# Foreign Investors' Evaluation on Korean Government Policies for Foreign Direct Investment

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The Korean business environment is not still satisfactory although the government began to actively attract foreign manufacturing since its financial crisis in late 1997. This paper aims to investigate how foreign manufacturers in Korea evaluate the government policies concerning inward foreign direct investment (FDI). The empirical results show that the evaluation of foreign firms on Korean FDI policies is below the medium level. The findings are, (1) foreign respondents' satisfaction is the lowest on the subsidy policy, (2) their overall satisfaction is most responsive to the changes of labor policy and tax incentives, (3) small firms and Japanese firms show less satisfaction than their counterparts, and (4) foreign firms in industrial complexes of rural areas show higher satisfaction than those in metropolitan areas. From the results, it is suggested that the government should provide foreign manufacturers with a high level of subsidies, favorable labor policy, equitable benefits of incentives, and industrial complexes suitable for plant operation

## Ⅰ. Introduction

When Korea applied for the emergency loans of IMF in late 1997, it was experiencing a sudden shortage of foreign exchange reserves. Since then, the Korean government has been trying to attract more foreign direct investment (FDI) in order to secure a sufficient amount of foreign reserves and recover from its unprecedented level of unemployment. This paper aims to investigate how foreign investors in the manufacturing sector evaluate Korean government policies towards inward FDI. Based on the analyses of their evaluation, it eventually aims to make some constructive suggestions to improve the business environment for inward FDI.

It is a considerably recent phenomenon that the Korean government is highly active in attracting foreign direct investment. Historically, it used to be heavily dependent on external loans for economic development. However, in the 1970s and early 1980s, the government began to

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eliminate various restrictions on inward FDI and provide a considerable level of incentives to foreign firms. Foreign firms were allowed to establish wholly-owned subsidiaries in a wide range of industries. During the late 1980s, Korea experienced a substantial amount of foreign reserves resulting from successful exports and did not need to enhance the level of incentives for inward FDI. However, having realized the importance of FDI after the financial crisis, the Korean government passed the Foreign Investment Promotion Act in 1998. The main content of this act includes tax reduction in high-tech manufacturing activities, provision of comprehensive one-stop service, designation of Foreign Investment Zone (FIZ), and inexpensive long-term lease of land. Partly due to this legislation, the stock of foreign manufacturing investment in Korea reached US$ 21.4 billion in 2000, and more than 2800 foreign manufacturers are operating in Korea. Nonetheless, according to the International Institute for Management Development (1998), Korea was ranked in the forty-second place among the surveyed forty-six countries in terms of investment incentives, which was far behind China and ASEAN countries. In this respect, it is hoped that this research will help the Korean government figure out the weakness of FDI incentives and improve its institutional settings for the operation of foreign firms.

## II. Theoretical Background

The past literature provides controversial opinions and evidences on the assertion that government incentives play a significant role in inducing foreign capital in a particular region or area. Some researchers expressed skeptical or negative views on the effectiveness of government policies for inward FDI. For instance, Lim (1983) analyzed a cross-sectional data of less developed countries and found a strong inverse relationship between government incentives and inward FDI. He explained the inverse relationship by using the illusory compensating effect. When less developed countries lack in natural resources and technology, they tend to increase the degree of investment incentives in order to compensate for their lack of resources. As they compete with each other in offering generous incentives, foreign investors notice no obvious differences of incentives among host countries and then these incentives become ineffective. Wheeler and Mody (1992) also showed evidence that US multinationals are not responsive to short-term financial incentives of local govern-

ments in foreign countries. Loree & Guisinger (1995) did not support the idea that a high level of incentives facilitates the inflow of foreign investment. An upgrading of incentives in one country may well trigger a response from other neighboring countries. Therefore, every country will be caught in the prisoner's dilemma when all countries increase their incentives simultaneously.

