a registered capita of 116.5 billions; 36.146 implemented projects with an implemented capital amount of USD 76.8 billions. Total Korean FDI in ASEAN was USD 18 billion of registered capital; USD 9.8 billions of implemented capita that accounted for 15.5% of the total outward registered FDI, and 13% of the total outward implemented capital.

That made ASEAN - the third most important destination for Korean outward FDI after after China, and USA (Korea Exim, 2007).

What are the properties of Korean investment in ASEAN? Why Korean investors invest into ASEAN countries, especially into Vietnam and Indonesia?

### PROPERTIES OF KOREAN FDI IN ASEAN

#### **Korean FDI into ASEAN increases very fast**

Since late 1980s, outward investment of Korean firms started increasing very fast. This process could be divided into 5 different periods influencing by different factors (Figure 1).

The first period is during 1080-1991. Korean outward FDI into ASEAN increased thanks to current accounts obtaining favorable exchange rates. Besides, production expenses in Korea significantly increased due to higher labor costs (Byung, 2006).

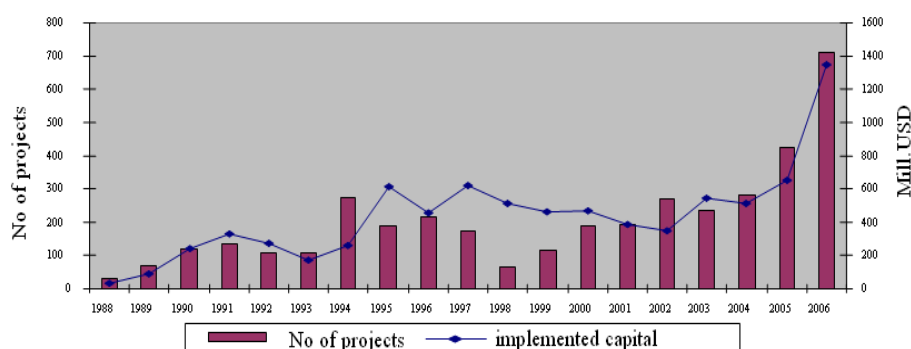
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The second period lasted in a short period, from 1991 to 1994. This period was characterized by the sudden decrease in Korean FDI into ASEAN since it focused on China after the resumption of the diplomatic relation between the two nations in 1991. During this period, Korean FDI into China increased by 15 times, as much as USD 638.8 millions, as a double of the Korean FDI into ASEAN. During the third period, 1994-1997, Korean FDI into ASEAN continued increasing thanks to large corporations invested much into this region, mainly into Vietnam and Indonesia (Kwon, 2004). During fourth period, 1997-2002, the Asian financial crisis 1997-1999 resulted in a decrease in Korean FDI into ASEAN, and then, its recovery during 1999-2002. Period 5, after 2002 is the acceleration period. Quick growth of the Korean economy and the recovery of

ASEAN economies, especially the stable economic development of Vietnam during last years have brought about the confidence of Korean investors. In 2006 alone, implemented Korean FDI into ASEAN was USD 1,348.5 USD. Out of that, investment in Vietnam accounted for 44%. Growth rates of number of investment projects and invested capital are very high, 67% và 107.7%, respectively. Korean implemented capital grew very high in all the ASEAN countries, except Myanmar. For instance, in Vietnam, it was 92.6%, in Cambodia, it was 295.8%. Korean FDI in ASEAN increased in all the sectors. Ore mining, manufacture, construction and telecommunication are fastest growing sectors, growth rates on average even was 11 folds compared to those in 2005 (Yoon, 2007).

