INTRODUCTION TO SURVEY

Survey purpose

The survey, as an extension of ‘Potential Investment survey 2011’ conducted by UNIDO, strives to understand all the effects to the economic and social development as well as investment environments caused by investment of Korean companies in Asian developing countries. It is also aiming at characterizing FDI for potential investors.

Survey content

The contents are divided largely by questions relevant to companies investing in Asian developing countries and questions to companies that have no current foreign investment.

- A company general status,
- Overseas investment related questions,
- Current status of overseas investment,
- Investment disputes and difficulties,
- Regional and national dynamics,
- UNIDO Awareness,
- Etc.

Survey design

<table>
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<th>Research Subject</th>
<th>Korean Companies both currently investing and not currently investing in Asian Developing countries</th>
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<td>Sample Size</td>
<td>500 companies (focusing on Korean small and medium companies)</td>
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<td>Duration</td>
<td>2012. 8. 6–9.14</td>
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<td>Sampling Method</td>
<td>Proportional allotment by companies investing after assigning minimal samples/ proportional allotment by industry type of countries investing after assigning valid samples</td>
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Fieldwork results

557 out of 3,175 companies from the list obtained from KOTRA were eliminated. Elimination was based on the uncertainty of information on investment companies. 214 companies are duplicated, 135 are in temporal/permanent closure, 206 are not currently preceeding the investment. A close examination of modified population except the eliminated shows reduction of Vietnam by country and manufacturing business by sector was the most prominently collapsed.

In addition, 76 among 173 companies in Central Asia from the list were eliminated. In total 521 samples were surveyed, including 319 overseas investing companies and 202 not investing companies.

The target sample was achieved in 5 Southeast Asian countries except the Philippines and Myanmar. In Central Asia, the target sample was achieved only in Kyrgyzstan. This could be understood as a result of inadequate condition of the companies investing in Central Asia.
INVESTMENT CHARACTERISTICS OF KOREAN COMPANIES IN ASIA

**Year of establishment**

42.6% of companies investing in Asian developing countries gave an official status to overseas investment between 2005 and 2010.

- Number of recent private investments and expansion of KOSDAQ listed companies have increased.

**Type of establishment**

61.4% of companies investing in Asian developing countries are currently investment in a form of ‘Production Corporation.’

- Large number of exchange listed companies, large sized companies, and higher sales lead to companies entering the overseas markets in a form of ‘liaison office.’
- Companies with longer investment period, higher local sales amount, and larger number of workers invest in a form of ‘Production Corporation’

**Type of investment**

78.4% of companies are currently investing in Asian developing countries as in a form of ‘new establishment / exclusive investment.’

- Companies having a parent company with smaller sales preferred the type of joint venture with local companies, whereas companies with larger sales ‘joint venture with other Korean investments’ were chosen the most.

**Reasons for investment**

53.3% of companies investing in Asian developing countries chose to ‘market potential of the relevant country’ as the main reason.

- Services and building construction businesses are invested in the relevant country due to ‘market potential.’
- In case of a short investment period ‘market potential in the relevant country’ appeared as a reason to invest. ‘Low labor cost’ was the reason for longer investments period.

**Investment information sources**

87.1% of companies investing in Asian developing countries obtain information through ‘internal survey.’

- Information is obtained through ‘professional research agency’ with larger parent companies, while ‘local government organizations’ for the smaller parent companies
- As for joint venture with local companies, investment related information is obtained through ‘local government organizations.’

**Effects of investment on sales volume**

42.6% of companies investing in Asian developing countries responded that the sales in Korean HQs have increased since the beginning of the investment.

- ‘Sales increase in Korean HQs’ was due to large sized companies in transport, logistics, and overseas investment.
- ‘Sales increase in Korean HQs’ was due companies with a longer period of investment and overseas investment.

**Figure 1. Effect of Investment on sales volume**

- Increase In sales 42.6%
- No significant Influence 22.3%
- Decrease In sales 2.2%
- Don’t Know/ Refuse 32.9%
Current Status of Investment Disputes

Investment disputes
3.8% of companies investing in Asian developing countries have experienced investment dispute.

- Small and medium sized companies that have 50~100 permanent workers in a parent company are involved in high number of ‘investment disputes.’
- In case of joint venture with local companies, the rates of ‘experiences in investment disputes are high.

Type of investment disputes
Approximately half of companies experienced investment disputes have ‘labor-management conflict.’