On the other hand, other researchers maintained that government policies can play a positive role in attracting foreign manufacturing facilities. Guisinger and Associates (1985) suggested evidence that incentives and performance requirements were considerably effective in altering foreign investment decisions. It was found that investment incentives had a particularly important impact on export-oriented investments. The reason is that export-oriented manufacturing is sensitive to product prices and financial incentives help reduce production costs. This supports the opinion of Wells (1986) that the effectiveness of incentives depends greatly on the market-oriented propensity of investments. Taylor (1993) examined the major factors affecting the geographical distribution of Japanese manufacturing affiliates in the UK. Among the surveyed Japanese firms, 76 percent were operating in the counties with assisted areas. Its implication was that Japanese firms sensitively responded to various programs of government incentives in assisted areas including Regional Development Grant and Regional Selective Assistance. As a result, several areas designated as Development Area or Intermediate Area were highly successful in attracting Japanese investors. Smith and Florida (1994) analyzed the agglomeration of Japanese-affiliated manufacturing establishments in automotive-related industries of the USA. Their empirical results showed that taxes had an impact on the location of new establishments, but played little role in acquisition decisions. Shaver (1998) analyzed the location patterns of foreign firms in the U.S. market and showed that some state characteristics, including corporate taxes and state budgets on promotional activities, had influenced the locations of foreign-owned establishments. Cheng and Kwan (2000) examined the important factors affecting the location of inward FDI in China and found that the number of Special Economic Zones in a region was significantly influential in attracting more foreign manufacturing facilities. This suggests that it is highly effective for the government to promote special industrial zones designed for foreign manufacturers.

On the other hand, some academics expressed inconclusive views on the role of government incentives in attracting foreign

investments. According to Brewer (1993), restrictions on profit remittance and labor policies including minimum wages are likely to deter inbound FDI in host countries, but the effects on FDI of government policy depend on the relative cross-national changes. When several developing countries have simultaneously liberalized their FDI policies, the policy effects on the growth of inward FDI for any one country depend on the relative magnitude of that country's policy changes compared to other countries' changes. According to UNCTAD (1996), incentives appear to have an effect on foreign investor's decisions when fundamental determinants including market and production conditions are more or less similar across alternative FDI locations. A host country can also warrant the costs of incentives since positive externalities created by foreign investors will compensate for these costs.

## III. Hypotheses and Methodology

This paper intends to analyze FDI policies in five major areas: tax incentives, subsidies, financial policy, administrative service, and labor policy. Although both of tax incentives and subsidies are related to government budgets and belong to the category of fiscal policy, they will be separately assessed in consideration of their individual importance. The importance of these policy areas was already addressed in some previous studies by Korean researchers (Joo and Kim, 1995; Kim, 1997; KITA, 1998; Lee, 1999; Park, 2000). In addition to these five policy areas, there can be other government policies that are concerned with inward FDI. In some countries, regulations are still applied for the ratio of exports and domestic sales, minimum requirements for local content, and the equity participation of foreigners. But these regulations including ownership restraints and performance requirements will not be addressed in this study because they have been already eliminated in most of industrial sectors. And the Korean government had been imposing some regulations on the mergers and acquisitions by foreign firms, but they have also been removed recently and need not to be included in this study.

The following hypotheses will be suggested and tested through empirical analyses. First, it is hypothesized that the evaluation of foreign firms on Korean FDI policy is significantly different in terms of policy areas. This hypothesis aims to examine whether policies in a certain area are more attractive for foreign manufacturers than those in other areas. Acade-

mics in previous research emphasized that different kinds of policies are differently influential on the location decisions of foreign firms. Some academics emphasized the importance of tax scheme. Hartman (1984) suggested evidence that foreign investment in the U.S. should be expected to respond significantly to domestic tax policy. For instance, the reduction of personal income taxes could induce more foreign capital. Grubert, Harry and Mutti (1991) showed evidence that multinationals choose to allocate a disproportionate level of capital into countries with lower tax rates and that low tax rates are highly effective in inducing foreign capital. Keochlin (1992) also found that tax rates of host countries played a significant role when US manufacturing firms searched for plant locations. Another group of academics mentioned that subsidies, financial policy, and/or administrative assistance can be also important factors in attracting foreign investors. Luger and Shetty (1985) developed the efforts index to evaluate how much the public policy of each state in the U.S.A. is effective in attracting foreign plant start-ups, and found that, in drug manufacturing and industrial machinery, this index is positively associated with the level of FDI in each state. Their index was a composition of subsidized job training, land and building subsidies, expenditures on investment attraction, R&D assistance and so on. Coughlin et al. (1991) investigated the state selection patterns of foreign firms in the U.S.A. and found that the promotional expenditure of state government is likely to increase FDI. Hill and Munday (1991) found that regional preferential assistance for foreign investors, including subsidies for fixed capital and employment, had a significant positive impact on the inflow of foreign manufacturing facility in Wales. Other researchers focused on the labor policy of a host country. According to Glickman and Woodward (1988), foreign manufacturing firms in the U.S.A. highly evaluate the importance of labor climate for search of plant locations. Shavers (1998) also pointed out that foreign firms in the U.S. tend to operate in states with low unionization rates and right to work legislation.