**Figure 1.** Number of Korean FDI projects and implemented capital in ASEAN, 1988-2006



Source: Korea Exim, 2007

**Table 1.** Korea outward FDI by destination (on-going project from 1980 to June 2007)

Destination	No. of	Registered	Implemented	Implemented
	registered projects	capital	project	capital
	(project)	(1000 USD)	(project)	(1000 USD)
• China	18.892	28.856.893	16.969	19.463.704
• USA	8.216	22.151.528	7.738	17.751.250
• ASEAN	5.063	17.956.074	4.382	9.745.205
1. Vietnam	1.308	5.531.728	1.183	2.622.206
2. Indonesia	1.038	5.032.851	922	2.528.153
3. Singapore	287	2.165.320	269	1.612.817
4. Thailand	509	1.234.992	453	899.401
5. Philippines	1.126	1.373.124	855	864.426
6. Malaysia	460	1.553.827	395	629.485
7. Cambodia	227	733.071	213	476.754

8.	Myanmar	65	192.994	52	57.710
9.	Laos PDR	35	133.621	33	52.239
10.	Brunei	8	4.546	7	2.014
<b>The World</b>		<b>40.137</b>	<b>116.252.143</b>	<b>36.146</b>	<b>76.802.133</b>

Source: Korea Exim, 2007

### **ASEAN always have to compete with China in attracting Korean FDI**

In order to absorb Korean FDI, ASEAN has to compete with China. In fact, Korean FDI into China already took over those into ASEAN, just one year after the diplomatic establishment between the two countries. This gap was expanded very quickly after the recovery of the Korean economy from the Asian financial crisis. Average growth rates of Korean FDI into China and ASEAN during 2001-2005 were 31.4% and 23.2% respectively. In 2001, FDI capital that went to China accounted for just 3.8% in total Korean outward FDI while those went to ASEAN accounted for 9.6%. In 2006, Korean FDI invested into China accounted for as much as nearly one third (31%) of the total Korean outward FDI, comparing to only 12.5% of those invested into ASEAN (Korea Exim, 2007). Clearly, China have more favorable advantages over ASEAN in attracting FDI thanks to huge consumption market with her 1.3 billion people and the location much nearer to Korea.

### **Indonesia and Vietnam - two main destinations for Korean FDI in ASEAN thanks to fairly large market and low cost labor forces**

Korean FDI distributed not evenly among ASEAN countries. Total Korean registered FDI capital in ASEAN-6 (Vietnam, Indonesia, Singapore, Malaysia, Philippines and Thailand) accounted for 96%, so the remaining amount accounted for only 4% belonging to the 4 left countries. Indonesia with a population of 250 million people, ranked the fourth of the world in terms of population is traditional partner of Korea companies thanks to a large market and cheap labor. Indonesia is the second largest destination for Korean FDI, accounted for

28% registered capital and 26% implemented capital of the whole ASEAN. By April 2007, accumulated registered capital of the on-going projects of Korean FDI companies was USD 5 billion (WTCJK, 2007). Korea become the fourth biggest foreign investor in Indonesia. Recently, Vietnam with a population of 85 million people, ranked 13th largest country in the world has become an attractive destination for Korean investors. By July 2007, total accumulated registered capital of Korean FDI was as much as USD 10.33 billions (WTCJK, 2007). Out of that, on-going projects jointly had USD 5.53 billions of registered capital; accounted for 30,1% of the total registered capital and 27% of the total implemented capital, into ASEAN. Since 1006, Vietnam has become the most attractive destination for Korean investors in ASEAN, and Korea becomes the biggest foreign investor in Vietnam (TTXVN, 2007).

### **Advantages of Korean FDI is to invest in manufacture, ore mining, metallurgy, telecommunication and infrastructure development**

Owning advance technologies and sciences, Korean companies focus their capital on manufacture in ASEAN. By the end of 2006, 57% of capital and 67.2% of projects are devoted to manufacturing sector in ASEAN.

Ore mining, mainly petroleum exploration and mining also a focus of Korean companies, accounted for 12% of the total Korean FDI capital in ASEAN. In 2007, POSCO Corporation started building a steel production factory with registered capital of USD 1.126 billion linked with steel manufacturing system of the corporation in Thailand, Malaysia, and Indonesia. With total registered capital of USD 1.05 billions, Keangnam Company started building the Keangnam Hanoi Landmark Tower on

August 25, 2007 in Hanoi including a 70 stories building, two 47-story condominiums for hotel and accommodation. It is the tallest and biggest tower in Vietnam and the fifth biggest tower in the world (VnEconomy, 26/8/2007).

