ABSTRACT

This article analyses trends in inward foreign direct investment (IFDI) in post-crisis Korea, focusing on the problems facing the Korean government in its efforts to attract higher levels of inward FDI by changing both the nation’s ‘hardware’ (laws, regulations, institutions and systems) and its ‘software’ (attitudes, mindsets and actions). The article uses European investors in Korea as a case study; the major theme that emerged in the interviews carried out with executives was that there are significant mismatches between the speed and effectiveness of the reforms made to Korea’s IFDI ‘hardware’ and ‘software’. These reflect, to a great extent, the disparity between the speed at which Korea has emerged as a major player and key trading partner in the global economy, and the rate at which mindsets and attitudes have altered—in terms of Koreans’ attitudes towards foreign participation in their economy, their perceptions of the world and their place in it, and foreigners’ views of Korea.

The past thirty years have seen a dramatic increase in global flows of foreign direct investment, with both inflows and outflows rising from around the US$18 billion mark in the early 1970s to the US$450 billion level by the late 1990s. Since the 1990s, investment flows to developing countries have been facilitated by a shift in perceptions of inward foreign direct investment away from the negative and unwelcoming attitude adopted in the 1970s and 1980s to a much more positive assessment of the potential benefits of IFDI and the contribution it can make to economic development and growth. This shift in percep-

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1 This article contains excerpts from Judith Cherry (2007), *Foreign Direct Investment in Post-Crisis Korea: European Investors and ‘Mismatched Globalization’*, London: Routledge. Relevant fieldwork was carried out with financial support from the British Academy, which the author gratefully acknowledges.

2 The beneficial effects of IFDI can be felt in areas as diverse as fixed capital formation, technology and skills transfer, productivity and efficiency, international com-
tion was particularly evident in East Asia, where some countries opened their markets to foreign investors in the hope of attracting the capital, technology and expertise needed to enhance their firms’ competitiveness in global markets (Kim Zu Kweon 2003: 86-90). In Korea, however, the negative perceptions of IFDI, the passive and reactive attitudes of successive governments towards inward investment promotion, and the controlling and restrictive nature of their IFDI policies remained largely unchanged for the first 35 years of the country’s economic development. It was only after the financial crisis of 1997 that the government took active steps to increase Korea’s attractiveness as a host for inward investment, reflecting a new perception of the role that foreign investors could play in helping the country recover from the crisis and creating a firm foundation for sustainable growth in the future.

This article begins with a brief overview of past inward foreign direct investment in Korea, providing the context for the analysis of inward investment in post-crisis Korea (1998-2006) that follows. Using European investors in Korea as a case study, the analysis focuses on the problems facing the Korean government in terms of its efforts to attract higher levels of IFDI by changing both the nation’s ‘hardware’ (its laws, regulations, institutions and systems) and its ‘software’ (the attitudes and actions of its people).

1 INWARD FOREIGN DIRECT INVESTMENT IN PRE-CRISIS KOREA (1962-97)

Between 1962, when the first case of inward foreign direct investment was notified to the Korean authorities, and the outbreak of the Asian financial crisis in 1997, IFDI notifications remained at comparatively low levels, achieving a cumulative total of US$24.6 billion during the 35-year period, to be invested in 10,452 projects (see Table 1). Although legislation providing for the inducement of foreign direct in-

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3 In this article, ‘Korea’ refers to the Republic of Korea (South Korea).

4 The Korean Investment Notification Statistics Center provides IFDI data for this period (1962-97) on a notification basis only.