Second, it is hypothesized that the evaluation of foreign firms on Korean government policy is significantly influenced by the size of their local employment. That is, the more local workers foreign firms employ, the more they are likely to get access to incentives and then be content with government policies. The Korean government has been trying to offer its incentives more generously for large foreign firms considering their impacts on the domestic economy. Therefore, if foreign

firms with more employment are highly content with Korean FDI policies, this would mean that the government has been successful in achieving its objective of favoring large firms.

Third, it is hypothesized that the evaluation of foreign firms on Korean government policy is significantly different in terms of the nationalities of investors. It is generally believed that American or Japanese investors tend to show higher satisfaction than European ones because they are more capable of obtaining the benefits of incentive scheme owing to their long-term business experiences in Korea. Further, foreign firms of different nationalities might be different in evaluating policies in each area. Taylor (1993) showed that Japanese firms in the UK regarded low tax burden as more important than low labor costs. Ulgado (1996) investigated how Japanese, German, and domestic firms are different in evaluating location factors in the U.S.A.. It was shown that Japanese firms tend to significantly consider employee training incentives and site selection assistance while German firms weigh financial assistance of state government.

Fourth, it is hypothesized that the evaluation of foreign firms on Korean FDI policies is significantly different depending on the locations of their plants. It is generally believed that foreign firms in less developed areas (government-assisted areas) are more satisfied with FDI policies than those in more developed areas. O'Farrell (1980) provided evidence that foreign enterprises are more likely to locate in peripheral areas of a host country. That is, foreign firms were persuaded by the application of appropriate incentives to locate their projects in less developed areas of Ireland. However, when the government pursues its incentive scheme without considering the balance of regional development, the plant locations of foreign firms would not influence their satisfaction on Korean FDI policies.

Concerning the methodology, this paper employs a survey method in order to collect direct opinions from foreign firms in Korea. Foreign manufacturing firms for our survey were randomly selected from the Directory of Foreign Investors in Korea (2001) published by the Ministry of Commerce, Industry and Energy. Most of them have been operating in Korea for less than ten years because the author intends to investigate how much the efforts of the Korean government have been effective in improving its business environment during a recent period. About 350 questionnaires were sent by mail to foreign manufacturing firms operating in Korea as of March 2001. Questionnaires were proportionately sent to foreign firms in consideration of their locations, nationalities

and scales of employment. Among the distributed questionnaires, only 64 (17%) were collected, 60 of which were suitable for our statistical analyses.

The content of questionnaires includes five policy areas as already mentioned. Each of the five policy areas was designed to include a similar number of elements, namely 9-11 ones, in order to compare the statistical averages from a balanced perspective, and then a single questionnaire has 50 elements that should be evaluated by respondents. Several academic and practical publications were referred to in order to determine the policy elements in the questionnaire. According to KIET(1996), tax reductions for corporate income, depreciations for R&D equipments, tariff reduction for input imports, and tax deduction for R&D investment are commonly found in the incentive packages offered by Asian countries. On the other hand, European countries provide various types of subsidies including those for R&D, on-the-job training, loan interests, plant rental, and new product development. These incentives were included in the questionnaire. And most elements in administrative service and labor policy were included by consulting the publications issued by the Korea Investment Service Center and Korea Labor Institute (e.g., KISC, 2001; Park, 2000), and most elements in financial policy were determined mainly by consulting several local government agencies. Lastly some elements that could not be covered through the above search were added to the questionnaire through the pilot interviews with foreign firms. In this respect, most of the fifty elements in the questionnaire are pecuniary or non-pecuniary incentives popularly offered by foreign and Korean governments. Respondents were requested to indicate their degree of satisfaction on each element on a 5 point Likert scale; i.e., very poor (1), poor (2), medium(3), good (4) and very good (5). The 5 point scale was used because it is commonly accepted for the research of social science.