### **Korean FDI brings about high technologies, know-how and advanced managerial experiences to ASEAN**

Korea and ASEAN (except Brunei and Singapore) have a commentary relationship.

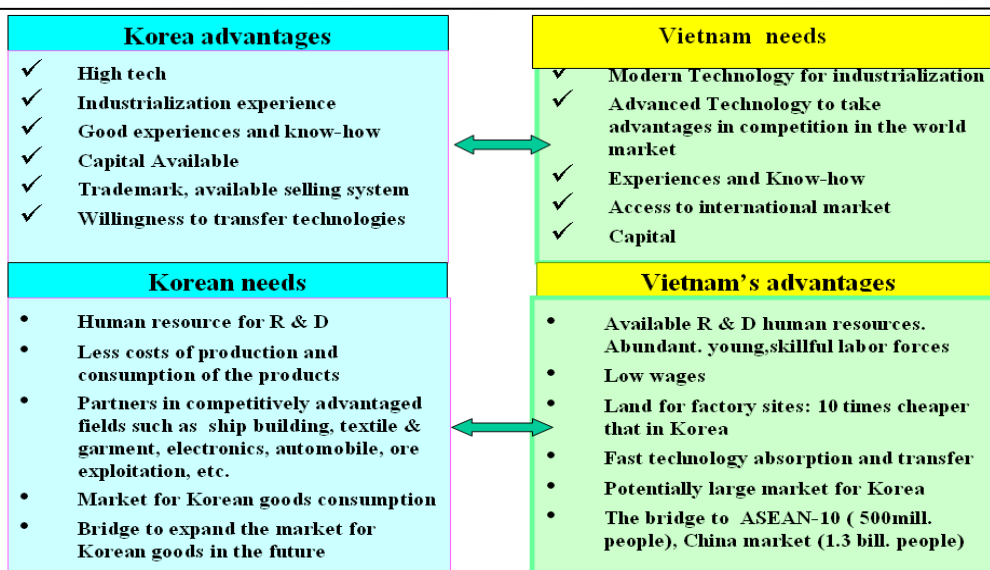
Needs of each side can be met by the advantages of the other side. Hence, FDI bring about benefit to both sides by a win-win strategy. Through FDI, Korean brings to ASEAN high technologies, advanced experience and knowledge as well as capital sources, trade mark and consumption network in over the world. Nam Ki Man (2005) analyzed the complementary relationship between Korea and Vietnam that is the basis for the following Figure:

**Table 2.** Korea FDI in ASEAN by industry (On-going projects in September 2006)

<b>Industry</b>	<b>No. of Registered projects (Project)</b>	<b>Registered capital (1000 USD)</b>	<b>No. of Implemented projects (project)</b>	<b>Implemented capital (1000 USD)</b>
Agriculture and Forestry	92	141.373	77	80.537
Ore Mining	60	2.209.629	53	977.887
Manufacturing	2.991	8.138.861	2.524	4.625.167
Construction	244	718.341	204	298.497
Whole and Retail Sale	377	920.859	336	765.007
Transportation and Storage	109	223.027	94	109.965
Telecommunication	32	692.805	30	434.377
Hotel and Restaurants	82	388.392	71	134.260
Service	342	711.748	309	319.521
Estates and Houses	61	1.049.686	55	330.584
Finance and Insurance	5	1.803	4	1.744
<b>Total</b>	<b>4.395</b>	<b>15.196.524</b>	<b>3.757</b>	<b>8.077.546</b>

*Source: Korea Exim, 2007*

**Figure 2.** Korea plays bridging role to introduce modern technologies to Vietnam



Source: Developed from Nam, K. M., 2005; Park, C. 2004

**MOTIVES OF KOREAN FDI INTO ASEAN Assurance and expansion consumption market and labor cost savings**

Owing nearly 10% of the world population, ASEAN is an ideal destination to every company who want to occupy a new market (ASEAN, 2007). Assurance and expansion consumption market become more and more decisive objective to Korean companies. Since 1994, half of the Korean companies have considered this as their main objective when investing oversea (Table 3). Outward investment is also help to reduce labor costs in their businesses. With GDP per capita at USD 24000 (IMF,2007), 30 times higher compared to those of Indonesia and Vietnam,