- In case of Korean investment companies in Vietnam, ‘labor-management conflict’ appears to be relatively high with 75%. In case of Kyrgyzstan and Uzbekistan, they experienced ‘conflicts with the local government.’

Resolution of investment disputes
83.3% of companies that had investment disputes have attempted to resolve the conflict through local jurisdictions.

- Although many of these conflicts were eventually resolved, some conflicts remain, notably in Vietnam with a relatively larger number of Korean investors.

“Half of the investment disputes concern a ‘labor-management conflict.’”

Investment related Challenges

Challenges in local management
18.5% of companies investing in Asia developing countries face difficulties related to ‘unavailability of industry infrastructure.’

- Services • construction • transportation • logistics businesses typically undergo ‘market cultivation.’

Challenges with local regulations
26% of companies face difficulties due to ‘vague regulations.’

- Companies that are investing in transportation • logistics have difficulties due to ‘vague regulations’ and companies that are investing in building • construction tend to have difficulties related to ‘access to civil servants.’

Labor related challenges
26% of companies investing in Asian developing countries face difficulties in ‘unavailability of highly skilled workers.

- Companies with a parent company in high sales value and long-standing establishment years tend to have difficulties related to ‘lack of highly skilled workers.’

“26% of companies face challenges in finding highly skilled workers.”
Challenges in taxation and finance

12.2% of companies investing in Asian developing countries have difficulties in securing ‘local loans.’

- Firms associated with larger scale parent companies experienced problems in financial access to home country.

Challenges in local industry infrastructure

21% of companies investing in Asian developing countries face ‘unstable power supply’ difficulties.

- Companies experienced difficulties with ‘unsecured power condition’ in manufacturing, ‘lack of road and traffic facilities’ in building, construction, and ‘restricted land use’ in wholesale, retail industries.

Challenges in market cultivation

24.5% of companies investing in Asian developing countries experience difficulties in ‘securing a sales force.’

- Logistics transportation face difficulties in ‘securing a sales force’ and construction experienced adaptation challenges due to ‘different business culture than Korean, companies.’

KOREAN COMPANIES’ CONTRIBUTION TO LOCAL COMMUNITIES

Economic Contributions

Local employees

The number of total labor force on average is 352.9, and the rate of local full-time workers is 83.1%.

- The current status of investment in Southeast Asia is active, especially rates of full-time local workers in countries such as Malaysia (94.2%)/ Thailand (93.9%)/ Vietnam (93.7%) are high enough stimulate local economies.

- Regarding business sectors, the rate of recruiting local full-time workers in large sized companies and companies in a form of production corporation are considered to be high, depending on characteristics of the companies.

Annual salary of local labor

56 million won of annual salary is provided per expatriate from company headquarters and 13 million won for local worker.

- Local worker’s salary level in Central Asia is higher than in Southeast Asia. In addition, salaries are high in large sized and relatively newly established companies.

- Companies with a long-standing history in overseas investment offer higher salaries for employees imported from company headquarters.

Local middle managers

The number of middle management employees in Southeast Asia on the average is 13.7, and the rate of Korean employees versus locals is 4:6.

- The number of middle managers in Central Asia (5.2 employees) is half of them in Southeast Asia, yet the rate of Korean managers is relatively high (61.5%).

- The rate of Korean middle managers in Malaysia and Myanmar is high, yet the rate of local manager in Cambodia and Indonesia is high.

- The larger the sales volume of parent companies and the longer the investment period, the higher number of local middle level managers.
Expansion of local workforce

Plan for manpower expansion - 33.3% ‘Yes’

Plan for manpower expansion - 32.6% ‘No’

- 37.5% of companies invested in Central Asian companies showed the highest interests to expand the workforce, especially Uzbekistan with 50%.

- The rate of plans for recruitment is in the Philippines is 51.4%, in Thailand is 38.7% in Southeast Asia.

- By business sector, the rate of plans for recruitment is high in ‘services’ and ‘large sized companies’ by company type.

Expansion plans were due to ‘expansion of business/investment’ (37.7%), and ‘low labor cost’ (13.1%).
Investing Companies in Asian Developing Countries

Investment expansion in invested countries

According to the survey, 33.5% of companies with existing foreign direct investment answered “Yes” to expansion plan and 34.8% said “No” to further expansion plan.