Respondents were also requested to express the degrees of their overall satisfaction on FDI-related policies of the Korean government compared to those of other neighboring Asian countries. However, a particular Asian country was not mentioned for comparison because respondents who had not experienced business in that country would not be able to compare FDI policies of that country and Korea.

## IV. Empirical Results

Above all, Table 1 shows the average degree of satisfaction of foreign respondents

(Table 1) Average Scores of Foreign Firms' Satisfaction on Korean Governnment Policies towards FDI

| Policies | Average Score | Policies | Average Score |
|---|---|---|---|
| 1. Tax Incentives | | 4. Administrative Service | |
| Corporate tax | 2.85 | Of Korea Investment Service Center | 2.51 |
| Personal Income tax | 2.41 | Of local governments | 2.40 |
| Value added tax for imports | 2.52 | For investment consultation | 2.51 |
| Tax deduction for R&D | 2.80 | For incorporation | 2.68 |
| Tariffs on imports of components | 2.48 | For selection of plant site | 2.58 |
| Tariffs on imports of capital goods | 2.50 | Of supports for plant operation | 2.37 |
| Accelerated depreciation | 2.71 | Promotional efforts | 2.55 |
| Tax deduction for new investment | 2.69 | For application of tax reduction | 2.39 |
| Property taxes | 2.64 | For imports of capital goods | 2.52 |
| Tax for royalty payment | 2.58 | Subtotal | 2.50 |
| Reduction period of taxes or tariffs | 2.68 | | |
| Subtotal | 2.62 | 5. Labor Policy | |
| | | Official work time | 2.78 |
| 2. Subsidies | | Minimum wages | 2.69 |
| Investment for production facilities | 2.35 | Labor disputes | 2.54 |
| Employment | 2.28 | Monetary compensation for unused leave | 2.53 |
| R&D expenditure | 2.43 | Prohibition of Plural labor unions | 2.47 |
| Training & education | 2.55 | Layoffs and dismissal of employees | 2.50 |
| Exports | 2.28 | Retirement Allowance | 2.83 |
| Utilities | 2.02 | Insurances for medical care | 2.54 |
| Purchase of plant site | 2.46 | Pension contributions | 2.34 |
| Rental of production facilities | 2.35 | Employment of part-time workers | 2.66 |
| Environmental protection | 2.19 | Subtotal | 2.59 |
| Loan interests | 2.22 | | |
| Subtotal | 2.31 | Average of all elements | 2.53 |
| 3. Financial Policy | | Overall satisfaction on FDI policies of Korean government | 2.51 |
| Access to loans from Korean banks | 2.69 | | |
| Favorable interest rates | 2.33 | | |
| Extension of loan term | 2.65 | | |
| Convertibility of foreign currencies | 3.02 | | |
| Regulation on loans from overseas | 2.82 | | |
| Profit repatriation | 2.66 | | |
| Collateral exemption for loans | 2.11 | | |
| Government-assisted loans for plant | 2.48 | | |
| Government-assisted loans for plant site | 2.49 | | |
| Funds transfer for transacting real estates | 2.53 | | |
| Subtotal | 2.58 | | |

on each policy element and area. The results show that the average scores of satisfaction are mostly lower than the medium level, ranging from 2.02 to 3.02. As the result, the averages of evaluation in all of the fifty elements reaches only 2.53. This is obvious evidence that foreign investors are not positive but rather negative on Korean FDI policies. In order to confirm the first hypothesis, an ANOVA test has been carried out on the averages of the five policy areas. F value reached 16.45 with a significance level of 0.0001 indicating that the satisfaction degrees of foreign investors are significantly different in terms of policy areas. Foreign respondents showed the highest score (2.62) on tax incentives and the lowest score (2.31) on subsidies. In the area of tax incentives, they are relatively positive on corporate tax rates and tax reduction for R&D, but quite negative on income tax and tariffs on component imports. And in the area of subsidies, they are negative on almost all the elements. These results certainly imply that Korean FDI policies are not proactive but reactive, namely being implemented in a way of conserving government budgets. Tax abatement for foreign investors reduces the potential revenue of the government while subsidies tend to increase its current expenditure. Therefore, from the viewpoint of policy makers, the former seems to be much less burdensome than the latter. Among the surveyed firms, plenty of them have applied for tax abatement although they obtained its benefit in different amounts. But very few of them have been found to receive subsidies for new employment or plant expansion.