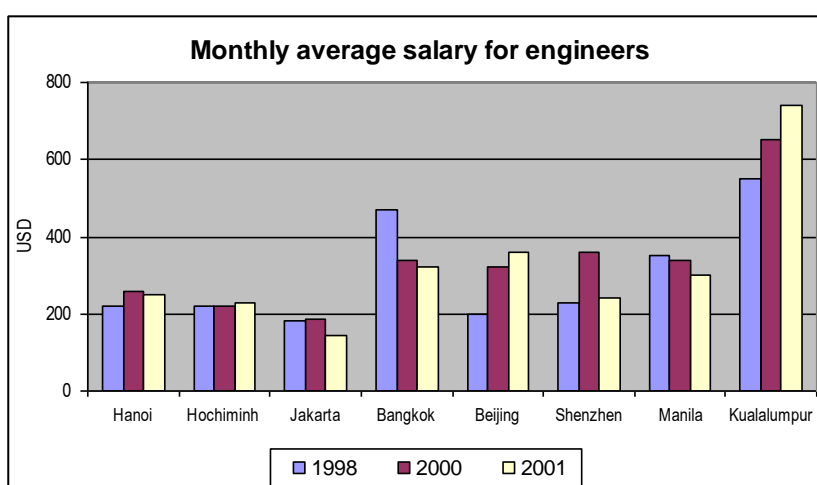
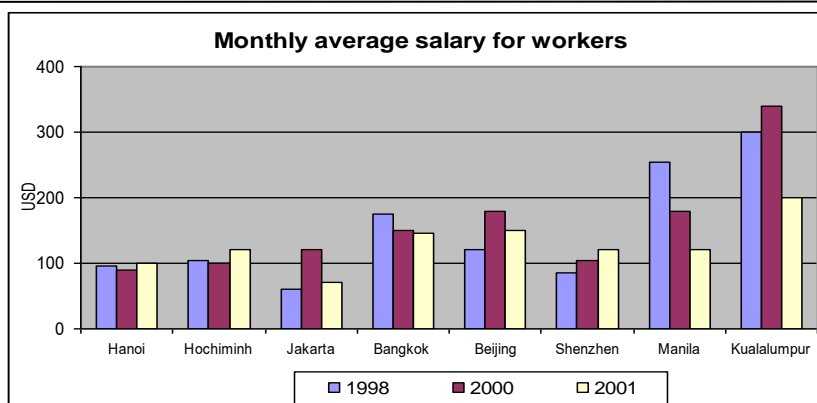
in Korea, domestic costs of labor are much higher than those in ASEAN countries (except Singapore and Brunei), such as Indonesia and Vietnam. Besides, outward FDI can also helps Korean companies to reduce transportation cost since their production activities are conducted near the sources of materials and near the consumption market.

Prior to 1993, natural resources exploitation is strongest motive of Korean companies in outward FDI. However, with the changes of production structure, after 1994, assurance and expansion of the markets and reduction of labor costs have become the two most important motives for Korean companies in making decision to invest oversea.

**Table 3.** Motive of Korean FDI companies (%)

Motive	1968-1993	1994-1996	1997-2001	After 2002
Assurance and expansion of market	28,9	50,2	52,4	47,1
Reduction of labor costs	14,7	37,2	30,3	38,5
Avoidance of trade barriers	1,7	2,5	2,3	3,1
Assurance of material supply	3,8	4,8	3,9	4,4
Exploitation of advanced technology and skilled technicians and managerial labors	1,1	2,6	7,7	4,1
Exploitation of natural resources	49,9	2,7	3,3	2,8