- Plans for expanding investments in Central Asia were high (46.9%), and were also high (42.9%) in the Philippines in Southeast Asia.

- Investing companies showed high interest in investing in ‘services’ and in ‘mining and resource development.’

In case of 62.6% respondents, expanding investments in the current market is highly correlated with the ‘market potential’ of the relevant country.

Investment expansion plans

58% of companies with plans for expanding investment intend to invest next year, while 40% of those investing in Central Asia responded after 2014.

- In general, scheduling for additional investment in Southeast Asia is fast, in the meantime, 40% of additional investment in Central Asia after 2014.

- As for specific industries planning on expanding investment in the existing country’s market, 88.8% in the same business, and 2.8% in manufacturing

- Wholesale - retail, construction, finance/insurance attract high interests in ‘Indonesia’ and ‘Myanmar.’

New Planning for FDI

17.9% of companies that are intending to invest in a new country other than in countries that already hold investments.

- Myanmar 5.3%, Vietnam 4.1%, Indonesia 3.8%.

- Wholesale/retail, construction, and finance/insurance attract large interests in Kyrgyzstan and the Philippines.

- 55.1% of companies are expressing the interest in manufacturing industries.

- Over 50% of all companies with plans for expanding investment are expected to continue their investment for ‘as long as 5 years.’
Investment Awareness of Companies without Overseas Investment

Reasons for overseas investment

14.4% of companies not in investment for foreign countries responded that ‘Investment is necessary.’
- High demands on wholesale/retail (22.7%), manufacturing (21.9%), and larger sized companies established before 1990 with a large scale in foreign direct investment.
- Investment demand increasingly pressures companies not in investment for foreign countries due to growing ‘necessity to cultivate overseas market’ and ‘growth of domestic labor costs.’

Securing overseas investment fund

23.8% of companies had intention to proceed with overseas investment after securing funds, which was 10% higher than the need for overseas investment (14.45).
- ‘Service’ showed great interest in securing funds for overseas investments. Therefore, securing funds has been identified to be the main factor for determining overseas investment.

Foreign investors concentrated on Asian countries, especially developing countries in Asia.

Investment criteria

Companies without foreign direct investment emphasize strongly on ‘market cultivation’ (25.7%) in order to select countries in foreign investment.
- High consideration were found on ‘level of industry infrastructure’ (25.0%) in manufacturing, ‘sociocultural factors’ (9.1%) in services, and ‘labor aspects’ (23.5%) in transportation/logistics.

Appeal to investors in Asian developing countries

43.1% of companies that have not invested in foreign countries demonstrate ‘positive’ attitudes towards investment in developing countries in Asia.
- ‘Lower labor cost’ is a positive element (41.9%).

ACTIVATION FOR KOREAN INVESTMENT IN DEVELOPING COUNTRIES IN ASIA

Most companies with investments in Asian developing countries acquired information on a specific country through internal surveys. Only 23% of all respondents of the survey received support from investment promotion agencies. In most cases companies entered countries such as Vietnam or Indonesia where the investment market was already vitalized. Lack of accessibility to investment information is specific to each invested country. 23.8% of companies without overseas investments showed interests on pursuing overseas investment with sufficient funds raised. These companies encounter challenges because of insufficient information. As a result, companies suffer from economic uncertainty in the future, which such reasons largely contribute to reservations on investment rather than a financial viability issue.

As a result, all companies with or without overseas investments appeared to be facing difficulties due to the lack of accessibility to investment related...
information. Apart from some Southeast Asian countries, with established investment environments such as Vietnam and Indonesia, information on other developing countries is harder to acquire. Due to the concerns arising from such circumstances, investment activation is deemed as less viable. To revitalize investments made by Korean small and medium enterprises in Asian developing countries, in particular corresponding countries and investment promotion agencies are expected to reinforce overseas investment promotion. Possible suggestions include conferences centered on investments by industry/country, where participation from potentially interested companies is promoted. It would be necessary to emphasize promotion through the cooperation between industries in investment activities with companies that have already entered the relevant country. In addition, investment promotion agency should highly promote their vital support for investments after established assimilation into a specific field site. Groundwork is required to create profit for companies through the overseas investments activated and an enhancement of the accuracy and accessibility information related to overseas investment. Through the collaboration of companies that are already being operated in Asian countries and potential investors, information on experiences will be optimally utilized and solutions from current challenges can be formed.