Foreign firms also expressed considerably low degrees of satisfaction on financial policy, administrative service, and labor policy, ranging from 2.50 to 2.59. If examined in more detail, they are quite positive on the government policies regarding convertibility of foreign currencies, overseas loan, administrative service for incorporation, official work time, and minimum wages, but considerably discontent with provision of collaterals for loan, administrative supports for plant operation (service for after-investment activities), and pension contribution. From these results, it can be said that the Korean government is mainly interested in providing a basic framework of business environment rather than in providing an appealing environment that can actively induce foreign investors. That is, the government tries to reduce inconvenience for foreign manufacturers but does not expand its efforts to maximize their performance.

Relating to the first hypothesis, a regression analysis has been undertaken in

(Table 2) Maximum Likelihood Estimation

| Models by firm group | Independent variables | Parameter Estimates | Standard error | Wald Chi-Square | Pr.〉 Chi-Square |
|---|---|---|---|---|---|
| Model 1 | TAX | 1.71 | 0.97 | 3.10 | 0.08 |
| (Total firms) | SUB | -0.87 | 0.92 | 0.90 | 0.34 |
| | FIN | 0.66 | 0.92 | 0.52 | 0.47 |
| | ADMIN | 1.06 | 0.74 | 2.09 | 0.15 |
| | LAB | 2.34 | 0.97 | 5.81 | 0.02 |
| Model 2 | TAX | 1.10 | 1.10 | 0.99 | 0.32 |
| (Firms of less | SUB | -0.46 | 1.16 | 0.16 | 0.69 |
| than 100 employees) | FIN | 0.17 | 1.02 | 0.03 | 0.87 |
| | ADMIN | 1.80 | 0.96 | 3.55 | 0.06 |
| | LAB | 2.25 | 1.13 | 3.96 | 0.05 |
| Model 3 | TAX | 3.42 | 1.26 | 3.05 | 0.26 |
| (Firms of 100 | SUB | -2.12 | 0.35 | 3.57 | 0.55 |
| employees or more) | FIN | 9.08 | 1.55 | 7.29 | 0.21 |
| | ADMIN | 0.15 | 0.004 | 2.41 | 0.95 |
| | LAB | 1.82 | 0.11 | 5.49 | 0.74 |

Note: (1) TAX, SUB, FIN, ADMIN, and LAB stand for tax incentives, subsidies, financial policy, administrative service, and labor policy respectively.

order to determine how much the overall satisfaction on Korean government policies would be influenced by the marginal improvement of elements in each policy area. The response variable was measured by the average scores of overall satisfaction and the explanatory variables were measured by those of satisfaction on each policy area. Considering that the response variable represents categorical data indicating five different levels of satisfaction, an ordered logit model was employed (McCullagh, 1980)[1]. However, most of the respondents selected only two categories (the second and third categories) for their overall evaluation on Korean FDI policies although they selected a wider range of categories for their evaluation on each policy element. Therefore, a logit model, rather than a probit model, has been used as link function since the response variable has a binomial distribution with only two categories. The results of maximum likelihood estimation have been obtained by using the SAS (Allison, 1999) and are presented in Table 2. It has been confirmed that TAX and LAB in Model 1 are significant at the levels of 0.08 and 0.02 respectively, implying that the overall satisfaction of respondents are significantly influenced by tax incentives and labor policy. In other words, tax incentives and labor policy can play important roles in

(Table 3) Average Scores of Foreign Firms' Satisfaction on Korean FDI Policies (by firm group and policy area)

| Groups of firms | Tax Incentives | Subsidies | Financial policy | Administrative service | Labor policy | All areas |
|---|---|---|---|---|---|---|
| 1. Employment | 2.55 | 2.23 | 2.48 | 2.43 | 2.53 | 2.45 |
| less than 100 | 2.79 | 2.50 | 2.80 | 2.66 | 2.71 | 2.70 |
| 100 or more | -3.32 | -4.26 | -4.87 | -3.48 | -2.75 | -8.21 |
| t value | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.00 |
| (pr. ) \| t \| ) | | | | | | |
| 2. Source countries | 2.76 | 2.27 | 2.53 | 2.53 | 2.68 | 2.56 |
| USA | 2.58 | 2.35 | 2.64 | 2.43 | 2.65 | 2.53 |
| Europe | 2.53 | 2.30 | 2.57 | 2.57 | 2.40 | 2.47 |
| Japan | 4.81 | 0.73 | 1.00 | 1.78 | 7.95 | 2.93 |
| F value | 0.01 | 0.48 | 0.37 | 0.17 | 0.00 | 0.05 |
| (Pr.)F) | | | | | | |
| 3. Locations | 2.47 | 2.27 | 2.42 | 2.39 | 2.61 | 2.43 |
| Metropolitan areas | 2.75 | 2.35 | 2.72 | 2.59 | 2.58 | 2.60 |
| Other areas | -4.54 | -1.35 | -4.63 | -3.24 | 0.47 | -6.05 |
| t value | 0.00 | 0.18 | 0.00 | 0.00 | 0.64 | 0.00 |
| (Pr.) \| t \| ) | | | | | | |