Source: Yoon, D.R. 2007



Source: JETRO- 13<sup>th</sup> survey in March 2002

Another strength related to FDI in Vietnam is the advantage of having young, fast learning, and relatively well-educated, skillful, and motivated labor force of approximately 45 million people. Vietnam has improved on the Human Development Index (HDI) where by the year 2004, the country was ranked 109 among 175 nations (UNDP, 2005). Besides, the wages of Indonesian and Vietnamese workers and engineers is a clear competitive advantage comparing those of China. In 2002, salary and wages in Jakarta were lower, only equal to 50% those in Peijing, China (JETRO, 2002). In 2005, salary and wages in Hanoi and Hochiminh city were 60-70% those in Peijing (Phuc, V.H., 2005). In the following Figure, salary for workers and engineers in Hanoi, Hochiminh City and Jakarta can be seen much lower than those in Beijing, Bangkok, Manila, and Kuala Lumpur. During last five year (2002-2007),

GDP growth rate of China were about 9 - 11.5%, faster than those in Vietnam (7-8.5%) and Indonesia (4-7%). Hence, labor costs in Indonesia and Vietnam become cheaper and cheaper compared to in China.

#### **Many elements of the investment environment in ASEAN considered better than in China**

China had a larger market, better infrastructure, better exchange rate, supporting industry and more availability of managerial labor comparing to ASEAN-2. However, among 18 obstacles examining in Table 4 (the lower their value, the more attractive to FDI), there were as many as 10 obstacles in 3 out of 4 ASEAN countries, they obtained better values compared to those of China. There were 11 obstacles in both Indonesia and Vietnam having better values compared to those of China: more complete, clearer, and more consistent law system; less

complicated and more stable tax system; more appropriate tax rates; more relaxed limitation of foreign shares; less strong competition, less

bureaucracy of administration system; better capacity of financial mobility and lower salary and wages compared to those in China.

**Table 4.** Obstacles in attracting FDI in some ASEAN countries and China

T	Obstacles	Malaysia	Thailand	Indonesia	Vietnam	China
1	Infrastructure	14,3	14,9	24,1	38,6	27,3
2	Law system (incomplete)	7,1	17,2	<u>25,9</u>	<u>36,4</u>	43,8
3	Law system (unclear)	7,1	14,9	<u>16,7</u>	<u>20,5</u>	53,3
4	Law system (inconsistent)	3,6	5,7	<u>16,7</u>	<u>15,9</u>	52,1
5	Tax system (complicated)	3,6	4,6	<u>7,4</u>	<u>2,3</u>	16,8
6	Tax system (unstable)	7,1	13,8	<u>7,4</u>	<u>11,4</u>	36,5
7	Tax system (high tax rates)	0,0	10,3	<u>5,6</u>	<u>9,1</u>	17,5
8	Limit foreign shares	32,1	10,3	<u>7,4</u>	<u>11,4</u>	20,3
9	Bureaucratic administrative procedure	17,9	5,7	<u>3,7</u>	<u>15,9</u>	34,9
10	Socio-economic instability	32,1	11,5	94,4	25,0	34,0
11	Floating exchange rate	32,1	48,3	57,4	22,7	15,2
12	Spare parts availability	17,9	19,5	11,1	34,1	20,6
13	Supporting industries	0,0	10,3	13,0	22,7	10,2
14	Financial mobility capacity	17,9	11,5	<u>11,1</u>	<u>9,1</u>	16,2
15	Strong competition	21,4	29,9	<u>20,4</u>	<u>13,6</u>	23,8
16	Managerial staff availability	28,6	23,0	11,1	20,5	19,7
17	Labor availability	14,3	13,8	11,1	9,1	10,5
18	Salary and wages	21,4	20,7	<u>11,1</u>	<u>6,8</u>	14,0

Source: Japan International Cooperation Bank, 2004

### Investment into ASEAN helps reduce risks of Korea investors due to much investment in China

Although China has more advantages of much larger market, and nearer location, Korean investors still want to invest in Vietnam and Indonesia. This is an intelligent way to avoid the risk of pouring too much capital and efforts of each Korean company just into an address - China alone (Runckel & Associates, 2005).

### Investment into ASEAN-2 to make sure profitability

At the end of 2006, Korean Office of Trade (KOTRA) surveyed 217 Korean firms in Hanoi and Hochiminh city. The surveyed data showed that as many as 93.3% of Korean firms very satisfied when invested in

Vietnam. In 2004, KOTRA already conducted a survey on 214 Korean firms in Vietnam, this rate was 92.6%. Also in 2004, Korean Association of Small Firms conducted a survey on 63 Korean firms investing in China, there were only 79.3% the surveyed firms answered that they satisfied with their investment in China (Moon, 2007).