upgrading Korean business environment for foreign investors. Particularly, Wald statistic is shown the highest on labor policy, recording 5.80, which means that foreign investors are highly responsive to the change of labor climate in Korea. It has been also observed that ADMIN in Model 2 is statistically significant at the level of 0.06 although the independent variables in Model 3 fail to show any significance. This result indicates that smaller firms are more responsive to administrative assistance of the Korean government since they have lack of expertise in operating overseas plants.

Second, as shown in Table 3, the evaluation of foreign firms on Korean FDI policies is significantly different in terms of the scales of their local employment. The firms with 100 or more employees obviously demonstrate more positive views on Korean policies than those with less than 100 employees. More specifically, the degree of satisfaction of larger firms on tax incentives and financial policy are 2.79 and 2.80 respectively while those of smaller firms indicate 2.55 and 2.48. This could be interpreted as an implication that larger foreign firms are likely to get easier access to the incentives of the Korean government. In other words, the Korean government has been successful in favoring large foreign firms that create more jobs and industrial linkage effects.

Third, the statistical results reveal that

the evaluation of foreign firms on Korean FDI policies is significantly different in terms of nationalities of investors. F value for the comparison of evaluation by three different groups in nationalities reaches 2.93 with a significance level of 0.05. Japanese firms are less content with tax incentives than U.S. ones, and less content with labor policy than U.S. and European ones. European firms also show less satisfaction on tax incentives than U.S. ones. Overall, Japanese firms show less satisfaction on Korean government policies than their U.S. and European counterparts. From these results, we can conjecture that Korean FDI policies are not equally beneficial for foreign firms from different regions. It is not clear whether Japanese firms are less satisfactory with FDI incentives particularly in Korea or they are even so in other countries. There could be two kinds of explanation for this phenomenon. One is that the high psychic distance historically formed between Korea and Japan might have led to the relatively lower satisfaction of Japanese investors. The other one is that, since they are highly controlled and supported by the headquarters in home country (Bartlett and Ghoshal, 1991), Japanese multinationals might consider it less necessary to obtain the incentives of host governments.

Fourth, it has been found that the evaluation of foreign firms is significantly different in terms of the locations of their plants. When they were divided into those located in metropolitan areas and those in other areas, the latter showed higher satisfaction than the former on tax incentives, financial policy and administrative service. In spite of this result, there is no evidence that the central government of Korea actually provided more incentives to foreign firms in non-metropolitan areas (usually backward areas) in order to achieve the balance of regional development. An alternative explanation is that foreign firms in non- metropolitan areas are more subject to various types of incentives since they usually operate their plants in industrial complexes designated by the local governments. Among the surveyed firms, thirty-three are operating in non-metropolitan areas and 85 percent of them located their plants in government-assisted industrial complexes.

## V. Summary and Conclusion

Through the analyses of empirical results, it has been revealed that foreign manufacturing investors express below-medium levels of satisfaction on Korean government policies relating to FDI. This is not far