The 2006 survey showed that as many as 57.6% Korean firms doing business in Vietnam made profit with average profit amount of USD 510,000. The remaining 42.4% of Korean firms suffered losses because they were in the period of taking their capital back. The necessary time, on average, from their entry into Vietnam to the time when they started gaining profit was 3.02 years. Out of surveyed firms, as many as 105 firms said that in 2005, their average revenue

was about USD 11.12 million, 10.76% growth rate compared to those in 2004 (TSILink, 2007).

#### SOLUTIONS TO CONTINUE ATTRACTING KOREAN FDI

Korean FDI properties show that it is very appropriate to industrialization, modernization goals of Vietnam and other developing ASEAN countries. However, these economies have been growing very fast, hence, low cost of labor will be no longer an advantage. Besides, when there are more investors from different home countries invest into ASEAN, the motive of weak competition will be no longer an advantage, too. To continue attracting FDI in general, Korean KDI in particular, Vietnam and other ASEAN developing countries have to stabilize socio-economic environment, enhance the quality of labor force training, reform legal system, adjust investment attracting policies, liberalize trade, and develop infrastructure and supporting industries.

#### CONCLUSION

Korea is one of the biggest FDI investors in Vietnam and ASEAN. Korean FDI flow has started increasing very fast since 1980s. Then, it was affected strongly by the Asian financial crisis, then by the quick growth of the Korean economy, by the emergence of China, and the attractions of Vietnam Indonesia and other ASEAN countries. Korean FDI focuses on manufacture, ore mining, metallurgy, telecommunication and infrastructure construction. Korean FDI brings about modern technology, technological knowledge, managerial know-how and large amount of financial sources.

Important motives of Korean FDI when being invested into ASEAN are: market assurance and expansion, business expenses reduction, natural resource exploitation, risk reduction by avoiding to invest too much in only Chinese market, and profit making.

Stabilize socio-economic environment, enhance labor quality, improve investment environment, ASEAN and Vietnam will

continue generate stronger motives to attract more Korean FDI.

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## TÓM TẮT

**BẢN CHẤT VÀ ĐỘNG CƠ CỦA NGUỒN VỐN FDI CỦA HÀN QUỐC  
ĐẦU TƯ VÀO CHÂU Á****Trần Chí Thiện\****Trường Đại học kinh tế và Quản trị kinh doanh – ĐH Thái Nguyên*

Từ những năm 1980, Hàn Quốc đã trở thành một trong những nhà xuất khẩu vốn lớn nhất thế giới, nhất là xuất khẩu vốn sang các nước ASEAN. Bài viết này cố gắng làm rõ các đặc điểm của vốn FDI Hàn Quốc và các động lực của nó khi vào ASEAN. FDI Hàn Quốc bắt đầu tăng lên nhanh chóng vào cuối thập kỷ 80. Nó bị ảnh hưởng bởi cuộc khủng hoảng tài chính Châu Á, sau đó, chịu ảnh hưởng bởi sự hồi phục và cất cánh của nền kinh tế Hàn Quốc, sự nổi lên của Trung Quốc và sự hấp dẫn của Việt Nam, Indonesia và các nước ASEAN khác. FDI Hàn Quốc tập trung vào cơ khí chế tạo, khác thác khoáng sản, thông tin liên lạc và xây dựng cơ sở hạ tầng. Mở rộng thị trường, tiết kiệm chi phí, giảm thiểu rủi ro và đảm bảo có lãi là những động cơ chính của FDI Hàn Quốc. Do đó, ổn định chính trị, nâng cao chất lượng lao động, cải thiện môi trường đầu tư là những giải pháp chính để thu hút nhiều FDI Hàn Quốc hơn nữa vào ASEAN.

**Key words:** *FDI Hàn Quốc, ASEAN, đặc điểm, động cơ, giải pháp.*

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