from our expectation since IMD (1998) has already pointed out that Korea provides an unattractive business environment for foreign investors compared to its Asian neighbors such as China, Malaysia and Singapore. The recent measures taken by the Korean government are thought to be not sufficiently effective in improving its business environment, which include the Foreign Investment Promotion Act, operation of one-stop-service center, promotion of industrial complexes for foreign manufacturers, and expansion of Foreign Investment Zones. Some follow-up efforts should be made in order to implement the previous measures more effectively. It is necessary that the government should change its policies towards FDI from a reactive to a proactive way. This means that the government should not only remove hindrances to the imports of foreign capital but also help the successful operation of foreign plants. Particularly, the findings in this paper suggest that the central government needs to help local governments provide a sufficient level of subsidies to foreign firms. It is well known that some European governments offer various types of subsidies for new employment, R&D, and environment protection in order to successfully attract foreign manufacturing facilities (UNCTAD, 1996). Our findings also suggest that foreign investors are highly responsive to the improvement of tax schemes and labor policy. Therefore, the government needs to reduce tariffs for input imports and personal income taxes, and to help foreign firms maintain mutually-beneficial relations with local employees. According to our results, Korean FDI policies are not equally beneficial to every foreign firm. Small firms and Japanese firms showed less satisfaction than their counterparts. The government should take more precautions to render the benefit of its incentives equally accessible to these firms. It would be desirable that their plants be induced into industrial complexes designated by the local governments. Particularly, when small foreign firms are operating successfully in Korea, it will be a good signal to inform that Korean business environment is favorable for foreign investors.

Although this paper points out some problematic areas on which the government should focus its efforts to improve its FDI environment, it has limitations in terms of a relatively small size of sample. Due to the sample size, it could not consider industrial characteristics which might have affected the evaluation of foreign firms on Korean government policies. It should also be noted that most of the respondents selected only two categories on the 5 point scale and their levels of satisfaction

showed narrower differentials than we had expected. Due to these marginal differentials, it is intuitively difficult to accept the fact that the responses of foreign firms are significantly different. To avoid this problem, it will be desirable to use a scale of more points in the future research. Furthermore, foreign firms are likely to negatively evaluate Korean FDI policies when their business performances in Korea are not satisfactory. Therefore, it is recommendable to study how the business performance of foreign investors is related to their overall evaluation on Korean FDI policy. The future research on FDI policy should overcome these limitations and draw out more general conclusions in order to make persuasive suggestions to the government.

## Note

1. McCullagh suggests that the proportional odds model can be used when the response variable represents categorical data. Suppose that the $\kappa$ ordered categories in the response have probabilities $P_1(x), P_2(x), \ldots\ldots, P_k(x)$ when the covariates take the value x. And suppose that Y is the response which takes the values in the range 1, 2,..., $\kappa$ and $\kappa_j(x)$ is the odds that Y is equivalent to or less than j given the covariate values of x. The proportional odds model can be expressed as

$$\kappa_j(x) = \kappa_j \exp(-B'x) \quad (1 \leqq j < \kappa),$$

where $B$ is a vector of unknown parameters. As the odds for $Y \leqq j$ is $\gamma_j(x)/\{1-\gamma_j(x)\}$, where $\gamma_j(x) = P_1(x) + P_2(x), \ldots\ldots + P_k(x)$, the proportional odds model is expressed as follows and can be estimated by a maximum likelihood method.

$$\log[\gamma_j(x)/\{1-\gamma_j(x)\}] = \log \kappa_j - B'x \quad (1 \leqq j < \kappa)$$

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# 한국의 정부정책에 관한 외국인투자기업들의 만족도에 관한 연구

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Abstract

한국 정부는 1997년 IMF 사태 이후 외환 부족과 고실업을 극복하기 위하여 적극적인 외국인 직접투자 유치정책을 실행하여 왔다. 본 논문에서는 현재 한국에서 제조 활동을 하고 있는 외국인기업들이 한국의 정부정책에 대하여 얼마나 만족하는가를 조사하였다. 설문조사의 분석 결과에 의하면, (1) 외국 기업들은 보조금 정책에 대하여 가장 낮은 만족도를 보이고, (2) 정부 정책에 대한 전체적인 만족도는 노동정책과 조세감면에 의하여 가장 유의한 영향을 받으며, (3) 소규모 외국기업과 일본 기업들이 상대적으로 낮은 만족도를 나타내고, (4) 지방의 공단 지역에 입주한 외국 기업들이 상대적으로 높은 만족도를 보였다. 따라서 한국 정부는 보조금 지급을 위한 재원을 충분히 마련하고, 유연한 노동정책을 실시하며, 소규모 외국인기업들에게 충분한 행정지원서비스를 제공하고, 외국계 공장의 성공적인 운영에 필수적인 지방 공단을 적극적으로 육성하여야 할 것이다.

Key words : foreign direct investment, investment incentives, government policy

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